MONTE DEI PASCHI DI SIENA BANK

Annual report 2017

MONTE DEI PASCHI DI SIENA
BANK SINCE 1472

Domenico Beccafumi, *Artemisia (detail)*
Chigi Saracini Collection (work of art owned by Banca Monte dei Paschi di Siena)

Separate Annual Report as at 31 December 2017
Banca Monte dei Paschi di Siena

Banca Monte dei Paschi di Siena S.p.a.
Share Capital: € 10,328,618,260.14 fully paid in
Siena Companies' Register no. and tax code 00884060526
Member of the Italian Interbank Deposit Protection Fund. Banks Register no. 5274.
Monte dei Paschi di Siena Banking Group, registered with the Banking Groups Register

SEPARATE ANNUAL REPORT

BANCA MONTE DEI PASCHI DI SIENA

REPORT ON OPERATIONS

Results in brief

REPORT ON OPERATIONS
Highlights at 31/12/2017

INCOME STATEMENT AND BALANCE SHEET FIGURES

MONTE DEI PASCHI DI SIENA BANK

INCOME STATEMENT FIGURES	31/12/17	31/12/16	Chg.
Net interest income	1,741.4	1,777.3	-2.0%
Net fee and commission income	1,546.6	1,811.1	-14.6%
Other operating income	656.7	254.9	n.s.
Total Revenues	3,944.7	3,843.3	2.6%
Net impairment losses (reversals) on loans and financial assets	(4,531.3)	(3,347.5)	35.4%
Net operating income	(2,994.0)	(2,008.3)	49.1%
Net profit (loss) for the period	(2,857.4)	(3,722.8)	-23.2%
BALANCE SHEET FIGURES AND INDICATORS	31/12/17	31/12/16	Chg.
Total assets	129,499.0	144,488.2	-10.4%
Loans to customers	71,473.5	85,043.7	-16.0%
Direct funding	87,087.0	92,040.8	-5.4%
Indirect funding	91,941.5	92,405.4	-0.5%
of which: assets under management	53,331.7	52,198.9	2.2%
of which: assets under custody	38,609.8	40,206.5	-4.0%
Group net equity	9,647.5	4,767.3	n.s.
OPERATING STRUCTURE	31/12/17	31/12/16	Chg.
Total head count - end of period	21,376	23,345	-1,969
Number of branches in Italy	1,745	2,032	-287

REPORT ON OPERATIONS
Highlights at 31/12/2017

ALTERNATIVE PERFORMANCE MEASURES

MONTE DEI PASCHI DI SIENA BANK

PROFITABILITY RATIOS (%)	31/12/17	31/12/16	Chg.
Cost/Income ratio	61.0	65.2	-4.2
R.O.E.	-39.6	-56.1	16.5
Return on Assets (RoA) ratio	-2.2	-2.6	0.40
ROTE (Return on tangible equity)	-39.6	-56.1	16.5

The credit quality ratios are shown below, including the share of the portfolio allocated to assets held for sale (and to the items Non-performing loans and Loans to Customers):

KEY CREDIT QUALITY RATIOS (%)	31/12/17	31/12/16	Chg.
Net non-performing loans / Loans to Customers	15.0	18.2	-3.2
Coverage non-performing loans	68.2	56.5	11.7
Net doubtful loans / Loans to Customers	7.4	9.2	-1.8
Coverage doubtful loans	78.7	66.4	12.3
Net impairment losses on loans / Loans to Customers (Provisioning)	5.8	3.9	1.9
Texas Ratio	104.9	143.5	-38.6

The credit quality ratios are shown below, which do not consider the share of the portfolio allocated to assets held for sale:

KEY CREDIT QUALITY RATIOS (%)	31/12/17	31/12/16	Chg.
Net non-performing loans / Loans to Customers	10.9	18.2	-7.3
Coverage non-performing loans	48.6	56.5	-7.9
Net doubtful loans / Loans to Customers	3.0	9.2	-6.2
Coverage doubtful loans	64.3	66.4	-2.1
Net impairment losses on loans / Loans to Customers (Provisioning)	1.7	3.9	-2.2
Texas Ratio	89.2	143.5	-54.3

Cost/Income ratio: ratio of Operating Expenses (Administrative Expenses and Net adjustments on property, plant and equipment and intangible assets) to Total revenues (for the composition of the aggregate, see reclassified Income Statement)

Return On Equity (ROE): ratio of the Net profit for the year to the average between the shareholders' equity (including Profit and Valuation Reserves) at the end of period and the shareholders' equity at the end of the previous year.

Return On Assets (ROA): ratio of the Net profit for the year to the total assets at the end of the period.

Return On Tangible Equity (ROTE): ratio of the Net profit for the year to the average shareholders' equity (including Profit and Valuation Reserves, cleared of Goodwill) at the end of the previous year and the current year.

Net impairment losses on loans/Loans to Customers (Provisioning): ratio between net impairment losses on loans and loans to customers.

Texas Ratio: ratio between gross non-performing loans and the sum, in the denominator, of tangible shareholders' equity and the allowance for impairment on non-performing loans.

REPORT ON OPERATIONS
Highlights at 31/12/2017

REGULATORY MEASURES

MONTE DEI PASCHI DI SIENA BANK

CAPITAL RATIOS (%)	31/12/17	31/12/16	Chg.
Common Equity Tier 1 (CET1) ratio	18.0	8.2	9.8
Total Capital ratio	18.2	11.5	6.7

Analysis of the key economic-financial indicators of Banca Monte dei Paschi di Siena

Reclassified accounts

Income statement and balance sheet reclassification principles

Reclassified income statement

a) The item "**Net interest income**" was cleared of the negative contribution (equal to EUR -12 mln) of the Purchase Price Allocation (PPA), which was included in its own specific item.

b) The item "**Net fee and commission income**" includes items 40 "Fee and commission income" and 50 "Fee and commission expense", and was cleared of the arrangement fees associated with the securitisation transaction for EUR 13 mln, which was reclassified in the item "Restructuring costs/One-off costs".

c) "**Dividends, similar income and gains (losses) on equity investments**" in the reclassified income statement incorporates item 70 "Dividends and similar income". Dividends earned on securities other than equity investments have also been eliminated from the aggregate (EUR 4 mln), reclassified in the item "Net profit (loss) from trading and financial assets/liabilities".

d) The reclassified income statement item "**Net profit (loss) from trading and financial assets/liabilities**" includes item 80 "Net profit (loss) from trading", item 100 "Gains (losses) on disposal/repurchase of loans, financial assets available for sale or assets held to maturity and financial liabilities" and item 110 "Net profit (loss) from financial assets and liabilities designated at fair value". The item incorporates dividends earned on securities other than equity investments (EUR 4 mln).

e) The income statement item "**Other operating income (expenses)**" includes the balance of item 190 "Other operating income (expenses)" net of i) the recoveries on stamp duties and client expenses, which were restated under "**Other administrative expenses**" (EUR 304 mln) and ii) recoveries of DTA fees collected from the subsidiaries restated under the item "**DTA Fee**" (EUR 9 mln).

f) The income statement item "**Personnel expenses**" was reduced by EUR 279 mln for restructuring charges, essentially related to allocations for early retirement incentives/provisions, as per the trade union agreement of 3 August 2017 and, marginally, to expenses related to the doubtful loans securitisation transaction for EUR 0.6 mln. The amount was reclassified under "Restructuring costs/One-off costs".

g) The item "**Other administrative expenses**" includes the balance of item 150b of the financial statements "Other administrative expenses", reduced by the following cost items:

- expenses, amounting to EUR 75 mln, resulting from EU DGSD and BRRD directives for the resolution of bank crises (posted under the reclassified item "Risks and charges associated with SRF, DGS and similar schemes");
- DTA fee attributable to Banca MPS convertible into tax credit posted to the reclassified item "DTA fee" (EUR 71 mln), inclusive of the fees of subsidiaries.
- restructuring charges: i) EUR 17 mln for the closure of branches envisaged in the restructuring plan, and ii) EUR 18 mln for costs incurred for the transaction to securitise doubtful loans and in part associated with contracts for the overall outsourcing transaction for the doubtful loan collection platform and the long-term servicing contract to manage doubtful loans, as agreed with Cerved/Quaestio.

This item includes also the portion of stamp duty and client expenses recovery (EUR 304 mln) posted under item 190 "Other operating expenses/income".

h) The item "**Net adjustments to (recoveries on) property, plant and equipment / Net adjustments to (recoveries on) intangible assets**" was cleared of the negative contribution (equal to EUR -26 mln) of the Purchase Price Allocation (PPA), which was included in its own specific item.

i) The reclassified income statement item "**Net impairment losses (reversals) on financial assets and other transactions"** includes items 130b "Financial assets available for sale" and 130d "Other financial transactions".

j) "**Restructuring costs/One-off costs"** includes: i) restructuring costs allocated against early retirement incentives/provisions for EUR 279 mln and against the branch closures set forth in the restructuring plan for EUR 17 mln; ii) total charges of EUR 31 mln for the doubtful loan securitisation transaction, contracts related to the overall outsourcing transaction for the doubtful loan collection platform, and the long-term servicing contract for doubtful loan management (included in Net fee and commission income, Personnel expenses, and Other administrative expenses).

k) The item **"Risks and charges associated with SRF, DGS and similar schemes**" includes the expenses deriving from the EU directives DGSD for deposit guarantee and BRRD for the resolution of bank crises, posted in the financial statements under item 150b "Other administrative expenses". As at 31 December 2017, there were charges recognised for SRF (EUR 48 mln accounted for in the first quarter) and DGS (EUR 27 mln accounted for in the third quarter).

l) The item "**DTA fee**" includes the expenses related to the fees paid on DTA, which can be converted into tax credit as set forth in art. 11 of Law Decree no. 59 of 3 May 2016, converted into Law no. 119 of 30 June 2016, totalling EUR 62 mln and recognised in item 150b "Other administrative expenses" (EUR 71 mln), net of the share recovered from subsidiaries, accounted for under "Other operating income" (EUR 9 mln).

m) The item "**Tax expense (recovery) on income from continuing operations**" was cleared of the theoretical tax component relating to the Purchase Price Allocation (PPA), included in a specific item in the amount of EUR 13 mln.

n) The overall negative effects of Purchase Price Allocation (PPA) posted to this specific account were reclassified out of other items (in particular "**Net interest income**" for EUR -12 mln and "**Net adjustments to (recoveries on) property, plant and equipment/Net adjustment to (recoveries on) intangible assets**" for EUR -26 mln, net of a theoretical tax burden of EUR +13 mln which integrates the item).

<u>**Reclassified balance sheet**</u>

o) The item "**Marketable assets**", under Assets, includes the financial statement item 20 "Financial assets held for trading" and item 40 "Financial assets available for sale".

p) The item "**Other assets**", under Assets, includes the financial statements item 80 "Hedging derivatives", item 90 "Change in value of macro-hedged financial assets", item 130 "Tax assets", item 140 "Non-current assets and groups of assets held for sale and discontinued operations" and item 150 "Other assets".

q) The item "**Deposits from customers and debt securities issued**" under Liabilities, includes the financial statements item 20 "Deposits from customers", item 30 "Debt securities issued" and item 50 "Financial liabilities designated at fair value".

r) The item "**Other liabilities**", under Liabilities, includes the financial statements item 60 "Hedging derivatives", item 70 "Change in value of macro-hedged financial liabilities", item 80 "Tax liabilities", item 90 "Liabilities associated with non-current assets available for sale and discontinued operations" and item 100 "Other liabilities".

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The reconciliation between the statutory accounts and the reclassified consolidated income statement and balance sheet is included in the "Annexes" section.

Reclassified income statement

Reclassified Income Statement				
	31/12/17	31/12/16	Change	
MONTE DEI PASCHI DI SIENA BANK			Abs.	%
Net interest income	1,741.4	1,777.3	(35.9)	-2.0%
Net fee and commission income	1,546.6	1,811.1	(264.5)	-14.6%
Income from banking activities	**3,288.0**	**3,588.4**	**(300.4)**	**-8.4%**
Dividends, similar income and gains (losses) on equity investments	29.9	67.2	(37.3)	-55.5%
Net profit (loss) from trading and financial assets/liabilities	654.9	303.4	351.5	n.s.
Net profit (loss) from hedging	(18.2)	(104.5)	86.3	-82.6%
Other operating income (expenses)	(9.9)	(11.2)	1.3	-11.5%
Total Revenues	**3,944.7**	**3,843.3**	**101.4**	**2.6%**
Administrative expenses:	(2,338.0)	(2,450.9)	112.9	-4.6%
a) personnel expenses	(1,440.8)	(1,474.9)	34.1	-2.3%
b) other administrative expenses	(897.2)	(976.0)	78.8	-8.1%
Net adjustments to (recoveries on) property, plant and equipment / Net adjustments to (recoveries on) intangible assets	(69.4)	(53.2)	(16.2)	30.5%
Operating expenses	**(2,407.4)**	**(2,504.1)**	**96.7**	**-3.9%**
Pre Provision Profit	**1,537.3**	**1,339.2**	**198.1**	**14.8%**
Net impairment losses (reversals) on:	**(4,531.3)**	**(3,347.5)**	**(1,183.8)**	**35.4%**
a) loans	(4,387.7)	(3,315.4)	(1,072.3)	32.3%
b) financial assets	(143.6)	(32.1)	(111.5)	n.s.
Net operating income	**(2,994.0)**	**(2,008.3)**	**(985.7)**	**49.1%**
Net provisions for risks and charges	(214.6)	43.8	(258.4)	n.s.
Gains (losses) on investments	(102.9)	(1,139.0)	1,036.1	-91.0%
Restructuring costs / One-off costs	(326.7)	(114.7)	(212.0)	n.s.
Risks and charges related to the SRF, DGS and similar schemes	(75.2)	(200.9)	125.7	-62.6%
DTA Fee	(61.7)	(61.2)	(0.5)	0.8%
Gains (losses) on disposal of investments	522.7	12.7	510.0	n.s.
Profit (loss) before tax from continuing operations	**(3,252.7)**	**(3,467.6)**	**214.9**	**-6.2%**
Tax expense (recovery) on income from continuing operations	420.8	(223.8)	644.5	n.s.
Profit (loss) after tax from continuing operations	**(2,831.8)**	**(3,691.4)**	**859.6**	**-23.3%**
Profit (loss) for the period before PPA , impairment on goodwill and intangibles	**(2,831.8)**	**(3,691.4)**	**859.6**	**-23.3%**
PPA (Purchase Price Allocation)	(25.6)	(31.4)	5.9	-18.7%
Net profit (loss) for the year	**(2,857.4)**	**(3,722.8)**	**865.4**	**-23.2%**

Trends in revenues

In 2017, the Bank recorded total **Revenues** of **EUR 3,945 mln**, an increase of 2.6% compared to the previous year, attributable to the positive effect of the burden sharing transaction on Net profit (loss) from trading and financial assets/liabilities, offset by a reduction in Net interest income and Net fee and commission income.

Net interest income for 2017 amounted to **EUR 1,741 mln**, down by 2% compared to 2016, mainly related to the negative trend of interest-bearing assets, in particular commercial loans and the securities portfolio (reduction in average volumes and decline in the related returns). The effect of this trend is partially attenuated by the decrease in interest expense following the reduction in the cost of commercial funding, the maturity of bonds with more costly conditions, and the effects of burden sharing.

Items	31 12 2017	31 12 2016	Chg. Y/Y	
			Abs.	%
Relations with customers	1,774.7	2,278.2	(503.5)	-22.1%
of which interest income on non-performing assets	*389.0*	*550.0*	*(161.0)*	*-29.3%*
Securities issued	(386.5)	(739.6)	353.1	-47.7%
Net Differentials on hedging derivatives	32.3	11.6	20.7	n.s.
Relations with banks	107.6	101.7	5.9	5.8%
Trading portfolios	22.3	34.4	(12.1)	-35.2%
Portfolios designated at fair value	44.9	(96.1)	141.0	n.s.
Financial assets available for sale	147.1	182.5	(35.4)	-19.4%
Other net interest income	(1.0)	4.6	(5.6)	n.s.
Net interest income	**1,741.4**	**1,777.3**	**(35.9)**	**-2.0%**

Net fee and commission income totalled **EUR 1,547 mln**, declining by 14.6% compared to 2016, primarily as a result of the recognition of the cost of the guarantee on government issues in the first quarter and lower income from the credit segment (against lower volumes than last year), as well as lower income on payment services following the disposal of the merchant acquiring business as at 30 June 2017.

Services / Values	31 12 2017	31 12 2016	Chg. Y/Y	
			Abs.	%
Guarantees given / received	(52.5)	39.8	(92.3)	n.s.
Collection and payment services	101.5	180.9	(79.4)	-43.9%
Current account keeping	479.0	517.2	(38.2)	-7.4%
Credit and debit cards	176.5	232.4	(55.9)	-24.1%
Commercial banking activities	**704.5**	**970.3**	**(265.8)**	**-27.4%**
Receipts and trasmission of orders	25.3	39.9	(14.6)	-36.6%
Trading activities on financial instruments and currencies	20.1	39.6	(19.5)	-49.2%
Distribution of third party services	468.0	455.1	12.9	2.8%
Insurance services	183.7	164.4	19.3	11.7%
Placement/ offering of financial instruments and services	4.0	14.6	(10.6)	-72.6%
Asset management	44.9	53.5	(8.6)	-16.1%
Management, brokerage and advisory services	**746.0**	**767.1**	**(21.1)**	**-2.8%**
Other advisory services	**96.1**	**73.7**	**22.4**	**30.4%**
Net fee and commission income	**1,546.6**	**1,811.1**	**(264.5)**	**-14.6%**

Dividends, similar income and gains (losses) on equity investments: approximately **EUR 30 mln** (around EUR 67 mln as at 31 December 2016);

Net profit (loss) from trading and financial assets/liabilities in 2017 stood at **EUR 655 mln**, including the effects relating to the burden sharing transaction (for a total of EUR 575 mln, represented in the details noted below), an increase from the previous year (equal to EUR 303 mln). Net of the effects of the burden sharing transaction, the aggregate would be down considerably compared to 31 December 2016, which was characterised by higher net profit from trading, disposals/repurchases of securities and capital gains on liabilities issued and measured at fair value. An analysis of the main aggregates shows the following:

- **Positive trading results equivalent to EUR 18.4 mln**, down from 31 December 2016;
- The **positive FVO results totalling EUR 1 mln** due nearly entirely to the burden sharing transaction, net of which the aggregate would essentially have a zero value due to the early adoption permitted by IFRS 9 of the method of accounting for profit/losses connected to own creditworthiness of fair value option liabilities (as at 31 December 2016, determined in accordance with IAS 39, the FVO Result was positive at EUR 109 mln, due to the reduction in value of certain bond issues);
- **Gains on disposal/repurchase totalled EUR 635 mln**, essentially relating to the effects of the burden sharing transaction for EUR +573 mln, net of which the aggregate would be down compared to the previous year (-59.8% Y/Y), which benefitted from the higher AFS capital gains and other extraordinary income (disposal of the equity investment held by the Bank in VISA Europe and repurchase of financial liabilities).

Items	31 12 2017	31 12 2016	Chg. Y/Y	
			Abs.	%
Financial assets held for trading	4.2	0.5	3.7	n.s.
Exchange rate effects	19.3	19.1	0.2	1.0%
Derivatives	(5.1)	19.1	(24.2)	n.s.
Trading results	**18.4**	**38.7**	**(20.3)**	**-52.5%**
FVO Results	1.1	109.4	(108.3)	-99.0%
Disposal / repurchase	635.4	155.3	480.1	n.s.
Net profit (loss) from trading and financial asset/liabilities	**654.9**	**303.4**	**351.5**	**n.s.**

The following items also make up Revenues:

- **Net profit (loss) from hedging totalled EUR -18 mln** (EUR -105 mln as at 31 December 2016, which reflects the negative impact from the unexpected ineffectiveness of the interest rate risk hedge on a subordinated bond, following the obligatory conversion envisaged in Law Decree 237/16, converted into law on 17 February 2017, as part of the precautionary recapitalisation by the State).
- **Other operating income/expense was negative** for **EUR 10 mln** (EUR -11 mln at the end of 2016).

Operating expenses

Operating expenses totalled **EUR 2,407 mln** in 2017, down 3.9% on the previous year due to the trend in personnel expenses and other administrative expenses. A closer look at the individual aggregates reveals the following:

- **Administrative expenses** were **EUR 2,338 mln** (-4.6% Y/Y). A breakdown of the aggregate shows:
  - **Personnel expenses**, which totalled **EUR 1,441 mln**, declined year on year by 2.3% (EUR -34 mln) as a result of workforce downsizing, also due to the Solidarity Fund initiatives of 1 May and 1 November 2017.
  - **Other administrative expenses** stood at **EUR 897 mln**, down 8.1% from 2016, due to the negative impact of expenses connected to the recapitalisation transaction (which was not completed successfully) of around EUR 37 mln. Excluding this component, the annual trend would, in any case, show a decrease due to structural cost control measures which involved, in particular, the management of the real estate segment, ICT, and legal expenses connected to debt collection.
- **Net adjustments to (recoveries on) property, plant and equipment / Net adjustments to (recoveries on) intangible assets** amounted to EUR 69 mln in 2017, higher than the values from the previous year due to higher write-downs on property, plant and equipment (impairment on land and buildings of EUR 13 mln).

Type of transaction	31 12 2017	31 12 2016	Chg Y/Y	
			Abs.	%
Wages and salaries	(1,088.9)	(1,109.7)	20.8	-1.9%
Social-welfare charges	(293.2)	(303.6)	10.4	-3.4%
Other personnel expenses	(58.7)	(61.6)	2.9	-4.8%
Personnel expenses	**(1,440.8)**	**(1,474.9)**	**34.1**	**-2.3%**
Taxes	(230.5)	(254.9)	24.4	-9.6%
Furnishing, real estate and security expenses	(236.5)	(250.5)	14.0	-5.6%
General operating expenses	(183.3)	(184.6)	1.3	-0.7%
Information technology expenses	(17.3)	(16.7)	(0.6)	3.6%
Legal and professional expenses	(148.8)	(184.1)	35.3	-19.2%
Indirect personnel costs	(10.2)	(11.6)	1.4	-12.1%
Insurance	(27.5)	(30.5)	3.0	-9.8%
Advertising, sponsorship and promotions	(6.0)	(4.6)	(1.4)	30.4%
Other	(340.7)	(364.1)	23.4	-6.4%
Expenses recovery	303.6	325.6	(22.0)	-6.8%
Other administrative expenses	**(897.2)**	**(976.0)**	**78.8**	**-8.1%**
Tangible assets	(69.3)	(53.0)	(16.3)	30.8%
Intangible assets	(0.1)	(0.2)	0.1	-50.0%
Amortization and impairment losses	**(69.4)**	**(53.2)**	**(16.2)**	**30.5%**
Operating costs	**(2,407.4)**	**(2,504.1)**	**96.7**	**-3.9%**

As a result of these factors, the Bank's **Gross Operating Income** totalled **EUR 1,537 mln** (EUR 1,339 mln in 2016).

Net impairment losses (reversals) on loans and financial assets

In 2017, the Bank recognised **Net impairment losses (reversals) on loans, financial assets and other transactions** of **EUR 4,531 mln**, an increase of EUR 1,184 mln from the previous year, mainly due to: i) net impairment losses posted at the beginning of the year on the loans to be transferred following the adjustment to their recoverable value and other additional charges envisaged in the agreement with Quaestio (in total, EUR -3.2 bn, already recognised as at 30 June 2017); ii) recovery costs associated with the long-term servicing contract signed with JV Cerved/Quaestio for managing the outsourcing of MPS Group's doubtful loans (EUR -146 mln); iii) write-down of the equity investments in the Atlante I Fund (EUR -30 mln, already recognised in the first half of the year) and in Banca Popolare di Spoleto (EUR -8 mln); iv) write-down of the share held in the Voluntary Scheme (for a total amount of EUR -44 mln).

The ratio of 2017 net impairment losses on loans to total Loans to Customers reflects a **Provisioning Rate** of 585 bps, or **174 bps** net of the balance sheet and income statement effects of the transferred doubtful loans.

Consequently, the Bank's **Net operating income** in 2017 was **negative for EUR 2,994 mln**, compared to a negative value of EUR 2,008 mln in the previous year.

Reversals	31 12 2017	31 12 2016	Chg. Y/Y	
			Abs.	%
Loans to banks	(1.7)	(0.3)	(1.4)	n.s.
- Loans	(2.2)	(0.4)	(1.8)	n.s.
- Debt securities	0.5	0.1	0.4	n.s.
Loans to customers	(4,386.0)	(3,315.1)	(1,070.9)	32.3%
- Loans	(4,386.2)	(3,315.2)	(1,071.0)	32.3%
- Debt securities	0.2	0.1	0.1	100.0%
Impairment losses on loans	**(4,387.7)**	**(3,315.4)**	**(1,072.3)**	**32.3%**
Financial assets available for sale	(89.7)	(39.5)	(50.2)	n.s.
Guarantees and commitments	(53.9)	7.4	(61.3)	n.s.
Total financial activities and other operations	**(143.6)**	**(32.1)**	**(111.5)**	**n.s.**
Total	**(4,531.3)**	**(3,347.5)**	**(1,183.8)**	**35.4%**

Non-operating income, tax and net profit for the year

The **Result for the year** included the following items:

- **Net provisions for risks and charges** in the amount of **EUR -215 mln**, mainly allocated for legal risks. As at 31 December 2016 there was a positive balance of EUR 44 mln, which also benefitted from the release of provisions recognised against tax and legal risks which did not emerge or were attenuated.

- **Gains (losses) on investments** for **EUR -103 mln** related to write-downs on the subsidiaries Monte Paschi Banque and Banca MPS Belgio (for a total of EUR -80 mln) and the associates Trixia, Interporto Toscano, and Fidi Toscana (EUR -31 mln), partially offset by the gain on the sale of the investment in Intermonte Sim Sgr realised in 4Q17 (EUR +10 mln). As at 31 December 2016, the aggregate was negative for EUR 1,139 mln, which was particularly affected by the write-down in the subsidiary MPS CS.

- **Restructuring costs/One-off costs**, amounting to **EUR -327 mln**, include the restructuring costs allocated against the early retirement incentives/provision for personnel (**EUR -279 mln**) relating to the agreement of 3 August 2017 for the exits in November 2017, charges related to branch closures set forth in the restructuring plan (**EUR -17 mln**), and expenses associated with the doubtful loan securitisation transaction, contracts for the overall outsourcing of the doubtful debt collection platform, and the long-term servicing contract for managing doubtful loans, as agreed with Cerved/Quaestio (totalling **EUR -31 mln**).

- **Risks and charges related with SRF, DGS and similar schemes**, standing at **EUR -75 mln**, made up of the entire contribution due from the Group to the Single Resolution Fund, recognised in the first quarter for EUR 48 mln, while the remaining EUR 27 mln refers to the share paid to IDPF (DGS), accounted for in 3Q17. The balance as at 31 December 2016, equivalent to EUR -201 mln, included two additional yearly contributions to the National Resolution Fund, as required by Bank of Italy on 28 December 2016 pursuant to art. 25 of Law Decree 237/2016.

- **DTA Fee**, amounting to **EUR -62 mln**. This amount, determined according to the criteria set forth in Law Decree 59/2016, converted into Law no. 119 of 30 June 2016, represents the fee on DTA (Deferred Tax Assets) as at 31 December 2017 that can be converted into a tax credit, net of the portion recovered from subsidiaries (EUR 71 mln and EUR 9 mln, respectively).

- **Gains (losses) on disposal of investments** for an amount of **EUR 523 mln** (resulting from the gain on the sale of the merchant acquiring business unit to CartaSi) compared to a result of EUR 13 mln as at 31 December 2016.

Due to the changes discussed above, the Group's **Loss before tax from continuing operations** was **EUR -3,253 mln.** In 2016, the loss was EUR -3,468 mln.

Tax expense (recovery) on income from continuing operations was positive for **EUR 421 mln**. This result can essentially be attributed to the partial reassessment of DTAs from tax losses, accrued but not recognised in previous years, generated primarily by the regulatory measure which ordered the reduction in the ACE benefit (refer to article 7 of Law Decree no. 50 of 24 April 2017). Indeed, on a forward-looking basis, the lower ACE deductions planned as of 2017 and thereafter will reduce, with respect to what was expected with the regulations previously in force, the absorption of future taxable income, which therefore may be allocated to a greater extent to offsetting previous tax losses.

Considering the net effects of the PPA (EUR -26 mln), the loss for the year of Banca Monte dei Paschi di Siena for 2017 amounted to EUR -2,857 mln, compared to a loss of EUR 3,723 mln in 2016.

Reclassified balance sheet

Reclassified Balance Sheet				
ASSETS	**31/12/17**	**31/12/16**	**Chg**	
			abs.	**%**
Cash and cash equivalents	4,083.9	1,069.6	3,014.3	n.s.
Receivables :				
a) Loans to customers	71,473.5	85,043.7	(13,570.2)	-16.0%
b) Loans to banks	24,927.4	31,708.8	(6,781.4)	-21.4%
Marketable assets	15,922.0	17,691.4	(1,769.4)	-10.0%
Financial assets held to maturity	-	-	-	
Equity investments	3,079.2	1,942.7	1,136.5	58.5%
Property, plant and equipment / Intangible assets	1,073.6	1,096.4	(22.8)	-2.1%
Other assets	8,939.4	5,935.7	3,003.7	50.6%
Total assets	**129,499.0**	**144,488.2**	**(14,989.2)**	**-10.4%**

LIABILITIES	**31/12/17**	**31/12/16**	**Chg**	
			abs.	**%**
Payables				
a) Deposits from customers and securities issued	87,087.0	92,040.8	(4,953.8)	-5.4%
b) Deposits from banks	26,675.3	40,787.4	(14,112.1)	-34.6%
Financial liabilities held for trading	802.5	1,296.3	(493.8)	-38.1%
Provisions for specific use				
a) Provisions for staff severance indemnities	192.5	245.3	(52.8)	-21.5%
b) Pensions and other post retirement benefit obligations	44.2	47.2	(3.0)	-6.4%
c) Other provisions	974.1	949.3	24.8	2.6%
Other liabilities	4,075.9	4,354.7	(278.8)	-6.4%
Bank net equity	9,647.5	4,767.3	4,880.2	n.s.
a) Valuation reserves	(61.5)	(198.3)	136.8	-69.0%
c) Equity instruments carried at equity	-	-	-	
d) Reserves	2,423.8	1,322.7	1,101.1	83.2%
e) Share premium	-	-	-	
f) Share capital	10,328.6	7,365.7	2,962.9	40.2%
g) Treasury shares (-)	(186.0)	-	(186.0)	
h) Net profit (loss) for the year	(2,857.4)	(3,722.8)	865.4	-23.2%
Total Liabilities and Shareholders' Equity	**129,499.0**	**144,488.2**	**(14,989.2)**	**-10.4%**

Customer funding

As at 31 December 2017, the Bank's **Total funding** volumes amounted to around **EUR 179 bn**, down compared to the result at the end of 2016 (-2.9%), principally due to the decrease in volumes from direct funding.

Customer Funding			Chg Y/Y	
	31/12/17	31/12/16	Abs.	%
Direct funding	87,087.0	92,040.8	(4,953.8)	-5.4%
Indirect funding	91,941.5	92,405.4	(463.9)	-0.5%
assets under management	*53,331.7*	*52,198.9*	1,132.8	*2.2%*
assets under custody	*38,609.8*	*40,206.5*	(1,596.7)	*-4.0%*
Total funding	**179,028.5**	**184,446.2**	**(5,417.7)**	**-2.9%**

Volumes of **Direct Funding**, which at the end of the year stood at **EUR 87 bn**, recorded a decrease of EUR 5 bn compared to the end of December 2016, primarily due to the drop in repurchase agreements with institutional counterparties and the bond component (impacted by the effect of burden sharing on institutional subordinated loans and maturities during the year), only partially offset by growth in current accounts and other forms of funding.

The following table shows a breakdown of major types of direct funding from customers:

Direct funding			Change Y/Y	
Type of transaction	31/12/17	31/12/16	Abs.	%
Current accounts	49,287.8	39,065.0	10,222.8	26.2%
Time deposits	8,817.7	8,869.3	(51.6)	-0.6%
Reverse repurchase agreements	1,848.2	16,104.3	(14,256.1)	-88.5%
Bonds	18,002.7	22,211.9	(4,209.2)	-19.0%
Other types of direct funding	9,130.6	5,790.3	3,340.3	57.7%
Total	**87,087.0**	**92,040.8**	**(4,953.8)**	**-5.4%**

Indirect Funding came to **EUR 91.9 bn** at the end of December, a modest decline from 31 December 2016 (EUR -0.5 bn), due to the reduction in assets under custody (EUR -1.6 bn), which was influenced by the movement in a large Corporate position. Instead, Assets under management, which amounted to EUR 53.3 bn, showed an increase (EUR +1.1 bn) compared to 31 December 2016. This growth was seen across all segments with the exception of Wealth Management.

Indirect Funding				
			Change Y/Y	
	31/12/17	31/12/16	Abs.	%
Assets under management	53,331.7	52,198.9	1,132.8	2.2%
Mutual Funds/Sicav	*25,123.8*	*23,965.1*	1,158.7	*4.8%*
Individual Portfolio under Management	*5,693.7*	*6,328.2*	-634.5	*-10.0%*
Insurance Products	*22,514.2*	*21,905.6*	608.6	*2.8%*
Assets under custody	38,609.8	40,206.5	-1,596.7	-4.0%
Total funding	**91,941.5**	**92,405.4**	-463.9	**-0.5%**

Loans to customers

As at 31 December 2017, the Bank's **Loans to customers** amounted to **EUR 71.5 bn**, down 16.0% with respect to the end of 2016.

The decline in the aggregate posted for the year was concentrated primarily in the non-performing loan segment due to both higher loan impairments recognised at the beginning of the year on the loans to be transferred following the adjustment to their recoverable value as well as the reclassification of transferred loans to balance sheet item "Other assets" (item 140 "Non-current assets and groups of assets held for sale and discontinued operations"); all other components posted a decrease.

Loans to customers				
			Change Y/Y	
Type of transaction	31/12/17	31/12/16	Abs.	%
Current accounts	5,820.1	6,447.1	(627.0)	-9.7%
Mortgages	41,459.2	43,838.4	(2,379.2)	-5.4%
Other forms of lending	15,245.0	17,073.2	(1,828.2)	-10.7%
Repurchase agreements	124.7	950.8	(826.1)	-86.9%
Securities lending	1,052.9	1,256.4	(203.5)	-16.2%
Non performing loans	7,771.7	15,477.8	(7,706.1)	-49.8%
Total	**71,473.5**	**85,043.7**	**(13,570.2)**	**-16.0%**

Non-performing loans[1]

As at 31 December 2017, the Bank's **net exposure to non-performing loans** totalled **EUR 11.2 bn**, down 27.3% compared to the end of December 2016. Specifically, there was a decline in all risk categories: doubtful loans -28.6%, unlikely to pay -22.3%, and past due exposures -58.2%.

This net exposure includes EUR 3.5 bn relating to the non-performing loans held for sale, net of which the value would have been EUR 7.8 bn, marking a significant improvement in the ratio of net non-performing loans to net loans to customers, which dropped from 15.0% to 10.9%.

		Doubtful loans	Unlikely to pay	Non performing Past due	**Non-performing exposures**	Perfoming exposures	**Total**	*- of which forbone impaired*	*- of which forborne not impaired*
31 12 17	Gross exposure	26,198.0	8,731.0	450.6	**35,379.6**	64,242.4	**99,622.0**	*6,345.6*	*1,650.3*
	Provisions	20,606.5	3,405.4	119.2	**24,131.1**	427.2	**24,558.3**	*2,748.0*	*66.3*
	Net exposure	5,591.5	5,325.6	331.4	**11,248.5**	63,815.2	**75,063.7**	*3,597.6*	*1,584.0*
	Coverage ratio	*78.7%*	*39.0%*	*26.5%*	***68.2%***	*0.7%*	***24.7%***	*43.3%*	*4.0%*
	% on Loans to customers	*7.4%*	*7.1%*	*0.4%*	***15.0%***	*85.0%*	***100.0%***		
31 12 16	Gross exposure	23,312.9	11,213.4	1,036.1	**35,562.4**	70,105.4	**105,667.8**	*6,428.7*	*1,857.4*
	Provisions	15,485.0	4,356.6	243.0	**20,084.6**	539.5	**20,624.1**	*2,290.6*	*78.1*
	Net exposure	7,827.9	6,856.8	793.1	**15,477.8**	69,565.9	**85,043.7**	*4,138.1*	*1,779.3*
	Coverage ratio	*66.4%*	*38.9%*	*23.5%*	***56.5%***	*0.8%*	***19.5%***	*35.6%*	*4.2%*
	% on Loans to customers	*9.2%*	*8.1%*	*0.9%*	***18.2%***	*81.8%*	***100.0%***		

Prospects and outlook on operations

Please refer to the paragraph of the same name in the Consolidated Report on Operations, the content and statements of which also apply to the Bank.

[1] *Includes the component of non-performing loans included in item 70 "Loans to customers", and also part of item 150 "Assets held for sale" for the portion relating to the transferred doubtful loans.*

Annexes

Reconciliation between reclassified accounts and mandatory reporting schedules

Reconciliation between the reclassified income statement as at 31 December 2017 and related statutory accounts

Accounts in Reclassified Profit and Loss Statement - Montepaschi Bar	31/12/17	Accounts in the Profit and Loss Statement - Montepaschi Bank		31/12/17	Operating Reclassifications			31/12/17
Net interest income	1,741.4	Interest income and similar revenues	Item 10	2,585.0	(+)	Economic effects from allocation of BAV acquisition costs to BMPS (PPA)		12.4
		Interest expense and similar charges	Item 20	-856.0				
Net fee and commission income	1,546.6	Fee and commission income	Item 40	1,796.5				
		Fee and commission expense	Item 50	-262.5	(+)	Cancellation Fee and commission expense -Restructuring costs		12.5
Income from banking activities	**3,288.0**			**3,263.0**				**24.9**
Dividends, similar income and gains (losses) on equity investments	29.9	Dividends and similar income	Item 70	34.3	(-)	Reclassification of dividends on treasury stock transactions	Item 70 - Partial	-4.4
					(+)	Portion of profit from equity investments (Gruppo AXA)	Item 240 - Partial	
Net profit (loss) from trading and financial assets/liabilities	654.9	Net profit (loss) from trading	Item 80	14.0	(+)	Reclassification of dividends on treasury stock transactions	Item 70 - Partial	4.4
		Gains/losses on disposal/repurchase of:	Item 100	635.5				
		a) loans		-5.6				
		b) financial assets available for sale		85.9				
		c) held to maturity investments						
		d) financial liabilities		555.2				
		Net profit (loss) from financial assets and liabilities designated at fair value	Item 110	1.1				
Net profit (loss) from hedging	-18.2	Net profit (loss) from hedging	Item 90	-18.2				
Other operating income (expenses)	-9.9	Other income/expenses (net) from insurance activities	Item 190	302.9	(-)	Recovery of stamp duty and customers' expenses and Dta fee	Item 220 - Partial	-312.8
Total Revenues	**3,944.7**			**4,232.6**				**-287.9**
Administrative expenses:	-2,338.0	Administrative expenses	Item 150	-3,102.0				
a) personnel expenses	-1,440.8	a) Personnel expenses	Item 150a	-1,720.2	(+)	Restructuring costs	item 150a - Partial	279.4
b) other administrative expenses	-897.2	b) Other administrative expenses	Item 150b	-1,381.8	(+)	Reclassification provision to BRRD and DGSD funds	Item 150b - Partial	75.2
					(+)	Recovery of stamp duty and customers' expenses	Item 190 - Partial	303.6
					(+)	Restructuring costs	Item 150b - Partial	34.8
					(+)	DTA fee	Item 150b - Partial	70.9
Net adjustments to (recoveries on) property, plant and equipment / Net adjustments to (recoveries on) intangible assets	-69.4	Net losses/reversal on impairment on property, plant and equipment	Item 170	-69.3				
		Net adjustments to (recoveries on) intangible assets	Item 180	-25.9	(+)	Economic effects from allocation of BAV acquisition costs to BMPS (PPA)		25.8
Operating expenses	**-2,407.4**			**-3,197.2**				**789.7**
Pre Provision Profit	**1,537.3**			**1,035.4**				**501.8**
Net impairment losses (reversals) on:	-4,531.3	Net impairment losses(reversals) on	Item 130	-4,531.3				
a) loans	-4,387.7	a) loans	Item 130a	-4,387.7				
b) financial assets	-143.6	b) financial assets available for sale	Item 130b	-89.7				
		d) other financial transactions	Item 130d	-53.9				
Net operating income	**-2,994.0**			**-3,495.9**				**501.8**
Net provisions for risks and charges	-214.6	Net provisions for risks and charges	Item 160	-214.6				
Gains (losses) on investments	-102.9	Gains (losses) on investments	Item 210	-102.9	(-)	Portion of profit from equity investments (Gruppo AXA)	Item 240 - Partial	
Restructuring costs / One-off costs	-326.7				(-)	Restructuring charges/One-off costs	Item 150a 150b - Partial	-326.7
Risks and charges related to the SRF, DGS and similar schemes	-75.2				(-)	Provision to BRRD and DGSD funds	Item 150b - Partial	-75.2
DTA fee	-61.7				(-)	DTA fee	Item 150b - Partial	-61.7
Gains (losses) on disposal of investments	522.7	Gains (losses) on disposal of investments	Item 240	522.7				
Profit (loss) before tax from continuing operations	**-3,252.7**			**-3,290.9**				**38.2**
Tax expense (recovery) on income from continuing operations	420.8	Tax expense (recovery) on income from continuing	Item 260	433.4	(-)	Economic effects from allocation of BAV acquisition costs to BMPS (PPA)		-12.6
Profit (loss) after tax from continuing operations	**-2,831.8**			**-2,857.5**				**25.6**
Profit (loss) after tax from groups of assets held for sale and discontinued operations		Profit (loss) after tax from groups of assets held for sale and discontinued operations	Item 270					
Profit (loss) for the period before PPA , impairment on goodwill and intangibles	**-2,831.8**			**-2,857.4**				**25.6**
PPA (Purchase Price Allocation)	-25.6				(-)	Economic effects from allocation of BAV acquisition costs to BMPS (PPA)		-25.6
Impairment on goodwill and intangibles		Impairment on goodwill and intangibles	Item 230					
Net profit (loss) for the year	**-2,857.4**	**Net profit (loss) for the year**		**-2,857.4**		**Total**		**0.0**

Reconciliation between the reclassified income statement as at 31 December 2016 and related statutory accounts

Accounts in Reclassified Profit and Loss Statement - Montepaschi Bank	31/12/16	Accounts in the Profit and Loss Statement - Montepaschi Bank		31/12/16	Operating Reclassifications			31/12/16
Net interest income	1777.3	Interest income and similar revenues	Item 10	3180.3	(+)	Economic effects from allocation of BAV acquisition costs to BMPS (PPA)		19.3
		Interest expense and similar charges	Item 20	-1422.3				
Net fee and commission income	1811.1	Fee and commission income	Item 40	2027.7				
		Fee and commission expense	Item 50	-216.6				
Margine intermediazione primario	**3588.4**			**3569.1**				**19.3**
Dividends, similar income and gains (losses) on equity investments	67.2	Dividends and similar income	Item 70	67.4	(-)	Reclassification of dividends on treasury stock transactions	Item 70 - Partial	-0.2
					(+)	Portion of profit from equity investments (Gruppo AXA)	Item 240 - Partial	
Net profit (loss) from trading and financial assets/liabilities	303.4	Net profit (loss) from trading	Item 80	38.5	(+)	Reclassification of dividends on treasury stock transactions	Item 70 - Partial	0.2
		Gains/losses on disposal/repurchase of:	Item 100	155.3				
		a) loans		-1.5				
		b) financial assets available for sale		104.7				
		d) financial liabilities		52.1				
		Net profit (loss) from financial assets and liabilities designated at fair value	Item 110	109.4				
Net profit (loss) from hedging	-104.5	Net profit (loss) from hedging	Item 90	-104.5				
Other operating income (expenses)	-11.2	Other income/expenses (net) from insurance activities	Item 190	323.6	(-)	Recovery of stamp duty and customers' expenses and Dta fee	Item 190 - Partial	-334.8
Total Revenues	**3843.3**			**4158.8**				**-315.5**
Administrative expenses:	-2450.9	Administrative expenses		-3162.5				
a) personnel expenses	-1474.9	a) Personnel expenses	Item 150a	-1589.6	(+)	Restructuring charges	Item 150a - Partial	114.7
b) other administrative expenses	-976.0	b) Other administrative expenses	Item 150b	-1572.9	(+)	Provision to BRRD and DGSD funds	Item 150b - Partial	200.9
					(+)	Recovery of stamp duty and customers' expenses	Item 1900 - Partial	325.6
					(+)	Dta fee	Item 150b - Partial	70.4
Net adjustments to (recoveries on) property, plant and equipment / Net adjustments to (recoveries on) intangible assets	-53.2	Net losses/reversal on impairment on property, plant and equipment	Item 170	-53.0				
		Net adjustments to (recoveries on) intangible assets	Item 180	-27.8	(+)	Economic effects from allocation of BAV acquisition costs to BMPS (PPA)		27.6
Operating expenses	**-2504.1**			**-3243.3**				**739.2**
Pre Provision Profit	**1339.2**			**915.5**				**423.7**
Net impairment losses (reversals) on:	-3347.5	Net impairment losses(reversals) on	Item 130	-3347.5				
a) loans	-3315.4	a) loans	Item 130a	-3315.4				
b) financial assets	-32.1	b) financial assets available for sale	Item 130b	-39.5				
		d) other financial transactions	Item 130d	7.4				
Net operating income	**-2008.3**			**-2432.0**				**423.7**
Net provisions for risks and charges	43.8	Net provisions for risks and charges	Item 160	43.8				
Gains (losses) on investments	-1139.0	Gains (losses) on investments	Item 210	-1139.0	(-)	Portion of profit from equity investments (Gruppo AXA)	Item 210 - Partial	
Restructuring costs / One-off costs	-114.7				(-)	Restructuring charges/One-off costs	Item 150a - Partial	-114.7
Risks and charges related to the SRF, DGS and similar schemes	-200.9				(-)	Provision to BRRD and DGSD funds	item 150b Patial	-200.9
Dta fee	-61.2				(-)	Dta fee	item 150b Patial	-61.2
Gains (losses) on disposal of investments	12.7	Gains (losses) on disposal of investments	Item 240	12.7				
Profit (loss) before tax from continuing operations	**-3467.6**			**-3514.5**				**46.9**
Tax expense (recovery) on income from continuing operations	-223.8	Tax expense (recovery) on income from continuing operations	Item 260	-208.3	(-)	Economic effects from allocation of BAV acquisition costs to BMPS (PPA)		-15.5
Profit (loss) after tax from continuing operations	**-3691.4**			**-3722.8**				**31.4**
Profit (loss) after tax from groups of assets held for sale and discontinued operations		Profit (loss) after tax from groups of assets held for sale and discontinued operations	Item 270					
Profit (loss) for the period before PPA , impairment on goodwill and intangibles	**-3691.4**			**-3722.8**				**31.4**
PPA (Purchase Price Allocation)	-31.4				(-)	Economic effects from allocation of BAV acquisition costs to BMPS (PPA)		-31.4
Impairment on goodwill and intangibles		Impairment on goodwill and intangibles						
Net profit (loss) for the year	**-3722.8**	**Net profit (loss) for the year**		**-3722.8**		**Total**		**0.0**

Reconciliation between the reclassified balance sheet and related statutory accounts

Balance-sheet Items - Assets	31/12/17	31/12/16	Reclassified balance-sheet items - Assets
	4,083.9	**1,069.6**	**Cash and cash equivalents**
Item 10 – Cash and cash equivalents	4,083.9	1,069.6	
			Receivables
	71,473.5	**85,043.7**	**a) Loans to customers**
Item 70 – Loans to customers	71,473.5	85,043.7	
	24,927.4	**31,708.8**	**b) Loans to banks**
Item 60 – Loans to banks	24,927.4	31,708.8	
	15,922.0	**17,691.4**	**Marketable assets**
Item 20 – Financial assets held for trading	901.3	1,417.4	
Item 30 – Financial assets designated at fair value	-	-	
Item 40 – Financial assets available for sale	15,020.7	16,274.0	
	-	**-**	**Financial assets held to maturity**
Item 50 – Held to maturity investments	-	-	
	3,079.2	**1,942.7**	**Equity investments**
Item 100 – Equity investments	3,079.2	1,942.7	
	1,073.6	**1,096.4**	**Property, plant and equipment / Intangible assets**
Item 110 – Property, plant and equipment	1,035.0	1,031.9	
Item 120 – Intangible assets	38.6	64.5	
	8,939.4	**5,935.7**	**Other assets**
Item 80 – Hedging Derivatives	333.3	546.2	
Item 90 – Change in value of macro-hedged financial assets (+/-)	56.9	111.6	
Item 130 – Tax assets	3,072.3	3,446.6	
Item 140 – Non-current assets held for sale and discontinued operations	3,600.2	55.4	
Item 150 – Other assets	1,876.7	1,775.9	
Total Assets	**129,499.0**	**144,488.2**	**Total Assets**

Balance-sheet Items - Liabilities	31/12/17	31/12/16	Reclassified balance-sheet items - Liabilities
			Payables
	87,087.0	**92,040.8**	**a) Deposits from customers and securities issued**
Item 20 – Deposits from customers	66,718.2	69,362.6	
Item 30 – Debt securities issued	19,953.6	20,981.5	
Item 50 – Financial liabilities designated at fair value	415.2	1,696.7	
	26,675.3	**40,787.4**	**b) Deposits from banks**
Item 10 – Deposits from banks	26,675.3	40,787.4	
	802.5	**1,296.3**	**Financial liabilities held for trading**
Item 40 – Financial liabilities held for trading	802.5	1,296.3	
			Provisions for specific use
Item 110 – Provision for employee severance pay	192.5	245.3	a) Provision for employee severance pay
Item 120 - Provisions for risks and charges - a) pension and similar obligations	44.2	47.2	b) Provision for pension
Item 120 - Provisions for risks and charges - b) other provisions	974.1	949.3	c) Other provisions
	4,075.9	**4,354.7**	**Other liabilities**
Item 60 – Hedging Derivatives	833.6	1,206.2	
Item 70 – Change in value of macro-hedged financial liabilities (+/-)	(0.8)	-	
Item 80 – Tax liabilities	0.7	5.3	
Item 90 – Liabilities associated to disposal groups held for sale	-	10.4	
Item 100 – Other liabilities	3,242.4	3,132.8	
	9,647.5	**4,767.3**	**Bank net equity**
Item 130 – Valuation reserves	(61.5)	(198.3)	a) Valuation reserves
Item 140 – Redeemable shares	-	-	b) Redeemable shares
Item 150 – Equity instruments	-	-	c) Capital instruments
Item 160 – Reserves	2,423.8	1,322.7	d) Reserves
Item 170 – Share premium reserve	-	-	e) Share premium reserves
Item 180 – Share Capital	10,328.6	7,365.7	f) Share capital
Item 190 – Treasury shares (-)	(186.0)	-	g) Treasury shares (-)
Item 200 – Profit (loss) for the year (+/-)	(2,857.4)	(3,722.8)	h) Profit (loss) for the year
Total liabilities and shareholders' equity	**129,499.0**	**144,488.2**	**Total liabilities and shareholders' equity**

SEPARATE FINANCIAL STATEMENTS

Balance Sheet

(in units of Eur)

	Assets	31 12 2017	31 12 2016
10	Cash and cash equivalents	4,083,948,406	1,069,604,797
20	Financial assets held for trading	901,297,688	1,417,381,341
40	Financial assets available for sale	15,020,745,447	16,273,985,792
60	Loans to banks	24,927,358,098	31,708,835,207
70	Loans to customers	71,473,544,331	85,043,670,980
80	Hedging derivatives	333,295,169	546,173,395
90	Change in value of macro-hedged financial assets (+/-)	56,878,368	111,645,893
100	Equity investments	3,079,196,911	1,942,743,006
110	Property, plant and equipment	1,035,041,436	1,031,921,236
120	Intangible assets	38,620,679	64,456,915
130	Tax assets	3,072,335,223	3,446,577,770
	a) current	*529,292,388*	*587,310,898*
	b) deferred	*2,543,042,835*	*2,859,266,872*
	under Law 214/2011	*1,107,349,741*	*2,019,633,025*
140	Non-current assets and groups of assets held for sale and discontinued operations	3,600,130,535	55,354,748
150	Other assets	1,876,570,003	1,775,856,746
	Total assets	**129,498,962,294**	**144,488,207,826**

continued: Balance Sheet

(in units of Eur)

	Liabilities and Shareholders' Equity	31 12 2017	31 12 2016
10	Deposits from banks	26,675,292,287	40,787,367,059
20	Deposits from customers	66,718,244,647	69,362,614,525
30	Debt securities issued	19,953,640,372	20,981,531,607
40	Financial liabilities held for trading	802,506,687	1,296,325,838
50	Financial liabilities designated at fair value	415,215,413	1,696,690,399
60	Hedging derivatives	833,623,443	1,206,200,053
80	Tax liabilities	650,902	5,266,400
	a) current	*650,902*	*5,266,400*
90	Liabilities associated with non-current assets held for sale and discontinued operations	-	10,402,474
100	Other liabilities	3,242,186,283	3,132,754,853
110	Provision for employee severance pay	192,525,201	245,263,981
120	Provisions for risks and charges:	1,018,326,192	996,511,563
	a) post-employment benefits	*44,213,006*	*47,232,013*
	b) other provisions	*974,113,186*	*949,279,550*
130	Valuation reserves	(61,469,886)	(198,344,475)
160	Reserves	2,423,788,969	1,322,720,205
180	Share capital	10,328,618,260	7,365,674,050
190	Treasury shares (-)	(185,957,994)	-
200	Profit (loss) (+/-)	(2,857,440,195)	(3,722,770,706)
	Total Liabilities and Shareholders' Equity	**129,498,962,294**	**144,488,207,826**

Income statement

(in units of Eur)

Items		31 12 2017	31 12 2016
10	Interest income and similar revenues	2,584,962,004	3,180,262,134
20	Interest expense and similar charges	(855,974,744)	(1,422,340,297)
30	**Net interest income**	**1,728,987,260**	**1,757,921,837**
40	Fee and commission income	1,796,528,626	2,027,698,382
50	Fee and commission expense	(262,462,879)	(216,584,915)
60	**Net fee and commission income**	**1,534,065,747**	**1,811,113,467**
70	Dividends and similar income	34,313,915	67,357,932
80	Net profit (loss) from trading	13,954,006	38,545,196
90	Net profit (loss) from hedging	(18,247,548)	(104,512,470)
100	Gains/losses on disposal/repurchase of:	635,423,853	155,367,213
	a) loans	*(5,621,039)*	*(1,479,999)*
	b) financial assets available for sale	*85,890,553*	*104,730,831*
	d) financial liabilities	*555,154,339*	*52,116,381*
110	Net profit (loss) from financial assets and liabilities designated at fair value	1,113,735	109,430,184
120	**Net interest and other banking income**	**3,929,610,968**	**3,835,223,359**
130	Net impairment losses(reversals) on	(4,531,271,946)	(3,347,483,506)
	a) loans	*(4,387,724,012)*	*(3,315,415,255)*
	b) financial assets available for sale	*(89,696,628)*	*(39,506,536)*
	d) other financial transactions	*(53,851,306)*	*7,438,285*
140	**Net income from banking activities**	**(601,660,978)**	**487,739,853**
150	Administrative expenses:	(3,102,022,792)	(3,162,463,405)
	a) personnel expenses	*(1,720,232,528)*	*(1,589,593,667)*
	b) other administrative expenses	*(1,381,790,264)*	*(1,572,869,738)*
160	Net provisions for risks and charges	(214,581,355)	43,787,604
170	Net adjustments to (recoveries on) property, plant and equipment	(69,348,501)	(52,982,099)
180	Net adjustments to (recoveries on) intangible assets	(25,936,474)	(27,826,838)
190	Other operating expenses/income	302,923,341	323,646,816
200	**Operating expenses**	**(3,108,965,781)**	**(2,875,837,922)**
210	Gains (losses) on investments	(102,929,923)	(1,139,029,232)
240	Gains (losses) on disposal of investments	522,683,770	12,686,238
250	**Profit (loss) before tax from continuing operations**	**(3,290,872,912)**	**(3,514,441,063)**
260	Tax expense (recovery) on income from continuing operations	433,432,717	(208,329,643)
270	**Profit (loss) after tax from continuing operations**	**(2,857,440,195)**	**(3,722,770,706)**
290	**Profit (loss)**	**(2,857,440,195)**	**(3,722,770,706)**

.

Statement of Comprehensive Income

(in units of Eur)

	Items	31 12 2017	31 12 2016
10	**Profit (loss)**	**(2,857,440,195)**	**(3,722,770,706)**
	Other comprehensive income after tax not recycled to profit and loss	**(151,245,191)**	**(8,011,786)**
40	Actuarial gains (losses) on defined benefit plans	3,585,982	(7,928,904)
50	Non current assets held for sale	82,882	(82,882)
65	Financial liabilities measured at fair value with impact to profit and loss	(154,914,055)	-
	Other comprehensive income after tax recycled to profit and loss	**97,515,630**	**(16,931,561)**
80	Exchange differences	(6,158,794)	1,364,474
90	Cash flow hedges	37,132,042	121,345,045
100	Financial assets available for sale	81,972,133	(135,533,917)
110	Non current assets held for sale	(15,429,751)	(4,107,163)
130	**Total other comprehensive income after tax**	**(53,729,561)**	**(24,943,347)**
140	**Total comprehensive income (Item 10+130)**	**(2,911,169,756)**	**(3,747,714,053)**

.

Statement of Changes in Equity - 2017

(in units of eur)

	Balance as at 31 12 2016	Change in opening balances	Balance as at 01 01 2017	Allocation of profit from prior year		Changes during the year								Total Equity as at 31 12 2017
							Shareholders'equity transactions							
				Reserves	Dividends and other payout	Changes in reserves	Issue of new share	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Treasury shares derivatives	Stock options	Total comprehensive income as at 31 12 2017	
Share capital:	7,365,674,050	-	7,365,674,050	-	-	(5,364,181,091)	8,327,125,301	-	-	-	-	-	-	10,328,618,260
a) ordinary shares	7,365,674,050	-	7,365,674,050	-	-	(5,364,181,091)	8,327,125,301	-	-	-	-	-	-	10,328,618,260
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reserves:	1,322,720,205	(190,604,150)	1,132,116,055	(3,722,770,706)	-	5,018,366,616	(3,922,996)	-	-	-	-	-	-	2,423,788,969
a) from profits	-	(190,604,150)	(190,604,150)	(2,324,050,501)	-	2,510,924,397	-	-	-	-	-	-	-	(3,730,254)
b) other	1,322,720,205	-	1,322,720,205	(1,398,720,205)	-	2,507,442,219	(3,922,996)	-	-	-	-	-	-	2,427,519,223
Valuation reserves	(198,344,475)	190,604,150	(7,740,325)	-	-	-	-	-	-	-	-	-	(53,729,561)	(61,469,886)
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	-	-	-	-	-	-	(185,957,994)	-	-	-	-	-	-	(185,957,994)
Net profit (loss)	(3,722,770,706)	-	(3,722,770,706)	3,722,770,706	-	-	-	-	-	-	-	-	(2,857,440,195)	(2,857,440,195)
Total equity	4,767,279,074	-	4,767,279,074	-	-	(345,814,475)	8,137,244,311	-	-	-	-	-	(2,911,169,756)	9,647,539,154

As at 31 December 2017 the Bank's net equity amounts to EUR 9,647.5 mln, as compared to EUR 4,767.3 mln as at 31 December 2016, with a total increase of EUR 4,880.2 mln.

Please note that the column "Changes in opening balances" includes the impact deriving from the early application of IFRS 9, limited to the treatment of the creditworthiness of fair value option financial liabilities (for additional information, please refer to the "Accounting policies" section).

The most significant phenomena impacting the net equity, in addition to the EUR 2,857.4 mln loss for the year, were the following.

1. The loss for the year 2016, equal to EUR 3,722.8 mln, was covered to the extent of EUR 1,398.7 mln during the same year through a share capital reduction in the corresponding amount in accordance with the shareholders' resolution of 24 November 2016 and by carrying forward the remaining EUR 2,324.0 mln.

2. The Bank's share capital increase was completed in August 2017 following the issue on 27 July 2017 of the Ministry of Economy and Finance ("MEF") decrees relating to:
   - "Capital strengthening initiatives of Banca Monte dei Paschi di Siena, pursuant to art. 18, paragraph 2 of Law Decree no. 237 of 23 December 2016 converted, with amendments, by Law no. 15 of 17 February 2017" and
   - "Capital strengthening initiatives of Banca Monte dei Paschi di Siena, pursuant to art. 18, paragraph 3 of Law Decree no. 237 of 23 December 2016 converted, with amendments, by Law no. 15 of 17 February 2017", published in Official Gazette no. 175 on 28 July 2017.

   These decrees provided for:

   - an increase in the Bank's share capital, in the amount of EUR 4,472.9 mln, through the issue of 517,099,404 ordinary shares fully subscribed as a result of the conversion into ordinary shares of the AT1 and T2 bond issues; and
   - an increase in the Bank's share capital for the subscription of 593,869,870 shares by the MEF, for a total of EUR 3,854.2 mln.

As a result of the above-mentioned events, the changes laid out below took place.

"New share issue" column:

- the item "Share capital - a) ordinary shares" increased by a total of EUR 8,327.1 mln;
- the item Reserves "other" decreased by EUR 3.9 mln due to the costs of the share capital increase, net of the relative taxes;
- the item "Treasury shares", a negative component of net equity, rose by EUR 186.0 mln, associated with the conversion of the AT1 bond issues present in the Bank's balance sheet assets.

"Changes in reserve" column:

- "Share capital - a) ordinary shares": the reduction of EUR 5,364.2 mln is due to the shareholders' resolution passed by the Bank on 18 December 2017 relating to the coverage of the total loss of EUR 5,364.2 mln (of which EUR 2,506.0 mln referring to the loss recognised as at 30 September 2017, EUR 534.1 mln for other equity adjustments and lastly EUR 2,324 mln concerning previous losses) by reducing the share capital by a corresponding amount;
- "Reserves - a) from profits": the increase by a total of EUR 2,510.9 mln is due to:
  a. the increase of EUR 2,485.5 mln due to the coverage of previous losses and of part of the adjustments made to net equity;
  b. the increase of EUR 76.8 mln deriving from the closure of the creditworthiness reserve of the fair value option liabilities involved in the conversion into ordinary shares;
  c. the decrease of EUR 51.7 mln due to the taxes previously recognised on negative components of net equity, which translated into a tax loss with unrecognisable DTAs;
  d. the decrease generated during the year of EUR 371.2 mln as the difference between the fair value of the ordinary shares assigned to holders of the AT1 and T2 bond issues subject to conversion and the value of conversion into share capital;
  e. the coverage of the amount pursuant to the previous point.
- "Reserves - b) other": coverage of the loss of the Bank recognised as at 30 September 2017 for EUR 2,506 mln and of part (EUR 1.4 mln) of the costs incurred for the share capital increase.

"Valuation reserves" show overall a negative change amounting to EUR 53.7 mln, the details of which are available in the statement of comprehensive income.

Statement of Changes in Equity - 2016

(in units of eur)

	Balance as at 31 12 2015	Change in opening balances	Balance as at 01 01 2016	Allocation of profit from prior year		Changes during the year								Total Equity as at 31 12 2016
							Shareholders'equity transactions							
				Reserves	Dividends and other payout	Changes in reserves	Issue of new share	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Treasury shares derivatives	Stock options	Total comprehensive income as at 31 12 2016	
Share capital:	9,001,756,821	-	9,001,756,821	-	-	(1,636,082,771)	-	-	-	-	-	-	-	7,365,674,050
a) ordinary shares	9,001,756,821	-	9,001,756,821	-	-	(1,636,082,771)	-	-	-	-	-	-	-	7,365,674,050
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium	6,325,105	-	6,325,105	(6,325,105)	-	-	-	-	-	-	-	-	-	-
Reserves:	(736,320,326)	-	(736,320,326)	422,957,761	-	1,636,082,770	-	-	-	-	-	-	-	1,322,720,205
a) from profits	(619,232,917)	-	(619,232,917)	381,870,352	-	237,362,565	-	-	-	-	-	-	-	-
b) other	(117,087,409)	-	(117,087,409)	41,087,409	-	1,398,720,205	-	-	-	-	-	-	-	1,322,720,205
Valuation reserves	(173,401,127)	-	(173,401,127)	-	-	-	-	-	-	-	-	-	(24,943,347)	(198,344,474)
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net profit (loss)	416,632,656	-	416,632,656	(416,632,656)	-	-	-	-	-	-	-	-	(3,722,770,706)	(3,722,770,706)
Total equity	8,514,993,129	-	8,514,993,129	-	-	-	-	-	-	-	-	-	(3,747,714,053)	4,767,279,074

As at 31 December 2016 the Bank's net equity amounted to EUR 4,767.3 mln, as compared to EUR 8,515.0 mln as at 31 December 2015, with a total decrease of EUR 3,747.7 mln due to the loss for the year of EUR 3,722.8 mln and a decline in the Valuation reserves of EUR 24.9 mln, the components of which are shown in the statement of comprehensive income.

The main events that concerned net equity are described below:

1. in April 2016, the Ordinary Shareholders' Meeting of the Bank resolved to cover, for a total amount of EUR 708 mln:
   i. the negative effects recognised in shareholders' equity of EUR 619.2 mln resulting from accounting for the Alexandria transaction as a CDS derivative; and
   ii. the costs incurred in 2015 for the capital increase, equal to EUR 88.8 mln, charged directly to the Equity reserves;

through the use:

   iii. of the net profit for the year 2015 of EUR 416.6 mln,
   iv. of the Share premium reserve in the amount of EUR 6.3 mln,
   v. of the merger surplus from the absorption of Consum.it S.p.A. in the amount of EUR 47.7 mln.

Following the use of these reserves, the loss to be carried forward amounts to EUR 237.4 mln.

The amount of EUR 41.1 mln, recognised on the line "Reserves - other", corresponding to the column "Allocation of result from the previous year - Reserves", includes the positive impact of EUR 88.8 mln pursuant to point (ii) and the negative impact of EUR 47.7 mln pursuant to point (v).

2. in November 2016, the extraordinary Shareholders' Meeting of the Bank, taking into account (i) the financial position as at 30 September 2016 and the resulting losses for the period of EUR 1,398.7 mln, as well as (ii) prior losses of EUR 237.4 mln (carried forward on the basis of shareholders' meeting resolution of 14 April 2016), decided to approve the coverage of the total loss of EUR 1,636.1 mln by means of a corresponding reduction in the share capital, which therefore amounts to EUR 7,365.7 mln.

Cash flow statement - indirect method

A. OPERATING ACTIVITIES	31 12 2017	31 12 2016
1. Cash flow from operations	**1,129,661,764**	**928,850,605**
profit (loss) (+/-)	(2,857,440,195)	(3,722,770,706)
capital gains/losses on financial assets held for trading and on assets/liabilities designated at fair value (+/-)	16,066,215	(96,503,059)
net profit (loss) from hedging	18,247,548	104,512,470
net impairment losses/reversals	4,271,643,038	3,240,326,832
net losses/reversal on impairment on property, plant and equipment and on intangible assets (+/-)	95,284,975	80,808,937
net provisions for risks and charges and other costs/revenues (+/-)	228,965,682	(31,586,114)
tax espense (recovery) on income from continuing operations	(433,575,002)	208,329,643
other adjustments	(209,530,497)	1,145,732,602
2. Cash flow from (used in) financial assets	**15,270,054,067**	**13,360,702,792**
financial assets held for trading	469,552,227	630,683,232
financial assets available for sale	1,347,055,332	683,767,711
loans to banks: on demand	6,792,282,889	2,653,307,469
loans to customers	5,863,063,476	7,131,011,348
other assets	798,100,143	2,261,933,032
3. Cash flow from (used in) financial liabilities	**(17,372,713,103)**	**(14,232,345,305)**
deposits from banks: on demand	(14,112,074,772)	11,266,314,657
depostits from customers	(2,644,369,879)	(17,055,891,083)
debt securities issued	3,152,074,142	(6,502,775,432)
financial liabilities held for trading	(236,840,270)	(548,089,666)
financial liabilities designated at fair value	(1,251,009,775)	(424,957,683)
other liabilities	(2,280,492,549)	(966,946,098)
Net cash flow from (used in) operating activities	**(972,997,272)**	**57,208,092**

continued: Cash flow statement - indirect method

B. INVESTMENT ACTIVITIES	31 12 2017	31 12 2016
1. Cash flow from:	**550,558,046**	**28,632,990**
sales of equity investments	20,000,000	-
dividends collected on equity investments	2,239,971	-
sales of property, plant and equipment	2,967,957	28,632,990
sales of subsidiaries and undertakings	525,350,118	-
2. Cash flow used in	**(65,030,969)**	**(63,365,541)**
purchase of equity investments	-	(1,440)
purchase of property, plant and equipment	(64,904,223)	(63,364,101)
purchase of intangible assets	(126,746)	-
Net cash flow from (used in) investment activities	**485,527,077**	**(34,732,551)**

C. FUNDING ACTIVITIES		
issue/purchase of treasury shares	3,850,289,460	-
dividend distribution and other	(348,475,658)	-
Net cash flow from (used in) funding activities	**3,501,813,802**	**-**
	-	-
Net cash flow from (used in) operating, investment and funding acti	**3,014,343,607**	**22,475,541**

Reconciliation

Accounts	31 12 2017	31 12 2016
Cash and cash equivalents at beginning of period	1,069,604,797	1,047,129,256
Net increase (decrease) in cash and cash equivalents	3,014,343,609	22,475,541
Cash and cash equivalents at end of period	4,083,948,406	1,069,604,797

The "distribution of dividends and other purposes" line - in section C. Funding activities - shows the difference between the fair value of the ordinary shares assigned to holders of the AT1 and T2 financial instruments subject to conversion, in compliance with the provisions of art. 23, paragraph 3 of Law Decree 237, as well as art. 2 of the Burden Sharing Decree, and the value of conversion into share capital.

For further information on the net cash flow generated/absorbed during the year, please refer to the section "Liquidity Risk" in Part E "Information on risks and hedging policies".

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

Part A – Accounting policies

A.1 – General

Section 1 - Statement of compliance with international accounting principles

Pursuant to Legislative Decree no. 38 of 28 February 2005, these separate accounts were prepared in accordance with the international accounting principles issued by the International Accounting Standards Board (IASB) including interpretations by the IFRS Interpretations Committee, as endorsed by the European Commission, pursuant to EC Regulation no. 1606 of 19 July 2002 which was effective as at 31 December 2017.

The international accounting principles were applied following the indications set forth in the "Framework for the preparation and presentation of financial statements" (the Framework).

Failing a principle or an interpretation specifically applicable to a certain transaction, event or circumstance, the Bank's Management used its own judgment in developing and applying the accounting principles for the purpose of providing a report which is:

- relevant for the purpose of economic decision-making by the users;
- reliable so that the Financial Statements:
  - result in a true and fair view of the Bank's assets, financial position, profit and loss and cash flows;
  - reflect the economic substance -and not merely the juridical form- of transactions, other events and circumstances;
  - are neutral, that is with no prejudice;
  - are conservative;
  - are complete in all relevant respects.

In its judgment, the Bank's Management made reference to and took account of the enforceability of the following provisions, listed in a hierarchically decreasing order:

- the provisions and implementation guidance contained in the principles and interpretations dealing with similar or related cases;
- the definitions, recognition and measurement criteria for the accounting of assets, liabilities, income and expenses contained in the Framework.

In delivering its judgment, the Bank's Management may also take account of:

- the most recent provisions set forth by other entities in charge of establishing the accounting principles which use a conceptually similar Framework for the purpose of developing the accounting principles;
- other accounting literature;
- consolidated practices of the banking industry.

In compliance with art. 5 of Legislative Decree no. 38 of 28 February 2005, if – in exceptional cases – the application of a provision set forth in the international accounting principles proved to be non-compliant with a true and fair view of the Group's balance-sheet, financial situation and profit and loss statement, then such provision would not be applied. The reasons for deviation and its impact on the representation of the balance-sheet, financial situation and profit and loss statement, would in such case be explained in the notes to the financial statements.

In the separate financial statements, any profits arising from this deviation are posted to a reserve which is only distributable in proportion to the value recovered.

Section 2 - General accounting standards

The Separate Financial Statements have been prepared in accordance with the IAS/IFRS International accounting standards issued by the International Accounting Standards Board (IASB) including the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), as endorsed by the European Union and mandatorily applied in the 2017 financial year, with the exception of partial early adoption, starting from 1 January 2017, of IFRS 9, limited to the part regarding the accounting treatment of the profit/loss connected to own creditworthiness of fair value option liabilities.

Indeed, the IFRS 9 standard allows for the early application before 1 January 2018 of only the provisions on the presentation of profits and losses on fair value option financial liabilities attributable to changes in own creditworthiness, without applying the other parts of the standard early. The Bank has decided to take advantage of this early application option.

These provisions establish that the amount of the change in the fair value that is attributable to changes in the credit risk of the liability shall be presented directly in other comprehensive income, unless this creates or increases an accounting mismatch in the profit (loss) for the year, in which case the entire change in fair value of the liability must be presented within profit and loss.

In this regard, the standard establishes that an accounting mismatch is created or expanded when the presentation of the effects of changes in the credit risk of the liability in other comprehensive income results in a more significant mismatch in profit and loss than that which would arise by recognising the entire change in the fair value of the liability in profit and loss.

The standard also establishes that the amount that is recognised in other comprehensive income is not transferred subsequently to P&L when the liability is settled or extinguished. At the moment of settlement or extinguishment, the cumulative profit (loss) may be reclassified to other components of shareholders' equity.

On the basis of the facts and circumstances existing at the date of initial application, the effects of changes in the credit risk of the liabilities of the Bank are not offset in profit and loss by a change in the fair value of another financial instrument measured at fair value through profit and loss for the year; as a result, the presentation of changes in own creditworthiness in the statement of comprehensive income does not create an accounting mismatch.

The Bank also relied on the right not to restate comparative data.

The early adoption of IFRS 9 as at 1 January 2017 with reference to the presentation of changes in own creditworthiness of the fair value option liabilities entails:

- in terms of determining the retrospective impacts, the formation as at 1 January 2017 of a positive valuation reserve in the amount of EUR 190.6 mln as a balancing entry to retained earnings, net of the relative tax effect;
- the attribution as at 31 December 2017 of a negative effect, net of the relative tax effect, of EUR 154.9 mln to shareholders' equity rather than to profit and loss.

The provisions contained in Circular Letter no. 262 issued by the Bank of Italy concerning the layout and rules for preparing separate and consolidated financial statements for the banks and the Group were also applied, as amended by the fourth addendum of 15 December 2015.

The separate financial statements consist of the:

- Balance Sheet;
- Income Statement;
- Statement of Comprehensive Income;
- Statement of Changes in Equity;
- Cash Flow Statement;
- Notes to the Financial Statements.

The parent company's financial statements are integrated with the Directors' Report on the operations, profit and loss and financial position of the Bank.

The Separate Financial Statements are prepared with transparency and provide a true and fair view of the balance-sheet, financial position and profit and loss statement for the year.

The notes to the financial statements contain all information required by the international accounting standards and provisions contained in Bank of Italy Circular Letter no. 262, together with other non-mandatory information deemed necessary to provide a true and fair, relevant, reliable, comparable and intelligible view of the Bank's performance.

The balance-sheet, profit and loss and comprehensive income statements consist of items (marked with numbers), sub-items (marked with letters) and further details (under "including/of which" in the items and sub-items). Items, sub-items and their details constitute the accounts.

Each item in the balance sheet, profit and loss account and statement of comprehensive income also indicates prior year's amounts. If the items cannot be compared, the items in relation to the prior year are reclassified; non-comparability, reclassification or impossible reclassification are pointed out and commented in the notes to the financial statements.

Assets and liabilities, expenses and income cannot be mutually offset, unless this is permitted or required by the international accounting standards or the provisions set forth in Circular no. 262 of the Bank of Italy.

The balance-sheet, profit and loss account and statement of comprehensive income do not indicate the items which do not show any amounts for the year of reference of the financial statements or prior year. If an item of the assets or liabilities is part of several items of the balance sheet, the notes to the financial statements indicate – whenever this is necessary for the purpose of intelligibility – that this component may also be referred to items other than the one it is posted to.

Income is posted with no sign in the profit and loss statement, in the statement of comprehensive income and the respective section of the notes, whereas expenses are indicated in brackets.

The statement of comprehensive income, beginning with profit (loss) for the year, shows the income items recognised as contra-entries of valuation reserves, net of the related tax effect, in compliance with international accounting standards. Comprehensive income is shown by separating income items that will not be transferred to the income statement in the future and those that may be subsequently classified to profit and loss when specific conditions are met.

The statement of changes in equity shows the breakdown and changes in net equity accounts during the year and the previous year, broken down between share capital (ordinary and other shares), capital reserves, profit reserves and reserves from the valuation of assets or liabilities, equity instruments and profit and loss. Treasury shares in the portfolio are deducted from equity.

The cash flow statement has been prepared according to the indirect method, based on which cash flows from operations are represented by the income for the year adjusted to take into account the effects of non-monetary transactions. Cash flows are broken down amongst those deriving from operations, those deriving from investment activities and those generated by funding activities. In the statement, cash flows generated during the year have no sign, while those absorbed are shown between brackets.

In compliance with the provisions of art. 5 of Legislative Decree no. 38 of 28 February 2005, the financial statements have been prepared using the Euro as the accounting currency: the financial statements are denominated in euro, while the notes are denominated in thousands of Euro.

The separate financial statements have been prepared based on a going concern assumption, according to the generally accepted principles of accrual accounting, relevance and materiality of information, priority of substance over form and with a view to encouraging consistency with future statements.

Items of a different nature or with different allocation were recognised separately, unless they were considered irrelevant. All amounts shown in the financial statements were adjusted so as to reflect any events subsequent to the date of closing which, according to IAS 10, make it mandatory to make an adjustment (adjusting events). Non-adjusting events reflecting circumstances that occurred after the reporting date should be disclosed as part of the Notes to the Financial Statements, Part A, section 4, if they are of such importance that non-disclosure would affect the ability of users to make proper evaluations and decisions.

Section 3 – Events after the Reporting Period

On 9 January 2018, 95% of the mezzanine notes relative to securitisation of the doubtful loan portfolio of the MPS Group were sold, as per the agreement signed on 22 December 2017 with Quaestio Capital SGR S.p.A. on behalf of the Atlante Fund.

On 11 January 2018, the Bank issued a fixed-rate Tier 2 subordinated bond with 10-year maturity (redeemable in advance starting from the fifth year at the issuer's option, subject to regulatory approval), for EUR 750 mln. The bond pays a fixed rate coupon of 5.375% and has an issue price of 100% equivalent to a spread of 500.5 basis points above the 5-year swap rate. The expected ratings of the bond are CCC+ (Fitch) and Caa2 (Moody's).

Section 4 – Other matters

Going concern

Th Separate Financial Statements were prepared based on a going concern assumption.

With regard to the indications contained in Document no. 4 of 3 March 2010, issued jointly by the Bank of Italy, Consob and IVASS, and subsequent amendments, the Bank reasonably expects to continue operating in the foreseeable future and has therefore prepared the financial statements under the going concern assumption.

For this purpose, the following are particularly relevant:

- the approval of the Restructuring Plan by the European Commission on 4 July 2017 (for further details on the Plan's implementation status, see the paragraph entitled "Strategy" in the Consolidated Report on Operations;
- the finalisation on 11 August 2017 of the share capital increase for a total of EUR 8,327 million, following conversion of the AT1 and T2 financial instruments into ordinary shares of the Bank, in compliance with what is set forth in art. 23, paragraph 3 of Law Decree 237, as well as art. 2 of the Burden Sharing Decree and subscription of ordinary shares by the MEF;
- the restoration of the capital ratios above the SREP thresholds currently in force: at the date of 31 December 2017, the CET1 ratio is 14.8% while the TC Ratio is 15%, also considerably higher than those established for 2018 with the SREP decision of 19 June 2017 (which establishes the thresholds of 9.4% for the CET1 ratio and 12.9% for the TC ratio, excluding only the P2 Guidance component).

As regards the liquidity position, after the significant deterioration incurred in 2017, the Bank obtained the State guarantee on financial liabilities to be issued for a total of EUR 15 bn (for a maximum duration of three years). In 2017, the Bank carried out three government-backed securities issues for a total of EUR 11 bn, which were used in full in sales transactions in the market and as collateral to back funding transactions. As a result of these transactions, the recovery of commercial funding and the financial contribution by the MEF connected to the share capital increase as well as to the partial public offering of 2008-2018 subordinated UT2 bonds for exchange and settlement, liquidity indicators returned to ordinary levels.

Therefore, in light of what is noted above, as it is deemed reasonable that the Bank will continue operating in the foreseeable future, the financial statements have been prepared on a going concern basis.

List of key IAS/IFRS international accounting principles and related SIC/IFRIC interpretations for mandatory application as of the 2017 financial statements

On 29 January 2016, the IASB published the document **"Disclosure Initiative (Amendments to IAS 7)"** which contains amendments to IAS 7.

The document has the objective of providing certain clarifications to improve the disclosure on financial liabilities. In particular, the amendments introduce the requirement to provide a disclosure that allows financial statement users to understand changes in liabilities deriving from financing transactions, including changes deriving from monetary movements and non-monetary movements.

The amendments apply as of 1 January 2017. The presentation of comparative information relating to prior years is not required.

The document was endorsed by the European Commission with Regulation 2017/1990 on 9 November 2017.

On 19 January 2016, the IASB published the document **"Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)"** which contains amendments to IAS 12.

The document has the objective of providing certain clarifications on the recognition of deferred tax assets on unrealised losses. In particular, the amendments arise from a request for clarification promoted by the IFRS IC on the application of IAS 12 relating to the recognition of deferred tax assets in the following circumstances:

- when an entity holds a fixed-rate debt instrument classified as available for sale with profit and loss recognised in OCI;
- when a change in market conditions, in particular an increase in interest rates, provokes a reduction in the fair value of the instrument to below the initial cost;
- when tax regulations exclude the deductibility of a loss for tax purposes as long as it is unrealised;
- when the entity expects to recover all contractual cash flows while retaining the instrument until its natural maturity;
- when the entity has insufficient temporary taxable differences and has no future taxable income against which the entity can use deductible temporary differences.

The amendments apply as of 1 January 2017.

The document was endorsed by the European Commission last 9 November with Regulation 2017/1989.

IAS/IFRS international accounting standards and related SIC/IFRIC interpretations endorsed by the European Commission, the application of which is mandatory as of 31 December 2017

On 18 May 2014, the IASB published IFRS 15 **"Revenue from Contracts with Customers"** which replaces previous standards on revenue: IAS 11 "Construction Contracts", IAS 18 "Revenue", IFRIC 13 "Customer Loyalty Programmes", IFRIC 15 "Agreements for the Construction of Real Estate", IFRIC 18 "Transfer of Assets from Customers" and SIC 31 "Revenue – Barter Transactions Involving Advertising Services".

The new standard applies to all contracts stipulated with customers, except for those subject to other specific standards, even only partially.

This standard proposes a model according to which an entity must recognise revenue to accurately depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In this regard, the standard establishes five steps:

1. identify the contract with the customer, defined as an agreement (written or verbal) with commercial substance between two or more parties that generates legally enforceable rights and obligations with the customer;
2. identify the performance obligations in the contract;
3. determine the transaction price, i.e., the amount to which an entity expects to be entitled in exchange for the transfer of goods and services in line with the techniques set forth in the standard and on the basis of any presence of financial components;
4. allocate the transaction price to the performance obligations in the contracts;
5. recognise revenue when (or as) the entity satisfies a performance obligation, taking into consideration that services may be rendered either over time or at a point in time.

The clarifications published by the IASB in 2016 with the document **"Clarifications to IFRS 15 Revenue from Contracts with Customers"** are part of this standard.

- Identifying performance obligations;
- Principal-versus-agent considerations;
- Licensing.

This document was endorsed by the European Commission with Regulation no. 2017/1987 on 9 November 2017.

Application of the standard is mandatory as of the start date of the first annual period beginning on or after 1 January 2018.

Analysis of the provisions under this standard did not highlight any significant impacts to be recognised upon first-time application.

On 24 July 2014, the IASB issued the final version of IFRS 9 **"Financial instruments"**, which replaces IAS 39. The aspect of macro hedging has not yet been addressed, as the IASB has decided to undertake an autonomous project on this matter.

The document was endorsed by the European Commission with Regulation no. 2016/2067 on 22 September 2016 and is mandatorily to be applied as of the start date of the first annual period beginning on or after 1 January 2018.

The key innovations are briefly described below:

Classification and measurement of financial assets

The new accounting standard envisages three portfolio categories: amortised cost, fair value through profit and loss (FVTPL) and fair value with changes through other comprehensive income (FVOCI). As regards debt securities, the standard sets forth a single method for determining classification in one of the three categories; this method is based on the combination of two drivers, represented by the procedure for managing financial instruments adopted by the entity (business model) and the contractual characteristics of the cash flows of the instruments themselves, which must solely comprise the payment of principal and interest ("*soley payment of principal and interest*" – SPPI). Equity instruments are classified in the FVTPL category; the only exception is the possibility to irrevocably classify equity instruments not held for trading in the FVOCI category as at the date of initial recognition. In this case, only dividends are recognised in the income statement, while the valuations and results deriving from the sale are allocated to equity; no impairment is envisaged.

Classification and measurement of financial liabilities

It maintained the requirement for separate accounting of derivatives embedded in a financial host. For instruments other than derivatives, measurement of all fair value changes through profit or loss only applies to financial liabilities held for trading. For financial liabilities designated under the fair value option, the amount of change in the fair value that is attributable to changes in the credit risk of the liability, shall be presented directly in other comprehensive income, unless it creates or increases an accounting mismatch, in which case the entire change in fair value shall be presented within profit and loss. The amount that is recognised in other comprehensive income is not transferred from OCI to P&L ("recycled") when the liability is settled or extinguished.

The standard allows for the rules governing the treatment of own credit quality on financial liabilities under the fair value option included in IFRS 9 to be applied in isolation. The Bank has exercised this option, applying said rules in advance in 2017.

Impairment

The standard sets forth a single impairment model for all debt financial instruments not measured at FVTPL: financial assets measured at amortised cost, those measured at fair value through other comprehensive income, lease receivables and trade receivables. The prospective model requires the recognition of expected losses (ECL) on the financial instrument beginning from initial recognition in the financial statements. Credit losses must be estimated on the basis of supportable information that is available without undue cost or effort, and that includes historical, current and forecast data. For purposes of impairment, IFRS 9 requires classification in three stages in increasing order of deterioration of credit quality. The first category includes financial instruments whose credit quality has not significantly deteriorated with respect to their initial recognition in the financial statements. On exposures included in the first category, expected losses should be recognised on the basis of a 12-month time horizon. On the exposures included in the other two categories, lifetime expected losses should be recognised on the financial instrument.

IFRS 9 also requires improved disclosure about expected credit losses and credit risk. In particular, entities are required to provide information that explains the basis for their expected credit loss calculations and how they assess changes in credit risk.

Hedge accounting

Excluding macro hedges, for which IAS 39 remains in force, the standard tends to align the accounting presentation with risk management activities and, in the second place, to strengthen the disclosure of risk management activities undertaken by the reporting entity.

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In relation to the expected impact of application of IFRS 9, it should be noted that, especially with regard to the ECL approach, this new standard, compared to IAS 39, will entail greater recourse to experience-based judgements and intrinsically complex calculations, with an accounting approach that is increasingly based on the use of valuation models. The preparation of the ECL model has required significant changes in data, information systems and processes within the Bank and Group, and has entailed the definition of appropriate IT implementation strategies, of a functional and accounting nature, following introduction of the new valuation models.

With respect to classification and measurement, the Bank has launched a detailed examination of the characteristics of the contractual flows of the debt instruments classified at amortised cost in accordance with IAS 39, in order to identify any assets which shall be measured at fair value in accordance with IFRS 9 as they do not pass the Solely Payment of Principal and Interest test (SPPI test).

The main quantitative impacts are essentially due to the following:

- reclassification of the financial instruments in accordance with the Bank's business model;
- increase in the scope of instruments measured at fair value through profit and loss as a result of their failure to pass the SPPI test (mandatory FVPL), partly due to retrospective application of modification & derecognition accounting;
- application of the new impairment model, which will entail an increase in provisions due to the inclusion i) of lifetime expected losses on performing assets classified in stage 2 as a result of the significant increase in the borrower's credit risk with respect to that existing at the moment of initial recognition of the receivable in the financial statements; ii) of prospective macroeconomic scenarios on all categories of loans and iii) of prospective sales scenarios on an identified portfolio of gross non-performing loans to which a high probability of sale has been assigned, in line with the 2017-2021 Restructuring Plan.

Recall that the last two topics specified above may result, subsequent to the date of first-time application, in greater income statement volatility, due to the possible increased number of instruments measured at fair value and the transfer of financial instruments from stage 1 to stage 2 or vice versa; in this case, volatility will be positively correlated with the duration of the financial instruments.

For the quantitative effects, see the corresponding accounting standards section of the consolidated financial statements.

With particular regard to the impact of the new impairment model, note that on 27 December 2017, EU Regulation no. 2017/2395, issued on 12 December 2017 by the European Parliament and Council ("Regulation") was published in the Official Gazette of the European Union, amending Regulation no. 2013/575 and introducing transition requirements aimed at mitigating the impact of introduction of IFRS 9 on own funds, in addition to modifying the handling of large exposures of certain exposures in the public sector that are in the national currency of a member country. The Regulation became effective on 28 December 2017 and is applicable starting from 1 January 2018.

Introduction of the transition requirements enables mitigation of the negative impact arising from application of the expected loss model to determine write-downs on loans, as envisaged by the shift to the new IFRS 9. In this regard, the Bank has exercised, pursuant to paragraph 9 of art. 1 of the aforementioned Regulation, the faculty of adopting the transition requirements, notifying the

European Central Bank on 23 January 2018. As a result of this transitional requirements, the impact on capital as at 01 January 2018 are not significant.

Lastly, recall that the new method for accounting for interest on assets classified in stage 3 (namely non-performing loans, for which the effective interest rate must be applied on the net, and not gross, exposure) will have consequences on the methods for presenting interest in the income statement starting from 2018.

As regards the exercise of the options contained in the standard, please note that the Bank shall exercise:

- the option of maintaining the current rules for recognition of hedge accounting outlined in IAS 39;
- the right not to present comparative information in the year of first-time application.

With regard to the impact on operating processes, note that the last updates to the internal regulations are underway, in order to adopt the operational/organisational changes connected to the classification and measurement of financial instruments, in addition to the IT implementations and releases, as per the project plan.

On 12 September 2016, the IASB published the amendment to IFRS 4 entitled **"Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"**, later endorsed by the European Commission with Regulation no. 2017/1988 on 9 November 2017.

This amendment introduced a series of modifications that permit:

- entities that issue insurance contracts to recognise the effects deriving from the volatility that may arise when an entity will apply IFRS 9 before the application of the new IFRS 4 in the statement of comprehensive income (i.e., in the OCI statement), rather than in the income statement (the "overlay approach").
- entities whose business is constituted to a predominant extent by insurance activities to rely on a temporary exemption from the application of IFRS 9 until 2021. Entities that defer the application of IFRS 9 will continue to apply the current IAS 39 (the "deferral approach").

The amendments apply as of 1 January 2018.

On 13 January 2016, the IASB published the new standard "**IFRS 16 Leases**" which replaces IAS 17 - Leases, as well as the interpretations IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The new standard provides a new definition of lease and introduces an approach based on control (right of use) of an asset to distinguish lease agreements from service agreements, identifying as discriminating factors: the identification of the asset, the right to replace it, the right to substantially obtain all economic benefits originating from the use of the asset and the right to direct the use of the asset underlying the agreement.

The standard was endorsed by the European Commission on 9 November 2017 with Regulation no. 2017/1986 and shall apply as of 1 January 2019.

IAS/IFRS international accounting standards and related SIC/IFRIC interpretations issued by the IASB and still awaiting approval from the European Commission

On 12 December 2017, the IASB published the **Annual Improvements to IFRSs 2015-2017 Cycle**, which included amendments to IAS 12 Income Taxes, IAS 23 Borrowing Costs, IFRS 3 Business Combination and IFRS 11 Joint Arrangements. In particular:

- the amendments to IAS 12 clarify that the effects on the taxation of dividends (as in the case of distribution of profits) should be recognised in the income statement regardless of how the tax originates.
- the amendments to IAS 23 clarify that, if a specific loan remains outstanding after the corresponding asset is ready for use or sale, that loan becomes part of the funds considered for the purpose of calculating the capitalisation rate in relation to general loans.
- the amendments to IFRS 3 clarify that when the entity obtains control of a business, already a joint operation, it recalculates the stake held in that business.
- the amendments to IFRS 11 clarify that when an entity obtains joint control of a business, already a joint operation, it does not recalculate the stake held in that business.

The amendments shall apply as of 1 January 2019. However, their early application is permitted.

On 7 June 2017, the IASB published **"IFRIC 23 "Uncertainty over Income Tax Treatments**", which clarifies how to apply the requirements for recognition and measurement of IAS 12 when there is uncertainty on the treatment of income tax.

In this case, for the purposes of recognition and measurement of current and deferred tax assets/liabilities in accordance with IAS 12, taxable profits/losses, taxable bases, unused tax losses, unused tax credits and tax rates are determined based on the interpretation provided by IFRIC 23.

The entity is required to use judgement in determining whether an uncertain tax treatment should be considered independently or jointly with other tax treatments impacted by the uncertainty. The decision should be based on the approach that provides the greatest guarantee of resolving the uncertainty.

The entity should also consider that the relevant tax authority, in examining the data submitted to it, may or may not accept application of the tax treatment or set of tax treatments proposed by the entity.

If it is deemed probable that a specific tax treatment will be accepted, the entity must determine the taxable income, taxable bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment included in the tax return.

However, if the entity considers its acceptance to be unlikely, it must reflect the effect of the uncertainty in determining the tax components using one of the following methods:

- the "most likely amount", which identifies the most likely amount within a range of possible results;
- the expected amount, which is based on the weighted sum of probable values within a range of possible values.

The decision must be based on the method that provides greater guarantee of resolving the uncertainty.

Moreover the entity must review the judgements and estimates if the facts and circumstances change.

IFRIC 23 applies as of 1 January 2019. Early application is permitted.

Last 18 May 2017, the IASB issued **IFRS 17 Insurance Contracts**, which sets out the principles for recognition, measurement, presentation and disclosure of the insurance contracts under the scope of the standard.

The objective of IFRS 17 is to ensure that significant information is provided, faithfully representing the contracts, in order to provide a basis for users of the financial statements to assess their effects on the entity's financial performance and cash flows.

On 12 October 2017, the IASB published "**Amendments to IFRS 9: Prepayment Features with negative compensation**, which

- allows the measurement at amortised cost or, according to the business model, at fair value through other comprehensive income, of financial assets having specific early repayment options with negative compensatory payment, which would otherwise not satisfy the SPPI conditions;
- contains a clarification with regard to accounting of a change in a financial liability at amortised cost, which does not involve derecognition of the liability. Adjustment of the financial liability to amortised cost, calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the effective interest rate, is recognised in the income statement as at the date of the amendment.

The amendments apply as of 1 January 2019; early application is permitted.

Last 12 October 2017, the IASB issued **Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures**, which clarifies that an entity applies IFRS 9 "Financial instruments" to long-term interests in associates or joint ventures that are part of the net investment in the associate or joint venture, but to which the equity method does not apply.

The amendments apply as of 1 January 2019; early application is permitted.

The process for endorsement of the following documents published by the IASB in 2016 is still underway:

- Amendments to IFRS 2 "**Classification and Measurement of Share-Based Payment Transactions**", which applies from 1 January 2018 and provides a number of clarifications in relation to the following aspects:
  - accounting for the effects of vesting conditions in the case of cash-settled share-based payments;
  - the classification of share-based payments with net settlement characteristics;
  - accounting for amendments to the terms and conditions of a share-based payment which change its classification from cash-settled to equity-settled.
- **Annual Improvements to IFRS Standards 2014-2016 Cycle**, which amends IFRS 1, IFRS 12 and IAS 28;
- IFRIC Interpretation 22 **Foreign Currency Transactions and Advance Consideration**, which enters into force on 1 January 2018;
- Amendment to IAS 40 **Investment Property: Transfers of Investment Property**, which enters into force on 1 January 2018.

A.2 – The main items of the accounts

Accounting standards

This chapter contains the accounting standards in relation to the main assets and liabilities in the balance sheet, which were adopted for the preparation of the financial statements as at 31 December 2017.

1 Financial assets held for trading

a) recognition criteria

Initial recognition of financial assets occurs at settlement date, for debt securities and equities and at trade date for derivative contracts.

Upon initial recognition, financial assets held for trading are recognised at fair value, which usually corresponds to the amount paid, without considering transaction costs or revenues directly attributable to the instrument, which are directly recognised in the income statements.

Any embedded derivatives in combined financial instruments not directly connected to the latter and with the characteristics to meet the definition of a derivative are recognised separately from the host contract at fair value.

The applicable accounting criteria are administered to the primary contract.

b) classification criteria

This category includes debt securities and equities purchased mainly for the purpose of obtaining short-term profits arising from price changes and the positive value of derivative contracts, including expired and impaired derivatives not subject to early settlement as part of a master netting agreement. Contracts designated as hedging instruments are excluded. Derivative contracts include those embedded in combined financial instruments which were subject to separate accounting.

c) measurement criteria

After initial recognition, financial assets held for trading are recorded at fair value, with value changes recognised in profit or loss.

For a description of criteria used to determine the fair value of financial instruments, please see section "A.4.3 Fair Value Hierarchy" of this Part A.

d) derecognition criteria

Financial assets are derecognised upon maturity of the contractual rights on the cash flows resulting from the assets or when the financial assets are sold and all related risks/benefits are transferred. Securities received within the scope of a transaction that contractually provides for subsequent sale are not recorded in the financial statements, and securities delivered within the scope of a transaction that contractually provides for subsequent buyback are not derecognised from the financial statements. Consequently, in the case of securities acquired with an agreement for resale, the amount paid is recorded in the financial statements as loans to customers or banks, while in the case of securities transferred with an agreement for repurchase, the liability is recorded under deposits from banks or deposits from customers.

e) revenue recognition criteria

Gains and losses arising from any changes in the fair value of a financial asset are recognised in profit and loss under item "80 Net trading income (expenses)", except for gains and losses on derivative assets linked with the fair value option which are classified under item "110 Net profit / loss from financial assets and liabilities designated at fair value".

2 Financial assets available for sale

a) recognition criteria

Financial assets are initially recognised on the date of settlement, with reference to debt or equity instruments, and on the date of disbursement, with reference to loans and receivables.

On initial recognition, the assets are measured at their fair value which normally corresponds to the price paid, inclusive of transaction costs or income directly attributable to the instrument. If recognition occurs following the reclassification from assets held to maturity, the recognition value is the fair value as at the time of transfer. In the case of debt instruments, any difference between the initial value and the value of repayment is spread out over the life of the debt instrument in accordance with the method of amortised cost.

b) classification criteria

This category includes non-derivative financial assets which are not classified as loans, financial assets designated at fair value through profit and loss or financial assets held to maturity.

In particular, this category also comprises strategic equity investments which are not managed for trading purposes and cannot be defined as controlling interest, significant influence and joint control, and bonds which are not subject to trading. Such investments may be transferred for any reason, such as liquidity requirements or variations in interest rates, exchange rates, or stock price.

c) measurement criteria

After initial recognition, financial assets available for sale are measured at fair value, with interest being recognised in the income statement as resulting from the application of the amortised cost and with appropriation to a specific equity reserve of the gains or losses arising from changes in fair value net of the related tax effect, except losses due to impairment. Foreign exchange fluctuations in relation to equity instruments are posted to the specific equity reserve, whereas changes in loans/receivables and debt instruments are allocated to profit and loss. Equity instruments, for which it is not possible to determine a reliable fair value, are maintained at cost, adjusted for any impairment losses.

Financial assets available for sale are reviewed for objective evidence of impairment at each balance sheet and interim reporting date. Indicators of a likely impairment include but are not limited to: significant financial difficulty of the issuer, non-fulfilment or defaults in payments of interest or principal, possibility that the borrower is declared bankrupt or submitted to other forms of insolvency proceedings, disappearance of an active market for the assets. In particular, as far as equity instruments that have a quoted market price in an active market are concerned, a market price as at the date of the financial statements lower than the original purchasing cost of at least 30% or a market value lower than the cost lasting more than 12 months are considered an objective evidence of value reduction. If further reductions take place in subsequent financial years, these are charged directly to the profit and loss statement.

With regard to debt securities, regardless of whether or not these are listed on active markets, any impairment loss is recognised in the profit and loss statement strictly in relation to the issuer's ability to fulfil its obligations and therefore make the necessary payments and repay capital at maturity. Therefore, it needs to be established whether there are indications of a loss event which could have a negative impact on estimated future cash flows. Where there are no actual losses, no loss is recognised on the stock, and any capital loss is recognised in the negative net equity reserve.

The amount of any value adjustment shown following the impairment test is recorded in the profit and loss statement as an expense for the year. Should the reasons for impairment cease to exist, following an event which occurred after recognition of impairment, reversals are recognised in equity in the case of equity instruments, and through profit and loss in the case of debt securities.

d) derecognition criteria

Financial assets are derecognised upon maturity of the contractual rights on the cash flows resulting from the assets or when the financial assets are sold and all related risks/rewards are transferred.

Securities received within the scope of a transaction that contractually provides for subsequent sale are not recognised in the financial statements, and securities delivered within the scope of a transaction that contractually provides for subsequent repurchase are not derecognised from the financial statements. Consequently, in the case of securities acquired with an agreement for resale, the amount paid is recognised in the financial statements as loans to customers or banks, while in the case of securities transferred with an agreement for repurchase, the liability is shown under deposits from customers or deposits from banks.

e) revenue recognition criteria

Upon disposal, exchange with other financial instruments or measurement of a loss of value following impairment testing, the fair value results accrued to the reserve for assets available for sale are reversed to profit and loss under:

- item "100 – Gains/Losses on purchase/disposal of: b) financial assets available for sale", in the case of disposal;
- item "130 - Net impairment losses/reversals on: b) financial assets available for sale", in the case of recognition of impairment.

If the reasons for impairment cease to exist, following an event which occurred after the impairment was recognised, the impairment loss is reversed: through profit and loss in the case of loans or debt securities, and through equity in the case of equity instruments.

3 Financial assets held to maturity

The Bank does not use this portfolio.

4 Loans

a) recognition criteria

Recognition in the financial statements occurs:

- for a receivable:
  - on the date of disbursement;
  - when the creditor acquires the right to payment of the amounts contractually agreed upon;
- for a debt security:
  - on the date of settlement.

The initial value is determined on the basis of the fair value of the financial instrument (which is normally equal to the amount disbursed or price of underwriting), inclusive of the expenses/income directly related to the individual instruments and determinable as of the transaction date, even if such expenses/income are settled at a later date. This does not include costs which have these characteristics but are subject to repayment by the debtor or which can be encompassed in ordinary internal administrative expenses.

Swaps and repo contracts under agreement to re-sell are posted as lending transactions. In particular, the latter are reported as receivables in the sum of the spot amount paid.

b) classification criteria

Receivables include loans to customers and banks, whether disbursed directly or purchased from third parties, with fixed or determinable payments, which are not quoted in an active market and were not initially classified among financial assets available for sale and financial assets at fair value through profit or loss.

They also incorporate trade receivables, repurchase agreements, receivables arising from financial leasing transactions and securities purchased in a subscription or private placement, with fixed or determinable payments, not quoted in active markets.

c) measurement criteria and revenue recognition criteria

After initial recognition, receivables are valued at amortised cost, which is the initial recognition amount decreased/increased by principal repayments, write-downs/write-backs and the amortisation – calculated using the effective interest rate method – of the difference between the amount disbursed and the amount repayable upon maturity, typically attributable to the costs/income directly charged to each receivable. The effective interest rate is the interest rate which makes the current value of future flows of the receivable, in principal and interest, estimated over the expected life of the receivable, equal to the amount disbursed, inclusive of any costs/income attributable to the receivable. Therefore, the economic effect of costs and income is spread over the expected residual life of the receivable.

The amortised cost method is not used for short-term receivables, for which the effect of applying a discounting logic is negligible. Similar valuation criteria are adopted for receivables with no specific maturity or subject to revocation.

Non-performing exposures (e.g. doubtful, unlikely to pay and non-performing past due; together, non-performing exposures) are classified into different risk categories in accordance with the regulations issued by the supervisory authorities, supplemented with internal provisions which set automatic criteria and rules and non-binding triggers for the transfer of receivables between different risk categories. In particular, classification is carried out by the various units independently, except for loans more than 90 days past due, which are measured using automated procedures.

With regard to the general concept of the restructuring of loans, three different categories have been identified:

- "forborne exposures" (as defined in Circular 272 of the Bank of Italy, which correspond to the definitions contemplated by the ITS – Implementing Technical Standards of the EBA);
- renegotiations for commercial reasons/practices;
- debt settlement via borrower substitution or debt-for-equity swap.

In line with Bank of Italy regulations, a "forborne exposure" is a debt agreement for which measures of tolerance have been applied (otherwise identifiable as "forbearance measures"). The measures of tolerance consist of concessions - in terms of the amendment and/or refinancing of the pre-existing debt agreement - to the borrower who has or is on the verge of having difficulty in meeting its financial commitments (in other words, the borrower is in financial difficulty).

Forborne exposures are broken down into:

- non-performing exposures with forbearance measures, pursuant to the ITS. These exposures represent a sub-category of, depending on the case, doubtful loans, unlikely to pay or non-performing past due; therefore, they do not make up their own category of non-performing exposures;
- forborne performing exposures, pursuant to the ITS.

The renegotiation of loans granted by the Bank to performing customers is substantially equated with the opening of a new position, if it is granted essentially for commercial reasons rather than for the borrower's economic-financial difficulties (therefore, not classifiable as forborne exposures as described above) and provided that the interest rate applied is a market rate as at the date of renegotiation.

As an alternative to the previously described options (renegotiations due to borrower difficulties and re-negotiations for commercial reasons/practice), the Bank and the borrower may agree on settlement of the original debt via:

- novation or assumption of the loan by another borrower (release from debt liability);
- substantial modification of loan terms involving a debt-equity swap.

Said events, involving a substantial modification of contractual terms, provide for cancellation of the pre-existing loan agreement from an accounting standpoint, and consequent booking of the new agreement at fair value, recognising through profit or loss an amount corresponding to the difference between the fair value of assets received and the book value of the cancelled loan.

In order to determine adjustments to the carrying value of receivables, and taking into account the different impairment levels, analytical or collective valuation is used, as outlined hereunder.

Doubtful loans, unlikely to pay and non-performing past due exposures are valued analytically (when the exposures exceed a given threshold value) or by applying the LGD parameter in the remaining cases. Performing exposures are subject to statistical valuation.

For loans subject to analytical assessment, the amount of value adjustment for each loan is equal to the difference between the loan book value at the time of measurement (amortised cost) and the current value of estimated future cash flows, as calculated by applying the original effective interest rate. When the original interest rate cannot be directly identified, or identifying it would be excessively burdensome, the best approximation is applied.

For all fixed-rate positions, the interest rate thus determined remains constant, even in subsequent years, while for floating-rate positions the interest rate is updated with respect to the reference variable component, and the originally established spread is kept constant.

Expected cash flows take account of the expected repayment schedule, the expected recovery value of collaterals, if any, as well as the costs expected to be incurred for the recovery of the credit exposure.

The value adjustments are booked to the profit and loss statement to item “130 - Net impairment losses (reversals)”. The adjustment component attributable to the discounting of cash flows is calculated on an accrual basis in accordance with the effective interest rate method and posted under reversals.

In the Notes, impairment losses on non-performing exposures are classified as specific in the cited income statement item, even when the calculation method is statistical in nature.

If the quality of the non-performing receivable has improved to such a point that there is reasonable certainty of timely recovery of the principal and interest, its initial value is recycled in the following years to the extent in which the reasons determining the adjustment disappear, provided that such valuation can be objectively linked with an event which occurred after the adjustment. The reversal is posted to the profit and loss statement and may not in any case exceed the amortised cost that the receivable would have had without prior adjustments.

Receivables with no objective evidence of loss are subject to a collective assessment of impairment. Such assessment, developed on the basis of a risk management model, is carried out by category, with receivables grouped together according to credit risk, and the relative loss percentages are estimated taking into account time-series based on elements observed on the date of assessment which allow the value of latent loss in each category to be estimated.

The model, for this type of valuation, involves the following steps:

- Segmentation of the loan portfolio by:
  - client segment (turnover);
  - economic sectors of activity;
  - geographical location;
- determination of the loss rate of individual portfolio segments, using the historical experience of the Bank as reference.

Value adjustments determined collectively are posted to the profit and loss statement. Any additional write-downs or write-backs are recalculated on a differential basis, at year-end or on the dates of interim reports, with reference to the entire loan portfolio on the same date.

d) derecognition criteria

Any receivables sold are derecognised from the assets on the balance sheet only if their disposal implied the substantial transfer of all associated risks and rewards. However, if the risks and rewards associated with the receivables sold have been maintained, they continue to be posted among the assets on the balance sheet, even if legal ownership has been transferred.

If it is not possible to ascertain a substantial transfer of all risks and rewards, the receivables are derecognised when control of the assets has been surrendered. If such control has been maintained, even partly, the receivables should continue to be recognised to the extent of residual involvement, as measured by the exposure to the changes in value of the receivables sold and to the changes in their cash flows.

In addition, receivables sold are derecognised if the contractual rights to receive the cash flows from the assets are maintained and a contractual obligation to pay only said flows to third parties is simultaneously undertaken (pass through arrangements).

Lastly, receivables are fully derecognised when they are deemed irrecoverable or they are written off. Derecognitions, for the portion exceeding the relative provision, are allocated directly to income statement item 130 a) "Net impairment (losses)/reversals" and are recognised as a reduction of the principal amount of the receivables. Recoveries of partial or entire amounts previously derecognised are posted to the same item.

5 Financial assets designated at fair value

The Bank does not use this portfolio.

6 Hedging transactions

a) recognition criteria – purpose

Risk-hedging transactions are aimed at offsetting any potential losses on a certain element or group of elements that may arise from a specific risk, with the profits made on a different element or group of elements, should that particular risk occur.

b) classification criteria – types of hedging

IAS 39 provides for the following types of hedging:

- fair value hedges, which are intended to hedge the exposure to changes in fair value of a recognised asset or liability that are attributable to a particular risk;
- cash flow hedges, which are intended to hedge the exposure to variability in future cash flows attributable to particular risks associated with a recognised asset or liability;
- hedges of a net investment in a foreign operation, which refers to hedging the risks of an investment in a foreign operation denominated in a foreign currency.

To conclude the chapter on the accounting principles, a specific section is added to provide further insight into the application issues and policies adopted by the Bank with regard to hedging transactions. The hedging policies adopted by the Bank are explained, also including the "natural hedges" provided for by the Fair Value Option, used as an alternative to hedge accounting in the accounting management of liability hedges.

c) measurement criteria and revenue recognition criteria

Hedging derivatives are measured at fair value. In particular:

- in the case of fair value hedging, the changes in the fair value of the hedged asset are recognised, along with the change in the fair value of the hedging instrument, in profit and loss statement item "90 - Net profit (loss) from hedging". Any difference, i.e. partial ineffectiveness of the hedging derivatives, reflects their net P&L impact;
- in the case of cash flow hedging, the changes in fair value of the derivative are posted to a specific shareholders' equity reserve with reference to the effective portion of the hedge, and are posted to the profit and loss statement under item 90 "Net profit (loss) from hedging" only when the changes in fair value of the hedging instrument do not offset the changes in the cash flows of the hedged item;
- hedges of foreign currency investments are accounted for similarly to cash flow hedges.

A hedging transaction should be reflective of a pre-determined risk management strategy and consistent with risk management policies in use. In addition, a derivative is designated as a hedging instrument if the relationship between the hedged item and the hedging instrument is formally documented, and provided that the hedging relationship is prospectively effective at inception.

Hedge effectiveness depends on the extent to which changes in the fair value or expected cash flows of the hedged item are offset by corresponding changes in the hedging instrument. Therefore, effectiveness is measured by comparing said changes, while taking into account the company's intent at hedge inception.

With reference to the hedged risk, the hedging is effective (within the 80% to 125% window) when the changes in fair value (or in the cash flows) of the hedging instrument offset the changes in the hedged item almost entirely.

Effectiveness is assessed at year-end by using:

- prospective tests, which justify continuing hedge accounting since they show its expected effectiveness;

- retrospective tests, which show how effective the hedging relationship has been in the period under review.

Derivatives which are considered as hedging instruments from an economic viewpoint because they are operationally linked with financial liabilities measured at fair value (Fair Value Option) are classified among trading derivatives; the respective positive and negative differentials or margins accrued until the end of the reporting period are recognised, in accordance with their hedging purpose, as interest income and interest expense, while valuation gains and losses are posted under item 110 of the profit and loss statement, "Net profit (loss) from financial assets and liabilities designated at fair value".

d) derecognition criteria – ineffectiveness

If tests do not confirm hedge effectiveness, both retrospectively and prospectively, hedge accounting is discontinued and, unless it has expired or has been terminated, the hedging derivative contract is reclassified as a held-for-trading instrument, whereas the hedged item reverts to the accounting treatment based on its original classification.

If a fair value hedge relationship is discontinued, any positive or negative adjustments made to the carrying amount of the hedged item until the last date on which compliance with hedge effectiveness was demonstrated are recycled into profit and loss. In particular, if the hedged item has not been derecognised, transfer to profit or loss is made using the effective interest method over the remaining life of the hedged instrument; if discontinuation of the hedge relationship leads to derecognition of the hedged item (for example due to early redemption), any gain or loss shall be entirely classified to profit or loss when the hedged item is derecognised.

Any amounts accumulated in cash flow hedge reserves are recycled to profit or loss when the hedged item affects profit or loss. Conversely, if the hedged item is discharged, cancelled or expires the reserve is immediately recycled to profit or loss upon derecognition of the hedged item.

7 Equity investments

a) recognition criteria

The account includes equity investments held in subsidiaries, associates and joint ventures; the investments are initially recognised at purchase cost.

b) classification criteria

Equity investments and equity securities are considered subject to control if the Bank directly or indirectly holds the absolute majority of voting rights and such rights are substantive, and the relative majority of voting rights if the other voting rights are held by widely-dispersed shareholders. Control may also exist in situations in which the Bank does not hold the majority of voting rights, but holds sufficient rights to have the practical ability to unilaterally direct relevant activities of the investee or in the presence of:

- substantive potential voting rights through underlying call options or convertible instruments;
- rights deriving from other contractual arrangements which, combined with voting rights, give the Bank the de facto ability to direct production processes, other operating or financial activities able to significantly influence the investee's returns;
- power to influence, through rules of the articles of association or other contractual arrangements, governance and decision-making procedures regarding relevant activities;
- majority of voting rights through contractual arrangements formalised with other holders of voting rights (i.e., shareholders' agreements).

As regards structured entities - investment funds the Bank takes the following positions with respect to funds:

- subscriber of units, held for long-term investment purposes or for trading,
- counterparty in derivatives.

A relationship of control exists when the following situations are present:

- the Bank, as a subscriber of units, is able to remove the investment fund manager without just cause or for reasons associated with fund performance, and such rights are substantive;
- existence of provisions in the fund regulation envisaging the establishment within the fund of committees, in which the Bank participates, that influence the governance of relevant activities and have the legal and/or de facto right to control the activities of the fund manager;
- existence of other relations with the fund, such as the presence within the fund of personnel with strategic responsibilities associated with the Bank and the presence of contractual relations that subject the fund to the Bank for the subscription or placement of units.

Lastly, with reference to structured entities - securitisation vehicles, in checking for the fulfilment of requirements of control over securitisation vehicles, both the possibility of exercising power over relevant activities for its own benefit and the end purpose of the transaction are taken into consideration by the Bank, as well as the investor/sponsor's involvement in the structuring of the transaction.

For autopilot entities, the subscription of the substantial entirety of the notes by the Bank is considered an indicator of the presence, particularly during the structuring phase, of the power to manage relevant activities to influence the economic returns of the transaction.

Companies are considered associates, that is subject to significant influence, when the Bank holds at least 20 per cent of their voting rights (including potential voting rights) and has the power to participate in determining their financial and operating policies. Similarly, companies are considered associates also when the Bank – despite a lower percentage of voting rights– has the power of participating in the determination of the financial and operating policies of the investee on account of specific legal agreements such as the participation in shareholders' agreements, participation in relevant committees of the investee as well as the presence of veto rights on significant decisions.

Companies for which all of the following circumstances are fulfilled are considered to be <u>jointly controlled</u>:

- if an agreement has been entered into that assigns co-participation in the management of the investee's activities via a presence on the Board of Directors;
- none of the parties participating in the agreement holds exclusive control;
- decisions relating to relevant activities are made unanimously by the parties identified (each has an implicit or explicit veto right with regard to relevant decisions).

c) measurement criteria and revenue recognition criteria

Equity investments in subsidiaries, associates and joint ventures are recognised at cost. At each date of the financial statements or interim reports, the equity investments are checked for indicators of impairment. If evidence of impairment indicates that there may have been a loss in value of an equity investment, then the recoverable value of the investment (which is the higher of the fair value, less costs to sell, and the value in use) should be estimated. The value in use is the present value of the future cash flows expected to be derived from the investment, including those arising from its final disposal.

Should the recoverable value be less than its carrying value, the difference is recognised immediately in profit or loss under item "210 - Gains (losses) on investments".

Should the reasons for impairment no longer apply as a result of an event occurring after the impairment was recognised, reversals of impairment losses are credited to the same account in profit and loss.

The profit related to the equity investments is booked to profit and loss of the Bank regardless of whether it was generated by the investee before or after the date of purchase.

d) derecognition criteria

Investments are derecognised upon maturity of the contractual rights on the cash flows resulting from the assets or when the financial assets are sold and all related risks/rewards are transferred.

8 Property, plant and equipment

a) recognition criteria

Property, plant and equipment are originally recognised at cost, which includes the purchase price and any additional charges directly attributable to the purchase and installation of the assets.

Non-recurring expenditures for maintenance which involve an increase in future economic rewards are booked as an increase in the value of the assets, while expenses for ordinary maintenance are booked to the profit and loss statement.

b) classification criteria

Fixed assets include land, operating properties, investment properties, systems, furnishings and fixtures, equipment of any type and works of art.

Operating properties are properties owned by the Bank and used in production and in the supply of services or for administrative purposes, whereas investment properties are those owned by the Bank for the purpose of collecting rents and/or held for appreciation of capital invested.

This item also includes any assets used in financial lease contracts, although their legal ownership rests with the leasing company, and any improvements and incremental expenses incurred in relation to third-party assets when they refer to identifiable and separable property, plant and equipment from which future economic rewards are expected. As regards real estate, components relating to land and buildings are separate assets for accounting purposes and are measured separately upon acquisition.

c) measurement criteria and revenue recognition criteria

Property, plant and equipment, including non-operating real estate, are valued at cost less any accrued depreciation and impairment.

They are systematically depreciated over their useful life on a straight-line basis, except for land and works of art which have an indefinite useful life and cannot be depreciated. The useful life of the fixed assets subject to depreciation is periodically reviewed and, in the event of any adjustments to the initial estimate, a change is also made in the related depreciation rate. The depreciation rates and subsequent useful life expected for the main categories of assets are reported in the specific sections of the notes to the financial statements.

The presence of any signs of impairment, or indications that assets might have lost value, shall be tested at the end of each reporting period.

Should there be indications of impairment of value, a comparison is made between the book value of the asset and the asset's recoverable value, i.e. the higher of the fair value, less costs to sell, and the value in use, which is the present value of the future cash flows generated by the asset. Any adjustments are posted to the profit and loss statement under item 170 “Net impairment losses/reversals on property, plant and equipment”. Periodic depreciation is reported in the same item.

Where the reasons for impairment cease to exist, a reversal is made, which shall not exceed the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognised for the asset in prior periods.

d) derecognition criteria

Property, plant and equipment are derecognised from the balance sheet upon their disposal or when the assets are permanently withdrawn from use and no future economic rewards are expected as a result of their disposal.

9 Intangible assets

a) recognition criteria

Intangible assets are identifiable, non-monetary assets without physical substance that are held for use over several years or indefinitely. They are recognised at cost, adjusted by any additional charges only if it is probable that the future economic rewards that are attributable to the asset will flow to the entity and if the cost of the asset can be measured reliably. The cost of intangible assets is otherwise posted to the profit and loss statement in the reporting period it was incurred.

Relevant intangible assets for the Bank include:

- technology-related intangible assets including software licenses, internal capitalised costs, projects and licenses under development; in particular, internally incurred costs for software project development are intangibles recognised as assets if, and only if: a) the cost for development can be measured reliably, b) the entity intends and is financially and technically able to complete the intangible asset and either use it or sell it, c) the entity is able to demonstrate that the asset will generate future economic rewards. Capitalised costs for software development only include the expenses that are directly attributable to the development process.
- customer relationship intangible assets, represented by the value of assets under management/custody and core deposits in the event of business combinations.

Goodwill is posted among assets when it results from a business combination transaction in accordance with the principles of determination indicated by IFRS 3, as a residual surplus between the overall cost incurred for the transaction and the net fair value of the assets and liabilities purchased (i.e. companies or business units).

Should the cost incurred be less than the fair value of the assets and liabilities acquired, the difference (badwill) is directly recognised in profit or loss.

b) classification, measurement and revenue recognition criteria

The cost of intangible fixed assets is amortised on a straight-line basis over their useful life. An intangible asset with an indefinite useful life should not be amortised but assessed for impairment periodically. Intangible assets arising from an internally developed software purchased from third parties are amortised on a straight-line basis starting from completion and roll-out of the applications based on their useful life. Intangible assets reflective of customer relationships, which are taken over during business combinations, are amortised on a straight-line basis.

Where there is evidence of impairment, the recoverable amount of the assets is estimated at each reporting date. The amount of the loss recognised in profit and loss is equal to the difference between the carrying value and the recoverable amount of the assets.

The goodwill recognised is not subject to amortisation, but its book value is tested annually (or more frequently) when there are signs of impairment. To this end, the cash flow generating units to which goodwill is attributable are identified.

The amount of the impairment loss is determined by the difference between the book value of goodwill and its recoverable amount, if lower. Said recoverable amount is the higher of the cash-generating unit's fair value, less costs to sell, and its value in use. Value in use is the present value of future cash flows expected to arise from the years of operation of the cash-generating unit and its disposal at the end of its useful life. The resulting value adjustments are posted to the profit and loss statement under item 210 “Net adjustments to (recoveries on) intangible assets”. Periodic amortisation is reported in the same item. An impairment loss recognised for goodwill shall not be reversed in a subsequent period.

c) derecognition criteria

Intangible assets are derecognised from the balance sheet upon disposal and when no future economic rewards are expected.

10 Non-current assets held for sale

a) recognition criteria

Non-current assets held for sale and discontinued operations are initially valued at the lower of the book value and the fair value less costs to sell.

b) classification criteria

This item includes non-current (tangible, intangible and financial) assets held for sale and discontinued operations, with the relative associated liabilities, when the book value is to be recovered mainly through a highly likely sale rather than continuous use.

c) measurement criteria and revenue recognition criteria

Following initial recognition, non-current assets held for sale and discontinued operations, with the relative liabilities, are valued at the lower of the book value and the fair value net of selling costs.

The valuation reserves relating to non-current assets held for sale, recorded as a contra-entry to changes in value relevant for that purpose, are recognised in the statement of comprehensive income.

Income and costs relating to groups of assets and liabilities held for sale, net of the tax effect, are recognised in profit and loss item 310 "Profit (loss) after tax from assets held for sale and discontinued operations". Profit and loss associated with individual assets held for sale are recognised in the most appropriate income statement item.

In the case of discontinued operations, it is also necessary to disclose again the same economic information in a separate item for the previous periods presented in the financial statements, reclassifying the profit and loss statements as a result.

Amortisation is discontinued at the date the non-current asset is classified as a non-current asset held for sale.

d) derecognition criteria

Non-current assets held for sale and discontinued operations are derecognised from the balance sheet upon disposal.

11 Current and deferred tax

a) recognition criteria

The effects of current and deferred taxation calculated in compliance with Italian tax laws are recognised on an accrual basis, in accordance with the measurement methods of the income and expenses which generated them, by administering the applicable tax rates.

Income taxes are posted to profit and loss, excluding those relating to items directly credited or charged to equity.

Income tax provisions are determined on the basis of a prudential forecast of current tax expense, deferred tax assets and liabilities.

Current tax includes the net balance of current tax liabilities for the year and current tax assets with the Financial Administration, comprising tax advances, tax credit arising from prior tax returns and other withholding tax receivables. In addition, current tax includes tax credit for which reimbursement has been requested from the relevant tax authorities. Tax receivables transferred as a guarantee of own debts shall also be recorded within this scope.

Deferred tax assets and liabilities are determined on the basis of the temporary differences – with no time limits – between the value assigned to the assets or liabilities in accordance with statutory principles and the corresponding values for tax purposes, applying the so-called balance sheet liability method.

Deferred tax assets determined on the basis of deductible temporary differences are shown in the balance sheet for the extent to which they are likely to be recovered on the basis of the capacity of the Bank or all of the participating companies – as a result of exercising the option concerning "fiscal consolidation" – to generate a positive taxable profit on an ongoing basis, in light of a probability test.

For a description of the specific methodology of the probability test, please refer to the notes to these financial statements, paragraph 13.7 of Section 13 - Part B – Information on the balance sheet.

Recovery of deferred tax assets relating to goodwill, other intangibles and write-downs on loans is to be considered automatically probable because of existing regulations that provide for conversion into tax credits, if a statutory and/or tax loss is incurred.

In particular:

- if the financial statements filed by the company show a statutory loss for the year, deferred tax assets relating to goodwill, other intangible assets and loan write-downs will be subject to partial conversion into tax credits pursuant to the provisions set out in art. 2, par. 55 of Law Decree no. 225 of 29 December 2010, as amended by Law no. 10 of 26 February 2011. The conversion into tax credits becomes effective as of the date when the 'loss-incurring' separate financial statements are approved by the Shareholders' Meeting, as provided for by art. 2, par. 56 of aforementioned Law Decree no. 225/2010.

- if the financial statements filed by the company show a tax loss for the year, deferred tax assets relating to goodwill, other intangible assets and loan write-downs will be subject to conversion into tax credits pursuant to the provisions set out in art. 2, par. 56-bis of said Law Decree no. 225/2010, introduced by art. 9 of Law Decree no. 201 of 6 December 2011, as amended by Law no. 214 of 22 December 2011. Conversion will be effective as of the date of submission of the tax return for the year in which the loss is incurred.

As a result of changes introduced to the above provisions by Law no. 147 of 27 December 2013, starting from the tax period in progress as at 31 December 2013, the conversion into tax credits of deferred tax assets relating to goodwill, other intangible assets and loan losses and write-downs has also been extended to IRAP (regional productivity tax), in the case of both a statutory loss for the year and a negative production value.

On 27 June 2015, Law Decree no. 83/2015 (converted by Law no. 132 of 6 August 2015) was published in the Official Gazette (no. 147), which amended, inter alia, the tax deductibility regime with regard to the IRES and IRAP to which losses and write-downs on loans to customers of credit and financial institutions and insurance companies are subject and the ability to convert DTAs relating to goodwill and other intangible assets into tax credits.

In this regard, this tax measure set forth the following, in brief:

1. starting from 2016, full deductibility during the year of recognition in the income statement of loan write-downs and losses, unlike the previous situation which envisaged deduction in 5 years;
2. the new scheduling in 10 years, starting in 2016, of the stock of loan write-downs and losses deferred in prior years pursuant to the current legislation (18ths and fifths);
3. termination of the possibility to convert any DTAs relating to goodwill and other intangible assets recognised in the financial statements as of 2015 and later into tax credits.

As a result of these provisions, the DTAs that can be converted ceased to increase starting from 2016. In particular, the prerequisite for the future recognition of "convertible" DTAs relating to goodwill and other intangible assets as well as write-downs and losses on loans ceased to apply, with the latter becoming deductible negative income components (with the exception noted above of the portion not deductible in 2015).

On 3 May 2016, Law Decree no. 59/2016 was published in the Official Gazette (no. 102) (converted by Law of 30 June 2016 no. 119). In addition, on 17 February 2017, Law no. 237 of 23 December 2016 - "Urgent provisions for the protection of savings in the credit sector" was converted into Law no. 15.

As regards convertible DTAs, this Decree established that to continue to apply the existing rules on conversion into tax credits of deferred tax assets, companies must have exercised an irrevocable option and pay an annual fee payable with respect to each of the financial years from 2016 and subsequently, if the conditions exist, until 2030. The Bank exercised this option, thus maintaining, on its own behalf and for companies within the tax consolidation, the future right to the transformation into tax credits of DTAs relating to goodwill, other intangible assets and write-downs and losses on loans.

Deferred tax assets on unused tax losses are recognised based on the same criteria as those used to recognise deferred tax assets on deductible temporary differences: therefore, they are shown in the balance sheet to the extent to which they are likely to be recovered on the basis of the capacity of the company to generate a positive taxable profit in the future. Since the existence of unused tax losses may be symptomatic of difficulties to generate positive taxable profit in the future, IAS 12 establishes that if losses have been posted in recent periods, suitable evidence must be provided to support the existence of such profit in the future. Furthermore, current Italian tax law allows for IRES losses to be carried forward indefinitely (art. 84, paragraph 1, of the Income Tax Act – TUIR); as a result, verifying the existence of future taxable profit against which to use such losses is not subject to any time limits.

Deferred tax assets and liabilities are calculated using the tax rates expected at the date on which the temporary differences are reversed, on the basis of the provisions in force at the reporting date. Any changes in tax rates or tax standards having a significant effect on deferred tax assets and liabilities that are issued or announced after the reporting date and before the publication authorisation date are treated as events after the balance sheet date that do not entail an adjustment pursuant to IAS 10, with the resulting disclosure in the notes.

Deferred tax assets and liabilities are posted to the balance sheet by offsetting each tax against the defined asset or liability to which it relates.

Lastly, please note that Law no. 208 of 28 December 2015 (the 2016 Stability Law) established:

- effective for tax periods subsequent to that under way as at 31 December 2016, reduction of the IRES to 24%;
- for the credit and financial institutions pursuant to Legislative Decree no. 87/92, application of an additional IRES tax of 3.5% as of tax periods subsequent to that under way as at 31 December 2016, to be calculated on individual taxable income for companies participating in tax consolidation.

b) classification and measurement criteria

Deferred tax assets and liabilities are systematically measured to take account of any changes in regulations or tax rates and of any different subjective situations of the Bank or of the Group companies participating in tax consolidation. The charges which might result from already notified tax assessments or litigation pending with the tax authorities are instead recognised in "Net provisions for risks and charges".

With reference to fiscal consolidation of the Bank and participating subsidiaries, contracts have been stipulated to regulate offsetting flows in relation to the transfers of tax profits and losses. Such flows are determined by administering the applicable IRES tax rate to the taxable income of participating companies. The offsetting flow for companies that transfer tax losses – calculated as above – is posted by the consolidating to the consolidated company when and to the extent to which the consolidated company will transfer positive taxable income in tax periods subsequent to that in which the loss was recorded. Offsetting flows so determined are posted as receivables and payables with companies participating in fiscal consolidation, classified under other assets and other liabilities, offsetting item 260 "Tax expense (recovery) on income from continuing operations".

c) revenue recognition criteria

Where deferred tax assets and liabilities refer to components which affected the profit and loss statement, they are offset by income tax. When deferred tax assets and liabilities refer to transactions which directly affected equity without impacting the profit and loss statement (e.g. valuations of available-for-sale financial instruments or cash flow hedging derivatives), they are posted as a contra entry to shareholders' equity, involving the special reserves if required.

12 Provisions for risks and charges

Provisions to the reserve for risks and charges are made only when:

- there is a current (legal or implicit) obligation resulting from a past event;
- an outflow of resources producing economic rewards is likely to be necessary in order to settle the obligation; and
- the amount of the obligation can be estimated reliably.

Whenever timing is important, the provisions are discounted back.

Provisions to the reserve are posted to the profit and loss statement, in addition to interest expense accrued on the reserves which were subject to discounting.

No provision is shown for contingent and unlikely liabilities, but information is provided in the notes to the financial statements, except in cases where the probability of an outflow of resources to settle the amount is remote or the amount is not significant.

Sub-item 120 “Provisions for risks and charges: post-employment benefits” includes appropriations in compliance with the 2011 revised version of IAS 19 “Employee benefits” for the purpose of settling the technical deficit of defined benefit supplementary pension funds. Pension plans are either defined benefit or defined-contribution schemes. The charges borne by the employer for defined contribution schemes are pre-determined; charges for defined benefit plans are estimated and shall take account of any shortfall in contributions or poor investment performance of defined benefit plan assets.

For defined benefit plans, the actuarial values required by the application of the above principle are determined by an external actuary in accordance with the Projected Unit Credit Method). In particular, the accounting treatment of net defined benefit liabilities is as follows:

1) any surplus or deficit in the plan is measured as the difference between the present value of the defined benefit obligation (DBO) and the fair value of the plan’s assets, when present;
2) when the plan is in deficit, the net defined benefit liability recognised in the balance sheet is equal to the deficit itself;
3) when the plan is in surplus, it is necessary to determine the present value of any future economic benefits available to the Bank in the form of refunds from the plan or reductions in future contributions to the plan (asset ceiling);
4) when the asset ceiling is lower than the surplus, the net defined benefit asset is to be recognised in the balance sheet in an amount equal to the asset ceiling.

In essence, if the Bank cannot use the surplus in any way then no asset may be recognised in the balance sheet.

An increase in the present value of the DBO resulting from employee service in the current year is recognised in the Bank's P&L, regardless of whether the plan is in surplus or deficit, as is the case for past service costs and interest costs.

The following components, on the other hand, are immediately recognised in the statement of comprehensive income:

1) actuarial gains and losses on the DBO;
2) difference between the actual return on plan assets and net income on the plan assets;
3) any change in the effect of the asset ceiling, excluding the interest income component.

Sub-item 120 “Provisions for risks and charges: other provisions” includes any provision to cover expected losses for actions filed against the Bank, including clawback actions, estimated expenses in relation to customer claims for securities brokerage, and other estimated expenses in relation to legal or implicit obligations existing at the end of the period.

13 Liabilities and debt securities issued

a) recognition criteria

These financial liabilities are first recognised upon receipt of the sums collected or at the time of issuance of debt securities.

Liabilities are initially recognised at their fair value, which is generally equal to the amount received or the issue price, increased by any additional income/expense directly attributable to the funding or issuing transaction and not reimbursed by the creditors. Internal administrative costs are excluded. The fair value of financial liabilities (if any) issued at conditions other than market conditions is calculated by using a specific valuation technique, and the difference with respect to the consideration received is booked directly to profit and loss only when the conditions provided for by IAS 39 have been met, i.e. when the fair value of the instrument issued can be established by using either quoted market prices for similar instruments or a valuation technique based solely on market data.

b) classification criteria

Deposits from banks and customers and securities issued include different types of funding (both interbank and from customers) and funds raised through certificates of deposit and outstanding bonds, net of any repurchase. Debt securities issued include all securities that are not subject to "natural" hedging through derivatives and that are classified as liabilities measured at fair value.

The item also incorporates payables booked by the lessee in relation to any stipulated financial lease transactions.

c) measurement criteria and revenue recognition criteria

Following initial recognition, financial liabilities are valued at amortised cost using the effective interest method.

Short-term liabilities for which time effect is immaterial are an exception, and are recognised at the amount collected.

Should the requirements provided for by IAS 39 for the separate recognition of embedded derivatives be met in the case of structured instruments, they are separated from the host contract and reported at fair value as a trading asset or liability. In this case, the host contract is recognised at amortised cost.

d) derecognition criteria

Financial liabilities are derecognised upon maturity or extinction. Derecognition also occurs if previously issued securities have been repurchased. The difference between the book value of the liabilities and the amount paid to repurchase them is recorded in the profit and loss statement.

A new placement in the market of own securities after their repurchase is considered as a new issue and posted at the new price of placement, with no impact on the profit and loss statement.

In compliance with the provisions of IAS 32, any potential commitment to buy treasury shares as a result of the issuance of put options is shown in the balance sheet under financial liabilities, offset by the reduction of shareholders' equity in the amount of the current value of the contractual repayment sum. At the end of 2017, there were no put options sold on treasury shares of the Bank.

14 Financial liabilities held for trading

a) recognition criteria

Financial liabilities held for trading are initially recognised on the date of issue for debt securities, and on the date of subscription for derivatives.

Upon initial recognition, they are measured at fair value, which usually corresponds to the amount collected net of any transaction costs or income directly attributable to the instrument itself, which are directly posted to the profit and loss statement. Any embedded derivatives in combined financial instruments not directly connected to the latter and with the characteristics to meet the definition of a derivative are recognised separately from the host contract at fair value. The applicable accounting criteria are administered to the primary contract.

b) classification criteria

This category includes debt securities issued mainly for the purpose of obtaining short-term profits and the negative value of derivative contracts excluding those designated as hedging instruments. Derivative contracts include those embedded in combined financial instruments which were subject to separate accounting.

The sub-items "Deposits from banks" and "Deposits from customers" also incorporate uncovered short positions on securities.

c) measurement criteria

Following initial recognition, financial liabilities held for trading are measured at fair value, every changes in fair value are recognised in the income statement.

For a description of criteria used to determine the fair value of financial instruments, please see section "A.4.5 Fair Value Hierarchy" of this Part A.

d) derecognition criteria

Financial liabilities are derecognised upon maturity or extinction. Derecognition also occurs if previously issued securities have been repurchased. The difference between the book value of the liabilities and the amount paid to repurchase them is booked in the profit and loss statement.

e) revenue recognition criteria

Profits and losses arising from any changes in the fair value of financial liabilities are recognised in profit and loss under item "80 Net profit/loss from trading", except for gains and losses on derivative payables linked with the fair value option which are classified under item "110 Net profit/loss from financial assets and liabilities designated at fair value".

15 Financial liabilities designated at fair value

a) recognition criteria

Financial liabilities measured at fair value are initially recognised on the date of issuance for debt securities. Upon initial recognition, they are measured at fair value, which usually corresponds to the amount collected net of any transaction costs or income directly attributable to the instrument itself, which are directly posted to the profit and loss statement.

The fair value of financial liabilities (if any) issued at conditions other than market conditions is calculated by using a specific valuation technique, and the difference with respect to the consideration received is booked directly to profit and loss only when the conditions provided for by IAS 39 have been met, i.e. when the fair value of the instrument issued can be established by using either quoted market prices for similar instruments or a valuation technique based solely on market data. Should these conditions not be available, the fair value used for valuations after the issuance of instruments is cleared of the initial difference between the fair value upon issuance and the consideration received. This difference is recognised in profit and loss only if it ensues from changes in the factors (including time), which market traders would consider for price determination.

b) classification criteria

According to IAS 39, this category includes financial liabilities which have been recognised at fair value through profit or loss; this option is allowed when:

1. the designation at fair value allows for the elimination or reduction of significant misrepresentations of the financial instruments in the profit and loss statement and balance sheet; or
2. the management and/or measurement of a group of financial instruments at fair value through profit or loss is consistent with an investment or risk management strategy documented as such by senior management;

   or
3. a host instrument embeds a derivative which significantly modifies the cash flows of the host and should otherwise be accounted for separately.

The Bank has exercised this option in case 1, classifying under this item financial liabilities that are subject to "natural hedging" through derivative instruments. In item 17 "Other information", a specific section is included to provide insight into the hedging management methods through the adoption of the fair value option.

c) measurement criteria

Following initial recognition, financial liabilities are measured at fair value.

For a description of criteria used to determine the fair value of financial instruments, please see section "A.4.5 Fair Value Hierarchy" of this Part A.

d) derecognition criteria

Financial liabilities are derecognised upon maturity or extinction. Derecognition also occurs if previously issued securities have been repurchased. The difference between the book value of the liabilities and the amount paid to purchase them is recorded in the profit and loss statement under item 110 "Net profit/loss from financial assets and liabilities designated at fair value". The cumulative amount recognised from early partial application of IFRS 9 among other items of the statement of comprehensive income as at the repurchase date is reclassified under retained earnings.

e) revenue recognition criteria

As a result of early partial adoption of IFRS 9, starting from the current year, gains and losses arising from any changes in the fair value of a financial asset are recognised:

- under other comprehensive income, as regards the change in the fair value that is attributable to changes in the issuer's credit risk, unless this creates or increases an accounting mismatch in the profit (loss) for the year, in which case the entire change in fair value of the liability must be presented within profit and loss;
- in profit and loss under item "110 Net gains/losses on financial assets and liabilities designated at fair value", for the portion of fair value change not attributable to changes in the issuer's creditworthiness.

The economic effect of derivatives linked with the fair value option is classified under item "110 Net gains/losses on financial assets and liabilities designated at fair value".

16 Foreign-currency transactions

a) recognition criteria

Upon initial recognition, foreign-currency transactions are recognised in the currency of account using the foreign-exchange rates on the date of the transaction.

b) revenue classification, measurement, recognition and derecognition criteria

Financial statement entries denominated in foreign currencies are valued at the end of each reporting period as follows:

- monetary entries are converted using the exchange rate on the closing date;
- non-monetary entries valued at historical cost are converted using the exchange rate on the date of the transaction;
- non-monetary entries that are measured at fair value in a foreign currency are translated at the closing date rate.

Any exchange-rate differences resulting from the settlement of monetary elements, or from the conversion of monetary elements at rates other than those used for initial conversion or conversion in the previous financial statements, are posted to the profit and loss statement for the period in which they arise.

When a profit or a loss on a non-monetary element is recognised in equity, the exchange-rate difference in relation to said element is also posted to equity. However, when a profit or a loss is posted to the profit and loss statement, the relative exchange-rate difference is also posted there.

The accounting position of foreign branches with different operating currencies is converted into Euros by using the exchange rates at the end of the reporting period.

Any exchange-rate differences attributable to investments in such foreign branches, and those resulting from the conversion into Euros of their accounting position, are recognised in equity reserves and transferred to the profit and loss statement only in the year when the investment is disposed of or reduced.

17 Other information

Other significant items

Other significant items from the Bank's financial statements are described below.

Cash and cash equivalents

This item includes currencies that are legal tender, including foreign banknotes and coins and demand deposits with the central bank of the country or countries in which the Bank operates with its own branches.

The item is posted at face value. For foreign currencies, the face value is converted into Euros at year-end exchange rate.

Value adjustment of macro-hedged financial assets and liabilities

These items show, respectively, the net amount, whether positive or negative, of the changes in value of the macro-hedged assets and the net amount, whether positive or negative, of the changes in value of liabilities macro-hedged against interest-rate risk, pursuant to IAS 39, paragraph 89.

Other assets

This item shows assets not attributable to the other items on the asset side of the balance sheet. It may include, for example:

- gold, silver and precious metals;
- accrued income other than that which is capitalised to the related financial assets;
- any inventories according to the definition of IAS 2;
- improvements and incremental expenses incurred on third-party real estate other than those attributable to property, plant and equipment and therefore not independently identifiable and separable.

The costs in the latter bullet point are posted to other assets, since the user company exercises control of the assets for the purpose of the tenancy agreement and can obtain future economic benefits from them. Said costs are posted to Item 190 "Other operating expenses (income)" on the income statement according to the shorter of the period in which the improvements and expenses can be used and the remaining term of the contract.

Severance pay

Employee severance pay is a defined benefit allowance subsequent to the employment relationship; therefore its actuarial value must be estimated for the purpose of the financial statements. This estimate is carried out using the "Projected Unit Credit" method, which predicts future disbursements on the basis of statistical historical analysis and the demographic curve, and the financial discounting of such flows according to market interest rates. For the calculation of liabilities to be recognised in the financial statements, the 2011 revised version of IAS 19 "Employee benefits" has been applied; please refer to the paragraph "Provisions for risks and charges" regarding defined benefit pension plans.

The costs accrued during the year for servicing the plan are posted to the profit and loss statement under item "150 a) Personnel expenses".

After the reform of supplementary pension funds as per Legislative Decree no. 252 of 5 December 2005, severance pay quotas accrued to 31 December 2006 remain with the Bank, while severance pay quotas accrued after 1 January 2007, at the discretion of the employee, are assigned to supplementary pension funds or maintained with the individual companies, which will provide for their transfer to the Treasury Fund managed by the Italian National Social Security Institute, INPS.

Other liabilities

This item shows liabilities not attributable to other items on the liability side of the balance sheet.

It includes, for example:

a) payment agreements that must be classified as debit entries according to IFRS 2;

b) debit entries connected with payment for provision of goods and services;

c) accrued liabilities other than those to be capitalised to the respective financial liabilities.

Other significant accounting practices

Details on significant accounting criteria for purposes of understanding the financial statements are shown below.

Treasury shares

Any shares held by Banca Monte dei Paschi di Siena S.p.A. are recorded in their own item and deducted directly from equity. No profits or losses are posted to the profit and loss statement upon the purchase, sale, issue or cancellation of the Bank's equity instruments. Any amount paid or received is posted directly to equity.

Dividends and income/cost recognition

Revenues are recognised upon attainment, or: in the case of selling goods or products, when it is likely that future benefits will be received and said benefits can be reliably quantified; in the case of services, when these are provided.

In particular:

a) interest is booked pro rata temporis on the basis of contractual interest rate or the effective interest rate in the event of application of the amortised cost;
b) interest on arrears is posted to the profit and loss statement only upon actual collection;
c) dividends are shown in the profit and loss statement upon resolution of their payout, i.e. when their payment is due;
d) commissions for service income are posted in the period when said services were rendered, on the basis of existing contractual agreements;
e) revenues from trading or from issuance of financial instruments, as determined by the difference between the transaction price and the fair value of the instrument, are booked to the profit and loss statement upon reporting of the transaction if the fair value can be determined with reference to parameters or recent transactions observable on the same market in which the instrument is traded; otherwise, they are distributed over time, taking into account the duration and the nature of the instrument.
f) portfolio management fees are recognised based on the duration of service;
g) expenditures are booked to profit and loss during the periods in which the related revenues are booked. Expenditures that cannot be associated with income are booked immediately to the profit and loss statement.

Business combinations

A business combination is defined as the transfer of control of a company (or of a group of assets and integrated goods, conducted and managed as a unit). For the definition of control, please refer to Section 3 "Scope of consolidation" of this part A of the notes.

A business combination may give rise to an investment link between the acquiring Bank and the acquired subsidiary. In these cases, the acquirer applies IFRS 3 to the consolidated financial statements while posting the acquired interest to its separate financial statements as an equity interest in a subsidiary, consequently applying IFRS 10.

A business combination may also provide for the acquisition of the net assets of another entity, including any goodwill, or the acquisition of the share capital of another entity (for example mergers, splits, acquisitions of business units). Such a business combination is not an investment link like the one between a parent company and subsidiary, and therefore in these cases IFRS 3 is also applied to the individual financial statements.

Based on the provisions of IFRS 3, an acquirer must be identified for all combination transactions. It is identified as the subject that obtains control over another entity or group of assets.

The acquisition must be posted to the accounts on the date when the acquirer effectively obtains control over the entity or assets acquired.

At the date of acquisition, the acquirer must recognise goodwill as the difference between:

(a) the sum of:

i. the consideration generally measured at fair value at the acquisition date;
ii. the amount of any non-controlling interest in the acquired company and
iii. in a business combination carried out in multiple phases, the fair value at the acquisition date of interests in the acquired company previously held by the acquirer;

(b) the net value of amounts, at the acquisition date, of identifiable assets acquired and identifiable liabilities assumed.

The acquirer must account for transaction-related costs (legal, accounting costs, consulting expenses, etc.) as expenses in the periods in which the costs are incurred and the services are received, with the exception of the costs of issuing debt securities or equity instruments, which must be recognised in accordance with the provisions of IAS 32 and IAS 39.

The fair value of the assets, liabilities and contingent liabilities of the acquired entity may be determined provisionally by the end of the first reporting period in which the combination occurs and must be completed within twelve months of the date of acquisition.

Business combinations do not include transactions aimed at control of one or more entities that do not constitute a business activity, or aimed at temporary control, or finally, if the business combination is realised for restructuring purposes, thus among two or more entities or business activities already part of the MPS Group, and not involving changes to the control structures regardless of the percentage of rights of third parties before and after the transaction (so-called business combinations of entities under common control).

Business combinations under common control

Business combinations between entities under common control do not fall under IFRS 3. In the absence of a standard of reference, as indicated in Section 1 "Declaration of conformity with international accounting standards", these transactions are posted to the accounts by making reference to preliminary guidance from the Italian Association of Auditors (Orientamenti Preliminari, OPI no. 1 "Accounting treatment of "business combinations of entities under common control" in separate and consolidated financial statements" and OPI no. 2 "Accounting treatment of mergers in financial statements"). These guidelines consider the economic significance of business combinations on the basis of cash flow impact on the Bank. Transactions, which had no significant influence on future cash flows, were recognised using the pooling of interest method. Therefore, in the financial statements of the seller, the difference between the sale price and the book value is posted as an increase/decrease in equity. Exclusively in the event of acquisition or transfer of a controlling interest, the equity investment is posted at acquisition cost in the acquirer/transferee's financial statements for the year.

Amortised cost

The amortised cost of financial assets or liabilities is the value at which they were measured upon initial recognition, net of principal repayments, plus or minus overall amortisation calculated using the effective interest method, on the differences between the initial value and that at maturity and net of any permanent impairment.

The effective interest rate is the rate which makes the present value of expected future payment or collection cash flows (without considering future losses on loans), until maturity or a subsequent price recalculation date, equal to the net book value of the financial assets or liabilities. To calculate the current value, the effective interest rate is applied to estimated future collection or payment flows over the entire useful life of the financial assets or liabilities – or for a shorter period if certain conditions are met (for example, a change to market rates).

The effective interest rate shall be redetermined where the financial assets or liabilities have been subject to fair value hedging that has ceased to exist.

In cases in which it is not possible to estimate the cash flows or expected life in a reliable manner, the Bank uses the cash flows contractually envisaged for the entire contractual term.

Following initial recognition, the amortised cost makes it possible to allocate income and costs reducing or increasing the instrument over its entire expected life by means of the amortisation process. The determination of the amortised cost is different depending on whether the financial assets/liabilities are subject to valuation at a fixed or variable rate.

For fixed-rate instruments, future cash flows are quantified based on the known interest rate during the term of the financing. For floating-rate financial assets/liabilities, whose variability is not known beforehand (because, for example, it is tied to an index), cash flows are determined on the basis of the last known rate. At every rate review date, the amortisation schedule and the actual rate of return over the entire useful life of the instrument, i.e. until maturity, are recalculated. The adjustment is recognised as cost or income in the profit and loss statement.

Valuation at amortised cost is applied to receivables, held-to-maturity financial assets, financial assets available for sale, liabilities and debt securities issued; for debt securities classified under assets available for sale, amortised cost is calculated for the only purpose to post interest (based on the effective interest rate) to profit and loss; the difference between fair value and amortised cost is allocated to a specific equity reserve.

Financial assets and liabilities traded at market conditions are initially recognised at their fair value, which normally corresponds to the amount disbursed or paid inclusive -in the case of instruments valued at amortised cost- of transaction costs and commissions directly attributable to the assets and liabilities (such as fees and commissions paid to agents, consultants, intermediaries and dealers), as well as contributions withheld by regulatory bodies and securities exchanges, taxes, and transfer charges. These expenses, which must be directly attributable to the individual financial assets or liabilities, impact the original actual return and make the effective interest rate associated with the transaction different from the contractual interest rate. Calculation of the amortised cost does not include costs that the Bank must incur regardless of the transaction (for example, administrative, stationery and advertising costs), which, even though they are specifically attributable to the transaction, occur in the normal practice of managing loans (for example, disbursement activities).

With particular reference to receivables, lump-sum reimbursements of expenses incurred by the Bank for the provision of a service must not be attributed in a way that lowers the cost of disbursing the loan, but since they may be considered as other operating income, the related costs must be posted to a separate account in the profit and loss statement.

Guarantees issued

Adjustments due to any deterioration in the guarantees issued are posted to item 100 “Other liabilities”. Impairment losses are posted to Item 130 d) “Net impairment losses/reversals on other financial transactions” in the profit and loss statement.

Accounting for contributions to the resolution funds and the Italian Interbank Deposit Protection Fund

Italian Legislative Decrees nos. 180 and 181 of 2015 transposed directive 2015/59/EU Banking Resolution and Recovery Directive (“BRRD”), which requires the formation of resolution funds, into Italian law.

These funds are funded, inter alia, by:

a) annual contributions from banks, in order to reach the target level of fund resources established by the regulation;
b) extraordinary contributions from banks when ordinary contributions are insufficient to support approved resolution interventions.

Both types of contribution are subject to interpretation IFRIC 21 “Levies”, as the contribution obligations are based on legislative provisions. Based on this interpretation, a liability should be recognised when the “obligating event” takes place which triggers the payment obligation. The balancing entry of that liability is represented by income statement item 150 (b) “administrative expenses - other administrative expenses”, as the conditions are not met for the recognition of an intangible asset pursuant to IAS 38 “Intangible assets”, or for the recognition of an asset for a prepayment.

The same treatment is applied to “ex ante” contributions made to the Italian Interbank Deposit Protection Fund within the scope of Directive 2014/49/EU “Deposit Guarantee Schemes” (DGS).

Significant accounting choices made in preparing the financial statements (with particular reference to the provisions of IAS 1, paragraph 122, and documents nos. 4 of 3 March 2010 and 2 of 6 February 2009, issued jointly by the Bank of Italy/Consob/Isvap)

Decisions by senior management having a significant effect on amounts in the financial statements, other than those relating to estimates, made when applying accounting principles, are shown below.

Accounting for hedge transactions – adoption of the Fair Value Option

In its financial risk management policy, relating to financial instruments included in the banking book, the Bank has used the Fair Value Option accounting technique alongside fair value hedging and cash flow hedging methods.

The Fair Value Option was used to represent operational hedges on fixed-rate or structured bonds (Accounting Mismatch). In that case the Bank, the only issuer within the Group, stipulates operational microhedging derivative contracts with MPS Capital Services S.p.A., which in turn manages by assets the Group's overall exposure to the market.

The scope of application of the fair value option currently regards primarily fixed-rate securities and structured securities subject to hedges on interest-rate risk and the risk deriving from embedded derivative components.

Adopting the Fair Value Option necessitates the liabilities being measured at fair value while also taking into account changes in own creditworthiness of the issuer, the distorting effects of which are eliminated from own funds, from the perspective of prudential supervision, in compliance with prudential regulations in force. Starting from 2017, the Bank exercised early adoption of IFRS 9, limited to the part that envisages recognition under other comprehensive income of the fair value changes attributable to the issuer's creditworthiness.

IAS 39 allows the option of designating a financial instrument under the fair value option to be exercised irrevocably only upon initial recognition. The fair value option cannot therefore be used for hedges on funding instruments issued prior to the decision that the hedge be undertaken; hedge accounting must be used in these cases.

In the Operating Guide no. 4 of the OIC on accounting management of reserves and profit distribution pursuant to Legislative Decree no. 38 of 28 February 2005, the supervisory authorities (Bank of Italy/Consob/Isvap) specify that capital gains posted to the profit and loss statement using the Fair Value Option and not yet realised are not distributable.

Use of estimates and assumptions when preparing financial statements. Main causes of uncertainty (with particular reference to the provisions of IAS 1, paragraph 125, and documents nos. 4 of 3 March 2010 and 2 of 6 February 2009, issued jointly by the Bank of Italy/Consob/Isvap)

The estimates required by accounting standards can have a significant impact on the balance sheet and profit and loss account, as well as on disclosure of contingent assets and liabilities reported in the financial statements. Production of these estimates involves the use of available information and adoption of subjective assessments. By their nature, the estimates and assumptions utilised may vary from one period to another and, therefore, it cannot be ruled out that in subsequent periods the actual amounts stated in the accounts may differ, even to a significant extent, as a result of changes in subjective assessments made. These estimates and valuations are thus difficult and bring about inevitable elements of uncertainty, even in stable macroeconomic conditions.

The main cases in which subjective valuations are mostly opted for by Management include the:

a) use of valuation models to measure the fair value of financial instruments not listed in active markets;
b) quantification of impairment losses on loans and, more generally, other financial assets;
c) assessment of the fair value of equity investments, goodwill, other intangible assets and property, plant and equipment;
d) estimation of liabilities arising from defined benefit company pension funds:
e) estimation of deferred tax assets recoverability;
f) estimation of legal and tax costs.

For a description of item a), please see section A.4.5 Fair Value Hierarchy; in relation to items b) and c), the most important qualitative issues subject to elements of discretion are described below. The actual technical and conceptual solutions used by the Bank are analysed in more detail in the individual sections of the notes to the balance sheet and the profit and loss statement, where the contents of each item in the financial statements are described. With regard to item d) please refer to section 12 of Liabilities in the Notes to the Financial Statements "Defined benefit company pension funds"; as for item e) please see section 14 of Assets in the Notes to the Financial Statements "Tax assets and liabilities". With reference to point f) please refer to section 12 of Liabilities in the Notes to the Financial Statements "Provisions for risks and charges" and section 1.4 "Operational Risk" in part E of the Notes to the Financial Statements.

Methods for determining impairment losses on loans and, more generally, other financial assets

At the end of every reporting period, the financial assets not classified as held-for-trading financial assets or assets at fair value are evaluated to check whether there is objective evidence of impairment that might render the book value of these assets not entirely recoverable.

A financial asset has suffered a reduction in value and the impairment losses must be posted to the financial statements if, and only if, there is objective evidence of a reduction in future cash flows compared with those originally estimated as a result of one or more specific events that have occurred after initial recognition; the loss should be determined reliably and in relation with recent events.

The reduction in value may also be caused not by a single separate event but by the combined effect of several events.

The objective evidence that a financial asset or group of financial assets has suffered a reduction in value includes measurable data that arise from the following events:

- significant financial difficulty of the issuer or debtor;
- breach of contract, for example non-fulfilment or failure to pay interest or principal;

- granting Beneficiary a credit facility that the Bank has taken into consideration primarily for economic or legal reasons related to the beneficiary's financial difficulties and that would not have been granted otherwise;
- a reasonable probability that the beneficiary will file for bankruptcy or other financial restructuring procedures;
- disappearance of an active market for that financial asset due to financial difficulties. Nevertheless, the disappearance of an active market due to the fact that the financial instruments of the company are no longer publicly traded is not evidence of a reduction in value;
- measurable data which indicate the existence of a significant drop in the estimated future cash flows for a group of financial assets from the time of their initial recognition, even though the reduction cannot yet be matched to the individual financial assets of the Group, including:
  - unfavourable changes in the status of payments of the beneficiaries within the group; or
  - local or national economic conditions that are associated with non-fulfilment related to internal Group assets.

Objective evidence of reduction in value for an investment in an equity instrument includes information regarding important changes with an adverse effect that have occurred in the technological, market, economic or legal environment in which the issuer operates and indicates that the cost of the investment may not be recovered.

The impairment test is performed on an analytical basis with respect to financial assets that show specific evidence of impairment and on a collective basis with respect to financial assets for which such objective evidence does not exist. Collective valuation is based on identifying homogenous risk classes of financial assets with reference to the characteristics of the debtor/issuer, economic sector, geographic area, presence of any guarantees and other relevant factors.

Whenever loans to customers and banks are classified as doubtful, unlikely to pay or non-performing past due exposures, they are subject to an analytical valuation process, with the determination of expected losses by uniform categories and analytical attribution to each position. The amount of the loss is equal to the difference between the book value of the receivable upon valuation (amortised cost) and the current value of expected future cash flows, calculated using the original effective interest rate. Expected cash flows take account of the expected repayment schedule, the expected recovery value of collaterals, if any, as well as the costs expected to be incurred for the recovery of the credit exposure (including those attributable to outsourcing activities). In this regard, in order to determine the cash flows deemed recoverable, within the assessment process adopted by the Bank, if there are no analytical schedules, statistical schedules are used.

The amount of the loss is indicated in the profit and loss statement under Item 130 a) "Net impairment losses/reversals on loans".

Receivables classified as performing and certain non-performing loans (with exposures below a given threshold value) are statistically assessed. This valuation occurs by credit-risk homogenous categories of receivables, indicative of the debtor's ability to repay sums contractually owed. The segmentation drivers used for this purpose consist of: economic sector, geographic location and customer segments (turnover); on the basis of the last indicator, the main segments of the portfolio are differentiated as follows:

- Retail;
- Small and Medium Enterprises - Retail;
- Small and Medium Enterprises – Corporate;
- Corporate;
- Large Corporate;
- Banks;
- Other.

The rate of loss is determined for each portfolio segment by identifying the largest possible synergies (as allowed by various regulations) using the supervisory approach. In particular, the impairment for the year of each loan belonging to a particular category is given by the difference between the book value and the recoverable amount on the date of valuation, with the latter being determined by using the parameters of the calculation method provided for by the new supervisory provisions, represented by PD (probability of default) and LGD (loss given default).

For non-performing loans, statistical valuation is carried out by applying the specific LGD parameter to the exposures' book value.

If, in a subsequent year, the impairment loss decreases and the reduction can be objectively linked to an event that occurred after the impairment was recognised (such as an improvement in the financial solvency of the debtor), the previously recognised impairment loss will be reversed. The amount of the reversal is indicated in the profit and loss statement under Item 130 "Net impairment losses/reversals".

Regarding non-performing loans, and in particular doubtful loans, the valuations were conducted taking into account the ordinary recovery modalities (enforcement of guarantees, participation in bankruptcy proceedings, etc.), except for the portfolio of doubtful loans subject to disposal (without derecognition) on 20 December 2017, for which the net carrying amount reflected the conditions envisaged in the disposal agreement itself (see next paragraph).

With reference to loans which have been restructured by partial or full conversion into equity stakes of beneficiary companies, in accordance with joint document no. 4 issued by Bank of Italy/Consob/Isvap on 3 March 2010, it is noted that the fair value of quotas received was factored into the valuation. In particular, in the case of non-performing exposure, such classification was maintained for converted financial instruments received and, in the case of classification in the available-for-sale (AFS) category, capital losses recognised after conversion were posted directly to the profit and loss statement.

With regard to debt securities classified under loans to customers, if there is objective evidence of an impairment loss, the loss is calculated as the difference between the asset's carrying value and the present value of estimated cash flows, discounted at the asset's original interest rate.

If the amount of the impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. The reversal is not to result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised. The amount of the reversal is recognised in profit and loss.

Impairment of financial assets available for sale is posted to the profit and loss statement when a reduction in fair value has been directly recognised in equity and the aforementioned objective evidence exists. In such cases, the cumulative loss recognised directly in equity shall be reversed and posted to profit and loss, even if the financial asset has not been derecognised. The overall loss transferred from equity to profit and loss is the difference between the acquisition cost (net of any repayment of principal and amortisation) and the current fair value, less any impairment loss on the financial asset previously posted to profit and loss. Impaired losses posted to profit and loss for investment in an available-for-sale equity instrument do not have to be reversed with an impact on profit and loss.

If the fair value of an available-for-sale debt instrument subsequently increases, and the increase can be objectively linked to an event that took place after the impairment loss was posted to the profit and loss statement, the impairment loss must be derecognised and reversed to profit and loss.

However, the existence of a negative reserve is not in itself sufficient to determine a write-down in the profit and loss statement.

The nature and number of assumptions used to identify impairment factors and determine losses and reversals are elements of uncertainty in estimation.

Assumptions made in relation to disposal of the doubtful loans portfolio

As envisaged in the Restructuring Plan approved by the European Commission on 4 July 2017, the transaction for disposal of doubtful loans by the Bank (for an amaunt of EUR 3.5 bn) and by the subsidiaries MPS Capital Services SpA and MPS Leasing & Factoring SpA, which envisaged the transfer of a portfolio of doubtful loans for a net value as at 20 December 2017 of EUR 4.5 bn through a securitisation transaction, was completed in December 2017. The transaction contemplates the intervention of the Atlante II Fund (managed by Quaestio Capital Management SGR S.p.A.), with which, on 26 June 2017, a binding agreement was signed for the acquisition of 95% of the junior and mezzanine notes. Note that the latter were disposed with effective date 9 January 2018, with pledge on the amount whose payment was deferred to the date of disposal of the Junior notes, envisaged upon obtaining the GACS on the Senior tranche. For greater detail, see the section "The doubtful loan disposal transaction" of the Consolidated Report on Operations.

The doubtful loans included in the transferred portfolio were already classified in Asset item 140 "Non-current assets and groups of assets held for sale and discontinued operations" as at 30 June 2017, as the transfer transaction satisfied the requirements laid out in IFRS 5 (non-current assets which are highly likely to be sold within the 12 subsequent months). Note that deconsolidation of the doubtful loans portfolio will take place by the end of June 2018, with disposal of the junior notes, and that in any case, the economic impacts of the securitisation, in addition to being included in the Restructuring Plan, have been fully reflected in the half-year report as at 30 June 2017, based on the relative agreements signed with Quaestio.

Indeed, featuring an amendment of the management strategy for such assets, the recovery of which depends no longer on ordinary activities (enforcement of guarantees, participation in bankruptcy proceedings, etc.) but rather on disposal to third parties, the net book value of such doubtful loans was reduced in order to reflect the expected cash flows from this transaction, as envisaged by paragraph 63 of IAS 39. The impairment losses on the scope of transferred positions were adjusted so that the net book value of such doubtful loans would reflect the conditions set forth in the disposal agreement signed on 20 December 2017. The resulting additional adjustments, equal to EUR 3.2 bn, were already recognised to a significant extent in the first half of 2017 in the profit and loss statement under Item 130 a) "Net impairment losses/reversals on loans".

The binding agreement also envisages that the Bank will need to bear some additional charges; among these, the profit and loss statement Item 130 d) "Net impairment losses/reversals on other financial transactions" includes EUR 65 mln connected to the commitment undertaken to cover the vehicle hedging costs to be sustained by the transferor.

This accounting representation also takes into account the assessment of the overall set of conditions set forth in the agreement with Quaestio.

Methods for determining impairment losses on equity investments, goodwill and, more generally, other intangible assets

The assumptions used to determine impairment losses on equity investments, goodwill and other intangible assets are based on the 2017 final data and 2018-2021 projections prepared in line with the development policies of the Restructuring Plan agreed upon with the competent Authorities.

Equity investments

The impairment process entails computation of the recoverable amount, which is the greater of the fair value less costs to sell, and the value in use. The value in use is the present value of the cash flows arising from the impaired asset; it reflects the estimate of the cash flows expected from the asset, the estimate of possible changes in the amount and/or in the timing of the cash flows, the financial value over time, the price for remunerating the risk on the asset and other factors that can influence the pricing, on the part of market dealers, of the cash flows expected from the asset. Numerous assumptions are therefore required to estimate the fairness of the carrying amount of equity investments; it follows that the result of this verification inevitably entails some degree of uncertainty.

Goodwill

Goodwill posted following acquisitions is subjected to an impairment test at least once a year and whenever there are signs of impairment. For testing purposes, once goodwill has been allocated to cash-generating units (CGUs), the book value is compared with the recoverable value of said units. The discounted cash flow (DCF) method is normally used to determine the recoverable value of the

CGUs. To this end, senior management has estimated CGU cash flows; these are dependent on several factors, including cost and revenue growth rates, which in turn depend on changes in the real economy, customer behaviour, competition and other factors. Numerous assumptions are therefore required to estimate the fairness of the carrying amount of goodwill; it follows that the result of this verification inevitably entails some degree of uncertainty. Disclosure in Section 12 of the "Assets" in the notes to the financial statements provides more details on this subject.

Other property, plant and equipment and intangible assets

The tangible and intangible assets with limited useful life are tested for impairment in the presence of any indication that the book value of the asset may not be recovered. The recoverable value is computed with reference to (i) the fair value of the tangible or intangible asset, net of the charges for disposal or (ii) the value in use if determinable and if it is above fair value.

The recoverable value of properties is determined on the basis of an appraisal or index-based valuations. The loss in value is reported only if the fair value less costs to sell, or the value-in-use, is less than the book value. The nature and number of assumptions are elements of uncertainty also for these values and for subsequent verifications. More information on the possible assumptions can be found in Sections 11 and 12 of the "Assets" in the notes to the financial statements.

Assumptions adopted with respect to the provisions of Law Decree 237/2016, converted with amendments to Law no. 15 of 17 February 2017

On 1 August 2017, in compliance with what is set forth in art. 23, paragraph 3 of Law Decree 237, as well as art. 2 of the Burden Sharing Decree issued on 28 July 2017, the AT1 and T2 financial instruments specified in them were converted into ordinary shares of the Bank newly issued at the unit price of EUR 8.65. As a result, 517,099,404 shares were issued for a total value of EUR 4,473 mln, of which 21,511,753 recognised as treasury shares (for a value of EUR 186 mln), as they arose from the conversion of the securities held by the Bank.

Pursuant to the joint provisions of IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" and IAS 39, the difference between the carrying amount of the converted bonds and the fair value of the shares assigned to bondholders was recognised in profit and loss. In particular:

- the subordinated liabilities were derecognised for a carrying amount of EUR 4,353 mln, net of the amounts repurchased over time;
- the share capital increase was recognised for EUR 4,473 mln and treasury shares totalling EUR 186 mln were recognised as a deduction from shareholders' equity;
- the negative difference of EUR 371 mln between the fair value of the shares assigned to bondholders and the carrying amount recognised in the share capital net of treasury shares was debited to the item "Reserves";
- a total positive effect of EUR 633 mln was recognised in profit and loss (EUR +56 mln in interest expenses, EUR +16 mln from conversion into shares of instruments held and classified in the AFS portfolio, EUR +559 mln in gains from the repurchase of financial liabilities and EUR 2 mln from the profit (loss) from financial liabilities measured at fair value).

Correction of errors

The correction of errors is governed by IAS 8 (Accounting policies, changes in accounting estimates and errors). According to this standard, errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements.

When errors are discovered in the period in which the error occurred, they are corrected before the financial statements are authorised for issue.

Material errors that are discovered in a subsequent period with respect to the period in which they occurred, are corrected, when measurable, in the comparative information presented in the financial statements for that subsequent period; material previous period errors shall be corrected in the first set of financial statements authorised for issue after their discovery by retrospectively restating the comparative amounts for previous period(s) presented in which the error occurred or, if the error occurred before the previous periods presented, restating the opening balances of assets, liabilities and net assets/equity for the earliest previous period presented.

A.3 Information on portfolio transfers

A.3.1 Reclassified financial assets: book value, fair value and effects on comprehensive income

Type of financial instrument (1)	Portfolio prior to transfer (2)	Portfolio after transfer (3)	Book value at 31 12 2017 (4)	Fair value at 31 12 2017 (5)	Income components in the absence of transfers (before tax)		Income components reported for the period (before tax)	
					Value-relevance (6)	Other (7)	Value-relevance (8)	Other (9)
UCITS	Trading	Available for sale	-	-	-	(432)	-	(171)
Debt Securities	Trading	Loans to banks	42,522	41,093	153	1,247	(6)	1,368
Debt Securities	Trading	Loans to customers	102,464	82,780	(39,308)	3,419	(275)	2,858
Debt Securities	Available for sale	Loans to banks	643,634	527,497	3,721	(32,977)	(234)	(32,940)
Debt Securities	Available for sale	Loans to customers	184,213	162,621	(1,967)	7,196	(249)	6,984
	Total		**972,833**	**813,991**	**(37,401)**	**(21,547)**	**(764)**	**(21,901)**

In the course of 2008, the Bank applied the amendment "Reclassification of financial assets", which was issued by the IASB to amend IAS 39 and IFRS 7 in October 2008 introducing the possibility of reclassifying portfolios in unusual circumstances such as the crisis that emerged in the markets in the second half of 2008.

This table, which refers exclusively to financial instruments reclassified in the second half of 2008 based on the above-mentioned amendment, reports, in addition to the book values and fair values of reclassified financial instruments as at 31 December 2017, financial results (columns 6 and 7) in terms of "value relevance" and "other" (realised profit/loss and interest), which the same financial instruments would have produced for the Bank in 2017 had they not been transferred in 2008. Columns 8 and 9, on the other hand, contain the profit and loss results in terms of "value relevance" and "other" (realised profit/loss and interest) which the Bank actually posted for these instruments in the course of 2017.

The hypothetical net capital losses (see column 6) of approximately EUR 37.4 mln differ from the negative result actually recorded for 2017 (see column 8) of EUR 0.8 mln, for an overall negative impact of EUR 36.6 mln, due to higher write-downs posted to the income statement for EUR 38.8 mln, and revaluations of approximately EUR 2.2 mln to equity.

By way of completeness, on the back of the reclassification in 2008 of bonds originally classified as AFS financial instruments, the relative negative reserve, for an amount of EUR 186.7 mln, existing on the date of reclassification, was accounted for pursuant to the provisions set out in par. 50F of IAS 39.

In particular, the negative AFS reserve was gradually phased out over a timeframe reflecting the residual life of the underlying securities, measured as a direct reduction of interest income. This negative impact on net interest income was offset by the positive effect of the amortised cost mechanism on securities, which gradually brings the maturity value in line with the nominal value. The residual reserve at the end of 2017 was EUR 5.9 mln.

A.3.2 Reclassified financial assets: effects on comprehensive income

A.3.3 Transfer of financial assets held for trading

A.3.4 Effective interest rate and expected cash flows from reclassified financial assets

Tables A.3.2, A.3.3 and A.3.4 were left blank because no financial assets were transferred during the year.

A.4 – Information on fair value

Qualitative information

A.4.1.a Fair value level 2: measurement techniques and inputs used

Items	Fair value 31 12 2017 – Financial assets held for trading	Financial assets available for sale	Hedging derivatives	Financial liabilities held for trading	Financial liabilities desiganted at fair value	Hedging derivatives	Tyèe	Valuation technique(s)	Inputs used
Debt securities	102	200,433	X	-	415,215	X	Bonds	Discounted Cash Flow	Interest rate curve, CDS curve, Basi(yield), Inflation Curves
							Structured bonds	Discounted Cash Flow	Interest rate curve, CDS curve, Basi(yield), Inflation Curves + inputs necessary to measure optional component
							Bonds	Market price	Market price
Equity insturments	-	9,922	X	X	X	X	Share/Equity Instruments	Market price,* recent transactions, appraisals,	Market price,* recent transactions, appraisals, manager reports
							Equity Instruments	Discounted cash flow	Share price, beta sector, free risk rate
							Equity Instruments	Net asset adjusted	Carring Amount Asset/Liabilities
Units of UCITS	-	74,241	X	X	X	X	Funds/PE	Market price*	Market price*, recent transactions, appraisals, manager reports
Loans	-	-	X	X	X	X			
Deposits	X	X	X	- -	- -	X			
Financial derivatives	896,491	-	333,295	797,919	X	833,623	IR/Asset/Currency Swaps	Discounted Cash Flow	Interest rate curve, CDS Curve, Basi(yield), Inflation Curve, Foreign exchange rates and correlation
							Equity swaps	Discounted Cash Flow	Share price, Interest rate curve, Foreign exchange rates
							Forex Singlename Plain	Option Pricing Model	Share price, Interest rate curve, Foreing exchange rates
							Forex Singlename Exotic	Option Pricing Model	Interest rate curve, Foreing exchange rates, Forex volatility (Surface)
							Equity Singlename Plain	Option Pricing Model	Interest rate curve, share price, Foreing exchange rates, Equity volatility
							Equity Singlename Exotic	Option Pricing Model	Interest rate curve,Share price, Foreing exchange rates, Equity volatility (Surface), Model inputs
							Equity Multiname Plain	Option Pricing Model	Interest rate curve, share price, foreign exchange rates, Equity volatility, Quanto correlation, Equity/Equity correlation
							Equity Multiname Exotic	Option Pricing Model	Interest rate curve, share price, foreign exchange rates, Equity volatility (surface), Model inputs,Quanto correlation, Equity/Equity correlation.
							Tasso Plain	Option Pricing Model	Interest rate curve, inflation curve, bond price, foreign exchange rates, rate volatility, rates Correlation
							Operazioni in valuta	Market prices*	Martket price, Swap point
Credit derivatives	4,588	-	-	4,588	X	-	Default swaps	Discounted Cash Flow	CDS curves, Interest rate curve
Total Assets	901,181	284,596	333,295	X	X	X			
Total Liabilities	X	X	X	802,507	415,215	833,623			

** price for identical financial instruments listed in non-active markets (IFRS 13 par. 82 lett. b)*

A.4.1.b Fair value level 3: measurement techniques and inputs used

items	Fair value 31 12 2017		Type	Valuation technique(s)	Unobservable inputs	Range (weighted average)
	Financial assets held for trading	Financial assets available for sale				
Debt securities	5,314	-	Bonds	Discounted Cash Flow	IRR (Yield)	
	8,358		Financial Instrument	Credit Model	Future cash flows	8.5 €/mln
Equity Instruments	476,694	X	Equity Instruments	Discounted Cash Flow	Liquidity base/Equity Risk Premium/Beta	20%/8%/0.4
			Equity Instruments	Discounted Cash Flow	Liquidity Risk Premium	0,05 €/mln
			Equity Instruments	Cost/Net equity	Fair value asset	0-12.3 €/mln
			Bonds	Credit Model	Credit Data (LGD/PD)	60%/100%
			Convertible Bonds	Credit Model	Fair value asset	22.1 €/mln
Units of UCITS	9,082	X	Side Pocket	External pricing	NAV	0-0.3 €/mln
			Closed end Fund	Adjusted NAV	Fair value asseet	6 €/mln
			Closed real estate fund	Adjusted NAV	Fair value asset	2.3 €/mln
Total Assets	499,448	X				
Total Liabilities	X	-				

A.4.2 Measurement processes and sensitivity

A description of Level 3 instruments that show significant sensitivity to changes in unobservable inputs is provided below.

Within "Financial assets available for sale", the category "Debt securities" includes equity instruments distributed to creditors as part of a loan restructuring operation. In the valuation of securities, assumptions were made regarding the future cash flows generated by the issuer; this parameter was considered not observable and amounts to roughly EUR 8.5 mln.

In the category of "Bonds measured with the Discounted Cash Flow method", placed in the amount of EUR 5.3 mln in "Financial assets available for sale", the unobservable parameter is the overall return on the security. For each percentage point of return, the change in value can be estimated at EUR 0.02 mln.

Equity securities valued according to the Credit Model method essentially include two convertible bonds issued by the Sorgenia S.p.A. group (Sorgenia S.p.A. and Sorgenia S.p.A. Power) following the restructuring of its original debit position toward the Bank. The bonds are valued according to the credit models and the value obtained is not verifiable through market results. Defining the Probability of Default (PD) and the Loss Given Default (LGD) as non-observable parameters, the sensitivity of this position is defined as the loss deriving from the impact on these parameters of a (negative) change in the administrative status of the counterparty and is quantified at approximately EUR 4.5 million.

Equity securities measured using the Discounted Cash Flow method mainly include the Bank of Italy shareholding (EUR 187.5 mln). The shareholding was measured with the methodology identified by the Committee of Experts of the Bank of Italy in the document "Revaluation of shareholdings in the Bank of Italy". This document not only details the valuation techniques adopted to reach the end result, but identifies in the market beta, in the equity risk premium and in the cash flow base to be used for cash flow discounting, the parameters on which to make entity specific assumptions. The valuation of that equity investment is also confirmed in market transactions carried out by certain banks. During valuation, the intervals of the possible values that can be assigned to these parameters cause the following changes in value: roughly EUR -23 mln for every 100 bps increase in the equity risk premium, around EUR -37.5 mln for every 10 percentage point increase in the market beta and roughly EUR -26 mln for every 10 percentage point increase in the cash flow base.

Within the same category, mention goes to the nearly total write-down of the contribution to the IDPF Voluntary Scheme, with the residual balance sheet amount valued at approximately EUR 2.1 mln.

Equity securities valued at cost/net equity include all investments designated at fair value that could not be measured according to a market-based model. These positions amount to approx. EUR 74 mln.

The sensitivity to the non-observable parameter in the valuation of the equity instruments of Perimetro Gestioni Proprietà Immobiliari S.c.p.A., or the liquidity risk premium, came to approximately EUR -21 mln for each percentage point.

The units of UCITS measured with external pricing are Hedge Fund side pockets, whose price quotes by the asset management companies are deemed non-verifiable. For this reason, the sensitivity of these positions is considered to be equal to their entire book value (approx. EUR 0.7 mln).

This category also includes the total contributions to the Italia Recovery Fund (formerly Atlante II Fund) for approx. EUR 6 mln. The value of this last position takes into account the residual assets of the fund after the write-off of the two main equity investments in the fund's assets (BPVI and Veneto Banca). The same category continues to include a position of approx. EUR 2.3 mln in the Rainbow Reserved Closed-end real estate investment fund by way of "datio in solutum" as part of a loan restructuring operation.

A.4.3 Fair value hierarchy

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions.

The fair value of financial instruments listed in active markets is determined by using quoted market prices; quoted market prices for similar instruments or internal valuation models are used for other financial instruments.

Financial instruments are classified in three different levels according to the reliability of the inputs used during measurement.

The methods for classifying financial instruments in the three-level fair value hierarchy are shown below.

Level 1

This level shall include financial instruments measured using unadjusted quoted prices in active markets for identical instruments.

IFRS 13 defines an active market as a market in which transactions take place with sufficient frequency and volume to provide information on an ongoing basis. A financial instrument is quoted in a financial market when:

- the quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, authorised body or regulatory agency;
- the quoted prices represent actual and regularly occurring market transactions on an arm's length basis.

If the quoted prices meet these criteria, they represent the best estimation of fair value and must be used to measure the financial instrument.

From the definition of active market set out in IFRS 13 it is inferred that the active market concept is particular to the individual financial instrument being measured and not to the market on which it is listed; the fact that a financial instrument is quoted in a regulated market is therefore not in itself sufficient for the aforementioned instrument to be defined as listed in an active market. Conversely, a financial instrument that is not traded in a regulated market may present sufficient frequency and volumes for it to be classified in level 1 of the fair value hierarchy.

Levels 2 and 3

Financial instruments not listed in an active market must be classified in level 2 or 3.

Classification in level 2 rather than level 3 is determined on the basis of market observability of the significant inputs used to determine fair value. A financial instrument must be fully classified in a single level; if inputs belonging to different levels are used for the purpose of measuring an instrument, the aforementioned instrument is classified based on the lowest level of input that is significant to the fair value measurement.

An instrument is classified in level 2 if all significant inputs are directly or indirectly observable on the market. An input is observable if it reflects the same assumptions used by market participants, based on independent market data.

Level 2 inputs are as follows:

a) quoted prices on active markets for similar assets or liabilities;
b) quoted prices for the instrument in question or for similar instruments on non-active markets, i.e. markets where:
    - there are few transactions;

  - the prices are not current or they vary substantially over time and between the different market makers
  - little information is made public;

c) observable market inputs other than quoted prices (e.g. interest rates or yield curves observable in different buckets, volatility, credit curves, etc.);
d) inputs that derive primarily from observable market data, the reporting of which is confirmed by parameters such as correlation.

A financial instrument is classified in level 3 if the measurement techniques adopted use non-observable market inputs and their contribution to estimating fair value is deemed significant.

All financial instruments not listed in active markets are classified in level 3 where:

- despite having observable data available, significant adjustments based on non-observable data are required;
- the estimate is based on internal assumptions on future cash flows and risk adjustment of the discount curve.

It should also be noted that -regardless of whether measurement techniques adopted use non-observable market inputs- the Bank deemed it appropriate and prudential to have Level 3 of the Fair Value hierarchy include any instruments not listed in active markets that are complex by their financial structure or for which there is no clear measurement method recognised as standard in the market and adjustable based on observable prices of comparable structures.

This applies, for example, to assets in the structured credit category not listed in an active market. Although, in some cases, this category could avail itself of appropriate measurement models that make use of observable market inputs (e.g. credit default swap curves) or quotations by primary counterparties, the lack of a liquid market on correlations in the wake of the financial crisis made it necessary to use subjective estimates. Given the complexity of these structures, the Bank decided to classify these instruments in level 3, in the absence of an active market, regardless of the observability of input parameters significant for their mark-to-model measurement.

The processes used to measure level 3 instruments are based on a shared analysis of the types of instruments and underlying risk parameters by the Bank's Business functions and Risk Management. The analysis is completed with the formulation of a pricing model and/or a model for determination of non-observable market inputs which is subject to final validation by Risk Management. At different time intervals depending on the type of instruments (though commonly on a monthly basis) on the back of directly observable market inputs, the Bank's Business functions proceed with determining the non-observable market inputs and measuring instruments of level 3. The Risk Management function, based on a shared methodological approach, proceeds with the final validation of fair value. In support of this activity and with a view to ensuring an adequate level of auditability, assessment data sheets have been introduced and are updated on a six-monthly basis for individual instruments classified in level 3, which contain a brief description of the instrument, pricing methods adopted and details about inputs used for fair value measurement.

As for fair value transfers between different levels, it is noted that the Bank has set some rules to determine whether a financial instrument is level 1 or 3; level 2 is determined as residual way. When an instrument no longer meets the conditions for classification in level 1 or 3, a new level is determined.

A.4.4 Other information

With reference to par. 93 let. (i) of IFRS 13, note that the Bank does not hold non-financial assets designated at fair value on a recurring and non-recurring basis.

With reference to par. 96 of IFRS 13, the Bank does not apply the portfolio exception provided for in par. 48 of IFRS 13.

Quantitative Information

A.4.5 Fair value hierarchy

A.4.5.1 Assets and liabilities designed at fair value on a recurring basis: breakdown by fair value level.

Asset and liabilities measured at fair value	31 12 2017				31 12 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
1. Financial assets held for trading	117	901,181	-	901,298	2,705	1,414,676	-	1,417,381
3. Financial assets available for sale	14,236,701	284,596	499,448	15,020,745	15,464,837	253,447	555,702	16,273,986
4. Hedging derivative	-	333,295	-	333,295	-	546,173	-	546,173
Total	**14,236,818**	**1,519,072**	**499,448**	**16,255,338**	**15,467,542**	**2,214,296**	**555,702**	**18,237,540**
1. Financial liabilities held for trading	-	802,507	-	802,507	-	1,296,326	-	1,296,326
2. Financial liabilities designated at fair value	-	415,215	-	415,215	-	1,468,565	228,125	1,696,690
3. Hedging derivative	-	833,623	-	833,623	-	1,206,200	-	1,206,200
Total	**-**	**2,051,345**	**-**	**2,051,345**	**-**	**3,971,091**	**228,125**	**4,199,216**

The financial instruments measured at fair value and classified in level 3 of the hierarchy consist of instruments not listed in active markets, valued using the mark-to-model approach, for which input data include, inter alia, non-observable market data significant for measurement purposes or observable market data that requires significant adjustment based on non-observable data, or that requires internal assumptions and estimations of future cash flows.

Additional information on level 3 financial instruments can be found in the comments under the tables for the individual balance sheet items concerned.

The fair value of some financial assets, particularly the bonds for EUR 57 mln, worsened during the year from level 1 to level 2. This level transfer is essentially due to worsening of the liquidity conditions of the securities (measured in terms of bid-ask spread of the listed price) which allowed this reclassification, in accordance with the Group's policy on the valuation of financial instruments.

With respect to the financial instruments that improved from fair value level 2 to level 1, this trend involved bonds for a total of EUR 43 mln. The change in the fair value level during the year is essentially linked to the improvement in the securities' liquidity conditions (measured in terms of bid-ask spread of the listed price) which allowed this level transfer in accordance with the Group's policy on the valuation of financial instruments.

As for OTC derivatives, in compliance with IFRS 13, the Bank calculates adjustments to values, obtained through valuation models using risk-free interest rates, to take account of the creditworthiness of the individual counterparty. This risk measure, known as Credit Value Adjustment (CVA), is estimated for all OTC derivative positions with non-collateralised institutional and retail counterparties. The methodology is based on the calculation of expected operational loss linked to counterparty rating and estimated on a position's duration. The exposure includes future credit variations represented by add-ons. Market-consistent probability measurements are employed in the calculation of CVAs in order to gauge market expectations resulting from CDS prices without, however, losing the historical information available within the Bank.

The impact of the CVA as at 31 December 2017 amounted to EUR -25.7 mln.

The Bank calculates the value adjustment of OTC derivatives in a mirror image fashion and on the same perimeter to take into account its creditworthiness, Debit Value Adjustment (DVA). As at 31 December 2017, the DVA amounts to a total of EUR 4.1 mln.

Additional information on level 3 financial instruments can be found in the comments under the tables for the individual balance sheet items concerned.

A.4.5.2 Annual changes of financial assets designated at fair value on a recurring basis (level 3)

	31 12 2017
	Financial assets available for sale
1. Opening balance	**555,702**
2. Increases	**225,777**
2.1 Purchase	98,290
2.2 Profit posted to:	92,247
2.2.1 Profit and Loss	-
- of which capital gains	-
2.2.2 Equity	92,247
2.3 Transfers from other levels	6,828
2.4 Other increases	28,412
3. Decreases	**282,031**
3.1 Sales	7,850
3.2 Redemptions	-
3.3 Losses posted to:	87,790
3.3.1 Profit and Loss	85,457
- of which capital losses	85,457
3.3.2 Equity	2,333
3.4 Transfers to other levels	-
3.5 Other decreases	186,391
4. Closing balance	**499,448**

The amount shown in the column “Financial assets available for sale” under item “2.1 Purchases”, equal to EUR 98.3 mln, includes EUR 36.8 mln for the Sorgenia Power equity instrument and EUR 32.1 mln for the contribution to the IDPF Voluntary Scheme.
The amount shown in the same column under item “2.3 Transfers from other levels” totalling EUR 6.8 mln includes EUR 5.3 mln in Debt Securities issued by the company AXA-MPS, previously classified under level 2 and measured through valuation techniques that are not market oriented but based on other non-market values, according to what is set forth in the internal policy on the matter. The amount shown in the line “2.4 Other increases” and “3.5 Other decreases” refer mainly to the operation of conversion of subordinated securities, as set by Law Decree n. 237 of 23 December 2016 (*burden sharing*).

Lastly, the amount shown in the same column alongside item “3.3 Losses”, amounting to EUR 87.8 mln, is primarily associated with the svaluation during the year of the investee in Voluntary Scheme for EUR 44.7 mln and Atlante Fund for EUR 29.8 mln.

A.4.5.3 Annual changes of financial liabilities designated at fair value on a recurring basis (level 3)

31 12 2017

	Financial liabilities designated at fair value
1. Opening balance	**228,125**
2.Increases	**13,564**
2.1 Issues	-
2.2 Losses posted to	13,564
2.2.1 Profit and Loss	-
- of which capital losses	-
2.2.2 Equity	13,564
2.3 Transfers from other levels	-
2.4 Other increases	-
3. Decreases	**241,689**
3.1 Redemptions	-
3.2 Repurchases	-
3.3 Profit posted to:	-
3.3.1 Profit and Loss	-
- of which capital gains	-
3.3.2 Equity	-
3.4 Transfers from other levels	-
3.5 Other decreases	241,689
4. Closing balance	**-**

The amount in the column "liabilities designated at fair value" under item "3.5 Other decreases" totalling EUR 241.7 mln refers to a subordinated issue of the Group, subject to conversion pursuant to Law Decree n. 237 of 23 December 2016 (burden sharing).

Item "2.2.2 Losses allocated to equity", equal to EUR 13.6 mln, includes the accounting effect of early application of IFRS 9, for the portion relative to recognition of the changes in creditworthiness of the fair value option liabilities.

A.4.5.4 Assets and liabilities not designated at fair value or designated at fair value on a non-recurring basis: breakdown by fair value level

Financial assets/liabilities not designated at fari value or designated at fair value on a non-recurring basis	31 12 2017				
	Book value	Level 1	Level 2	Level 3	Total Fair value
1.Financial assets held to maturity	-	-	-	-	-
2. Loans to bank	24,927,358	32,970	24,825,754	3,363	24,862,087
3. Loans to customers	71,473,544	127,653	1,399,068	72,881,568	74,408,289
4. Property, plant and equipment held for investment	235,477	-	-	265,018	265,018
5. Non-current assets and groups of assets held for sale	3,600,131	-	-	3,590,469	3,590,469
Total assets	**100,236,510**	**160,623**	**26,224,822**	**76,740,418**	**103,125,863**
1. Deposits from banks	26,675,292	-	26,675,292	-	26,675,292
2. Deposits from customers	66,718,245	-	66,718,245	-	66,718,245
3. Debt securities issued	19,953,640	14,304,129	5,951,841	-	20,255,970
Total liabilities	**113,347,177**	**14,304,129**	**99,345,378**	**-**	**113,649,507**

The amount stated in the line "Non-current assets and groups of assets held for sale and discontinued operations", equal to EUR 3,600.1 mln, refers primarily to receivables associated with the transfer of doubtful loans (for more details, please see the section of the Consolidated Report on Operations). The aggregate includes a further EUR 9.6 mln predominantly referring to land received by the Bank following credit recovery transactions, for a total of approx. EUR 5.1 mln, and properties for business use for approx. EUR 4.1 mln.
For non-performing exposures classified in fair value hierarchy level 3, it is assumed that the book value represents a reasonable approximation of the fair value of the loans themselves. This assumption is supported by the scenario according to which calculation of the fair value is impacted by the recovery expectations, determined through a subjective valuation by the manager, except for those reclassified under the item "5. Non-current assets and groups of assets held for sale and discontinued operations", for which the fair value is equal to the disposal price (or net book value). The discounting rate applied, where present, is that set forth in the contract, as the low liquidity and competition of the non-performing loans market does not make it possible to survey observable market premiums.

Likewise, the fair value of non-performing loans, also mostly classified in level 3, is based on models that use predominantly non-observable inputs (e.g., internal risk parameters).

Given the above, and also due to the absence of a secondary market, the fair value recognised in the financial statements for disclosure purposes only could vary significantly from any future sale prices.

Financial assets/liabilities not designated at fari value or designated at fair value on a non-recurring basis	31 12 2016				
	Book value	Level 1	Level 2	Level 3	Total Fair value
2. Loans to bank	31,708,835	52,546	31,164,757	955	31,218,258
3. Loans to customers	85,043,671	154,817	1,503,962	86,492,921	88,151,700
4. Property, plant and equipment held for investment	233,301	-	-	262,649	262,649
5. Non-current assets and groups of assets held for sale	55,355	-	17,921	1,129	19,050
Total assets	**117,041,162**	**207,363**	**32,686,640**	**86,757,654**	**119,651,657**
1. Deposits from banks	40,787,367	-	40,787,367	-	40,787,367
2. Deposits from customers	69,362,615	-	69,366,869	-	69,366,869
3. Debt securities issued	20,981,532	-	16,047,571	3,756,211	19,803,782
4. Liabilities associated to disposal groups held for sale	10,402	-	-	-	-
Total liabilities	**131,141,916**	**-**	**126,201,807**	**3,756,211**	**129,958,018**

A.5 Information on "day one profit/loss"

The Bank did not generate day one profit/loss from financial instruments pursuant to paragraph 28 of IFRS 7 and other related IAS/IFRS paragraphs.

Part B – Information on the balance sheet

ASSETS

LIABILITIES

ASSETS

Section 1 – Cash and cash equivalents – Item 10

1.1 Cash and cash equivalents: breakdown

	Total 31 12 2017	Total 31 12 2016
a) Cash	998,678	854,621
b) Demand deposits with central banks	3,085,270	214,984
Total	**4,083,948**	**1,069,605**

The line "Demand deposits with central banks" does not include the compulsory reserve, which is shown under Assets in Item 60 "Loans to banks"".

Section 2 – Financial assets held for trading – Item 20

2.1 Financial assets held for trading: breakdown

Items/Amounts	Total 31 12 2017				Total 31 12 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
A.Balance sheet assets								
1. Debt securities	10	102	-	112	2,620	106	-	2,726
1.1 Structured securitie	-	-	-	-	-	-	-	-
1.2 Other debt securiti	10	102	-	112	2,620	106	-	2,726
2. Equity instruments	102	-	-	102	80	-	-	80
3. Units of UCITS	5	-	-	5	5	-	-	5
4. Loans	-	-	-	-	-	-	-	-
4.1 Reverse repurchase	-	-	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-	-	-
Total (A)	**117**	**102**	**-**	**219**	**2,705**	**106**	**-**	**2,811**
B. Derivatives								
1. Financial derivatives:	-	896,491	-	896,491	-	1,396,957	-	1,396,957
1.1 held for trading	-	798,662	-	798,662	-	1,251,639	-	1,251,639
1.2 fair value option	-	97,829	-	97,829	-	145,318	-	145,318
1.3 other	-	-	-	-	-	-	-	-
2. Credit derivatives:	-	4,588	-	4,588	-	17,613	-	17,613
2.1 held for trading	-	4,588	-	4,588	-	17,613	-	17,613
2.2 fair value option	-	-	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-	-	-
Total (B)	**-**	**901,079**	**-**	**901,079**	**-**	**1,414,570**	**-**	**1,414,570**
Total (A+B)	**117**	**901,181**	**-**	**901,298**	**2,705**	**1,414,676**	**-**	**1,417,381**

Criteria adopted for classification of financial instruments in the three levels of the "fair value hierarchy" are reported in Section A.4, "Fair value disclosure" of Part A, "Accounting policies" of the notes to the consolidated financial statements, which should therefore be referred to.

As a result of the provisions set out in IAS 39 with regard to the derecognition of financial assets, line 1.2 "Cash assets - Other debt securities" also includes debt securities pledged in repos and securities lending transactions carried out in respect of own securities posted to the trading portfolio.

At the reporting date, the aggregate does not include senior, mezzanine and junior exposures assumed by the Bank with reference to own and third party securitisation transactions.

Derivatives connected with fair value option instruments are also classified as derivative instruments: these cover the risks of funding designated at fair value arising from possible interest rate fluctuations and from any embedded options in fixed-rate and structured bonds issued by the Bank (natural and systematic hedging). The positive fair value of these derivatives is shown in the table in line "B.1-1.2 – Fair value option".

By convention, such derivatives are classified in the trading book. In terms of their representation in the income statement, they comply with rules similar to the rules applicable to hedging derivatives: positive and negative spreads or margins settled or accrued until the balance sheet date are recognised as interest income and expense, while valuation profits and losses are posted under item 110 of the profit and loss statement, "Net profit (loss) from financial assets and liabilities designated at fair value", in compliance with representations used for funding instruments that adopted the fair value option.

2.2 Financial assets held for trading: breakdown by borrower/issuer

Items/Amounts	Total 31 12 2017	Total 31 12 2016
A. Balance sheet assets		
1. Debt securities	112	2,726
a) Governments and Central banks	-	1
b) Other public entities	-	-
c) Banks	-	2,610
d) Other issuers	112	115
2. Equity instruments	102	80
a) Banks	7	3
b) Other issuers:	95	77
- insurance companies	4	3
- financial companies	11	4
- non-financial companies	80	70
- other	-	-
3. Units of UCITS	5	5
4. Loans	-	-
a) Governments and Central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other entities	-	-
Total (A)	**219**	**2,811**
B. Derivatives	-	-
a) Banks	694,971	1,120,647
b) Customers	206,108	293,923
Total (B)	**901,079**	**1,414,570**
Total (A+B)	**901,298**	**1,417,381**

The breakdown by borrower/issuer was carried out in accordance with criteria of classification by economic activity group and sector laid down by the Bank of Italy.

2.2.a Units of UCITS: Breakdown by main categories

Categories/Amounts	Total 31 12 2017	Total 31 12 2016
Equity	5	5
Other	-	-
Total	**5**	**5**

The table adds details to line "A.3. Units of UCITS" of table 2.2 above.

Section 3 – Financial assets designated at fair value – Item 30

The tables for this section were not completed since the Group has no financial assets designated at fair value to report for either the current or previous year.

Section 4 - Financial assets available for sale – Item 40

4.1 Financial assets available for sale: breakdown

Items/Amounts	Totale 31 12 2017				Totale 31 12 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
1. Debt securities	14,232,447	200,433	13,672	14,446,552	15,458,906	108,887	158,882	15,726,675
1.1 Structured securities	-	-	-	-	-	-	-	-
1.2 Other debt securities	14,232,447	200,433	13,672	14,446,552	15,458,906	108,887	158,882	15,726,675
2. Equity instruments	4,254	9,922	476,694	490,870	5,931	9,120	368,942	383,993
2.1 Designated at fair value	4,254	9,922	476,694	490,870	5,931	9,120	368,916	383,967
2.2. Carried at cost	-	-	-	-	-	-	26	26
3. Units of UCITS	-	74,241	9,082	83,323	-	135,440	27,878	163,318
4. Loans	-	-	-	-	-	-	-	-
Total	**14,236,701**	**284,596**	**499,448**	**15,020,745**	**15,464,837**	**253,447**	**555,702**	**16,273,986**

The portfolio of AFS financial assets includes:

a) bonds and UCITS not held for trading;

b) equity investments with shareholding lower than controlling or associate interests.

As a result of the provisions set out in IAS 39 for the derecognition of financial assets, line 1.2 also includes debt securities committed in repos (liabilities) and securities lending transactions carried out for own securities posted to the available-for-sale portfolio.

The sub-item "2.1 Equity instruments - measured at the fair value" includes investments in the Voluntary Scheme (qualified at level 3) for an amount of EUR 2.1 million, originally recognised for a total of EUR 51.5 million (written down by a total of EUR 49.4 million).

The sub-item "3 Units of UCITS" contains the investment in the shares of the Atlante Fund (level 3 column) for a value of EUR 6.1 million, following total write-downs equal to EUR 39.9 million.

At the reporting date, the aggregate does not include senior, mezzanine and junior exposures assumed by the Bank with reference to own and third party securitisation transactions.

4.2 Financial assets available for sale: breakdown by borrower/issuer

Items/Amounts	Total 31 12 2017	Total 31 12 2016
1. Debt securities	**14,446,552**	**15,726,675**
a) Governments and Central banks	13,624,238	15,015,819
b) Other public entities	4,165	4,127
c) Banks	276,430	161,675
d) Other issuers	541,719	545,054
2. Equity instruments	**490,870**	**383,993**
a) Banks	207,194	229,256
b) Other issuers:	283,676	154,737
- insurance companies	-	404
- financial companies	29,128	26,634
- non-financial companies	254,548	127,699
- other	-	-
3. Units of UCITS	**83,323**	**163,318**
4. Loans	**-**	**-**
a) Governments and Central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other entities	-	-
Total	**15,020,745**	**16,273,986**

4.2.a Units of UCITS: breakdown by main categories

Categories/Amounts	Total 31 12 2017	Total 31 12 2016
Hedge Funds	667	8,681
Private Equity	78,050	151,488
Real estate	4,606	3,149
Total	**83,323**	**163,318**

The table adds details to line "3 Units of UCITS" of table 4.1 above.

4.2.b Equity securities issued by entities classified as doubtful or unlikely to pay

Categories/Amounts	Total 31 12 2017	Total 31 12 2016
Equity securities issued by entities with doubtful status		
Gross exposure	43,742	17,394
Cumulative writedowns	31,376	17,394
of which: Writedowns for the period	-	-
Net exposure	12,366	-
Equity securities issued by parties with substandard status		
Gross exposure	148,922	131,324
Cumulative writedowns	86,938	101,747
of which: Writedowns for the period	*5,458*	*18,182*
Net exposure	61,984	29,577
Total Net exposure	**74,350**	**29,577**

The main cumulative write-downs relating to equity securities issued by entities classified as unlikely to pay regard:

- Sorgenia S.p.A. (EUR 43.6 mln);
- CISFI S.p.A. (EUR 10.9 mln);
- RCR S.p.A. (EUR 9.5 mln);
- Compagnia Investimento e Sviluppo (EUR 3.8 mln);
- Targetti Holding S.p.A. (EUR 3.7 mln);
- Aedes Società di Investimento S.p.A. (EUR 5.8 mln).

The main write-downs recognised during the year regard:

- Sorgenia S.p.A. (EUR 3.0 mln);
- Porto Industriale di Livorno S.p.A. (EUR 1.4 mln);
- Centro Agroalimentare di Napoli (EUR 0.5 mln).

4.3 Financial assets available for sale: micro-hedged assets

Items/Amounts	Total 31 12 2017	Total 31 12 2016
1. Financial assets subject to micro-hedging of fair value	**4,159,523**	**3,948,514**
a) interest rate risk	4,159,523	3,948,514
b) price risk	-	-
c) foreign exchange risk	-	-
d) credit risk	-	-
e) multiple risks	-	-
2. Financial assets subject to micro-hedging of cash flows	**-**	**-**
a) interest rate risk	-	-
b) foreign exchange risk	-	-
c) other	-	-
Total	**4,159,523**	**3,948,514**

Section 5 – Financial assets held to maturity – Item 50

The tables for this section were not completed since the Bank has no financial assets held to maturity to report for either the current or previous year.

Section 6 – Loans to banks – Item 60

6.1 Loans to banks: breakdown

Type of transaction/Amount	Total 31 12 2017				
	Book value	Fair Value			
		Level 1	Level 2	Level 3	Total
A. Loans to central banks	**3,631,339**	**-**	**3,631,339**	**-**	**3,631,339**
1. Time deposits	20,000	X	X	X	X
2. Compulsory reserve	3,611,339	X	X	X	X
3. Reverse repurchase agreements	-	X	X	X	X
4. Other	-	X	X	X	X
B. Loans to banks	**21,296,019**	**32,970**	**21,194,415**	**3,363**	**21,230,748**
1. Loans	20,105,805	-	20,104,907	3,363	20,108,270
1.1 Current accounts and demand deposits	1,646,450	X	X	X	X
1.2 Time deposits	13,821,950	X	X	X	X
1.3 Other loans:	4,637,405	X	X	X	X
- Reverse repurchase agreements	3,373,146	X	X	X	X
- Finance leases	-	X	X	X	X
- Other	1,264,259	X	X	X	X
2. Debt securities	1,190,214	32,970	1,089,508	-	1,122,478
2.1 Securities	-	X	X	X	X
2.2 Other debt securities	1,190,214	X	X	X	X
Total	**24,927,358**	**32,970**	**24,825,754**	**3,363**	**24,862,087**

At the reporting date, the item includes non-performing loans for an amount of EUR 3.4 mln (EUR 1.0 mln as at 31 December 2016).

'Banks' also includes international entities of a banking nature subjected to zero weighting in accordance with prudential supervisory regulations on the standardised approach to counterparty and credit risk.

The portfolio of "Loans to banks" includes loans and deposits, in addition to the unrestricted part of the compulsory legal reserve with the Bank of Italy which, at year end, amounted to EUR 3,611.3 mln (EUR 3,566.6 mln as at 31 December 2016). In accordance with regulations on average maintenance levels, the end-of-period balance of the compulsory reserve may be subject to substantial changes in relation to the Bank's contingent cash flow requirements.

Sub-item "B.1.3 Other loans – Other", totalling EUR 1,264.3 mln includes security deposits of approximately EUR 1,037.6 mln.

At the reporting date, the aggregate does not include senior, mezzanine and junior exposures assumed by the Bank with reference to own and third party securitisation transactions.

Type of transaction/Amount	Total 31 12 2016				
	Book value	Fair Value			
		Level 1	Level 2	Level 3	Total
A. Loans to central banks	**3,586,601**	**-**	**3,586,601**	**-**	**3,586,601**
1. Time deposits	20,000	X	X	X	X
2. Compulsory reserve	3,566,601	X	X	X	X
3. Reverse repurchase agreements	-	X	X	X	X
4. Other	-	X	X	X	X
B. Loans to banks	**28,122,234**	**52,546**	**27,578,156**	**955**	**27,631,657**
1. Loans	26,769,241	-	26,771,866	955	26,772,821
1.1 Current accounts and demand deposits	1,971,599	X	X	X	X
1.2 Time deposits	15,719,242	X	X	X	X
1.3 Other loans:	9,078,400	X	X	X	X
- Reverse repurchase agreements	7,367,360	X	X	X	X
- Finance leases	-	X	X	X	X
- Other	1,711,040	X	X	X	X
2. Debt securities	1,352,993	52,546	806,290	-	858,836
2.1 Securities	-	X	X	X	X
2.2 Other debt securities	1,352,993	X	X	X	X
Total	**31,708,835**	**52,546**	**31,164,757**	**955**	**31,218,258**

6.2 Loans to banks subject to micro-hedging

Type of transaction/Amount	Total 31 12 2017	Total 31 12 2016
1. Loans subject to micro-hedging of fair value	**730,138**	**837,471**
a) interest rate risk	418,691	488,732
b) exchange risk	311,447	348,739
c) credit risk	-	-
d) multiple risks	-	-
2. Loans subject to micro-hedging of cash flows	**-**	**-**
a) interest rate risk	-	-
b) foreign exchange risk	-	-
c) other	-	-
Total	**730,138**	**837,471**

6.3 Finance leases

This table was not compiled since the Bank had no finance leases with banking counterparties to report for either the period under review or the previous year.

Section 7 – Loans to customers – Item 70

7.1 Loans to customers: breakdown

Type of transaction Amount	31 12 2017							
	Book value				Fair value			
	Performing	Non-performing		Total	Level 1	Level 2	Level 3	Total
		Purchased	Others					
Transactions	**62,648,925**	**486**	**7,771,262**	**70,420,673**	**-**	**528,227**	**72,842,949**	**73,371,176**
1. Current accounts	5,820,071	95	1,650,166	7,470,332	X	X	X	X
2. Reverse repurchase agreements	124,737	-	-	124,737	X	X	X	X
3. Mortgages	41,459,179	71	4,476,654	45,935,904	X	X	X	X
4. Credit cards, personal loans and fifth-of-salary backed loans	976,943	-	128,319	1,105,262	X	X	X	X
5. Financial leasing	-	-	-	-	X	X	X	X
6. Factoring	-	-	-	-	X	X	X	X
7. Other transactions	14,267,995	320	1,516,123	15,784,438	X	X	X	X
Debt securities	**1,052,871**	**-**	**-**	**1,052,871**	**127,653**	**870,841**	**38,619**	**1,037,113**
8. Structured securities	-	-	-	-	X	X	X	X
9. Other debt securities	1,052,871	-	-	1,052,871	X	X	X	X
Total	**63,701,796**	**486**	**7,771,262**	**71,473,544**	**127,653**	**1,399,068**	**72,881,568**	**74,408,289**

'Loans to customers' also includes operating receivables other than those connected with the payment for the supply of non-financial goods and services, which are posted to “Other assets” in account 150 of the Assets.

According to the Bank of Italy's definitions, the “Non-performing” column, broken down into “Purchased” and “Others”, includes doubtful, unlikely to pay and loans more than 90 days past due, recognised net of impairment losses. Details of these exposures can be found in Part E “Information on risks and hedging policies” of the notes to the financial statements (Section A “Credit Quality”).

Please note that, on the basis of what is set forth in the Restructuring Plan and in line with the terms of the agreements entered into with Quaestio Capital SGR S.p.A., the Bank completed a transfer through securitisation of a set of credit exposures classified as doubtful, for a net book value of EUR 3,566.6 million. Pursuant to IFRS 5, this portfolio was reclassified to item “140. Non-current assets and groups of assets held for sale and discontinued operations”, given that the derecognition will be carried out by the end of June 2018 (for further details, please refer to the section “The doubtful loan disposal transaction” of the Consolidated Report on Operations). In addition, pursuant to IFRS 5, EUR 23.6 mln in receivables were reclassified (transfer completed in the early months of 2018).

Line “9. Other debt securities”, amounting to EUR 1,052.8 mln, includes a junior exposure relating to the Casaforte securitisation for EUR 2.8 mln and other bonds issued by regional public bodies, e.g. municipal bonds (it.: buoni ordinari comunali, BOC).

Type of transaction Amount	31 12 2016							
	Book value				Fair value			
	Performing	Non-performing		Total	Level 1	Level 2	Level 3	Total
		Purchased	Others					
Transactions	**68,309,533**	**15,662**	**15,462,060**	**83,787,255**	**-**	**404,854**	**86,490,113**	**86,894,967**
1. Current accounts	6,447,130	3,094	3,349,138	9,799,362	X	X	X	X
2. Reverse repurchase agreements	950,767	-	-	950,767	X	X	X	X
3. Mortgages	43,838,389	7,418	9,028,460	52,874,267	X	X	X	X
4. Credit cards, personal loans and fifth-of-salary backed loans	1,369,099	-	145,464	1,514,563	X	X	X	X
5. Financial leasing	-	-	-	-	X	X	X	X
6. Factoring	-	-	335	335	X	X	X	X
7. Other transactions	15,704,148	5,150	2,938,663	18,647,961	X	X	X	X
Debt securities	**1,256,416**	**-**	**-**	**1,256,416**	**154,817**	**1,099,108**	**2,808**	**1,256,733**
8. Structured securities	-	-	-	-	X	X	X	X
9. Other debt securities	1,256,416	-	-	1,256,416	X	X	X	X
Total	**69,565,949**	**15,662**	**15,462,060**	**85,043,671**	**154,817**	**1,503,962**	**86,492,921**	**88,151,700**

7.2 Loans to customers: breakdown by borrower/issuer

Type of transaction/Amount	31 12 2017			
	Performing	Non-performing		Total
		Purchased	Others	
1. Debt securities:	**1,052,870**	**-**	**-**	**1,052,870**
a) Governments	142,038	-	-	142,038
b) Other public entities	190,743	-	-	190,743
c) Other issuers	720,089	-	-	720,089
- non-financial companies	70,021	-	-	70,021
- financial companies	219,956	-	-	219,956
- insurance companies	430,112	-	-	430,112
- other	-	-	-	-
2. Loans to:	**62,648,925**	**486**	**7,771,262**	**70,420,673**
a) Governments	507,092	-	383	507,475
b) Other public entities	1,732,074	-	143,949	1,876,023
c) Other entities	60,409,759	486	7,626,930	68,037,175
- non-financial companies	29,407,488	452	5,755,016	35,162,956
- financial companies	4,087,986	-	202,801	4,290,787
- insurance companies	68	-	3	71
- other	26,914,217	34	1,669,110	28,583,361
Total	**63,701,795**	**486**	**7,771,262**	**71,473,543**

Type of transaction/Amount	31 12 2016			
	Performing	Non-performing		Total
		Purchased	Others	
1. Debt securities:	**1,256,416**	**-**	**-**	**1,256,416**
a) Governments	149,176	-	-	149,176
b) Other public entities	224,225	-	-	224,225
c) Other issuers	883,015	-	-	883,015
- non-financial companies	70,037	-	-	70,037
- financial companies	357,689	-	-	357,689
- insurance companies	455,289	-	-	455,289
- other	-	-	-	-
2. Loans to:	**68,309,533**	**15,662**	**15,462,060**	**83,787,255**
a) Governments	593,602	-	264	593,866
b) Other public entities	1,861,646	-	279,221	2,140,867
c) Other entities	65,854,285	15,662	15,182,575	81,052,522
- non-financial companies	32,850,740	14,308	11,915,027	44,780,075
- financial companies	4,764,406	-	393,851	5,158,257
- insurance companies	106	-	4	110
- other	28,239,033	1,354	2,873,693	31,114,080
Total	**69,565,949**	**15,662**	**15,462,060**	**85,043,671**

7.3 Loans to customers: micro-hedged assets

Type of transaction/Amount	Total 31 12 2017	Total 31 12 2016
1. Loans subject to micro-hedging of fair value	**297,292**	**380,059**
a) interest rate risk	297,292	380,059
b) exchange risk	-	-
c) credit risk	-	-
d) multiple risks	-	-
2. Loans subject to micro-hedging of cash flows	**50,069**	**50,095**
a) interest rate risk	50,069	50,095
b) foreign exchange risk	-	-
c) other	-	-
Total	**347,361**	**430,154**

7.4 Finance leases

This table was not compiled since the Bank had no finance leases to report for either the period under review or the previous year.

Section 8 – Hedging derivatives – Item 80

8.1 Hedging derivatives: breakdown by type of contract and underlying asset

	Fair value as at 31 12 2017				NV as at 31 12 2017
	Level 1	Level 2	Level 3	Total	
A. Financial derivatives	**-**	**333,295**	**-**	**333,295**	**11,384,825**
1) Fair value	-	156,943	-	156,943	10,411,517
2) Cash flows	-	176,352	-	176,352	973,308
3) Foreign investments	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-
2) Cash flows	-	-	-	-	-
Total	**-**	**333,295**	**-**	**333,295**	**11,384,825**

Legend

NV = Nominal or Notional Value

The table displays the positive book value (fair value) of hedging derivatives for hedges carried out through hedge accounting. Information on the underlying strategies and objectives of hedge transactions can be found in the Section “Market risks” of Part E “Information on Risks and hedging policies”.

	Fair value as at 31 12 2016				NV as at 31 12 2016
	Level 1	Level 2	Level 3	Total	
A. Financial derivatives	**-**	**546,173**	**-**	**546,173**	**16,814,305**
1) Fair value	-	328,276	-	328,276	15,765,206
2) Cash flows	-	217,897	-	217,897	1,049,099
3) Foreign investments	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-
2) Cash flows	-	-	-	-	-
Total	**-**	**546,173**	**-**	**546,173**	**16,814,305**

Legend

NV = Nominal or Notional Value

8.2 Hedging derivatives: breakdown by hedged portfolios and type of hedging

Transaction/Type of hedge	Fair Value						Cash flow hedge		Investments Foreign	Total 31 12 2017
	Micro-hedge					Macro-hedge	Micro-hedge	Macro-hedge		
	Risk Rate	Risk Exchange	Risk Credit	Risk Price	Multiple Risks					
1. Financial assets available for sale	2,443	-	-	-	-	X	-	X	X	2,443
2. Loans and receivables	-	-	-	-	-	X	-	X	X	-
3. Financial assets held to maturity	X	-	-	X	-	X	-	X	X	-
4. Portfolio	X	X	X	X	X	7,362	X	176,352	X	183,714
5. Other transactions	-	-	-	-	-	X	-	X	-	-
Total assets	**2,443**	**-**	**-**	**-**	**-**	**7,362**	**-**	**176,352**	**-**	**186,157**
1. Financial liabilities	147,138	-	-	-	-	X	-	X	X	147,138
2. Portfolio	X	X	X	X	X	-	X	-	X	-
Total liabilities	**147,138**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**147,138**
1. Expected transactions	X	X	X	X	X	X	-	X	X	-
2. Financial assets and liabilities portfolio	X	X	X	X	X	-	X	-	-	-
Total	**149,581**	**-**	**-**	**-**	**-**	**7,362**	**-**	**176,352**	**-**	**333,295**

The table shows the positive fair values of hedging derivatives, classified by hedged assets or liabilities and type of hedging implemented.

In particular, on the financial assets available for sale, fair value micro-hedging was used to hedge against interest-rate risk on fixed-rate and variable-rate capped mortgages and bonds classified in the available-for-sale portfolio or among receivables, in order to protect them from unfavourable interest rate changes. Fair value macro-hedging was carried out on fixed-rate mortgage loan portfolios.

With reference to financial liabilities, fair value micro-hedging of the interest-rate risk refers primarily to hedges of liabilities represented by securities. Cash flow hedges were carried out on some specific index-linked bond issues, in order to stabilise their flows through interest rate swaps.

More information on hedged assets and liabilities can be found in the tables contained in Part B of the notes for each section of the balance sheet items to which the hedged items are posted.

Section 9 – Change in value of macro-hedged financial assets – Item 90

9.1 Change in value of hedged assets: breakdown by hedged portfolios

Changes in value of hedged assets / Group components	Total 31 12 2017	Total 31 12 2016
1. Positive changes	**56,878**	**111,646**
1.1 of specific portfolios:	56,878	111,646
a) loans and receivables	56,878	111,646
b) financial assets available for sale	-	-
1.2 overall	-	-
2. Negative changes	**-**	**-**
2.1 of specific portfolios:	-	-
a) loans and receivables	-	-
b) financial assets available for sale	-	-
2.2 overall	-	-
Total	**56,878**	**111,646**

The value adjustment concerns fixed and capped floating rate mortgage loan portfolios that were fair value macro-hedged with derivatives to counter possible interest rate risk-induced fluctuations in value. As this is a macro-hedge, any gain or loss on the hedged item attributable to the risk hedged may not directly adjust the value of said item (unlike in micro-hedging), but must be presented in this separate line item of the assets. The amounts in this item must be removed from the balance sheet when the relevant assets or liabilities are derecognised.

The fair value of the corresponding hedging derivatives is shown respectively in Table 8.2 (assets) or Table 6.2 (liabilities), both entitled "Hedging derivatives: breakdown by hedged portfolio and type of hedging", in the "Macro-hedging" column.

9.2 Assets subject to macro-hedging of interest-rate risk

Hedged assets	Total 31 12 2017	Total 31 12 2016
1. Loans and receivables	5,162,542	4,086,257
2. Assets available for sale	-	-
3. Portfolio	-	-
Total	**5,162,542**	**4,086,257**

The table shows the book value (amortised cost) of fixed-rate and capped floating rate mortgages included in Item 70 "Loans to customers", which was macro-hedged against interest-rate risk as per Table 9.1 above.

The sum of this amount and the one shown in Table 9.1 expresses the book value of these receivables, adjusted for profit or loss attributable to the risk hedged.

Section 10 – Equity investments – Item 100

10.1 Equity investments: information on shareholding

Company Name	Redistered Office	Headquarters	Share holding %	Avail. % votes
A. Companies under exclusive control				
Aiace Reoco s.r.l.	Siena	Siena	100.000	
Antonveneta Capital l.l.c. I	Delaware	New York	100.000	
Antonveneta Capital l.l.c. II	Delaware	New York	100.000	
Antonveneta Capital Trust I	Delaware	New York	100.000	
Antonveneta Capital Trust II	Delaware	New York	100.000	
Banca Monte Paschi Belgio S.A.	Brussels	Brussels	99.900	
Cirene Finance S.r.l.	Conegliano	Conegliano	60.000	
Consorzio Operativo Gruppo Montepaschi	Siena	Siena	99.760	
Consum.it Securitisation S.r.l.	Conegliano	Conegliano	100.000	
Enea Reoco s.r.l.	Siena	Siena	100.000	
G.Imm.Astor s.r.l.	Lecce	Lecce	52.000	
Magazzini Generali Fiduciari di Mantova S.p.a.	Manuta	Suzzara	100.000	
Monte dei Paschi di Siena Leasing & Factoring Banca per i servizi finanziari alle imprese S.p.a	Siena	Siena	100.000	
Monte paschi banque S.A.	Paris	Paris	100.000	
Monte paschi fiduciaria S.p.a.	Siena	Siena	100.000	
Montepaschi Luxembourg s.a.	Luxembourg	Luxembourg	99.200	
Mps Capital Services Banca per le imprese S.p.a.	Florence	Florence	99.993	
Mps covered bond 2 S.r.l.	Conegliano	Conegliano	90.000	
Mps covered bond S.r.l.	Conegliano	Conegliano	90.000	
Mps preferred capital I llc	Delaware	New York	100.000	
Mps preferred capital II llc	Delaware	New York	100.000	
Mps Tenimenti Poggio Bonelli e Chigi Saracini soc. agricola S.p.a.	Castelnuovo Barardenga	Castelnuovo Barardenga	100.000	
Perimetro gestione proprietà immobiliari S.c.p.a.	Siena	Siena	98.914	98.716
Siena consumer 2015 S.r.l.	Conegliano	Conegliano	10.000	
Siena consumer S.r.l.	Conegliano	Conegliano	10.000	
Siena lease 2016 2 S.r.l.	Conegliano	Conegliano	10.000	
Siena mortgages 07 5 S.p.a.	Conegliano	Conegliano	7.000	
Siena mortgages 09 6 S.r.l.	Conegliano	Conegliano	7.000	
Siena mortgages 10 7 S.r.l.	Conegliano	Conegliano	7.000	
Siena PMI 2015 S.r.l.	Milan	Milan	10.000	
Siena PMI 2016 S.r.l.	Conegliano	Conegliano	10.000	
Wise Dialog Bank S.p.a. in breve WIDIBA	Milan	Milan	100.000	
B. Companies under joint control				
Immobiliare Novoli S.p.a.	Florence	Firenze	50.000	
Integra S.p.a.	Calenzano (FI)	Calenzano (FI)	50.000	
Marinella S.p.a.	Marinella di Sarzana (SP)	Marinella di Sarzana (SP)	25.000	

Company Name	Redistered Office	Headquarters	Share holding %	Avail. % votes
C. Companies under significant influence				
Axa Mps Assicurazioni danni S.p.a.	Rome	Rome	50.000	
Axa Mps Assicurazioni vita S.p.a.	Rome	Rome	50.000	
Casalboccone Roma S.p.a. in liquidazione	Siena	Siena	21.750	33.675
CO.E.M. Costruzioni Ecologiche Moderne S.p.a. alias CO.E.M. S.p.a.	Rome	Rome	40.197	
Fenice Holding S.p.a.	Calenzano	Calenzano	4.156	
Fidi Toscana S.p.a.	Florence	Florence	27.460	
Firenze Parcheggi S.p.a.	Florence	Florence	16.807	
Fondo Etrusco Distrubuzione	Rome	Rome	48.000	
Fondo Minibond PMI Italia	Conegliano	Conegliano	61.940	
Fondo Socrate	Rome	Rome	23.140	
Interporto toscano A. Vespucci	Collesalvetti	Collesalvetti	21.819	
Le Robinie S.p.a.	Reggio Emila	Reggio Emilia	20.000	
Microcredito di Solidarieta' S.p.a.	Siena	Siena	40.000	
Newcolle S.r.l.	Colle Val d'Elsa	Colle Val d'Elsa	49.002	
Nuova Sorgenia Holding S.p.a.	Milan	Milan	16.670	
Realizzazioni e bonifiche Arezzo S.p.a. in liquidazione	Arezzo	Arezzo	19.584	
S.i.t. Sviluppo imprese e territorio S.p.a.	Rome	Rome	19.969	
Sansedoni Siena S.p.a.	Siena	Siena	21.754	33.674
Terme di Chianciano S.p.a.	Chianciano Terme	Chianciano Terme	18.816	
Trixia S.r.l.	Milan	Milan	15.000	

Equity investments in subsidiary companies, jointly controlled companies and companies under significant influence are valued at cost.

The classification criteria of the equity investments in subsidiary companies, jointly controlled companies and companies under significant influence are illustrated in Part A "Accounting policies" of these Notes to the Financial Statements.

For further details on changes, see comments to table "10.5 - Equity investments: annual changes".

10.2 Significant equity investments: book value, fair value and dividends earned

10.3 Significant equity investments: accounting information

10.4 Non-significant equity investments: accounting information

The information referred to in the above items is not provided in that the Bank also prepares the consolidated financial statements.

10.5 Equity investments: annual changes

	Total 31 12 2017	Total 31 12 2016
A. Opening balance	**1,942,743**	**3,074,019**
B. Increases	**1,275,562**	**17,700**
B.1 Purchases	-	1
B.2 Write-backs	-	-
B.3 Revaluations	-	-
B.4 Other increases	1,275,562	17,699
C. Decreases	**139,108**	**1,148,976**
C.1 Sales	20,000	-
C.2 Write-downs	112,530	1,148,976
C.3 Other decreases	6,578	-
D. Closing balance	**3,079,197**	**1,942,743**
E. Total revaluation	-	-
F. Total write-downs	**2,542,796**	**2,436,144**

The amount of EUR 1,275.6 mln in line B.4 “Other increases” refers primarily to the subscription of the share capital increases of subsidiaries in the course of 2017. Specifically:

- MPS Capital Services S.p.A. for an amount of EUR 898.9 mln;
- WIDIBA S.p.A. for an amount of EUR 70.0 mln;
- MPS Leasing & Factoring S.p.A. for an amount of EUR 250.0 mln;
- MPS Banque S.A. for an amount of EUR 40.0 mln.

The same item also includes the recognition of the profit relating to the disposal of the investment in Nuova Intermonte Sim, for an amount of EUR 9.6 mln.

Among decreases:

- on line C1 “Sales”, the disposal of the investment in Nuova Intermonte Sim, for an amount of EUR 20.0 mln;
- on line C3 “Other decreases”, the reduction in the value of the investment in the companies MiniBond Italila PMI (EUR 2.4 mln) and CO.E.M (EUR 4.2 mln) following redemptions to the shareholders that had subscribed portions of the share capital.

In accordance with the accounting standards, the measurement of indicators of impairment of equity investments in subsidiaries and associates brought to light impairment losses of EUR 112.5 mln mainly referring to the subsidiaries MPS Belgio S.A. (EUR 40.2 mln) and MPS Banque S.A. (EUR 40.0 mln) and the investment in the company FidiToscana S.p.A. (EUR 18.8 mln).

10.6 Covenants on investments in jointly controlled companies

10.7 Covenants on investments in companies under significant influence

10.8 Significant restrictions

10.9 Other information

The information referred to in the above items is not provided in that the Bank also prepares the consolidated financial statements.

Section 11 - Property, plant and equipment - Item 110

11.1 Property, plant and equipment used in the business: breakdown of assets valued at cost

Asset/Amount	Total	
	31 12 2017	31 12 2016
1. Assets owned	**799,564**	**798,620**
a) land	282,890	289,297
b) buildings	260,688	271,111
c) furniture and furnishings	139,438	142,186
d) electronic systems	60,772	41,997
e) other	55,776	54,029
2. Assets leased	**-**	**-**
a) land	-	-
b) buildings	-	-
c) furniture and furnishings	-	-
d) electronic systems	-	-
e) other	-	-
Total	**799,564**	**798,620**

All of the Bank's property, plant and equipment is measured at cost; the line "land" expresses the value of land separately from the value of buildings. In compliance with guidance provided by IAS 36 "Impairment of Assets" and recommendations contained in document no. 4 of 3 March 2010 issued jointly by the Bank of Italy, Consob and Isvap, an overall property appraisal was made with a view to determining any impairment losses to be posted to profit and loss for the year; disclosure of these impairment losses is provided in the notes to the table "11.5 Property, plant and equipment used in the business: annual changes".

Item 1 "Assets owned –c) furnishings" includes artworks whose value amounts to EUR 121 mln.

11.2 Property, plant and equipment held for investment: breakdown of assets valued at cost

Asset/Amount	Total 31 12 2017				
	Book value	Fair Value			
		Level 1	Level 2	Level 3	Total
1. Assets owned	**235,477**	**-**	**-**	**265,018**	**265,018**
a) land	128,030	-	-	129,523	129,523
b) buildings	107,447	-	-	135,495	135,495
2. Assets leased	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-
b) buildings	-	-	-	-	-
Total	**235,477**	**-**	**-**	**265,018**	**265,018**

All of the Bank's property, plant and equipment is measured at cost; the line "land" expresses the value of land separately from the value of buildings. In compliance with guidance provided by IAS 36 "Impairment of Assets" and recommendations contained in document no. 4 of 3 March 2010 issued jointly by the Bank of Italy, Consob and Isvap, an overall property appraisal was made with a view to determining any impairment losses to be posted to profit and loss for the year; disclosure of these impairment losses is provided in the notes to the table "11.6 Property, plant and equipment held for investment: annual changes".

Asset/Amount	Total 31 12 2016				
	Book value	Fair Value			
		Level 1	Level 2	Level 3	Total
1. Assets owned	**233,301**	**-**	**-**	**262,649**	**262,649**
a) land	126,191	-	-	128,718	128,718
b) buildings	107,110	-	-	133,931	133,931
2. Assets leased	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-
b) buildings	-	-	-	-	-
Total	**233,301**	**-**	**-**	**262,649**	**262,649**

11.3 Property, plant and equipment used in the business: breakdown of revalued assets

The Bank holds no revalued property, plant and equipment.

11.4 Property, plant and equipment held for investment: breakdown of assets designated at fair value

The Bank holds no property, plant and equipment designated at fair value pursuant to IAS 40.

11.5 Property, plant and equipment used in the business: annual changes

	Land	Buildings	Furniture and furnishings	Electronic systems	Others	Total 31 12 2017
A. Gross opening balance	**305,490**	**435,933**	**482,089**	**534,838**	**447,374**	**2,205,724**
A.1 Total net decrease	16,193	164,824	339,901	492,840	393,346	1,407,104
A.2 Net opening balance	**289,297**	**271,109**	**142,188**	**41,998**	**54,028**	**798,620**
B. Increases	**14**	**6,724**	**3,693**	**37,426**	**16,346**	**64,203**
B.1 Purchases	-	-	3,693	37,425	16,346	57,464
B.2 Capitalized expenditure on improvements	-	6,648	-	-	-	6,648
B.7 Other increases	14	76	-	1	-	91
C. Decreases	**6,421**	**17,148**	**6,442**	**18,651**	**14,597**	**63,259**
C.1 Sales	-	-	223	309	770	1,302
C.2 Depreciation	-	12,790	6,216	18,332	13,819	51,157
C.3 Impariment losses booked to:	2,995	707	-	-	-	3,702
a) shareholders' equity	-	-	-	-	-	-
b) profit and loss	2,995	707	-	-	-	3,702
C.5 Negative exchange differences	-	-	3	10	8	21
C.6 Transfer to:	3,426	3,651	-	-	-	7,077
a) tangible asset held for investment	3,075	3,288	-	-	-	6,363
b) assets held for sale	351	363	-	-	-	714
D. Net closing balance	**282,890**	**260,685**	**139,439**	**60,773**	**55,777**	**799,564**
D.1 Total net decreases	19,188	176,560	345,422	508,799	406,116	1,456,085
D.2 Gross closing balance	**302,078**	**437,245**	**484,861**	**569,572**	**461,893**	**2,255,649**
E. Carried at cost	**-**	**-**	**-**	**-**	**-**	**-**

An analysis of external and internal impairment indicators resulted in impairment losses for an amount of EUR 3.7 mln being recognised in the balance sheet as at 31 December 2017 (line C.3). In addition, EUR 25.5 mln in overall capital gains on real estate used in the business is also reported; these capital gains were not recognised in the balance sheet. With regard to property, plant and equipment used in the business other than buildings, no extraordinary negative market factors were thought to exist under a going concern assumption, that might call for the need to recognise impairment losses.

Line “E. “Carried at cost” was left blank, as per the Bank of Italy’s instructions, since it only needs to be completed for assets accounted for at fair value. As at the end of 2017, the Group did not hold any PPE acquired under finance leases or provided under operating leases for a significant amount.

11.6 Property, plant and equipment held for investment: annual changes

	31 12 2017		
	Lands	**Builiding**	**Total**
A. Opening balance	**126,191**	**107,110**	**233,301**
B. Increases	**9,571**	**9,519**	**19,090**
B.1 Purchases	-	-	-
B.2 Capitalized expenditure on impovements	-	792	792
B.3 Variazioni positive di fair value	-	-	-
B.4 Increase in fair value	-	-	-
B.5 Positive exchange differences	-	-	-
B.6 Transfers from property used in the business	3,075	3,288	6,363
B.7 Other increases	6,496	5,439	11,935
C. Decreases	**7,732**	**9,182**	**16,914**
C.1 Sales	644	1,022	1,666
C.2 Depreciation	-	5,142	5,142
C.3 Decreases in fair value	-	-	-
C.4 Impairment losses	6,782	2,566	9,348
C.5 Negative exchange differences	-	-	-
C.6 Transfers to other asset portfolios	306	452	758
a) properties used in the business	-	-	-
b) non-current assets held for sale	306	452	758
C.7 Other decreasees	-	-	-
D. Closing balance	**128,030**	**107,447**	**235,477**
E. Designated at fair value	**129,523**	**135,495**	**265,018**

An analysis of external and internal impairment indicators resulted in impairment losses for an amount of EUR 9.3 mln being recognised in the balance sheet as at 31 December 2017 (line C.4). In addition, EUR 29.7 mln in overall capital gains on real estate held for investment is also reported; these capital gains were not recognised in the balance sheet.

11.7 Commitments to purchase property, plant and equipment

No commitments to purchase property, plant and equipment were registered in 2017.

11.8 Property, plant and equipment: depreciation rates

Main categories of tangible assets	%
Land and works of art	0.00%
Buildings	3.03%
Furniture and furnishings	10-15%
Alarm and video systems	30.00%
Electronic and ordinary office equipment	20.00%
Electronic data processing equipment	50.00%
Vehicles	20-25%
Telephones	25.00%

The percentages used for carrying out the depreciations with reference to the main categories of property, plant and equipment are presented in the table. Owing to their indefinite useful life, lands and artworks are not depreciated.

Section 12 – Intangible assets – Item 120

12.1 Intangible assets: breakdown by type

Asset / Amount	31 12 2017			31 12 2016		
	Finite Life	Indefinite Life	Total	Finite Life	Indefinite Life	Total
A.1 Goodwill	**X**	-	**-**	**X**	-	**-**
A.2 Other intangible assets	**38,621**	**-**	**38,621**	**64,457**	**-**	**64,457**
A.2.1 Assets carried at cost:	38,621	-	38,621	64,457	-	64,457
a) Internally generated intangible assets	-	-	-	-	-	-
b) other assets	38,621	-	38,621	64,457	-	64,457
A.2.2 Assets valued at fair value:	-	-	-	-	-	-
a) Internally generated intangible assets	-	-	-	-	-	-
b) other assets	-	-	-	-	-	-
Total	**38,621**	**-**	**38,621**	**64,457**	**-**	**64,457**

All of the Bank's intangible assets are valued at cost and have a finite useful life.

Line "A.2.1 Assets carried at cost – b) other assets" includes the following intangible assets arising from customer relations recognised following the acquisition of former Banca Antonveneta S.p.a.: In particular:

- core deposits totalling EUR 30.9 mln, from the fair value measurement of on-demand funding (current accounts and savings deposits),
- core overdrafts totalling EUR 7.5 mln, from the fair value measurement of assets represented by non-revolving credit facilities,

For intangible assets associated with customer relationships, an analysis was carried out on the impairment indicators, which resulted in no need for impairment testing.

12.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: generated internally		Other intangible assets: other		Total
		finite life	indefinite life	finite life	indefinite life	31 12 2017
A Opening balance	**5,209,817**	**-**	**-**	**563,466**	**-**	**5,773,283**
A.1 Total net decreases	5,209,817	-	-	499,009	-	5,708,826
A.2 Net opening balance	**-**	**-**	**-**	**64,457**	**-**	**64,457**
B. Increases	**-**	**-**	**-**	**127**	**-**	**127**
B.1 Purchases	-	-	-	127	-	127
B.2 Increases in internally generated intangible assets	X	-	-	-	-	-
B.3 Write-backs	X	-	-	-	-	-
B.4 Increases in fair value	-	-	-	-	-	-
- to net equity	X	-	-	-	-	-
- to profit and loss	X	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	-	-	-
B.6 Other increases	-	-	-	-	-	-
C. Decreases	**-**	**-**	**-**	**25,963**	**-**	**25,963**
C.1 Sales	-	-	-	-	-	-
C.2 Write-downs	-	-	-	25,936	-	25,936
- Depreciation	-	-	-	25,936	-	25,936
- Write-downs	-	-	-	-	-	-
+ net equity	-	-	-	-	-	-
+ profit and loss	-	-	-	-	-	-
C.3 Decreases in fair value	-	-	-	-	-	-
- to net equity	X	-	-	-	-	-
- to profit and loss	X	-	-	-	-	-
C.4 Transfers to non-current assets held for sale	-	-	-	-	-	-
C.5 Negative exchange differences	-	-	-	27	-	27
C.6 Other decreases	-	-	-	-	-	-
D. Net closing balance	**-**	**-**	**-**	**38,621**	**-**	**38,621**
D.1 Total net value adjustments	5,209,817	-	-	524,801	-	5,734,618
E. Gross closing balance	**5,209,817**	**-**	**-**	**563,422**	**-**	**5,773,239**
F. Carried at cost	-	-	-	-	-	-

Line C.2 "Value adjustments – Amortisation" includes, in the "Other - finite life" column, the amortisation charges for the year related to the intangible assets recognised in the financial statements, during 2008, due to the merger by absorption of former Banca Antonveneta S.p.a.
Line "F. "Carried at cost" was left blank in accordance with Bank of Italy's instructions, as it only needs to be completed for assets recognised at fair value.

12.3 Other information: amortisation rates

Main categories of intangible assets	%	residual depreciation period
Software	20.00%	
Concessions and other licenses	20.00%	
Core deposits - current accounts	9.10%	2 years
Core deposits - deposit	6.70%	6 years
Core overdraft	9.10%	2 years

Intangible assets recognised during the purchase price allocation of former Banca Antonveneta S.p.A. are all finite-life and therefore amortised based on their expected useful life.

As at 31 December 2017 there were no:

- revalued intangible fixed assets;
- intangible fixed assets acquired through government concessions (IAS 38, par. 44);
- intangible fixed assets pledged as loan collaterals;
- commitments to purchase intangible assets;
- fully amortised intangible assets that are still in use.

Section 13 – Tax Assets and Liabilities – Item 130 (Assets) and Item 80 (Liabilities)

13.1 Deferred tax assets: breakdown

Item/Amounts	IRES with offsetting entry to P&L	IRES with offsetting entry to Balance Sheet	IRAP with offsetting entry to P&L	IRAP with offsetting entry to Balance Sheet	31 12 2017	31 12 2016
Receivables (including securitisations)	67,161	-	-	-	67,161	57,529
Receivables (L. 214/2011)	462,752	-	68,952	-	531,704	907,054
Other financial instruments	2,273	-	9,522	-	11,795	13,083
Goodwill deduction pursuant to previous law provisions (L. 214/2011)	433,059	1,674	104,280	369	539,382	1,000,833
Tangible assets	34,436	-	7,396	-	41,832	34,920
Intangible assets (Law 214/2011)	29,818	-	6,445	-	36,263	64,006
Personnel expenses	12,815	20,238	5,155	2,458	40,666	41,248
ACE Surplus	106,085	-	-	-	106,085	64,895
Tax losses	828,173	37,659	-	-	865,832	265,395
Tax losses (Law 214/2011)	-	-	-	-	-	47,739
Financial instruments - valuation reserves	-	87,456	-	17,020	104,476	189,750
Others	273,990	26,860	11,511	-	312,361	329,464
Deferred tax assets (gross)	**2,250,562**	**173,887**	**213,261**	**19,847**	**2,657,557**	**3,015,916**
Offsetting with deferred tax liabilities	(5,842)	(89,985)	(806)	(17,881)	(114,514)	(156,649)
Deferred tax assets (net)	**2,244,720**	**83,902**	**212,455**	**1,966**	**2,543,043**	**2,859,267**

Deferred tax assets were recognised after verifying the existence of foreseeable future income (probability test). For additional information, please refer to paragraph 13.7 "Other information" below.

In addition to deferred taxes referring to the main tax (at the rate of 24%) the amounts shown in the IRES column also include those relating to the additional IRES tax (3.5% rate) introduced by Law no. 208 of 28 December 2015, paragraphs 65-66.

The line "Financial instruments – valuation reserves" includes tax assets relating to the valuation of cash flow hedge derivatives and financial instruments classified in portfolios of 'financial assets available for sale'.

The line "Other" includes tax assets relating to other cases, such as those recognised on provisions for risks and charges in respect of deductible costs expected for future periods and those on accessory costs of the share capital increase deductible over five years.

13.2 Deferred tax liabilities: breakdown

Items/Amounts	IRES with offsetting entry to P&L	IRES with offsetting entry to Balance Sheet	IRAP with offsetting entry to P&L	IRAP with offsetting entry to Balance Sheet	Total 31 12 2017	Total 31 12 2016
Tangible and intangible assets	3,867	-	653	-	4,520	5,857
Financial instruments	1,586	-	153	-	1,739	10,951
Personnel expenses	390	443	-	-	833	405
Financial instruments - valuation reserves	-	88,721	-	17,722	106,443	135,443
Others	-	820	-	160	980	3,993
Deferred tax liabilities (gross)	**5,843**	**89,984**	**806**	**17,882**	**114,515**	**156,649**
Offsetting with deferred tax assets	(5,843)	(89,984)	(806)	(17,882)	(114,515)	(156,649)
Deferred tax liabilities (net)	**-**	**-**	**-**	**-**	**-**	**-**

The line "Financial instruments – valuation reserves" includes tax liabilities relating to the valuation of financial instruments classified in the portfolio of "financial assets available for sale" and those originally in the portfolio of financial assets available for sale and reclassified in 2008 in the "loans to customers" and "loans to banks" portfolios, as well as tax liabilities relating to cash flow hedge derivatives.

13.3 Deferred tax assets: annual changes (with offsetting entry to profit and loss)

	Total 31 12 2017	Total 31 12 2016
1. Opening balance	**2,722,121**	**2,712,914**
2. Increases	**776,818**	**418,842**
2.1 Deferred tax assets arising during the year	771,678	290,479
a) relating to previous years	-	-
b) due to changes in accounting principles	-	-
c) write-backs	572,270	-
d) other	199,408	290,479
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	5,140	128,363
3. Decreases	**1,035,116**	**409,635**
3.1 Deferred tax assets derecognised during the year	113,544	388,140
a) reversals	113,544	136,530
b) write-downs of non-recoverable items	-	251,610
c) changes in accounting principles	-	-
d) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	921,572	21,495
a) conversion into tax credits pursuant to Law no. 214/2011	911,928	-
b) others	9,644	21,495
4. Total	**2,463,823**	**2,722,121**

Line 2.1 letter c) "Write-backs" reflects the effect of the partial recognition of deferred tax assets on tax losses accrued and not recognised in previous years, to the extent to which they were deemed recoverable in light of the results of the probability

test carried out as at 31 December 2017. For additional information, please refer to paragraph 13.7 “Other information” below.

Major component of “Deferred tax assets arising during the year” as reported in line 2.1 d) include those concerning:

- taxed provisions to the provision for risks and charges made during the year of EUR 111.5 mln,
- ACE deduction accrued during the year and unused, of EUR 42.1 mln,
- share of tax losses with respect to the additional IRES tax deemed recoverable based on the probability test of EUR 21.4 mln

The amount shown on line 3.1 letter a) “Reversals” consists for EUR 108.0 mln of the use of provisions for risks and charges taxed in previous years.

With regard to the decrease pursuant to line 3.3 a), please refer to the comments to the subsequent table “13.3.1 Deferred tax assets: changes under law 214/2011 (with offsetting entry to profit and loss)”.

13.3.1 Deferred tax assets: changes under law 214/2011 (with offsetting entry to profit and loss)

Items/Amounts	Total	
	31 12 2017	31 12 2016
1. Opening balance	**2,017,130**	**2,017,146**
2. Increases	**109**	**47,967**
3. Decreases	911,933	47,983
3.1 Reversals	-	47,740
3.2 Conversion into tax credits	911,928	-
a) arising from loss for the period	864,188	-
b) arising from tax losses	47,740	-
3.3 Other decreases	5	243
4. Closing balance	**1,105,306**	**2,017,130**

As a result of the loss recorded in the separate statutory financial statements for 2016, in 2017 the Bank transformed into tax credits a portion of the deferred tax assets relating to loan writedowns, goodwill and other intangible assets, pursuant to art. 2, par. 55 of Law Decree no. 225 of 29 December 2010.
This conversion has been in effect as of the date of approval of the 2016 Financial statements by the Shareholders' Meeting in April 2017 and concerned, in addition to the amount shown in line 3.2 letter a) of this table, also deferred tax assets with offsetting entry to equity of EUR 0.5 mln, as presented in the subsequent table 13.5.1.

In addition, in 2017 the Bank transformed deferred tax assets recognised on the share of the tax loss for the year 2016 consisting of the deduction of write-downs and losses on loans carried forward from previous years as well as deductions relating to the value of goodwill and other intangible assets. This conversion became effective as of the date of the submission of the 2016 income tax return in October 2017, as laid out by the provisions pursuant to art. 2, paragraph 56-bis of the above-mentioned Law Decree 225/2010, and regarded the amount highlighted on line 3.2, letter b).

13.4 Deferred tax liabilities: annual changes (with offsetting entry to profit and loss)

	Total 31 12 2017	Total 31 12 2016
1. Opening balance	**17,213**	**11,021**
2. Increases	**10,696**	**9,507**
2.1 Deferred tax liabilities arising during the year	10,579	6,376
a) relating to previous years	-	-
b) due to changes in accounting principles	-	-
c) other	10,579	6,376
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	117	3,131
3. Decreases	**21,260**	**3,315**
3.1 Deferred taxes derecognised during the year	15,422	2,420
a) reversals	15,422	2,420
b) due to changes in accounting principles	-	-
c) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	5,838	895
4. Closing balance	**6,649**	**17,213**

The change for the year refers primarily to payments made by the Bank to the Voluntary intervention scheme established at the Interbank Deposit Protection Fund.

13.5 Deferred tax assets: annual changes (with offsetting entry to equity)

	Total 31 12 2017	Total 31 12 2016
1. Opening balance	**293,795**	**317,919**
2. Increases	**9,026**	**62,553**
2.1 Deferred tax assets arising during the year	9,016	59,924
a) relating to previous years	-	-
b) due to changes in accounting principles	-	-
c) others	9,016	59,924
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	10	2,629
3. Decreases	**109,087**	**86,677**
3.1 Deferred tax assets derecognised during the year	108,597	84,507
a) reversal	108,597	84,507
b) write-downs of non-recoverable items	-	-
c) due to changes in accounting principles	-	-
d) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	490	2,170
4. Closing balance	**193,734**	**293,795**

Deferred tax assets derecognised during the year, pursuant to "line 3.1 a) reversals", refers for EUR 70.6 mln to valuations of cash flow hedging derivatives, and for EUR 20.1 mln to costs deductible during the year connected to previous share capital increases.

13.5.1 Deferred tax assets: changes under law 214/2011 (with offsetting entry to equity)

	Total 31 12 2017	Total 31 12 2016
1. Opening balance	**2,503**	**4,146**
2. Increases	**-**	**-**
3. Decreases	**459**	**1,643**
3.1 Reversals	-	-
3.2 Conversion into tax credit	459	-
a) arising from loss for the period	459	-
b) arising from tax losses	-	-
3.3 Other decreases	-	1,643
4. Closing balance	**2,044**	**2,503**

The table shows deferred tax assets that may be converted into tax credits pursuant to Law 214/2011, recognised with an offsetting entry to equity. These refer to goodwill posted to equity as relating to business combinations "under common control".

13.6 Deferred tax liabilities: annual changes (with offsetting entry to equity)

	Total 31 12 2017	Total 31 12 2016
1. Opening balance	**139,436**	**151,743**
2. Increases	**52,773**	**32,631**
2.1 Deferred tax liabilities arising during the year	52,597	32,082
a) relating to previous years	-	-
b) due to changes in accounting principles	-	-
c) other	52,597	32,082
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	176	549
3. Decreases	**84,343**	**44,938**
3.1 Deferred tax liabilities derecognised during the year	84,324	42,088
a) reversal	84,324	42,088
b) due to changes in accounting principles	-	-
c) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	19	2,850
4. Closing balance	**107,866**	**139,436**

The increases mainly relate to taxes recognised on changes in equity reserves relating to securities classified in the “financial assets available for sale” portfolio.

Aside from the changes in the reserves mentioned above, the decreases also regard the changes in the valuation reserve of cash flow hedging derivatives.

13.7 Other information

Probability test

Deferred tax assets were recognised after verifying the existence of foreseeable future income sufficient to absorb them (probability test).

In this test, the different rules set forth in the Italian tax laws which impact the assessment in question were taken into account, in particular:

- art. 2, paragraphs 55-59, of Law Decree no. 225 of 29/12/2010 (converted, with amendments, by Law no. 10 of 26/02/2011) which establishes the obligation for financial intermediaries to convert into tax credits DTAs (IRES and IRAP) relating to goodwill, other intangible assets and impairment losses on receivables, in the case of a loss in the statutory financial statements and/or a tax loss;
- art. 84, paragraph 1 of the TUIR, which allows for the possibility of carrying forward IRES tax losses with no time limits;
- art. 1, paragraph 4 of Law Decree no. 201 of 06/12/2011 (converted, with amendments, by law no. 214 of 22/12/2011), which allows for unused excess ACE to be carried forward with no time limits, as well as, alternatively, conversion into a tax credit to be used to offset IRAP due in 5 annual instalments;
- in paragraphs 61 to 66, art. 1, of the 2016 Stability Law (Law no. 208 of 28 December 2015) reduced the IRES rate from 27.5% to 24% and simultaneously introduced an additional IRES tax of 3.5% for credit and financial institutions; both measures are effective as of 2017.

In terms of relevant new regulations issued during the year, art. 7 of Law Decree no. 50 of 24/04/2017 provided for - effective as of the 2017 tax period - a reduction in the rate (notional return) to be applied to increases in own capital relevant for the purposes of the ACE benefit.

Concretely, the ACE benefit rate for 2017 declines from 2.3% to 1.6% and, when fully implemented, for the subsequent years, from 2.7% to 1.5%. This entailed the downsizing of the benefit in profit and loss for 2017 and also had a significant impact on the valuation of DTAs recognisable in the financial statements (probability test). Indeed, the expectation of lower ACE deductions in the future reduced the absorption of future taxable income which may be allocated to a greater extent, with respect to the previous scenario, to offsetting previous tax losses. From the accounting perspective, this translated into a partial write-back on DTAs on consolidated tax losses not recognised in previous years, which will be described at the end of this paragraph.

Practically speaking, the probability test was carried out by following the steps listed below.

DTAs relating to goodwill, other intangible assets and impairment losses on receivables ("qualified" DTAs), were excluded from the total amount of DTAs for which the existence of sufficient future taxable income needs to be identified.

This is because the above-mentioned art. 2, paragraphs 55-59 of Law Decree 225/2010 made the recovery of that type of DTA certain, with respect to both IRES and IRAP, regardless of the presence of future taxable income.

Indeed, the rule sets forth that, if taxable income for the year in which the recovery of qualified DTAs is expected is not sufficient to absorb them, the resulting tax loss would be convertible into a tax credit that may be, alternatively (i) used to offset, with no amount limits, the various taxes ordinarily due from the Bank, or (ii) requested in the form of a refund, or (iii) transferred to third parties. In addition, qualified DTAs may be converted into tax credit in advance of their natural maturity, in the event of a loss for the year in the statutory financial statements or voluntary liquidation, as well as subjection to bankruptcy proceedings.

In other words, for qualified DTAs the probability test must be deemed automatically satisfied; this is also confirmed by the joint Bank of Italy, Consob and ISVAP document no. 5 of 15/05/2012.

For DTAs other than qualified DTAs, the year in which the relative recovery is expected has been identified (or estimated when uncertain).

Taxable income in future years has been estimated based on the forecast profit and loss statements included in the Restructuring Plan approved by the European Commission on 4 July 2017. Taxable income was estimated for the probability test by applying a discount factor to the forecast profits established in the above-mentioned Restructuring Plan (the "risk-adjusted profits approach"); this factor used in a combined manner discounts future income to an increasing extent to reflect its uncertainty. The discount factor is calculated by taking into account observable market parameters. This methodological approach was introduced in the course of 2016; for more information on the reasons for this methodological update in the probability test, please refer to the Notes to the Bank's 2016 Financial Statements (Part B - Assets, par. 13.7).

Taxable income was estimated:

- at domestic tax consolidation level, for the IRES probability test, since for the payment of this tax the Bank uses the method set forth in arts. 117 et seq. of the TUIR;
- at individual level for additional IRES;
- at individual level for IRAP.

The data thus processed have shown that taxable income in future years will be sufficient to absorb the unqualified DTAs, other than tax losses, recognised in the financial statements as at 31 December 2017, including ACE deductions carried forward from previous years.

As regards tax losses, the probability test entailed:

- not recognising DTAs on the consolidated IRES tax loss emerging in 2017, for EUR 1,153.7 mln,
- not recognising DTAs on part of the tax loss for the IRES additional tax emerging in 2017, for EUR 108.6 mln,
- the partial write-back on DTAs on consolidated IRES tax losses not recognised in previous years for EUR 572.3 mln, in large part resulting from the reduction of ACE rates in light of the above-mentioned art. 7 of Law Decree no. 50 of 24/04/2017.

As a result of the above-mentioned assessment, the Bank had a total of EUR 1,752.6 mln in DTAs on consolidated IRES tax losses and on tax losses for the IRES additional tax not recognised in the Balance Sheet assets as at 31 December 2017 (EUR 1,062.5 mln as at 31 December 2016).

For the Bank, this amount is a potential asset not subject to any time limits according to current tax legislation, whose recognition in the Balance Sheet asset will be evaluated at the future financial statement dates based on the Group's profit outlook.

Current tax assets

Items/Amounts	Total 31 12 2017	Total 31 12 2016
Prepayments of corporate income tax (IRES and IRAP)	-	-
Other tax credits and withholdings	529,292	587,311
Gross current tax assets	**529,292**	**587,311**
Offsetting with current tax liabilities	-	-
Net current tax assets	**529,292**	**587,311**

In 2017 the Bank did not make any downpayments for IRES, the IRES additional tax and IRAP, having ended the previous tax period with negative taxable amounts with reference to all taxes mentioned.
"Other tax credits and withholdings" consist of IRES/IRAP credits resulting from prior tax returns which can be used as a set-off for EUR 289.4 mln, income tax credits claimed for refund for EUR 225.6 mln, the remaining portion still to be used of the tax credit arising from DTA transformation (Law no. 214/2011) for EUR 10.1 mln and withholdings incurred totalling EUR 4.2 mln.

Current tax liabilities

Items/Amounts	31 12 2017			31 12 2016		
	Booked to net equity	Booked to profit & loss	Total	Booked to net equity	Booked to profit & loss	Total
Corporate income tax (IRES IRAP) payables	-	-	-	-	-	-
Other current income tax payables	-	651	651	-	5,266	5,266
Gross current tax payables	**-**	**651**	**651**	**-**	**5,266**	**5,266**
Offsetting with current tax asset	-	-	-	-	-	-
Net current tax payables	**-**	**651**	**651**	**-**	**5,266**	**5,266**

Section 14 – Non-current assets held for sale / discontinued operations and associated liabilities – Item 140 (assets) and 90 (liabilities)

14.1 Non-current assets and group of assets held for sale and discontinued operations: breakdown by type

	Total	
	31 12 2017	31 12 2016
A. Individual assets	-	-
A.1 Financial assets	3,590,470	19,050
A.2 Equity investments	50	-
A.3 Tangible assets	9,611	17,992
A.4 Intangible assets	-	-
A.5 Other non-current assets	-	18,313
Total A	**3,600,131**	**55,355**
of which valued at cost	3,599,831	36,305
of which designated at fair value (level 1)	-	-
of which designated at fair value (level 2)	-	17,921
of which designated at fair value (level 3)	300	1,129
B. Asset groups (discontinued operations)	-	-
Total B	-	-
C. Liabilities associated with individual assets held for sale and discontinued operations	-	-
C.1 Payables	-	-
C.2 Securities	-	-
C.3 Other liabilities	-	10,402
Totale C	-	**10,402**
of which valued at cost	-	10,402
of which designated at fair value (level 1)	-	-
of which designated at fair value (level 2)	-	-
of which designated at fair value (level 3)	-	-
D. Liabilities included in groups of assets held for sale and discontinued operations	-	-
Total D	-	-

Line "A.1 Financial assets", equal to EUR 3,590.5 mln, refers primarily to receivables associated with the transfer of doubtful loans (for more details, please see the section of the Consolidated Report on Operations); line "A.2 Equity investments" relates to the disposal of the investee "Juliet SpA".

Line "A.3 Property, plant and equipment", equal to EUR 9.6 mln, includes the disposal of land subject to debt collection (EUR 5.1 mln) as well as the disposal of properties used in the business of the Bank (EUR 3.5 mln).

In June 2017, the transaction was completed for the transfer of the merchant acquiring business unit, valued in the previous year for the amount of EUR 18.3 mln.

14.2 Other information

None to report as at 31 December 2017.

14.3 Details of investments in companies subject to significant influence not valued at equity

As at 31 December 2017, there were no investments in companies subject to significant influence not valued at equity classified as held for sale.

Section 15 – Other assets – Item 150

15.1 Other assets: breakdown

	Total 31 12 2017	Total 31 12 2016
Tax credits from the Revenue and other tax levying authorities	236,316	274,466
Third party cheques held at the cashier's for collection	123,692	131,484
Cheques drawn on the Company held at the cashier's for collection	1,370	482
Gold, silver and precious metals	24,283	8,599
Property inventory	30,257	32,109
Items in transit between branches	3,987	2,932
Items in processing	584,685	522,216
Improvements and incremental costs on third party assets other than those included under tangible assets	96,674	93,469
Prepaid expenses and accrued income not attributable to a separate account	472,004	342,210
Receivables for tax consolidation	8,748	11,592
Other	294,554	356,298
Total	**1,876,570**	**1,775,857**

The lines “Items in processing” and “Other” include transactions which were cleared in early 2018.

LIABILITIES

Section 1 – Deposits from banks – Item 10

1.1 Deposits from banks: breakdown

Items/accounts	Total 31 12 2017	Total 31 12 2016
1. Deposits from central banks	**16,486,445**	**24,031,837**
2. Deposits from banks	**10,188,847**	**16,755,530**
2.1 Current accounts and demand deposits	3,724,876	3,688,043
2.2 Time deposits	1,724,481	2,399,903
2.3 Loans	4,398,153	10,422,432
2.3.1. Repurchase agreements	3,994,775	10,214,832
2.3.2 Other	403,378	207,600
2.4 Liabilities for commitments to repurchase own equity instruments	-	-
2.5 Other liabilities	341,337	245,152
Total	**26,675,292**	**40,787,367**
Fair value - level 1	-	-
Fair value - level 2	*26,675,292*	*40,787,367*
Fair value - level 3	-	-
Total fair value	**26,675,292**	**40,787,367**

The line "Deposits from central banks" includes EUR 16,486 mln for refinancing operations carried out as part of Eurosystem financing, guaranteed by securities pledged by the Bank using the pooling mechanism.

Line 2.3.1 "Repurchase agreements" contains the financial liabilities arising from repo transactions with banks on both treasury securities and securities made available through reverse repurchase agreements or securities lending transactions.

1.2 Details of Item 10 "Deposits from banks": subordinated liabilities

This table was not completed as the Bank has no such liabilities to report for either the current or the previous year.

1.3 Details of Item 10 "Deposits from banks": structured liabilities

This table was not completed as the Bank has no such liabilities to report for either the current or the previous year.

1.4 Deposits from banks subject to micro-hedging

Type of transaction/Amount	Total 31 12 2017	Total 31 12 2016
1. Liabilities subject to micro-hedging of fair value	**10,486,006**	**8,483,790**
a) interest rate risk	10,486,006	8,483,790
b) exchange risk	-	-
c) multiple risk	-	-
2. Liabilities subject to micro-hedging cash-flow	**-**	**-**
a) interest rate risk	-	-
b) exchange risk	-	-
c) multiple risk	-	-
Total	**10,486,006**	**8,483,790**

The amount shown in item 1 letter a) "Liabilities subject to micro-hedging of fair value" of EUR 10,486.0 mln refers to the hedging of the fair value of interest rate risk carried out on certain refinancing transactions performed as part of Eurosystem financing.

1.5 Finance lease payables

This table was not completed as the Bank has no such liabilities to report for either the current or the previous year.

Section 2 – Deposits from customers – Item 20

2.1 Deposits from customers: breakdown

Type of transaction/Amount	Total 31 12 2017	Total 31 12 2016
1. Current accounts and demand deposits	49,287,849	39,065,018
2. Time deposits	8,817,666	8,869,295
3. Loans	7,368,810	19,561,851
3.1 Repurchase agreements	1,848,176	16,104,342
3.2 Other	5,520,634	3,457,509
4. Liabilities for commitments to repurchase own equity instruments	-	-
5. Other liabilities	1,243,920	1,866,451
Totale	**66,718,245**	**69,362,615**
Fair value - level 1	-	-
Fair value - level 2	*66,718,245*	*69,366,869*
Fair value - level 3	-	-
Total fair value	**66,718,245**	**69,366,869**

Deposits from customers are valued at cost or at amortised cost, except for liabilities subject to micro-hedging of fair value as reported in Table 2.4 of this section, the amortised cost of which is adjusted proportionally to the fair value of the hedged item.

The line "Repurchase agreements" contains the financial liabilities arising from repo transactions with customers on both treasury securities and securities made available through repurchase agreements or securities lending transactions.

2.2 Details of Item 20 "Deposits from customers": subordinated liabilities

As at 31 December 2017, there are no subordinated liabilities, while the 2016 financial statements included the issuance of the FRESH (Floating Rate Equity-linked Subordinated Hybrid) innovative equity instrument by the vehicle "MPS Preferred Capital II LLC" for an amount of EUR 28 mln.

2.3 Details of Item 20 "Deposits from customers": structured liabilities

This table was not completed as the Bank has no such liabilities to report for either the current or the previous year.

2.4 Deposits from customers subject to micro-hedging

This table was not completed as the Bank has no such liabilities to report for either the current or the previous year.

2.5 Finance lease payables

This table was not completed as the Bank has no such liabilities to report for either the current or the previous year.

Section 3 – Debt securities issued – Item 30

3.1 Debt securities issued: breakdown

Type of Securities/ Amounts	Total 31 12 2017				
	Book value	Fair value			
		Level 1	Level 2	Level 3	Total
A. Listed securities					
1. Bonds	17,587,450	14,304,129	3,585,651	-	17,889,780
1.1 Structured	-	-	-	-	-
1.2 Other	17,587,450	14,304,129	3,585,651	-	17,889,780
2. Other securities	2,366,190	-	2,366,190	-	2,366,190
2.1 Structured	-	-	-	-	-
2.2 Other	2,366,190	-	2,366,190	-	2,366,190
Total	**19,953,640**	**14,304,129**	**5,951,841**	**-**	**20,255,970**

The table shows funding represented by securities, including bonds and certificates of deposit (outstanding and maturities).

Liabilities are net of bonds and repurchased CDs. In this connection it is noted that on 31 December 2017 State-guaranteed bonds, issued and concurrently repurchased for a nominal amount of EUR 2,508.0 mln, were in place, part of which were then pledged as collateral for financing transactions.

Please recall that in August 2017 the conversion of T2 instruments issued by the Bank into ordinary shares was completed in compliance with the provisions of art. 23, paragraph 3 of Law Decree 237, as well as art. 2 of the Burden Sharing Decree, for a total nominal amount of EUR 3,980 mln. In addition, in November 2017, in relation to the Partial Voluntary Public Offering for Exchange and Settlement for the holders of ordinary shares of the Bank resulting from the conversion of the subordinated bond loan named "Tasso variabile Subordinato Upper Tier II 2008 - 2018" (ISIN IT00043525866)", EUR 1,535.8 mln in senior debt securities were issued.

Type of Securities/ Amounts	Total 31 12 2016				
	Book value	Fair value			
		Level 1	Level 2	Level 3	Total
A. Listed securities					
1. Bonds	20,515,217	-	15,881,256	3,456,211	19,337,467
1.1 Structured	-	-	-	-	-
1.2 Other	20,515,217	-	15,881,256	3,456,211	19,337,467
2. Other securities	466,315	-	166,315	300,000	466,315
2.1 Structured	-	-	-	-	-
2.2 Other	466,315	-	166,315	300,000	466,315
Total	**20,981,532**	**-**	**16,047,571**	**3,756,211**	**19,803,782**

3.2 Details of Item 30 "Debt securities issued": subordinated securities

As at 31 December 2017, the item subordinated securities has no value as there are none to report. As at 31 December 2016, the same item included subordinated securities for a countervalue of EUR 4,453.8 mln (nominal amount of EUR 4,280 mln).

3.3 "Debt securities issued": securities subject to micro-hedging

Type of transaction / Amount	Total 31 12 2017	Total 31 12 2016
1. Securities subject to micro-hedging of fair value:	**10,124,420**	**9,031,674**
a) interest rate risk	10,066,729	8,911,145
b) exchange risk	-	-
c) multiple risks	57,691	120,529
2. Securities subject to micro-hedging of cash flows:	**-**	**-**
a) interest rate risk	-	-
b) exchange risk	-	-
c) other	-	-
Total	**10,124,420**	**9,031,674**

As a result of cash flow hedging, the fair value of derivative contracts is posted to a specific equity reserve.

The liabilities of this type increased as a result of the opening of two new interest rate risk hedges on securities issued by the Bank for a notional amount of EUR 3,200.7 mln.

Section 4 – Financial liabilities held for trading – Item 40

4.1 Financial liabilities held for trading: breakdown

Type of transaction/ Group item	Total 31 12 2017					
	NV	FV				FV*
		Level 1	Level 2	Level 3	Total	
A. Balance-sheet liabilities						
1. Deposits from banks	-	-	-	-	-	-
2. Deposits from customers	-	-	-	-	-	-
3. Debt securities issued	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	-	X
3.1.2 Other	-	-	-	-	-	X
3.2 Other securities	-	-	-	-	-	-
3.2.1 Structured	-	-	-	-	-	X
3.2.2 Other	-	-	-	-	-	X
Total A	**-**	**-**	**-**	**-**	**-**	**-**
B. Derivatives						
1. Financial derivatives		-	797,919	-	797,919	
1.1 Trading	X	-	789,799	-	789,799	X
1.2 Fair value option (FVO)	X	-	8,120	-	8,120	X
1.3 Other	X	-	-	-	-	X
2. Credit derivatives		-	4,588	-	4,588	
2.1 Trading	X	-	4,588	-	4,588	X
2.2 Fair value option (FVO)	X	-	-	-	-	X
2.3 Other	X	-	-	-	-	X
Total B	**X**	**-**	**802,507**	**-**	**802,507**	**X**
Total (A+B)	**-**	**-**	**802,507**	**-**	**802,507**	**X**

Legend

FV = Fair Value
FV*= Fair value calculated excluding value adjustments due to variations in the credit rating of the issuer since the date of issue
NV = Nominal or Notional Value

Criteria adopted for classification of financial instruments in the three levels of the “fair value hierarchy” are reported in Section A.4, “Fair value disclosure” of Part A, “Accounting policies” of the notes to the financial statements.

Derivatives connected with fair value option instruments are also included in the trading book: these cover the risks of funding designated at fair value arising from possible interest rate fluctuations and from any embedded options in the structured and fixed rate bonds issued by the Bank (natural and systematic hedging). The fair value of these derivatives, amounting to EUR 8.1 mln (EUR 20.4 mln as at 31 December 2016) is shown in the table in line “B1.2 - Fair value option”.

By convention, such derivatives are classified in the trading book. In terms of their representation in the income statement, they comply with rules similar to the rules applicable to hedging derivatives: positive and negative spreads or margins settled or accrued until the balance sheet date are recognised as interest income and expense, while valuation profits and losses are posted under item 110 - “Net profit (loss) from financial assets and liabilities designated at fair value” of the profit and loss statement, in compliance with representations used for funding instruments that adopted the fair value option.

Fair value calculated on financial derivatives includes the variations in value due to changes in the creditworthiness of the Bank, Debit Value Adjustment (i.e. DVA), of EUR 4.1 mln (EUR 19.7 mln as at 31 December 2016).

Type of transaction/ Group item	Total 31 12 2016					
	NV	FV				FV*
		Level 1	Level 2	Level 3	Total	
A. Balance-sheet liabilities						
1. Deposits from banks	-	-	-	-	-	-
2. Deposits from customers	-	-	-	-	-	-
3. Debt securities issued	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	-	X
3.1.2 Other	-	-	-	-	-	X
3.2 Other securities	-	-	-	-	-	-
3.2.1 Structured	-	-	-	-	-	X
3.2.2 Other	-	-	-	-	-	X
Total A	**-**	**-**	**-**	**-**	**-**	**-**
B. Derivatives						
1. Financial derivatives		-	1,278,671	-	1,278,671	
1.1 Trading	X	-	1,258,291	-	1,258,291	X
1.2 Fair value option (FVO)	X	-	20,380	-	20,380	X
1.3 Other	X	-	-	-	-	X
2. Credit derivatives		-	17,655	-	17,655	
2.1 Trading	X	-	17,655	-	17,655	X
2.2 Fair value option (FVO)	X	-	-	-	-	X
2.3 Other	X	-	-	-	-	X
Total B	**X**	**-**	**1,296,326**	**-**	**1,296,326**	**X**
Total (A+B)	**-**	**-**	**1,296,326**	**-**	**1,296,326**	**-**

Legend

FV = Fair Value
FV*= Fair value calculated excluding value adjustments due to variations in the credit rating of the issuer since the date of issue
NV = Nominal or Notional Value

4.2 Details of item 40 "Financial liabilities held for trading": subordinated liabilities

This table was not completed as the Bank has no such liabilities to report for either the current or the previous year.

4.3 Details of item 40 "Financial liabilities held for trading": structured liabilities

This table was not completed as the Bank has no such liabilities to report for either the current or the previous year.

Section 5 – Financial liabilities designated at fair value – Item 50

5.1 Financial liabilities designated at fair value: breakdown

Type of transaction / Amount	Total 31 12 2017					
	NV	FV				FV*
		Level 1	Level 2	Level 3	Total	
1. Deposits from banks	-	-	-	-	-	-
1.1 Structured	-	-	-	-	-	X
1.2 Other	-	-	-	-	-	X
2. Deposits from customers	-	-	-	-	-	-
2.1 Structured	-	-	-	-	-	X
2.2 Other	-	-	-	-	-	X
3. Debt securities issued	409,882	-	415,215	-	415,215	468,364
3.1 Structured	138,098	-	129,260	-	129,260	X
3.2 Other	271,784	-	285,955	-	285,955	X
Total	**409,882**	**-**	**415,215**	**-**	**415,215**	**468,364**

Legend

FV = Fair Value
FV*= *Fair value calculated excluding value adjustments due to variations in the credit rating of the issuer since the date of issue*
NV = *Nominal or Notional Value*

The table shows the financial liabilities represented by fixed-rate and structured bonds which have been classified at fair value and are systematically subject to hedging. Hedging occurs through derivative contracts and is used to cover the risk of interest rate fluctuations and the risk resulting from embedded options.

The fair value option has been adopted for fixed-rate and structured debt securities issued by the Bank, for which the risk of fair value changes has been hedged by derivatives upon issuance, with the aim of maintaining the hedge for the contractual duration of the hedged securities; derivatives used under the fair value option are classified in the trading book.

Funding subject to hedging with derivative instruments under the fair value option is thus designated at fair value, in accordance with all the relative hedging derivatives which, for the purposes of the financial statements, have been classified under specific sub-items in the trading book.

Positive and negative spreads or margins in relation to derivative contracts settled or accrued until the balance sheet date are recorded in the profit and loss statement under interest income and expense, while valuation profits and losses are posted under Item 110, “Net profit (loss) from financial assets and liabilities designated at fair value”, in compliance with reporting used for funding instruments for which the fair value option was used.

It also should be noted thet in August 2017 the Bank completed the conversion of financial liabilities into ordinary shares in compliance whit the provision of art. 23 paragraph 3, of Law Decree 237, as well as art. 2 of Burden Sharing Decree

For further details on the securities in the “Level 3” column, please refer to Section A.4.2 of the Notes to the financial statements - Part A – Accounting policies.

Type of transaction / Amount	Total 31 12 2016					
	NV	FV				FV*
		Level 1	Level 2	Level 3	Total	
1. Deposits from banks	-	-	-	-	-	-
1.1 Structured	-	-	-	-	-	X
1.2 Other	-	-	-	-	-	X
2. Deposits from customers	-	-	-	-	-	-
2.1 Structured	-	-	-	-	-	X
2.2 Other	-	-	-	-	-	X
3. Debt securities issued	1,890,705	-	1,468,565	228,125	1,696,690	1,980,539
3.1 Structured	204,331	-	174,743	-	174,743	X
3.2 Other	1,686,374	-	1,293,822	228,125	1,521,947	X
Total	**1,890,705**	**-**	**1,468,565**	**228,125**	**1,696,690**	**1,980,539**

Legend

FV = *Fair Value*
FV*= *Fair value calculated excluding value adjustments due to variations in the credit rating of the issuer since the date of issue*
NV = *Nominal or Notional Value*

5.1.a Liabilities designated at fair value: the Fair Value Option approach

Liabilities for which the fair value option was adopted include natural hedges through debt security derivatives for a book value of EUR 415.2 mln (EUR 1,696.7 mln as at 31 December 2016).

5.1.b Liabilities designated at fair value: structured debt securities

Voci/valori	Totale 31 12 2017	Totale 31 12 2016
Index Linked	129,260	174,743
Inflation Linked	-	-
Totale	**129,260**	**174,743**

The table reports the main types of structured bonds issued by the Group and measured at fair value.
Since bonds are measured at fair value as an offset to profit or loss, embedded derivatives are not reported separately.

5.2 - Details of item 50 "Financial liabilities designated at fair value": subordinated liabilities

As at 31 December 2017, the Bank held no subordinated securities. On the other hand, as at 31 December 2016, the item included subordinated securities for an amount of EUR 228.1 mln.

Section 6 – Hedging derivatives – Item 60

6.1 Hedging derivatives: breakdown by type of contract and underlying asset

	31 12 2017				
	Fair value				NV
	Level 1	Level 2	Level 3	Total	
A. Financial derivatives	**-**	**833,623**	**-**	**833,623**	**30,741,778**
1) Fair value	-	701,123	-	701,123	29,741,778
2) Cash flows	-	132,500	-	132,500	1,000,000
3) Foreign investments	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-
2) Cash flows	-	-	-	-	-
Total	**-**	**833,623**	**-**	**833,623**	**30,741,778**

Legend

NV = Nominal or Notional Value

The table displays the negative fair value of hedging derivatives for hedges carried out through hedge accounting.

Hedges of financial liabilities represented by securities are also managed through the fair value option.

Information on the underlying strategies and objectives of hedge transactions can be found in Section 2 "Market risks" of Part E "Information on risks and hedging policies".

	31 12 2016				
	Fair value				NV
	Level 1	Level 2	Level 3	Total	
A. Financial derivatives	**-**	**1,206,200**	**-**	**1,206,200**	**15,649,780**
1) Fair value	-	1,035,573	-	1,035,573	14,649,780
2) Cash flows	-	170,627	-	170,627	1,000,000
3) Foreign investments	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-
2) Cash flows	-	-	-	-	-
Total	**-**	**1,206,200**	**-**	**1,206,200**	**15,649,780**

Legend

NV = Nominal or Notional Value

6.2 Hedging derivatives: breakdown by hedged portfolios and type of hedging

Transaction/Type of hedge	Fair Value						Cash flow Hedge		Foreign investments	Total 31 12 2017
	Micro Hedge					Macro-hedge	Micro-hedge	Macro-hedge		
	interest rate risk	exchange risk	credit risk	price risk	multiple risks					
1. Financial assets available for sale	260,507	-	-	-	-	X	-	X	X	260,507
2. Loans and receivables	115,465	-	-	-	-	X	-	X	X	115,465
3. Financial assets held to maturity	X	-	-	X	-	X	-	X	X	-
4. Portfolio	X	X	X	X	X	306,657	X	-	X	306,657
5. Other transactions	-	-	-	-	-	X	-	X	-	-
Total assets	**375,972**	**-**	**-**	**-**	**-**	**306,657**	**-**	**-**	**-**	**682,629**
1. Financial liabilities	16,352	-	-	X	2,142	X	-	X	X	18,494
2. Portfolio	X	X	X	X	X	-	X	-	X	-
Total liabilities	**16,352**	**-**	**-**	**-**	**2,142**	**-**	**-**	**-**	**-**	**18,494**
1. Expected transactions	X	X	X	X	X	X	132,500	X	X	132,500
2. Financial assets and liabilities portfolio	X	X	X	X	X	-	X	-	-	-
Total	**392,324**	**-**	**-**	**-**	**2,142**	**306,657**	**132,500**	**-**	**-**	**833,623**

The tables show the negative fair values of hedging derivatives, classified by hedged assets or liabilities and type of hedging implemented.

In particular, on the assets side, fair value micro-hedging was used to hedge against interest-rate risk on fixed-rate and variable-rate capped mortgages and bonds classified in the available-for-sale portfolio or among receivables, in order to protect them from unfavourable interest rate changes. Fair value macro-hedging was carried out on fixed-rate mortgage loan portfolios.

With reference to financial liabilities, fair value micro-hedging of the interest-rate risk refers primarily to hedges of liabilities represented by securities. Cash flow hedges were carried out on some specific index-linked bond issues, in order to stabilise their flows through interest rate swaps.

More information on hedged assets and liabilities can be found in the tables contained in Part B of the notes for each section of the balance sheet items to which the hedged items are posted.

Transaction/Type of hedge	Fair Value						Cash flow Hedge		Foreign investments	Total 31 12 2016
	Micro Hedge					Macro-hedge	Micro-hedge	Macro-hedge		
	interest rate risk	exchange risk	credit risk	price risk	multiple risks					
1. Financial assets available for sale	401,069	-	-	-	-	X	-	X	X	401,069
2. Loans and receivables	96,674	46,939	-	-	-	X	-	X	X	143,613
3. Financial assets held to maturity	X	-	-	X	-	X	-	X	X	-
4. Portfolio	X	X	X	X	X	468,170	X	-	X	468,170
5. Other transactions	-	-	-	-	-	X	-	X	-	-
Total assets	**497,743**	**46,939**	**-**	**-**	**-**	**468,170**	**-**	**-**	**-**	**1,012,852**
1. Financial liabilities	22,721	-	-	X	-	X	170,627	X	X	193,348
2. Portfolio	X	X	X	X	X	-	X	-	X	-
Total liabilities	**22,721**	**-**	**-**	**-**	**-**	**-**	**170,627**	**-**	**-**	**193,348**
1. Expected transactions	X	X	X	X	X	X	-	X	X	-
2. Financial assets and liabilities portfolio	X	X	X	X	X	-	X	-	-	-
Total	**520,464**	**46,939**	**-**	**-**	**-**	**468,170**	**170,627**	**-**	**-**	**1,206,200**

Section 7 – Changes in value of macro-hedged financial liabilities – Item 70

7.1 Changes in value of hedged financial liabilities

Fair value change of financial liabilities in hedged portfolios / Values	Total 31 12 2017	Total 31 12 2016
1. Positive fair value change of financial liabilities	**-**	**-**
2. Negative fair value change of financial liabilities	788	-
Total	**(788)**	**-**

The balance of changes in value of the liabilities subject to macro-hedging of interest rate risk is recognised in this item.

7.2 Changes in value of financial liabilities: breakdown by hedged portfolios

As at 31 December 2017, the amount of financial liabilities subject to macro-hedging of interest rate risk stood at EUR 1,187.9 mln. The Bank adopts macro-hedging to hedge demand items (CIDs - Italian Deposit Accounts).

Section 8 – Tax liabilities – Item 80

Please refer to section 13 of the assets.

Section 9 – Liabilities associated with individual assets held for sale – Item 90

Please refer to section 14 of the assets.

Section 10 – Other liabilities – Item 100

10.1 Other liabilities: breakdown

	Total 31 12 2017	Total 31 12 2016
Due to the Revenue and other tax levying authorities	166,863	83,984
Due to social security authorities	491,152	236,170
Amounts available to customers	38,817	121,967
Other amounts due to employees	31,906	42,730
Items in transit between branches	6,362	54,196
Items in processing	735,965	756,911
Payables in relation to the payment of supplies of goods and services	206,614	222,561
Irrevocable commitments to disburse funds	223,325	169,474
Accrued expenses and unearned revenues not attributable to other line items	61,310	26,689
Payables for consolidated income tax return	485,143	260,271
Other	794,729	1,157,802
Total	**3,242,186**	**3,132,755**

The lines "Items in processing" and "Other" include transactions which were cleared in early 2018.

Section 11 – Provision for employee severance pay – Item 110

11.1 Provision for employee severance pay: annual changes

	Total 31 12 2017	Total 31 12 2016
A. Opening balance	**245,264**	**238,513**
B. Increases	**4,499**	**12,344**
B.1 Provision for the year	3,898	5,547
B.2 Other increases	601	6,797
C. Decreases	**57,238**	**5,593**
C.1 Severance payments	50,416	4,337
C.2 Other decreases	6,822	1,256
D. Closing balance	**192,525**	**245,264**

11.2 Other information

Provision for employee severance pay is considered as a defined benefit fund for the purpose of international accounting standards.

In accordance with the provisions of art. 2120 of the Italian Civil Code, Staff severance pay would amount to EUR 167.8 mln.

The provision for the year, as clarified by the Bank of Italy, does not include amounts which, as a result of the reform introduced by Legislative Decree no. 252 of 5 December 2005, are paid directly by the Bank, depending on the various employee options, to complementary pension schemes or to the treasury fund managed directly by the Italian National Social Security Institute, INPS. These items are recognised in personnel expenses, as "contributions to external pension funds: defined contribution".

11.2.a Changes in net defined benefit liability during the year: Severance pay

The table below reports the information required by paragraphs 140 and 141 of IAS 19.

Item/Amount	Present value of DBO	
	31 12 2017	31 12 2016
Opening balance	**245,264**	**238,514**
Interest income/expense	3,898	5,547
Remeasurement of net defined benefit liability (asset):	(5,563)	6,796
Actuarial gains (losses) arising from changes in demographic assumptions	66	818
Actuarial gains (losses) arising from past experiences	(5,215)	(1,608)
Actuarial gains (losses) arising from changes in financial assumptions	(414)	7,586
Payments from plan	(50,416)	(4,337)
Other changes	(658)	(1,256)
Closing balance	**192,525**	**245,264**

11.2.b Key actuarial assumptions

Key actuarial assumptions/percentage	31 12 2017	31 12 2016
Discount rates	0.87%	1.44%
Expected rates of salary increases	X	X

11.2.c Sensitivity of defined benefit obligation to changes in key actuarial assumptions

Actuarial assumptions	31 12 2017		31 12 2016	
	Change in DBO	Change (%) in DBO	Change in DBO	Change (%) in DBO
Discount rates				
Increase of 0.25%	(3,075)	-1.60%	(5,690)	-2.31%
Decrease of 0.25%	3,870	2.01%	2,637	1.07%

Section 12 – Provisions for risks and charges – Item 120

12.1 Provisions for risks and charges: breakdown

Item/Amount	Total 31 12 2017	Total 31 12 2016
1. Pensions and other post retirement benefit obligations	44,213	47,232
2. Other provisions for risks and charges	974,113	949,280
2.1 legal disputes	585,816	569,617
2.2 personnel charges	80,218	175,424
2.3 other	308,079	204,239
Total	**1,018,326**	**996,512**

For further details of the sub-item 2.3 “others”, please refer to table 12.4 below “Provisions for risks and charges - Other provisions”.

12.2 Provisions for risks and charges: annual changes

Item/Amount	Totale 31 12 2017		
	Pensions and other post retirement benefit obligations	Other provisions	Total
A. Opening balance	**47,232**	**949,280**	**996,512**
B. Increases	**2,051**	**393,086**	**395,137**
B.1 Provision for the year	691	392,947	393,638
B.2 Changes due to the time value of money	1,360	44	1,404
B.3 Changes due to discount rate changes	-	95	95
B.4 Other increases	-	-	-
C. Decreases	**5,070**	**368,253**	**373,323**
C.1 Use during the year	2,937	141,671	144,608
C.2 Changes due to discount rate changes	451	316	767
C.3 Other decreases	1,682	226,266	227,948
D. Closing balance	**44,213**	**974,113**	**1,018,326**

12.3 Defined benefit company pension funds

12.3.1. Description of funds and related risks

The information provided below concerns defined benefit pension funds in favour of employees and terminated employees, i.e. funds in which the obligation of future payment of retirement benefits is undertaken by the fund itself and indirectly by the Bank, which may be required to increase the value of the obligation in the event of inadequate capital assessed in accordance with actuarial criteria.

For each definite benefit plan the Bank relies on analyses carried out by an independent certified actuary.

In accounting for the plans, the surplus or deficit was determined using the credit unitary projection method; therefore the fair value of the assets servicing the plan, if any, was deducted from the current value of the obligation, as shown in the statement of financial position (*see Part A of the Notes - Accounting Policies*).

The valuations concerned those participating, which form a closed group of retired or active employees, and were carried out on the basis of these groups of employees as measured in December 2017 (with the exclusion of the Section of the Cassa di Previdenza Aziendale (Company's Pension Scheme) for employees of Monte dei Paschi di Siena, valued as at 30 November 2017).

In accordance with IAS 19, revised by amendments issued by IASB on 16 June 2011 and approved by EU Regulation no. 475/2012 dated 5 June 2012, in determining the total cost of each defined benefit plan, which - as is well-known - may be influenced by many variables, objective and prudential technical bases were adopted in formulating both demographic and financial assumptions.

In view of the evolutionary nature of the main relevant aggregates, actuarial valuations were performed under dynamic conditions, so as to subsume in the medium-long term both the average annual changes in the benefits defined in each plan, and the interest rate trends expected in the financial market.

Some of the main actuarial assumptions that were formulated and used as valuation bases are mentioned below:

1) technical mortality basis: using death probability data as provided in ISTAT's 2016 tables, broken down by gender and age, with mortality reduced by 20%;
2) economic-financial basis: using as annual relative interest rate the interpolated EUR Composite AA rate curve (BFV) as at 31 December 2017.

For each defined benefit plan, the balance sheet equity resulting from valuations carried after reconciliation of actuarial assets and liabilities as at 31 December 2017 underwent a sensitivity analysis to examine the effects of changes in the key technical assumptions included in the calculation model (average annual discount rate and inflation rate), and the results were presented in specific tables.

The theoretical future increase in INPS pensionable earnings, which in any case is considered in the calculation model in an average annual percentage of 0.75%, was not included in the sensitivity analysis because it is essentially irrelevant for the preparation of the technical financial statements as, given that all defined benefit pensions funds are closed to new participants and taking into account the progressive decrease in the active population due to retirements during the year, the ratio between active and retired participants has now reduced to a percentage of less than 0.1%.

The defined benefit plans, in which the Bank is co-obliged within the limits set out in the articles of association or in the regulations of each plan, are either internal plans, divided in the description below between unfunded and funded, or independent external funds.

Unfunded internal plans

Supplementary pension provision for staff in the former tax collection division of Banca Monte dei Paschi di Siena S.p.a.

(Bank Register no. 9185)

This is a defined benefit plan designed to provide retired staff of the former Direct Management division of Banca MPS with supplementary pension in the form of annuity.

The entitled population, consisting solely of retirees whose number is 329, is made up of staff of the former business unit, divested in 2006, who retired after the year 1982.

For the purposes of the preparation of the technical financial statements, the liabilities were valued taking into account INPS pension payment regulations issued by Law no. 335/95 as amended and the Plan Regulations.

The valuations concerning participants were carried out on the basis of the positions of retirees receiving immediate or deferred retirement benefits, taking into account details on currently paid pensions, types of pension, personal data of the beneficiary and amount of the annuity paid by the Fund and that paid by INPS.

In the event that the agreed benefits are more costly than expected, the Bank remains responsible for providing additional funds to meet the financial requirements of the retirement plans.

The valuations show an actuarial loss of EUR 1.23 mln at the date of 31 December 2017.

National insurance (INPS) for former Banca Operaia di Bologna staff

(Bank Register no. 9142)

The fund is intended to supplement benefits paid out under INPS pension schemes for retired employees of former Banca Operaia di Bologna.

The Plan's Regulations, signed on 23 September 1980, provide for supplementary benefit up to a certain percentage of the last salary earned. For the purposes of pension calculation, annual salary means a set of items paid on a continuous basis and on which benefits are paid out to surviving dependents. For the purposes of the preparation of the technical financial statements, the liabilities were valued taking into account INPS pension payment regulations issued by Law no. 335/95 as amended.

The valuations concerning participants were carried out taking into account details on currently paid pensions, personal data of the beneficiary and the ratio between the annuity paid by the Fund and that paid by INPS.

In the event of deficit, the Bank remains responsible for providing additional funds to meet the financial requirements of the retirement plans.

The valuations show an actuarial loss of EUR 0.03 mln at the date of 31 December 2017.

The plan applies to a population made up exclusively of non-active participants, of which 64 are retired and 2 on deferred retirement.

Pension provision for employees of former Banca di Credito Popolare e Cooperativo di Reggio Emilia

(Bank Register no. 9178)

The sole aim of the fund is to supplement compulsory schemes in order to guarantee higher levels of insurance coverage for ex-employees of former Banca di Credito Popolare e Cooperativo di Reggio Emilia, as the direct beneficiaries of a life annuity or as the surviving spouse of a former employee.

The pension provision for employees participating in the Fund is governed by the Regulations issued in 1977 and later amended to reflect subsequent laws. It provides for payment of supplementary benefits so as to reach a certain percentage of the last salary earned.

The valuations concerning participants were carried out taking into account details on currently paid pensions, personal data of the beneficiary and the ratio between the annuity paid by the Fund and that paid by INPS.

The obligation to pay the benefits lies with the Bank, which must provide the wherewithal to cover the liability over time.

The valuations show an actuarial loss of EUR 0.019 mln at the date of 31 December 2017.

The Plan applies to a population of only 12 retirees.

Pension provision for employees of former Banca Popolare Veneta

(Bank Register no. 9066)

The pension plan, which applies to a residual population of 20 retirees, is aimed at supplementing the benefits paid out by INPS for employees already retired at 7 December 1989 and their assigns, under labour agreements signed on 4 February 1956 and on 1 January 1982 for executive staff, as amended.

The valuations concerning participants were carried out taking into account details on currently paid pensions, personal data of the beneficiary and the ratio between the annuity paid by the Fund and that paid by INPS.

In the event of deficit, the Bank is responsible for providing additional funds to meet the financial requirements of the retirement plans.

The valuations show an actuarial loss of EUR 0.10 mln at the date of 31 December 2017.

Funded internal plans

Pension provision for employees of former Banca Nazionale Agricoltura

(Bank Register no. 9047)

The purpose of this Provision is to pay additional retirement benefits over and above those paid by INPS to employees of the former Banca Nazionale dell'Agricoltura, who retired before 1 October 2000 or whose employment was terminated after this date without their having exercised the right, provided under the agreement of 12 September 2000, to transfer their contributions to another individual capitalisation, defined contribution fund.

The Plan applies to a population of 231 retirees and 3 employees on deferred retirement.

The Plan's Regulations, first approved in 1966, provide for supplementary benefit up to a certain percentage of the last salary earned, to be paid to the direct beneficiaries and their surviving dependants.

The valuations concerning participants were carried out taking into account details on currently paid pensions, personal data of the beneficiary and the ratio between the annuity paid by the Fund and that paid by INPS.

Although the Fund has its own separate and independent allocation capital, the guarantee of performance of the benefit payment obligation lies with the Bank, which must ensure the wherewithal to cover the liability over time.

At the valuation date of 31 December 2017, the actuarial calculations show that the capital adequacy of the Fund satisfies the obligation to pay benefits with respect to the participants.

Complementary pension provision for employees of former Banca Toscana

(Bank Register no. 9110)

This defined benefit complementary pension fund is reserved for employees of the former Banca Toscana who were already retired at 1 January 1999 and to active employees hired before 27 April 1993 who did not opt at the time to transfer their contributions to an individual capitalisation and defined contribution fund.

The population of employees eligible for the present and future benefits is composed of 838 retirees, 4 active employees and 3 employees on deferred retirement.

The current Fund Regulations set out the rules concerning the retirement benefits to be paid to eligible employees, distinguishing between old age, seniority and disability pensions. Calculation of the complementary benefits is based on the average of the last three years of employment, taking into account only the items specified in the Regulations.

The guarantee of performance of the benefit payment obligation lies with the Bank, which must ensure the wherewithal to cover the liability over time, although the Fund has its own, separate accounting and capital, with the effects set out in art. 2117 of the Italian Civil Code.

At the valuation date of 31 December 2017, the actuarial calculations show that the capital adequacy of the Fund satisfies the obligation to pay benefits with respect to the participants.

External funds

Cassa di Previdenza Aziendale (Company's Pension Scheme) for employees of Monte dei Paschi di Siena

(Bank Register no. 1127)

The Fund has legal personality and full independence in terms of capital and operation.

It is reserved for employees and retirees of the Bank hired until 31 December 1990 who, following the agreement of 30 June 1989, opted to remain in the specific complementary benefit Section under a defined benefit regime.

The Fund's governance consists of a Board of Directors and a Board of Statutory Auditors with joint membership (some of the members are appointed by the Bank and others are appointed by the participants) supported by the General Manager.

The Bank provides, free of charge, the employees, premises and other resources required for the autonomous management of the Cassa and incurs all the related costs and expenses, including those for the functioning of the governing and control bodies.

In terms of guarantees given, in accordance with art. 26 of the Articles of Association, any deficits in Section coverage which should be identified during actuarial checks will be made up by the Bank only to the extent necessary to maintain tier 1 services, in accordance with the guarantee to the participants undertaken in compliance with Law no. 218/90 and referred to in the agreement of 24 June 1991.

The complementary benefits, which are determined by subtracting the benefits paid out by INPS from the annual amount of the complementary benefits, are made up of two components. The first component increases the benefits to be paid by the Cassa up to 70% of the fixed items of the salary of an employee of the same level, and the second component increases the complementary benefits by a further 9%.

The assets that comprise the reference capital consist primarily of investments in securities, managed almost entirely under a financial management agreement, and properties.

The population is composed of 2,663 retirees, 126 active employees and 126 employees on deferred retirement.

The technical report prepared in accordance with IAS 19 criteria by the designated actuary shows the capital adequacy of the Complementary Section which, against an asset fair value calculated at 30 November 2017 *(*)* of EUR 364.16 mln, takes into consideration the DBO (Defined Benefit Obligation) as at 31 December 2017 of EUR 166.41 mln.

(*) most recent figure available

Pension Fund for personnel of former Banca Agricola Mantovana S.p.A.

(Bank Register no. 1341)

The Fund, which operates on a defined benefit basis, has legal personality and full independence in terms of capital and operation, as its legal form is that of an unincorporated association under art. 36 of the Italian Civil Code.

The Fund's governance consists of a Board of Directors and a Board of Statutory Auditors with joint membership, supported by the General Manager.

The sole purpose of the Fund is to pay to eligible participants complementary benefits over and above those paid out by INPS; the participants include 33 retirees and 3 employees on deferred retirement.

At the valuation date of 31 December 2017, the actuarial calculations highlight a DBO (Defined Benefit Obligation) of EUR 0.95 mln against assets allocated to satisfy the pension obligation (Asset Fair Value) of EUR 0.92 mln.

Pension Fund for personnel of former Banca Antonveneta S.p.a.

(Bank Register no. 1033)

The Fund, whose legal form is that of an unincorporated association in accordance with article 36 of the Italian Civil Code, has the sole purpose of providing benefits in addition to AGO (General Compulsory Insurance) cheques, was established in 1966 and has continued to operate to date.

The currently limited group of pensioners entitled to benefits refers to those who at the time did not accept the proposal for the settlement in capital of the value of the position recognised.

Although the Fund has legal personality and full independence in terms of capital, in the event of operating deficit, the co-obliged Bank is responsible for providing the wherewithal to cover such deficit.

The population eligible to receive the benefits is composed of only 31 retirees.

At the valuation date of 31 December 2017, the actuarial calculations highlight a DBO (Defined Benefit Obligation) of EUR 2.25 mln against capital meant to satisfy the pension obligation (Asset Fair Value) of EUR 2.08 mln.

$$$

The defined benefit pension funds for personnel of the London branch (BMPS UK Pension Fund) and the New York branch (Retirement Plan) of the Bank are designed to pay for the employees' benefits upon reaching normal retirement age as well as benefits to other surviving beneficiaries.

As concerns the pension plan for the London branch, the plan is funded by the branch itself through approximately 53.7% of the total salaries. A Trustee whose members include active employees, is responsible for plan administration; the financial resources are managed by a specialised company. The plan's deficit is currently being made up through a plan of 67 monthly instalments the first of which was paid in October 2017. The technical report prepared in accordance with IAS 19 criteria by the designated actuary at the valuation date of 31 December 2017 shows the capital adequacy of the pension plan which, against an asset fair value of EUR 58.24 mln, takes into consideration the DBO (Defined Benefit Obligation) of EUR 54.2 mln.

As regards the New York branch's retirement plan (external/funded), which includes a total of 60 members, of which 19 active employees, the actuarial calculations for the year 2017 show a DBO (Defined Benefit Obligation) of EUR 16.82 mln, against an asset fair value of EUR 12.13 mln.

$$$

IAS 19 was also applied to calculate the actuarial values that could be used to determine the liability relating to the complementary benefits associated with the former Credito Lombardo Spa. Considering the contractual nature of the obligation, the economic costs are incurred directly by the Bank. The currently limited group of people eligible for benefits regards a total of 98 immediate pensions, of which 61 direct and 37 indirect. The actuarial calculations show a DBO (Defined Benefit Obligation) of EUR 2.97 mln at the valuation date of 31 December 2017.

Finally, there are two positions referring to former General Managers of the Bank to whom specific economic benefits other than pension benefits are disbursed. In any event, they are assessed on the basis of actuarial parameters in order to determine the value of the Bank's obligation. This type of remuneration, known as *ex contractu*, consists of payment of monthly benefits revalued on the basis of automatic pension equalisation indexes.

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As required by the Bank of Italy, the internal fund statements can be found in the annexes to the financial statements.

12.3.2 Changes in net defined liability (asset) and reimbursement rights during the year

The following tables show movements for the year in internal and external funds which, according to international accounting standards, come under the heading of defined benefit funds.

12.3.2a Changes in net defined liability (asset) and reimbursement rights during the year – Internal Funds

Item/Amount	31 12 2017			
	A (-)	B (+)	C (+)	D=A+B+C
	Plan assets	Present value of DBO	Effect of asset ceiling	Net defined benefit liability (asset)
Opening balance	**(132,071)**	**153,576**	**15,590**	**37,095**
Current service cost	X	16	X	16
Interest income/expense	(538)	1,231	-	693
Remeasurement of net defined benefit liability (asset):	804	1,996	(1,101)	1,699
Return on plan assets excluding interest	804	X	X	804
Actuarial gains (losses) arising from changes in demographic assumptions	X	4,662	X	4,662
Actuarily gains (losses) arising from experience adjustments	X	(2,386)	X	(2,386)
Actuarial gains (losses) arising from changes in financial assumptions	X	(280)	X	(280)
Changes in effect of limiting net defined benefit asset to asset ceiling	X	X	(1,101)	(1,101)
Past service cost and gains (losses) arising from settlements	X	-	X	-
Changes in foreign exchange rates	-	-	-	-
Contributions to plan:	-	-	-	-
by employer	-	-	X	-
by employee	-	-	X	-
Payments from plan	9,746	(12,683)	X	(2,937)
Effect of business combinations and disposals	-	-	-	-
Effect of any plan curtailments	-	-	X	-
Effect of any plan settlements	-	-	X	-
Other changes	-	-	-	-
Closing balance	**(122,059)**	**144,136**	**14,489**	**36,566**

Item/Amount	31 12 2016			
	A (-)	B (+)	C (+)	D=A+B+C
	Plan assets	Present value of DBO	Effect of asset ceiling	Net defined benefit liability (asset)
Opening balance	**(141,673)**	**160,231**	**17,423**	**35,981**
Current service cost	X	-	X	-
Interest income/expense	(969)	1,177	96	304
Remeasurement of net defined benefit liability (asset):	191	2,524	(1,985)	730
Return on plan assets excluding interest	191	X	X	191
Actuarial gains (losses) arising from changes in demographic assumptions	X	(407)	X	(407)
Actuarily gains (losses) arising from experience adjustments	X	(1,586)	X	(1,586)
Actuarial gains (losses) arising from changes in financial assumptions	X	4,517	X	4,517
Changes in effect of limiting net defined benefit asset to asset ceiling	X	X	(1,985)	(1,985)
Past service cost and gains (losses) arising from settlements	X	-	X	-
Changes in foreign exchange rates	-	-	-	-
Contributions to plan:	-	-	-	-
by employer	-	-	X	-
by employee	-	-	X	-
Payments from plan	10,436	(13,439)	X	(3,003)
Effect of business combinations and disposals	-	-	-	-
Effect of any plan curtailments	-	-	X	-
Effect of any plan settlements	-	-	X	-
Other changes	(56)	3,083	56	3,083
Closing balance	**(132,071)**	**153,576**	**15,590**	**37,095**

12.3.2b Changes in net defined liability (asset) and reimbursement rights during the year: External Funds

Item/Amount	31 12 2017			
	A (-)	B (+)	C (+)	D=A+B+C
	Plan assets	Present value of DBO	Effect of asset ceiling	Net defined benefit liability (asset)
Opening balance	**(447,483)**	**252,862**	**204,761**	**10,140**
Current service cost	X	675	X	675
Interest income/expense	(4,026)	5,268	(575)	667
Remeasurement of net defined benefit liability (asset):	3,388	(4,708)	346	(974)
Return on plan assets excluding interest	3,388	X	X	3,388
Actuarial gains (losses) arising from changes in demographic assumptions	X	1,428	X	1,428
Actuarily gains (losses) arising from experience adjustments	X	(5,964)	X	(5,964)
Actuarial gains (losses) arising from changes in financial assumptions	X	(172)	X	(172)
Changes in effect of limiting net defined benefit asset to asset ceiling	X	X	346	346
Past service cost and gains (losses) arising from settlements	X	-	X	-
Changes in foreign exchange rates	3,464	(4,356)	-	(892)
Contributions to plan:	(1,969)	-	-	(1,969)
by employer	(1,969)	-	X	(1,969)
by employee	-	-	X	-
Payments from plan	9,079	(9,079)	X	-
Effect of business combinations and disposals	-	-	-	-
Effect of any plan curtailments	-	-	X	-
Effect of any plan settlements	-	-	X	-
Other changes	-	-	-	-
Closing balance	**(437,547)**	**240,662**	**204,532**	**7,647**

Item/Amount	31 12 2016			
	A (-)	B (+)	C (+)	D=A+B+C
	Plan assets	Present value of DBO	Effect of asset ceiling	Net defined benefit liability (asset)
Opening balance	**(469,036)**	**255,028**	**220,733**	**6,725**
Current service cost	X	541	X	541
Interest income/expense	(7,112)	6,044	1,741	673
Remeasurement of net defined benefit liability (asset):	14,299	6,986	(17,713)	3,572
Return on plan assets excluding interest	14,299	X	X	14,299
Actuarial gains (losses) arising from changes in demographic assumptions	X	(719)	X	(719)
Actuarily gains (losses) arising from experience adjustments	X	(13,896)	X	(13,896)
Actuarial gains (losses) arising from changes in financial assumptions	X	21,601	X	21,601
Changes in effect of limiting net defined benefit asset to asset ceiling	X	X	(17,713)	(17,713)
Past service cost and gains (losses) arising from settlements	X	-	X	-
Changes in foreign exchange rates	7,325	(7,258)	-	67
Contributions to plan:	(1,787)	-	-	(1,787)
by employer	(1,787)	-	X	(1,787)
by employee	-	-	X	-
Payments from plan	8,479	(8,479)	X	-
Effect of business combinations and disposals	-	-	-	-
Effect of any plan curtailments	-	-	X	-
Effect of any plan settlements	-	-	X	-
Other changes	349	-	-	349
Closing balance	**(447,483)**	**252,862**	**204,761**	**10,140**

12.3.2c Changes in net defined liability (asset) and reimbursement rights during the year – Total

Item/Amount	31 12 2017			
	A (-) Plan assets	B (+) Present value of DBO	C (+) Effect of asset ceiling	D=A+B+C Net defined benefit liability (asset)
Internal funds	(122,059)	144,136	14,489	36,566
External funds	(437,547)	240,662	204,532	7,647
Total defined benefit funds	**(559,606)**	**384,798**	**219,021**	**44,213**

Item/Amount	31 12 2016			
	A (-) Plan assets	B (+) Present value of DBO	C (+) Effect of asset ceiling	D=A+B+C Net defined benefit liability (asset)
Internal funds	(132,071)	153,576	15,590	37,095
External funds	(447,483)	252,862	204,761	10,140
Total defined benefit funds	**(579,554)**	**406,438**	**220,351**	**47,235**

12.3.3 Information on Fair value of plan assets

Item	31 12 2017			
	Internal pension plans		External pension plans	
	Listed in active markets	Not listed in active markets	Listed in active markets	Not listed in active markets
Cash and cash equivalents	83,847	-	10,154	-
of which: used by the Bank	83,847	-	3,012	-
Equity instruments	-	-	36,941	-
of which: issued by Bank	-	-	-	-
Debt instruments	38,212	-	170,018	-
of which: issued by the Bank	-	-	5,974	-
Real estate	-	-	-	72,896
of which: used by the Bank	-	-	-	-
Derviatives	-	-	-	-
UCITS	-	-	147,538	-
Asset-backed securities	-	-	-	-
Structured debt	-	-	-	-
Total	**122,059**	**-**	**364,651**	**72,896**
of wich: own instruments/assets used by the Bank	83,847	-	8,987	-

The table shows, for funded defined benefit plans, the total amount of plan assets. In particular, the assets refer to the following funds:

- Pension Fund for personnel of former Banca Agricola Mantovana S.p.A.
- Pension Fund for personnel of former Banca Toscana S.p.A.
- Pension Fund for personnel of former Banca Antonveneta
- Cassa di Previdenza Aziendale for Monte dei Paschi di Siena employees, defined benefit section
- Pension Fund for personnel of the Parent Company of the London branch and
- Pension Fund for personnel of the Parent Company of the New York branch.

the total of which exceed the obligations existing at year end.

Item	31 12 2016			
	Internal pension plans		External pension plans	
	Listed in active markets	Not listed in active markets	Listed in active markets	Not listed in active markets
Cash and cash equivalents	91,806	-	14,632	-
of which: used by the Bank	91,806	-	3,055	-
Equity instruments	-	-	44,030	-
of which: issued by Bank	-	-	2	-
Debt instruments	40,265	-	178,894	-
of which: issued by the Bank	-	-	5,983	-
Real estate	-	-	-	62,700
of which: used by the Bank	-	-	-	-
Derviatives	-	-	-	-
UCITS	-	-	147,227	-
Asset-backed securities	-	-	-	-
Structured debt	-	-	-	-
Total	**132,071**	**-**	**384,783**	**62,700**
of wich: own instruments/assets used by the Bank	91,806	-	9,040	-

12.3.4 Key actuarial assumptions used

Key actuarial assumptions/percentages	31 12 2017		31 12 2016	
	Defined benefit funds		Defined benefit funds	
	Internal pension plans	External pension plans	Internal pension plans	External pension plans
Discount rates	0.69%	1.65%	0.84%	1.85%
Expected rates of salary increases	0.75%	2.03%	0.75%	1.63%

A discount rate of 0.69% was used for internal plans and of 1.65% for external ones (0.87% for Provision for severance pay, see section 11.2b), calculated as a weighted average of interest rates in EUR Composite AA yield curve as at 31 December 2017, using, as weights, the ratio between the amount paid / paid in advance for each maturity and the total amount to be paid/paid in advance for the entire duration of the population considered.

12.3.5 Information on amount, timing and uncertainty of cash flows

31 12 2017

Actuarial assumption	Change in DBO	Change (%) in DBO
Discount rate		
Increase of 0.25%	(16,448)	-4.20%
Decrease of 0.25%	9,544	2.44%
Expected rates of salary increases		
Increase of 0.25%	4,036	1.03%
Decrease of 0.25%	(10,922)	-2.79%

31 12 2016

Actuarial assumption	Change in DBO	Change (%) in DBO
Discount rate		
Increase of 0.25%	(14,748)	-3.84%
Decrease of 0.25%	9,032	2.35%
Expected rates of salary increases		
Increase of 0.25%	10,683	2.78%
Decrease of 0.25%	(6,056)	-1.58%

With respect to pay increases, it is not possible to conduct any sensitivity analysis given the static nature of the benefits linked to the choice of participants to stay in the fund.

12.3.6 Plans covering multiple employers

The table in this section was not completed since there are no plans covering multiple employers to report for either the current or previous year.

12.3.7 Defined benefit plans sharing risks among entities under common control

The table in this section was not completed since there are no defined benefit plans sharing risks among entities under common control to report for either the current or previous year.

12.4 Provisions for risks and charges: other provisions

Items/Amounts	Total 31 12 2017	Total 31 12 2016
2.1 Legal disputes	585,816	569,617
- Revocatory	64,122	78,814
- Other legal disputes	521,694	490,803
2.2 personnel charges	80,218	175,424
- Contenzioso lavoro	37,933	46,364
- Esodi incentivati	15,008	117,762
- Altri	27,277	11,298
2.3 other	308,079	204,239
- Risks related to the sale of business units	26,541	30,321
- Charges due to corporate restructuring	25,769	17,654
- Payments to financial advisors	45	154
- Charges for embezzlment	12,137	6,914
- Claims and Court agreements	1,085	737
- Other	242,502	148,459
Total	**974,113**	**949,280**

Section 13 – Redeemable shares – Item 140

The tables in this section were not completed since there are no redeemable shares to report for either the current or previous year.

Section 14 - Company equity - Items 130, 150, 160, 170, 180, 190 and 200

14.1 "Share capital" and "Treasury shares": breakdown

14.1.a Share capital: breakdown

(in units of Eur)

Items/Amounts	31 12 2017		31 12 2016	
	Implied par value share	Par value of fully paid shares	Par value per share	Par value of fully paid shares
Ordinary shares	9.06	10,328,618,260	251	7,365,674,050
Total share capital		**10,328,618,260**		**7,365,674,050**

On 6 June 2011 the Bank's Extraordinary Shareholders' Meeting resolved that indication of the par value of the classes of shares be eliminated; accordingly, as at 31.12.2011, the so-called "Implied par value" is indicated, which is obtained by dividing the total share capital amount by the number of shares in the same category, outstanding at the reference date.

Ordinary shares are registered and indivisible. Each share entitles to one vote. Information on the number of fully paid-up shares can be found in the notes to Table "14.2 Share capital – number of shares: annual changes".

In August 2017, the share capital increase of Banca Monte dei Paschi di Siena was completed for a total amount of EUR 8,327.1 mln through the conversion into ordinary shares of AT1 and T2 bond issues (of the Group) for a value of EUR 4,472.9 mln, and through the subscription by the MEF of ordinary shares for a value of EUR 3,854.2 mln.

On 18 December 2017, the extraordinary Shareholders' Meeting of the Bank, taking into account (i) the financial position as at 30 September 2017 and the resulting losses for the period of EUR 2,506.0 mln, as well as (ii) prior losses of EUR 2,324.0 mln carried forward on the basis of shareholders' meeting resolution of 24 November 2016 and (iii) the equity adjustments equal to EUR 534.1 mln, decided to approve the coverage of the total loss of EUR 5,364.2 mln by means of a corresponding reduction in the share capital.
As a result of the above, at the reporting date, the Bank's share capital amounted to EUR 10,328,618,260.14, represented by 1,118,778,319 ordinary shares without a nominal value.

14.1.b Treasury shares: breakdown

At the date of these financial statements, the Bank holds 21,511,753 treasury shares for a total value of EUR 185.9 mln.

14.2 Share capital - Number of shares: annual changes

Item/Type		31 12 2017	31 12 2016
		Ordinary	Ordinary
A.	**Shares outstanding as at the beginning of the year**	29,320,798	2,932,079,864
	- fully paid	29,320,798	2,932,079,864
	- not fully paid	-	-
A.1	Treasury shares (-)	-	-
A.2	**Shares outstanding: opening balance**	**29,320,798**	**2,932,079,864**
B.	**Increases**	**1,110,969,274**	-
B.1	New issues	1,110,969,274	-
	- Against payment:	1,110,969,274	-
	- Business combinations	-	-
	- Bond converted	517,099,404	-
	- Warrats exercised	-	-
	- Other	593,869,870	-
	- without payment:	-	-
	- to employees	-	-
	- to directors	-	-
	- Other	-	-
B.2	Sale of treasury shares	-	-
B.3	Other increases	-	-
C.	**Decreases**	**21,511,753**	**2,902,759,066**
C.1	Cancellation	-	-
C.2	Purchase of treasury shares	-	-
C.3	Business transferred	-	-
C.4	Other decreases	21,511,753	2,902,759,066
D.	**Shares outstanding: closing balance**	**1,118,778,319**	**29,320,798**
D.1	Treasury shares (+)	21,511,753	-
D.2	Shares outstanding as at the end of the year	1,140,290,072	29,320,798
	- fully paid	1,140,290,072	29,320,798
	- not fully paid	-	-

Line C.4 “Other decreases” for 2016 includes the grouping of the Parent Company’s ordinary shares at a ratio of 1 new ordinary share for every 100 shares held, pursuant to the resolution passed by the Extraordinary Shareholders’ Meeting of Banca Monte dei Paschi di Siena S.p.A. held on 24 November 2016, after the cancellation of 64 ordinary shares of the Parent Company for accounting reconciliation purposes.

At the date of these financial statements, the share capital is fully paid in.

14.3 Share capital: other information

14.3a Equity instruments: breakdown and annual changes

As at 31 December 2017, the Bank held no equity instruments.

14.4 Retained earnings: other information

14.4.a Item "Reserves" - breakdown

See "Part F – Information on shareholders' equity" of these notes to the financial statements.

14.4.b Information on Equity items under art. 2427.7bis Italian Civil Code

		Note	31 12 2017	Under tax suspension	Available for use	Amounts used in the last 5 years to cover losses
	Financial assets availabre for sale	(1)	44,548			
	Cash flow Hedges		(33,451)			
	Exchange differences	(1)	2,006			
130 Valuation reserves	Actuarial gains (losses) on defined benefit plans		(110,263)			
	Valuation reserve of own credit risk	(1)	35,690			
	Revaluation Law 185/2008 art.15 paragraph 16 et seq.					146,372
	Revaluation Law 266/2005					57,083
	Valuation reserves		**(61,470)**			**203,455**
150 Equity Instruments	**Equity instruments**					**3,002**
	Legal reserve					572,054
	Statutory reserve					1,298,466
	Extraordinary reserve					9,566
	Other:					
	Special reserve L218/90					163,794
	Reserve pursuant ex art.6 letter a) Ld 38/2005 (fair value option)	(2)				159,195
160 Reserves	Reserve pursuant to art.19 dlg 87/92					575,027
	Merger surplus					1,269,100
	Indemnity 2009		(76,000)			
	Reserve for settlement ongoing losses	(3)	2,506,031		B	
	IAS 8 Restatement reserve					3,781
	Other reserves (Costs incurred for the capital incrase and others)		(6,242)			
	Gains (Losses) carried forward					
	Reserves		**2,423,789**			**4,050,983**
170 Share premium reserve	**Share premium reserve**					**263,715**
180. Share capital	**Share capital**		**10,328,618**			**13,718,948**
190. Treasury shares	**Treasury shares**		**(185,958)**			
200. Profit (Loss) for the year	**Profit (Loss) for the year**		**(2,857,440)**			
Total shareholders' equity			**9,647,539**			**18,240,103**

Legend

A) for capital increase;
B) to cover losses;
C) for distribution to shareholders.

Notes

1) The reserve is unavailable pursuant to art. 6 of Italian Legislative Decree no. 38/2005.
2) As at 31 December 2017, the Bank is obliged to replenish the reserve under art. 6, paragraph 1, letter a) of Italian Legislative Decree no. 38/2005 for a residual amount of EUR 2.6 mln; the significant reduction compared to 31 December 2016 (EUR 222.5 mln) is attributable to the burden sharing as well as the early adoption as at 1 January 2017 of IFRS 9, only relating to the provisions on the presentation of profit and loss on fair value option financial liabilities attributable to changes in own creditworthiness.
3) The reserve arises from coverage of the loss recognised as at 30 September 2017 of EUR 2,506.0 mln approved by the Bank's Shareholders' Meeting in December 2017.

Please note that, in execution of the resolution of the Bank's Extraordinary Shareholders' Meeting held on 18 December 2017, the share capital has been reduced by EUR 5,364.2 mln to cover prior losses (EUR 2,324.0 mln), losses resulting from the financial position as at 30 September 2017 (EUR 2,506.0 mln) and other equity adjustments (EUR 534.1 mln). The portion of share of capital used to cover such items did not consist of reserves subject to tax suspension, as these had already been used up to cover prior losses, in accordance with Shareholders' Meeting resolutions setting forth that they should be permanently reduced and not replenished.

14.4.c Proposal to cover losses under art. 2427.22septies of the Italian Civil Code

Dear Shareholders,

the financial statements close with a net loss of EUR 2,857,440,195.

On 18 December 2017, the extraordinary Shareholders' Meeting decided to approve the coverage of the total loss of EUR 5,364,181,091 by means of a corresponding reduction in the share capital, of which EUR 2,506,030,923 resulting from the financial position as at 30 September 2017, EUR 534,099,667 as other adjustments made to net equity and EUR 2,324,050,501 from previous losses (carried forward on the basis of shareholders' meeting resolution of 12 April 2017).

Therefore, as at 31 December 2017 the total residual loss amounts to EUR 351,409,272, which we propose carrying forward.

Siena, 1 March 2018

The Board of Directors

14.5 Equity instruments: breakdown and annual changes

None to report as at 31 December 2017.

14.6 Other information

See “Part F – Information on shareholders’ equity” of these notes to the financial statements.

Other information

1 Guarantees and commitments

	Transactions	Amount 31 12 2017	Amount 31 12 2016
1)	Financial guarantees given to	2,077,041	2,501,434
	a) Banks	642,598	688,347
	b) Customers	1,434,443	1,813,087
2)	Commercial guarantees given to	3,696,161	4,147,337
	a) Banks	262,248	304,440
	b) Customers	3,433,913	3,842,897
3)	Irrevocable commitments to disburse funds	3,782,820	4,673,855
	a) Banks	1,537,165	2,728,730
	i) drawdown certain	1,537,165	2,175,356
	ii) drawdown uncertain	-	553,374
	b) Customers	2,245,655	1,945,125
	i) drawdown certain	12,495	18,718
	ii) drawdown uncertain	2,233,160	1,926,407
4)	Underlying commitments on credit derivatives: sales of protection	130,000	197,434
5)	Assets pledged as collateral for third-party commitments	7,529	7,529
6)	Other commitments	731,015	1,223,651
	Total	**10,424,566**	**12,751,240**

2 Assets pledged as collateral for liabilities and commitments

Portfolios	31 12 2017	31 12 2016
1. Financial assets held for trading	-	2,610
2. Financial assets designated at fair value	-	-
3. Financial assets available for sale	4,310,010	15,248,469
4. Financial assets held to maturity	-	-
5. Loans to banks	1,075,389	1,937,295
6. Loans to customers	27,886,946	34,201,693
7. Property, plant and equipment	-	-

The table summarises the assets pledged by the Bank as collateral for its liabilities, mainly represented by repurchase agreements. The amount in line "6. Loans to customers" includes approx. EUR 19.5 bn related to loans transferred to the vehicles MPS Covered Bond S.r.l. and MPS Covered Bond 2 S.r.l. as part of two programmes for the issue of covered bonds.

3 Operating leases

3.1 Future minimum lease payments due under operating leases

Items/Amounts	31 12 2017
Up to 1 year	151,139
From 1 to 5 years	567,883
Over 5 years	1,099,314
Future minimum lease payments due	**1,818,336**
Non-cancellable future minimum lease payments receivable	31,567

The amounts in the table also include express the lease payments to Perimetro Gestione Proprietà Immobiliari S.C.P.A.

4 Asset management and trading on behalf of third parties

Type of services	Amount 31 12 2017
1. Trading of financial instruments on behalf of third parties	**-**
a) Purchases	2,342,378
1. Settled	2,342,378
2. Unsettled	-
b) Sales	2,291,970
1. Settled	2,291,970
2. Unsettled	-
2. Asset management accounts	**-**
a) individual	3,566,829
b) collective	1,186
3. Custody and administration of securities	**-**
a) third party securities on deposit associated with custodian bank transactions (excluding asset management)	-
1. Securities issued by companies included in consolidation	-
2. Other securities	-
b) Other third party securities on deposit (excluding asset management)	53,487,236
1. Securities issued by companies included in consolidation	5,239,422
2. Other securities	48,247,814
c) third party securities deposited with third parties	44,452,739
d) own securities deposited with third parties	41,198,488
4. Other transactions	**24,786,343**

5 Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements.

Type	Gross amount of financial assets (a)	Amount of financial liabilities offset in balance sheet (b)	Net amount of financial assets recognised in the balance sheet (c=a-b)	Related amounts not subject to balance sheet offsetting		Net amount (f=c-d-e) 31 12 2017	Net amount (f=c-d-e) 31 12 2017
				Financial instruments (d)	Deposits of cash collateral received (e)		
1. Derivatives	984,772	148,751	836,021	692,469	138,793	4,759	37,693
2. Repurchase agreements	3,497,883	-	3,497,883	3,497,883	-	-	0
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total as at 31 12 2017	**4,482,655**	**148,751**	**4,333,904**	**4,190,352**	**138,793**	**4,759**	**X**
Total as at 31 12 2016	**9,797,807**	**582**	**9,797,225**	**9,591,768**	**167,764**	**X**	**37,693**

6 Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

Type	Gross amount of financial liabilities (a)	Amount of financial assets offset in balance sheet (b)	Net amount of financial liabilities recognised in the balance sheet (c=a-b)	Related amounts not subject to balance sheet offsetting		Net amount (f=c-d-e) 31 12 2017	Net amount (f=c-d-e) 31 12 2016
				Financial instruments (d)	Deposits of cash collateral received (e)		
1. Derivatives	1,569,451	148,751	1,420,700	692,469	516,911	211,320	791,320
2. Repurchase agreements	5,842,951	-	5,842,951	5,842,951	-	-	-
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total as at 31 12 2017	**7,412,402**	**148,751**	**7,263,651**	**6,535,420**	**516,911**	**211,320**	**X**
Total as at 31 12 2016	**28,395,960**	**582**	**28,395,378**	**27,592,815**	**11,243**	**X**	**791,320**

IFRS 7 requires disclosure of information for all financial instruments that:

- were offset in the balance sheet pursuant to IAS 32;
- could potentially be offset, given certain conditions, but presented in the balance sheet as open balances as they are governed by "framework offsetting agreements or similar agreements" which do not meet the criteria established in IAS 32 for offsetting.

For the purposes of reconciliation of the amounts shown in the column (c) "net amount of financial assets/liabilities recognised in the balance sheet" with the opening balances shown in "Part B – Information on the balance sheet", it should be noted that:

- the amount related to both trading and hedging derivative financial instruments, aided by netting agreements or similar, is represented in asset items 20 "Financial assets held for trading" and 80 "Hedging derivatives" and in liability items 40 "Financial liabilities held for trading" and 60 "Hedging derivatives";
- the amount related to repurchase agreements subject to netting agreements or similar is shown in line "Repurchase agreements/Reverse repurchase agreements" in the tables containing a breakdown of asset items 60 "Loans to banks" and 70 "Loans to customers" and of liability items 10 "Deposits from banks" and 20 "Deposits from customers".

It should also be noted that:

- with regard to securities lending transactions, the above tables include transactions involving the payment of cash collateral fully owned by the lender since they are the only transactions which are recognised in the balance sheet.
- the repurchase agreements are recognised in the tables at amortised cost, while the financial collateral and derivative transactions are reported at their fair value.

7 Securities lending transactions

The Bank has in place, as borrower, securities lending transactions guaranteed by other securities, amounting to approximately EUR 1.5 bn, signed with leading market counterparties.

The Bank has also in place, as borrower, securities lending transactions (mainly Italian government securities) with customers, amounting to approximately EUR 1.4 bn. The main purpose of the operations is government securities that the Bank, in turn, transfers to the subsidiary MPS Capital Services.

These transactions, which in accordance with current accounting regulations have no impact on the balance sheet, are carried out with the aim of increasing the counter-balancing capacity of the Bank.

8 Information on joint control activities

This paragraph was not completed as no such activities are present for the Bank.

Part C – Information on the income statement

Section 1 – Interest income/expense and similar revenues/charges – Items 10 and 20

1.1 Interest income and similar revenues: breakdown

Item/Type	Debt securities	Loans	Other transactions	Total 31 12 2017	Total 31 12 2016
1. Financial assets held for trading	2	-	23,960	23,962	34,351
2. Financial assets designate at fair value	-	-	-	-	-
3. Financial assets available for sale	147,147	-	-	147,147	182,483
4. Financial assets held to maturity	-	-	-	-	-
5. Loans to banks	33,842	216,730	-	250,572	291,448
6. Loans to customers	46,901	2,079,629	-	2,126,530	2,655,213
7. Hedging derivatives	X	X	32,264	32,264	11,642
8. Other assets	X	X	4,487	4,487	5,125
Total	**227,892**	**2,296,359**	**60,711**	**2,584,962**	**3,180,262**

The amount in line "1. Financial assets held for trading", in the "Other transactions" column, includes the positive net balance of spreads relating to derivatives connected with financial liabilities designated at fair value (fair value option), for an amount of EUR 24.0 mln (EUR 29.5 mln as at 31 December 2016).

Lines 5 and 6, "Loans to banks" and "Loans to customers", in the "Debt securities" column, include interest income on treasury securities not listed in active markets and classified in these portfolios.

The amount in line "8. Other assets", in the "Other transactions" column, shows mainly interest accrued on tax credits.

Interest other than that recognised in item 130 "Net impairment losses/reversals" accrued during the year for positions that are classified as "non-performing" as at balance-sheet date totalled EUR 389.0 mln (EUR 550.0 mln as at 31 December 2016).

This interest is calculated for financial assets measured at amortised cost under the effective interest rate method and is entered in different columns based on the original 'technical form'. Interest on arrears accrued during the year is posted to interest income only for the portion actually recovered. The portion of interest on arrears not recovered is written down and deducted directly from interest accrued. Any amounts recovered in subsequent years are treated as a write-back on receivables and recognised in Item 130 of the profit and loss statement, "Net impairment losses/reversals on loans".

For a trend analysis of the concerned items, reference should be made to the Report on Operations.

1.2 Interest income and similar revenues: spreads on hedging transactions

Information on spreads relating to hedging transactions is provided in Table 1.5.

1.3 Interest income and similar revenues: other information

1.3.1 Interest income from financial assets denominated in foreign currency

Interest income from financial assets denominated in foreign currency for 2017 amounted to EUR 39.5 mln, as compared to EUR 42.6 mln in 2016.

1.3.2 Interest income from finance leases

This table was not compiled since the Bank had no finance leases on which interests accrue to report for either the period under review or the previous year.

1.4 Interest expense and similar charges: breakdown

Item/Type	Deposits	Secuties	Other transactions	Total 31 12 2017	Total 31 12 2016
1. Deposits from central banks	(1,313)	X	-	(1,313)	(5,739)
2. Deposits from banks	(141,652)	X	-	(141,652)	(184,049)
3. Deposits from customers	(364,236)	X	-	(364,236)	(396,332)
4. Debt securities issued	X	(386,455)	-	(386,455)	(739,575)
5. Financial liabilities held for trading	-	-	(1,719)	(1,719)	-
6. Financial liabilities designated at fair value	-	44,907	-	44,907	(96,059)
7. Other liabilities	X	X	(5,507)	(5,507)	(586)
8. Hedging derivatives	X	X	-	-	-
Total	**(507,201)**	**(341,548)**	**(7,226)**	**(855,975)**	**(1,422,340)**

Lines 2, "Deposits from banks" and 3, "Deposits from customers", in the "Deposits" column, include interest on payables under repurchase agreements on: treasury securities recognised in the balance sheet or securities not recognised in the balance sheet obtained through repo transactions or from self-securitisations without derecognition.

Line 4, "Debt securities issued", indicates the interest expense accrued during the year on bonds and certificates of deposit valued at amortised cost.

Line 6 "Financial liabilities designated at fair value" is positive in the amount of EUR 44.9 mln following the derecognition of suspended interest as at 31 December 2016, equal to EUR 101.6 mln, relating to the subordinated issue subscribed in full by MPS Luxembourg, as a result of the provisions laid out in art. 22 of Law Decree no. 237/2016 (the burden sharing decree).

For a trend analysis of the concerned items, reference should be made to the Report on Operations.

1.5 Interest expense and similar charges: spreads on hedging transactions

Items	Total 31 12 2017	Total 31 12 2016
A. Positive spreads on hedging transactions	312,929	465,332
B. Negative spreads on hedging transactions	(280,666)	(453,690)
C. Balance (A+B)	**32,263**	**11,642**

In line with its hedging objectives and consequent minimisation of risks in the banking book, the Bank carries out both fair value and cash flow hedging transactions.

1.6 Interest expense and similar charges: other information

1.6.1 Interest expense on liabilities denominated in foreign currency

Interest expense on financial liabilities denominated in foreign currency for 2017 amounted to EUR 31.7 mln as compared to EUR 31.5 mln in 2016.

1.6.2 Interest expense on liabilities from finance leases

This table was not compiled since the Bank had no finance leases on which interests accrue to report for either the period under review or the previous year.

Section 2 – Fee and commission income/expense – Items 40 and 50

2.1 Fee and commission income: breakdown

Type of service / Amount	Totale 31 12 2017	Totale 31 12 2016
a) guarantees issued	63,546	73,761
b) credit derivatives	-	-
c) management, brokerage and advisory services:	861,395	894,535
1. trading of financial instruments	22,330	43,994
2. currency trading	4,584	4,557
3. asset management	45,207	53,965
3.1 individual accounts	45,207	53,965
3.2. collective investment schemes	-	-
4. custody and administration of securities	7,578	7,823
5. custodian bank	-	-
6. placement of securities	6,079	17,299
7. client instructions	25,253	39,938
8. advisory on	10,689	10,343
8.1 investments	7,388	6,803
8.2 financial structure	3,301	3,540
9. distribution of third-party services	739,675	716,616
9.1. asset management	-	-
9.1.1 individual accounts	-	-
9.1.2 collective investment schemes	-	-
9.2 insurance products	183,697	164,421
9.3 other products	555,978	552,195
d) collection and payment services	260,780	350,045
e) servicing of securitisations	50	105
f) factoring transaction services	-	-
g) tax collection services	-	-
h) management of multilateral trade systems	-	-
i) current account keeping	479,038	517,195
j) other services	131,720	192,057
Total	**1,796,529**	**2,027,698**

For a trend analysis of the concerned items, reference should be made to the Report on Operations.

2.2 Fee and commission income: distribution channels of products and services

Channel/Sectors	31 12 2017	31 12 2016
a) Group branches	**782,118**	**775,196**
1. portfolio management	45,207	53,965
2. placement of securities	6,079	17,299
3. third party services and products	730,832	703,932
b) "Door-to-door" sales	**-**	**-**
1. portfolio management	-	-
2. placement of securities	-	-
3. third party services and products	-	-
c) Other distribution channels	**8,843**	**12,685**
1. portfolio management	-	-
2. placement of securities	-	-
3. third party services and products	8,843	12,685

2.3 Fee and commission expense: breakdown

Type of service / Amount	Total 31 12 2017	Total 31 12 2016
a) guarantees received	(116,024)	(34,035)
b) credit derivatives	-	-
c) management, brokerage and advisory services:	(19,475)	(18,828)
1. trading of financial instruments	(6,774)	(9,002)
2. currency trading	(4)	(17)
3. asset management:	(309)	(495)
3.1 own portfolio	-	-
3.2 third-party portfolios	(309)	(495)
4. custody and administration of securities	(10,303)	(6,659)
5. placement of financial instruments	-	(87)
6. off-site marketing of financial instruments, products and services	(2,085)	(2,568)
d) collection and payment services	(63,426)	(89,206)
e) other services	(63,538)	(74,516)
Total	**(262,463)**	**(216,585)**

Line "a) guarantees received" includes EUR 113.6 mln (EUR 31.7 mln as at 31 December 2016) of fees and commissions paid by the Bank for the guarantee pledged by the Italian Government on securities issued and concurrently repurchased, for a residual nominal amount of EUR 11,000.0 mln as at 31 December 2017, against Eurosystem financing transactions.

Line "e) other services" includes fee and commission expense for an amount of EUR 5.1 mln (EUR 16.6 mln as at 31 December 2016) on securities lending.

For a trend analysis of the concerned items, reference should be made to the Report on Operations.

Section 3 – Dividends and similar income – Item 70

3.1 Dividends and similar income: breakdown

Item/Income	31 12 2017			31 12 2016		
	Dividends	Income from unitis in UCITS	Total	Dividends	Income from unitis in UCITS	Total
A. Financial assets held for trading	69	-	69	13	-	13
B. Financial assets available for sale	10,256	3,854	14,110	10,284	-	10,284
C. Financial assets designated at fair value	-	-	-	-	-	-
D. Investments	20,135	-	20,135	57,061	-	57,061
Total	**30,460**	**3,854**	**34,314**	**67,358**	**-**	**67,358**

The table shows the amount of dividends received on shares traded within the trading book, non-controlling interest classified in the available-for-sale asset portfolio and controlling interests and stakes in associates.

Line "B. Financial assets available for sale" includes the dividend of EUR 8.5 mln collected on the Bank of Italy shareholding.

Line "D. Investments" includes the dividend of EUR 12.8 mln collected on the Co.EM Spa shareholding and the dividend of EUR 2.2 mln collected on the Nuova Intermonte S.p.A. shareholding.

Section 4 – Net profit (loss) from trading – Item 80

4.1 Net profit (loss) from trading: breakdown

Transactions / P&L items	Capital Gains	Trading Profit	Capital Losses	Trading Losses	Net Profit (Loss) 31 12 2017	Net Profit (Loss) 31 12 2016
1. Financial assets held for trading	17	10,526	(1,276)	(9,459)	(192)	371
1.1 Debt securities	1	276	(1,272)	(4)	(999)	734
1.2 Equity instruments	16	25	(4)	-	37	(11)
1.3 Units of UCITS	-	-	-	-	-	(1)
1.4 Loans	-	-	-	-	-	-
1.5 Other	-	10,225	-	(9,455)	770	(351)
2. Financial liabilities held for trading	-	-	-	-	-	-
2.1 Debt securities	-	-	-	-	-	-
2.2 Deposits	-	-	-	-	-	-
2.3 Other	-	-	-	-	-	-
3. Other financial assets and liabilities: exchange differences	X	X	X	X	19,338	19,055
4. Derivatives	194,213	430,075	(224,466)	(406,087)	(5,192)	19,119
4.1 Financial derivatives:	179,911	429,990	(210,164)	(406,070)	(5,260)	28,875
- on debt securities and interest rates	150,247	380,121	(177,109)	(355,991)	(2,732)	17,777
- on equity instruments and stock indices	359	567	(367)	(368)	191	12,444
- on currency and gold	X	X	X	X	1,073	3,359
- other	29,305	49,302	(32,688)	(49,711)	(3,792)	(4,704)
4.2 Credit derivatives	14,302	85	(14,302)	(17)	68	(9,756)
Total	**194,230**	**440,601**	**(225,742)**	**(415,546)**	**13,954**	**38,545**

The impact on this item deriving from the application of the Credit Value Adjustment (CVA) on OTC derivatives is a positive EUR 20.2 mln; likewise, the application of the Debt Value Adjustment (DVA) on OTC derivatives entailed a negative impact of EUR 15.5 mln.

For the year under way and for 2016, the breakdown of values within the "4.1 Financial derivatives" grouping was revised.

Section 5 – Net profit (loss) from hedging – Item 90

5.1 Net profit (loss) from hedging: breakdown

P&L items/Values	Total 31 12 2017	Total 31 12 2016
A. Gains on:	**-**	**-**
A.1 Fair value hedging instruments	228,974	114,564
A.2 Hedged financial assets (fair value)	4,674	231,379
A.3 Hedged financial liabilities (fair value)	77,085	86,675
A.4 Cash-flow hedging derivatives	3,572	-
A.5 Assets and liabilities denominated in foreign currency	-	-
Total gains on hedging activities (A)	**314,305**	**432,618**
B. Losses on:		
B.1 Fair value hedging instruments	83,489	321,906
B.2 Hedged financial assets (fair value)	218,996	39,752
B.3 Hedged financial liabilities (fair value)	11,983	74,779
B.4 Cash-flow hedging derivatives	18,085	100,693
B.5 Assets and liabilities denominated in foreign currency	-	-
Total losses on hedging activities (B)	**332,553**	**537,130**
C. Net profit (loss) from hedging activities (A - B)	**(18,248)**	**(104,512)**

For information on hedging derivatives, the gains and losses on which are indicated in lines A.1 and A.4, B.1 and B.4 of this table, see Section 8, "Hedging derivatives – Item 80" of the Assets and Section 6, "Hedging derivatives – item 60" of the Liabilities in Part B of the notes to the financial statements.

More information on hedged assets and liabilities can be found in the tables in Part B of the notes for each section of the accounts to which hedges are posted.

As at 31 December 2016, this item includes the negative impact of EUR 83.2 mln deriving from the interruption of cash flow hedges on a subordinated security that was subject to compulsory conversion into shares of the Bank pursuant to Law Decree 237 of 23 December 2016, converted with amendments into law no. 15 of 17 February 2017.

Section 6 - Gains (losses) on disposal/repurchase - Item 100

6.1 Gains (losses) on disposal / repurchase: breakdown

Items / P&L items	Total 31 12 2017			Total 31 12 2016		
	Gains	Losses	Net Profit (Loss)	Gains	Losses	Net Profit (Loss)
Financial assets						
1. Loans to banks	58	(6,939)	(6,881)	-	(204)	(204)
2. Loans to customers	1,881	(621)	1,260	12,754	(14,030)	(1,276)
3. Financial assets available for sale	117,205	(31,314)	85,891	113,769	(9,038)	104,731
3.1 Debt securities issued	75,828	(30,344)	45,484	86,378	(7,588)	78,790
3.2 Equity instruments	18,007	-	18,007	27,090	(1,406)	25,684
3.3 Units of UCITS	23,370	(970)	22,400	301	(44)	257
3.4 Loans	-	-	-	-	-	-
4. Financial assets held to maturity	-	-	-	-	-	-
Total assets	**119,144**	**(38,874)**	**80,270**	**126,523**	**(23,272)**	**103,251**
Financial liabilities	-	-	-	-	-	-
1. Deposits from banks	94,671	(1,201)	93,470	37,546	-	37,546
2. Deposits from customers	23,311	-	23,311	-	-	-
3. Debt securities issued	440,823	(2,450)	438,373	16,422	(1,852)	14,570
Total liabilities	**558,805**	**(3,651)**	**555,154**	**53,968**	**(1,852)**	**52,116**

As regards financial liabilities, the amount of EUR 558.8 mln in the "Gains" column is almost entirely associated with profits from the repurchase of financial liabilities included within the burden sharing transaction.

Section 7 – Net profit (loss) from financial assets and liabilities designated at fair value – Item 110

7.1 Net changes in financial assets and liabilities designated at fair value: breakdown

Transaction/P&L items	Capital Gains	Gain following disposal	Capital Losses	Losses following disposal	Net Profit (Loss) 31 12 2017	Net Profit (Loss) 31 12 2016
1. Financial assets	-	-	-	-	-	-
1.1 Debt securities issued	-	-	-	-	-	-
1.2 Equity instruments	-	-	-	-	-	-
1.3 Units of UCITS	-	-	-	-	-	-
1.4 Loans	-	-	-	-	-	-
2. Financial liabilities	30,465	52	-	(6,446)	24,071	128,749
2.1 Debt securities issued	30,465	52	-	(6,446)	24,071	128,749
2.2. Deposits from banks	-	-	-	-	-	-
2.3. Deposits from customers	-	-	-	-	-	-
3. Financial assets and liabilities	X	X	X	X	-	-
4. Credit and financial derivatives	-	18,668	(15,021)	(26,604)	(22,957)	(19,319)
Total	**30,465**	**18,720**	**(15,021)**	**(33,050)**	**1,114**	**109,430**

The item includes solely the profit, loss, capital losses and capital gains from structured fixed-rate bonds included in the fair value option and derivative contracts through which these bonds receive natural hedging.

Line "2.1 Financial liabilities - Debt securities" includes the capital gains and capital losses associated with changes in fair value other than those linked to changes in the issuer's creditworthiness, recognised as a balancing entry of net equity following the early adoption of the new IFRS 9.

Section 8 – Net impairment losses (reversals) – Item 130

8.1 Net impairment losses (reversals) on loans: breakdown

Transactions/ P&L items	Value Adjustments			Write - backs				Total 31 12 2017	Total 31 12 2016
	Specific		Portfolio	Specific		Portfolio			
	Write-offs	Others		A	B	A	B		
A. Loans to banks	**(9)**	**(1,184)**	**(1,997)**	**21**	**107**	**-**	**1,342**	**(1,720)**	**(352)**
- Loans	(9)	(1,184)	(1,997)	21	107	-	867	(2,195)	(432)
- Debt securities	-	-	-	-	-	-	475	475	80
B. Loans to customers	**(80,022)**	**(5,334,573)**	**(227,898)**	**286,399**	**822,163**	**-**	**147,927**	**(4,386,004)**	**(3,315,063)**
Non-performing loans purchased	-	(13,502)	-	291	6,814	-	-	(6,397)	(6,009)
- Loans	-	(13,502)	X	291	6,814	-	X	(6,397)	(6,009)
- Debt securities	-	-	X	-	-	-	X	-	-
Other receivables	(80,022)	(5,321,071)	(227,898)	286,108	815,349	-	147,927	(4,379,607)	(3,309,054)
- Loans	(80,022)	(5,321,071)	(227,898)	286,108	815,349	-	147,782	(4,379,752)	(3,309,081)
- Debt securities	-	-	-	-	-	-	145	145	27
C. Total	**(80,031)**	**(5,335,757)**	**(229,895)**	**286,420**	**822,270**	**-**	**149,269**	**(4,387,724)**	**(3,315,415)**

Legend
A = From interest
B= Other reversals

In impairment losses, the column "Write-off" shows losses recorded in relation to the derecognition of financial instruments, whereas the "Others" column includes specific write-downs on non-performing loans subject to analytical valuation. Portfolio value adjustments are quantified with reference to financial instruments that are not non-performing.

Specific value adjustments also include debt collection costs connected to the long-term servicing agreement entered into with the Cerved/Quaestio JV for the outsourced management of part of the Bank's doubtful loans.

Column A (specific reversals) incorporates primarily the reversals represented by interest released on non-performing positions valued at amortised cost.

For further information on loans to banks and customers, see Section 1, "Credit risk", in Part E of the notes to the financial statements.

8.2 Net impairment losses (reversals) on financial assets available for sale: breakdown

Transactions/ P&L items	Value Adjustments		Write - backs		Total	Total
	Specific		Specific		31 12 2017	31 12 2016
	Write-offs	Others	A	B		
A. Debt securities issued	-	(271)	-	-	(271)	339
B. Equity instruments	-	(58,502)	X	X	(58,502)	(24,185)
C. Units of UCITS	-	(30,924)	X	-	(30,924)	(15,661)
D. Loans to banks	-	-	-	-	-	-
E. Loans to customers	-	-	-	-	-	-
F. Total	**-**	**(89,697)**	**-**	**-**	**(89,697)**	**(39,507)**

Legend
A = From interest
B= Other reversals

The column "Others" of the specific value adjustments above, in sub-item "B. Equity instruments", includes the write-down of the contribution paid to the Voluntary Scheme, equal to EUR 44.7 mln, while sub-item "C. Units of UCITS" includes the write-down on units held in the Atlante Fund, equal to a total of EUR 29.8 mln.

8.3 Net impairment losses (reversals) on financial assets held to maturity: breakdown

This table has not been completed since financial assets held to maturity were not present for the Bank in 2017 or in the year of comparison.

8.4 Net impairment losses (reversals) on other financial transactions: breakdown

Transactions / P&L items	Value Adjustments			Write-backs				Total 31 12 2017	Total 31 12 2016
	Specific		Portfolio	Specific		Portfolio			
	Write-offs	Others		A	B	A	B		
A. Guarantees issued	-	(3,146)	(1,693)	-	11,989	-	3,969	11,119	5,122
B. Credit derivatives	-	-	-	-	-	-	-	-	-
C. Commitments to disburse funds	-	(65,000)	(2)	-	17	-	15	(64,970)	116
D. Other transactions	-	-	-	-	-	-	-	-	2,200
E. Total	**-**	**(68,146)**	**(1,695)**	**-**	**12,006**	**-**	**3,984**	**(53,851)**	**7,438**

Legend

A = From interest

B= Other reversals

This item shows impairment losses/reversals (against expected loss) on guarantees issued, if drawdown.

Section 9 – Administrative expenses – Item 150

9.1 Personnel expenses: breakdown

	Total 31 12 2017	Total 31 12 2016
1. Employees	(1,775,561)	(1,646,394)
a) wages and salaries	(1,088,906)	(1,109,713)
b) social-welfare charges	(293,224)	(303,650)
c) severance pay	(46,456)	(47,686)
e) provision for staff severance pay	(3,898)	(5,547)
f) pension fund and similar obligations:	(709)	(304)
- defined benefit	(709)	(304)
g) contributions to external pension funds:	(19,384)	(19,500)
- defined contribution	(18,042)	(18,286)
- defined benefit	(1,342)	(1,214)
h) costs related to share-based payments	612	(824)
i) other employee benefits	(323,596)	(159,170)
2. Other staff	(1,133)	(865)
3. Directors and Statutory Auditors	(2,304)	(2,565)
4. Retired personnel	(4,324)	(4,492)
5. Recovery of expenses for employees of the Bank seconded to other entities	78,489	79,761
6. Reimbursement of expenses for employees of other entities seconded to the bank	(15,400)	(15,039)
Total	**(1,720,233)**	**(1,589,594)**

Line f) “pension fund and similar obligations” includes amounts set aside for internal funds, while line g) “contributions to external pension funds” includes contributions paid and adjustments made to external pension funds.

Line “h) costs deriving from share-based payments” equal to EUR 0.6 mln in 2017, reflects the reduction in provisions recognised in the previous year relating to the performance shares assigned to the Bank’s “key employees”. In 2016, the provision was equal to EUR 0.8 mln.

Line “i) other employee benefits” includes the provision recognised for the early retirement incentives/solidarity fund pursuant to the agreement of 3 August 2017 entered into with the trade unions, for around EUR 279.4 mln.

9.2 Average number of employees by category

Category / Average Number	31 12 2017	31 12 2016
Employees:	**21,292**	**22,430**
a) executives	234	266
b) middle managers	8,274	8,721
c) remaining staff	12,784	13,443
Other personnel	**-**	**-**
Total	**21,292**	**22,430**

9.3 Defined benefit company pension funds: costs and revenues

Items/Amounts	31 12 2017			31 12 2016		
	Defined benefit company pension funds		Provision for staff severance pay	Defined benefit company pension funds		Provision for staff severance pay
	Internal pension plan	External pension plan		Internal pension plan	External pension plan	
Interest income/expense	(693)	(668)	(3,898)	(304)	(673)	(5,547)
Current service cost and gains (losses) arising from settlements*	(16)	(675)	-	-	(541)	-
Past service cost	-	-	-	-	-	-
Gains (losses) arising from settlements**	-	-	-	-	-	-
Other operating costs	-	-	-	-	-	-
Total	**(709)**	**(1,343)**	**(3,898)**	**(304)**	**(1,214)**	**(5,547)**

* Past service cost and gains and losses arising from settlements need not be distinguished if they occur together (IAS 19.100)

** Only in the event of settlement not set out in the terms of the plan

9.4 Other employee benefits

No information to report pursuant to sections 53, 158 and 171 of IAS 19.

9.5 Other administrative expenses: breakdown

Items/Amounts	31 12 2017	31 12 2016
Stamp duties	(184,869)	(205,226)
Indirect taxes and duties	(37,286)	(40,806)
Municipal real estate property tax	(8,303)	(8,853)
Property rentals	(161,490)	(171,774)
Cleaning service contracts	(12,740)	(13,409)
Insurance	(27,504)	(30,527)
Rentals	(101,483)	(103,402)
Remuneration of external professionals	(148,219)	(183,462)
Third-party data processing	(11,270)	(11,859)
Utilities	(25,936)	(30,349)
Maintenance of movable and immovable properties (used in the business)	(33,117)	(32,848)
Postage	(23,442)	(23,706)
Advertising, sponsorships and promotions	(5,954)	(4,577)
Membership dues	(4,525)	(4,654)
Reimbursement of employee car and travel expenses	(6,718)	(8,620)
Security services	(8,781)	(11,053)
Expenses for personnel training	(3,517)	(3,048)
Charges for services provided by companies and entities of the MPS Group	(349,948)	(359,974)
Corporate entertainment expenses	(1,090)	(1,764)
Printing and stationery	(8,338)	(7,405)
Telephone, telefax and telegraph	(5,346)	(4,153)
Transportation	(33,613)	(32,626)
Sundry occupancy expenses and refunds for release of immovable property used in the business	(7,177)	(4,451)
Contributions Relosution Funds (SRF) and Deposit Guarantee Schemes (DGS)	(75,246)	(200,910)
Dta fee	(70,913)	(70,396)
Others	(24,965)	(3,018)
Total	**(1,381,790)**	**(1,572,870)**

Line "Advertising, sponsorships and promotions" for an amount of EUR 5.9 mln includes advertising, events and printing (EUR 4.7 mln) and expenses for sponsorships and promotions (EUR 1.2 mln).

Sub-item "Contributions Resolution Funds (SRF) and Deposits Guarantee Systems (DGS)", equal to EUR 75 mln, consists of: EUR 48 mln for charges associated with the SRF and NRF (National Resolution Fund) and EUR 27 mln for contributions to the DGS. The line "DTA fee" includes the expenses related to the fee paid on DTAs that can be converted into tax credit as set forth in art. 11 of Law Decree no. 59 of 3 May 2016, converted into Law no. 119 of 30 June 2016.

Section 10 – Net provisions for risks and charges – Item 160

10.1 Net provisions for risks and charges: breakdown

Items/Amounts	31 12 2017				31 12 2016			
	Legal disputes	Personnel costs	Others	Total	Legal disputes	Personnel costs	Others	Total
Provisions for the year	(162,475)	(20,425)	(149,900)	(332,800)	(126,863)	(9,164)	(21,880)	(157,907)
Write-backs	88,333	5,492	24,394	118,219	120,640	13,873	67,182	201,695
Total	**(74,142)**	**(14,933)**	**(125,506)**	**(214,581)**	**(6,223)**	**4,709**	**45,302**	**43,788**

"Provisions for the year" include changes due to the time value of money, which show the amount of "time value" accrued during the year due to the expected imminent maturity of the estimated liability.

Section 11 – Net adjustments to (recoveris on) on property, plant and equipment – Item 170

11.1 Net adjustments to (recoveries on) on property, plant and equipment: breakdown

Assets / P&L items	Amortization	Impairment losses	Write-backs	Net Profit (loss) 31 12 2017	Net Profit (loss) 31 12 2016
Tangible assets					
A.1 Owned	(56,299)	(13,050)	-	(69,349)	(52,982)
- used in the business	(51,157)	(3,702)	-	(54,859)	(47,385)
- held for investment	(5,142)	(9,348)	-	(14,490)	(5,597)
A.2 Leased	-	-	-	-	-
- used in the business	-	-	-	-	-
- held for investment	-	-	-	-	-
Total	**(56,299)**	**(13,050)**	**-**	**(69,349)**	**(52,982)**

Property and equipment with a finite life is tested for impairment.

Section 12 – Net adjustments to (recoveries on) intangible assets – Item 180

12.1 Net adjustments to (recoveries on) intangible assets: breakdown

Assets / P&L items	Amortization (a)	Impairment losses (b)	Write-backs (c)	Net profit (loss) (a+b-c) 31 12 2017	Net profit (loss) 31 12 2016
Intangible assets					
A.1 Owned	(25,936)	-	-	(25,936)	(27,827)
- generated internally by the company	-	-	-	-	-
- other	(25,936)	-	-	(25,936)	(27,827)
A.2 Leased	-	-	-	-	-
Total	**(25,936)**	**-**	**-**	**(25,936)**	**(27,827)**

Amortisation mainly relates to intangible assets, all with a finite life, recognised in the 2008 financial statements identified during the PPA process for former subsidiary Banca Antonveneta.

Section 13 – Other operating expenses/income – Item 190

13.1 Other operating expenses: breakdown

Items/Amounts	Total 31 12 2017	Total 31 12 2016
Costs of robberies	(2,645)	(5,259)
Write-downs on improvements of third-party goods recognized as "Other Assets"	(13,566)	(11,242)
Other expenses on real estate (real estate inventory)	(2,346)	(3,628)
Cost of financial lease transactions	-	-
Costs from judgments and settlement agreements	(49,551)	(71,081)
Other	(25,664)	(36,223)
Total	**(93,772)**	**(127,433)**

13.2 Other operating income: breakdown

Items/Amounts	Total 31 12 2017	Total 31 12 2016
Rents from investment real estate	15,618	13,948
Other revenues from real estate (real estate inventory)	511	583
Recovery of taxes	204,096	223,535
Recovery of insurance premiums	17,232	18,466
Recovery of other expenses	97,423	111,525
Other	61,815	83,023
Total	**396,695**	**451,080**

The amount of EUR 97.4 mln classified under "Recoveries of other expenses" includes the "fast-track facility fee" introduced by Law Decree 201/2011 ("Save Italy Decree") amounting to EUR 20.8 mln (EUR 33.9 mln as at 31 December 2016) and the compensation of legal fees incurred for the enforced recovery of non-performing loans of EUR 46.7 mln (EUR 42.7 mln as at 31 December 2016).

Section 14 – Gains (losses) on investments – Item 210

14.1 Gains (losses) on investments: breakdown

P&L items/Sectors	Total 31 12 2017	Total 31 12 2016
A. Income	9,600	9,947
1. Revaluations	-	-
2. Gains on disposal	9,600	9,947
3. Write-backs	-	-
4. Other income	-	-
B. Expense	(112,530)	(1,148,976)
1. Write-downs	-	-
2. Impairment losses	(112,530)	(1,148,976)
3. Losses on disposal	-	-
4. Other expenses	-	-
Net Profit (Loss)	**(102,930)**	**(1,139,029)**

The amount of EUR 9.6 mln shown in line "A.2 Gains on disposal" consists entirely of the gain from the sale of Intermonte SIM S.p.A., realised in the final quarter of 2017.

The negative amount of EUR 112.5 mln reported in line "B.2 Impairment losses" includes value adjustments made on the subsidiaries Monte Paschi Banque SA (EUR 33.3 mln) and Monte Paschi Belgio SA (EUR 40.0 mln). It also includes the write-downs of the associates Fidi Toscana S.p.a., Interporto Toscano A. Vespucci S.p.a., CO.E.M. S.p.A. and Trixia S.r.l.

For further information on the methodology for determining impairment losses, please see section 10.5, part B, of these notes to the consolidated financial statements.

Section 15 – Net gains (losses) on tangible and intangible assets measured at fair value – Item 220

The tables for this section were not completed since the Group has no tangible and intangible assets carried at fair value to report for either the current or previous year.

Section 16 – Impairment of goodwill – Item 230

16.1 Impairment of goodwill: breakdown

In 2017 the Bank did not make any impairment as all the goodwill allocated to the different CGUs (Cash Generating Units) had been fully written down in the financial statements of the previous year.

Section 17 – Gains (losses) on disposal of investments – Item 240

17.1 Gains (losses) on disposals of investments: breakdown

P&L items/Sectors	Total 31 12 2017	Total 31 12 2016
A. Property	429	13,044
- Gains on disposal	515	13,104
- Losses on disposal	(86)	(60)
B. Other assets	522,255	(358)
- Gains on disposal	523,592	-
- Losses on disposal	(1,337)	(358)
Net Profit (Loss)	**522,684**	**12,686**

The amount of EUR 523.6 mln alongside sub-item "B. Other assets - Gains on disposal" relates to the disposal of the merchant acquiring business unit to CartaSI.

Section 18 – Tax expense (recovery) on income from continuing operations – Item 260

18.1 Tax expense (recovery) on income from continuing operations: breakdown

P&L items/Sectors	Total	
	31 12 2017	31 12 2016
1. Current tax (-)	(215,198)	(220,853)
2. Adjustments to current tax of prior years (+/-)	(14,399)	9,359
3. Reduction of current tax for the year (+)	-	-
3.bis "Reduction in current tax for the period due to tax credits under Law 214/2011	911,928	-
4. Changes in prepaid taxes (+/-)	(259,463)	9,357
5. Changes in deferred taxes (+/-)	10,565	(6,193)
6. Tax expense for the year (-) (-1+/-2 +3+/-4+/-5)	**433,433**	**(208,330)**

18.2 Reconciliation of theoretical to actual tax charge

Item/Amount	31 12 2017	%	31 12 2016	%
Pre-tax profit (loss) from continuing operations	**(3,290,873)**		**(3,514,441)**	
Theoretical IRES payable	**904,990**	**27.5%**	**966,471**	**27.5%**
Permanent increases	**(47,813)**		**(336,858)**	
Non-deductible interest expense	-	0.0%	(12,473)	-0.4%
Losses on sale of AFS equity investments	(2,920)	-0.1%	(2,224)	-0.1%
Losses on the disposal/valutaion of subsidiaries and associates	(30,604)	-0.9%	(315,885)	-9.0%
Non-deductible administrative expenses (Municipal real estate property tax, vehicles, telephone, etc.)	(14,289)	-0.4%	(6,276)	-0.2%
Permantent decreases	**237,785**	**7.2%**	**85,890**	**2.4%**
Gains on sales of AFS equity investments	4,933	0.1%	6,689	0.2%
Gains on disposal of subsidiaries and associates	2,512	0.1%	2,623	0.1%
Capital gains due to conversion of debt instruments into shares, not relevant (Art.22 paragraph 2-bis DL237/2016)	183,850	5.6%	-	0.0%
Deduction ACE	42,075	1.3%	62,210	1.8%
Excluded dividends	4,415	0.1%	14,368	0.4%
DTA write-downs related to prior tax losses	572,270	**17.4%**	(251,610)	**-7.2%**
Effetct due to non -registration of DTA on tax loss of current year	**(1,214,201)**	**-36.9%**	**(810,941)**	**23.1%**
Adjustments previos year tax	**-**	**0.0%**	**112,593**	**3.2%**
Other components (IRES relative to previous years, spreads between Italian and foreign tax rate, etc.)	**(15,073)**	**-0.5%**	**(1,856)**	**-0.1%**
Effectiove IRES payable	**437,958**	**13.3%**	**(236,311)**	**-6.7%**
Theoretical IRAP payable	**153,026**	**4.7%**	**163,421**	**4.7%**
Economic items not relevant for IRAP purposes	**31,678**		**(57,375)**	
Non-deductible interest expense	-	0.0%	(2,645)	-0.1%
Value adjustments and credit losses	(2,885)	-0.1%	734	0.0%
Non-deductible costs of pernsonnel	(504)	0.0%	(575)	0.0%
Profit (loss) on subsidiaries ad associates	(6,172)	-0.2%	(52,965)	-1.5%
Other non-deductible administrative expenses (10%)	(6,424)	-0.2%	(7,314)	-0.2%
Amortization non-deductible (10%)	(346)	0.0%	(329)	0.0%
Capital gains due to conversion of debt instruments into shares, not relevant (Art.22 paragraph 2-bis DL237/2016)	31,087	0.9%	-	0.0%
Other P&L items not relevant	16,332	0.5%	4,243	0.1%
Excluded dividends	590	0.0%	1,476	0.0%
Increase regional rates effect	**35,535**	**1.1%**	**19,960**	**0.6%**
Charges from not recognised tax loss carryforward IRAP	**(224,846)**	**-6.8%**	**(121,958)**	**-3.5%**
Adjustmtes previous years tax	**-**	**0.0%**	**20,390**	**0.6%**
Other components (IRAP relative to previous years, spreads between italian and foreign tax rate, etc.)	**82**	**0.0%**	**3,543**	**0.1%**
Effective IRAP payable	**(4,525)**	**-0.1%**	**27,981**	**0.8%**
Total effective IRES and IRAP tax expense	**433,433**	**13.2%**	**(208,330)**	**-5.9%**

Section 19 – Profit (loss) after tax from assets held for sale and discontinued operations – Item 280

This section was not completed as no such entities are present.

Section 20 – Other information

No additional disclosure to that presented in accordance with the international accounting standards and Circular letter no. 262 of the Bank of Italy is required.

Section 21 – Earnings per Share (EPS)

For the following section, see the description in the Consolidated Financial Statements.

Part D – Statement of Comprehensive Income

Statement of Comprehensive Income

31 12 2017

	Items	Gross	Income Tax	Net
10.	**Proft (loss) for the period**	X	X	(2,857,440)
	Other income components without reversal to profit & loss		-	-
20.	Tangible assets	-	-	-
30.	Intangible assets	-	-	-
40.	Defined benefit plans	4,834	(1,248)	3,586
50.	Non-current assets held for sale	83	-	83
60.	Share of valuation reserves of equity instruments valued at equity	-	-	-
65.	Financial liabilities measured at fair value with impact to profit and loss	(230,699)	75,785	(154,914)
	Other income components with reversal to profit & loss			
70.	**Hedges of foreign investments:**	**-**	**-**	**-**
	a) changes in fair value	-	-	-
	b) reversal to profit & loss	-	-	-
	c) other changes	-	-	-
80.	**Exchange differences:**	**(9,172)**	**3,013**	**(6,159)**
	a) changes in value	(9,172)	3,013	(6,159)
	b) reversal to profit & loss	-	-	-
	c) other changes	-	-	-
90.	**Cash flow hedges:**	**55,297**	**(18,165)**	**37,132**
	a) changes in fair value	10,937	(3,593)	7,344
	b) reversal to profit & loss	44,360	(14,572)	29,788
	c) other changes	-	-	-
100.	**Financial assets available for sale:**	**121,068**	**(39,095)**	**81,973**
	a) changes in fair value	170,149	(55,207)	114,942
	b) reversal to profit & loss	(49,081)	16,007	(33,074)
	- impairment provisions	(393)	39	(354)
	- realised net gains/losses	(48,688)	15,968	(32,720)
	c) other changes	-	105	105
110.	**Non-current assets held for sale:**	**(16,360)**	**930**	**(15,430)**
	a) changes in value	112	(8)	104
	b) reversal to profit & loss	(16,472)	938	(15,534)
	c) other changes	-	-	-
120.	**Share of valuation reserves of equity investments valued at equity:**	**-**	**-**	**-**
	a) changes in fair value	-	-	-
	b) reversal to profit & loss	-	-	-
	- impairment provisions	-	-	-
	- realised net gains/losses	-	-	-
	c) other changes	-	-	-
130.	**Other income components**	**(74,949)**	**21,220**	**(53,729)**
140.	**Total comprehensive income (Item 10 + 130)**	**(74,949)**	**21,220**	**(2,911,169)**

Part E – Information on risks and hedging policies

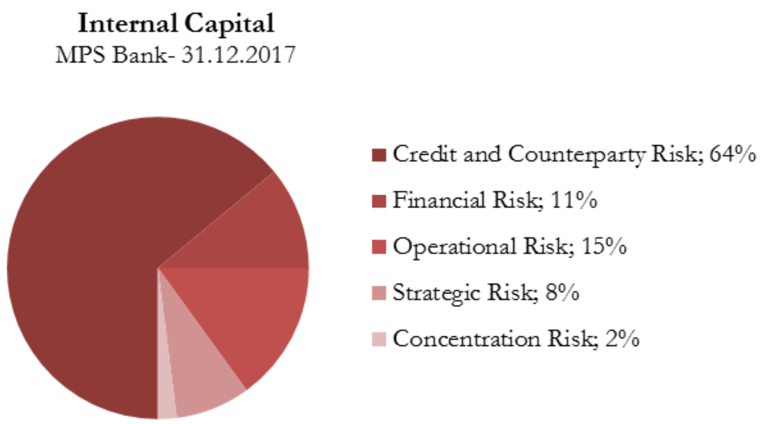
Note: Public Disclosure (Basel III Pillar) is published on the Group's website: www.mps.it/investor.

Foreword

This Part of the Notes to the Financial Statements provides quantitative information on risks referring to Banca Monte dei Paschi di Siena. For qualitative information on the risk management process and on the management and monitoring of risks, please refer to Part E of the Notes to the consolidated financial statements.

An analysis of the Economic Capital

As at 31 December 2017, the Bank's Overall Economic Capital (excluding intragroup transactions) is attributable by approx. 64% to credit and counterparty risk (which already includes the requirements relating to issuer risk on the Banking Book, investment risk and real estate risk), by approx. 2% to concentration risk, by around 11% to financial risk, by 8% to strategic risks and by approx. 15% to operational risks.



Section 1 – Credit Risk

Qualitative Information

1. General aspects

Please refer to Part E of the Notes to the consolidated financial statements.

2. Credit risk management policies

Please refer to Part E of the Notes to the consolidated financial statements.

Quantitative Information

A. Credit quality

For the purposes of quantitative information on the credit quality, the term “credit exposures” does not include equity securities and Units of UCITS, whereas the term “exposures” includes equity securities and Units of UCITS.

A.1 Non-performing and performing loans: amounts, value adjustments, changes, breakdown by business sector and geographical area

A.1.1 Breakdown of credit exposures by portfolio and credit quality (book values)

31 12 2017

Portfolio/quality	Doubtful loans	Unlikely to pay	Past-due Impaired exposures	Past-due Not Impaired exposures	Performing exposures	Total
1. Financial assets available for sale	-	8,357	-	-	14,438,195	14,446,552
2. Financial assets held to maturity	-	-	-	-	-	-
3. Loans to banks	3,355	8	-	125	24,923,870	24,927,358
4. Loans to customers	2,138,316	5,302,033	331,399	1,080,628	62,621,169	71,473,545
5. Financial assets designated at fair value	-	-	-	-	-	-
6. Financial assets held for sale	3,453,220	23,606	-	-	113,343	3,590,169
Total 31 12 2017	5,594,891	5,334,004	331,399	1,080,753	102,096,577	114,437,624
Total 31 12 2016	7,828,325	6,857,206	793,146	1,876,954	115,123,550	132,479,181

Since the entire portfolio of financial assets is subject to classification by credit quality, with the exception of equity securities and units of UCITS, it should be noted that the items “Loans to banks” and “Loans to customers” include not only loans but also other types of assets (debt securities, etc.). All amounts are book values, and thus, net of any related doubtful amounts.

Lastly, please note that, at the reporting date, line “3. Loans to banks” includes net performing forborne exposures equal to EUR 2.8 mln (EUR 2.7 mln as at 31 December 2016); line “4. Loans to customers” includes net performing forborne exposures totalling EUR 1,583.9 mln (EUR 1,779.3 mln as at 31 December 2016) and net non-performing forborne exposures of EUR 3,597.6 mln (EUR 4,138.0 mln as at 31 December 2016).

The table below provides an ageing analysis of past due amounts on performing financial assets.

Portfolio/Quality	Performing Exposures					
	Past due up to 3 months	Past due 3 to 6 months	Past due 6 months to 1 year	Over 1 year	Not past due	Total 31 12 2017
1. Financial assets available for sale	-	-	-	-	14,438,195	14,438,195
2. Financial assets held to maturity	-	-	-	-	-	-
3. Loans to banks	-	-	-	125	24,923,870	24,923,995
4. Loans to customers	819,821	110,613	70,694	79,500	62,621,169	63,701,797
5. Financial assets designated at fair value	-	-	-	-	-	-
6. Financial assets held for sale	-	-	-	-	113,343	113,343
Total31 12 2017	**819,821**	**110,613**	**70,694**	**79,625**	**102,096,577**	**103,177,330**

A.1.2 Breakdown of credit exposures by portfolio and credit quality (gross and net values)

31 12 2017

Portfolio/quality	Non perfoming assets			Performing			Total (Net exposure)
	Gross exposure	Specific write-downs	Net exposure	Gross exposure	Specific write-downs	Net exposure	
1. Financial assets available for sale	9,688	1,331	8,357	14,438,195	-	14,438,195	14,446,552
2. Financial assets held to maturity	-	-	-	-	-	-	-
3. Loans to banks	26,558	23,195	3,363	24,932,669	8,674	24,923,995	24,927,358
4. Loans to customers	15,124,888	7,353,139	7,771,749	64,129,030	427,234	63,701,796	71,473,545
5. Financial assets designated at fair value	-	-	-	X	X	-	-
6. Financial assets held for sale	20,254,770	16,777,944	3,476,826	113,343	-	113,343	3,590,169
Total 31 12 2017	35,415,904	24,155,609	11,260,295	103,613,237	435,908	103,177,329	114,437,624
Total 31 12 2016	35,586,802	20,108,125	15,478,677	117,548,014	547,510	117,000,504	132,479,181

At the reporting date, the Bank had 399 positions relating to creditors who had filed a “blank” request for a pre-insolvency creditor arrangement procedure “Concordato in bianco” for a net exposure of around EUR 192.2 mln and 9 positions relating to creditors who had filed a request for a pre-insolvency creditor arrangement with going concern “Concordato in continuità” for a net exposure of approx. EUR 2.6 mln.

Partial derecognitions on non-performing financial assets carried out during the year totalled EUR 229.7 mln.

	Low quality assets		Other assets
	Cumulative losses	Net exposure	Net exposure
1 Financial assets held for trading	57,833	5,610	895,580
2 Hedging derivatives	-	-	333,295
Total 31 12 2017	**57,833**	**5,610**	**1,228,875**
Total 31 12 2016	**69,761**	**18,261**	**1,945,208**

In particular, please note that item "1. Financial assets held for trading" includes exposures generated by derivative contracts with low credit quality for a net value of EUR 5.6 mln; impairment losses recognised on these instruments to take into account the fair value credit adjustment amount to EUR 8.5 mln.

A.1.3 Balance sheet and off-balance sheet exposure to banks: gross and net amounts and past due ranges

31 12 2017

Portfolio/quality	Gross exposure							
	Non-performing Assets							
	Past due up to 3 months	Past due 3 to 6 months	Past due 6 months to 1 year	Over 1 year	Performing Assets	Specific write-downs	Portfolio adjustments	Net Exposure
A. Balance-sheet exposure								
a) Doubtful loans	-	-	-	26,549	X	23,194	X	3,355
- of which forborne	-	-	-	-	X	-	X	-
b) Unlikely to pay	9	-	-	-	X	1	X	8
- of which forborne	-	-	-	-	X	-	X	-
c) Past due	-	-	-	-	X	-	X	-
- of which forborne	-	-	-	-	X	-	X	-
d) Past-due not impaired	X	X	X	X	144	X	19	125
- of which forborne	X	X	X	X	-	X	-	-
e) Other assets not impaired	X	X	X	X	25,235,616	X	8,655	25,226,961
- of which forborne	X	X	X	X	2,783	X	-	2,783
Total A	9	-	-	26,549	25,235,760	23,195	8,674	25,230,449
B. Off-balance-sheet exposure								-
a) Impaired	-	-	-	-	X	-	X	-
b) Not Impaired	X	X	X	X	3,202,601	X	3,093	3,199,508
Total B	-	-	-	-	3,202,601	-	3,093	3,199,508
Total (A+B)	9	-	-	26,549	28,438,361	23,195	11,767	28,429,957

The table provides a breakdown of exposure with banks by credit quality, using the definition of impaired exposures set out by the Bank of Italy and adopted for the purposes of the financial statements.

Thus, all balance-sheet credit exposures are stated at book values, before and after any doubtful amounts. In particular, balance-sheet exposures encompass all financial assets related to banks arising from financial statement Item 20 "Financial assets held for trading," Item 30 "Financial assets designated at fair value," Item 40 "Financial assets available for sale" and Item 60 "Loans to banks" with the exception of derivative contracts that are considered as off-balance-sheet in this section.

Off-balance-sheet exposures include all financial transactions other than balance-sheet transactions (guarantees issued, commitments and derivatives, including those used for hedging purposes) involving the assumption of credit risk and valued using the measurement criteria set forth by the Bank of Italy. They also include the counterparty risk connected to securities lending transactions and repurchase agreements and loan transactions with margins included within the notion of Securities Financing Transactions as defined by prudential regulations.

A.1.4 Balance-sheet exposure to banks: changes in gross non-performing loans

31 12 2017

Source/Categories	Doubtful loans	Unlikely to pay	Non-Performing Past due
A. Gross exposure, opening balance	**22,612**	**618**	**-**
- of which: transferred but not derecognised	-	-	-
B. Increases	**4,390**	**2,100**	**-**
B.1 transfers from performing loans	3,194	2,100	-
B.2 transfers from other impaired loans	-	-	-
B.3 other increases	1,196	-	-
C. Decreases	**453**	**2,709**	**-**
C.1 transfers to performing loans	-	-	-
C.2 write-offs	-	26	-
C.3 collections	453	2,683	-
C.4 amounts realised upon disposal of positions	-	-	-
C.5 losses from disposal	-	-	-
C.6 transfers to other categories of impaired exposure	-	-	-
C.7 other decreases	-	-	-
D. Gross exposure, closing balance	**26,549**	**9**	**-**
- of which: transferred but not derecognised	-	-	-

With regard to balance-sheet exposures to banks, the table shows changes in non-performing exposures in the course of the year.

Since the entire portfolio of financial asset exposures to banks is subject to classification by credit quality, exposures include not only loans but also other types of assets (securities, etc.). Balance-sheet exposures are expressed at book value.

A.1.4 bis Balance-sheet exposure to banks: changes in gross forborne exposures by credit quality

31 12 2017

Source/Categories	Non performing forborne exposures	Performing forborne exposures
A. Goss esposure, opening balance	-	**2,722**
- of which: transferred but not derecognised	-	-
B.Increases	-	**61**
B.1 Transfers from performing loans	-	-
B.2 Transfers from performing forborne esposures	-	X
B.3 Transfers from Non-performing forborne esposures	X	-
B.4 Other increases	-	**61**
C. Decreases	-	-
C.1 Transfers to performing loans	X	-
C.2 Transfers to performing forborne exposures	-	X
C.3 Transfers to non-performing forborne exposures	X	-
C.4 Write-offs	-	-
C.5 Collections	-	-
C.6 Amounts realised upon disposal of positions	-	-
C.7 Losses from disposal	-	-
C.8 Other decreases	-	-
D.Gross exposure, closing balance	-	**2,783**
- of which: transferred but not derecognised	-	-

A.1.5 Non-performing balance-sheet exposure to banks: changes in overall value adjustments

31 12 2017

Source/Categories	Doubtful loans		Unlikely to pay		Non-performing Past due	
	Total	of which forborne	Total	of which forborne	Total	of which forborne
A. Opening balance of overall adjustments	**22,164**	**-**	**110**	**-**	**-**	**-**
- of which: transferred but not derecognised	-	-	-	-	-	-
B. Increases	**1,048**	**-**	**27**	**-**	**-**	**-**
B.1 Value adjustments	1,039	-	10	-	-	-
B.2 Loss from disposal	-	-	-	-	-	-
B.3 Transfers from other categories of impaired exposures	-	-	-	-	-	-
B.4 Other increases	9	-	17	-	-	-
C. Decreases	**18**	**-**	**136**	**-**	**-**	**-**
C.1 Write-backs from valuation	18	-	3	-	-	-
C.2 Write-backs from collection	-	-	107	-	-	-
C.3 Profit from disposal	-	-	-	-	-	-
C.4 Write-offs	-	-	26	-	-	-
C.5 Transfers to other categories of impaired exposure	-	-	-	-	-	-
C.6 Other decreases	-	-	-	-	-	-
D. Closing balance of overall adjustments	**23,194**	**-**	**1**	**-**	**-**	**-**
- of which: transferred but not derecognised	-	-	-	-	-	-

With regard to balance-sheet exposures to banks, the table shows changes in overall value adjustments on non-performing exposure during the year.

Since the entire portfolio of financial assets to banks is subject to classification by credit quality, value adjustments shown refer not only to loans but also to other types of assets (e.g. securities). Balance-sheet value adjustments are expressed at book value.

A.1.6 Balance sheet and off-balance sheet exposure to customers: gross and net amounts and past due ranges

31 12 2017

Portfolio/quality	Gross exposure – Non-performing Assets – Past due up to 3 months	Gross exposure – Non-performing Assets – Past due 3 to 6 months	Gross exposure – Non-performing Assets – Past due 6 months to 1 year	Gross exposure – Non-performing Assets – Over 1 year	Gross exposure – Performing Assets	Specific write-downs	Portfolio adjustments	Net Exposure
A. Balance-sheet exposure								
a) Doubtful loans	19,272	14,195	40,606	26,123,922	X	20,606,459	X	5,591,536
- of which forborne	1,247	4,403	11,119	2,065,372	X	1,249,245	X	832,896
b) Unlikely to pay	3,850,993	263,004	749,447	3,877,280	X	3,406,728	X	5,333,996
- of which forborne	2,547,874	134,410	381,141	1,170,829	X	1,494,204	X	2,740,050
c) Past due	69,377	52,733	112,703	215,815	X	119,229	X	331,399
- of which forborne	11,307	4,946	7,106	5,920	X	4,609	X	24,670
d) Past-due not impaired	X	X	X	X	1,110,609	X	29,981	1,080,628
- of which forborne	X	X	X	X	126,443	X	7,049	119,394
e) Other assets not impair	X	X	X	X	77,316,289	X	446,561	76,869,728
- of which forborne	X	X	X	X	1,523,886	X	59,323	1,464,563
Total A	3,939,642	329,932	902,756	30,217,017	78,426,898	24,132,416	476,542	89,207,287
B. Off-balance-sheet exposure								
a) Impaired	648,886	-	-	-	X	135,364	X	513,522
b) Not Impaired	X	X	X	X	7,960,380	X	84,869	7,875,511
Total B	648,886	-	-	-	7,960,380	135,364	84,869	8,389,033
Total (A+B)	4,588,528	329,932	902,756	30,217,017	86,387,278	24,267,780	561,411	97,596,320

The table provides a breakdown of dealings with customers by credit quality, using the definition of impaired exposures set out by the Bank of Italy and adopted for the purposes of the financial statements.

Since the entire portfolio of financial assets is subject to classification by credit quality, with the exception of equity securities and units of UCITS, it should be noted that the item “Loans to customers” includes not only loans but also other types of assets (debt securities, etc.).

Thus, all balance-sheet exposures are stated at book values, before and after any doubtful amounts. In particular, “Balance-sheet exposure” summarises all financial assets related to customers arising from financial statement Item 20 “Financial assets held for trading,” 30 “Financial assets designated at fair value,” 40 “Financial assets available for sale”, 70 “Loans to customers” and 140 “Non-current assets and groups of assets held for sale and discontinued operations”, with the exception of derivative contracts that are considered as off-balance-sheet in this section.

Please see the consolidated report on operations for quantification of and reporting on capital ratios for coverage of lending relationships.

Off-balance-sheet exposures include all financial transactions other than balance-sheet transactions (guarantees issued, commitments and derivatives, including those used for hedging purposes) involving the assumption of credit risk and valued using the measurement criteria set forth by the Bank of Italy. They also include the counterparty risk connected to securities lending transactions and repurchase agreements and loan transactions with margins included within the notion of Securities Financing Transactions as defined by prudential regulations.

Lastly, please note that at the reporting date, gross non-performing forborne exposures with no past due amounts in the cure period include unlikely to pay positions of EUR 2,547.9 mln (EUR 2,298.1 mln as at 31 December 2016) and non-performing past due exposures of EUR 11.3 mln (EUR 12.3 mln as at 31 December 2016).

A.1.7 Balance-sheet exposure to customers: changes in gross non-performing loans

31 12 2017

Source / Categories	Doubtful loans	Unlikely to pay	Non-performing Past due
A. Gross exposure, opening balance	**23,312,944**	**11,214,486**	**1,036,144**
- of which: sold but not derecognised	56,636	59,607	105,400
B. Increases	**4,054,834**	**2,148,685**	**320,228**
B.1 transfers from performing loans	379,959	1,338,762	261,010
B.2 transfers from other impaired loans	3,070,874	428,439	5,420
B.3 other increases	604,001	381,484	53,798
C. Decreases	**1,169,783**	**4,622,447**	**905,744**
C.1 transfers to performing loans	57,245	385,327	76,214
C.2 write-offs	334,874	319,477	5,784
C.3 collections	740,948	1,096,573	125,156
C.4 amounts realised upon disposal of positions	-	-	-
C.5 Losses from disposal	-	-	-
C.6 transfers to other categories of impaired exposure	8,906	2,807,139	688,690
C.7 other decreases	27,810	13,931	9,900
D. Gross exposure, closing balance	**26,197,995**	**8,740,724**	**450,628**
- of which: sold but not derecognised	220,176	86,470	85,380

With regard to balance-sheet exposures to customers, the table shows changes in non-performing exposures during the year. Since the entire portfolio of financial asset exposures to customers is subject to classification by credit quality, it should be noted that exposure includes not only loans but also other types of assets (e.g. securities). Balance-sheet exposures are expressed at book value.

Exposures sold but not derecognised, under letter “D”, do not include exposures linked to the “Doubtful loan disposal transaction” (for more details, please refer to the relative section of the Consolidated Report on Operations) as, as at 31 December 2017, the Bank holds all of the securities issued by the vehicle Siena Npl 2018 and therefore represented in the Liquidity Risk section, in line with what is laid out in the 4th update of Bank of Italy Circular 262.

A.1.7 bis Balance sheet exposure to customers: changes in gross forborne exposures by credit quality

31 12 2017

Source/Categories	Non performing forborne exposures	Performing forborne exposures
A. Gross esposure, opening balance	**6,428,607**	**1,857,440**
- of which: transferred but not derecognised	**32,885**	**72,759**
B.Increases	**1,602,490**	**1,013,272**
B.1 Transfers from performing loans	239,913	561,234
B.2 Transfers from performing forborne esposures	302,068	X
B.3 Transfers from Non-performing forborne esposures	X	290,175
B.4 Other increases	1,060,509	161,863
C. Decreases	**1,685,423**	**1,220,383**
C.1 Transfers to performing loans	X	485,781
C.2 Transfers to performing forborne exposures	290,175	X
C.3 Transfers to non-performing forborne exposures	X	302,068
C.4 Write-offs	237,226	4,885
C.5 Collections	1,048,590	415,284
C.6 Amounts realised upon disposal of positions	-	-
C.7 Losses from disposal	-	-
C.8 Other decreases	109,432	12,365
D.Gross exposure, closing balance	**6,345,674**	**1,650,329**
- of which: transferred but not derecognised	176,833	75,864

Line B.4 “Other increases” includes EUR 509.8 mln in the Non-performing forborne exposures column relating to non-performing credit exposures at the start of the year which were subjected to forbearance measures in the course of the year.

A.1.8 Non-performing balance-sheet exposure to customers: changes in overall value adjustments

31 12 2017

Source/Categories	Doubtful loans		Unlikely to pay		Non-performing Past due	
	Total	of which forborne	Total	of which forborne	Total	of which forborne
A. Opening balance of overall adjustments	**15,485,066**	**508,016**	**4,357,787**	**1,770,451**	**242,997**	**12,147**
- of which: transferred but not derecognised	19,417	1,436	17,269	6,164	29,878	263
B. Increases	**6,095,260**	**817,695**	**1,152,716**	**586,904**	**68,786**	**4,153**
B.1 Value adjustments	4,683,851	531,191	977,026	404,534	44,579	3,197
B.2 Loss from disposal	-	-	-	-	-	-
B.3 Transfers from other categories of impaired exposures	1,353,927	247,562	99,835	178,576	1,275	693
B.4 Other increases	57,482	38,942	75,855	3,794	22,932	263
C. Decreases	**973,867**	**76,466**	**2,103,775**	**863,151**	**192,554**	**11,691**
C.1 Write-backs from valuation	438,089	40,683	386,482	248,681	25,334	3,568
C.2 Write-backs from collection	189,519	24,024	68,924	104,233	1,079	50
C.3 Profit from disposal	-	-	-	-	-	-
C.4 Write-offs	334,874	10,424	319,477	226,576	5,784	145
C.5 Transfers to other categories of impaired exposure	1,628	671	1,297,791	267,626	155,620	7,576
C.6 Other decreases	9,757	664	31,101	16,035	4,737	352
D. Closing balance of overall adjustments	**20,606,459**	**1,249,245**	**3,406,728**	**1,494,204**	**119,229**	**4,609**
- of which: transferred but not derecognised	109,240	81,287	27,586	4,672	31,360	114

With regard to balance-sheet exposures to customers, the table shows changes in overall value adjustments on non-performing exposure during the year. In particular, write-offs include reductions due to loan redemptions. Since the entire portfolio of financial asset exposures to customers is subject to classification by credit quality, it should be noted that exposure includes not only loans but also other different types of assets (e.g. securities). Balance-sheet value adjustments are expressed at book value.

Adjustments on exposures sold but not derecognised, under letter "D", do not include adjustments linked to the "Doubtful loan disposal transaction" (for more details, please refer to the relative section of the Consolidated Report on Operations) as, as at 31 December 2017, the Bank holds all of the securities issued by the vehicle Siena Npl 2018 and therefore represented in the Liquidity Risk section, in line with what is laid out in the 4th update of Bank of Italy Circular 262.

Exposure to sovereign debt risk

Below is a breakdown of the exposure to sovereign debt risk in government bonds, loans and credit derivatives as at 31 December 2017 held by the Bank as at 31 December 2017 in accordance with the criteria of the European Securities and Markets Authority (ESMA).

The exposures are broken down by accounting categories. For securities classified as 'Loans and Receivables (L&R)' and "Loans", the book value (amortised cost) is also reported.

(in milions of eur)

COUNTRY	DEBT SECURITIES					LOANS	CREDIT DERIVATIVES
	Financial assets held for trading		Financial assets available for sale		L&R	L&R	Financial assets HFT
	Nominal	Fair value=book value	Nominal	Fair value=book value	Book value	Book value	Nominal
Argentine	0.14	-	-	-	-	-	-
France	-	-	400.00	412.62	-	-	-
Hong Kong	-	-	26.66	26.66	-	-	-
Italy	0.00	-	12,583.38	13,114.81	489.05	2,383.50	-
Spain	-	-	100.00	100.46	-	-	-
Other countries	-	-	-	-	1.05	-	-
Total 31 12 2017	**0.14**	**-**	**13,110.04**	**13,654.55**	**490.10**	**2,383.50**	**-**
Total 31 12 2016	**4.30**	**0.01**	**13,647.98**	**15,015.82**	**534.02**	**2,735.36**	**-**

Details on the Bank's exposure is presented taking into consideration that, according to instructions from the European Securities and Market Authority (ESMA), "sovereign debt" is defined as bonds issued by central and local Governments and by government Entities, as well as loans disbursed to said entities.

These financial instruments were measured according to the standards applicable to the category to which they belong.

The overall exposure amounted to approx. EUR 16,528.1 mln, almost entirely in Italian debt, and is concentrated under the AFS accounting category. Exposures to Italy are nearly exclusively level 1, with the exception of EUR 103.0 mln in government bonds.

Following are the details of Italian AFS reserves and credit derivatives (in EUR/mln):

AFS securities: Italy	31 12 2017	31 12 2016
Book value	13,114.8	14,849.6
AFS reserve (after tax)	(62.7)	(71.8)
of which: hedging effect (after tax)	60.8	(42.7)

Credit derivatives - Italy	31 12 2017	31 12 2016
Purchase of protection		
Nominal	(130.0)	(130.0)
Positive fair value	4.6	17.6
Negative fair value	-	-
Sale of protection		
Nominal	130.0	130.0
Positive fair value	-	-
Negative fair value	(4.6)	(17.6)

A.2 Classification of exposure by external and internal ratings

A.2.1 Breakdown of balance sheet and off-balance sheet exposures by external ratings

31 12 2017

Esposures	External rating classes						No Rating	Total
	class 1	class 2	class 3	class 4	class 5	class 6		
A. Balance-sheet exposure	711,962	1,994,629	14,943,224	402,143	210,220	6	96,258,880	114,521,064
B. Derivatives	26,584	50,482	76,684	-	1,326	-	516,827	671,903
B.1 Financial derivatives	26,584	50,482	76,684	-	1,326	-	386,827	541,903
B.2 Credit derivatives	-	-	-	-	-	-	130,000	130,000
C. Guarantees issued	2,241	246,934	200,936	349,942	454,122	156	4,518,871	5,773,202
D. Commitments to disburse funds	3	61	27,048	71,871	179,391	1	4,242,362	4,520,737
E. Others	-	72,056	518,862	-	-	-	31,778	622,696
Total	740,790	2,364,162	15,766,754	823,956	845,059	163	105,568,718	126,109,602

Class 1: AAA/AA-   Class 2: A+/A-   Class 3: BBB+/BBB-   Class 4: BB+/BB-   Class 5: B+/B-   Class 6: Lower than B-

The external rating categories used to complete the table are from Standard & Poor's. The exposures shown (except for equity instruments) are those reported in Tables A.1.3 (exposures to banks) and A.1.6 (exposures to customers) above, in addition to units of UCITS. If multiple external ratings are assigned, the rating is selected based on Bank of Italy's criteria (when two ratings are available, the lower of the two is used, and when three or more ratings are assigned, the second highest rating is selected). To ensure relevance of information, internal cross-reference tables were used to convert classification by various rating agencies into classification by Standard & Poor's.

A.2.2 Breakdown of balance sheet and off-balance sheet exposures by internal ratings

31 12 2017

Exposures	Classi di rating interni							No rating	Total
	High quality	Average quality	Fair quality	Mediocry quality	Poor quality	Default	Group administrative default		
A. Balance-sheet exposure	8,394,859	15,672,338	23,573,860	8,595,291	823,107	11,260,293	-	46,117,988	114,437,736
B. Derivatives	61,389	92,044	115,292	27,522	963	5,610	10	369,073	671,903
B.1 Financial derivatives	61,389	92,044	115,292	27,522	963	5,610	10	239,073	541,903
B.2 Credit derivatives	-	-	-	-	-	-	-	130,000	130,000
C. Guarantees issued	543,518	1,645,620	1,972,535	342,075	7,026	301,107	-	961,321	5,773,202
D. Commitments to disburse funds	131,614	322,065	483,501	187,215	29,293	212,413	78,490	3,076,146	4,520,737
E. Others	62,990	207,805	-	-	-	-	-	351,901	622,696
Total	9,194,370	17,939,872	26,145,188	9,152,103	860,389	11,779,423	78,500	50,876,429	126,026,274

High Quality customers (Master Scale categories AAA and A1)   Good Quality customers (Master Scale categories A2, A3 and B1)   Fair Quality customers (Master Scale categories B2, B3, C1 and C2)   Mediocre Quality customers (Master Scale categories C3, D1, D2 and D3)   Poor Quality customers (Master Scale categories E1, E2 and E3)

The table provides a breakdown of customers of the Bank by risk categories assigned on the basis of ratings arising from internal models. For this purpose, account is given only of exposures (borrowers) for which an internal rating is periodically recorded for models/legal entities/portfolios which have been subject to a validation process with the regulatory authorities without any cross-reference from official ratings to internal ratings, especially with regard to the following customer segments: “Banks,” “Non-banking financial institutions,” and “Governments and Public Administration”. Thus, based on this provision, exposures related to the latter segments, even if covered by official ratings, were reported as “unrated” in the internal rating models.

A.3 Breakdown of secured exposures by type of collateral

A3.1 Secured exposures to banks

31 12 2017

	Amount of Net Exposure	Real guarantees				Personal guarantees										Total real and personeal guarantees
						Credit derivatives					Unsecured signature loans					
							Other derivatives									
		Real estate mortgages	Real estate leasing	Securities	Other collaterals	CLN	Governments and central banks	Other public entities	Banks	Other entities	Governments and central banks	Other public entities	Banks	Other entities		
1. Secured balance-sheet exposures:	3,375,840	1,259	-	3,305,614	-	-	-	-	-	-	-	-	-	24		3,306,897
1.1 totally secured	3,374,419	1,259	-	3,305,614	-	-	-	-	-	-	-	-	-	14		3,306,887
- of which non performin	-	-	-	-	-	-	-	-	-	-	-	-	-	-		-
1.2 partially secured	1,421	-	-	-	-	-	-	-	-	-	-	-	-	10		10
- of which non performin	-	-	-	-	-	-	-	-	-	-	-	-	-	-		-
2. Secured off-balance sheet exposures:	424,632	-	-	282,097	137,501	-	-	-	-	-	-	-	92	-		419,690
2.1 totally secured	353,684	-	-	282,097	71,536	-	-	-	-	-	-	-	50	-		353,683
- of which non performin	-	-	-	-	-	-	-	-	-	-	-	-	-	-		-
2.2 partially secured	70,948	-	-	-	65,965	-	-	-	-	-	-	-	42	-		66,007
- of which non performin	-	-	-	-	-	-	-	-	-	-	-	-	-	-		-

In addition to balance-sheet exposures to banks, the table shows the amount of off-balance-sheet exposures (including derivative contracts with banks) which are fully or partially secured.
As regards personal guarantees, the economic segments to which guarantors and sellers of protection belong (in the case of unsecured loans and credit derivatives, respectively) are identified making reference to the classification criteria provided for in the brochure "classification of customers by segments and groups of economic activity" published by the Bank of Italy.
Exposures are classified as "fully secured" by comparing the gross exposure with the amount of the guarantee established in the contract; for that purpose, any supplemental guarantees are also considered.
The fair value of collaterals estimated as at the balance sheet date is shown in the columns "Real guarantees" and "Personal guarantees"; if such information is not available, the contractual value is reported. Both values cannot be higher than the book value of secured exposures, in line with the 4th update of Bank of Italy circular 262.

A.3.2 Secured exposures to customers

31 12 2017

	Amount of Net Exposure	Real guarantees				Personal guarantees									Total real and personal guarantees
						Credit derivatives					Unsecured signature loans				
							Other derivatives								
		Real estate mortgages	Real estate leasing	Securities	Other collaterals	CLN	Governments and central	Other public entities	Banks	Other entities	Governments and central banks	Other public entities	Banks	Other entities	
1. Secured balance-sheet exposures:	51,839,969	40,491,842	-	613,850	169,722	-	-	-	-	-	158	985,996	2,167	8,666,257	50,929,992
1.1 totally secured	49,922,765	40,431,170	-	527,599	143,935	-	-	-	-	-	35	555,468	1,397	7,934,039	49,593,643
- of which non perfrormir	7,891,092	6,428,511	-	35,268	5,333	-	-	-	-	-	12	87,088	622	1,300,673	7,857,507
1.2 partially secured	1,917,204	60,672	-	86,251	25,787	-	-	-	-	-	123	430,528	770	732,218	1,336,349
- of which non perfrormir	450,997	32,807	-	30,698	2,064	-	-	-	-	-	20	15,472	11	307,419	388,491
2. Secured off-balance sheet exposures:	1,870,084	83,045	-	79,332	108,574	-	-	-	-	-	-	3,577	53,027	1,347,318	1,674,873
2.1 totally secured	1,615,850	82,927	-	62,820	84,705	-	-	-	-	-	-	2,387	52,837	1,300,715	1,586,391
- of which non perfrormin	212,693	24,005	-	2,841	3,012	-	-	-	-	-	-	1,376	52,777	123,761	207,772
2.2 partially secured	254,234	118	-	16,512	23,869	-	-	-	-	-	-	1,190	190	46,603	88,482
- of which non perfrormin	11,531	118	-	571	576	-	-	-	-	-	-	-	188	6,086	7,539

In addition to balance-sheet exposures, the table shows the amount of off-balance-sheet exposures to customers (including derivative contracts) which are fully or partially secured. As regards personal guarantees, the economic segments to which guarantors and sellers of protection belong (in the case of unsecured loans and credit derivatives, respectively) are identified making reference to the classification criteria provided for in the brochure "classification of customers by segments and groups of economic activity" published by the Bank of Italy.
Exposures are classified as "fully secured" by comparing the gross exposure with the amount of the guarantee established in the contract; for that purpose, any supplemental guarantees are also considered.
The fair value of collaterals estimated as at the balance sheet date is shown in the columns "Real guarantees" and "Personal guarantees"; if such information is not available, the contractual value is reported. Both values cannot be higher than the book value of secured exposures, in line with the 4th update of Bank of Italy circular 262.

B. BREAKDOWN AND CONCENTRATION OF CREDIT EXPOSURE

B.1 Breakdown of on- and off-balance sheet exposures to customers by business segment (book values)

Exposure/Customers	Governments			Other public entities			Financial companies			Insurance companies			Non financial companies			Other entities		
	Net exposure	Specific write-downs	Portfolio adjustments	Net exposure	Specific write-downs	Portfolio adjustments	Net exposure	Specific write-downs	Portfolio adjustments	Net exposure	Specific write-downs	Portfolio adjustments	Net exposure	Specific write-downs	Portfolio adjustments	Net exposure	Specific write-downs	Portfolio adjustments
A. Balance-sheet exposure																		
A.1 Doubtful loans	-	-	X	170	983	X	53,365	397,765	X	-	-	X	4,199,722	17,509,995	X	1,338,279	2,697,716	X
- of which forborne	-	-	X	-	-	X	6,134	21,363	X	-	-	X	585,640	991,736	X	241,122	236,147	X
A.2 Unlikely to pay	-	-	X	148,563	100,171	X	176,864	236,595	X	3	4	X	4,158,220	2,802,527	X	850,346	267,432	X
- of which forborne	-	-	X	X	2,825	X	76,759	124,573	X	-	-	X	2,253,464	1,287,148	X	405,212	79,658	X
A.3 Past-due Impaired	383	260	X	-	-	X	1,832	545	X	-	-	X	116,262	41,154	X	212,921	77,269	X
- of which forborne	-	-	X	X	-	X	731	278	X	-	-	X	10,844	2,653	X	13,095	1,678	X
A.4 Other Performing exposures	14,246,707	X	1,058	1,926,982	X	3,340	4,627,953	X	10,562	435,495	X	1,201	29,799,002	X	395,805	26,914,217	X	64,576
- of which forborne	-	X	-	-	X	-	24,076	X	2,806	-	X	-	996,448	X	49,519	563,432	X	14,047
Total A	14,247,090	260	1,058	2,075,715	101,154	3,340	4,860,014	634,905	10,562	435,498	4	1,201	38,273,206	20,353,676	395,805	29,315,763	3,042,417	64,576
B. Off-balance-sheet exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.1 Doubtful loans	-	-	X	-	-	X	33	147	X	-	-	X	39,426	66,201	X	1,074	324	X
B.2 Unlikely to pay	-	-	X	-	-	X	17,196	311	X	-	-	X	447,739	64,675	X	3,243	2,446	X
B.3 Other non-performing expos	-	-	X	-	-	X	-	-	X	-	-	X	4,189	1,165	X	622	95	X
B.4 Other performing exposures	161,363	X	-	1,236,402	X	198	521,332	X	65,885	3,926	X	13	5,625,858	X	18,534	278,558	X	239
Total B	161,363	-	-	1,236,402	-	198	538,561	458	65,885	3,926	-	13	6,117,212	132,041	18,534	283,497	2,865	239
Total (A+B) 31 12 2017	14,408,453	260	1,058	3,312,117	101,154	3,538	5,398,575	635,363	76,447	439,424	4	1,214	44,390,418	20,485,717	414,339	29,599,260	3,045,282	64,815
Total (A+B) 31 12 2016	16,044,945	205	1,003	3,075,355	56,743	3,645	6,436,580	669,757	56,536	468,174	1	1,288	52,502,276	17,100,870	502,917	31,424,127	2,400,186	70,004

Balance sheet exposures to customers reported in the table below are the same as those reported in the financial statements, net of any doubtful amounts and inclusive of specific/portfolio value adjustments, while off-balance sheet transactions include all financial transactions other than balance sheet transactions (guarantees issued, commitments and derivatives) involving the assumption of credit risk and valued using the measurement criteria set forth by the Bank of Italy. The business segments to which borrowers and collateral providers belong are identified making reference to the classification criteria provided for in the brochure "Classification of customers by segments and groups of economic activity" published by the Bank of Italy.

B.2 Breakdown of on- and off-balance-sheet exposures to customers by geographic area (book values)

Exposure/Geographic Areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net esposure	Overall value adjustments	Net esposure	Overall value adjustments	Net esposure	Overall value adjustments	Net esposure	Overall value adjustments	Net esposure	Overall value adjustments
A. Balance-sheet esposures										
A.1 Doubtful loans	5,575,403	20,546,651	9,747	38,951	4,787	8,291	1,243	11,444	355	1,123
A.2 Unlikely to pay	5,295,187	3,366,463	21,963	32,728	183	80	8,846	3,658	7,817	3,800
A.3 Past-due Impaired	330,888	119,118	343	52	48	22	28	2	92	35
A.4 Other performing exposures	76,018,166	461,811	1,333,061	12,425	441,587	1,240	151,188	902	6,353	163
Total A	87,219,644	24,494,043	1,365,114	84,156	446,605	9,633	161,305	16,006	14,617	5,121
B. Off-balance-sheet exposures										
B.1 Doubtful loans	39,832	66,642	700	-	2	31	-	-	-	-
B.2 Unlikely to pay	467,873	67,432	305	-	-	-	-	-	-	-
B.3 Other non performing exp	4,600	1,170	210	90	-	-	-	-	-	-
B.4 Other performing exposures	7,648,263	84,506	108,095	192	34,490	49	33,696	109	2,895	13
Total B	8,160,568	219,750	109,310	282	34,492	80	33,696	109	2,895	13
Total (A+B) 31 12 2017	95,380,212	24,713,793	1,474,424	84,438	481,097	9,713	195,001	16,115	17,512	5,134
Total (A+B) 31 12 2016	107,520,411	20,771,341	1,386,774	66,931	689,506	5,045	334,196	14,389	20,571	5,449

Balance-sheet exposures reported in the table below are the same as those reported in the financial statements, while off-balance-sheet transactions include all financial transactions other than balance-sheet transactions (guarantees issued, commitments and derivatives) involving the assumption of credit risk and valued using the measurement criteria set forth by the Bank of Italy.Amounts are stated before and after any doubtful amounts. Exposures are broken down geographically by the country of residence of the borrower.

B.3 Breakdown of on- and off-balance-sheet exposures to banks by geographic area (book values)

Esposizioni / Aree geografiche	ITALIY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments
A. Balance-sheet exposure										
A.1 Doubtful loans	-	-	3,182	1,345	75	21,749	-	-	97	100
A.2 Unlikely to pay	-	-	-	-	-	-	8	1	-	-
A.3 Past-due Impaired	-	-	-	-	-	-	-	-	-	-
A.4 Other performing exposures	22,938,606	365	1,892,366	5,577	246,815	1,646	138,164	825	11,135	260
Total A	22,938,606	365	1,895,548	6,922	246,890	23,395	138,172	826	11,232	360
B. Off-balance-sheet exposures										
B.1 Doubtful loans	-	-	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
B.3 Other non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.4 Other performing exposures	1,144,869	29	1,301,281	673	16,246	576	58,566	164	103,921	1,651
Totale B	1,144,869	29	1,301,281	673	16,246	576	58,566	164	103,921	1,651
Total (A+B) 31 12 2017	24,083,475	394	3,196,829	7,595	263,136	23,971	196,738	990	115,153	2,011
Total (A+B) 31 12 2016	31,277,212	785	3,800,059	8,125	258,050	21,233	231,364	988	165,118	583

Balance-sheet exposures to banks reported in the table below are the same as those reported in the financial statements, while off-balance-sheet transactions include all financial transactions other than balance-sheet transactions (guarantees issued, commitments and derivatives) involving the assumption of risk and valued using the measurement of criteria set forth by the Bank of Italy. Amounts are stated before and after any doubtful amounts.
Exposures are broken down geographically by the country of residence of the borrower.

B.4 Large exposures

Item/Amount	31 12 2017	31 12 2016
a) Book value	58,461,888	88,676,042
b) Weighted value	3,876,029	6,940,583
c) Number	10	15

Regulations provide for positions to be defined as "large exposures" by making reference to credit-risk unweighted exposures.

An exposure is deemed as a "large exposure" when its amount is equal to or greater than 10% of Regulatory capital. Pursuant to the afore-mentioned regulations, exposures in government securities were also included.

C. SECURITISATION TRANSACTIONS

Qualitative Information
Structures, processes and goals

For qualitative information, please refer to Part E of the Notes to the consolidated financial statements.

More specifically, for the securitisation of performing loans, the Outsourced Credit Services and Suppliers Governance Service, within the Credit Portfolio Governance Area, is responsible for establishing operational guidelines and general practices. For this purpose, it looks after related aspects and obligations associated with servicing activities and monitors the performance of existing transactions through monthly and quarterly reports on collections of remaining principal, positions in arrears and disputed positions arising from securitisation transactions. The same Service prepares the summary statements containing the data of the portfolio sold and, as part of critical situation management, it reports cases that may pose potential risks for noteholders to the relevant functions in the organisation.

In its capacity as third-level control body, the Credit Audit Service uses sampling procedures to periodically validate:

- whether the degree of recoverability of loans sold is accurate and, as a result, whether the fair value of securities issued is appropriate;
- whether line checks assigned to the various units have been carried out and roles and responsibilities properly identified; it also verifies:
- the compliance of reporting/accounting procedures with current regulations in collaboration with other units, as necessary;
- the existence of any conflicts of interest with respect to noteholders; and compliance, on a sampling basis, with the obligations of Law 197/91, as amended.

For securitisations of non-performing loans, the servicing and debt collection performance control services are handled by market operators outside the Bank.

Own securitisations with derecognition of the underlying assets

Casaforte Srl

This securitisation was carried out in 2010 and consisted in the transfer to Vehicle Casaforte Srl of a pool of receivables arising from a mortgage loan granted to the consortium company, Perimetro Gestione Proprietà Immobiliari. The underlying receivables were fully derecognised from the Bank's balance sheet, since the associated risks and rewards were -both formally and substantially- transferred to the vehicle. As at 31 December 2017 the residual debt amounts to EUR 1,269.5 mln. In December 2013 the Bank announced the completed buyback in full of the PGPI 2010 equity financial instruments and related Class Z Notes for a value of approximately EUR 70 mln. As a result of these purchases, the Bank acquired control of the Company, which was subsequently consolidated in the Financial Statements.

Own securitisations without derecognition of the underlying assets

Following is an outline of the Bank's performing securitisation transactions as at 31 December 2017.

Siena Mortgages 10-7 Srl

On 30 September 2010, a portfolio of 34,971 performing residential mortgages originated by the Bank was sold for approx. EUR 3,479.5 mln. As at 31 December 2017, the remaining debt balance amounted to EUR 1,902.4 mln (22,426 outstanding contracts).

To fund the acquisition of the portfolio, the Vehicle issued residential mortgage-backed securities (RMBS); Class A1 and A2 notes - now fully repaid - were placed with market investors, whereas the remaining classes of notes issued were underwritten by the Bank and part of them were subsequently placed with market investors (class A3).

Market placement of these classes did not entail the derecognition of the underlying assets from the balance sheet of the Bank (transferor), which has substantially retained all risks and rewards associated with the ownership of the assets sold.

Siena Consumer 2015 Srl

On 27 February 2015, the subsidiary Consum.it S.p.A. (now absorbed into the Bank), with the aim to optimise the Bank's liquidity, carried out a second securitisation transaction with the disposal of a portfolio of 198,371 personal, auto and special purpose loans, all disbursed by Consum.it. As at 31 December 2017, the remaining debt balance amounted to EUR 363.5 mln (191,994 outstanding loans).

To finance the purchase of this portfolio the Vehicle issued various classes of ABS securities, of which those in the Senior Class were placed with an institutional investor; the remaining mezzanine and junior classes were subscribed by the originator.

In June 2017, the transaction was restructured with an increase in the nominal amount of Class A through the partial redemption of Classes B, C and E. This transaction also did not entail the derecognition of the underlying loans from the transferor's financial statements.

Siena PMI 2015 Srl

On 26 June 2015, in order to optimise the liquidity profile, the Bank transferred a portfolio to the vehicle company "Siena PMI 2015 Srl" consisting of 24,683 performing, unsecured or mortgage loans disbursed to Italian SMEs totalling EUR 3,002.7 mln. As at 31 December 2017, the remaining debt balance amounted to EUR 1,167.0 mln (13,309 outstanding contracts).

To fund the acquisition of the portfolio, the Vehicle issued ABS securities on 6 August 2015. In the senior tranche, Senior classes A1A and A1B - now fully repaid - were placed with institutional investors, while classes A2A and A2B - also now fully repaid - were placed with the European Investment Bank. The remaining classes of notes issued were initially repurchased by the Bank (transferor), to be subsequently sold in part (class B).

The B and C classes were rated by Moody's and DBRS.

The placement of part of the notes did not entail the derecognition of the underlying assets from the balance sheet of the Bank, which has substantially retained all risks and rewards associated with the ownership of the assets sold.

Norma SPV S.r.l.

On 1 July 2017, as part of a securitisation of non-performing loans, also originated by banks outside the MPS Group, the Bank completed the sale of a portfolio of non-performing loans in the real estate and shipping sectors.

The entire portfolio sold to the vehicle Norma SPV S.r.l. consisted of 12 loans equal to EUR 169.3 mln, of which EUR 24 mln in the real estate sector and EUR 145.3 mln in the shipping sector.

As at 31 December 2017, the remaining debt balance (including interest on arrears accrued) of the portfolio originated by the Bank amounted to EUR 145.4 mln.

To fund the acquisition of the portfolio, on 21 July 2017 the Vehicle issued Class A1, B, C and D ABS securities (the "Securities") for the real estate sector and Class A1, B, C1, C2 and D ABS securities for the shipping sector.

The senior classes of both the real estate and shipping transactions were placed with institutional investors, while the mezzanine and junior classes were subscribed by each transferring bank in proportion with the transferred loans.

Specifically, the Bank subscribed the following securities:

Real Estate: Class B for a nominal amount of EUR 11.6 mln; Class C for a nominal amount of EUR 2.5 mln; Class D for a nominal amount of EUR 9.2 mln.

Shipping: Class B for a nominal amount of EUR 46.2 mln; Class C1 for a nominal amount of EUR 20.7 mln; Class C2 for a nominal amount of EUR 6.6 mln; Class D for a nominal amount of EUR 66.8 mln.

The placement of part of the notes did not entail the derecognition of the underlying assets from the balance sheet of the Bank, which has substantially retained all risks and rewards associated with the ownership of the assets sold.

Quantitative Information

C.1 Exposures arising from major own securitisation transactions broken down by type of securitised assets and type of exposure

Quality of underlying assets/Exposures	Balance-sheet esposure						Guarantee issued						Lines of credit					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Book value	Write-downs/ Write-backs	Book value	Write-downs/ Write-backs	Book value	Write-downs/ Write-backs	Book value	Write-downs/ Write-backs	Book value	Write-downs/ Write-backs	Book value	Write-downs/ Write-backs	Book value	Write-downs/ Write-backs	Book value	Write-downs/ Write-backs	Book value	Write-downs/ Write-backs
A. Fully derecognised	-	-	-	-	2,821	-	-	-	-	-	-	-	-	-	-	-	-	-
Non residential mortages	-	-	-	-	2,821	-	-	-	-	-	-	-	-	-	-	-	-	-
B. Partially derecognised	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
C. Not derecognised	-	-	2,801,461	-	266,818	-	-	-	-	-	-	-	-	-	-	-	-	-
Consumer credit	-	-	159,687	-	19,468	-	-	-	-	-	-	-	-	-	-	-	-	-
Mortgages Loans	-	-	-	-	23,673	-	-	-	-	-	-	-	-	-	-	-	-	-
Residential Loans	-	-	1,523,097	-	76,507	-	-	-	-	-	-	-	-	-	-	-	-	-
Corporate Loans	-	-	1,118,677	-	3,800	-	-	-	-	-	-	-	-	-	-	-	-	-
Shipping	-	-	-	-	143,371	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	-	-	2,801,461	-	269,639	-	-	-	-	-	-	-	-	-	-	-	-	-
of which non-performing	-	-	124,365	-	173,090	-	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	2,677,096	-	96,549	-	-	-	-	-	-	-	-	-	-	-	-	-

In relation to securitisation transactions with own and third-party underlying assets, the table indicates balance-sheet exposures, unsecured exposures, and other forms of 'credit enhancement'.

C.2 Exposures arising from major 'third-party' securitisation transactions broken down by type of securitised asset and type of exposure

This table was not completed as the Bank has no such liabilities to report for either the current or the previous year as at 31 December 2017.

C.3 Special purpose securitisation vehicles

31 12 2017

Securitisation/Vehicle company name	Registered office	Consolidation	Assets			Liabilities		
			Credit	Debt securities	Other	Senior	Mezzanine	Junior
Casaforte Srl	Rome - Via Eleonora Duse nr. 5	YES	1,304,186	-	13,140	1,106,064	-	211,261
Siena Consumer 2015 S.r.l.	Conegliano - Via V. Alfieri nr.1	YES	239,147	-	14	186,980	-	52,182
Siena Mortgages 10-7 S.r.l.	Conegliano - Via V. Alfieri nr.1	YES	450,426	-	218	451,066	-	(422)
Siena PMI 2015 S.r.l.	Milan - Via A. Pestalozza nr. 12/14	YES	105,241	-	357	106,608	-	(1,010)
Norma SPV S.r.l.	Conegliano - Via V. Alfieri nr.1	NO	474,817		1,613	8,377	159,174	308,879
Total			2,573,817	-	15,342	1,859,095	159,174	570,890

As regards the "Casaforte Srl" own securitisation with the derecognition of underlying assets, please note that the assets acquired from the originator are included under "Loans". As regards the other securitisation transactions, all without the derecognition of the underlying assets, the item "Loans" does not include the receivables acquired from the originator, but rather includes primarily the liquidity held by the vehicles at the reporting date.

C.4 Non-consolidated special purpose securitisation vehicles

The information referred to in this table is not provided in that the Bank prepares the consolidated financial statements.

C.5 Servicer activities - Own securitisations: collections of securitised loans and redemptions of securities issued by the special purpose vehicle

Special Purpose Vehicle	Securitised assets (year-end data)		Loans collected during the year		Percentage of securities redeemed (year-end data)					
					Senior		Mezzanine		Junior	
	Impaired	Performing	Impaired	Performing	Impaired assets	Performing loans	Impaired assets	Performing loans	Impaired assets	Performing loans
Casaforte S.r.l.	-	1,269,567	-	134,348	0.00%	36.66%	0.00%	0.00%	0.00%	0.00%
Total 31 12 2017	-	1,269,567	-	134,348						
Total 31 12 2016	-	1,318,072	-	137,590						

The table shows the Casaforte securitisation assets transferred and derecognised, for which the Bank carries out servicer activities.

D. Information on structured entities not consolidated for accounting purposes (other than special purpose vehicles for securitisation)

Qualitative Information

Quantitative Information

The information referred to in this section is not provided in that the Bank prepares the consolidated financial statements.

E. Transfers

A. Financial assets sold and not fully derecognised

Qualitative Information

For a description of the transactions contained in the tables reported in this section, please refer to the footnotes of the tables themselves.

Quantitative Information

E.1 Financial assets sold and not derecognised: book value and full value

Type/portfolio	Financial assets held for trading			Financial assets designated at fair value			Financial assets available for sale			Financial asset held to maturity			Loans to banks			Loans to customers			Total	
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	31 12 2017	31 12 2016
A. Balance-sheet assets	-	-	-	-	-	-	1,774,273	-	-	-	-	-	-	-	-	3,410,789	-	-	5,185,062	19,532,996
1. Debt securities	-	-	-	-	-	-	1,774,273	-	-	-	-	-	-	-	-	-	-	-	1,774,273	15,166,215
2. Equity instruments	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	-	-
3. UCITS	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	-	-
4. Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,410,789	-	-	3,410,789	4,366,781
B. Derivatives	-	-	-	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	-	-
Total 31 12 2017	-	-	-	-	-	-	1,774,273	-	-	-	-	-	-	-	-	3,410,789	-	-	5,185,062	X
of which non performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	*223,814*	-	-	*223,814*	*X*
Total 31 12 2016	-	-	-	-	-	-	14,078,883	-	-	-	-	-	726,598	-	-	4,727,515	-	-	X	19,532,996
of which non performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	*155,079*	-	-	*X*	*155,079*

Legend:
A = Financial assets sold and fully recognised (book value)
B = Financial assets sold and partially recognised (book value)
C = Financial assets sold and partially recognised (full value)

The table reports the book value of financial assets sold but not derecognised, and still partially or fully reported in balance sheet assets. Line "1. Debt securities" exclusively includes securities sold in repurchase agreements; the amount in line "4. Loans" refers to the loans included in securitisation transaction without derecognition described in this section.

E.2 Financial liabilities associated with transferred financial assets that are not derecognised: book value

Liabilities/ Asset Portfolios	Financial assets held for trading	Financial assets designated at fair value	Financial assets available for sale	Financial assets held to maturity	Loans to banks	Loans to customers	Total
1. Deposits from customers	**-**	**-**	**751,958**	**-**	**-**	**445,455**	**1,197,413**
a) relating to fully recognised assets	-	-	751,958	-	-	445,455	1,197,413
b) relating to partially recognised assets	-	-	-	-	-	-	-
2. Deposits from banks	**-**	**-**	**850,704**	**-**	**-**	**-**	**850,704**
a) relating to fully recognised assets	-	-	850,704	-	-	-	850,704
b) relating to partially recognised assets	-	-	-	-	-	-	-
3. Debt securities issued	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) relating to fully recognised assets	-	-	-	-	-	-	-
b) relating to partially recognised assets	-	-	-	-	-	-	-
Total 31 12 2017	**-**	**-**	**1,602,662**	**-**	**-**	**445,455**	**2,048,117**
Total 31 12 2016	**-**	**-**	**13,884,953**	**-**	**-**	**1,756,473**	**15,641,426**

The table indicates the book value of financial liabilities posted as offsetting entries to financial assets sold and not derecognised partially or in their entirety from balance sheet assets. This category only involves liabilities posted against repurchase agreements.

E.3 Sales transactions relating to financial liabilities with repayment exclusively based on assets sold and not derecognised: fair value

Type/ Portfolio	Financial assets held for trading		Financial assets designated at fair value		Financial assets available for sale		Financial assets held to maturity (fair value)		Loans to banks (fair value)		Loans to customers (fair value)		Total	
	A	B	A	B	A	B	A	B	A	B	A	B	31 12 2017	31 12 2016
A. Balance-sheet assets	-	-	-	-	-	-	-	-	-	-	3,590,757	-	3,590,757	4,611,974
1. Debt securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Equity instruments	-	-	-	-	-	-	X	X	X	X	X	X	-	-
3. UCITS	-	-	-	-	-	-	X	X	X	X	X	X	-	-
4. Loans	-	-	-	-	-	-	-	-	-	-	3,590,757	-	3,590,757	4,611,974
B. Derivatives	-	-	X	X	X	X	X	X	X	X	X	X	-	-
Total assets	-	-	-	-	-	-	-	-	-	-	3,590,757	-	3,590,757	4,611,974
C. Associated financial liabilities	-	-	-	-	-	-	-	-	-	-	445,455	-	X	X
1. Deposits from customers	-	-	-	-	-	-	-	-	-	-	445,455	-	X	X
2. Deposits from banks	-	-	-	-	-	-	-	-	-	-	-	-	X	X
3. Securities issued	-	-	-	-	-	-	-	-	-	-	-	-	X	X
Total liabilities	-	-	-	-	-	-	-	-	-	-	445,455	-	445,455	1,019,365
Net value 31 12 2017	-	-	-	-	-	-	-	-	-	-	3,145,302	-	3,145,302	X
Net value 31 12 2016	-	-	-	-	-	-	-	-	-	-	3,592,609	-	X	3,592,609

***Legend*:**
A = Financial assets sold and fully recognised
B = Financial assets sold and partially recognised

The amount reported in the column "Loans to customers – fair value" exclusively refers to the fair value of receivables sold with own securitisations without derecognition which continue to be fully recognised in the Bank's balance sheet assets. The amount of EUR 445.5 mln reported under associated liabilities refers to the fair value of the portion of senior notes sold to market counterparties as part of the same securitisation. The Bank recognised a liability with the notes-issuing vehicles as an offsetting entry for the cash flows arising from this disposal. Against this liability, the creditor's entitlement to repayment is limited to cash flows arising from the assets underlying senior notes sold.

B. Financial assets sold and fully derecognised with assessment of “continuing involvement”

Qualitative Information

Quantitative Information

None to report as at 31 December 2017.

E.4 Covered bond transactions

Characteristics of the Covered Bond Issuance Programmes

The characteristics of the covered bond issuance programmes are shown in the corresponding section of the consolidated financial statements.

Accounting treatment

The accounting treatment is shown in the corresponding section of the consolidated financial statements.

Risks and Control Measures

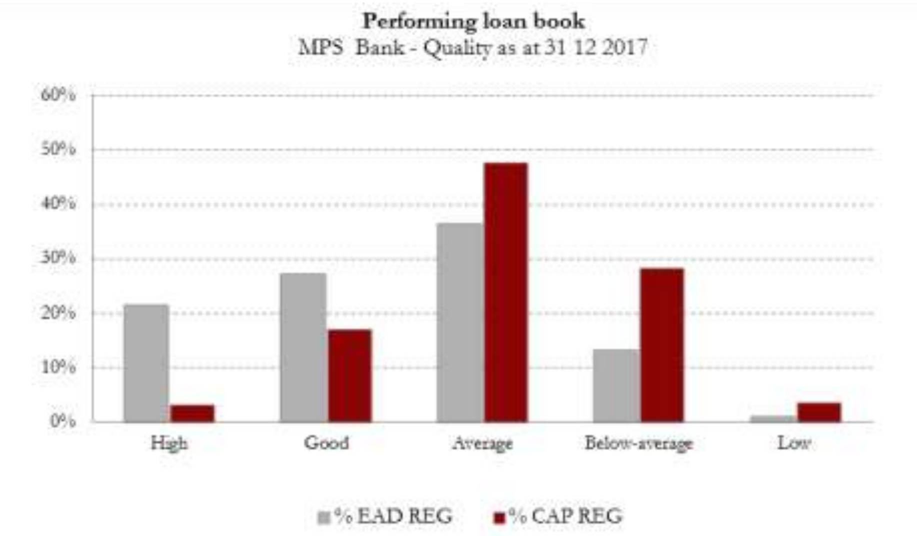
The risks and control measures are shown in the corresponding section of the consolidated financial statements.

Description of individual issuances

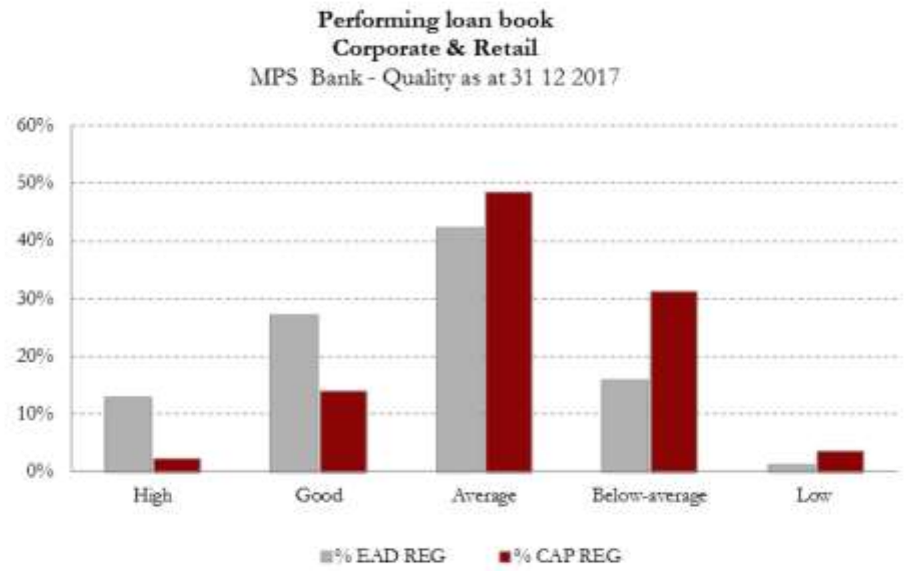
The description of individual issuances is provided in the corresponding section of the consolidated financial statements.

F. Credit risk measurement models

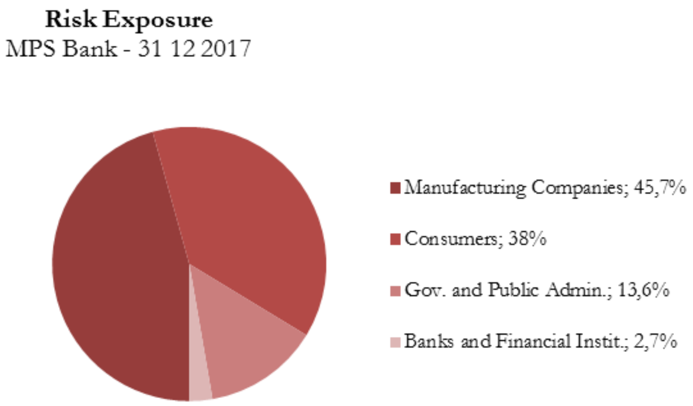
The chart below provides a credit quality breakdown of the Banca MPS portfolio as at 31 December 2017 by Exposure to Risk (EAD REG) and Regulatory Capital (CAP REG). The following graph shows that about 49% of risk exposure is to high and good quality customers (positions in financial assets are excluded). It should be noted that the ranking below also includes exposure to banks, government agencies and non-regulated financial and banking institutions, which are not included in the AIRB approaches. As borrowers, these entities are nevertheless subject to a credit standing assessment using official ratings, if any, or appropriate benchmark values that have been determined internally.



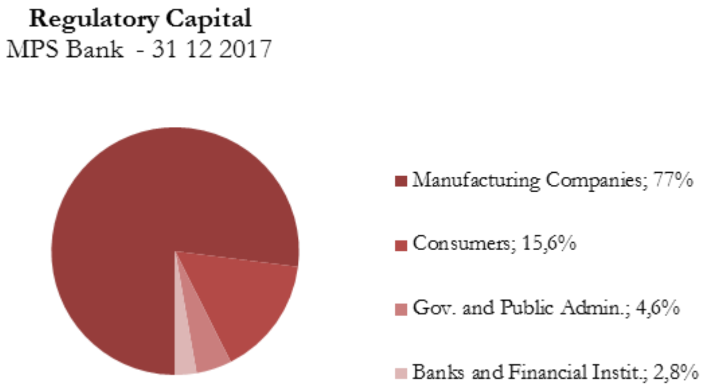
On the other hand, the following chart provides a breakdown of credit quality only for Corporate and Retail portfolios (which are largely validated by regulatory authorities for the use of internal PD and LGD models). As at 31 December 2017, high or good quality exposure accounted for approximately 40% of total exposure.



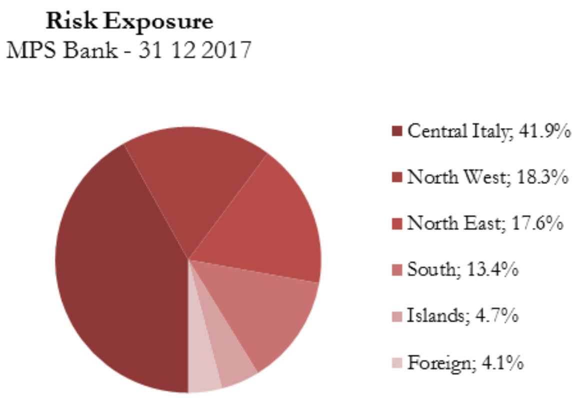
An analysis conducted at the end of 2017 shows that the Group's risk exposure is mainly toward "Manufacturing Companies" (45.7% of total loans disbursed) and "Households" (38%). The remaining portion is broken down between "Government and Public Administration" and "Banks and Financial Institutions", respectively at 13.6% and 2.7%.



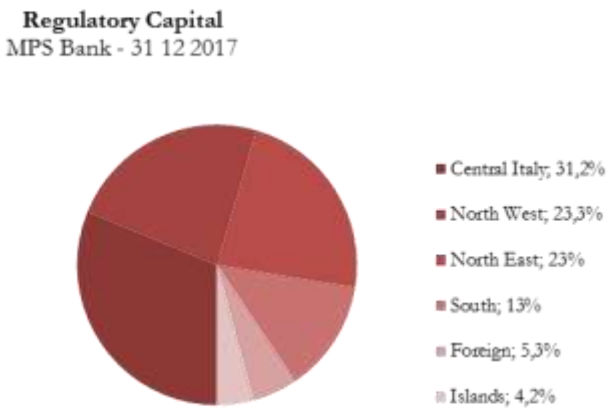
In terms of Regulatory Capital, the analysis reveals that the customer segment of Manufacturing Companies accounts for 77%, while the "Households" segment stands at 15.6%.



An analysis of the geographical breakdown of Bank customers shows that exposure to risk is primarily concentrated in Italy's Central regions (41.9%), followed by the North East and North West (18.3% and 17.6%), Southern Italy (13.4%), Italy's islands (4.7%) and foreign countries (4.1%).



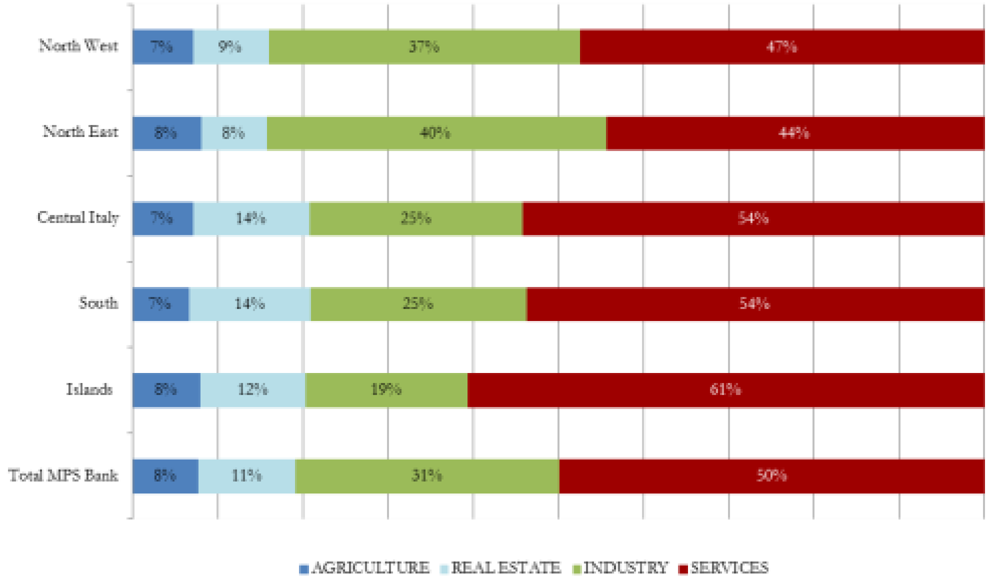
Regulatory Capital absorption is also higher in Central Italy (31.2%) in North East Italy (23.3%) and North West Italy (23%) due to the greater concentration of loans in those areas. These are followed by Southern Italy (13%), Foreign Countries (5.3%) and the Islands (4.2%):



Lastly, the following graphs show, solely for Italian corporate customers, the percentage breakdown of Default Exposure by individual Geographic Area and Regulatory Capital absorption by Business Sector.

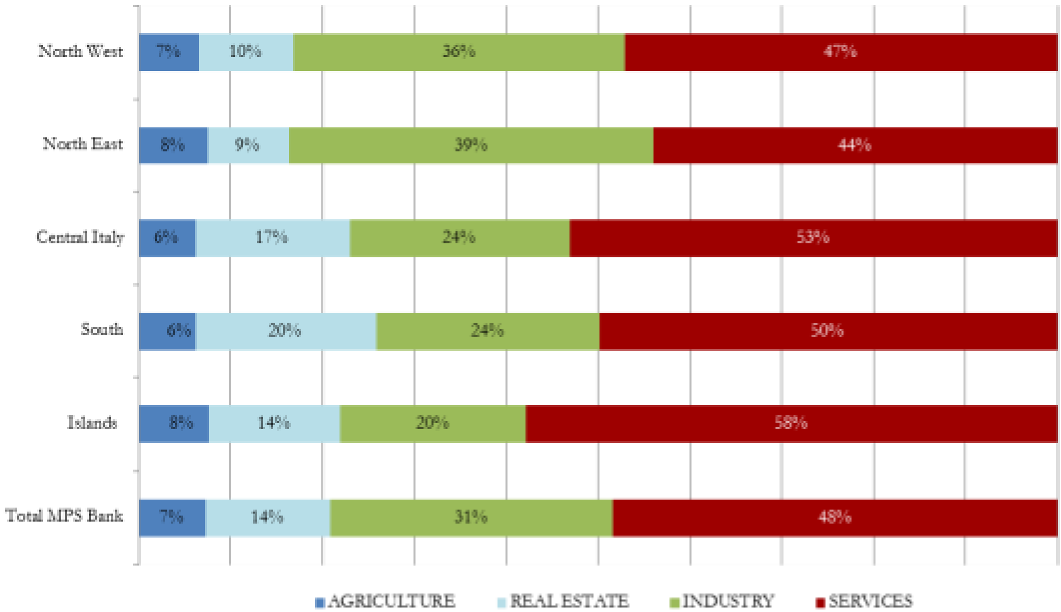
The largest share of Default Exposure for businesses in all Geographic Areas is accounted for by the "Services" sector. Out of the Bank's total exposure, the share of Services accounts for 50% and is followed by Industry (31%), Real Estate (11%) and Agriculture (8%).

MPS Bank - Italian Corporate customers – performing loan book as at 31/12/2017
EAD REG by geography and business segment



Also as regards Regulatory Capital (CAP), the greater concentration relates to the Services sector in all Geographic Areas.

MPS Bank - Italian Corporate customers – performing loan book as at 31/12/2017
CAP REG by geography and business segment



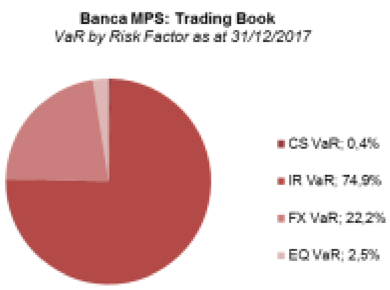
Section 2 – Market risk

2.1. Interest rate and price risk – Regulatory trading book

For general information on the management model of market risks concerning the Trading Book of the Parent Company, refer to Part E in the Notes to the consolidated financial statements.

The VaR diversified by risk factors and portfolios of the Bank at the end of 2017 came to EUR 0.08 mln, down by EUR 0.31 mln compared to the end of 2016.

In the last two years, the VaR level, diversified by risk factors and portfolios, was limited due to the closure in January 2016 of the remaining derivative positions, classified as held for trading, resulting from the closing of the Alexandria transaction which took place in late September 2015.



In terms of a breakdown of VaR by risk factors, as at 31 December 2017 the portfolio of the Bank was mainly absorbed by interest rate risk factors (IR VaR, 74.9%). These are followed by the foreign exchange risk factor (FX VaR, 22.2%), the equity risk factor (EQ VaR, 2.5%) and the Credit Spread risk factor (CS VaR, 0.4%).

In 2017, the Regulatory Trading Book VaR ranged between a low of EUR 0.03 mln recorded on 24 November 2017 and a high of EUR 0.80 mln on 15 May 2017 with an average value registered of EUR 0.33 mln. The Regulatory Trading Book VaR as at 31 December 2017 amounted to EUR 0.08 mln.

Banca MPS: Trading Book
VaR 99%1 day in EUR/mln

	VaR	Date
End of Period	0,08	31/12/2017
Min	0,03	24/11/2017
Max	0,80	15/05/2017
Average	0,33	

The chart below shows the Actual Backtesting results of the internal Market Risks model in relation to the Regulatory Trading Book of Banca MPS:

The backtesting shows three exceptions during the year on the Bank's trading book, recorded in the final quarter of 2017, of a negligible amount (given the extremely limited levels of VaR and P&L).

Qualitative Information

Qualitative information regarding the measurement of the interest rate and price risk of the Regulatory Trading Book are shown in Part E of the Notes to the consolidated financial statements.

Quantitative Information

1. Regulatory trading book: breakdown of balance sheet financial assets/liabilities and financial derivatives by residual life (repricing date)

This table has not been prepared since an analysis of the regulatory trading book's sensitivity to interest rate risk and price risk is produced based on internal models.

2. Regulatory trading book: breakdown of exposures in equity instruments and stock indices by major countries of the listing market

This table has not been prepared since an analysis of the regulatory trading book's sensitivity to interest rate risk and price risk is produced based on internal models.

3. Regulatory trading book: internal models and other sensitivity analysis methods

Each business unit within the Bank operates independently on the basis of the objectives and powers it has been assigned. The positions are managed by special desks provided with specific operational limits. Each desk adopts an integrated risk management approach (covering more than rate risk, when allowed) in order to benefit from the natural hedge resulting from simultaneously holding positions on risk factors that are not perfectly correlated.

All positions related to the Trading Book are classified as HFT for accounting purposes, with changes in market value posted directly to profit and loss.

Simulations include the following interest rate risk scenarios:

- +100 bps parallel shift for all interest rate and inflation curves,
- -100 bps parallel shift for all interest rate and inflation curves,
- +1 point parallel shift for all volatility surfaces of all interest rate curves.

Below is the overall effect of the scenario analyses.

MPS Bank: Trading Book

EUR/mln

Risk Family	Scenario	Global Effect
Interest Rate	+100bp all Interest Rate Curves	(0.32)
Interest Rate	-100bp all Interest Rate Curves	0.32
Interest Rate	+1% all Interest Rate Volatility	0

The sensitivity analysis of the credit spread risk of the Trading Book of the Bank associated with the volatility of issuers' credit spreads is not shown in that it is not material.

The sensitivity analysis of the price risk of the Bank's Regulatory Trading Book is not shown in that it is not material.

The contribution of the Commodity segment to the sensitivity analysis is zero.

2.2. Interest rate and price risk - banking book

Qualitative Information

Qualitative information regarding the measurement of the interest rate and price risk of the Banking Book are shown in Part E of the Notes to the consolidated financial statements.

Quantitative Information

1. Banking book: breakdown of financial assets and liabilities by residual life (repricing date)

This table has not been prepared since an analysis of the banking book's sensitivity to interest-rate risk and price risk is produced based on internal models.

2. Banking book: internal models and other sensitivity analysis methods

2.1 Interest rate risk

The sensitivity of Banca MPS, at the end of 2017, was indicative of exposure to rate reduction risk. The amount of economic value at risk in the event of a +100 bps parallel shift of the rate curve came to EUR +132.13 mln at the end of the year (vs. EUR -72.54 mln for a shift of -100 bps). With respect to the previous year, as at 31 December 2017 sensitivity was favourably impacted by the transfer of doubtful loans, which are expected to be derecognised by 30 June 2018.

2.2 Price risk

Shown below is a scenario analysis which includes all directional positions assumed, based on instructions by the Board of Directors or those that operationally fall under the Banking Book of the Bank (e.g. AFS securities), and which are not included in the previously-reported scenario analyses for price risk in the Trading Book.

MPS Bank: Banking Book

EUR/mln

Risk Family	Scenario	Global Effect
Equity	+1% Equity Prices (prices, indices, basket)	0.97
Equity	-1% Equity Prices (prices, indices, basket)	(0.97)
Equity	+1% Equity Volatility	0

2.3. Foreign exchange risk

Qualitative Information

Qualitative information, including the hedging of exchange rate risk, is shown in Part E of the Notes to the consolidated financial statements.

Quantitative Information

1. Breakdown by currency of assets, liabilities and derivatives

31 12 2017

Items	Currencies					
	US dollar	Pound sterling	Yen	Swiss franc	Honk-komg dollar	Other currencies
A. Financial assets	**1,932,419**	**129,334**	**29,639**	**12,543**	**29,210**	**85,849**
A.1 Debt securities	451,660	-	-	-	26,661	-
A.2 Equity securities	7,657	339	-	4	328	-
A.3 Loans to banks	777,195	65,510	22,783	3,298	1,139	79,367
A.4 Loans to customers	695,907	63,485	6,856	9,241	1,082	6,482
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**118,501**	**2,633**	**98**	**1,541**	**3,020**	**2,709**
C. Financial liabilities	**715,801**	**43,750**	**2,427**	**41,392**	**1,809**	**52,689**
C.1 Deposits from banks	93,689	1,600	510	37,976	124	38,182
C.2 Customer accounts	564,421	42,150	1,917	3,416	1,685	14,507
C.3 Debt securities	57,691	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	**23,686**	**1,618**	**181**	**81**	**312**	**3,190**
E. Financial derivatives						
- Options						
+ Long positions	365,729	4,523	2,709	2,391	-	81,988
+ Short positions	365,729	4,523	2,709	2,391	-	81,988
- Other						
+ Long positions	1,703,776	186,472	23,448	30,578	-	62,679
+ Short positions	3,069,480	216,373	50,528	3,567	30,092	82,060
Total assets	**4,120,425**	**322,962**	**55,894**	**47,053**	**32,230**	**233,225**
Total liabilities	**4,174,696**	**266,264**	**55,845**	**47,431**	**32,213**	**219,927**
Difference (+/-)	**(54,271)**	**56,698**	**49**	**(378)**	**17**	**13,298**

2. Internal models and other sensitivity analysis methods

For general information on the management model of foreign exchange risks, refer to Part E in the Notes to the consolidated financial statements.

The following scenarios were used for foreign exchange rate simulations:

- +1% for all foreign exchange rates to the Euro,
- -1% for all foreign exchange rates to the Euro,
- +1 point for all volatility surfaces of all foreign exchange rates.

The impact on total banking income and profit/loss for the year was estimated taking account only of HFT positions, with market value changes posted directly to profit and loss. The effect on equity, instead, is estimated with reference to all positions classified as AFS and related Fair Value Hedges (FVH). The total effect is the result of the algebraic sum of the two components. Below is a summary of the scenario analyses.

MPS Bank

EUR/mln

Risk Family	Scenario	Impact on net interest and other banking income and net profit	Impact on shareholders' equity	Global Effect
Forex	+1% Exchange rate against EUR	0	0.01	0.01
Forex	-1% Exchange rate against EUR	0	(0.01)	(0.01)
Forex	+1% Forex Volatility	0	0	0

2.4. Derivatives

A. Financial derivatives

In the following tables, a distinction is drawn between derivatives classified in the regulatory Trading Book and derivatives included in the Banking Book, in accordance with Bank of Italy regulations for Prudential Supervision. This differs from a IAS-based classification for financial statement purposes, which distinguishes between trading derivatives and hedge accounting derivatives.

Regulatory classification is fundamental in order to more accurately discern between instruments intended for trading - and thus for generating absorption of capital for market risk - rather than those intended for other purposes which fall within the framework of credit risk absorption.

Derivatives included in the Regulatory Trading Book correspond to those present in the regular balance-sheet trading book, with the exception of derivatives connected to instruments for which the fair value option was adopted, which are intended to hedge against market risks on fair-valued deposits and derivatives separated from or operationally connected to other financial instruments in the Banking Book.

A.1 Regulatory trading book: end of period notional amounts

Underlying asset/Type of derivative	Total 31 12 2017		Total 31 12 2016	
	Over the counter	Central counterparies	Over the counter	Central counterparties
1. Debt securities and interest rate	**16,746,076**	**-**	**20,223,914**	**-**
a) Options	8,147,837	-	9,999,210	-
b) Swaps	8,598,239	-	10,224,704	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equity securities and stock indices	**496,991**	**-**	**510,047**	**-**
a) Options	496,991	-	492,275	-
b) Swaps	-	-	17,772	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Exchange rates and gold	**5,639,286**	**-**	**7,507,365**	**-**
a) Options	1,966,060	-	2,522,767	-
b) Swaps	-	-	290,909	-
c) Forward	3,673,226	-	4,693,689	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	**427,730**	**-**	**582,407**	**-**
5.Other underlying	**-**	**-**	**-**	**-**
Total	**23,310,083**	**-**	**28,823,733**	**-**

A.2 Banking book: end of period notional amounts

A.2.1 Hedging derivatives

Underlying asset/Type of derivative	Total 31 12 2017		Total 31 12 2016	
	Over the counter	Central counterparies	Over the counter	Central counterparies
1. Debt securities and interest rate	**41,736,795**	**-**	**37,751,467**	**-**
a) Options	10,915,993	-	9,358,847	-
b) Swaps	30,820,802	-	28,392,620	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equity securities and stock indices	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Exchange rates and gold	**379,809**	**-**	**412,319**	**-**
a) Options	-	-	-	-
b) Swaps	379,809	-	412,319	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**
5. Other underlying	**-**	**-**	**-**	**-**
Total	**42,116,604**	**-**	**38,163,786**	**-**

A.2.2 Other derivatives

Underlying asset/Type of derivative	Totale 31 12 2017		Total 31 12 2016	
	Over the counter	Central counterparies	Over the counter	Central counterparies
1. Debt securities and interest rate	**681,812**	**-**	**2,635,096**	**-**
a) Options	37,000	-	752,724	-
b) Swaps	644,812	-	1,882,372	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equity securities and stock indices	**269,476**	**-**	**335,709**	**-**
a) Options	269,198	-	335,431	-
b) Swaps	278	-	278	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Exchange rates and gold	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**
5. Other underlying	**-**	**-**	**-**	**-**
Total	**951,288**	**-**	**2,970,805**	**-**

A.3 Financial derivatives: gross positive fair value - breakdown by products

Portfolios/Types of derivatives	Positive Fair value			
	Total 31 12 2017		Total 31 12 2016	
	Over the counter	Central counterparies	Over the counter	Central counterparies
A. Regulatory trading book	**771,945**	**-**	**1,058,657**	**-**
a) Options	118,601	-	147,020	-
b) Interest rate swaps	564,776	-	797,389	-
c) Cross currency swaps	-	-	45,728	-
d) Equity swaps	-	-	221	-
e) Forward	62,529	-	37,849	-
d) Futures	-	-	-	-
g) Other	26,039	-	30,450	-
B. Banking book - Hedging	**479,743**	**-**	**704,285**	**-**
a) Options	3,593	-	4,940	-
b) Interest rate swaps	476,150	-	683,554	-
c) Cross currency swaps	-	-	15,791	-
d) Equity swaps	-	-	-	-
e) Forward	-	-	-	-
d) Futures	-	-	-	-
g) Other	-	-	-	-
C. Banking book - Other derivatives	**126,847**	**-**	**180,772**	**-**
a) Options	6,022	-	18,999	-
b) Interest rate swaps	120,825	-	161,773	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forward	-	-	-	-
d) Futures	-	-	-	-
g) Other	-	-	-	-
Total	**1,378,535**	**-**	**1,943,714**	**-**

A.4 Financial derivatives: gross negative fair value - breakdown by products

Portfolios/Types of derivatives	Negative fair value			
	Total 31 12 2017		Total 31 12 2016	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading book	**757,542**	**-**	**1,128,646**	**-**
a) Options	119,054	-	149,249	-
b) Interest rate swaps	578,928	-	824,257	-
c) Cross currency swaps	-	-	36,493	-
d) Equity swaps	-	-	221	-
e) Forward	33,359	-	87,609	-
d) Futures	-	-	-	-
g) Other	26,201	-	30,817	-
B. Banking book - Hedging	**982,374**	**-**	**1,297,317**	**-**
a) Options	93,418	-	109,490	-
b) Interest rate swaps	880,194	-	1,140,888	-
c) Cross currency swaps	8,762	-	46,939	-
d) Equity swaps	-	-	-	-
e) Forward	-	-	-	-
d) Futures	-	-	-	-
g) Other	-	-	-	-
C. Banking book - Other derivatives	**40,377**	**-**	**59,489**	**-**
a) Options	3,141	-	9,119	-
b) Interest rate swaps	37,234	-	50,368	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	2	-	2	-
e) Forward	-	-	-	-
d) Futures	-	-	-	-
g) Other	-	-	-	-
Total	**1,780,293**	**-**	**2,485,452**	**-**

A.5 OTC financial derivatives: regulatory trading book - notional amounts, gross positive and negative fair value by counterparties - contracts not subject to netting agreements

31 12 2017

Contracts not subject to netting agreements	Governments and central banks	Other public entities	Banks	Financial Companies	Insurance Companies	Non financial companies	Other entities
1. Debt securities and interest rates							
- notional value	-	150,046	73,981	123,588	-	3,518,699	214,075
- positive fair value	-	19,050	10,147	578	-	102,213	3,410
- negative fair value	-	75	506	10,400	-	6,754	11
- future exposure	-	1,384	451	1,356	-	11,487	140
2. Equity securities and stock indices							
- notional value	20	-	-	4	-	1,815	25,693
- positive fair value	-	-	-	13	-	-	-
- negative fair value	-	-	-	-	-	29	386
- future exposure	2	-	-	-	-	-	-
3. Exchange rates and gold							
- notional value	181,088	-	1,398,484	36,271	-	2,173,858	1,821
- positive fair value	335	-	18,946	1,885	-	53,883	3
- negative fair value	1,451	-	1,053	107	-	14,698	67
- future exposure	1,811	-	13,985	196	-	23,703	18
4. Other underlying							
- notional value	-	-	-	-	-	213,570	-
- positive fair value	-	-	-	-	-	11,537	-
- negative fair value	-	-	-	-	-	14,652	-
- future exposure	-	-	-	-	-	21,496	-

A.6 OTC financial derivatives: regulatory trading book - notional amounts, gross positive and negative fair value by counterparties - contracts subject to netting agreements

31 12 2017

Contracts subject to netting agreements	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1. Debt securities and interest rates							
- notional value	-	-	12,168,987	496,700	-	-	-
- positive fair value	-	-	456,422	6,137	-	-	-
- negative fair value	-	-	513,825	80,934	-	-	-
2. Equity securities and stock indices	-	-	-	-	-	-	-
- notional value	-	-	469,458	-	-	-	-
- positive fair value	-	-	60,361	-	-	-	-
- negative fair value	-	-	59,947	-	-	-	-
3. Exchange rates and gold	-	-	-	-	-	-	-
- notional value	-	-	1,847,764	-	-	-	-
- positive fair value	-	-	12,425	-	-	-	-
- negative fair value	-	-	40,993	-	-	-	-
4. Other underlying	-	-	-	-	-	-	-
- notional value	-	-	214,160	-	-	-	-
- positive fair value	-	-	14,599	-	-	-	-
- negative fair value	-	-	11,653	-	-	-	-

A.7 OTC financial derivatives: banking book - notional amounts, gross positive and negative fair value by counterparties - contracts not subject to netting agreements

31 12 2017

Contracts not subject to netting agreements	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1. Debt securities and interest rates							
- notional value	-	-	-	973,308	-	1,000,000	-
- positive fair value	-	-	-	176,352	-	-	-
- negative fair value	-	-	-	-	-	132,500	-
- future exposure	-	-	-	10,634	-	15,000	-
2. Equity securities and stock indices							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
3. Exchange rates and gold							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
4. Other underlying							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

A.8 OTC financial derivatives: banking book - notional amounts, gross positive and negative fair value by counterparties - contracts subject to netting agreements

31 12 2017

Contracts subject to netting agreements	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1) Debt securities and interest rates							
- notional amount	-	-	38,570,070	1,875,229	-	-	-
- positive fair value	-	-	422,174	4,379	-	-	-
- negative fair value	-	-	806,022	72,324	-	-	-
2) Equity securities and stock indices							
- notional amount	-	-	269,475	-	-	-	-
- positive fair value	-	-	3,686	-	-	-	-
- negative fair value	-	-	3,142	-	-	-	-
3) Exchange rates and gold							
- notional amount	-	-	379,809	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	8,762	-	-	-	-
4) Other amounts							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-

A.9 OTC financial derivatives – residual life: notional amounts

Underlying asset/residual life	Up to 1 year	1 to 5 years	Over 5 years	Total
A. Regulatory trading book	**8,429,285**	**9,726,442**	**5,154,355**	**23,310,082**
A.1 Financial derivatives on debt securities and interest rates	2,528,615	9,263,124	4,954,339	16,746,078
A.2 Financial derivatives on equity securities and stock indices	296,954	20	200,016	496,990
A.3 Financial derivatives on exchange rates and gold	5,198,595	440,690	-	5,639,285
A.4 Financial derivatives on other underlying assets	405,121	22,608	-	427,729
B. Banking book	**4,464,043**	**29,097,856**	**9,505,993**	**43,067,892**
B.1 Financial derivatives on debt securities and interest rates	4,084,234	28,828,658	9,505,715	42,418,607
B.2 Financial derivatives on equity securities and stock indices	-	269,198	278	269,476
B.3 Financial derivatives on exchange rates and gold	379,809	-	-	379,809
B.4 Financial derivatives on other underlying assets	-	-	-	-
Total 31 12 2017	**12,893,328**	**38,824,298**	**14,660,348**	**66,377,974**
Total 31 12 2016	**17,451,273**	**37,452,115**	**15,054,937**	**69,958,325**

A.10 OTC financial derivatives: Counterparty risk/Financial risk – internal models

As at today, EPE models are not used for either internal operational or reporting purposes.

B. CREDIT DERIVATIVES

B1. Credit derivatives: end of period notional amounts

Transaction categories	Regulatory tranding book		Banking book	
	With one counterparty	with multiple counterparties (basket)	With one counterparty	with multiple counterparties (basket)
1. Purchases of protection				
a) Credit default products	130,000	-	-	-
b) Credit spread products	-	-	-	-
c) Total rate of return swap	-	-	-	-
d) Others	-	-	-	-
Total 31 12 2017	**130,000**	**-**	**-**	**-**
Total 31 12 2016	**177,434**	**-**	**-**	**-**
2. Sales of protection	**-**	**-**	**-**	**-**
a) Credit default products	130,000	-	-	-
b) Credit spread products	-	-	-	-
c) Total rate of return swap	-	-	-	-
d) Others	-	-	-	-
Total 31 12 2017	**130,000**	**-**	**-**	**-**
Total 31 12 2016	**197,434**	**-**	**-**	**-**

The end of period notional amounts is not significantly different from the average value during the year.

B2. OTC credit derivatives: gross positive fair value - breakdown by products

Portfolios/Types of derivatives	Positive Fair Value	
	Total 31 12 2017	Total 31 12 2016
A. Regulatory trading book	**4,588**	**17,613**
a) Credit default products	4,588	17,613
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
B. Banking book	**-**	**-**
a) Credit default products	-	-
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
Total	**4,588**	**17,613**

B3. OTC credit derivatives: gross negative fair value - breakdown by products

Portfolios/Types of derivatives	Negative Fair Value	
	Total 31 12 2017	Total 31 12 2016
A. Regulatory trading book	**4,588**	**17,655**
a) Credit default products	4,588	17,655
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
B. Banking book	**-**	**-**
a) Credit default products	-	-
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
Total	**4,588**	**17,655**

B.4 OTC credit derivatives: gross (positive and negative) fair value / counterparty risk - contracts not subject to netting agreements

No transactions of this nature are recorded at the reporting date.

B.5 OTC credit derivatives: gross (positive and negative) fair value / counterparty risk-contracts subject to netting agreements

31 12 2017

Contracts not subject to netting agreements	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
Regulatory trading							
1) Purchases of protection							
- notional amount	-	-	-	130,000	-	-	-
- positive fair value	-	-	-	4,588	-	-	-
- negative fair value	-	-	-	-	-	-	-
2) Sales of protection	-	-	-	-	-	-	-
- notional amount	-	-	130,000	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	4,588	-	-	-	-
Banking book							
1) Purchases of protection							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
2) Sales of protection	-	-	-	-	-	-	-
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-

B.6. Credit derivatives - residual life: notional amounts

Underlying asset/residual life	Up to 1 year	1 to 5 years	Over 5 years	Total
A. Regulatory trading book	**-**	**-**	**260,000**	**260,000**
A.1 Credit derivatives with qualified reference obligation	-	-	260,000	260,000
A.2 Credit derivatives with non-qualified reference obligation	-	-	-	-
B. Banking book	-	-	-	-
B.1 Credit derivatives with qualified reference obligation	-	-	-	-
B.2 Credit derivatives with non-qualified reference obligation	-	-	-	-
Total 31 12 2017	**-**	**-**	**260,000**	**260,000**
Total 31 12 2016	**114,868**	**-**	**260,000**	**374,868**

B.7 Credit derivatives: counterparty risk/financial risk – internal models

As at today, EPE models are not used for either internal operational or reporting purposes.

C. FINANCIAL AND CREDIT DERIVATIVES

C.1 OTC financial and credit derivatives: net fair value and future exposure by counterparty

31 12 2017

	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1) Financial derivatives, bilateral agreements							
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
- net counterparty risk	-	-	-	-	-	-	-
2) Credit derivatives, bilateral agreements	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
- net counterparty risk	-	-	-	-	-	-	-
3) "Cross product" agreements	-	-	-	-	-	-	-
- positive fair value	-	-	142,261	1,292	-	-	-
- negative fair value	-	-	621,526	139,445	-	-	-
- future exposure	-	-	158,904	21,705	-	-	-
- net counterparty risk	-	-	211,402	21,527	-	-	-

Section 3 – Liquidity risk

Qualitative Information

A. Liquidity risk: general aspects, operational processes and measurement methods

The qualitative information on the management and measurement of the liquidity risk is shown in Part E of the Notes to the consolidated financial statements.

Quantitative Information

1. Breakdown of financial assets and liabilities by residual contractual duration - Currency: Euro

31 12 2017

Account / Maturity	On demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	over 5 years	Unspecified maturity
Balance-sheet assets	17,315,683	1,128,938	3,169,287	2,842,950	3,646,115	8,136,870	7,065,118	31,678,849	34,636,673	3,619,696
A.1 Government securities	-	-	-	-	47,377	145,524	478,129	10,569,830	2,013,430	-
A.2 Other debt securities	449,152	-	44	7,142	12,950	32,636	37,455	829,034	1,025,357	8,357
A.3 Units of UCITS	83,289	-	-	-	-	-	-	-	-	-
A.4 Loans	16,783,242	1,128,938	3,169,243	2,835,808	3,585,788	7,958,710	6,549,534	20,279,985	31,597,886	3,611,339
- Banks	2,217,399	865,331	2,716,971	1,848,684	536,880	833,772	2,743,204	3,528,439	4,049,999	3,611,339
- Customers	14,565,843	263,607	452,272	987,124	3,048,908	7,124,938	3,806,330	16,751,546	27,547,887	-
Balance-sheet liabilities	56,320,982	1,199,241	2,121,812	5,394,987	5,669,129	5,294,567	4,725,618	27,886,237	4,225,003	-
B.1 Deposits and current accounts	52,455,019	194,645	335,073	689,092	1,922,272	2,249,682	1,842,940	2,724,509	329,750	-
- Banks	3,630,705	-	-	23,301	-	463,000	698,236	165,000	329,750	-
- Customers	48,824,314	194,645	335,073	665,791	1,922,272	1,786,682	1,144,704	2,559,509	-	-
B.2 Debt securities	2,276,913	2,641	1,572	2,929,767	1,497,972	1,944,099	1,261,871	7,539,872	2,799,966	-
B.3 Other liabilities	1,589,050	1,001,955	1,785,167	1,776,128	2,248,885	1,100,786	1,620,807	17,621,856	1,095,287	-
Off-balance-sheet transactions										
C.1 Financial derivatives with exchange of principal										
- long positions	1,714	184,137	140,156	860,258	933,040	359,060	341,224	90,952	-	-
- short positions	1,425	200,405	172,302	165,231	275,312	293,678	274,653	76,825	59	-
C.2 Financial derivatives without exchange of principal										
- long positions	523,476	20,242	77	9,456	54,498	65,574	62,613	-	-	-
- short positions	537,874	4,680	-	4,069	35,745	8,794	54,008	-	-	-
C.3 Deposits and borrowings to be received										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
- long positions	127,870	1,636,680	4,761	180,827	50,209	58,507	100,324	62,118	782,370	-
- short positions	2,868,064	-	-	150,000	-	-	-	-	-	-
C.5 Financial guarantees given	33,508	280	607	674	8,838	4,824	7,912	22,334	268	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal										
- long positions	-	-	-	-	-	-	-	-	260,000	-
- short positions	-	-	-	-	-	-	-	-	260,000	-
C.8 Credit derivatives without exchange of principal										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

2. Breakdown of financial assets and liabilities by residual contractual duration - Currency: Other currencies

31 12 2017

Account / Maturity	On demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	over 5 years	Unspecified maturity
Balance-sheet assets	624,345	36,688	38,598	213,966	268,230	230,086	62,330	250,245	517,138	-
A.1 Government securities	-	-	-	-	15	-	278	788	12,507	-
A.2 Other debt securities	26,661	-	103	134	10,527	2,462	4,748	12,090	431,435	-
A.3 Units of UCITS	40	-	-	-	-	-	-	-	-	-
A.4 Loans	597,644	36,688	38,495	213,832	257,688	227,624	57,304	237,367	73,196	-
- Banks	489,671	12,053	14,843	139,932	162,326	70,230	19,376	42,176	-	-
- Customers	107,973	24,635	23,652	73,900	95,362	157,394	37,928	195,191	73,196	-
Balance-sheet liabilities	578,409	1,149	7,922	51,644	165,024	9,756	3,037	42,025	-	-
B.1 Deposits and current accounts	578,326	1,149	7,922	51,644	117,391	9,319	2,264	-	-	-
- Banks	105,465	-	-	33,353	-	-	1,135	-	-	-
- Customers	472,861	1,149	7,922	18,291	117,391	9,319	1,129	-	-	-
B.2 Debt securities	-	-	-	-	15,554	336	672	42,025	-	-
B.3 Other liabilities	83	-	-	-	32,079	101	101	-	-	-
Off-balance-sheet transactions										
C.1 Financial derivatives with exchange of principal										
- long positions	1,368	355,051	189,594	162,907	270,900	284,534	267,381	75,910	-	-
- short positions	1,636	354,950	157,679	848,705	936,066	331,957	331,030	90,769	-	-
C.2 Financial derivatives without exchange of principal										
- long positions	125,579	-	-	-	-	-	-	-	-	-
- short positions	125,948	-	-	-	-	-	-	-	-	-
C.3 Deposits and borrowings to be received										
- long positions	-	-	-	33,353	336	-	-	-	-	-
- short positions	-	-	-	33,353	336	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
- long positions	33,152	127,008	32	1,424	34,291	40,270	30,056	10,267	-	-
- short positions	276,500	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	4	-	-	-	4	-	2	116	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

Self-securitisations

The securitisation transactions whereby the Bank underwrites securities issued by vehicle companies (self-securitisations) are not shown in the tables of Part E of the Notes to the Financial Statements, section C "Asset securitisation and disposal transactions", pursuant to the provisions of Circ. 262 of the Bank of Italy.

Self-securitisations of assets are transactions aimed at improving liquidity risk management by optimising the amount of assets readily available to cover liquidity requirements.

Although the Bank's direct and full underwriting of the notes issued by the vehicle does not make it possible to obtain direct liquidity from the market, it still provides the Group with securities that could be used for ECB refinancing and repo transactions on the market, thereby improving the Bank's safety margin against liquidity risk.

These sale transactions had no economic impact on the financial statements: loans continue to be reported under item 70 "Loans to customers" and item 140 "Non-current assets and groups of assets held for sale and discontinued operations" on the assets side, while underwritten notes are not reported.

As at 31 December 2017, this category includes the self-securitisations entered into in December 2007 (Siena Mortgages 07–5), in March 2008 (Siena Mortgages 07-5 2nd tranche), in February 2009 (Siena Mortgages 09-6), in December 2013 (Siena Consumer), in October 2016 (Siena PMI 2016) and in December 2017 (Siena NPL 2018).

Siena Mortgages 07-5, 1st and 2nd series

On 21 December 2007, through the vehicle Siena Mortgages 07-5 S.p.a., the Bank finalised a securitisation of performing loans consisting of a portfolio of 57,968 residential mortgages for a total of EUR 5,162.4 mln, of which a balance of EUR 1,344.0 mln (25,075 mortgage loans) outstanding as at 31 December 2017.

In order to fund the acquisition, the Vehicle issued Residential Mortgage Backed Floating Rate Notes (RMBS) in the following classes, rated by Moody's and Fitch as at 31 December 2017:

- Class A notes (Aa2/AA) for a nominal amount of EUR 4,765.9 mln, of which EUR 3,813.9 mln redeemed;
- Class B notes (Aa2 and A), for a nominal amount of EUR 157.4 mln;
- Class C notes (B3 and B), for a nominal amount of EUR 239.0 mln.

A cash reserve was also set up to support the transaction for an amount of EUR 124.0 mln, through the issuance of class D notes, which was posted to the assets side under Item 70 "Loans to customers". The transaction reached the Protection Ratio (ratio between total Class B and C notes and total Class A, B and C notes) which allowed for the gradual reduction of the cash reserve to the target amount of EUR 38.7 mln.

The first series was followed on 31 March 2008 by a second series (Siena Mortgages 07-5 second series), collateralised by a separate pool of assets consisting of an additional sale of a portfolio of performing loans composed of 41,888 residential mortgages for a total of EUR 3,416.02 mln and with a residual life of about 20 years.

As at 31 December 2017, 14,649 loans were outstanding for a balance of EUR 997.9 mln.

In order to fund the acquisition of loans, the Vehicle (the existing Siena Mortgages 07-5 S.p.a.) issued RMBS in the following classes, rated by Moody's and Fitch as at 31 December 2017:

- Class A notes (Aa2 and AA-) for a nominal amount of EUR 3,129.4 mln, of which EUR 2,419.8 mln redeemed;
- Class B notes (Aa3 and BBB), for a nominal amount of EUR 108.3 mln;
- Class C notes (NR and B), for a nominal amount of EUR 178.3 mln;

A cash reserve was set up to support the transaction for an amount of EUR 82.1 mln, through the issuance of class D notes, which was posted under asset item 70 “Loans to customers”. The transaction reached the Protection Ratio (ratio between total Class B and C notes and total Class A, B and C notes) which allowed for the gradual reduction of the cash reserve to EUR 25.1 mln.

Siena Mortgages 09-6, 1st series

On 20 February 2009 the Bank finalised a securitisation through the vehicle Siena Mortgages 09 – 6 Srl of a portfolio of performing mortgages in real estate and building for a total of EUR 4,436.5 mln. As at 31 December 2017, the remaining debt balance stands at EUR 1,692.3 mln, for a total of 24,695 loans.

In order to fund the acquisition of the portfolio sold, the Vehicle issued Residential Mortgage Backed Floating Rate Notes (RMBS) in the following classes, rated by Moody's and Fitch as at 31 December 2017:

- Class A notes (Aa2 and AA) for a nominal amount of EUR 3,851.3 mln, of which EUR 2,794.0 mln redeemed;
- Class B notes (NR and AA), for a nominal amount of EUR 403.7 mln;
- Class C notes (NR and B), for a nominal amount of EUR 181.4 mln.

A cash reserve was set up to support the transaction for an amount of EUR 106.7 mln, through the issuance of class D notes, which was posted under asset item 70 “Loans to customers”. In July 2017, the reserve’s target level was increased to EUR 145.0 mln.

Siena Consumer

In December 2013 a securitisation transaction was carried out through the sale to the vehicle Siena Consumer S.r.l. of a portfolio of approximately EUR 1,500 mln consisting of 200,542 personal loans, auto loans, and special-purpose loans originated by Consum.it S.p.A., now absorbed by Banca Monte dei Paschi di Siena S.p.A. As at 31 December 2017, the remaining debt balance amounted to EUR 178.8 mln (194,632 outstanding loans).

To fund the acquisition of the portfolio, the Vehicle issued unrated asset-backed securities in the following classes:

- Class A notes for a nominal amount of EUR 991.6 mln, redeemed in full;
- Class B notes for a nominal amount of EUR 488.3 mln, EUR 324.0 mln of which redeemed;
- Class C notes for a nominal amount of EUR 21.9 mln.

Class A, placed with an institutional investor, was redeemed in full, while the remaining classes were subscribed by the Originator. Therefore, the Bank holds all securities issued by the vehicle.

Siena PMI 2016

In 2016 the Bank carried out a securitisation through the vehicle named Siena PMI 2016 S.r.l. The transaction was finalised on 30 September 2016 through the sale of a portfolio of performing loans to Italian small and medium enterprises, for a total of EUR 1,739.3 mln. As at 31 December 2017, the remaining debt balance stands at EUR 1,034.1 mln, for a total of 15,764 loans.

In order to fund the acquisition of the portfolio sold, on 27 October 2016 the Vehicle issued Asset-Backed Securities (ABS) in the following classes, rated by Fitch and DBRS as at 31 December 2017:

- Class A1 notes (AA and AAA) for a nominal amount of EUR 470.0 mln, redeemed in full;
- Class A2 notes (AA and AAA) for a nominal amount of EUR 400.0 mln, of which EUR 84.3 mln redeemed;
- Class B notes (AA and AAH), for a nominal amount of EUR 150.0 mln;
- Class C notes (BBB and BBH) for a nominal amount of EUR 313.0 mln;
- Class J notes (not rated) for a nominal amount of EUR 406.3 mln, of which EUR 34.6 mln redeemed.

Siena NPL 2018 Srl

In the course of 2017, on the basis of what is set forth in the Restructuring Plan and in line with the terms of the agreements entered into with Quaestio Capital Management SGR S.p.A., the Bank completed a transfer through securitisation of a portfolio of doubtful loans along with other Group companies. The remaining debt balance on the portfolio as at 31 December 2017 amounts to EUR 20,326.1 mln.

The portfolio was sold on 20 December 2017 to the vehicle Siena NPL 2018 S.r.l., established for this purpose, which on 28 December 2017 issued Asset-Backed Securities (the "Securities") that were subscribed in full by the originators. As at 31 December 2017, the Bank held the following tranches:

- Senior A1 notes for a nominal amount of EUR 2,108.8 mln;
- Senior A2 notes for a nominal amount of EUR 323.8 mln;
- Mezzanine notes for a nominal amount of EUR 666.1 mln;
- Junior notes for a nominal amount of EUR 444.0 mln.

The 2017-2021 Restructuring Plan and the conditions of the agreements with Quaestio also call for, by the end of the first half of 2018:

- the transfer of 95% of the mezzanine notes to the Atlante Fund managed by Quaestio (already completed on 22 December 2017, effective as of 9 January 2018);
- rating by at least two agencies of the Senior A1 Notes (and possibly of other classes of Notes);
- after obtaining an investment grade rating from at least two agencies, the request for the application of the guarantee ("GACS") from the Ministry of Economy and Finance (MEF or GACS Guarantor) pursuant to Law Decree No. 18 of 14 February 2016, converted with amendments into Law No. 49 of 8 April 2016, and in compliance with what is laid out in the relative implementing measures (including, inter alia, the MEF decree of 3 August 2016) on the Senior A1 Notes (and possibly the Senior A2 as well);
- after obtaining the GACS, the transfer of 95% of the Junior Notes to the Atlante Fund, with the simultaneous deconsolidation of the assets transferred;
- the sale of 95% of the class A2 Notes to institutional investors.

For additional details, please refer to the section "The doubtful loan disposal transaction" of the Consolidated Report on Operations.

Section 4 – Operational risk

Qualitative Information

A. Operational risk: general aspects, operational processes and measurement methods

The qualitative information on the management and measurement of operational risks is shown in Part E of the Notes to the consolidated financial statements.

Quantitative Information

The percentage breakdown of events and operational losses recognised in 2017 is reported below, divided into various risk classes.

As at 31 December 2017, the number of operational risk events was down as compared to December 2016, while operational losses rose as a result of disputes with customers.

The types of event with the greatest impact on the income statement remain attributable to non-fulfilment of professional obligations with customers (under "Customers, products and operating practices": approximately 82% of the total) and operational and process management shortfalls (under "Process management, execution and delivery": approximately 10% of the total).

With regard to "non-fulfilment of professional obligations with customers", risk events are mainly associated with disputes for past share capital increases and claims due to the application of compound interest.

Main types of legal risks

Some summary information is reported below including, when relevant and/or advisable, that relating to individual claims with reference to significant issues involving Banca Monte dei Paschi di Siena which are not considered completely groundless or normal within the context of the Bank's activities.

Unless specified otherwise, labour law and tax disputes or disputes relating to debt collection are briefly described in the notes included in other sections of this document and, therefore, they are not addressed in this section. In compliance with the provisions of IAS 37, information that could significantly harm the Bank's position is omitted.

The risks associated with or connected to legal disputes – i.e. disputes brought before judicial authorities and arbitrators – are kept under specific and careful review by the Bank.

In case of disputes for which the disbursement of financial resources to perform the underlying legal obligation is believed to be "*likely*" and the relevant amount can be reliably estimated, allocations are made to the Reserve for Risks and Charges using statistical or analytical criteria.

The key characteristics of significant cases, by macro-category or individually, are described below:

A) Significant cases by macro-category

The cases brought against the Bank belonging to sufficiently homogeneous types for which the risk has been estimated using analytical and/or statistical criteria can be grouped for the most part into sub-categories, characterised individually by a common denominator represented by alleged critical elements of products, operations, services or relationships for which or in which the companies played the role of disbursement or placement entities.

The main macro-categories are related to situations concerning:

1) compound interest and in general the application of interest and conditions;
2) bankruptcy rescindments;
3) the placement of bonds issued by Countries or Companies that subsequently defaulted, and financial plans.

The table below presents the data of the main macro-categories as at 31 December 2017:

Type of dispute	No. of cases	Petitum (EUR mln)	Funds (EUR mln)
Interest compounding	3,102	360	167
Claw-backs of payments received from defaulted entities	266	316	64
Defaulting obligations and financial plans	646	44	12

1) Disputes concerning compound interest, interest and conditions

Following the change in orientation by the Supreme Court of Cassation (Corte di Cassazione) on the legitimacy of the practice of capitalising on a quarterly basis the interest payable accrued on current accounts, as of 1999 there has been a progressive increase in claims for the return of interest expense resulting from quarterly compound interest. In these lawsuits, the plaintiffs also contest the legitimacy of the interest rate and the methods to determine the commissions applied to the accounts. In this regard, the interpretation introduced since 2010 by the Supreme Court on usury - according to which overlimit fees (Commissioni di Massimo Scoperto), even before Italian Law no. 2/2009 was enforced, should have been calculated on the basis of the effective global rate (Tasso Effettivo Globale - TEG), contrary to Bank of Italy guidelines - is frequently the pretext for the actions brought by customers. The plaintiffs most often claim irregularities in current account balances; however, claims concerning compound interest are also increasingly frequent: these cases are based on the alleged illegitimacy of the so-called “French-style amortisation” in mortgage loans, and violation of Italian Law no. 108/1996 on usury in term loans. Aware that the jurisprudential interpretation is often disadvantageous (although not univocal), at least with respect to certain issues, the Bank is committed to maximising the arguments in its defence - which do exist, particularly concerning the statute of limitations - identifiable in the regulatory and interpretative framework. Thinking in terms of macro-categories, the total provisions estimated for this type of disputes appear to be adequate relative to the risk.

2) Disputes concerning bankruptcy rescindments

The reform implemented from 2005 has reduced and limited the scope of bankruptcy rescindments, particularly those relating to current account remittances. For those that can still be filed, or already pending at the effective date of the reform, the Bank is giving maximum emphasis to all the arguments available in defence.

3) Disputes concerning bonds issued by Countries or Companies that subsequently defaulted, and financial plans

The considerable defensive efforts made in this type of lawsuit resulted over the years in the emergence of some favourable jurisprudential orientations, at least with respect to certain specific cases, which are allowing balanced risk control. In 2015 there were some negative decisions, particularly as regards financial plans, which as things currently stand have not had tangible negative impacts, but the developments of which will be closely monitored to ensure proper oversight over any greater risk factors.

B) Individually significant cases

Banca Monte dei Paschi di Siena S.p.A. vs. Extraordinary Administrators of SNIA S.p.A.

No further disclosure of the case in question, which has already been described in previous notes, is provided in this document due to the fact that, in light of the first instance decision of the Court of Milan which completely dismissed the claims of the Extraordinary Administrators with respect to the various defendants including the Bank and taking into account the progress of the proceedings relating to the appeal lodged by the counterparty, the risk of the Bank losing this case should currently be deemed remote.

Banca Monte dei Paschi di Siena S.p.a. vs. Fatrotek

The action was brought by the company Fatrotek against the Bank (and other credit institutions); the plaintiff asks the Court to recognise the alleged unlawfulness by the Bank and the other banks of reporting doubtful loans to the Central Credit Bureau, and claim monetary and non-monetary damages suffered by the company amounting to EUR 157.1 mln.

The plaintiff also asks that the defendant banks be found jointly liable, each proportionately to the seriousness of its behaviour. The Bank's defence was based on the fact that the company's extremely severe financial situation fully justified the Bank's initiatives.

The next hearing is scheduled for 31 May 2018, for the engagement of expert witness.

Banca Monte dei Paschi di Siena S.p.A. vs. Fallimento Medeghini S.p.A. in liquidazione

In 2012, Fallimento Medeghini SpA in liquidazione served a complaint on the Bank charging it with an alleged unlawful behaviour, in contract and in tort, in relation to accounting movements between the company, which subsequently went bankrupt, and other companies (controlled by the Medeghini family), at the time of a capital increase by Medeghini S.p.A. The claim amounts to EUR 155.0 mln.

The Bank's defence was based on various considerations in fact and in law, and was aimed at demonstrating the absolute groundlessness of the claims brought by the bankruptcy procedure due to total lack of a causal link between management acts that led to the default and the Bank's conduct.

During the technical appraisal ordered by the Court, the opposite party's demands that a link of causality be recognised between the capital increase and the subsequent transactions that worsened the company's financial difficulties - in which the Bank acted as a mere executor - were repeatedly and effectively rebutted by the Bank's expert witness.

During the appraisal, the Court-appointed expert witness accepted almost entirely the arguments of the defendant Bank, and in any case the plaintiff's claim, as formulated, appears to be groundless in terms of damages to be awarded, as no damage has been suffered.

The hearing was officially deferred to 25 October 2018 for closing arguments.

Banca Monte dei Paschi di Siena S.p.A. vs. Riscossione Sicilia S.p.A.

On 15 July 2016, Riscossione Sicilia S.p.A. served a complaint on the Bank before the Court of Palermo, asking the Court to order it to pay a total amount of EUR 106.8 mln.

The claim of Riscossione Sicilia S.p.A. falls within the realm of the complex dealings between the Bank and the plaintiff, originated from the disposal to Riscossione Sicilia S.p.A. (pursuant to Law Decree 203/05, converted into Law 248/05) of the stake held by the Bank in Monte Paschi Serit S.p.A. (later Serit Sicilia S.p.A.).

Specifically, Riscossione Sicilia, in relation to the contractual provisions involved in said disposal, now asks the Bank be ordered to pay, under its contractual liability, for alleged contingent liabilities of Monte Paschi Serit S.p.A./Serit Sicilia S.p.A.

The Bank duly appeared before the court with a cross-action against Riscossione Sicilia S.p.A. The proceeding is under preliminary investigation. At the hearing on12 February 2018 the Judge has reserved himself for the admission of preliminary evidence.

With an action filed on 30 November 2016, the Bank petitioned the Court of Palermo to order Riscossione Sicilia to immediately pay EUR 40.0 mln, plus interest and expenses, due to the non-repayment by the party subject to the order of several past due instalments relating to two loan agreements. With a decree issued on 17 January 2017, the Court of Palermo ordered Riscossione Sicilia to pay the amount of EUR 40.7 mln to the plaintiff. The action was served on Riscossione Sicilia, along with the decree and the order for payment for the amount for which provisional enforceability had been granted, on 8 February 2017.

On 11 March 2017, Riscossione Sicilia objected to the above-mentioned order and requested that it be revoked and, by means of a cross-action, that the Bank be sentenced to pay an amount of approximately EUR 66 mln.

To justify its objection, Riscossione Sicilia alleged that the Bank owed it EUR 106.8 mln by virtue of certain representations and warranties set forth in two contracts for the sale of shares whereby the Bank had transferred the entire share capital of the company Serit – Sicilia S.p.A. to Riscossione Sicilia. Moreover, in the petition, Riscossione Sicilia acknowledged that its claims were already subject to other proceedings pending before the same Court.

The Bank duly appeared before the court requesting the dismissal of the opposing party's objection. The proceeding is in the initial stage and at the hearing on 9 October 2017 the Judge, having rejected the opposing party's request to join the proceedings with those lodged previously, reserved his decision with respect to the requests made by the parties during the hearing, i.e., to have the enforceability of the order declared, submitted by the Bank, and for the suspension of the proceedings, requested by the other party. With a ruling dated 26 January 2018 the Judge lifted the reservation, rejected the counterparty's requests and accepted the Bank's request for the provisional enforceability of the order for the entire sum, adjourning the case to 22 May 2018.

For the sake of comprehensiveness, please note that with a complaint dated 19 October 2017, Riscossione Sicilia challenged the measure of 6 October 2017 whereby the Court of Palermo rejected the urgent appeal pursuant to art. 700 of the Code of Civil Procedure lodged by Riscossione Sicilia against the suspension of loans disclosed by the Bank. The hearing for the discussion of the case, initially scheduled for 24 November 2017, took place on 12 January 2018 and at that time the Judge reserved his decision. With a ruling dated 26 January 2018 the Court rejected the complaint of Riscossione Sicilia.

Former Banca Antoniana Popolare Veneta S.p.A. (BAV) vs Elipso Finance S.r.l.

The dispute was originated by 3 loan assignment transactions identifiable in bulk in accordance with Italian Law no. 130 of 30/4/1999, carried out or mediated by former BAV, following which since 2008 the assignee Elipso Finance s.r.l. has submitted complaints, invoking the guarantees given by the assignors, mainly concerning the lack of documentary evidence supporting the credit. The claim amounts to EUR 100.0 mln.

Specifically, the 3 assignments were carried out by former BAV, Antenore Finance S.p.A. and Theano Finance S.p.A. (both of which are 98% owned by former BAV, originator of the relevant loans, and subsequently merged into Banca MPS).

As a settlement could not be reached, in compliance with the arbitration clause contained in the contracts Elipso initiated the arbitration procedure at the Arbitration Chamber of Milan.

The Bank's defence aims to demonstrate that, in accordance with contractual provisions, even if the claim should be accepted, damages can only be awarded for positions for which Elipso can actually prove that damage has been suffered.

The Arbitration Board ordered an expert appraisal in order to verify compliance by Elipso with the contractual provisions with regard to guarantee activation methods and times, and the final defence briefs were subsequently filed.

On 17 January 2017, the partial award rejecting the counterparty's claims was issued. After the expert appraisal was completed on a sample of contested transactions and the correlated partial award was issued, the Board was asked for its opinion on the methods for continuing with the expert appraisal and, in the meantime, invited the parties to verify whether the prerequisites are met for a reconciliation.

After an additional exchange of briefs, having acknowledged the difficulty that the parties had in reaching an agreement, the Board ordered the continuation with the expert appraisal on matters to be determined in the course of a hearing held on 4 December 2017. Subsequently, the parties reached an understanding for a settlement subject, as regards the Bank, to the approval of the Bodies. As a results of the arbitration, the hearing of 20 Febraury 2018 was not held and the Court will declare the termination of the proceeding.

Banca Monte dei Paschi di Siena S.p.A. vs. CHI. DEM S.r.l. and the other companies of the De Masi Group

The action was brought by the company CHI. DEM S.r.l. and by the other companies of the De Masi Group. Co-defendants with Bank are two other credit institutions and Bank of Italy.

The plaintiff seeks relief for alleged damage suffered by the De Masi Group as a result of the aforesaid banks having exceeded threshold rates (with the joint liability of Bank of Italy for failure to supervise) following decision no. 46669/2011 by the Criminal Division of the Court of Cassation, which has ascertained that in certain periods the threshold rate was actually exceeded. The petitum amounts to EUR 100.0 mln or the different amount, possibly higher, that may be confirmed in the course of the proceedings and which the other party, with the brief pursuant to art. 183, paragraph VI no. 1 of the Italian Code of Civil Procedure, attempted to specify based on a reference to expert reports it presented.

The Bank's defence is essentially based on lack of evidence of the monetary and non-monetary damages claimed by the plaintiff, as well as lack of any link of causality.

Beyond the above-mentioned elements of proof, an element in favour of the Bank is the dismissal of a first request for payment of a provisional amount, which the plaintiffs applied for as a precautionary measure under article 700 of the Italian Code of Civil Procedure and/or with a request for a Court order (the dismissal was confirmed during the claim proceeding), as well as the dismissal, on 9 July 2014, of a second request for the recognition of a provisional amount which the plaintiffs again submitted. Ah the proceeding on 20 February 2018 the Judge has reserved himself for the admission of preliminary evidence.

For the sake of comprehensiveness, please note that on 3 July 2017 parties in the De Masi Group, almost exactly corresponding to the composition of the opposing parties in the case referred to above, served a complaint on the Bank lodging new proceedings before the Court of Rome to obtain compensation for alleged damages suffered and quantified at roughly EUR 16.6 mln.

Very briefly, the counterparties are alleging the Bank's breach of (alleged) agreements which - in their view - were reached and formalised within the scope of the negotiations held at the Ministry of Economic Development:

The Bank duly appeared before the court refuting the action of the counterparties in fact and in law. At the first hearing held on 10 January 2018, the Judge adjourned the case to 14 February 2018 for an attempted settlement. At the hearing, the Judge, after granting the terms pursuant to art. 163, paragraph VI of the Italian Code of Civil Procedure, adjourned the case to 14 June 2018.

Banca Monte dei Paschi di Siena S.p.A. vs. receivership estate of Antonio Amato & C. Molini e Pastifici in Salerno S.p.A. in liquidazione

The receivership estate of 'Antonio Amato & C. Molini e Pastifici in Salerno S.p.A. in liquidazione' brought an action against the Bank, with the former Directors of the Company in bonis and other Creditor Banks as co-defendants, before the Court of Naples, requesting that the Court ascertain and recognise the joint liability of the defendants for their unlawful conduct. According to the plaintiff, they formed a pool that granted a loan to the company, thus worsening its state of financial distress and causing severe damage to its business and its equity and financial integrity; they therefore asked the Court to order the defendants to pay damages to the receivership estate in the amount of EUR 90 mln, i.e. the presumable difference between the estate's liabilities and assets, or a different amount that the Court should deem suitable to award upon completion of the investigative phase; as a secondary claim, the receivership estate asks that each of the defendants be found liable for the part attributable to them for the damage suffered by the company, amounting to EUR 90 mln, equal to the presumable difference between the estate's liabilities and assets.
The Bank rose preliminary objections and filed a motion to dismiss the case for lack of venue jurisdiction and of active legitimation; in the merits, the Bank asked the Court to dismiss the plaintiff's claims as inadmissible and/or groundless or, as a secondary request, to reduce the amount of compensation awarded in consideration of the different degree of guilt in causing the damage, in accordance with art. 2055, paragraph 2 of the Italian Civil Code.
The proceeding is in the preliminary stage and the accounting CTU has been admitted. The next hearing is scheduled for 6 November 2018 for examination of the report of specialist adivisor.

Banca Monte dei Paschi di Siena S.p.A vs. Edilgarba s.r.l.

The company Edilgarba called the Bank before the Court of Milan, claiming the breach by the Bank of its obligations deriving from the mortgage loan agreement entered into on 13 September 2006 by Edilgarba and Banca Antonveneta (later Banca MPS). Edilgarba demanded compensation for the alleged damages suffered (quantified at roughly EUR 28.5 mln) as well as damages to its image and commercial reputation (quantified at no less than EUR 3 mln). The claim therefore amounts to EUR 31.5 mln.

At the hearing on 5 December 2017 the decision in the case was deferred to a later date.

Banca Monte dei Paschi di Siena S.p.A. vs. Extraordinary Administrators of Impresa S.p.A.

On 11 November 2016, the Extraordinary Administrators of Impresa S.p.A. served a complaint on the Bank along with other banks participating in a pool (our share is 36.48%) to have the liability of such banks, the members of the Board of Directors of Impresa S.p.A., today under Extraordinary Administration, and the auditing firm confirmed and declared by the court and to have them ordered to provide compensation for damages, jointly and severally, allegedly suffered by the company to the extent of EUR 166.9 mln.

The case is still in the initial phases and the hearing for the first appearance of the parties was held on 31 October 2017.

Along with the defence attorneys of the other Banks in the pool, a preliminary objection was first of all raised concerning the nullity of the complaint; however, the Judge deferred all assessments in this regard to when the decision will be made by the Board.

Therefore, the Judge granted the terms for the filing of briefs pursuant to art. 183, paragraph 6 of the Italian Code of Civil Procedure with a deferred start date as of 1 January 2018 - and therefore until next 31 January, 2 March and 22 March 2018 - and scheduled the hearing for the discussion concerning any possible preliminary evidence requested by the parties for 29 October 2018.

Banca Monte dei Paschi di Siena S.p.A. vs. CO.E.STRA. Srl in Liquidazione e Concordato Preventivo.

On 4 December 2014, the administrators of the arrangement with creditors served a complaint on the Bank along with other banks participating in a pool (our share is 28.51%) to have their contractual or tort liability in relation to the company's debt restructuring agreement entered into on 30 November 2011 confirmed and declared by the court and have the defendant banks ordered to provide compensation for claimed damages, jointly and severally, suffered or for the claimed aggravation of distress that the company allegedly suffered, quantified by the opposing party as EUR 34.6 mln.

A petition was filed for the referral of the case to a different competent court, and the proceeding is still in the initial stage.

Banca Monte dei Paschi di Siena S.p.A. vs. Marangoni Arnaldo + 124 shareholders and investors

In July 2015, Arnaldo Marangoni sued the Bank before the Court of Milan, claiming to have purchased shares of Banca MPS between 2008 and 2013, during subscription of the capital increase in 2008 as well as on the Electronic Stock Market for approximately EUR 0.075 mln. As the basis for his claims, the plaintiff alleged that the Bank, during the time period 2008-2013, unlawfully provided a false representation of its capital, economic, financial, profit and management situation, with the effect of misleading the plaintiff.

On 29 March 2016, through voluntary intervention, another 124 individuals came forward. The interveners allege to have purchased shares of Banca MPS during the capital increases of 2008 and 2011, as well as on the Electronic Stock Market.

The case is aimed at obtaining compensation for all material and non-material damage, quantified at approximately EUR 97 mln (in the meantime reduced to roughly EUR 89 mln due to the waiver of one counterparty), claimed by the Interveners in relation to the investments made in Banca MPS shares based on allegedly incorrect information contained in the prospectuses, in the financial statements and in all price-sensitive communications issued by the Bank that resulted in misleading the interveners.

The proceedings were referred to the Board for a decision on the preliminary matters. The Judge handed down a decision on 25 January 2018 rejecting the objections on the preliminary matters and adjourned to 13 February 2018 for the continuation of the proceedings. At that hearing, the Bank reserved the right to appeal the non-definitive ruling of the Court of Milan and the Judge, after granting the terms pursuant to art. 183, paragraph 6 of the Italian Code of Civil Procedure, adjourned the proceedings to the hearing scheduled for 18 December 2018.

Banca Monte dei Paschi di Siena S.p.A. vs. Coop Centro Italia s.c.p.a

On 26 July 2016, Coop Centro Italia s.c.p.a. served a complaint on the Bank, together with Consob, before the Court of Florence, Section specialised in corporate matters, for the hearing of 20 January 2017.

The plaintiff, after describing its participation in the Bank's capital increases in 2008, 2011 and 2014, and the events of the Bank during the period 2008-2015, is requesting total damages of EUR 85.5 mln, essentially claiming the false nature of the prospectuses relative to the aforementioned capital increases. Specifically, the counterparty claims damages of EUR 20.3 mln for the capital increase of 2008 and EUR 9.2 mln for the capital increase of 2011, for contractual liability pursuant to art. 1218 of the Italian Civil Code, as well as art. 94, paragraph 8 of Legislative Decree no. 58/98 or art. 2049 of the Italian Civil Code in relation to the actions of its then representatives and employees, also pursuant to art. 1218 of the Italian Civil Code, as well as art. 94, paragraph 8 of Legislative Decree no. 58/98, for EUR 56.0 mln, jointly and severally - or alternatively each to the extent applicable - with Consob called upon to respond pursuant to articles 2043 and 2049 of the Italian Civil Code for the actions of the Authority and those of its commissioners and officials, with regard to the 2014 capital increase, regarding capital losses incurred as well as loss of profit to be determined during the course of the proceedings. The Bank duly appeared before the court with its defence pleadings.

The proceeding is under preliminary investigation. At the hearing on 12 October 2017, the Judge reserved his decision on the claims.

Banca Monte dei Paschi di Siena S.p.A. vs. Coofin s.r.l.

On 26 July 2016, Coofin s.r.l. served a complaint on the Bank, together with Consob, before the Court of Florence, Section specialised in corporate matters, for the hearing of 20 January 2017.

The plaintiff, after describing its participation in the Bank's capital increases in 2008, 2011 and 2014, and the events of the Bank during the period 2008-2015, is requesting total damages of EUR 51.6 mln, essentially claiming the false nature of the prospectuses relative to the aforementioned capital increases. Specifically, the counterparty claims damages of approximately EUR 11.5 mln for the capital increase of 2008 and EUR 6.1 mln for the capital increase of 2011, for contractual liability pursuant to art. 1218 of the Italian Civil Code, as well as art. 94, paragraph 8 of Legislative Decree no. 58/98 or art. 2049 of the Italian Civil Code in relation to the actions of its then representatives and employees, also pursuant to art. 1218 of the Italian Civil Code, as well as art. 94, paragraph 8 of Legislative Decree no. 58/98, for EUR 34.0 mln, jointly and severally - or alternatively each to the extent applicable - with Consob called upon to respond pursuant to articles 2043 and 2049 of the Italian Civil Code for the actions of the Authority and those of its commissioners and officials, with regard to the 2014 capital increase, regarding the capital losses incurred as well as loss of profit to be determined during the course of the proceedings. The Bank duly appeared before the court with its defence pleadings.

At the next hearing on 13 March 2018 the Judge reserved himself for the admission of preliminary evidence.

Banca Monte dei Paschi di Siena S.p.A. vs. Alken Fund Sicav and Alken Luxembourg S.A.

On 22 November 2017, the counterparties served a complaint on the Bank as well as Nomura International, Giuseppe Mussari, Antonio Vigni, Alessandro Profumo, Fabrizio Viola and Paolo Salvadori, before the Court of Milan, requesting that the court confirm and declare: (i) the alleged liability of the Bank pursuant to art. 94) of the Consolidated Law on Finance, as well as for the deeds of defendants Mussari, Vigni, Profumo and Viola pursuant to art. 2935 of the Italian Civil Code due to the offences perpetrated against the plaintiffs, (ii) the alleged liability of defendants Mussari and Vigni in relation to investments made by the funds in 2012 on the basis of false information, (iii) the alleged liability of defendants Viola, Profumo and Salvadori in relation to investments made by the funds subsequent to 2012 and (iv) the alleged liability of Nomura pursuant to art. 2043 of the Italian Civil Code and, as a result, order BMPS and Nomura jointly and severally to provide compensation for financial damages equal to EUR 423.9 mln for Alken Funds Sicav and EUR 10 mln for lower management fees and reputational damage to the management company Alken Luxembourg SA, as well as jointly and severally with BMPS and Nomura the defendants Mussari and Vigni for damages resulting from the investments made in 2012, and Viola, Profumo and Salvadori for damages subsequent to 2012. The counterparties also requested that the defendants be ordered to provide compensation for non-financial damages upon confirmation that they were guilty of the offence of providing false corporate disclosures. The first hearing is scheduled for 13 June 2018 and the Bank will appear before the court within the required terms to present its defence.

Banca Monte dei Paschi di Siena S.p.A vs. (former) Banca MPS Shareholders and Investors

This disclosure is provided in consideration of the fact that an additional 25 lawsuits are currently pending, brought forward by shareholders and/or former shareholders for a total claim of approximately EUR 730.5 mln, in which the plaintiffs claim to have purchased shares during the capital increases of 2008, 2011, 2014 and 2015 and/or on the electronic market based on allegedly incorrect information contained in the prospectuses and/or financial statements and/or in the price sensitive information issued by the Bank during the period 2008/2015.

These legal proceedings originate within an extraordinary and exceptional context also connected to the criminal investigations launched by the courts and the legal issues involving the Bank during the years 2012 and 2013, which mainly refer to the financial transactions to acquire resources to purchase Banca Antonveneta and to a number of financial transactions carried out by the Bank, including the transactions connected to the restructuring of the "Santorini" transaction and the "Alexandria" notes, to the prior capital increases carried out by the Bank in 2008 and 2011 and to the FRESH 2008 transaction.

The investors submitted claims for compensation against the Bank as part of the criminal proceedings 29634/14 r.g.n.r. (General Criminal Records Registry) (a total of 1,243) pending before the Court of Milan, in which the Bank is involved as a civilly liable party, as well as the other criminal proceedings no. 955/16 (there are a total of 304 civil parties) with reference to the financial statements, reports and other corporate communications of the Bank from 31 December 2012 to 31 December 2014 and with reference to the half-yearly report as at 30 June 2015, in which the Bank is a defendant pursuant to Italian Legislative Decree 231/01 as well as a civilly liable party.

Out-of-court claims for the repayment of sums and/or compensation for damages by Shareholders and Investors of Banca Monte dei Paschi di Siena S.p.A. in relation to the 2008 and/or 2011 share capital increases

For complete disclosure, note that, in relation to capital increases and the allegedly incorrect information contained in the prospectuses and/or in the financial statements and/or in the price sensitive information issued by the Bank since 2008, at the date of this interim report on operations the Bank has received 760 requests, for a total of approximately EUR 653 mln in quantified claims, aimed at obtaining reimbursement of the amounts invested and/or compensation for monetary and non-monetary damages following the alleged losses suffered. Of said claims, around 10% filed civil suits (the majority of which as part of the case filed by Marangoni Arnaldo + 124 as mentioned above).

These claims – brought individually or collectively, through professionals or consumer associations – although heterogeneous, are mostly justified by generic references to the Bank's alleged violation of the industry legislation governing disclosure, and were rejected in that they were considered generic, unfounded, not backed by suitable documentary evidence, and in some cases past the statute of limitations.

Banca Monte dei Paschi di Siena S.p.A. vs. Fresh 2008 Bondholders

Several holders of Fresh Bonds 2008 bonds maturing in 2099 initiated proceedings against the Bank, the company Mitsubishi UFJ Investors Services & Banking Luxembourg SA (which replaced the Bank issuing the bond loan Banca di New York Mellon Luxembourg), the British company JP Morgan Securities PLC and the American company JP Morgan Chase Bank NA (which entered into a swap agreement with the bond loan issuer) before the Court of Luxembourg to request confirmation of the inapplicability of Italian law decree 237/2016 (burden sharing) to the holders of Fresh 2008 bonds and, as a result, to have it affirmed that such bonds cannot be forcibly converted into shares, as well as that such bonds will continue to remain valid and effective in compliance with the issue terms and conditions, in that they are governed by the laws of Luxembourg. In the proceedings in question, the Bank will appear before the court to present its defence.

Banca Monte dei Paschi di Siena S.p.A. vs. Fruendo

Following the transfer of the back office business unit to Fruendo S.r.l. in January 2014, involving 1,064 resources, 634 workers (later reduced to 488 due to waivers/settlements and deaths) initiated legal proceedings before the Courts of Siena, Rome, Mantua and Lecce to demand, among other things, the continuation of the employment relationship with the Bank, upon the declaration of ineffectiveness of the transfer agreement entered into with Fruendo S.r.l.

At the reference date of these financial statements, for one plaintiff proceedings are pending in the first instance with a hearing scheduled on 14 May 2018, while for the other 487 rulings in the first and/or second instance have already been handed down against the Bank, giving the workers concerned the right to be rehired.

Specifically, for 145 workers a ruling in the first instance was handed down (at the Courts of Lecce and Rome) against which the Bank has already appealed before the applicable Courts of Appeals with hearings currently scheduled from 26 February 2018 to 26 November 2019; on the other hand, for 342 workers, a ruling in the second instance was also handed down (at the Courts of Appeals of Florence, Rome and Brescia), against which the Bank has already submitted an appeal before the Court of Cassation.

For the sake of full disclosure, note that both before the courts of second instance and before the Supreme Court of Cassation, the Bank and Fruendo S.r.l. have filed a petition for submission to the European Court of Justice of preliminary matters that are essential for the purposes of a decision. In particular, an assessment was requested regarding the conformity with EC Directive 2001/23 of art. 2112 of the Italian Civil Code, as interpreted by the decisions of the Supreme Court of Cassation, with which the appealed judgments comply, and it also asked whether:

- the transfer of an economic entity, functionally autonomous though not pre-existing, as it was identified by the transferor and the transferee at the time of the transfer, would not allow for the automatic transfer of employment relationships pursuant to art. 2112 of the Italian Civil Code and therefore would require the consent of the workers concerned; and
- the automatic transfer of the employment relationships pursuant to art. 2112 of the Italian Civil Code would not be permitted and therefore if the consent of the workers concerned would be required if, in the case of the transfer of an economic entity carrying out bank back office activities, the transferring Bank maintained ownership of the applications and IT infrastructure, only granting them to the transferee for use for valuable consideration.

At the date of these financial statements, of the 487 parties entitled to be rehired by the Bank, 72 workers (later reduced to 31 following 25 waivers to be ratified in accordance with legal procedures and 16 settlements that took place in the meantime) submitted an order requesting to be re-entered in the Bank's Payroll Ledger and to restore their insurance and contribution position, which the Bank objected to by appealing before the Labour Section of the Court of Siena (the hearings for the discussion of the case are scheduled for 25 January 2019 and for 15 February 2019).

Even if the Bank's objection does not bring about the desired effects, to date no economic impacts are expected for the Issuer from the integration of back pay to the workers rehired, as all plaintiffs maintained their wages enjoyed at Banca MPS at the time of transfer of the business unit and indeed, they did not suffer the wage decreases applied to the employees of the Bank, on the basis of the Union Agreements of 19 December 2012 and 24 December 2015.

Given the above, the Bank, jointly with Fruendo S.r.l., is analysing the matters arising from the unfavourable outcome of the labour dispute.

Lastly, please note that a number of workers (32) filed a lawsuit for the offence of wilful non-performance of a judge's ruling (art. 388 of the Criminal Code). As part of criminal proceedings no. 567/17 before the Court of Siena initiated following the above-mentioned lawsuit, the Public Prosecutor submitted a request for dismissal with respect to the parties under investigation Tononi Massimo, Viola Fabrizio, Falciai Alessandro and Morelli Marco, which the complainants objected to. At the hearing in chambers on 12 July 2017 to decide on the objection to the request for dismissal, the proceedings were deferred to 20 September 2017 due to lack of notification. At the hearing concerning the objection to the request for dismissal, the Judge withheld his decision, reporting that the decision would be made known within 5 days, when the measure would be communicated via certified email. The Siena Preliminary Investigations Judge, lifting the reservation placed at the hearing on 20 September 2017, issued an order to the Public Prosecutor for further investigations to be completed within 120 days. The measure was served upon the parties under investigation on 2 October 2017.

Please also note that in 2017 52 Fruendo S.r.l. workers (later reduced to 37 following waivers/settlement) called the Bank before the Court of Siena (in 6 separate proceedings) to request the continuation of the employment relationship with the Bank, upon declaration of the unlawful interposition of labour ("unlawful contract", which does not call for criminal consequences) as part of the services outsourced by the Bank to Fruendo S.r.l., with hearings currently scheduled for 25 January 2019.

Also in this case, any unfavourable outcome of the proceedings would currently result in the re-establishment of the employment relationship of the parties concerned with the Bank with no expenses for previous remuneration differences, as the plaintiffs in question have continuously worked at Fruendo S.r.l., maintaining the remuneration received from the Bank when the business unit was transferred.

Banca Monte dei Paschi di Siena S.p.A./civil action and third-party action of the Parent Company as civilly liable party- criminal proceedings relating to the "Alexandria" case

After the early termination of the agreements in relation to the transaction known as "Alexandria", as agreed in the out-of-court settlement executed with Nomura on 23 September 2015 (see the annual report as of 31 December 2015), the damages caused to the Bank by the performance of these agreements have definitively determined. In particular, the Bank reduced its claim for damages to an amount not lower than EUR 866.3 mln (compared to an initial civil claim of approx. EUR 1 billion).

With reference to the criminal proceedings in relation to "Alexandria", after the service of the order of closing of the preliminary investigations, the Office of the Public Prosecutor at the Court of Milan sought the committal for trial of the former Top Management of Banca MPS and two members of the Management of Nomura for false corporate disclosures and market manipulation.

As regards the offences allegedly committed by the above-mentioned individuals, the Prosecuting Attorney also sought the committal for trial of the Bank and Nomura in relation to the administrative offences pursuant to Legislative Decree 231/2001.

In March 2016 this proceeding was combined with the other legal action pending before the Court of Milan in relation to the investigations concerning the Santorini, FRESH 2008 and Chianti Classico transactions.

By an order of 13 May 2016, the Preliminary Hearing Judge (in Italian, the "GUP") authorized the lodging and admissibility of the claims for damages of the offended parties against the entities already involved in the proceedings as defendants pursuant to Legislative Decree 231/2001.

On 2 July 2016, with the approval of the Public Prosecutor, the Parent Company filed a request for plea bargain in the criminal proceedings, in relation to the objections made against the Bank in accordance with Legislative Decree 231/2001.

After the request for plea bargain, the Bank's position was closed. With the plea bargain, accepted by the Preliminary Hearing Judge on 14 October 2016, the Bank exits the proceedings as defendant in the administrative offence following crimes committed by its own former executives, limiting the consequences to an administrative financial penalty of EUR 0.6 mln and a confiscation, for EUR 10 mln, without exposing itself to the risk of higher penalties.

Lastly, with regard to the above, on 1 October 2016 the Preliminary Hearing Judge ordered the committal for trial of the defendants other than the Bank. At the hearing on 15 December 2016, the civil parties, those already admitted in the previous "Alexandria" proceedings as well as the new civil parties, requested that Banca MPS, Nomura and Deutsche Bank be summoned as civilly liable parties in relation to the offences with which the former directors and executives committed for trial were charged.

Following an extensive closed session meeting, the Court summoned the banks as civilly liable parties, providing the notification deadline to the parties of 10 January 2017, allowing for the completion of notifications at the latest by 31 January 2017 and scheduling the hearing for 21 February 2017.

At the hearing on 21 February 2017, the Bank appeared before the court as a civilly liable party.

During the proceedings, by order of 6 April 2017 the Court of Milan decided on the requests for the exclusion of civil parties submitted by the defence teams of the defendants and the civilly liable parties, excluding several civil parties.

In addition, the claim of damages as a civil party by the Bank with respect to Giuseppe Mussari, Antonio Vigni, Daniele Pirondini and Gian Luca Baldassarri was also excluded on the assumption of its contributory liability with respect to the defendants.

At the reference date of this interim report on operations, a total of 1,243 civil parties have acted against the Bank.

As things stand within the above-mentioned proceedings, the witnesses are currently being heard.

On 12 May 2017 the committal for trial of the representatives Alessandro Profumo, Viola Fabrizio and Salvadori Paolo (the first two no longer in office) was requested within new criminal proceedings before the Court of Milan, in which they were charged with false corporate disclosures (art. 2622 of the Italian Civil Code) in relation to the accounting of the "Santorini" and "Alexandria" transactions with reference to the Bank's financial statements, reports and other corporate communications from 31 December 2012 to 31 December 2014 and with reference to the half-yearly report as at 30 June 2015, as well as market manipulation (art. 185 of the Consolidated Law on Finance) in relation to the disclosures to the public concerning the approval of the financial statements and the balance sheets specified above.

In relation to these proceedings, in which the Bank is identified as the injured party, the first hearing was held on 5 July 2017, during which several hundred natural persons and a number of trade associations asked to appear before the court as civil parties. The Preliminary Hearing Judge postponed the proceedings to 29 September 2017 for the deliberation of the requests as well as for consolidation with the proceedings pending against Banca MPS, as the defendant entity pursuant to Italian Legislative Decree 231/01 for the same actions with which Mr Profumo, Mr Viola and Mr Salvadori are currently charged. At the hearing on 29 September 2017, 304 of the 337 who requested were admitted as civil parties. The remaining parties were excluded due to lack of *legittimatio ad causam*. At the same hearing, the proceedings pending against the Bank, as the party liable under administrative law, were joined with those pending against the natural persons. Therefore, the Judge admitted the summons of the Bank as a civilly liable party and adjourned the proceedings to the hearings of 10 November 2017 and 24 November 2017 to allow for the service of the relative notifications.

At the hearing on 10 November 2017, the defence attorney of Mr Salvadori objected on the basis of the alleged nullity of the committal for trial request against his client as the compulsory charge against the client should have been formulated only for the offence pursuant to art. 2622 of the Italian Civil Code and not also for that pursuant to art. 185 of the Consolidated Law on Finance. In connection with this issue, this defence attorney also objected on the grounds of the Milan A.G.'s lack of jurisdiction.

At the hearing on 24 November 2017, the Preliminary Hearing Judge handed down an order:

- declaring the nullity of the request for committal for trial with respect to Mr Salvadori;
- ordering the separation of the relative position from the main proceedings (pending against Mr Viola and Mr Profumo, as well as the Bank) with reference to the section relating to the alleged offence pursuant to art. 185 of the Consolidated Law on Finance;
- reserving any decision concerning issues of jurisdiction until such time as the public prosecutor makes his own determinations in this regard.

Therefore, the Public Prosecutor will need to issue the notice of the conclusion of investigations with respect to Mr Salvadori for the offence pursuant to art. 185 of the Consolidated Law on Finance and file the (new) request for committal for trial against Mr Salvadori for such offence and, lastly, request the (new) preliminary hearing (again for the crime of market manipulation).

At the hearing on 9 February 2018, the Preliminary Hearing Judge acknowledged the filing in the meantime of:

- the Bank's defence brief concerning jurisdiction;
- the documents submitted by the defence attorney of Mr Viola and Mr Profumo;
- the briefs of Mr Bivona and Attorney Falaschi; as well as
- a request for an order for attachment submitted by the latter against Mr Viola and Mr Profumo.

After which time, the Preliminary Hearing Judge convened the proceedings against Mr Salvadori following his removal from the proceedings ordered during the previous hearing with regard to the charge pursuant to art. 185 of the Consolidated Law on Finance.

The civil parties readmitted again requested the summons of BMPS as civilly liable party.

Therefore, the Preliminary Hearing Judge adjourned the case - also for the proceedings against Mr Viola and Mr Profumo - to the hearing of 13 March 2018 which was not held by abstension and was therefore postoponed to 6 April 2018 for the appearance before the court of the liable party and for the discussion of and decision on the matter of jurisdiction.

The following schedule has been provided for discussions of the defence pleadings: 6, 13, 20 and 27 April 2018.

Risks from tax disputes

Among the cases associated with tax disputes which regard the Bank, those in which the risk of losing is considered likely are limited in number and adequate provisions have been made to the Reserve for risks and charges.

In the course of 2017, during a control on the supplemental return relating to the 2012 tax period, the Revenue Agency claimed - with reference to the FRESH (Floating Rate Equity Linked Subordinated Hybrid Preferred Securities) instrument - the non-application of the withholding taxes required by law on at least part of the payments made in favour of the counterparty starting in 2008. Although the Bank believes that it acted correctly, also taking into account the opinion of its advisors, as well as the timing, costs and uncertainties that would arise from the initiation of litigation, it settled the potential dispute by paying a total of EUR 12.1 mln, inclusive of direct taxes, penalties and interest.

Part F – Information on shareholders' equity

Section 1 - Shareholders' equity

A. Qualitative information

The Bank pursues strategic objectives for the entire Group focused on quantitative and qualitative strengthening of capital, structural rebalancing of liquidity and achievement of sustainable profitability levels. In this perspective, capital management, planning and allocation activities play a crucial role in ensuring compliance over time with the minimum capitalisation requirements set by the regulations and the supervisory authorities, as well as with the risk appetite level approved by the Group's strategic supervision body.

This is the purpose served by the Risk Appetite Framework (RAF) through which the target capitalisation levels are estimated on a yearly basis and capital is allocated to the business units according to expected development and estimated risk levels, making sure that the allocated capital is sufficient to ensure compliance with minimum requirements, under both normal and stress conditions. In the context of the RAF it is used to perform prospective capital adequacy assessments over a multiyear period, under both normal and stress conditions. The analyses are carried out both at Group level and by each individual legal entity subject to regulatory capital requirements.

The achievement of objectives and compliance with regulatory minimum requirements is constantly monitored throughout the year.

The formal corporate processes to which the RAF is applied at least on an annual basis are the budget, the risk appetite and the ICAAP.

The Bank defines the targets for the entire Group on the basis of a Risk Adjusted Performance Measurement (RAPM), which measures profitability net of the cost of capital to be held for regulatory purposes relative to the assumed risk level.

The definitions of equity applied are those used in Supervisory Regulations: Common Equity Tier 1, Tier 1 and Capital; moreover, the RAPM metrics also include Invested Capital, i.e. the amount of Shareholders' equity needed to achieve Common Equity Tier 1 values, whether determined ex ante as target levels or realised ex post.

The Capital at Risk concepts applied are those used in the regulatory requirements and correspond to the risk weighted assets (RWA), determined on the basis of the rules set out in the supervisory regulations, and the economic capital corresponding to the maximum losses estimated on measurable risks at a predetermined confidence interval and on the basis of the Group's internal models and rules. Both measurements are used as part of RAPM metrics.

B. Quantitative Information

B.1 Equity: breakdown

Item/ Amount	31 12 2017	31 12 2016
1. Shareholders' equity	10,328,618	7,365,674
2. Share premium	-	-
3. Reserves	2,423,789	1,322,720
- retained earnings	(3,730)	-
a) legal reserve	-	-
b) statutory reserve	-	-
c) treasury shares	-	-
d) other	(3,730)	-
- other	2,427,519	1,322,720
4. Equity instruments	-	-
5. Treasury shares (-)	(185,958)	-
6. Valuation reserves	(61,470)	(198,344)
- Financial assets available for sale	44,443	(37,529)
- Cash flow hedges	(33,451)	(70,583)
- Exchange difference	2,006	8,165
- Non-current assets held for sale	104	15,451
- Financial liabilities measured at fair value with impact to profit and loss	35,690	-
- Actuarial gains (losses) on defined benefit plans	(110,262)	(113,848)
7. Profit (loss) for the year	(2,857,440)	(3,722,771)
Total	**9,647,539**	**4,767,279**

B.2 Valuation reserves for financial assets available for sale: breakdown

Asset/Amount	Total 31 12 2017		Total 31 12 2016	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	88,769	(124,863)	100,887	(155,135)
2. Equity instruments	80,199	-	16,054	(19)
3. Units of UCITS	3,279	(2,941)	5,660	(4,976)
4. Loans	-	-	-	-
Total	**172,247**	**(127,804)**	**122,601**	**(160,130)**

B.3 Valuation reserves for financial assets available for sale: annual changes

31 12 2017

	Debt securities	Equity securities	Units of UCITS	Loans
1. Opening balance	**(54,249)**	**16,033**	**684**	**-**
2. Increases	**74,598**	**106,195**	**25,318**	**-**
2.1 Increases in fair value	56,322	65,456	4,206	-
2.2 Reversal to profit and loss of negative reserves	18,276	40,739	21,112	-
- due to impairment	191	40,739	20,765	-
- following disposal	18,085	-	347	-
2.3 Other changes	-	-	-	-
3. Decreases	**56,443**	**42,029**	**25,664**	**-**
3.1 Decreases in fair value	9,454	948	639	-
3.2 impairment provisions	191	41,093	20,766	-
3.3 Reversal to profit and loss of positive reserves: following disposal	46,798	94	4,259	-
3.4 Other changes	-	(106)	-	-
4. Closing balance	**(36,094)**	**80,199**	**338**	**-**

B.4 Valuation reserves for defined benefit plans: annual changes

	Internal pension plans	External pension plans	Provision for staff severance pay	31 12 2017
Opening balance	**(33,476)**	**(855)**	**(79,517)**	**(113,848)**
Remeasurement of net defined benefit liability (asset):	**(1,142)**	**706**	**4,033**	**3,597**
Return on plan assets excluding interest	(540)	(2,456)	-	(2,996)
Actuarial gains (losses) arising from changes in demographic assumptions	(3,131)	(1,035)	(48)	(4,214)
Actuarial gains (losses) arising from experience adjustments	1,602	4,324	3,781	9,707
Actuarial gains (losses) arising from changes in financial assumptions	188	124	300	612
Changes in effect of limiting net defined benefit asset to asset ceiling	739	(251)	-	488
Others	22	-	(33)	(11)
Closing balance	**(34,596)**	**(149)**	**(75,517)**	**(110,262)**

Section 2 – Regulatory banking capital and ratios

2.1 The regulatory framework - scope of application

The European Union's banking supervision regulatory and institutional framework (Basel 3) in force aims to improve the ability of banks to absorb shocks arising from financial and economic stress, whatever the source, improve risk management and governance and strengthen the bank's transparency and disclosures, while taking into account developments from the financial crisis.

The approach based on three pillars aims to reinforce the quantity and quality of banks' capital base as well as establish counter-cyclical supervisory tools and new standards for liquidity risk management and financial deleveraging.

In particular, Pillar 1 governs capital requirements to reflect the potential risk of activities as well as capital endowment requirements.

In addition to the system of capital requirements aimed at covering credit, counterparty, market and operational risk, there is a plan to introduce leverage caps (including off-balance sheet exposures) as a backstop to capital requirements based on risk and to reduce excessive leverage across the system.

"Basel 3" also includes liquidity risk monitoring requirements and tools which focus on short-term liquidity resilience (Liquidity Coverage Ratio - LCR) and longer term structural balance (Net Stable Funding Ratio - NSFR) as well as providing standards for liquidity risk management and monitoring at both individual and system-wide level.

Pillar 2 requires banks to adopt a strategy and process for controlling current and future capital adequacy, assigning the supervisory authorities with the task of verifying the reliability and consistency of results and of implementing the appropriate corrective measures, where necessary. Growing importance is attached to the corporate governance structure and internal control systems of banks as a determining factor for the stability of individual institutions and the financial system as a whole. In this area, the following have been strengthened: (i) regulatory requirements concerning the role, (ii) qualification and composition of governing bodies; (iii) awareness by these bodies and top management regarding organisational structure and risk for the Bank and banking group; (iv) corporate control functions, with a particular focus on the independence of those in positions of responsibility, the recognition of risk in off-balance sheet assets and securitisations, asset valuation and stress testing; (v) remuneration and incentive systems. retained earnings;

Pillar 3 – regarding the obligation of public disclosure on capital adequacy, risk exposures and general characteristics of management and control systems, with a view to promoting market discipline – establishes transparency requirements concerning securitisation exposures and detailed information on the composition of regulatory capital and the methods adopted by the Bank to calculate capital ratios.

The Basel 3 framework is subject to a transition period that extends the full application of the rules to 2019 (2022 for the phase-out of certain capital instruments) and during which the new rules are applied in an increasing proportion.

Regulatory capital, an element of Pillar 1, is therefore calculated according to Basel 3 rules implemented in Europe through a comprehensive body of regulations, consisting of the Capital Requirements Regulation (CRR), European Regulation no. 575/2013, and supplements thereto, the Capital Requirements Directive (CRD IV), the Regulatory Technical Standards and the Implementing Technical Standards issued by the EBA, and the supervisory instructions issued by Bank of Italy (specifically, Circular nos. 285 and 286).

2.1 Own Funds

A. Qualitative information

Own funds are made up of the following:

- Tier 1 (T1) capital, consisting of:
  - Common equity Tier 1 (CET1);
  - Additional Tier 1 (AT1);
- Tier 2 (T2).

As with other regulatory indicators, capital is subject to specific transition rules. Therefore, there are full application requirements and requirements for the transition period.

Common equity Tier 1 (CET1)

Full application requirements

Common equity Tier 1 (CET1) mainly consists of:

- ordinary shares;
- share premium reserve resulting from the calculated share capital;
- retained earnings;
- valuation reserves.

The requirements for including capital instruments in CET1 are very stringent. They include the following:

- capital instruments must be classified as equity for accounting purposes;
- the nominal amount cannot be reduced except in cases of liquidation or discretionary repurchases by the issuer, with the appropriate authorization by the Supervisory Authority;
- they must have perpetual duration;
- the issuer is not obliged to distribute dividends;
- the issuer can only distribute dividends from distributable profits;
- there can be no preferential treatment in distributions, unless as a reflection of different voting rights;
- there are no caps on distribution;
- the cancellation of distributions does not result in restrictions on the issuer;
- compared to the other issued capital instruments, CET1 instruments absorb losses first and to a proportionally greater extent at the time they occur;
- they represent the most subordinated instruments in the event of the Bank's bankruptcy or liquidation;
- the holders have the right to the issuer's residual assets in the event of the issuer's liquidation;
- they are not subject to guarantees or contractual provisions that increase their seniority.

Profit for the period can be included in CET1 before final approval of the annual report only with the authorization by the Supervisory Authority and only if the following conditions are met: the profit must be audited by the external auditors and any dividends the Bank is going to distribute must be deducted from the profit for the period.

The CET1 calculation excludes the valuation reserve generated by cash flow hedges and the gains/losses from changes in the Bank's credit standing (fair value option liabilities and derivative liabilities).

Furthermore, CET1 includes additional value adjustments ("prudent valuation"). These adjustments are made to fair value exposures in the financial statements and must include the uncertainty of the parameters (model risk, unwinding costs, etc.) and potential future costs (operational risks, concentration risk, liquidity risk, etc.). The adjustments vary according to the financial instruments' classification as Level 1, 2 or 3.

In addition to these components, which represent the prudential filters, CET1 is subject to the following deductions:

- loss for the period;
- intangible assets, including the goodwill implicit in the equity investments under significant influence or joint control, valued according to the equity method;
- tax assets that are based on future profitability and do not derive from temporary differences (tax losses and ACE);
- deferred tax assets that depend on future profitability and derive from temporary differences (net of the corresponding deferred tax liabilities). On the other hand, deferred tax assets that do not depend on future profitability and can be transformed into tax credits as per Law no. 214/2011 are not deducted. Instead, these latter assets are included in RWA and weighted at 100%;
- deferred tax assets associated with multiple tax alignments of the same goodwill item for the portion that has not yet been transformed into current taxes;
- the surplus of expected losses on portfolio impairments validated for purposes of adopting the AIRB approach (so-called "expected loss delta");
- direct, indirect and synthetic investments in the Bank's CET1 instruments;
- non significant (<10%) direct, indirect and synthetic investments in CET1 instruments of financial institutions;
- significant (>10%) direct, indirect and synthetic investments in CET1 instruments of financial institutions;
- any deductions in excess of the AT1 instruments.

Deductions for equity investments in financial institutions and deferred tax assets are applicable only for the portions that exceed established CET1 thresholds, known as exemptions, according to the specific mechanism described below:

- insignificant investments in CET1 instruments of financial institutions are deducted, for the portion of the aggregate of insignificant investments in CET1, AT1 and T2 instruments of financial institutions that exceeds 10% of the CET1, in proportion with the CET1 instruments themselves. The portions referring to AT1 and T2 instruments are instead dedicated from the AT1 and T2 aggregates, respectively. The CET1 on which to calculate the 10% is obtained after applying the prudential filters and all deductions other than those for deferred tax assets that are dependent on future profitability and derive from temporary differences, to direct, indirect and synthetic investments in CET1 instruments of financial institutions, to any deductions in excess of the AT1 capital instruments and deductions in qualified equity investments in financial businesses;
- net deferred tax assets that depend on future profitability and derive from temporary differences are deducted for the portion that exceeds 10% of the CET1 that is obtained after applying the prudential filters and all deductions other than those for deferred tax assets that are dependent on future profitability and derive from temporary differences, to any deductions in excess of the AT1 capital instruments and deductions in qualified equity investments in financial businesses;
- significant investments in CET1 capital instruments of financial institutions are deducted for the portion that exceeds 10% of the CET1 that is obtained after applying the prudential filters and all deductions other than those for deferred tax assets that are dependent on future profitability and derive from temporary differences, to any deductions in excess of the AT1 capital instruments and deductions in qualified equity investments in financial businesses;
- amounts not deducted as a result of the 10% exemption of significant investments in CET1 capital instruments of financial institutions and net deferred tax assets that depend on future profitability and derive from temporary differences, added together, are deducted only for the portion that exceeds 17.65% of the CET1 that is obtained after applying the prudential filters and all

deductions, including investments in financial institutions and deferred tax assets, with the exception of any deductions in excess of the AT1 capital instruments.

Amounts not deducted as part of the exemptions are included in the RWA with 250% weighting.

Finally, it should be noted that from CET 1 is deducted an amount of EUR 76 mln following a specific request from the Supervisory Authority emanated in 2013

Transition requirements

The following are the key aspects of the transition requirements:

- the losses for the period are calculated in CET1 with a progressive introduction of 20% per year (80% in 2017 and 100% from 2018); the portion temporarily not deducted from CET1 is calculated as a negative element of AT1;
- actuarial gains/losses arising from the measurement of liabilities connected with Employee benefits (staff severance pay, defined benefit pension funds, etc.) are recognised, net of tax effect, in valuation reserves and are included in CET1, with a gradual introduction (60% in 2017 and 100% in 2019);
- unrealised gains on financial instruments classified in the AFS portfolio are calculated in CET1 beginning in 2015 at 40% and then with a gradual introduction of 20% per year (80% in 2017 and 100% in 2018). Unrealised losses on financial instruments classified in the AFS portfolio are calculated in CET1 with a gradual introduction of 20% per year (80% in 2017 and 100% in 2018). With EU Reg. 2016/445 of 14 March 2016, unrealised gains and losses relating to exposures to central administrations of EU countries, classified as AFS, are treated in the same way as those deriving from AFS exposures to other types of counterparties, or with the same transition regime, without prejudice to the sterilisation of the portion not calculated in CET 1, for which the previous domestic regulations continue to apply;
- deferred tax assets that depend on future profitability and do not derive from temporary differences are deducted at 80% for 2017 (100% from 2018). These are essentially deferred financial assets associated with tax losses and the ACE benefit;
- deferred tax assets that depend on future profitability and derive from temporary differences, exceeding the exemptions referred to above, existing as at 1 January 2014 are deducted from CET1 with a gradual introduction of 10% per year beginning in 2015 (30% in 2017 and 100% in 2024);
- other deferred tax assets that depend on future profitability and derive from temporary differences, exceeding the exemptions referred to above, generated after 1 January 2014 are deducted from CET1 with a gradual introduction of 20% per year beginning in 2014 (80% in 2017 and 100% in 2018);
- non-significant investments in CET1 instruments of financial institutions held directly, indirectly or synthetically and exceeding the above-mentioned exemptions are deducted from CET1 with a gradual introduction of 20% per year beginning in 2014 (80% in 2017 and 100% in 2018). Direct investments in financial institutions not deducted from CET1 during the transition phase are deducted at 50% from AT1 and 50% from T2. Indirect and synthetic investments are subject to capital requirements and included in RWA;
- significant investments in CET1 instruments of financial institutions held directly, indirectly or synthetically and exceeding the above-mentioned exemptions are deducted from CET1 with a gradual introduction of 20% per year beginning in 2014 (80% in 2017 and 100% in 2018). Direct investments in financial institutions not deducted from CET1 during the transition phase are deducted at 50% from AT1 and 50% from T2, while indirect and synthetic investments are subject to capital requirements and included in RWA;
- the excess of expected losses on impairments (expected loss delta) is deducted from CET1 with a gradual introduction of 20% per year beginning in 2014 (80% in 2017 and 100% in 2018). The

portion not deducted from CET1 during the transition phase is deducted at 50% from AT1 and 50% from T2.

Additional impairments to assets and liabilities designated at fair value are calculated in proportion to the amount with which said assets and liabilities are calculated in CET1 during the transition period.

The following table reports the main characteristics of instruments included in Common Equity Tier 1.

31 12 2017

Features of subordinated instruments	Interst rate	Step up	Issue Date	Maturity Date	Early redemption as of	Currency	Grandfathering	Original amount in currency units	Contribution to capital (EUR/000)
Ordinary Shares	N.A.	NO	N.A.	N.A.	N.A.	EUR	NO	10,328,618,260	10,142,660
Common Equity Tier 1 - CET 1									**10,142,660**

The value shown in the "Contribution to own funds" column is net of treasury shares.

2. Additional Tier 1 (AT1)

Full application requirements

The main requirements for including capital instruments in AT1 are:

- the subscription and acquisition must not be financed by the Bank or its subsidiaries;
- they are subordinated to T2 instruments in the event of bankruptcy;
- they are not subject to guarantees that increase their seniority issued by the Bank, its subsidiaries or other companies with close ties to the Bank and its subsidiaries;
- they have indefinite duration and do not include incentives for repayment;
- call options may be exercised only at the issuer's discretion and, in any event, no earlier than 5 years, unless authorised by the Supervisory Authority related to specific circumstances;
- interest is paid as a function of distributable profits;
- the Bank has full discretion in paying interest and at any moment may decide to not pay for an unlimited period; the cancellation is not cumulative;
- cancellation of interest does not constitute issuer default;
- in the event of trigger events, the nominal value may be reduced permanently or temporarily or the instruments may be converted into CET1 instruments.

AT1 is subject to the following deductions:

- direct, indirect and synthetic investments in the Bank's AT1 instruments;
- direct, indirect and synthetic investments in AT1 instruments of financial institutions, which it owns a significant stake;
- direct, indirect and synthetic investments in AT1 instruments of financial institutions, which it does not own a significant stake; for the portion that exceeds the exemption of 10%, proportionally attributable to AT1 instruments.
- any adjustments exceeding T2.

In 2017, in accordance with the provisions of Art. 23 of Law Decree 237/2016, converted into Law on 17 February 2017, as part of the "Precautionary recapitalisation" realised by the State, the instruments in question were cancelled. In addition, the reclassification from CET1 to AT1 of the share of the 2008 reserved share capital increase (FRESH 2008) which was previously eligible for inclusion in AT1 has been eliminated.

Transition requirements

The following are the key aspects of the transition requirements for 2017:

- non-significant investments in AT1 instruments of financial institutions held directly, indirectly or synthetically, temporarily not deductible from AT1 due to the transition period are deducted from AT1 at 50% and from T2 at 50%;
- significant investments in CET1 and AT1 instruments of financial institutions held directly, indirectly or synthetically, temporarily not deductible from CET1 and AT1 due to the transition period, are deducted from AT1 at 50% and from T2 at 50%;
- the excess of expected losses on impairments (expected loss delta), temporarily not deductible from CET1 due to the transition period, is deducted from AT1 at 50%.

Tier 2 (T2)

Full application requirements

The main requirements for including capital instruments in T2 are:

- the subscription and acquisition must not be financed by the Bank or its subsidiaries;
- they are not subject to guarantees that increase their seniority issued by the Bank, its subsidiaries or other companies with close ties to the Bank and its subsidiaries;
- the original duration is not less than 5 years and there are no incentives for early repayment;
- call options may be exercised only at the issuer's discretion and, in any event, no earlier than 5 years, unless authorised by the Supervisory Authority related to specific circumstances;
- interest does not vary based on the Bank's credit standing;
- amortisation of these instruments for purposes of inclusion in the T2 calculation is pro-rata temporis in the last 5 years.

T2 is subject to the following deductions:

- direct, indirect and synthetic investments in the Bank's T2 instruments;
- direct, indirect and synthetic investments in T2 instruments of financial institutions, which it owns a significant stake;
- direct, indirect and synthetic investments in T2 instruments of financial institutions, which it does not own a significant stake; for the portion that exceeds the exemption of 10%, proportionally attributable to T2 instruments.

In 2017, in accordance with the provisions of Art. 23 of Law Decree 237/2016, converted into Law on 17 February 2017, as part of the "Precautionary recapitalisation" realised by the State, the instruments in question were obligatorily converted into shares for a value of EUR 3,980 million.

Transition requirements

The following are the key aspects of the transition requirements for 2017:

- non significant investments in T2 instruments of financial institutions held directly are deducted from T2 at 100% for the portion that exceeds the exemption; non significant investments in T2 instruments of financial institutions held indirectly or synthetically are deducted, for the portion that exceeds the exemption, with a phase-in of 20% per year as of 2014 (80% in 2017 and 100% in 2018). Indirect and synthetic investments, not deducted during the transition phase, are subject to capital requirements and included in RWAs;

- significant investments in T2 instruments of financial institutions held directly are deducted from T2 at 100%; significant investments in T2 instruments of financial institutions held indirectly or synthetically are deducted with a phase-in of 20% per year as of 2014 (80% in 2017 and 100% in 2018). Indirect and synthetic investments, not deducted during the transition phase, are subject to capital requirements and included in RWAs;
- significant investments in CET1 and AT1 instruments of financial institutions held directly, indirectly or synthetically, temporarily not deductible from CET1 and AT1 due to the transition period, are deducted from AT1 at 50% and from T2 at 50%;
- the excess of expected losses on impairments (expected loss delta), temporarily not deductible from CET1 due to the transition period, is deducted at 50% from T2 and 50% from AT1.

Transition requirements

A gradual exclusion from the relevant capital level is envisaged for capital instruments issued previously and calculated in regulatory capital through 31 December 2013 that do not meet the requirements of the new regulatory framework.

In particular,ub 2016 60% of nominal value of instruments issued and calculated in regulatory capital prior to 31 Decembre 2011, that do not meet the requirements of the new regulatory framework, may be included in CET1, AT1 and T2 calculation.

As at 31 December 2017 the Bank Has no capital instruments subject to the exclusion described above, following the mandatory conversion of such instruments in compliance with the Law Decree 237 *Burden Sharing*.

B. Quantitative Information

	31 12 2017	31 12 2016
A. Tier 1 before prudential filters	**9,647,539**	**4,585,294**
of which CET1 instruments subject to transitional provisions	-	-
B. Tier I prudential filters	(31,094)	(149,256)
C. Tier I capital gross of items to be deducted (A+B)	**9,616,445**	**4,436,038**
D. Items to be deducted from Tier I	1,167,125	849,751
E. Transitional regime - Impact on CET1 (+/-)	200,536	603,362
F. Totale Common Equity Tier 1 (CET1) (C - D +/- E)	**8,649,856**	**4,189,649**
G. Additional Tier 1 (AT1) gross of items to be deducted and transitional regime effects	-	364,403
of which AT1 instruments subject to transitional provisions	-	154,503
H. Items to be deducted from AT1	-	-
I. Transitional regime - Impact on AT1 (+/-)	-	(364,403)
L. Total additional Tier 1 (AT1) - (G - H +/- I)	**-**	**-**
M. Tier2 (T2) gross of items to be deducted and transitional regime effects	127,305	1,757,829
of which T2 instruments subject to transitional provisions	-	-
N. Items to be deducted from T2	60,309	60,356
O. Transitional regime - Impact on T2 (+/-)	10,989	(8,941)
P. Total Tier 2 (T2) (M - N +/- O)	**77,985**	**1,688,532**
Q. Total capital (F + L + P)	**8,727,841**	**5,878,181**

Unrealised losses relating to exposures to central administrations classified as AFS amount to EUR -63.3 mln and are included in the Capital calculation for EUR -50.7 mln.

The prudential filter to absorb gradually the effects of application of the new IAS 19 amounts to EUR 27.8 mln, and the values of net liabilities for defined benefits according to the rules of the old and new IAS 19 amount to EUR -40.8 mln and -110.3 mln respectively.

2.2 Capital adequacy

A. Qualitative information

Under the prudential regulation (art. 92 CRR), the minimum equity requirements for 2017 are as follows:

- CET1 ratio of at least 4.5% of the total risk exposure;
- AT1 ratio of at least 6% of the total risk exposure;
- total capital ratio of at least 8% of the total risk exposure.

Additionally, the new regulations envisage that banks must have the following reserves:

- capital conservation buffer; this reserve, consisting of CET1 capital, is aimed at conserving the minimum level of regulatory capital during difficult periods in the market, through the allocation of high quality capital in periods in which there are no market tensions. This reserve is mandatory and at individual level is equal to 1.25% of the Bank's total risk exposure; in 2018, the reserve must be equal to 1.875%;
- countercyclical capital buffer - aimed at protecting the banking sector in phases of excessive growth in loans. The buffer provides for the accumulation of CET1 capital during phases of rapid growth in the credit cycle, which can then be used to absorb losses in the downward phase of the cycle. As opposed to the capital conservation buffer, the countercyclical buffer is imposed only during periods of loan growth and is calculated according to pre-established criteria; in the fourth quarter of 2017, the countercyclical buffer coefficient for Italy was kept at zero percent;
- the systemic risk buffer, meant to deal with non-cyclical systemic risk in the financial sector through CET1; at the moment, no systemic risk buffer is required;
- G-SII buffer for global systemically important banks and O-SII buffer for other systemically important entities - impose higher capital requirements on those entities based on their systemic relevance, at a global or national level, which pose greater risks for the financial system and for which a crisis could have impacts on contributors. The Group is not a global systemically important bank (G-SII), but it is included among 'Other systemically important entities' (O-SII), as defined by the Bank of Italy. For each bank or banking group, this identification took into consideration the contribution of the four characteristics (size, relevance for the Italian economy, complexity and interconnection with the financial system) specified in the EBA guidelines to establish the systematic relevance of each entity at the level of individual jurisdiction. The Bank of Italy's decision established an O-SII buffer of zero percent for 2017, 0.06% for 2018, 0.13% for 2019, 0.19% for 2020 and 0.25% as of 2021.

The combination of these buffers determines the Combined Buffer Requirement (CBR).

As concerns capital requirements, for credit risks the Bank uses the Advanced Internal Rating Based (AIRB) method with reference to the "Credit Exposures to Retail" and "Credit Exposures to Entities" regulatory portfolios. For the remaining portfolios, capital requirements relative to credit risks are calculated according to the standard method.
Conversely, capital requirements relative to market risk are calculated according to the standard method.
Capital requirements relative to the Operational Risk are calculated according to the AMA method.

As regards the SREP (Supervisory Review and Evaluation Process), on 19 June 2017 the ECB ordered the Bank to maintain a Total SREP Capital Requirement ratio of 11% at consolidated level as of 1 January 2018, which includes:

- a minimum Pillar 1 requirement of 8% and
- an additional Pillar 2 requirement of 3% (P2R), entirely in terms of Common Equity Tier 1 capital.

As a result, BMPS must meet the following requirements at consolidated level as of 1 January 2018:

- CET1 Ratio of 9.44% on a transitional basis,
- Total Capital Ratio of 12.94% on a transitional basis including, aside from the P2R, 1.875% for the Capital Conservation Buffer and 0.06% for the O-SII Buffer (Other Systemically Important Institutions Buffer).

Until 31 December 2017, the CET1 threshold to be observed remains 10.75%, announced in November 2015 with the previous SREP letter.

The target ratios required by the ECB must be complied with at all times when the Authority's Decision is in force; similarly, at those times the Bank may not distribute dividends to shareholders or pay cash flows to holders of AT1 instruments.

For the sake of completeness, subsequent to the credit deterioration events that occurred in 2017, the Group has largely implemented the residual differences from the credit file review that emerged following ECB's on-site inspection 1238. The ECB further acknowledged that the additional valuation differences, determinated also through the application of statistical methods involving the projection of results obtained, largely overlap with the value adjustments made by the Bank in the last year as well as with the losses resulting from the disposal of the bad loans portfolio, the estimated impacts of the transition to IFRS 9 and the measures to reduce non-performing loans, as established by the Restructuring Plan.

B. Quantitative Information

Categories/Amounts	Non-Weighted amounts		Weighted amounts/requirements	
	31 12 2017	31 12 2016	31 12 2017	31 12 2016
A. RISK ASSETS				
A.1 Credit and couterparty risk	**160,629,343**	**177,997,200**	**38,749,006**	**43,498,777**
1. Standardized Approach	70,821,173	83,600,686	17,488,495	19,710,845
2. Internal rating-based (IRB) approach	89,725,777	94,358,493	21,217,495	23,773,129
2.1 Foundation	-	-	-	-
2.2 Advanced	89,725,777	94,358,493	21,217,495	23,773,129
3. Securitisations	82,393	38,021	43,016	14,803
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			**3,099,920**	**3,479,902**
B.2 Credit valuation adjustment risk			**6,846**	**9,755**
B.3 Settlement risk			**-**	**-**
B.4 Market risk			**4,819**	**14,996**
1. Standardized Approach			4,819	14,996
2. Internal models			-	-
3. Concentration risk			-	-
B.5 Operational risk			**714,206**	**591,485**
1. Foundation			-	-
2. Standardized approach			-	-
3. Advanced			714,206	591,485
B.6 Other prudential requirements			**-**	**-**
B.7 Other calculation elements			**-**	**-**
B.8 Total prudential requirements			**3,825,792**	**4,096,138**
C. RISK ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			**47,822,398**	**51,201,721**
C.2 CET1 capital/Risk-weighted assets (CET1 capital ratio)			**18.09%**	**8.18%**
C.3 Tier 1 capital/Risk-weighted assets (Tier1 capital ratio)			**18.09%**	**8.18%**
C.4 Total capital/Risk-weighted assets (Total capital ratio)			**18.25%**	**11.48%**

Part G – Business combinations

Section 1 – Business combinations during the period

1.1 Business combinations

No business combinations, as defined by IFRS 3, were carried out in 2017.

Section 2 - Business combinations completed after the period

There are no transactions to report.

Section 3 – Retrospective adjustments

No retrospective adjustments are reported.

Part H – Related-party transactions

1 Compensation of key management personnel

Items/Amounts	Total 31 12 2017	Total 31 12 2016
Short-term benefits	9,074	8,139
Termination benefits	-	4,533
Total compensation paid to key management personnel	**9,074**	**12,672**

Considering the instructions provided by accounting standard IAS 24 and in light of the current organisational structure, the Group has opted for the disclosure scope to include not only the Directors, Statutory Auditors, the General Manager and the Deputy General Managers, but also other Key Management Personnel.

The information regarding remuneration policies is contained in the 'Remuneration Report pursuant to art. 123 ter of the Consolidated Law on Finance', available on the Bank's internet site, which contains the following data:

- a detailed breakdown of compensation paid to the Governing and Control bodies, General Managers and, in aggregate form, to Key Management Personnel;
- quantitative information on the remuneration of "Key employees";
- monetary incentive plans in favour of members of the Administration and Control Body, the General Managers, the Deputy General Managers and other Key Management Personnel;
- information on the equity investments of members of the Administration and Control Body, the General Managers and other Key Management Personnel.

The previous year's amount on line 'Termination benefits' referred to the amount recognised for early termination of the employment relationship for 4 Key Management Personnel of the Bank, including the former General Manager, Fabrizio Viola, and another three managers, two of whom recipients of shares to be paid over a five year period and for at least 50% through the assignment of performance shares.

The total number of performance shares assigned to the three managers was calculated based on the valuation of the BMPS security at the respective dates of confirmation of the termination agreements in protected negotiations.

The total number of phantom shares - subject to the verification of malus and claw-back conditions - will be assigned in 5 annual tranches over a five year period and settled one year from the relative assignments, on the basis of the market price applicable from time to time, without adopting, in compliance with regulatory provisions, any correction aimed at neutralising or mitigating any negative effects of possible transactions on the Bank's capital.

2. Related-party transactions

"*Regulations containing provisions relating to transactions with related parties*" was adopted by Consob with Resolution no. 17221 of 12 March 2010 and later amended by Resolution no. 17389 of 23 June 2010.

In its meeting of 10 November 2010, the Board of Directors established the "Committee of Independent Directors" which, as of 18 July 2013, was renamed "Related-Party Transactions Committee"; the Committee is composed solely of independent directors pursuant to the principles and criteria of the Corporate Governance Code of listed companies, which Banca MPS adhered to, and the Consolidated Law on Finance.

In implementation of art. 53 of the Consolidated Law on Banking and in compliance with resolution no. 277 of the Interministerial Committee for Credit and Savings (ICRC) of 29 July 2008, the directives on regulations concerning risk assets and conflicts of interest in relation to the Associated Parties of the Group were adopted by the Bank of Italy with the 9th update of Circular no. 263/2006, as of 31 December 2012.

Through a resolution dated 12 November 2014, the Board of Directors approved - in accordance with regulatory provisions and having obtained the prior favourable opinions of the Related-Party Transactions Committee and of the Board of Statutory Auditors - the "*Global Policy on transactions with related parties and associated parties, obligations of the Banking entities*" (hereinafter the "Global Policy"), which includes in a single document the Group's provisions on conflicts of interest in transactions with related parties in accordance with the above referenced Consob Regulation no. 17221/2010 and with Associated Parties in accordance with Bank of Italy Circular no. 263/2006, Title V - Section 5, as well as those on the obligations of banking representatives, in accordance with art. 136 of the Consolidated Law on Banking (TUB), and also contains rules for subsidiaries.

The Global Policy dictates the principles and rules to be adhered to in order to control the risk arising from situations of possible conflict of interest with certain entities close to the Bank's decision-making centres.

The Global Policy was published on the Bank's web site and is therefore available in full-text version at the following link:

https://www.gruppomps.it/static/upload/ope/operazioni_con_parti_correlate_e_soggetti_-collegati-_obbligazioni_degli_esponenti_bancari.pdf

Already starting in 2016, the Bank's Board of Directors formally resolved to approve inclusion of the Ministry of Economy and Finance (MEF) and of the relevant directly and indirectly controlled companies within the scope of related parties on a discretionary basis pursuant to the provisions of the Global Policy, excluding the prudential regulation.

Following completion of the Bank's precautionary recapitalisation procedure, after which the MEF became the controlling shareholder, the Bank received notification on 18 December 2017 from the Supervisory Authorities with regard to the methods for the resulting application of limits to risk assets laid out in prudential regulations, pursuant to art. 53 of the Consolidated Law on Banking (TUB) and its implementing provisions (Bank of Italy Circ. 263/06 Title V - Section 5), through application to the Bank of the "silo" approach for calculation of the reference limits.

With reference to the MEF scope, the Bank has availed itself of the exemption provided by paragraph 25 of IAS 24 on the disclosure of transactions and balances of existing transactions with government-related entities. Among the main transactions carried out with the MEF and with its subsidiaries, in addition to the financing and funding transactions, mention also goes to the amount of Italian government securities recorded in the AFS portfolio (for a nominal amount of EUR 12,583.4 mln).

Information is provided below regarding transactions that are worth specifically mentioning and which were concluded on the basis of assessments of economic advantage and carried out by the Bank with Related Parties in 2017.

February 2017

- On 1 February 2017, the Loan Disbursement and Governance Division authorised - subject to the fulfilment of certain conditions by the shareholders and the company as well as the acceptance of what is authorised by the other bank in the pool - in favour of BONAFOUS S.P.A.: (i) the extension to 31 December 2020 of a pool mortgage loan of EUR 8.7 mln and (ii) the relative bullet repayment of the residual principal at the new maturity date; (iii) the suspension of the payment of interest - including some already past due - until the new maturity date; (iv) the granting of a fixed-term credit facility (31 December 2020) for the technical management of accrued and accruing interest. On 15 June 2017, the Board of Directors, with the favourable opinion of the Related-Party Transactions Committee, resolved to approve participation in a Debt Restructuring Agreement (DRA) pursuant to art. 182 bis of the Bankruptcy Law, which for the Bank envisages: (i) when the DRA becomes effective, the write-off of EUR 4.7 mln in principal, against repayment in cash of EUR 4 mln, plus the waiver of ordinary interest accrued and accruing until the effective date of the DRA; (ii) when the DRA becomes effective, the waiver of interest on arrears accrued and accruing pursuant to the loan agreement until the effective date; (iii) when the amount of EUR 4 mln is collected, the waiver of all claims deriving from the loan and the commitment to release the collateral backing the pool mortgage loan. All of the foregoing is subject to the condition precedent of the acceptance of the proposal by the other bank participating in the pool loan and the definitive approval of the DRA by the competent Court. The transaction is governed by Consob Regulation no. 17221/2010 as BONAFOUS S.P.A. is 50% owned by CDP Immobiliare S.r.l., which in turn is a subsidiary of CASSA DEPOSITI E PRESTITI S.p.A., a direct subsidiary of the MEF which when the transaction was carried out held 4.024% of the share capital of the Bank.

- On 14 February 2017, the Bank's Credit and Credit Policies Committee authorised in favour of SOGIN S.P.A.: (i) the extension of the EUR 18.9 mln mixed credit facility usable for the issue of sureties with underlying financial obligations against VAT refunds and for the issue of letters of credit relating to the import of goods with a maximum duration of individual commitments equal to 48 months and (ii) the replacement of the previous EUR 1 mln mixed credit facility with an analogous mixed credit facility in the same amount, which may be used in full for forward currency transactions (fixed-term and flexible/advanced) that may be used only for transactions with a commercial underlying asset. The transaction is governed by Consob Regulation no. 17221/2010 as SOGIN S.P.A. is wholly owned by the MEF, which when the transaction was carried out held 4.024% of the share capital of the Bank.

March 2017

- On 9 March 2017, the Board of Directors resolved to authorise, with the prior favourable opinion of the Related-Party Transactions Committee, the adoption of a Framework Resolution, of up to a cumulative amount of EUR 250 mln, valid from 9 March 2017 to 14 October 2017, concerning the Bank's acquisition of financial resources - for the disbursement of subsidised government backed loans to the beneficiaries specified in regulations in force - from funding made available by CASSA DEPOSITI E PRESTITI S.p.A. (CDP) as part of the agreements "Plafond Eventi Calamitosi" of 17 November 2016 and "Plafond Sisma Centro Italia" of 18 November 2016 entered into by the CDP and the Italian Banking Association (ABI). This resolution is separate from the previous Framework Resolution approved by the Board of Directors on 14 October 2016 and already indicated in the 2016 financial statements, relating to the previous agreements entered into by the ABI and CDP. The transaction in question falls within the scope of application of Consob Regulation no. 17221/2010, as CASSA DEPOSITI E PRESTITI S.p.A. is a direct subsidiary of the MEF, which when the transaction was carried out held 4.024% of the share capital of the Bank.

- On 16 March 2017, the Large Loans Committee, with the prior favourable opinion of the Related-Party Transactions Committee, approved the transfer of the administrative classification of EUROCITY SVILUPPO EDILIZIO S.R.L IN LIQUIDAZIONE from "unlikely to pay" to "doubtful". The exposure amounts to EUR 42.9 mln. The transaction in question falls within the scope of application of Consob Regulation no. 17221/2010, as EUROCITY SVILUPPO EDILIZIO S.R.L IN LIQUIDAZIONE is a subsidiary of Casalboccone Roma S.r.l., in which the Bank holds a direct equity investment equal to 21.8% of the share capital.

- On 23 March 2017, the Board of Directors, with the prior approval of the Related-Party Transactions Committee, authorised the rescheduling of the credit facilities provided to ENI S.p.A. and the return to within the prudential limits pursuant to art. 395 of Regulation (EU) 575/2013. In this context, the following were approved: the granting of (i) a new mixed credit facility of EUR 1,000 mln and (ii) a new mixed credit facility of EUR 500 mln - blocked in its entirety and usable after checking for compliance with regulatory limits - both usable for current account overdrafts, large financial transactions, the issue of sureties and letters of credit, loans in foreign currency, advances on receivables subject to collection, opening of documentary credit backed by documents not representative of goods; (iii) the confirmation of the ordinary and multi-user credit facility with a reduction to EUR 75 mln usable for exchange rate risk hedging transactions; (iv) the granting of a new temporary and multi-user credit facility for EUR 25 mln maturing on 31 December 2022 and usable for interest rate risk hedging transactions, with a maximum duration of 5 years. The facilities may also be used by the other companies of the ENI group after the issue of a credit facility mandate by the parent company ENI S.p.A., with the delegating party and beneficiary bearing joint and several liability. The transaction in question falls within the scope of application of Consob Regulation no. 17221/2010, as ENI S.p.A. is subject to the de facto control of the MEF, which holds a 4.34% direct shareholding in it and a 25.76% indirect shareholding in it through CASSA DEPOSITI E PRESTITI S.p.A., which is in turn a subsidiary of the MEF, which when the transaction was carried out held 4.024% of the share capital of the Bank. Pending the definition and formalisation of the agreements with ENI S.p.A., on 2 August 2017, the Board of Directors, again with the prior approval of the Related-Party Transactions Committee, decided to (i) reduce the credit facilities granted to ENI S.p.A. from EUR 1,600 mln to EUR 350 mln in order to prevent the regulatory limits for exposure to the so-called "connected Bankit Parties" of 5% of the consolidated regulatory capital from being exceeded following completion of the Bank's precautionary recapitalisation by the MEF, with consequent application of the limits on risk assets required by prudential regulations, and (ii) extend the internal operational limit by 3% of the consolidated regulatory capital, which exceeds and implements the previous resolution adopted by the Board of Directors on 23 March 2017. The transaction is classified as a "transaction of greater relevance". Public disclosure on this has been issued in accordance with applicable regulations and the relative document is available at www.gruppomps.it.

April 2017

- On 12 April 2017, with the prior favourable opinion of the Related-Party Transactions Committee, the Board of Directors granted, with respect to the unsecured loans granted by the Bank, a moratorium of 6 months in favour of MARINELLA S.p.A. and TENUTA DI MARINELLA, as well as the right to use existing short-term credit lines granted to the latter within the authorised limit of EUR 200 thousand until the end of the moratorium, all subject to the resolution for dissolution and placement in liquidation of MARINELLA S.p.A. The transaction, which amounts to EUR 23 mln, falls within the scope of application of Consob Regulation no. 17221/2010 as MARINELLA S.p.A. is subject to joint control by the Bank, which holds a direct stake in it of 25%, and TENUTA DI MARINELLA is wholly owned by MARINELLA S.p.A.
- On 18 April 2017, the Acting Deputy Manager of the Bank resolved to review and as a result renew with an increase the loan in favour of ANSALDO ENERGIA S.p.A. and, in particular, authorised granting: (i) a new credit facility of EUR 10 mln usable in full for the opening of

documentary credit backed by documents not representative of goods and for the issue of financial and/or commercial sureties; (ii) a new credit facility of EUR 20 mln, guaranteed by a pledge in cash of EUR 10 mln, usable up to the maximum amount for the issue of counter-guarantees, including with unspecified maturity, in the interest of ANSALDO ENERGIA S.p.A. and (iii) a new credit facility of EUR 3 mln usable for exchange rate risk hedging transactions with the exclusion of any speculative purposes. The transaction is governed by Consob Regulation no. 17221/2010, as ANSALDO ENERGIA S.p.A. is an indirect subsidiary of the MEF, which at the time of the transaction held 4.024% of the share capital of the Bank. MEF holds indirect control as ANSALDO ENERGIA S.p.A. is subject to the joint control, as a result of current shareholders' agreements, of the shareholder CDP Equity S.p.A., 97.13% owned by CASSA DEPOSITI E PRESTITI S.p.A., whose majority shareholder is the MEF, which when the transaction was carried out held 4.024% of the share capital of the Bank.

June 2017

- On 27 June 2017, the Credit and Credit Policies Committee authorised in favour of FINCANTIERI S.p.A.: (i) the renewal with an increase of the credit facility from the original EUR 15 mln to EUR 65 mln usable in its entirety for the issue of sureties and limited to the amount of EUR 10 mln for current account overdrafts and (ii) the confirmation of the mixed use credit facility of EUR 30 mln for forward currency transactions and/or currency options, interest rate risk hedging transactions and commodity risk hedging transactions. The transaction in question falls within the scope of application of Consob Regulation no. 17221/2010, as FINCANTIERI S.p.A. is subject to the control of Fintecna S.p.A., a financial company in turn controlled through CASSA DEPOSITI E PRESTITI S.p.A. by the MEF, which when the transaction was carried out held 4.024% of the share capital of the Bank.

- On 30 June 2017 the Board of Directors, with the prior approval of the Related-Party Transactions Committee, authorised with regard to SORGENIA GROUP - as part of the restructuring agreement under article 182-bis of the Bankruptcy Law, which became fully effective following the decree of approval by the Court of Milan dated 27 March 2015 - (i) the extension until 31 July 2017 of the Moratorium and standstill agreement - and (ii) participation in the New Restructuring Agreement (the "New RA") negotiated by the parties, subject to reaching a quorum of 100% of the banks, the supervision of the contractual texts by the bank lawyers and, only for participation in the New RA, the issue of a certification of feasibility pursuant to article 182-bis of the Bankruptcy Law approved of by the banks. The total amount of the transaction with regard to the SORGENIA GROUP amounts to around EUR 560 mln. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, as it refers to the companies SORGENIA S.p.A., SORGENIA POWER S.p.A. and SORGENIA PUGLIA S.p.A., subsidiaries of NUOVA SORGENIA HOLDING S.p.A. (the SORGENIA GROUP's holding company), subject to significant influence by the Bank, which holds a stake of 16.67% of the share capital of the aforesaid holding company. The transaction is classified as a "transaction of greater relevance". Public disclosure on this has been issued in accordance with applicable regulations and the relative document is available at www.gruppomps.it. Note that, following completion on 1 August 2017 of the New RA which became effective following the decree of approval by the Court of Milan dated 30 November 2017, on 29 December 2017, the Credit and Credit Policies Committee confirmed a reduction of the existing credit ceiling for a total of EUR 483 mln, extending the expiry date to 30 November 2018.

August 2017

- On 2 August 2017, the Board of Directors, with the prior approval of the Related-Party Transactions Committee, authorised with respect to ENI S.p.A.: (i) to reduce the credit facilities granted from EUR 1,600 mln to EUR 350 mln in order to prevent the regulatory limits for exposure to the so-called "connected Bankit Parties" of 5% of the consolidated regulatory capital from being exceeded following completion of the Bank's precautionary recapitalisation by the MEF, with consequent application of the limits on risk assets required by prudential regulations, and (ii) to extend the internal operational limit by 3% of the consolidated regulatory capital, which exceeds and implements the previous resolution adopted by the Board of Directors on 23 March 2017 (illustrated above). The transaction in question falls within the scope of application of Consob Regulation no. 17221/2010, as ENI S.p.A. is subject to the de facto control of the MEF, which holds a direct and indirect shareholding in it through CASSA DEPOSITI E PRESTITI S.p.A., which is in turn a subsidiary of the MEF, which when the transaction was carried out held 4.024% of the share capital of the Bank. The subject transaction is classified as a "transaction of greater relevance". Public disclosure on this has been issued in accordance with applicable regulations and the relative document is available at www.gruppomps.it.

- On 2 August 2017 the Board of Directors, with the prior approval of the Related-Party Transactions Committee, authorised the rescheduling of the credit facilities provided to ENEL S.p.A. In this context, the following were approved: (i) the extension, with a reduction from EUR 600 mln to EUR 200 mln, of the mixed credit facility usable for current account overdrafts, loans in foreign currency, the issue of sureties and letters of credit, and large financial transactions; (ii) the cancellation of the EUR 30 mln credit facility, usable for interest rate, exchange rate and/or commodity hedging transactions; (iii) the extension of the internal operational limit by 3% of the consolidated regulatory capital for exposure to the so-called "connected Bankit Parties", set by resolution of the Board of Directors on 29 January 2016. The transaction in question falls within the scope of application of Consob Regulation no. 17221/2010, as ENEL S.p.A. is subject to the de facto control of the MEF, which when the transaction was carried out held 4.024% of the share capital of the Bank.

- On 8 August 2017 the Credit and Credit Policies Committee approved the renewal until 31 December 2017 of a previous framework resolution in favour of FIDI TOSCANA S.p.A. for the performance of short and medium-term credit line transactions for retail, small business and corporate customers, secured by guarantees issued by FIDI TOSCANA S.p.A., for up to a maximum of EUR 30 million. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, as the Bank holds a stake of 27.46% of the share capital of FIDI TOSCANA S.p.A.

September 2017

- On 7 September 2017, with the prior favourable opinion of the Related-Party Transactions Committee, the Board of Directors authorised: (i) the participation of the Bank in its role as shareholder, with the expression of a favourable vote, in the shareholders' meeting of INTERMONTE SIM S.p.A. called to resolve upon the buy-back transaction (purchase of treasury shares); (ii) acceptance, subject to the issue of the necessary authorisations by the Bank of Italy, of the offer to purchase treasury shares by INTERMONTE SIM S.p.A., which for the Bank entails the disposal of up to a maximum of 8,000,000 shares of the Company for a value of no less than EUR 2.5 per share; (iii) disposal to INTERMONTE SIM S.p.A. or to Intermonte Holding SIM S.p.A. of any shares that may remain in the Bank's portfolio following the acceptance of the buy-back at a unit price of no lower than EUR 2.5 per share. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, as the Bank exercises significant influence over INTERMONTE SIM S.p.A. by virtue of its investment in the share capital, with a stake of 17.41% of the shares with voting rights, and given the fact that it has designated a Board Member, a Statutory Auditor and an Alternate Auditor.

- On 26 September 2017, the Credit and Credit Policies Committee authorised: (i) the adhesion to the agreement signed by the Italian Banking Association and CASSA DEPOSITI E PRESTITI S.p.A. (CDP) relating to the "Central Italy Earthquake Moratorium Credit Pool" of 3 July 2017 by signing the framework loan agreement formalising acceptance of the above-mentioned agreement; (ii) the establishment of a credit pool by the Bank for a maximum amount of EUR 60 mln and (iii) the finalisation of agreements amending the CDP/BMPS loan drawn on the credit pool relating to the ABI/CDP agreement. The transaction falls within the scope of application of Consob regulation no. 17221/2010, as CASSA DEPOSITI E PRESTITI S.p.A. is a subsidiary of the MEF, controlling shareholder of the Bank following the completion of the precautionary recapitalisation transaction.

October 2017

- On 10 October 2017, the Credit and Credit Policies Committee - as part of the restructuring agreement pursuant to art. 182-bis of the Bankruptcy Law, which become effective following the decree of approval by the Court of Siena dated 26 February 2016 - with the prior approval of the Related-Party Transactions Committee, authorised with regard to SVILUPPO E INTERVENTI IMMOBILIARI S.r.l IN LIQUIDAZIONE: (i) acceptance of the proposals received to purchase real estate with an average price variation of 15% compared to the new appraisal values, with consequent restriction of the mortgage collateral; (ii) approval of further asset disposals with a variation of up to 15% compared to the new appraisal values, for a maximum credit facility of EUR 0.6 mln until 31 December 2017 and, subject to the submission of an update to the existing restructuring plan, a further EUR 1.1 mln in the first half of 2018; (iii) not to use the contractual remedies envisaged in the restructuring agreement and (iv) confirmation of the administrative status "unlikely to pay, forborne network". Note that the total exposure of the customer group connected to SVILUPPO E INTERVENTI IMMOBILIARI S.r.l IN LIQUIDAZIONE - as at the date of the subject resolution - amounted to EUR 131.6 mln. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, as the Bank holds a stake of 21.8% of the share capital of SVILUPPO E INTERVENTI IMMOBILIARI S.r.l IN LIQUIDAZIONE.

- On 27 October 2017, the Board of Directors, with the prior approval of the Related-Party Transactions Committee, resolved the definition of the terms for renewal of the Framework Agreement relative to the joint venture between the Bank and AXA S.A., following its resolution of 30 November 2016, as indicated in the 2016 Annual Report, whereby the Board of Directors, again upon approval by the Related-Party Transactions Committee, had authorised the ten-year renewal of the bancassurance agreement (Framework Agreement) and commencement of clarification and definition of the terms for renegotiation, for the purposes of defining the contents of the amending agreement, which was then finalised on 6 November 2017. The transaction falls within the scope of application of Consob Regulation no. 17221/2010 since AXA S.A. is a related party of the Bank as a result of the joint venture in place with the Bank under the aforesaid Framework Agreement since 2007. The transaction is classified as a "transaction of greater relevance". Public disclosure on this has been issued in accordance with applicable regulations and the relative document is available at www.gruppomps.it.

November 2017

- On 7 November 2017, the Board of Directors, with the prior approval of the Related-Party Transactions Committee, resolved to adopt a Framework Resolution up to a maximum amount of EUR 300 mln, valid until 6 November 2018, for completion of loans and credit facilities backed by guarantees by SACE S.p.A., to be issued in the form of: (i) insurance on export credit; (ii) financial guarantee and (iii) surety policy, exempt from the authorisation requirements due to approval of the aforementioned framework resolution up to EUR 30 mln for each individual transactions. The transaction falls within the scope of application of Consob regulation no. 17221/2010, as SACE S.p.A. is wholly owned by CASSA DEPOSITI E PRESTITI S.p.A., whose capital is 82.77% owned by the MEF, controlling shareholder of the Bank following the completion of the precautionary recapitalisation transaction.

- On 29 November 2017, the Board of Directors, with the prior approval of the Related-Party Transactions Committee, resolved with respect to CASSA DEPOSITI E PRESTITI S.p.A., in continuation of the aforementioned Framework Resolutions of 2016 and 2017, in particular, the adoption of a new Framework Agreement valid until 28 November 2018, up to a cumulative amount of EUR 1,500 mln, relative to the Bank's operations within the scope of the existing agreements stipulated between CASSA DEPOSITI E PRESTITI S.p.A. and the Italian Banking Association. The transaction falls within the scope of application of Consob regulation no. 17221/2010, as CASSA DEPOSITI E PRESTITI S.p.A. is a subsidiary of the MEF, controlling shareholder of the Bank following the completion of the precautionary recapitalisation transaction. The transaction is classified as a "transaction of greater relevance". Public disclosure on this has been issued in accordance with applicable regulations and the relative document is available at www.gruppomps.it.

- On 29 November 2017, the Board of Directors, with the prior approval of the Related-Party Transactions Committee, resolved with respect to ENEL S.p.A., in particular, (i) the granting of a new credit facility of EUR 100 mln with a duration of 5 years, as the Bank's stake in a pool transaction for a total of EUR 10,000 mln, which can be used as a revolving credit facility and aimed at providing financial support to current operations, with simultaneous cancellation of the temporary credit facility of EUR 200 mln, unused, and (ii) extension of the operational limit of 3% of the consolidated regulatory capital for exposure to the so-called "connected Bankit parties", set by resolution of the Board of Directors on 5 February 2016. The transaction falls within the scope of application of Consob regulation no. 17221/2010, as ENEL S.p.A. is subject to the de facto control of the MEF, controlling shareholder of the Bank following the completion of the precautionary recapitalisation transaction.

December 2017

- On 5 December 2017, the Credit and Credit Policies Committee authorised, with the prior approval of the Related-Party Transactions Committee, in favour of IMMOBILIARE NOVOLI S.p.A.: (i) extension of the existing ordinary credit facilities subject to revocation up to 31 July 2018 for a total of EUR 50.1 mln; (ii) confirmation for a portion of EUR 7.5 mln of the syndicated building loan (total EUR 15 mln), with a maximum duration of 13 years; (iii) the granting of new syndicated credit facility subject to revocation for EUR 5 mln (total EUR 10 mln) for the issue of sureties; (iv) granting of a new temporary non-interest bearing mortgage credit facility of EUR 0.9 mln until 31 December 2022, relative to the increased interest to be calculated on the Bank's share of the syndicated building loan. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, as the Bank holds a stake of 50% of the share capital of IMMOBILIARE NOVOLI S.p.A.

Pursuant to art. 14, paragraph 2 of Consob Regulation no. 17221/2010 and to Chapter 6, Section II of the Global Policy adopted by the Bank, it should be noted that in 2017 the Board of Directors and the Credit and Credit Policies Committee of the Bank approved the following transactions with subsidiaries:

January 2017

- On 19 January 2017, the Board of Directors resolved in favour of wholly owned subsidiary MONTEPASCHI BANQUE S.A. authorisation for the capital strengthening initiative through a capital increase of EUR 40 mln.

August 2017

- On 2 August 2017, the Board of Directors resolved the approval of the capital strengthening in favour of MPS CAPITAL SERVICES BANCA PER LE IMPRESE S.p.A., 99.9% owned subsidiary of the Bank, up to a maximum amount of EUR 900 mln.

- On 2 August 2017, the Board of Directors resolved the approval of the capital strengthening in favour of MPS LEASING & FACTORING S.p.A., wholly owned by the Bank, up to a maximum amount of EUR 250 mln.

- Also on 2 August 2017, the Board of Directors resolved the approval of the capital strengthening in favour of WIDIBA S.p.A., wholly owned by the Bank, up to a maximum amount of EUR 70 mln.

December 2017

- On 20 December 2017, the Credit and Credit Policies Committee - in implementation of the Board of Directors' resolution of 9 September 2017, regarding authorisation for stipulation with MPS CAPITAL SERVICES BANCA PER LE IMPRESE S.p.A., MPS LEASING & FACTORING S.p.A. and WIDIBA S.p.A. of a Framework Agreement to provide intragroup liquidity support, signed by the later with the Bank on 19 October 2017 - authorised the granting to WIDIBA S.p.A., wholly owned by the Bank, of: (i) a credit facility of EUR 140 mln for operations on the interbank and/or bilateral market; and (ii) a credit facility financed at full risk for EUR 5 mln for operations involving repurchase agreements.

The following tables summarise the relationships and economic effects of transactions carried out in the period with subsidiaries and joint ventures, associates and key management personnel and other related parties as at 31 December 2017.

The "MEF Scope" column highlights the balances[1] of the balance sheet and income statement items as at 31 December 2017 relating to the transactions carried out with the MEF and the companies controlled by the MEF, namely companies controlled directly or indirectly by the MEF and their associates.

[1] The criteria to fill out the two tables are different from those of the European Securities and Markets Authority (ESMA) used for the table "Exposure to sovereign debt risk".

2.a Related-party transactions: balance sheet items

	Value as at 31 12 2017							
	Non-consolidated Subsidiaries	joint venture	Associated companies	Executives with strategic responsibility	Other related parties	MEF perimeter	Other related parties	% on consolidated
Financial assets held for trading	455,669	-	99	-	-	3,850	455,768	50.57%
Financial assets available for sale	172,637	-	72,720	-	-	13,231,499	245,357	1.63%
Lonas to banks	18,867,860	-	-	-	-	-	18,867,860	75.69%
Loans to customers	2,400,352	86,049	418,868	3,030	362,867	1,139,177	3,271,166	4.58%
Other assets	90,487	-	9	-	-	-	90,496	4.82%
Total assets	**21,987,005**	**86,049**	**491,696**	**3,030**	**362,867**	**14,374,526**	**22,930,647**	**-**
Deposits from banks	7,056,635	-	-	-	-	30,387	7,056,635	26.45%
Deposits from customers	805,116	3,762	220,675	3,042	99,450	2,681,932	1,132,045	1.70%
Debt securities issued	448,379	-	351	41	76	-	448,847	2.25%
Financial liabilities	504,759	-	-	-	-	62	504,759	41.45%
Other liabilities	516,169	9	36	-	-	-	516,214	15.92%
Total liabilities	**9,331,058**	**3,771**	**221,062**	**3,083**	**99,526**	**2,712,381**	**9,658,500**	**-**
Guaranties issued and Commitments	1,984,513	16,187	30,642	5	-	562,645	2,031,347	19.49%

2.b Related-party transactions: income statement items

	Value as at 31 12 2017							
	Non-consolidated Subsidiaries	joint venture	Associated companies	Executives with strategic responsibility	Other related parties	MEF perimeter	Other related parties	% on consolidated
Interest income and similar revenues	241,358	1,654	10,607	22	29,720	136,249	283,361	10.96%
Interest costs and similar charges	(118,696)	(1)	(312)	(4)	(70)	(52)	(119,083)	13.91%
Fee and commission income	36,571	300	182,222	10	311	306	219,414	12.21%
Fee and commission expense	(5,197)	-	(1,306)	(2)	(425)	(49)	(6,930)	2.64%
Net adjustments/ impaiments	(14,675)	(11,907)	2,162	-	(28)	(10,039)	(24,448)	0.54%
Operating costs	(356,420)	-	(20,135)	(9,092)	(401)	(25,051)	(386,048)	12.42%

Part I – Share-Based Payments

Qualitative Information

Description of share-based payment agreements

Supervisory Provisions on pay and incentive policies and practices establish that at least 50% of variable remuneration provided to "key employees" should be paid in the form of shares or associated financial instruments over a period of at least 3-5 years. "Variable remuneration" refers to variable performance-linked components as well as incentives paid for the early termination of the employment relationship exceeding the amount due by law ("severance").

As the Bank had no treasury shares at the date on which it set up its 2017 Remuneration Policies and the legal requirements were not met to pass a resolution to purchase them, it confirmed, as part of the instruments to be used for the aforementioned purposes where necessary, the prior year's adoption of a Performance Shares Plan. The Plan, approved by the Shareholders' Meeting on 12 April 2017, fulfilled regulatory requirements, while also aiming to contribute to alignment of the management's interests with those of shareholders.

As the provision of performance shares does not require the material assignment of shares, but rather the payment of an amount pegged to the share value reported over time, for accounting purposes it is considered a cash settled share based payment pursuant to IFRS 2 "Share-based payments". The corresponding cost is accounted for at the end of the year of service considering the best estimate of the amount due (fulfilment of conditions, etc.), valued at fair value taking into account the number of shares assigned from year to year and the Bank's share value.

Quantitative Information

The Plan approved in 2017 was not used during the course of the year.

With regard to the 2016 Plan, 54,676 Performance Shares were recorded:

- n. 21,870 assigned up front, and will be settled during 2018;
- of the 32,806 deferred shares, 5,340 were assigned and will be settled during 2018. The remaining ones will be assigned - subject to the verification of pre-established malus conditions - annually throughout a period of five years and settled one year after the relative assignments.

The fair value of the Performance Shares assigned is determined - pursuant to art. 9, paragraph 4 of the TUIR - on the basis of the arithmetic average of the MPS share prices reported in the thirty days leading up to the assignment date.

In compliance with the accounting standards, the assignment of Performance Shares linked to variable personnel remuneration is accounted for in the income statement as a cost - equal to the value of the consideration at the moment of assignment - in connection with the services provided during the reference period.

Part L – Segment reporting

In line with the provisions of IFRS 8, par. 4, the Bank prepares this segment reporting at Group level in the Notes to the Consolidated Financial Statements, to which reference is made.

CERTIFICATION OF THE FINANCIAL STATEMENTS PURSUANT TO ART. 81-TER OF CONSOB REGULATION NO. 11971 OF 14 MAY 1999, AS SUBSEQUENTLY AMENDED AND SUPPLEMENTED

1. The undersigned, Stefania Bariatti, as Chairman of the Board of Directors, and Nicola Massimo Clarelli, as Financial Reporting Officer, of Banca Monte dei Paschi di Siena S.p.A., having regard to article 154-bis, paragraphs 3 and 4 of Italian Legislative Decree no. 58 of 24 February 1998, do hereby certify the:

    - appropriateness with respect to the company's profile, and
    - effective application of the administrative and accounting procedures used in the preparation of the financial statements for fiscal year 2017.

2. The verification of the adequacy and actual application of administrative and accounting procedures for the preparation of the financial statements during 2017 was based on methods set out by the MPS Group in line with the COSO model, and for the IT component, COBIT, which constitute the reference framework for the internal control system generally accepted internationally.

3. It is also certified that:

    3.1 the financial statements:
    - were prepared in accordance with the international accounting standards recognised by the European Union pursuant to European Parliament and Council Regulation No. 1606/2002/EC of 19 July 2002;
    - are consistent with the underlying documentary evidence and accounting records;
    - are suitable to provide a true and fair representation of the capital, economic and financial situation of the issuer.

    3.2 The Report on Operations includes a reliable analysis of the trends and results of operations as well as of the position of the issuer, together with a description of the main risks and uncertainties they are exposed to.

Siena, 1 March 2018

Signed by	*Signed by*
On behalf of the Board of Directors	*The Financial Reporting*
The Chairman	*Officer*
Stefania Bariatti	*Nicola Massimo Clarelli*

INDEPENDET AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

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Independent auditor's report in accordance with article 14 of Legislative Decree n. 39, dated January 27, 2010 and article 10 of EU Regulation n. 537/2014

(Translation from the original Italian text)

To the Shareholders of
Banca Monte dei Paschi di Siena S.p.A.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Banca Monte dei Paschi di Siena S.p.A. (the "Company" or "Bank"), which comprise the balance sheet as at December 31, 2017, the income statement, the statement of comprehensive income, the statement of changes in equity, the cash flows statement for the year then ended and notes to the financial statements.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at December 31, 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38, dated February 28, 2005 and art. 43 of Legislative Decree n. 136, dated August 18, 2015.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.
We are independent of the Company in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis paragraph

Without modifying our opinion, we draw attention to the matters described by the directors in the report on operations and in the paragraph "Going concern" of the notes to the financial statements, regarding the approval of the 2017-2021 Restructuring Plan by the European Commission, the completion of the precautionary recapitalization process, carried out pursuant to the Law Decree n. 237/2016 converted into Law n. 15/2017 and to the state of implementation of the actions envisaged by the Restructuring Plan itself.

EY S.p.A.
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Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We identified the following key audit matters:

Key Audit Matter	Audit Response
Effects related to the operation of capital strengthening pursuant to Law n. 15/2017	
During 2017, the Bank, following the approval of the 2017-2021 Restructuring Plan by the European Commission on 4 July 2017, carried out a significant capital strengthening operation for over Euro 8 billion, implementing the rules established by the Law Decree n. 237/2016 converted into Law n. 15/2017 ("Decree") which provides for: i) the conversion of the Bank's subordinated financial instruments into ordinary shares, as a burden sharing measure envisaged by the Decree (so called "Burden Sharing"); ii) a capital increase reserved to the Ministry of the Economy and Finance ("MEF"), realized through the subscription by the MEF of newly issued ordinary shares of the Bank; iii) a public transaction and exchange offer, realized through the purchase by the MEF, through the Bank, of the shares assigned in conversion to the holders of the Upper Tier II Security (IT0004253586), which became shareholders following the application of Burden Sharing. The completion of the aforementioned transactions constituted a key audit matter, both because the economic and equity impacts were significant for the financial statements as a whole, and because they were determined by the Bank on the basis of	In relation to these matters, our audit procedures included, among other: · analysis of the regulations underlying the aforementioned transactions; · understanding, also through the support of our experts in corporate valuations, of the methodology used and the reasonableness of the assumptions underlying the determination of the unit value of the Bank's shares for the quantification of the economic and equity effects; · analysis of the accounting treatment of the impacts connected to the aforementioned transactions in accordance with the international accounting standards; · analysis of the elements considered by the directors in relation to the going concern assumption, following the effects of the aforementioned transactions on the Bank's capital position; · analysis of the adequacy of the disclosure provided in the notes to the financial statements.

the provisions of specific legislation and through the use of complex estimates to determine the unit value of the Bank's shares.

The disclosure on the effects of the above-mentioned transactions is provided by the directors within the paragraph “Assumptions adopted with respect to the provisions of Law Decree 237/2016, converted with amendments into Law n. 15 of 17 February 2017” included in the notes to the financial statements.

Key Audit Matter	Audit Response
Classification and evaluation of loans to customers Loans to customers, the amount of which is shown in item 70 of the balance sheet, represent, as at 31 December 2017, 55% of the total assets. The process of classifying loans to customers in the various risk categories and measuring them is relevant for the audit, both, because the value of loans is significant for the financial statements as a whole and because the value of the related impairment losses are determined by the directors through the use of estimates that have a high degree of subjectivity. Among these, the following are particularly important: the identification of objective evidence of impairment of the loans, the recoverable value of the collateral acquired, the determination of expected cash flows and their timing of collection. Furthermore, as regards to the statistical evaluations: the definition of homogeneous loan categories in terms of credit risk, the determination of the probability of default ("PD") and the related estimated loss (Loss Given Default - "LGD"), based on historical data observation for each risk class. In addition, in relation to the sale transaction described in the paragraph "Assumptions made in relation to disposal of the doubtful loans portfolio” of the notes to the financial statements that provides for the disposal,	In relation to these aspects, our audit procedures included, among other: · understanding of the policies, processes and controls implemented by the Bank in relation to the classification and measurement of loans to customers and the performance of compliance procedures on the controls considered as key, including those relating to IT; · execution of substantive procedures aimed at verifying the correct classification and measurement of credit positions; · understanding, also through the support of our risk management and information systems experts, of the methodology used in relation to statistical evaluations and the reasonableness of the assumptions adopted as well as the performing of test of controls and substantive procedures, aimed at the analysis of the completeness of the historical databases used for the determination of the parameters of PD and LGD, relevant for the purpose of determining the impairment losses; · performing procedures for the comparative analysis of the portfolio of loans to customers and the related

through a securitization transaction, of a portfolio of non-performing loans with a net book of approximately Euro 3.5 billion, the Bank deemed the conditions for their assessment to exist on the basis of the values contained in the binding agreements signed with Quaestio Capital Management SGR SpA. The same portfolio of non-performing positions, by virtue of the expected finalization of the transaction within 12 months after the balance sheet date, has been classified under asset item 140 "Non-current assets and groups of assets held for sale and discontinued operations".

Information on the classification and measurement of loans to customers is provided by the directors within Part A of the notes to the financial statements.

coverage levels, and analysis of the most significant deviations;

- with reference to the portfolio of non-performing positions referred to in the aforementioned sale transaction, the procedures performed included the verification of the existence, on the basis of the provisions of IFRSs, of the conditions for the classification of the assets as held for sale and their measurement based on the agreements signed, by analyzing its contents and clauses;
- analysis of the adequacy of the disclosure provided in the notes to the financial statements.

Key Audit Matter	Audit Response

Recoverability of deferred tax assets

As at December 31, 2017, the Bank recorded under item 130 "Tax assets" Euro 1,436 million of deferred tax assets ("DTA") attributable to tax losses and other deductible temporary differences, the recoverability of which depends on the availability of future taxable income. The recoverability valuation of these assets (knows as “probability test”, required by the international accounting standard IAS 12) is a relevant matter for the audit, both because their value is significant to the financial statements as a whole, and because the valuation is based on a model that provides for the use of assumptions and estimates that have a high degree of subjectivity. Among these, particularly important are those related to:

- estimation of taxable income, which is presumed to occur during the time period considered for the recovery of the DTAs, on the basis of the business plans and the additional assumptions made by the directors in relation to their projection in

In relation to these matters, our audit procedures included, among other:

- understanding of the Bank's policy, process and controls in relation to the assessment of the recoverability of the DTAs;
- analysis, also through the support of our tax experts, of the reasonableness of the assumptions and the parameters used for the development of the probability test on the basis of the tax legislation applicable to the different types of temporary deductible differences;
- analysis, also through the support of our experts in business valuations, of the business plans used for the purpose of estimating the results useful for the determination of taxable income;
- performance of substantive procedures on the completeness and accuracy of the data used to determine the future taxable income included in the probability test;

the future, the growth rates used and the probability of occurrence of the same; · length of the foreseeable time frame for the recovery of the DTAs; · correct interpretation of the applicable tax legislation. The disclosure of the assessments made by directors in relation to the recoverability of deferred tax assets is included in paragraph 13.7 of Part B of the notes to the financial statements.	· analysis of the adequacy of the disclosure provided in the notes to the financial statements.

Key Audit Matter	Audit Response
Evaluation of legal and litigation risks The legal risks and litigation assessment process, carried out by the Bank with the support of its legal advisors, is a relevant aspect for the audit, both, because of the high value of the same, and because the estimate of the related charges requires the directors to make use of estimates that present a high degree of subjectivity. Information regarding significant civil, administrative and administrative litigation, in which the Bank is involved, as well as in relation to other legal risks are provided by the directors in Part E - Information on risks and hedging policies explanatory.	In relation to these matters, our audit procedures included, among other: · understanding of the Bank's policy, process and controls in relation to the assessment of legal and litigation risks; · obtaining written confirmation from the Bank's legal advisors, their assessment of the evolution of existing disputes and if the disbursement of financial resources to fulfill the underlying legal obligation believed to be “likely”; · analysis, also through the support of our legal experts, of the reasonableness of the assumptions used to estimate the provisions made; · performance of substantive procedures on the completeness and accuracy of the data used to determine the provisions for risks; · analysis of the adequacy of the disclosure provided in the notes to the financial statements.

Responsibilities of directors and Those Charged with Governance for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38, dated February 28, 2005 and art. 43 of Legislative Decree n. 136, dated August 18, 2015 within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error; have designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- we have concluded on the appropriateness of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the

- financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- we have evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholders of Banca Monte dei Paschi di Siena S.p.A., in the general meeting held on April 21, 2011, engaged us to perform the audits of the financial statements of each years ending December 31, 2011 to December 31, 2019.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements included in this report is consistent with the content of the additional report to the audit committee (Collegio Sindacale) in their capacity as audit committee, prepared in accordance with article 11 of the EU Regulation n. 537/2014.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated January 27, 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated February 24, 1998

The directors of Banca Monte dei Paschi di Siena S.p.A. are responsible for the preparation of the Report on Operations and of the Report on Corporate Governance and Ownership Structure of Banca Monte dei Paschi di Siena S.p.A. as at December 31, 2017, including their consistency with the related financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated February 24, 1998, with the financial statements of Banca Monte dei Paschi di Siena S.p.A. as at December 31, 2017 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operations and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the financial statements of Banca Monte dei Paschi di Siena S.p.A. as at December 31, 2017 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated January 27, 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Rome, March 14, 2018

EY S.p.A.
Signed by: Francesco Chiulli, partner

This report has been translated into the English language solely for the convenience of international readers.

REPORT OF THE BOARD OF STATUTORY AUDITORS

BOARD OF STATUTORY AUDITORS' REPORT TO THE SHAREHOLDERS' MEETING CONVENED FOR THE APPROVAL OF THE FINANCIAL STATEMENTS OF BANCA MONTE DEI PASCHI DI SIENA SPA FOR THE YEAR ENDED 31.12.2017, DRAWN UP PURSUANT TO ART. 2429, THIRD PARAGRAPH, OF THE ITALIAN CIVIL CODE AND ART. 153, FIRST PARAGRAPH, OF ITALIAN LEGISLATIVE DECREE NO. 58 OF 24 FEBRUARY 1998

Contents

Shareholders,

in the past financial year your Bank carried out its operations in a macroeconomic scenario characterized by strengthened economic growth, stable inflation and the implementation of accommodative monetary policies.

It is nevertheless clear that 2017 was an exceptional year for your Company due to the commitment taken in the initial stage and in the subsequent implementation of the Restructuring Plan, approved by the European Commission on 4 July 2017.

It is equally evident that the financial results reported in the financial statements include, to a prevailing extent, the economic effects of the transaction finalized late in the year which involved the transfer through securitization of a significant set of credit exposures classified as doubtful loans, which are expected to be deconsolidated from the Bank's financial statements by the end of the first half of 2018. Through the transaction the Group also achieves the objective of reducing the Group's risk profile, an objective pursued since the 2016 financial year.

* * *

With this Report, the Board of Statutory Auditors hereby refers to the law, in compliance with the instructions set out in Consob communication no. 1025564 of 6 April 2001, as amended.

1. Appointment of the Board of Statutory Auditors

During the year two distinct control Bodies were successively in office.

Given the changes occurred in the Bank's shareholding structure, as a result of the precautionary recapitalization transaction, both the members of the Board of Directors and of the Board of Statutory Auditors appointed by the Shareholders' Meeting of 16 April 2015, resigned from the respective offices, which were therefore renewed by the Shareholders' Meeting held on 18 December 2017 in ordinary session.

Ms. Elena Cenderelli was appointed as Chairman of the Board of Statutory Auditors and Ms. Raffaella Fantini and Mr. Paolo Salvadori as Standing Auditors, effective from 21 December 2017.

The Board, made up as above, will remain in office until the Shareholders’ Meeting called to approve the 2019 financial statements.

This Report gives account of the overall activity carried out by the two Control Bodies during their respective periods of office.

2. Activities of the Board of Statutory Auditors and operating methods

The Board of Statutory Auditors fulfilled its institutional duty by holding a total of 71 meetings, regularly convened and quorate. It also participated in all 26 meetings of the Board of Directors and the meetings of the Board Committees, operating in accordance with the reference regulations.

During the board meetings, the Statutory Auditors were able to view the reports containing the obligatory quarterly information as provided by law and the Articles of Association.

When expressly indicated by regulations, the obligatory opinions were issued. Furthermore, specific certifications were provided on the subjects requested by the various Supervisory Authorities, both domestic and European, as well as various assessments and observations (cfr. chapter 2.2).

The Board of Statutory Auditors periodically receives the information flows sent by third and second level control bodies and analyses it during its meetings, in which the Heads of those functions usually participate to guarantee a greater degree of detail with respect to the matters discussed. In addition, meetings are regularly held with the Executives of the Bank's other head office units, to more directly present to them any areas for improvement that arise over time based on the performance of the supervisory activity of the Board of Statutory Auditors, and also to receive confirmation from them with respect to the completion of the improvement/corrective actions agreed upon, each insofar as they are responsible.

In-depth analyses were carried out on significant issues affecting the Bank and the Group during the year, both with regard to specific events that exposed the Company to operational or regulatory risks and to the entry into force of sector regulations with significant organizational impacts.

Checks were also directly carried out on the domestic and foreign network, which will be commented in greater detail in the remainder of this Report.

The minutes of the Board of Statutory Auditors that report on the aforementioned activities, when containing specific indications or recommendations for the various units of the Bank, in relation to the various topics examined, are sent to the attention of the Chairman of the Board of Directors and the Chief Executive Officer / General Manager. They distribute these documents to the Directors through a special IT tool (Team Site) and at the same time make sure that the necessary steps are taken to remove the critical issues reported.

The Control Body interacts continuously with the Auditing Firm, also to favour adequate performance of the appropriate supervisory activities.

Also following the indications of the Joint Supervisory Team (JST), the Board of Statutory Auditors continued monitoring those areas of the Bank already examined by the above Authority, including those concerning governance and risk management, loans, first level and second level controls (compliance and anti-money laundering), human resources, as well as the related remediation plans implemented by the Bank.

Specific discussions were also held with the aforementioned Regulator through meetings that involved the Chairman of the Board of Statutory Auditors.

2.1 - Result of the audit activities conducted directly by the Board of Statutory Auditors

With the assistance of the Chief Audit Executive Department, 17 audits were conducted at the Bank’s head offices and peripheral units. For the latter, the Board of Statutory Auditors directly visited the Network, both domestic and foreign.

Through the audits carried out at the head offices specific areas were analysed in greater detail related to (i) the IT applications release management and the (ii) disbursement of the Large Corporate loan processes.

Regarding the first topic, the objective pursued was to ascertain the effectiveness, efficiency and adequacy of the “control system” in managing the releases of new IT applications and the changes to existing ones. Specifically, in-depth analyses were carried out on compliance with release times, the degree of satisfaction of the business functions with respect to completed projects and the correct execution of tests by users. We also verified the adequacy of the new technology platform implemented to increase the quality and efficiency in software development and in the subsequent releases in the production environment.

This revealed the need to further strengthen these controls and to optimize the overall management of integration between existing applications, in order to achieve full governance and control of development and production activities.

The purpose of the second audit was to measure the effectiveness of the loan assessment and disbursement process with regard to the “Large Corporate” segment, which is the Group's reference for the management and development of high standing corporate customers, and its consistency with the Bank’s classification model.

We found a substantial level of adequacy and completeness of the loan approval process with correct and exhaustive proposals to be submitted to the decision-making bodies: the audits revealed adequate ability to manage the origination phase (preliminary analysis, resolution and acquisition of guarantees). However, some areas for improvement were found with regard to the operational management and monitoring of individual loan files.

In the early months of 2017, two audits planned in the previous audit plan were completed, relating to definition of the Master Plan (planning of operating expenses) and to Corporate Governance issues (information flows).

Specifically, the definition of the Master Plan was found to be compliant with the applicable regulatory framework and showed a well-defined structure of roles and responsibilities consistent with the practices in place.

The other audit, which was mainly intended to gather information rather than to make any assessment, focused on analysing the Board of Directors' mechanisms of operation as indicated in the EBA guidelines for the Supervisory Review and Evaluation Process (SREP), with regard to adequate access to information and to the interaction between the Management and the Strategic Supervision functions of the same Body. The analysis was an initial investigation of the subject and constituted the information base for subsequent activities, consistent with existing developments and with the indications of the Supervisory Authority (also pointed out by the ECB following Inspection OSI 32-33 on "Governance and Risk Management").

In 2017, the Board of Statutory Auditors also performed continuous monitoring activities in relation to the Bank's adjustment to the new EU regulatory provisions, i.e. the MiFID II Directive (Directive no. 2014/65/EU) on obligations regarding the provision of investment services.

Various work sessions were thus carried out with a view to verifying the regular progress of project activities aimed at ensuring the Bank's compliance with the new provisions and with the deadline for their entry into force (3.1.18).

The activity carried out at the Domestic Peripheral Network developed along two lines, both designed to encourage the dissemination and development of a risk culture at the local level.

More specifically, in keeping with similar activities carried out in the prior year, the Board of Statutory Auditors went directly to the Network and continued the plan of audits focusing on the loan origination process, with regard to the fulfilment of obligations connected with the loan assessment, the formalisation of guarantees (valuation) and the subsequent provision of lines of credit to customers (disbursement). In addition, the 2017 audit cycle extended the checks to the document management process to verify the supervision of the formalization and conservation of contractual documents associated with the services provided to customers, with specific focus on the "Loans" and "Investment Services".

These assessments began in the first half of 2017 and involved a significant sample of the DTs (local unit offices) located within the Regional Areas that make up the Bank's operating structure. In the second half of the year, this activity was replicated at the same units, through specific follow-ups, which revealed an overall improvement in previously detected critical issues, as well as a clear improvement in the main risk indicators. This was partly due to the mitigation measures, including in terms of training, meanwhile put in place by the competent Bank functions, also duly spurred by the Board of Statutory Auditors, to strengthen the culture of risk and compliance with company rules and policies.

With regard to the Foreign Network, the Board carried out direct audits at the branches in London, Hong Kong and Shanghai. Following these activities, on several occasions the Board of Statutory Auditors reiterated the need for closer monitoring of the foreign segment, where areas for improvement were found during the aforementioned visits, with specific regard to the London branch. This was deemed necessary both with regard to those branches the closure of which has been decided (New York, London and Hong Kong) in accordance with the commitments indicated by the ECB, and with regard to the only branch (Shanghai) which, not being required to cease operations, needs to explore areas for further development. For the latter unit, the need was identified for greater referral business to be conveyed from the Italian home network.

2.2 - Mandatory opinions, observations, assessments and statements issued by the Board of Statutory Auditors

The Board of Statutory Auditors was asked to express the following opinions, observations, considerations/assessments and statements for which it is responsible on the basis of regulations in force and Supervisory Provisions:

Mandatory opinions:

- removal and appointment of the risk systems Validation Service Manager (internal validation function);
- plan of activities scheduled by the Audit Function for 2017;
- remuneration of the Head of Internal Audit;
- 2017 performance shares plan with respect to the Chief Executive Officer and the Head of Internal Audit;
- compliance with the requirements provided for continued use of the advanced credit risk management systems (AIRB) and the operating risk systems (AMA);
- reorganization of the Chief Risk Officer Department;
- further assignments, reported later on, granted to the Independent Auditors, pursuant to Legislative Decree no. 39/10, as amended by Legislative Decree 135/2016;
- salary cap application methods with respect to the Chairman of the Board of Directors and the Chief Executive Officer;
- removal and appointment of the new Head of Anti-Money Laundering.

Observations:

- proposal to reduce the share capital pursuant to art. 2446 of the Italian Civil Code to cover the residual loss as of 31 December 2016 submitted to the Shareholders' Meeting on 12.4.2017;
- controls carried out by the Internal Audit Function on investment service activities;
- proposal to reduce the share capital pursuant to art. 2446 of the Italian Civil Code submitted to the Shareholders' Meeting on 18.12.2017;
- review of controls carried out by the Compliance Function on the operating procedures of the partial voluntary public offering for exchange and settlement (burden sharing).

Considerations / Assessments:

- controls performed by the internal audit function on outsourced operational functions;
- content of reply to Consob letter concerning the request for data and information formulated pursuant to art. 8, paragraph 1, of Legislative Decree 58/98, with reference to the customer profiling questionnaire for MiFID purposes.

Statement:

- action plans of the Compliance and Anti-Money Laundering Functions in response to ECB's recommendations within the scope of Inspection OSI 32-33.

3. Observations on compliance with the principles of correct administration

3.1 - Significant transactions and events

The Report on operations discloses the most significant transactions and events occurred during the year. We will note those we consider to be most important by subject below:

<u>Precautionary recapitalization and Restructuring Plan</u>

As part of the procedure for capital strengthening, the Bank had access to the "precautionary recapitalization" measure and prepared the necessary Restructuring Plan. The key steps were as follows:

- January 2017:
  - the Bank received a decree from the Ministry of Economy and Finance granting the government guarantee to support its access to liquidity pursuant to Decree Law 237/2016, and promptly issued two government backed securities for a total of € 7 billion. The government backed securities were fully subscribed by the Issuer, partly placed on the market and partly used as collateral to guarantee financing or collateral swap transactions;
- March 2017:
  - the Board of Directors approved a preliminary proposal of the Restructuring Plan, which was sent to the Supervisory Authorities to initiate discussions relating to the finalisation and approval of the Plan;
  - the Bank issued a government backed security pursuant to Decree Law no. 237/2016 for a nominal amount of € 4 billion, maturing on 15.3.2020. The security was fully subscribed by the Issuer and was subsequently partly sold on the market and partly used as collateral to guarantee financing or collateral swap transactions. The issue was in addition to the two prior ones which, as mentioned, were issued in the previous month of January for a total amount of € 7 billion;
- July 2017:
  - the European Commission approved the Montepaschi Group's 2017 - 2021 Restructuring Plan, necessary to allow access to the "precautionary recapitalization" measure;
  - the Decrees of the Minister of Economy and Finance were issued, ordering the burden sharing measures and the share capital increase of the Bank servicing the subscription of shares by the MEF;
- August 2017:
  - an agreement was signed between the Montepaschi Group and the trade unions regarding the "Solidarity Fund for professional retraining and requalification, for the support of employment and income of banks' staff" which led to the exit, on 1 November 2017, of further 1,200 employees in addition to 600 exits already completed on 1 May 2017, in line with the targets of the Restructuring Plan which, inter alia, provides for a headcount reduction across all the Group's organizational

units of approximately 5,500 employees, to be implemented, primarily, through redundancy support measures;

- October 2017:
  - by Resolution no. 20167 Consob ordered the withdrawal of the previous resolution issued in December 2016 which established the temporary suspension of trading on regulated markets of securities issued or guaranteed by the Bank and of the financial instruments with underlying securities issued by the Bank; the MPS stock was therefore readmitted to trading on the Mercato Telematico Azionario on 25.10.17;
  - the Ministry of the Economy and Finance issued a Decree relating to the purchase, by the Ministry itself, of the shares subject to the partial voluntary public offering for exchange and settlement by BMPS intended for the holders of ordinary shares of the Bank resulting from the conversion - following application of the burden sharing measures - of the subordinated bond called "€ 2.160.558.000 Tasso variabile Subordinato Upper Tier II 2008 - 2018";
- November 2017:
  - the Parent Company disclosed the final results of the partial voluntary public offering for exchange and settlement addressed to the holders of the Bank's ordinary shares.

Sale of the "Merchant Acquiring" business unit

- February 2017:
  - the Bank reached a binding agreement with Istituto Centrale delle Banche Popolari Italiane S.p.A. ("ICBPI"), a national and international leader in the management of payment services, for the sale of assets relating to the "Merchant Acquiring" business on the basis of a valuation of € 520 million;
- June 2017:
  - the sale to CartaSì, a subsidiary of ICBPI, of the Bank's assets related to the Merchant Acquiring business was completed for a consideration of € 536 million. The transaction also allowed the Group to enter into a ten-year commercial partnership between the Montepaschi Group and CartaSì for the development and placement, through the distribution network, of payment products and services for current and prospective customers.

Corporate bodies

- December 2017:
  - the Chairman of the Bank's Board of Directors, Alessandro Falciai, announced that he would not accept his candidature on the list presented by the Ministry of the Economy and Finance;
  - on 18.12.17, the Shareholders' Meeting set at 14 the number of members of the Board of Directors and resolved to appoint the new members of the Board of Directors and, as previously indicated, those of the Board of Statutory Auditors, for the 2017, 2018 and 2019 financial years. Ms. Stefania Bariatti was appointed as Chairman of the Board of Directors and Mr. Antonino Turicchi as Vice Chairman.

The Board of Directors, thus established, resolved, inter alia, to confirm Mr. Marco Morelli as Chief Executive Officer.

Partnership agreements

- October 2017:
  - the Bank and the consumer credit company of the Mediobanca Compass Group renewed the long-term partnership for the distribution of Compass loans in the Montepaschi Group' branches. The new agreement strengthens the commercial offering as, starting from 2018, the salary-backed loan product will be available throughout the country in addition to loans.

Transfer of the loan recovery platform

- August 2017:
  - the Bank reached a binding agreement with Cerved Group Spa and Quaestio Holding SA for the sale of its doubtful loan platform. The transaction envisages the transfer to a company established ad hoc by Cerved and Quaestio of the platform for the collection of doubtful loans of BMPS and the subscription of a long-term servicing agreement for the outsourced management of future flows of doubtful loans of all of the Group's Italian banks. The servicing agreement does not include loans classified as doubtful as at 31 December 16 and subject to the sale plan. The agreement is one of the actions included in Banca MPS
  Restructuring Plan and is intended to improve debt collection performance through an industrial partnership with a major operator specialised in the management of doubtful loans, which can guarantee high quality standards aligned with best market practices.

  The consideration for the sale was € 52.5 million and the closing of the transaction is expected by the end of first quarter of 2018.

Sale of doubtful loans

- June 2017:
  - a binding agreement was signed with the Atlante II Fund (managed by Quaestio Capital Management SGR Spa) for the purchase of 95% of the Junior and Mezzanine notes as part of the sale of doubtful loans completed in December 2017;
- December 2017:
  - the Montepaschi Group sold a doubtful loan portfolio to the Siena NPL 2018 Srl (SPV) securitization vehicle with a Gross Book Value (GBV) at 31.12.16 of € 24,577.1 million. The sale price, equal to 20.58% of GBV, was € 5,056.7 million and was partly paid by offsetting with the collections recorded on the transferred portfolio after the aforementioned date due to the SPV and, for the remaining part, by issuing securities fully subscribed by the originating Banks (MPS, MPSCS, MPSL&F).

  The deconsolidation of the doubtful loan portfolio will be completed by June 2018 with the sale of 95% of the junior notes to the Atlante Fund. As mentioned in the introduction to this Report, the economic effects of the transaction have been fully included in the financial statements as at 31.12.17.

The Report on Operations also reports the significant events after 2017, in particular:

- January 2018:
  - the Bank successfully completed a Tier 2 fixed rate 10-year maturity subordinated bond issue (repayable in advance from the fifth year at the Issuer's discretion, subject to approval by the Regulator), for an amount of € 750 million.

3.2 - Intra-group transactions, transactions with related parties, atypical or unusual and falling under the obligations of the bank representatives

The Bank strictly adheres to the provisions in force concerning transactions with related parties/associated parties, obligations of bank representatives, managers' transactions (former internal dealing), personal transactions, significant shareholdings. In this regard, it is recalled that the Bank also has specific internal regulations in place for the implementation of the aforementioned regulations, such as the "Global Policy on transactions with related parties and associated parties, pursuant to Consob Regulation no. 17221/10 and the Bank of Italy Circular no. 263/2006, Title 5, Chapter 5 - obligations of bank representatives pursuant to art. 136 of Legislative Decree no. 385/1993 (TUB)", designed to define Group principles and rules for the control of risks associated with situations of potential conflict of interests with persons close to the Bank's decision-making bodies.

On the basis of the information received, this Board believes that both the above-mentioned transactions and the ordinary transactions were implemented as a whole in compliance with internal procedures and the principles of correct management, and with awareness of the risks and the effects of the decisions made.

* * *

Therefore, with regard to the above, we confirm that the principles of correct management were consistently applied.

4. Supervisory activity

4.1 - Supervisory activities on the adequacy of the internal control system

During the year, this Board of Statutory Auditors, continuously interacting with all structures involved in the internal control system, monitored the adequacy and actual function of such structures in order to check whether company procedures could ensure monitoring of the risk factors, as well as the detection and proper management of critical issues, therefore, raising management awareness of the need for the prompt closure of the corrective actions identified.

The Audit Function has a specific role in the company control functions, and is in charge of the third level controls, guaranteed by the Chief Audit Executive (CAE) Division. This division is independent from the operating structures, which constitutes the main function on which the Board of Statutory Auditors relies to carry out its duties. Through its Head, supported by a competent team of associates, this Body is kept informed of and takes action in the event of anomalous trends, breaches of procedures and the regulations and contributes to the functionality of the overall internal control system.

The Board of Statutory Auditors received the necessary assistance from said Function to conduct the checks referred to above, and received the inspection reports, selected on the basis of agreed significance principles, containing the results of the investigations performed during the year. With respect to the findings which emerged, this Body worked to ensure that the competent Bank functions took the necessary and prompt remedial actions.

During 2017, the Audit Function carried out 253 audits of the 240 audits that had been planned for the Parent Company alone, with a completion percentage for the 2017 Audit Plan of 105%.

Significant commitment was dedicated, jointly with the Board of Statutory Auditors, to monitoring the implementation of the remedial actions identified by the Supervisory Body on the sideline of the inspections performed by said Body (see OSI 34-35, Argo 2; OSI 32-33, Governance and Risk management) in relation to which, specific audit activities were carried out to provide assurance to the company's top management and, in particular, the Control Body, with respect to what was completed with a view to following the ECB's recommendations.

In collaboration with the other competent Functions, in the first part of the year in question, the CAE Division, pushed by said Body, reserved special attention to the theme connected to first level controls, based on the consideration that the increase in the efficiency and rationalisation of said controls - deriving from their optimal internal regulation - must ensure coverage of the main risks to which the Bank is potentially exposed. In this regard, the Board of Statutory Auditors, having verified the existence of an initially inadequate level of efficiency, in particular relating to the Network's operating aspects, recommended the implementation of initiatives targeted at rationalising and simplifying the relevant controls, at the same time performing systematic monitoring to verify the regular continuation of the process of implementation of the planned project activities.

As regards this aspect, with more evidence in the final part of the year, the Board of Statutory Auditors was able to verify a proactive ramping up of the initiatives aimed at overcoming the criticalities identified initially, proof that management is aware of the problems highlighted and that it is working to resolve them.

However, on several occasions, the ECB recommended that the first level controls be reinforced, with particular regard to those relating to the credit process (see OSI 34–35, Argo 2; OSI 32-33, Governance and Risk management).

In addition to this, the Audit Function continued, and further increased the overall advisory activities aimed at strengthening the culture of risk at all company levels.

With respect to the company second level control functions, the following was identified.

The risk control function that performs its duties according to the definition of the supervisory regulation is carried out by the Parent Company's Chief Risk Officer (CRO) Division, which reports hierarchically to the Board of Directors and functionally to the Chief Executive Officer.

This division is responsible for guaranteeing the adequacy and effectiveness of the Group's risk management system and verifying capital stability (ICAAP) and the optimal level of liquidity (ILAAP) as well as the proper determination of the Risk Appetite Framework (RAF), in addition to ensuring coherence between the latter and most significant transactions.

In addition, it defines the strategic guidelines on the loan portfolio and guarantees the production of the relevant external institutional information.

Said Function interacts with this Control Body through periodic reporting of the activities carried out regarding management and control of the Group's risks. The flows produced are considered sufficiently suitable to represent the correct implementation of the Group's strategies.

Direct meetings were also held with the CRO, during which the Board of Statutory Auditors, in addition to conducting an in-depth analysis of the items placed on the agenda from time to time, ascertained the level of effectiveness of said control function in terms of the risk management process and the reliability in measuring these risks, key elements for determining the Group's capital requirements.

In this regard, the audits carried out by the Audit Function enabled it to assess the methodological framework and the choices made for the Group's internal capital and liquidity adequacy assessment process, which were found to be consistent with regulatory requirements and with the requests put forward by the Supervisory Authorities.

The verification of regulatory compliance is performed by the Compliance Area, which reports directly to the CEO; it governs the risk of non-compliance with regard to all the company activities, including by joining this activity with the internal organisational controls, centred around control of compliance with specialist regulations. This was in order to pursue the principles of efficiency and operational effectiveness on a comprehensive basis in line with the new regulatory requirements.

In 2017, also in observance of the ECB's recommendations (OSI 32-33), targeted at the overall strengthening of the monitoring activities of the function in question, an examination of the compliance model was performed, with particular regard to the organisation and the tools available to said structure. In fact, a specific improvement Plan was implemented which involved the general review of the organisational model adopted.

In particular, the completion of the centralisation of compliance risk management in the Parent Company's Compliance Area is significant - regarding the counterpart functions in the domestic companies, in addition to the activities delegated to specialized control units - targeted at conducting more effective control of compliance risks.

As regards legal risks, generated by a major civil and criminal dispute in which the Group is involved, the Board of Statutory Auditors recalls the information provided in the Explanatory Notes which report the significant issues that are not considered to be altogether unfounded within the context of its activities.

After completing its activities in 2017, the CAE Division discussed, in the appropriate hearing held with the Board of Statutory Auditors, its final evaluations regarding the overall internal control system, confirming the general adequacy of risk monitoring and expressing “judgement 2 - yellow” on an assessment scale which, based on the most recent internal audit standards adopted by the Bank, is broken down into four levels (1 green, 2 yellow, 3 orange, 4 red), highlighting an overall improving trend with respect to the previous year, especially regarding the “loans” segment.

* * *

With respect to these conditions, and with specific reference to the operating contexts analysed and the consequent corrective actions planned and implemented, we believe that the internal control system can guarantee protection against risks, as a whole, and the correct management of risk as provided by law.

4.2 - Supervisory activities on the adequacy of the organisational structure

The Board of Statutory Auditors acknowledged that 2017 was characterised by the continued implementation of well-structured reorganisation initiatives and the definition of the perimeters of responsibility, activities already launched in the final part of 2016.

Therefore, further initiatives of this kind continued in 2017, prior to the implementation of the Restructuring Plan agreed, as already outlined, with the Supervisory Authorities.

The most significant initiatives, broken down by area of Bank operations, are highlighted below.

As regards the Chief Audit Executive Division, note the implementation of further phases of the new organisational structure as such to allow the Internal Audit Function to increasingly assume the role of Internal Secondary Supervisor, which enables it to assess the Bank's position with regard to the Regulator's expectations and to therefore adopt an SREP-oriented approach, by actually establishing a new organisational structure dedicated to auditing the first two pillars of the SREP (Business Model and Internal Control Framework).

In relation to the Chief Risk Officer Division, the guidelines of the restructuring made provision for strengthening of the process of governance of corporate aspects of risk control, by establishing a unique allocation of responsibilities through the establishment of organisational functions focused on homogeneous risk segments. Therefore, similar Areas were established with respect to the functions involved in the prevailing interactions (Lending Risk Officer, Financial Risk Officer, Operating Risk Officer).

The Group General Counsel Division, in an attempt to bolster governance, re-incorporated the technical/specialist functions under the direct powers of the Manager, and reviewed the focus of the organisational control unit on "legal advice" and "corporate matters".

With reference to "external relations", the External and Institutional Relations Division "was established, to meet the growing need to ensure the Bank has a solid organisational system capable of guaranteeing adequate support for the company's top management in relations with the media and local and national institutions.

The Chief Financial Officer Division saw the establishment of a single Area which incorporates the responsibilities relating to the Investors, M&A and Equity Investments areas, with the subsequent integration of the responsibilities previously distributed into two separate areas.

Again in the same area, in order to promote the implementation of the Bank's Restructuring Plan, the Chief Program & Cost Officer Area was set up, reporting directly to the Chief Executive Officer, entrusted with the responsibilities of project management, previously allocated to the CFO area, relating to the definition of the plan of projects and their monitoring.

The well-structured reorganisation of the Chief Lending Officer Division also continued, through the strengthening of the loan portfolio governance model and the objectives of the Restructuring Plan and refocusing of the 2 credit business lines dedicated to execution, on performing and non-performing loans respectively. In particular, note should be taken of the completion of the separation of the "commercial" and the "credit" chains, with the transfer to the Regional Credit Areas of the autonomies previously assigned to the business functions and, in light of the recommendations of the Supervisory Authorities, the revision of credit autonomies at the top levels, through the removal of the Large Credit Facilities Committee, whose autonomies were redistributed to the Board of Directors and the Loan and Credit Policies Committee.

With reference to the Chief Commercial Officer Division, the transformation launched with the overhaul of the various structures that operate within said Division was completed with the implementation of the organisational measure in the territory: in March 2017, the regional areas were reduced from 8 to 6, thanks to the review of the geographical perimeters and the simultaneous decrease in the supporting structures. However, after the close of the year, the areas were further reduced to five as part of the implementation of a new network governance model.

Within the Chief Operating Officer Division, note should be taken of the strengthening of the operating costs governance strategy, the focusing of the dedicated control unit on the quality of operating services to customers and the simplification of IT procedures. All this was made possible by the establishment of a new centre of responsibility represented by the Organisation and Operations Division, by the integration of the responsibilities for Organisation and Demand Management and the optimisation of the structure and strengthening of specialist safety control units, plus the creation of an exclusive centre of competence regarding “development of the monitoring of costs”.

As regards the Chief Human Capital Officer Division, the main changes involve the strengthening of the organisational chain in the area in which the Network operates, through the creation of specialist control units for human resources and the creation of a function focused on internal communication.

The Board acknowledged the process of approval and implementation of the organisational initiatives described, by issuing, where expressly required, its opinions or observations.

* * *

Despite the need, owing to the complexity of the initiatives implemented, for a longer period of experimentation than it was possible to observe, the Board of Statutory Auditors, based on the above, the documentation examined as well as the information received in carrying out its control activities, judges the organisational structure to be essentially adequate.

4.3 - Supervisory activities on the accounting administration system

The Board of Statutory Auditors had regular meetings with the Financial reporting manager, where the applicable controls are concentrated, and interacted with him on the main points of interest. He did not report any significant deficiencies in the operating and control processes that could jeopardise the judgement of the adequacy and effective application of the accounting administration procedures to ensure the correct representation of the economic, capital and financial position of the Bank as they appear in the individual and consolidated financial statements for the fiscal year ended on 31/12/2017.

Equally, we held periodic meetings with the Auditing Firm to exchange information on the adequacy of the accounting administration system present within the company. During those activities, no facts deemed objectionable were reported. We also agreed on the procedures adopted in preparing the Financial statements (individual and consolidated) for 2017 with the Auditors.

The activities carried out, the control methodologies defined and the plan of corrective actions implemented up until now, allowed the Board of Directors and the Financial reporting manager to issue, as there were no grounds against this, the statements provided under article 81-ter of Consob Regulation no. 11971 of 14.5.99, as amended, and article 154-bis of the Consolidated Law on Finance (TUF) with reference to the individual and consolidated financial statements for 2017.

It is hereby acknowledged that the international accounting standards issued by the International Accounting Standards Board (IASB) and the associated interpretations of the IFRS Interpretations Committee (IFRIC) were applied to the individual and consolidated financial statements. These were approved by the European Union and subject to mandatory application in 2017, with the exception of the partial early adoption of IFRS 9 by the Group as of 1 January 2017, limited to the part concerning the accounting of gains/losses connected with one's own credit rating of liabilities under the fair value option.

The provisions contained in Circular no. 262 of the Bank of Italy, modified by the fourth update of 15/12/2015, were also applied.

The information statement to the public, according to the provisions set out under the prudential supervision regulations (known as "Pillar 3"), was made through the Bank's Internet website within the time-frame indicated for publishing the annual and interim financial statements.

Additionally, the Directors did not exercise the right set out under article 5, paragraph 1 of Italian Legislative Decree no. 38/2005.

This Board, with regard to document no. 4 of 3.3.10, as amended and issued jointly by the Bank of Italy, Consob and the Italian Insurance Supervisory Institute (IVASS), acknowledges that the financial statements were drawn up on the basis of the going concern assumption, reasonably expecting the Bank to continue to operate in the foreseeable future.

To this end, the following should be pointed out in particular:

- the approval of the Restructuring Plan by the European Commission on 4.7.17;
- the completion of the share capital increase carried out on 11.8.17;
- the restoration of the capital ratios above the SREP thresholds currently in force.

* * *

To conclude, there are therefore grounds to believe that the Bank's accounting administration system is capable of ensuring the proper representation of operations.

4.4 - Supervisory activities on the auditing of the accounts and on the financial disclosure process

The Board of Statutory Auditors monitored the audit of the financial statements (individual and consolidated). The activities carried out by the Auditing Firm noted the entry into force, during the year, of Regulation (EU) no. 537/14, applicable for financial statements after 30 June 2017.

On 14.3.18, we received, from Ernst & Young Spa, appointed by the Shareholders' Meeting of 21.4.11 for the years from 31.12.11 until 31.12.19, the reports issued in accordance with art. 14 of Legislative Decree 39/10 and art.10 of the aforementioned Regulation (EU) no. 537/14 which updated and greatly expanded their contents.

Following an examination of said documents, it was acknowledged that:

- in the opinion of the Auditing Firm, the financial statements give a true and fair view of the capital and financial position of the Bank and of the Group as at 31.12.17, the economic result and the cash flows, in compliance with the International Financial Reporting Standards adopted by the European Union as well as the provisions issued in implementation of art. 9 of Legislative Decree 38/05 and art. 43 of Legislative Decree 136/15;
- as disclosure references, attention was focused on the information described by the Directors in the Report on Operations and in the "Going concern" section of the Notes, with particular reference to the approval of the 2017-2021 Restructuring Plan by the European Commission, the completion of the precautionary recapitalisation process, carried out pursuant to Decree 237/16, converted to Law 15/17, and implementation status of the actions set forth in said Restructuring Plan;
- it is certified that the Report on Operations and some specific information in the Report on Corporate Governance and Ownership Structures is consistent with the individual and consolidated financial statements and were drafted in compliance with the legal provisions.

Ernst & Young Spa highlighted, in particular, the following key aspects of the audit, however addressed by this Board of Statutory Auditors at the aforementioned meetings held with the Auditing Firm:

- effects connected with the capital strengthening operation pursuant to Law 15/17;
- classification and valuation of loans to customers;
- recoverability of deferred tax assets;
- assessment of legal and dispute risks.

The Auditing Firm also sent this Control Body the "Additional Report" (dated 14.3.18), that was introduced, among the changes already cited, for years ended after 30.6.17, by art. 11 of Regulation (EU) no. 537/2014. Pursuant to said article and art. 19, paragraph 1, letter a) of Legislative Decree 39/10, the Board of Statutory Auditors sent this document, supported by its own evidence, to the Directors, together with the outcome of the audit performed by Ernst & Young Spa.

As at the date of filing of this Report, the Board of Statutory Auditors did not identify any criticalities regarding the independence of the Auditing Firm or the presence of causes of incompatibility. In that regard, it also received a confirmation from said Auditor, expressly contained in the aforementioned Reports, both the additional report and the audit report, whereby it was confirmed that Ernst & Young Spa did not carry out services prohibited in accordance with art. 5, paragraph 1 of the already mentioned Regulation.

During the year, with the favourable opinion of the Board of Statutory Auditors, the Board of Directors approved the following additional engagements conferred to the Auditing Firm (amounts actually incurred net of VAT and accessory charges):

- activities connected with the precautionary recapitalisation process of the Bank and the deconsolidation of the doubtful loan portfolio of the Group € 520,000.00
- ISAE 3402 Type Two certifications of processes transferred under an outsourcing arrangement to Fruendo Srl € 120,000.00
- additional activities related to the limited audit of the consolidated interim financial statements as at 30.9.17 € 185,000.00

Additional engagements were assigned to said Auditing Firm in observance of the maximum limits established in the “Group policy on the assignment and withdrawal of the Auditing Firm engagement” which the Bank has available internally.

With reference to the aforementioned Consob Communication no. 1025564 of 6 April 2001 as amended, it should be noted that, in 2017, the Bank engaged the Auditing Firm to perform other jobs for “certification services” in addition to auditing of the accounts, for total fees of € 1,333 thousand (net of VAT and accessory expenses), as reported in the Notes to the Financial Statements, to which reference should be made for the information not specifically covered herein.

Again in 2017, the Bank paid entities in the Auditing Firm’s network (in particular Ernst & Young Financial Business Advisors Spa) € 198,000.00 for management consultancy and other services.

The Auditing Firm was not required to issue any mandatory opinions during the year.

The Board of Statutory Auditors carried out the Internal control committee functions and the auditing provided for by the Consolidated act on statutory auditing in public interest organisations, monitoring the financial disclosure process, ensuring that the work plan prepared by the Auditing Firm was followed properly and ensuring adequate compliance in accordance with the size and organisational and business complexity of the Bank.

The Board also interacted with the Financial reporting manager from whom it received assurance, also through the appropriate report for the issuing of certifications to the financial statements, regarding the consistency between the information reported herein and the results of the accounting applications used by the Bank. A similar acknowledgement was received for the information contained in the press releases and presentations to analysts.

The subject, also governed appropriately by the Bank's internal regulation, was verified by this Body, as regards the reliability of the financial information communicated by said Company.

4.5 - Supervisory activities on non-financial information (Legislative Decree 254/2016)

The Board of Statutory Auditors acknowledged the provisions contained in Legislative Decree no. 254 of 30 December 2016, through which Directive 2014/95/EU regarding non-financial information and information on diversity was enacted into Italian law.

It is widely known that the new regulation requires large listed companies, banks and insurance companies (as well as reinsurance companies) to draft and publish a "Non-Financial Disclosure" (hereinafter also NFD), of a consolidated nature in the specific case of our company, which contains information on environmental and social issues, on matters relating to personnel, respect for human rights and the fight against active and passive corruption.

The aforementioned provisions apply with reference to financial years starting on 1 January 2017; therefore, the result is that the first NFD to be drafted and published is that for the financial year ended as at 31 December 2017. In this regard, the role of control function attributed to the Board of Statutory Auditors involves the monitoring of the observance of the provisions set out in said Decree, as part of its institutional responsibilities set forth by law as well as the obligation to document this in the annual report to the Shareholders' Meeting.

Therefore, in 2017, the Board of Statutory Auditors, through specific meetings with the Bank's competent Functions, monitored the regular progress status of the activities carried out to prepare the NFD, with a view not only to verifying observance of the obligations set out in the aforementioned specific legislation, but also receiving assurances that the obligations were adequately planned and fulfilled in the required time-frames and, nonetheless, compatible with the budget commitments. Moreover, meetings were also held with the Auditing Firm on said subject.

In addition, in terms of compliance with the rules governing the Disclosure in question, and in order to ensure further support in performing the required monitoring activities, the Board also asked the Compliance Function to issue the necessary opinion on the same, which showed that the Consolidated Non-Financial Disclosure as at 31.12.17 is in line with the regulatory requirements set forth for its drafting. On the whole, the checks conducted in this regard by the aforementioned Function made it possible to issue the judgment of "largely compliant".

* * *

Now, therefore, the Board of Statutory Auditors acknowledges that it has ascertained that, as part of the performance of the functions attributed to it by law, the consolidated Non-Financial Disclosure was drafted in compliance with the provisions of articles 3 and 4 of Legislative Decree 245/2016 and was approved by the Board of Directors at the meeting on 1.3.18

5. Remuneration policies

The Board of Statutory Auditors examined the "2018 Remuneration Report", approved by the Board of Directors on 12.3.18, drafted in compliance with the disclosure obligations pursuant to art. 123-ter of the Consolidated Law on Finance and those set out in the regulation issued for the banking sector. The purpose of this document is to provide the Shareholders' Meeting with accurate information on the implementation of the Remuneration policies relating to 2017 and, at the same time, also present those the Group intends to adopt in 2018 to be presented to the Shareholders' Meeting called to approve the 2017 Financial Statements.

Therefore, in relation to the Bank's implementation of the policies approved at the Shareholders' Meeting of 12.4.17, bear in mind that, in relation to the remuneration of Directors and Statutory Auditors, different measures have been applied depending on their effectiveness in their respective roles, i.e. if in office before or after the aforementioned Shareholders' Meeting of 18.12.17 which, as already reported, renewed the Bodies and also revised certain fees downwards.

Furthermore, with the application of the commitments following the approval of the Bank's precautionary recapitalisation plan by the European Commission, effective from 4.7.17, said Company reduced, within the maximum limits established, the disbursement of the fee of the previous Chairman and the remuneration of the Chief Executive Officer and other top management personnel.

This is augmented by the fact that the Group also took account of the restrictions set out in art. 141 of European Directive 2013/36/EU, which imposes "'limits on distributions", inter alia, on variable remuneration; therefore this did not allow the payment of any of the forms of variable pay set forth in the 2017 Remuneration policies.

This Board of Statutory Auditors also monitored the salary aspects which concerned the Bank through the participation of its Chairman, supported by at least one Statutory Auditor, in the 15 meetings of the Remuneration Committee.

Where expressly provided for and for matters within its competence, the Statutory Auditors issued their opinion on the relevant determinations proposed by the Bank itself.

By contrast, with reference to the proposals to the Shareholders' Meeting for 2018, the Board observes that the new Remuneration policies were defined mainly by establishing the objectives of protecting the Group's ability to create value and to rebalance its economic-capital profile, at the same time taking into due consideration the internal and external constraints on its work. The latter, as is well-known, stem from the guidelines imposed by the 2017-2021 Restructuring Plan, and in particular from the application of the so-called Salary Cap, introduced on the basis of the aforementioned commitments assigned by the European Commission and by the definition of especially challenging personnel cost targets, resulting in considerable limitations on the use of remuneration leverage, both fixed and variable.

However, by means of a simultaneous proposal, said Shareholders' Meeting was presented with a Plan for the use of own shares to fulfil possible future commitments connected with the payment of amounts in the form of incentives for the early termination of the employment contract (so-called severance) to Directors of the Bank and of the Subsidiaries and to employees within the scope of "Identified Staff".

Lastly, the Statutory Auditors acknowledge that the Compliance Function interacted with the competent Bank Functions as regards the definition and methods of implementation of the Remuneration policies. The activities carried out, presented in the Compliance Report - 2017, communicated to the Board of Directors at the meeting on 12.3.18, therefore allowed said Function to positively evaluate, on the whole, the relevant aspects relating to implementation of the policies approved for 2017 and to deem the corresponding proposals for 2018 to be compliant with the applicable regulations and aforementioned commitments.

The Internal Audit Function also conducted its assessments of the matters in question whose final outcome, presented to the Board of Statutory Auditors at the appropriate hearing, allowed it to express a favourable judgment and confirmed the consistency of the procedures adopted with the Remuneration and Incentive Policies approved by the Shareholders' Meeting for 2017. Lastly, the areas of improvement highlighted in the previous year were also examined, which were essentially considered to have been resolved.

6 Other information

6.1 - Relations with the Subsidiaries

The Board of Statutory Auditors ensured that the Bank had given instructions to the subsidiaries regarding the information that they must send to the Parent Company to allow it to carry out its communication obligations as provided under article 114, paragraph 2 of the Consolidated Law on Finance.

In fact, through a corporate reporting structure, governed by internal regulations together with a specific Group Directive, the information flows between the Parent Company and the subsidiaries guarantee sufficient exchange of information between the corporate Bodies of BMPS and those of the subsidiaries regarding the administration and control systems and the general performance of the business.

In order to ensure greater clarity on these aspects, information was exchanged during the year with the counterpart control bodies of the direct subsidiaries, as required by art. 151, paragraph 2 of the Consolidated Law on Finance and the Supervisory Provisions of the Bank of Italy.

In this regard, special meetings were held with the Boards of Statutory Auditors of various subsidiaries and, in such circumstances, the need to establish a constant exchange of information and maintain an adequate degree of coordination between the Control bodies was underscored, in order to share the objective of achieving more effective risk monitoring, including at Group level, while also streamlining the remedial activities planned for that purpose. Generally positive results were achieved in that regard.

6.2 - Supervisory Authorities' Controls

Within the scope of the prudential supervision program adopted by the ECB, the inspections on the Bank during the year are described below.

On 7 June 2017, the Bank received an inspection report relating to the on-site inspection (OSI 1238) launched by the ECB and the Bank of Italy in May 2016, regarding credit and counterparty risks and the risk control system of Banca Monte dei Paschi, Mps Capital Services and MPS Leasing e Factoring. This Report not only identified some areas of improvement, but provided quantitative indications regarding the additional provisions for credit risk, moreover essentially implemented by the Group. The final outcomes of the inspection - outlined in the On-site inspection follow-up letter - were communicated by the Supervisory Authorities on 13.2.18 and the Bank's response was sent on the same date this Report was filed. The following remedial actions were also launched.

On 28 February 2017, the Bank received the follow-up letter relating to the governance and risk management inspection (OSI 32-33) launched in 2015. The document highlighted some areas of improvement related to the dissemination of the culture of risk, the risk governance system and some organisational aspects, in respect of which the Bank has already implemented the necessary mitigation actions. As regards the specific improvement initiatives regarding the organisation of the Compliance and Anti-Money Laundering Functions, the Board of Statutory Auditors, together with the Internal Audit Function, has issued, at the request of the Regulator, a specific certification, as reported in previous point 2.2.

With reference to the ECB inspection regarding internal models on Operational Risks (AMA methods), launched on 7 September 2015, a follow-up letter was received on 2 February 2017. The inspection was targeted at ascertaining the correct implementation of the methodological developments requested by the Bank of Italy in January 2015. The assessment of the initiatives implemented by the Bank was generally positive. The sole corrective actions requested were implemented by the deadline of 30 June 2017.

Activities continued in 2017 related to the long-term analysis on the internal models (Targeted review of internal models, TRIM) in order to evaluate the adequacy and appropriateness of the pillar 1 internal models authorised for the determination of regulatory capital with the IRB method. As regards the first phase of the TRIM process, the Bank received a draft follow-up letter which it replied to by means of letter on 13 December 2017.

As part of the so-called “executive” phase of the above-mentioned TRIM, on 21 November 2017 an on-site inspection was launched on the internal credit risk models (TRIM -2939) with reference to the PD and LGD parameters, within the scope of retail - non-SME exposures with the property guarantees of Banca Mps. This inspection was completed in February 2018 and the inspection exit meeting, at the date of the filing of this Report, has still not been held.

The inspections and the other activities carried out by the national Supervisory Authorities are described below.

With reference to the inspection launched by the Bank of Italy on 26.9.16 and completed on 5.12.16, regarding the assessment of the compliance with the provisions governing the “transparency of contractual conditions”, said Authority, on 28.8.17, announced its findings which highlighted the need to ensure more rigorous observance of the reference regulations. The Bank therefore replied within the necessary times, undertaking to implement specific remedial actions which are in the process of being completed.

In June 2017, the Anti-Money Laundering Service was subject to an on-site inspection by the Bank of Italy regarding the procedures regarding the identification of and reinforced due diligence on PEPs (politically exposed persons). On 5.10.17, said Supervisory Authority presented the Board of Directors with the outcome of the aforementioned inspection, highlighting various areas of improvement which the Bank has taken prompt steps to address.

On 18.4.17, the Bank of Italy formulated a request for data and documents, readily fulfilled by the Bank, regarding the activity performed by the latter consisting of the reporting to another third party company, of its customers interested in purchasing diamonds as an investment.

On 27.4.17, the Italian Antitrust Authority extended a proceeding, previously opened with respect to another third party company, attributable to the same activity referred to above.

On 30.10.17, said Authority notified the Bank of the imposition of a pecuniary sanction due to a violation of the legislation governing commercial practices, against which the Bank filed an appeal to the TAR (Regional Administrative Court) on 27.12.17.

6.3 - Complaints and statements

Up until the date of drafting of this Report, no complaints were received pursuant to art. 2408 of the Italian Civil Code, while during the year, various statements and/or complaints were addressed to this Board, sometimes only being copied to them, that did not concern matters or circumstances worthy of mention.

The Board, however, always took steps to verify the grounds of the findings highlighted by the representatives and to promote, if applicable, the removal of the sources of the requests made, especially when relating to internal organisational aspects or Bank conduct not considered entirely suitable.

6.4 - Corporate governance and Corporate Governance Code

The Board of Statutory Auditors examined the contents of the annual report on corporate governance and ownership structures for the year, checking compliance with article 123-bis of the Consolidated Law on Finance, with the standards issued by Borsa Italiana, and checked the adequacy and completeness of the information contained therein.

The Supervisory Provisions, alongside the provisions of the Corporate Governance Code, establish the periodic self-assessment of the Board of Directors on its qualitative and quantitative composition, size, degree of diversity and professional competence, the guaranteed balance of the non-executive and independent members, adequacy of the appointment processes and selection criteria, professional development, and with reference to the internal committees within the Board of Directors. The Board of Statutory Auditors is also required to conduct this self-assessment every year, pursuant to the Supervisory Provisions.

The Corporate Governance Code also requires the Board of Statutory Auditors to verify the proper application of the criteria and procedures adopted by the Board of Directors for the annual evaluation of its members' fulfilment of independence requirements. Likewise, the Board of Statutory Auditors also confirmed that its members met the same independence requirements as those established for the Directors.

For all cases specified above, the presence of the characteristics required by the above-mentioned regulations was confirmed.

In accordance with the repeatedly mentioned Corporate Governance Code, the Appointments Committee, Remuneration Committee, Risk Committee and Committee on Related-Party Transactions operate within the Board of Directors, in order to provide support and assistance to the Board. Said entities are equipped with their own regulations, duly approved by means of specific resolutions of the Board of Directors.

The meetings were always attended by the Chairman of the Board of Statutory Auditors, supported by at least one Statutory Auditor.

Following the aforementioned renewal of the company's administrative offices, resolved by the Shareholders' Meeting of 18.12.17, at the subsequent meeting of the Board of Directors on 22.12.17, the new members of said Committees were appointed.

The year 2017 also saw a continuation of the activities of the Supervisory Body pursuant to Legislative Decree 231/01, composed of three members, of which two external professionals and one non-executive director. After the aforementioned Shareholders' Meeting, the Board of Directors resolved to confirm the attribution of the tasks of monitoring said area to a joint structure established on an ad-hoc basis, separate from the Board of Statutory Auditors, as well as to confirm the number of members at three, of which two external members and one Bank Director who meets the independence requirements.

Conclusions

On the basis of what was illustrated above, we can confirm that nothing emerged that could be subject to reproach and no irregularities were found worthy of specific mention to the shareholders and there were no significant omissions in the performance of the company business for the 2017 fiscal year.

Accordingly, the Board of Statutory Auditors, having examined the contents of the reports drawn up by the Auditing Firm, acknowledging the statements issued jointly by the Board of Directors and the Financial reporting manager, not having proposals to make in accordance with article 153, paragraph 2 of the Consolidated Law on Finance, invites the Shareholders' Meeting to approve the draft financial statements for 2017 and the Report on Operations, as well as the Directors' proposal to carry forward the residual loss, amounting to € 353 million as at 31.12.17.

THE BOARD OF STATUTORY AUDITORS

Signed by

Elena Cenderelli

Chairman

Signed by

Raffaella Fantini

Standing Auditor

Signed by

Paolo Salvadori

Standing Auditor

Milan, 16 March 2018

ANNEXES

Disclosure of independent auditors' fees

With the aim of making reporting on the Parent Company's relations with its own Auditors more transparent, Consob, with its resolutions No. 15915 of 3 May 2007 and No. 15960 of 30 May 2007, implemented the delegation of authority contained in art. 160 of the Consolidated Law on Finance (Incompatibility), introducing Part III, Title VI, of the Issuers' Regulation, Part I-bis (Incompatibility) which contains articles from 149-bis to 149-duodecies.

With this amendment, CONSOB chose to include this disclosure in the documents accompanying the financial statements with a mandatory requirement to disclose payments received for auditing and other services supplied by the Auditors or by entities forming part of their network.

The table below shows all payments made to the Auditors and to others forming part of its network, broken down by type of service provided.

Disclosure of fees for the independent auditors and other entities of its network (pursuant to art. 149 duodecies of CONSOB resolution no. 15915 of 3 May 2007)

31 12 2017

Type of services	Service provider	Total
Auditing (1)	Ernst & Young S.p.a.	1,404
Other attest servisces	Ernst & Young S.p.a.	1,333
Other services	Ernst & Young Financial Business Advisors S.p.a.	198
Total		**2,935**

Amounts are stated exclusive of V.A.T. and ancillary expenses.

PENSION FUNDS – Defined benefit pension funds without plan assets

Supplementary Pension Fund for personnel of former Tax Collection Agencies

Accounting statement as at 31 12 2017	(in units of Eur)
Opening balance as at 01 01 2017	**22,543,872**
Increases	1,382,242
- provisions for the year	152,265
- Other	1,229,977
Decreases	1,791,496
- Benefit paid	1,791,496
- Other	-
Closing balance as at 31 12 2017	**22,134,618**

Supplementary Pension Fund for personnel of former Banca Operaia di Bologna

Accounting statement as at 31 12 2017	(in units of Eur)
Opening balance as at 01 01 2017	**6,138,102**
Increases	92,428
- provisions for the year	62,103
- Other	30,325
Decreases	380,248
- Benefit paid	380,248
- Other	-
Closing balance as at 31 12 2017	**5,850,282**

Supplementary Pension Fund for personnel of former Banca di Credito Popolare e Cooperativo di Reggio Emilia

Accounting statement as at 31 12 2017	(in units of Eur)
Opening balance as at 01 01 2017	**724,060**
Increases	28,798
- provisions for the year	9,475
- Other	19,323
Decreases	38,288
- Benefit paid	38,288
- Other	-
Closing balance as at 31 12 2017	**714,570**

Supplementary Pension Fund for personnel of former Banca Popolare Veneta

Accounting statement as at 31 12 2017	(in units of Eur)
Opening balance as at 01 01 2017	**1,107,166**
Increases	104,380
- provisions for the year	2,142
- Other	102,238
Decreases	174,970
- Benefit paid	174,970
- Other	-
Closing balance as at 31 12 2017	**1,036,576**

Supplementary Pension Fund for personnel of former General Managers

Accounting statement as at 31 12 2017	(in units of Eur)
Opening balance as at 01 01 2017	**3,583,766**
Increases	123,493
- provisions for the year	24,084
- Other	99,409
Decreases	286,131
- Benefit paid	286,131
- Other	-
Closing balance as at 31 12 2017	**3,421,128**

Supplementary Pension Fund for personnel of former Credito Lombardo

Accounting statement as at 31 12 2017	(in units of Eur)
Opening balance as at 01 01 2017	**2,997,179**
Increases	239,158
- provisions for the year	20,146
- Other	219,012
Decreases	265,818
- Benefit paid	265,818
- Other	-
Closing balance as at 31 12 2017	**2,970,519**

PENSION FUNDS – defined benefit and defined contribution pension funds with plan assets

Supplementary Pension Fund for personnel of former BNA – Defined benefit section

BALANCE SHEET

(in units of Eur)

	Assets	31 12 2017	31 12 2016	Changes
10	**Direct investments**	**24,598,474**	**25,668,958**	**(1,070,484)**
	a) Deposits	389,156	339,641	49,515
	b) Receivables from repo transactions	-	-	-
	c) Securities issued by Governments and other international institutions	-	-	-
	d) Listed debt securities	24,045,600	25,187,866	(1,142,266)
	e) Listed equity securities	-	-	-
	f) Unlisted debt securities	-	-	-
	g) Unlisted equity securities	-	-	-
	h) Units of UCITS	-	-	-
	i) Options purchased	-	-	-
	l) Accrued income and prepayments	163,718	141,451	22,267
	m) Profit guarantees released to pension fund	-	-	-
	n) Other assets from financial activities	-	-	-
	o) Accrued income not yet received	-	-	-
20	**Managed investments**	-	-	-
30	**Profit guarantees on individual accounts**	-	-	-
40	**Assets from administrative activities**	-	-	-
50	**Tax receivables**	-	-	-
	TOTAL ASSETS	**24,598,474**	**25,668,958**	**(1,070,484)**
	Liabilities	**31 12 2017**	**31 12 2016**	**Changes**
10	**Liabilities from social security**	-	-	-
20	**Liabilities from financial activities**	-	-	-
30	**Profit guarantees on individual accounts**	-	-	-
40	**Liabilities from administrative activities**	-	-	-
50	**Tax payables**	**16,662**	**6,738**	**9,924**
	b) tax payables for current period	16,662	-	16,662
	a) tax credit for prior period	-	**6,738**	(6,738)
	TOTAL LIABILITIES	**16,662**	**6,738**	**9,924**
100	**Net assets available for payment of benefits**	**24,581,812**	**25,662,220**	**(1,080,408)**
	Net assets availabe for payment of benefits in previous year	25,662,220	26,885,253	(1,223,033)
	Changes in net assets available payment of benefits	**(1,080,408)**	**(1,223,033)**	**142,625**

INCOME STATEMENT

(in units of Eur)

		31 12 2017	31 12 2016	Changes
10	**Balance of social security management**	**(1,197,040)**	**(1,270,197)**	**(73,157)**
	a) Contributions for benefits	-	-	-
	b) Advances	-	-	-
	c) Transfers and redemptions	-	-	-
	d) Transfers to annuities	-	-	-
	e) Payments in capital	-	-	-
	f) Premiums for additional benefits	-	-	-
	g) Payments in annuities	(1,197,040)	(1,270,197)	(73,157)
	h) Other payments	-	-	-
20	**Profit (loss) from direct financial activities**	**133,294**	**53,902**	**(79,392)**
	a) Interest and profit on bondsand government securities	746,602	1,055,857	309,255
	b) Interest on cash equivalents	(613,308)	(1,001,954)	(388,646)
	c) Profits and losses from financial transactions	-	-	-
	d) Interest (expense) from repo transactions	-	-	-
	e) Pension fund profit guarantee difference	-	-	-
	f) Contingent assets	-	-	-
	g) Forfeitures charged to the participants	-	-	-
	h) Kickbacks from UCITS	-	-	-
	i) Commission expense	-	-	-
30	**Profit (loss) from indirect financial activities**	-	-	-
40	**Operating expenses**	**-**	**-**	**-**
	a) Management companies	-	-	-
	b) Custodian bank	-	-	-
	c) Insurance policy	-	-	-
	d) "State supervision" contribution	-	-	-
50	**Financial and insurance income (loss) (20+30+40)**	**133,294**	**53,902**	**(79,392)**
60	**Balance from administrative activities**	**-**	**-**	**-**
	a) General and administrative expenses	-	-	-
70	**Changesin net assets available for payment of benefits before substitute tax (10+50+60)**	**(1,063,746)**	**(1,216,295)**	**(152,549)**
80	**Substitute tax**	**(16,662)**	**(6,738)**	**9,924**
	Changes in net assets available for payment of benefits (70+80)	**(1,080,408)**	**(1,223,033)**	**(142,625)**

Supplementary Pension Fund for personnel of former Banca Toscana - Defined benefit section

BALANCE SHEET

(in units of Eur)

Assets		31 12 2017	31 12 2016	Changes
10	**Direct investments**	**97,476,736**	**106,409,341**	**8,932,605**
	a) Deposts	83,474,200	91,473,437	7,999,237
	b) Receivables from repo transactions	-	-	-
	c) Securities issued by Governments and other international institutions	-	-	-
	d) Listed debt securities	13,728,196	14,661,564	933,368
	e) Listed equity securities	-	-	-
	f) Unlisted debt securities	-	-	-
	g) Unlisted equity securities	-	-	-
	h) Units of UCITS	-	-	-
	i) Options purchased	-	-	-
	l) Accrued income and prepayments	274,340	274,340	-
	m) Profit guarantees released to pension fund	-	-	-
	n) Other assets from financial activities	-	-	-
	o) Accrued income not yet received	-	-	-
20	**Managed investments**	-	-	-
30	**Profit guarantees on individual accounts**	-	-	-
40	**Assets from administrative activities**	-	-	-
50	**Tax receivables**	-	-	-
	TOTAL ASSETS	**97,476,736**	**106,409,341**	**8,932,605**
Liabilities		**31 12 2017**	**31 12 2016**	**Changes**
10	**Liabilities from social security**	-	-	-
20	**Liabilities from financial activities**	-	-	-
30	**Profit guarantees on individual accounts**	-	-	-
40	**Liabilities from administrative activities**	-	-	-
50	**Tax payables**	-	-	-
	TOTAL LIABILITIES	-	-	-
100	**Net assets available for payment of benefits**	**97,476,736**	**106,409,341**	**8,932,605**
	Net assets availabe for payment of benefits in previous year	106,409,341	114,787,736	8,378,395
	Changes in net assets available payment of benefits	**(8,932,605)**	**(8,378,395)**	**554,210**

INCOME STATEMENT

(in units of Eur)

		31 12 2017	31 12 2016	Changes
10	**Balance of social security management**	**(8,549,425)**	**(9,165,322)**	**615,897**
	a) Contributions for benefits	-	-	-
	b) Advances	-	-	-
	c) Transfers and redemptions	-	-	-
	d) Transfers to annuities	-	-	-
	e) Payments in capital	-	-	-
	f) Premiums for additional benefits	-	-	-
	g) Payments in annuities	(8,549,425)	(9,165,322)	(615,897)
	h) Other payments	-	-	-
20	**Profit (loss) from direct financial activities**	**(383,180)**	**786,926**	**1,170,106**
	a) Interest and profit on bondsand government securities	550,188	550,937	749
	b) Interest on cash equivalents	(933,368)	235,989	1,169,357
	c) Profits and losses from financial transactions	-	-	-
	d) Interest (expense) from repo transactions	-	-	-
	e) Pension fund profit guarantee difference	-	-	-
	f) Contingent assets	-	-	-
	g) Forfeitures charged to the participants	-	-	-
	h) Kickbacks from UCITS	-	-	-
	i) Commission expense	-	-	-
30	**Profit (loss) from indirect financial activities**	-	-	-
40	**Operating expenses**	**-**	**-**	**-**
	a) Management companies	-	-	-
	b) Custodian bank	-	-	-
	c) Insurance policy	-	-	-
	d) "State supervision" contribution	-	-	-
50	**Financial and insurance income (loss) (20+30+40)**	**(383,180)**	**786,926**	**1,170,106**
60	**Balance from administrative activities**	**-**	**-**	**-**
	a) General and administrative expenses	-	-	-
70	**Changesin net assets available for payment of benefits before substitute tax (10+50+60)**	**(8,932,605)**	**(8,378,395)**	**554,210**
80	**Substitute tax**	-	-	-
	Changes in net assets available for payment of benefits (70+80)	**(8,932,605)**	**(8,378,395)**	**554,210**