Siena, Rocca Salimbeni,
sede storica della Banca Monte dei Paschi di Siena

MPS CAPITAL SERVICES

FINANCIAL STATEMENTS 2017

FINANCIAL STATEMENTS AT 31 DECEMBER 2017

Table of contents

Company Profile

Name	**MPS CAPITAL SERVICES BANCA PER LE IMPRESE S.p.A.** “Monte dei Paschi di Siena” Banking Group
General Information	MPS Capital Services Banca per le Imprese SpA (MPSCS) is the Corporate & Investment Bank of the Monte dei Paschi di Siena Banking Group (BMPS Group), specialised in financial support and advice to the Corporate, Public Bodies and Institutional segment. It is registered as a Joint Stock Company in the Florence Companies Register from 4 September 2007, with No. 00816350482, Registered in the Bank of Italy List of Banks with No. 4770, a subscriber to the Interbank Deposit Protection Fund and to the National Guarantee Fund. It is a signatory to the Banking and Financial Sector Code of Conduct. It also participates in the Banking and Financial Arbitrator (ABF) through the Bank of Italy, and the Financial Dispute Arbitrator (ACF) through CONSOB and the Bank Reconciliation Body. It is subject to the direction and coordination of Banca Monte dei Paschi di Siena SpA (BMPS). In particular the Bank is obliged to observe the rules that the Parent Company issues for the execution of the instructions provided by the Bank of Italy in the interest of the group’s stability. The duration of the company is until 31 December 2050.
Year of constitution	**1954** as Mediocredito Regionale della Toscana
Share Capital	€ **1,669,516,282.10** fully paid-up.
Registered Offices	**Florence** - Via Pancaldo, 4 - 50127
General Management	**Florence** - Via Panciatichi, 48 - 50127 Telephone +39 055 2498.1 - Fax +39 055 240826 Website www.mpscapitalservices.it
Global Markets Department	**Siena** - Viale G. Mazzini, 23 - 53100 Telephone +39 0577 294111 - Fax +39 0577 209100
Investment Banking Department	**Rome** - Via Salaria, 231 (villino 2) - 00199 Telephone +39 06 42048325 - Fax +39 06 42016914
Sales and Financial Solutions Department	**Milan** - Via Ippolito Rosellini, 16 - 20124 Telephone +39 02 697 05571 - Fax +39 02 882 33205
Corporate Finance Department	**Florence** - Via Panciatichi, 48 - 50127 Telephone +39 055 2498570 - Fax +39 055 2498737
Market Supervisory Structures	**Milan** - Via Ippolito Rosellini, 16 - 20124 Telephone +39 02 888 91941/30 Fax +39 02 882 33206 (electronic channels, e-trade) Telephone +39 02 888 91945/43/31/28/24/21 Fax +39 02 882 33205 (Financial Institutions) Telephone +39 02 888 91934 - Fax +39 02 882 33205 (Corporate)

Siena - Viale G. Mazzini, 23-53100
Telephone +39 0577 537326 - Fax +39 0577 209505
(electronic channels, execution)
Telephone +39 0577 537150 - Fax +39 0577 209505 (Corporate)
Telephone +39 0577 537151/56/62
Fax +39 0577 209505 (Entities and Institutional Bodies)

Rome - Via Salaria, 231 (Villino 2) - 00199
Telephone +39 06 424 50714 - Fax +39 06 420 48337 (Corporate)

Padua - Piazzetta Turati, 17 (Torre Ovest) - 35131
Telephone +39 049 804 6192 - (Corporate)

Representative Offices
Local Offices

Turin - c/o Banca Monte dei Paschi di Siena
Via Mazzini, 14/16 - 10123
Telephone +39 011 815 5243 - Fax +39 055 240826

Milan - c/o Banca Monte dei Paschi di Siena
Largo Cairoli, 1 - 20123
Telephone +39 02 882 33220 - Fax +39 02 882 33233

Padua - c/o Banca Monte dei Paschi di Siena
Piazzetta Turati, 17 (West Tower) - 35131
Telephone +39 049 6991659 - Fax +39 049 6992195

Mantua - c/o Banca Monte dei Paschi di Siena
Via Vittorio Emanuele II°, 30 - 46100
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Bologna
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Telephone +39 071 291 2735 - Fax +39 055 240826

Perugia - c/o Banca Monte dei Paschi di Siena
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Ancona - c/o Banca Monte dei Paschi di Siena
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Rome
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Naples - c/o Banca Monte dei Paschi di Siena
Via Cervantes de Savaedra, 55/14 - 80133
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Bari - c/o Banca Monte dei Paschi di Siena
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Siena
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Telephone +39 081 778 5243 - Fax +39 055 240826

Administrative offices

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Telephone +39 06 42048320 - Fax +39 06 42016914

Padua - c/o Banca Monte dei Paschi di Siena
Piazzetta Turati, 17 (West Tower) - 35131

Corporate Officers and Auditing Company

BOARD OF DIRECTORS

Chairperson	*Mario COMANA*
Deputy Chairperson	*Angelo BARBARULO*
Managing Director	*Giampiero BERGAMI*
Director	*Paola DEMARTINI*
Director	*Lucia SAVARESE*
Director	*Riccardo TISCINI*
Director	*Vittorio CALVANICO*
Director	*Ilaria Maria DALLA RIVA*
Director	*Renzo Filippo Riccardo QUAGLIANA*

BOARD OF STATUTORY AUDITORS

Chairperson	Graziano GALLO
Regular Auditor	Werther MONTANARI
Regular Auditor	Lara ZAMPIERO
Alternate Auditor	Marco TANINI
Alternate Auditor	Vittorio MARRONI

MANAGEMENT

General Manager	Giorgio PERNICI

AUDITING COMPANY

ERNST & YOUNG S.P.A.
Via Po, 32
00198 ROME
VAT No. 00891231003

Ratings

The following ratings have been assigned to the Bank by Moody's Investors Service Ltd:

LONG-TERM DEPOSITS RATING: **B1**
SHORT-TERM DEPOSITS RATING: **Not Prime**
FINANCIAL STRENGTH RATING: **caa1**

with **stable** outlook.

The international ratings agency **Moody's** confirmed its measurement for the Italian sovereign entity for 2017, with a rating of Baa2.
It also positively assessed the government's actions with regards to the MPS Group, which, thanks to recapitalisation, achieved a significant improvement in its equity benchmarks.
In this context, the rating assigned to the MPS Group's financial solidity, and hence that of the Bank, rose to class **caa1**, which, benefiting from 3 notches associated with government support, saw the rating for long-term deposits rise by one notch, from **B2** to **B1**.
Nonetheless, Moody's decided not to fully include the benefits deriving from the achievement of the Restructuring Plan in course within the MPS Group in its evaluation, given that it is expected that the return to adequate profits will be gradual and difficult. For this reason, the LONG TERM DEBT rating for the parent company MPS was kept at **B3** with negative outlook.

Shareholding Structure

Banca Monte dei Paschi di Siena controls the company with an equity investment equal to 99.990% as of 31 December 2017, as shown in the table below:

Shareholder	*Number of shares*	*Amount in units of one Euro*	*Percentage*
Banca Monte dei Paschi di Siena SpA	802,495	1,669,342,681.78	99.990%
I.N.A.I.L.	23	71,300.13	0.004%
Other shareholders	33	102,300.19	0.006%
Total	**802,551**	**1,669,516,282.10**	**100.000%**

On 18 August 2017, the Extraordinary Shareholders' Meeting resolved "to increase the share capital by payment for a maximum total amount of € 898,857,120.00, divided into ordinary nominative shares, without nominal value, at the price of € 1,680.00 per share (of which € 1,570.39 is capital and € 109.61 is the share premium), to be completed by 16 November 2017, divisible, through the issuing of up to 535,034 ordinary shares with regular dividends, to be offered as options to shareholders, on the basis of 2 shares for each 1 share held, pursuant to article 2441 of the Italian Civil Code".
The capital increase was completed within the terms established with full subscription and payment of the entire amount offered by the parent company Banca Monte dei Paschi di Siena S.p.A., which exercised its right of first refusal relative to unoptioned shares, and was registered with the Florence Companies Register on 15 November 2017.

REPORT ON OPERATIONS

Reference Context

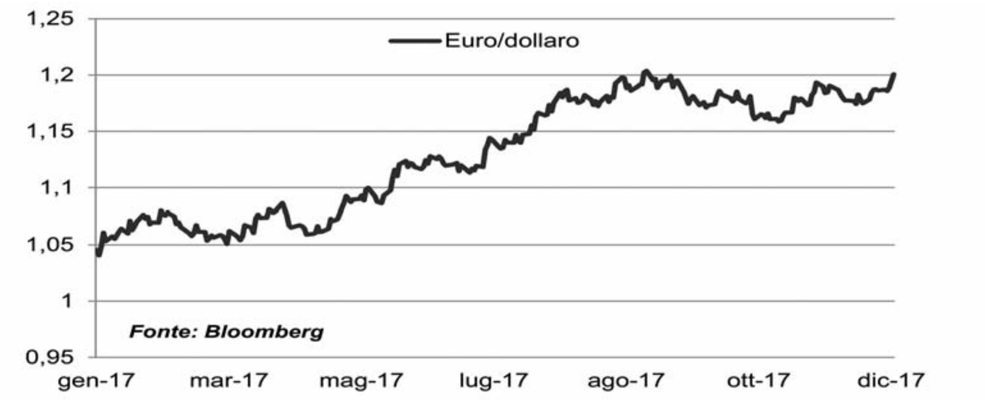
2017 saw highly significant political events and important geopolitical phenomena, including tensions between the USA and North Korea and the attempted secession by Catalonia. **In the USA** the initial euphoria caused by the new administration was tempered following difficulties in moving forward with the main reforms announced during the electoral campaign. Government rates remained at historically low levels, supporting a certain weakness for the dollar throughout 2017. At the same time, government securities in the Eurozone saw an increase in tensions as the **French elections** drew near, which were then resolved after Macron's win. On the other hand, the elections in Germany led to a deadlock when forming the new government, even if the impacts on financial assets were essentially marginal. Once again, the **central banks** played a leading role: on one hand, the **ECB** and the **BoJ**, which continued to adopt accommodating monetary policies, and on the other, the **BoE** and the **Fed,** which began a restrictive monetary phase, raising the reference rates. Nonetheless, although it restated its desire to continue with an accommodating policy until the 2% inflation target was reached, at the end of 2017 the ECB announced that it would halve its purchases of securities starting in January 2018 (from € 60 billion to 30), until September 2018. The Fed carried out three rate increases, while beginning to reduce its budget in October.

On the **macroeconomic front**, consolidation of economic growth was seen in a context of accommodating monetary policies and stable inflation. According to IMF forecasts, 2017 ended with GDP growth of 2.3% in the USA (up from 1.5% in 2016), and 2.4% in the Eurozone (compared to 1.8% seen in 2016). **Inflation** did not rise as much as expected by the central banks, and in the Eurozone, while showing significant growth with respect to 2016, climbing from 0.2% to 1.5%, it still remained well below the ECB's 2% target. In the USA, it remained stable at 2.1%, and in both regions, increases in the price of oil were not able to sufficiently increase prices, which instead suffered from the lack of increase in wages.

In terms of interest rates, the year saw high volatility with various up and down phases. However, in the Eurozone, 2017 ended with a reduction in peripheral spreads and an increase in interest rates, above all core ones. **The 10 year Italy-German spread** ended the year at around 160 basis points, after having risen to over 200 basis points. In the USA, significant flattening of the curve was seen along the 2-10 years portion, mainly due to the increase in two-year interest rates, following manoeuvres by the Fed. The **US ten-year interest rate** rose to more than 2.50%, ending the year at around 2.4%. The two-year rate instead rose to around 2%, the highest levels since 2008.

In **the area of exchange rates**, 2017 saw the euro return to a position of strength, appreciating relative to all the main global currencies. After Le Pen's defeat in the French presidential elections, the elimination of worries about a populist turn combined with signs of progressive strengthening in economic growth drove the euro/dollar exchange rate back up to 1.20 for the first time since December 2014. However, a portion of the rise in the exchange rate must also be attributed to the generalised weakness of the US dollar.

EURO/DOLLARO



With reference to the **stock markets**, 2017 was an exceptional year, with multiple records broken by important national indices. In the US, all the main indices reached historic highs, with the S&P500 gaining 19.4% and the NASDAQ 100 31.5%. The year for Europe was also exceptional, with the German DAX achieving new records (+12.5%) as well as the British FTSE100 (+7.6%). In Italy, the FTSEMIB saw its highest levels since August 2015, gaining 13.6%. It also benefited from the trend in the FTSE IT Banks index, which ended 2017 with a positive change of 14.9%. At the European level, Euro Stoxx saw its highest levels since 2008 (+10.1%). Emerging markets also had a positive year, with the general index MSCI EM reaching its highest level since 2011 (+34.4%). Excellent performance was also seen in Japan, where the Nikkei rose to its highest since 1992 (+19.1%).

Significant Aspects of Operations

The "Business Units" (hereinafter BUs) were unchanged with respect to the previous year and serve as the basis of supervision and operational monitoring of the Bank's business. They are listed below:

"Ordinary Finance" BU
"Corporate Finance" BU
"Global Markets" BU
"Investment Banking" BU

"Ordinary Finance" BU
As regards the "Ordinary Finance" BU, both agreements and disbursements were less (respectively: -71.0% and -65.5%) than that achieved the previous year, due to the Bank's increasingly decisive strategic repositioning in terms of structured, extraordinary and project finance.

(amounts in millions of Euro)

Ordinary Finance	*Final value as at 31/12/2017*	*Budget as at 31/12/2016*	*Percentage change*
Operations agreed	8.4	29.0	(71.0%)
Operations disbursed	15.7	45.5	(65.5%)

In relation to the subsidised finance segment, the Bank continued its activity as a "managing party" for some of the main national public incentives for production actions on behalf of the Ministry of Economic Development (MED) and the Ministry of Education, Universities and Research (MEUR), making use of:

- the Sustainable Growth Fund and the Technological Innovation Fund
- Italian Law 488/92 and Territorial Pacts;
- the Research Subsidies Fund;
- Guarantee Fund for Small and Medium Enterprises.

"Corporate Finance" BU
The activities of the Corporate Finance BU showed a slight slowdown during in 2017 in terms of disbursements. The total volume of interest-bearing loans also decreased slightly compared to 2016. Nonetheless, the goal of concentrating on structural and project financing remained unchanged, to be achieved through the granting of credit to companies and/or initiatives of particular interest and relevance, serving as the Bank's operating focus in the context of lending activities. Actions aimed at optimising interaction with the Parent Company's commercial units were optimised, to the extent that they continue to be the priority channel for Corporate Finance operations arranged by the Bank (more than 63% of the total).

(amounts in millions of Euro)

Corporate Finance	*Final value as at 31/12/2017*	*Budget as at 31/12/2016*	*Changes percentage*
Operations agreed	639.7	592.2	8.0%
Operations disbursed	618.0	729.5	(15.3)%

A summary of the activities performed by the single departments into which the Corporate Finance BU is divided is presented below:

- **Project Financing** - The activity was carried out mainly in the sectors of public utility infrastructures, renewable energies and utilities; the activity of structuring operations involved both mandates acquired during the year and mandates acquired previously which, owing to their complexity, need a long time to be finalised. We present below the most significant operations dealt with in 2017:
  - loans totalling € 11.7 million to create a wind farm consisting of 5 wind turbines for 10 MWe of power located in the province of Pesaro-Urbino;
  - refinancing of the largest wind farm ever created in Italy, consisting of 69 wind turbines for 138 MWe of power located in the province of Sassari, undertaken by a major national player in the renewable energy sector. The pool project in which the Bank served as the Mandate Lead Arranger (MLA) amounting to a total of € 195 million, of which € 7 million relative to the Bank, granted by 12 major national and foreign banks;
  - refinancing of an already operating wind part consisting of 13 wind turbines for 26 MWe of power located in the province of Foggia for a total of € 22 million;
  - the acquisition of the portion not covered by equity of the units of a company owning an already operating wind farm consisting of 15 wind turbines for 41.7 MWe of power located in the province of Avellino for a total of € 9 million.

- **Corporate Finance -** Activities in 2017 were focussed on the real estate/hotel and industrial sectors in general. In particular, we note loans made to support major operators in the food, energy, clothing and telecommunications sectors. During the second half of the year, advising activities intensified in the water sector, as did loan investigation activities in this sector and preparatory to participation in tenders issued by certain sector operators with the aim of selecting lending institutions. In particular, working in a pool with other institutions, the Bank was awarded the tender issued by a major operator in the Region of Lombardy.

- ***Loan Syndication, Asset Disposal and Media Entertainment*** - The arranging and structuring of a syndicated pool loan was successfully completed on behalf of Banca MPS, while syndication activities for other transactions to be structured in pool form also continued, again on behalf of the parent company.
  In the context of asset disposal activities, a non-binding offer was received from a major national operator to acquire a company which owns a prestigious real estate property located in the historic centre of Florence. Negotiations with a Tuscan wine company are under way.
  In regards to media entrainment, two loan transactions were completed in favour of important operators in the film and TV series production and distribution sector.

- **Acquisition Financing** - During 2017, the Bank was Mandate Lead Arranger and Facility Agent in several important Acquisition/Leveraged Financing operations, confirming the favourable positioning achieved on the Mid Corporate market. Particular attention was paid to the support provided to leading customers - companies and private equity funds - for acquisitions with strong industrial connotations. Among the most important transactions, in terms of their centrality and the efforts required, we recall the acquisitions, on the part of private equity funds and companies, of controlling equity investments relative to:
  - an Italian producer of automatic leather cutting machines intended for the footwear industry and other producers of leather goods;
  - an Italian producer of automated systems to manage pharmaceuticals and medical devices;
  - a major Italian operator in the financial and managed savings sector;
  - a major Italian operator active in managing airport infrastructure;

all of this within the operating framework of a sector that in 2017 accounted for around 40% of total Bank disbursements.

“Global Markets” BU

In 2017, activities with customers and markets carried out by the Global Markets and Sales and Financial Solutions Departments were affected, in terms of volumes and quality, by the numerous macroeconomic and geopolitical events that occurred during the period in question, as well as by uncertainties during the first half associated with the precautionary recapitalisation procedure involving the parent company, which led to the suspension of trading for securities issued by BMPS.

In this context a decrease was seen in sales volumes for interest rate hedging, secondary over the counter and in auctions of government securities with compared to the previous year. Commercial volumes traded on electronic platforms (Bond Vision and Bloomberg Electronic Trading)-on flexible term-and commodity hedging rose. Business regarding government securities, both in terms of customer transactions and in market making, was affected for a good part of the year by uncertainties associated with the trend in European interest rates. Only since the last quarter, did the approval of the new electoral law and the upgrade of Italian debt carried out by S&P generate significant increases in volumes. In this context, we note that the Bank continued to be one of the main players in the market in terms of the classification provided by the Ministry of the Treasury/Bankit. Its role as the Joint Bookrunner in the syndicated issuing of the new 10-year BTPI and the BTP Italy should also be noted.

With regards to the Loan department, flow and market making activities benefited from opportunities offered by the financial markets, registering a qualitative and quantitative improvement both in terms of volumes for the corporate sector and the structured sector; product hedging also saw growth, with the addition of hybrid corporate issues and an increase in ABS business. Relative to interest rate hedging, sales of hedging derivatives decreased in line with the reduction in disbursements made by the parent company. Market making and risk management business for the relative asset class, in an environment of moderately rising interest rates, typically involved plain vanilla products and ETFs on the secondary market.

The "*Easy OTC as a Service*" platform made available to potential and current institutional customers should be noted in the context of innovative service projects, providing support to network activities. In regards to the equity segment, the innovation seen in certain protected, insurance and managed savings projects has so far guaranteed increasing flows within the stocks segment, in contrast to hedging of certificates placed through the private network, which saw lower than expected revenues. We also note the creation of a platform for ETF listings to serve institutional clients. During the year in question, Italian stock trading order services were successfully internalised (cash and derivatives) for all MPS Group clientèle. With regards to Structuring and Hedging of Retail Investment Products, we note the placement of smart beta funds and the structuring of a new line of unit linked products with capital protection and active management, with the aim of expanding offerings and capturing new market opportunities.

During the year just ended, the Sales & Financial Solutions Department directed flows coming from institutional and corporate customers to the entire array of business lines, both on the primary and secondary markets. The contribution made during placement on the market by three issues of government backed securities by the parent company during the first quarter is particularly noteworthy, totalling over € 3 billion. Certain business lines performed well, including currency exchanges for corporate clients, supported by the increase in the array of offerings and, on the primary market, the placement of 4 minibond issues, for a total of € 75 million.

“Investment Banking” BU

With regards to investment banking activities, among the most important transactions on the bond market during 2017, we note two issues organised for the Italian Republic in which the Bank served as the Joint Lead Manager and

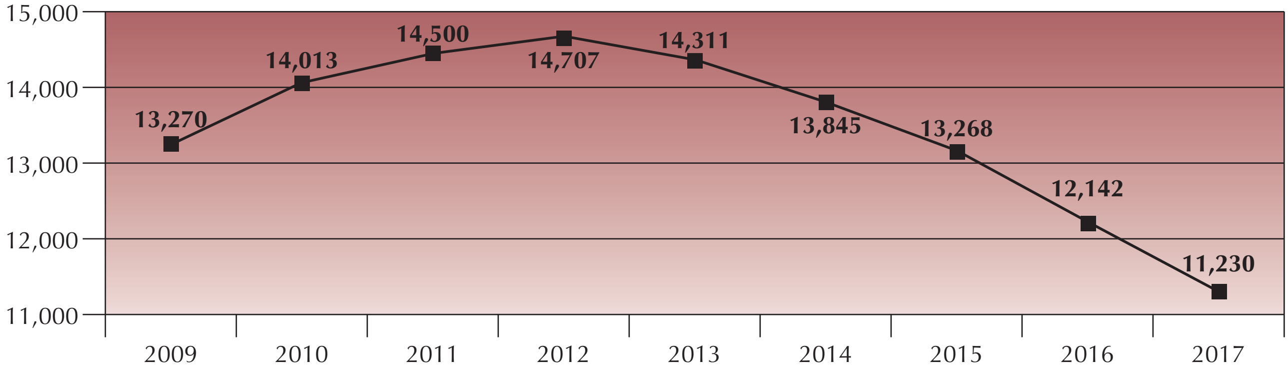
the Joint Bookrunner, specifically the syndicated placement of the 10-year European inflation linked BTP and the placement of the twelfth edition of the BTP Italy, for a total of € 7 billion. Also for the Italian Republic, the Bank served as the Co-Lead Manager in the issuing of 15-year and 30-year BTPs.
In the corporate sector, serving as the Arranger and Bookrunner, the Bank supervised the structuring and placement of the following minibond issues: R Fenicia S.p.A. (Camicissima brand) € 8 million; Prima Sole Components S.p.A. € 25 million; Corvallis Holding S.p.A € 10 million; Renco Group S.p.A. € 35 million. Also in the corporate segment, the Bank served as Co-Manager in the following issues: Nuovo Trasporto Viaggiatori S.p.A., Salini Impregilo S.p.A. and two Cariparma OBGs. It also organised a € 140 million private placement for Cassa Depositi e Prestiti.
We note that the Investment Banking Department supervised the placement of three government-backed bank bonds (GGB) issued by the parent company. Finally, the department assisted the Structuring & Product Engineering Office in finding supranational issuers to structure 3 transactions placed within the parent company's network.
Relative to the stock market, the department participated in Pirelli & C. S.p.A.'s return to listing.
The Bank also continued to perform as Nominated Advisor on behalf of Poligrafici Printing SpA, a company listed on Borsa Italiana's AIM Italia market.

Credit Aggregates

TOTAL LOANS

The amount of loans to customers, determined according to operating criteria, at 31 December 2017 was € 11,230 million, down compared to the € 12,142 million recorded at the end of the previous year (-7.51% on an annual basis).

TREND IN TOTAL LOANS
"Management" view



Below is the reconciliation of the management figure at 31 December 2017 with the balance of assets item 70 "loans to customers", plus that of item 140 "non-current assets and groups of assets held for sale". The reconciliation amounts derive from a different classification of the accounting data with respect to the operational disclosure:

BALANCING BETWEEN "MANAGEMENT" VIEW AND FINANCIAL STATEMENT FIGURES:

(amounts in millions of Euro)

Management amount	**11,230**
Spreads on past-due derivatives [1]	(49)
Repurchase agreements with customers	4,400
Receivables for collateral paid in [2]	488
Valuation reserve on loans [3]	(4,378)
Other non-interest bearing loans [4]	49
Financial statement amount (A70 + A140)	**11,740**

[1] Nominal value for spreads on past-due derivatives, recognised for accounting purposes under "Assets held for trading";
[2] Items for collateral not connected to financing activities and operationally attributable to "Global Market" activity;
[3] Valuation reserves relative to loans recognised in item 70 and the portfolio of assets held for sale classified under item 140.
[4] Non-interest bearing loans mainly associated with the transaction to dispose of non-performing loans.

Commercial flows

In Italy, the macroeconomic scenario in 2017 showed a positive trend, with the GDP increasing by 1.5%, the highest figure in the last several years (in 2010 the figure was 1.7%), which analysts hold may be replicated in 2018. In terms of price trends, after years of oscillating around zero, inflation was around 1.2%, substantially in line with the signs of recovery that characterised the year just ended. The trends in the Eurozone also gave reason to believe that the recovery is slowly gaining strength, with hints of a stable trend that could positively influence the domestic economic situation.

Nonetheless, the positive signals seen from the Italian economy have not yet had enough effect to significantly influence credit demand, which, for the Bank, was lower by almost 30% compared to the previous year. Loan operations approved also fell by more than 39% compared to the final figure for 2016. On the other hand, stipulated transactions increased € 27 million (+4.3% compared to the previous year), while disbursements decreased € 141 million compared to 2016 (-18%), still suffering from the difficulties facing companies in completing initiatives begun in previous years.

The table below shows an analysis of commercial flows recorded in 2017, with reference to:
- loan applications submitted;
- loans approved;
- loan contracts signed;
- loans disbursed.

LOAN APPLICATIONS SUBMITTED

(amounts in millions of Euro)

	2017	*2016*	*Changes*	
			absolute	*%*
Number	176	197	(21)	(10.7)
Amount	1,264	1,776	(512)	(28.8

LOANS APPROVED

(amounts in millions of Euro)

	2017	*2016*	*Changes*	
			absolute	*%*
Number	146	178	(32)	(18.0)
Amount	930	1,522	(592)	(38.9)

The following table shows the ratio between loans agreed (approved) and applications presented:

	2017	*2016*	*2015*	*2014*
Number	83.0%	90.4%	89.4%	86.9%
Amount	73.6%	85.7%	98.9%	77.7%

LOAN CONTRACTS SIGNED

(amounts in millions of Euro)

	2017	*2016*	*Changes*	
			absolute	*%*
Number	152	173	(21)	(12.1)
Amount	648	621	27	4.3

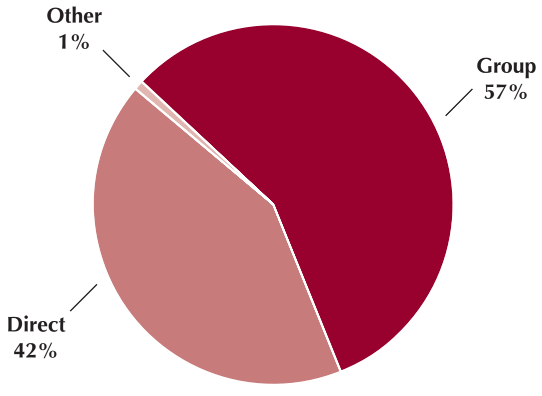
LOANS DISBURSED

(amounts in millions of Euro)

	2017	*2016*	*Changes*	
			absolute	*%*
Number	374	474	(100)	(21.1)
Amount	634	775	(141)	(18.2)

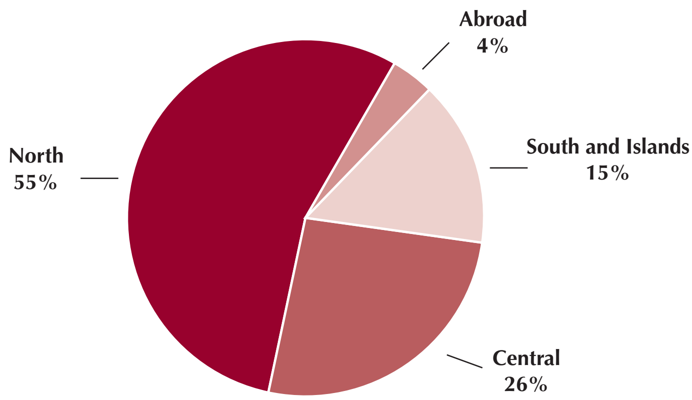
During financial year 2017, the Bank disbursed a total of € 634 million. We note that also contributing to this result were disbursements linked to investments to be made over a multi-year period, in accordance with precise terms for implementation set at the time in the production development plans. In these cases the disbursements are made in several tranches, according to the “state of progress” of the projects financed.
As can be seen from the chart below, 57% of the amounts disbursed during the year related to applications channelled by the Group’s network, substantially unchanged compared to the previous year, when the Group channel accounted for 56%.

LOANS ISSUED 2017 - Breakdown by Channel



As regards the geographical distribution of the commercial flows, the next chart demonstrates that 81% of the amounts disbursed in the year were channelled to Northern and Central Italy. Comparing the 2017 figures with those of the previous year, it can be noted that the North's portion rose from 41% to 55%, while Central Italy saw its portion fall from 42% to 26% of the total. The South and the Islands instead went from 16% in 2016 to 15% in 2017. Finally, the amount of foreign transactions rose from 1% to 4%, while still remaining marginal.

BREAKDOWN OF FINANCING DISBURSED 2017 - Geographical breakdown



NON-PERFORMING LOAN DISPOSAL TRANSACTION

With reference to the initiatives undertaken to improve credit quality, the MPS Group Restructuring Plan approved on 4 July 2017 by the European Commission included the disposal of almost the entirety of the non-performing loan portfolio existing at 31 December 2016 (for more details, please see below) and the disposal, by 2019, of additional exposures in the portfolio of probable defaults (PD), for a total exposure at the Group level of € 4.5 billion. During 2017, the Bank began to enact the plan to dispose of the PD portfolio, completing significant loan sale transactions (in particular, the exposure relative to the Mezzaroma Group for over € 200 million), which contributed to an over € 480 million reduction in probable defaults. These activities will become even more effective in the near future, with the establishment of a multi-departmental team of dedicated resources.

In December, the parent company and the subsidiaries MPS Capital Services S.p.A. and MPS Leasing & Factoring S.p.A. sold a portfolio of non-performing loans to the securitisation vehicle Siena NPL 2018 S.r.l. with nominal exposure (gross book value, GBV) at 31 December 2016 of € 24.6 billion, with € 3.7 billion relative to the Bank.
The sale price amounted to € 5 billion, equal to 20.58% of the GBV on the cut-off date of 31 December 2016 (27.67% for the Bank), with € 1 billion relative to the Bank, and was partially paid for through compensation of amounts collected relative to the portfolio sold after the cut-off date of 31 December 2016, then due to the SPV (€ 548.5 million, of which € 83.4 million relative to the Bank) and for the remaining portion through the SPV's issuing of the following securities (for a total of € 4,508.2 million, of which 950.4 relative to the Bank):

- Senior A1 for € 2,683.5 million, with € 565.7 million relative to the Bank;
- Senior A2 for € 412.1 million, with € 86.9 million relative to the Bank;
- Mezzanine for € 847.6 million, with € 178.7 million relative to the Bank;
- Junior for € 565.0 million, with € 119.1 million relative to the Bank.

The securities were fully subscribed pro-quota by the three originator banks.

On 22 December 2017, an agreement to sell 95% of the mezzanine securities above was signed with Quaestio Capital SGR S.p.A., on behalf of the Italian Recovery Fund (formerly the Fondo Atlante II), for a counter value of around € 800 million (of which € 169.8 million relative to the Bank), effective as of 9 January 2018.
The contract to sell the non-performing loans to the securitisation vehicle Siena NPL 2018, signed on 20 December 2017, also provided for the sale by the originator banks of an additional 3 sub-portfolios of non-performing loans, for a total GBV at 31 December 2016 of around € 793 million, with € 427 million relative to the Bank. The transfer of these sub-portfolios was conditional upon a series of events and conditions occurring by 31 January 2018. At 31 December 2016, the GBV of the portfolio of non-performing loans, including the cited sub-portfolios, amounted to € 25.4 billion, with€ 4.2 billion relative to the Bank.
At 31 January 2018, the conditions precedent relative to two of the three sub-portfolios were not met and therefore the sale of these loans was not completed. On the other hand, with reference to the final sub-portfolio of loans subject to conditions precedent (non-performing loans guaranteed by Fidi Toscana S.p.A.), an extension of the deadline to 20 March 2018 was signed. These loans were also subject to reclassification with assets item 140 "current assets held for sale and discontinued operations", for a value of around 48 million at the level of the Group's financial statements, with 23.9 million relative to the Bank.
Deconsolidation of the portfolio of non-performing loans will occur by June 2018, with the transfer of 95% of the junior securities to the Italian Recovery Fund. The economic impacts of this transaction were entirely recognised in the financial statements at 31.12.2017, indicating under item 130 a) Net value adjustments/write-backs due to impairment of loans for a total amount of € 657 million in net value adjustments.

IMPAIRED EXPOSURES

The tables below show the distribution of impaired assets at 31 December 2017 by portfolio.

(amounts in thousands of Euro)

On-balance-sheet exposure	*Gross exposure*	*Adjustments*	*Net exposure*
Loans to banks			
Loans to customers	3,106,625	(1,534,452)	1,572,173
Non-current assets held for sale	3,728,167	(2,774,017)	954,150
Total	**6,834,792**	**(4,308,469)**	**2,526,323**

(amounts in thousands of Euro)

Off-balance-sheet exposure	*Gross exposure*	*Adjustments*	*Net exposure*
Guarantees given	2,280	(1,550)	730
Commitments to disburse funds and other commitments	36,778		36,778
Total	**39,058**	**(1,550)**	**37,508**

The types of impaired cash exposures are shown in the table below:

(amounts in thousands of Euro)

		Specific value adjustments		
Type of impaired on-balance-sheet assets	*Gross exposure*	*Analytical adjustments*	*Discounting effect*	*Net exposure*
Non-performing loans	4,786,235	(3,235,253)	(156,231)	1,394,751
Probable defaults	2,024,470	(796,215)	(115,852)	1,112,403
Exposures past due by over 90 days	24,087	(4,918)		19,169
Total	**6,834,792**	**(4,031,778)**	**(272,083)**	**2,526,323**

Note:
the schedule also includes loans held for sale recognised under item 140 in the Assets.

The balance of impaired cash assets, net of value adjustments and discounting, stands at € 2,526 million; the decrease compared to the amount as of 31 December 2016 (€ 3,635 million) is € 1,109 million (-30.51%).
Non-performing loans deriving from loans to customers decreased from € 1,984 million as at 31 December 2016 to € 1,395 million as at 31 December 2017, a reduction of € 590 million (-29.71%). The average write-down of non-performing loans came out at 70.86% (54.96% as at 31 December 2016). Gross and net non-performing loans account for 29.69% and 11.88%, respectively, of gross and net loans to customers (21.84% and 12.10% in 2016). Excluding non-performing loans subject to the Siena NPL 2018 Srl securitisation and soon to be cancelled, gross and net non-performing loans represent 8.63% and 4.15% respectively of gross and net loans to customers and the average write-down is 58.20%.
Probable defaults went from € 1,628 million at 31 December 2016 to € 1,112 million at 31 December 2017, a reduction of € 516 million (-31.69%). The average write-down of probable defaults came out at 45.05% (43.71% at

31 December 2016). Gross and net probable defaults account for 12.56% and 9.48%, respectively, of gross and net loans to customers (14.34% and 9.93% at the end of 2016).
Impaired past-due loans went from € 23 million at 31 December 2016 to € 19 million at 31 December 2017, a reduction of € 4 million (-16.17%). The average write-down of past-due loans stands at 20.42% (17.25% as at 31 December 2016). Gross and net past-due loans account for 0.15% and 0.16%, respectively, of gross and net loans to customers (0.14% and 0.14% at the end of 2016).

Net value adjustments for impairment for loans recognised under item 130a) of the income statement amounted to € 781.2 million, with € 657 million attributable to non-performing loans involved in the securitisation "Siena NPL 2018 S.r.l.". Net value adjustments relative to other loans amounted to € 124.2 million.
More specifically, the item consists of value adjustments for 1,075.2 (included losses ascertained with an impact on the annual income statement for € 4.1 million) and write-backs of € 294.0 million.
Additionally, net gains on disposal of loans to customers were registered for € 0.2 million, recognised under item 100 a) of the income statement "gains/losses on disposal or repurchases of loans".
For guarantees issued and commitments, a write-down of € 3.1 million (€ 1.6 million of analytical adjustments and € 1.5 million of portfolio adjustments) was recorded under "other liabilities". During the current financial year, value adjustments totalling € 0.8 million and write-backs totalling € 11.4 million were recognised. The latter were for the most part attributable to a significant exposure being "cured" and, subsequently, repaid in advance.
Specific write-downs amounted to a total of € 4,308 million, while the total amount of portfolio write-downs for non-impaired loans equalled € 73.9 million.
Exposures for non-impaired guarantees given were subject to portfolio value adjustments totalling € 1,513 thousand.

For more information on the activity of managing, monitoring and controlling impaired loans please see paragraph 2.4 "Impaired financial assets" in section 1 - Credit Risk of Part E of the Notes to the Financial Statements.

Below are certain indices which offer an overview of the Bank's credit quality. The table also includes the portion of the portfolio classified as held for sale (item 140 of the Assets).

Credit quality indices (%)	*31/12/2017*	*31/12/2016*	*Changes*
Net impaired loans/loans to customers	21.52	22.17	(0.65)
Coverage, impaired loans	63.04	50.37	12.66
Net non-performing loans/Loans to customers	11.88	12.10	(0.22)
Coverage, non-performing loans	70.86	54.96	15.90
Net value adjustments on loans/Loans to customers [(1)]	6.65	5.77	0.88
Texas Ratio [(2)]	121.73	154.86	(33.13)

The table below shows the same indices, redetermined after excluding loans allocated to assets held for sale:

Credit quality indices (%)	*31/12/2017*	*31/12/2016*	*Changes*
Net impaired loans/loans to customers	14.61	22.17	(7.56)
Coverage, impaired loans	49.39	50.37	(0.98)
Net non-performing loans/Loans to customers	4.15	12.10	(7.95)
Coverage, non-performing loans	58.20	54.96	3.24
Net value adjustments on loans/Loans to customers [(1)]	1.15	5.77	(4.62)
Texas Ratio [(2)]	109.36	154.86	(45.50)

Notes:

[(1)] *Net adjustments to loans/loans to customers (provisioning):*
and the ratio between net adjustments to loans and loans to customers.

[(2)] *Texas Ratio:*
ratio between gross non-performing loans and the sum, as denominator, of tangible shareholders' equity (net of goodwill and other intangibles) and the provisions allocated to cover the impaired loans.

Deposits

As lending business decreased, funding associated with it also fell, relative to the technical forms of deposits and loans payable.
Consequently, exposures regarding loans payable to the parent company at the end of the year fell by € 3,737 million, settling at € 9,587 million (€ 13,324 million at 31 December 2016), broken down as follows: € 207 million on demand (€ 481 million at 31 December 2016), € 2,195 million short term (€ 3,678 million at 31 December 2016) and € 7,185 million medium and long term (€ 9,165 million at 31 December 2016).

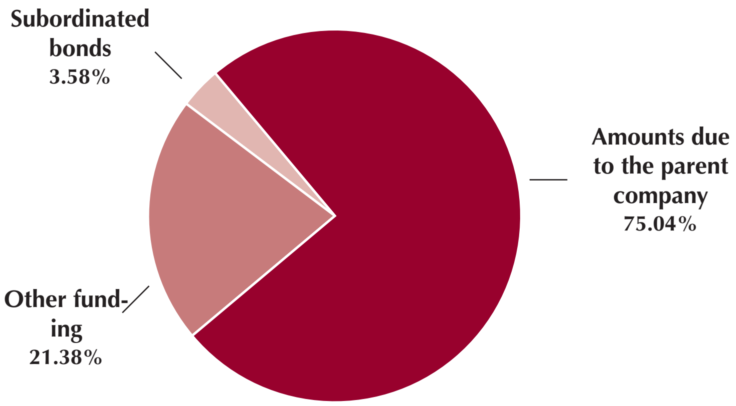
The table below shows the breakdown of deposits (items 10, 20 and 30 of the Liabilities) by type as at 31 December 2017, compared with the situation at the end of the previous year. Note that the aggregate "Loans from the parent company - on demand and short term" includes a time deposit of € 1,375 million (€ 2,266 million at 31 December 2016) made by the parent company to guarantee securities lending for customers. Net of this item the aggregate recorded a decrease of € 867 million, going down from € 1,893 million at 31 December 2016 to € 1,026 million at 31 December 2017.
Additionally, note that repurchase agreements, in addition to short term deposits payable for € 1,745 million (€ 299 million at 31 December 2016), represent a form of funding for the core business of the Global Market BU and are discussed in the "Main financial aggregates" section below. Please see this paragraph for the related comments.

(amounts in millions of Euro)

	31/12/2017	*31/12/2016*
Loans from the Parent Company:		
- on demand and short term	2,401	4,158
- medium and long term	7,185	9,165
Other amounts due to the Parent Company:		
- repurchase agreements	3,221	5,934
Bonds:		
- non-subordinate	-	-
- subordinate	457	457
Other payables to Banks and Customers:		
- repurchase agreements	6,851	9,992
- other amounts payable	2,731	922
TOTAL	**22,846**	**30,628**

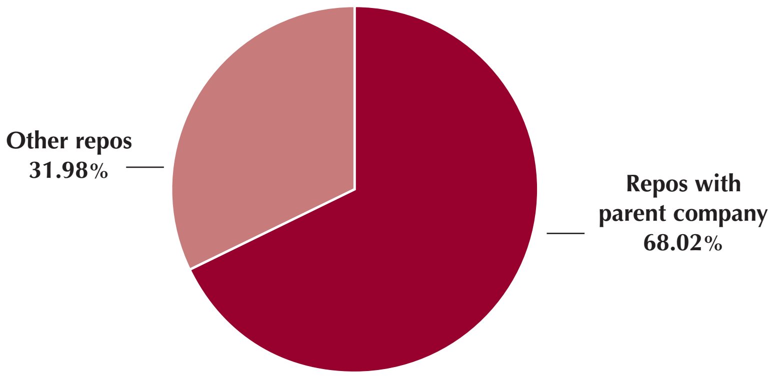
As shown in the chart below, Bank funding net of repurchase agreements is heavily concentrated with the parent company (78.62%, including subordinate bonds, entirely subscribed and held by BMPS):

FUNDING BREAKDOWN NET OF REPURCHASE AGREEMENTS AT 31/12/2017



Relative to repurchase agreements, 32% is carried out with the parent company (37% at 31/12/2016):

BREAKDOWN OF FUNDING IN REPURCHASE AGREEMENTS AT 31/12/2017



Main financial aggregates

The main trends that characterised the activity of the Global Markets BU in financial year 2017 are illustrated below:

- the volumes deriving from hedging of interest rate risk with Corporate customers, followed by the Customer Desk, were € 696 million compared to € 1,300 million in 2016, a decrease of approximately 46% due to the drop in medium/long-term loans disbursed by the Group;
- the increase in volumes of interest rate derivatives with institutional counterparts (232% with respect to the previous year) is mainly associated with the greater request for yield enhancement transactions from customers, with respect to the previous year;
- volumes generated by hedges of exchange rate risk with corporate customers totalled € 2,680 million, up by approximately 3% compared to 2016;
- volumes of commodity hedges with corporate customers came out at € 699 million, an increase of 11% compared to 2016;
- the increase in volumes deriving from flexible term transactions, equal to 17% with respect to the previous year, is mainly attributable to the difference in the reference period (the full year in 2017 compared to 9 months in 2016);
- volumes deriving from repos increased by around 17% with respect to 2016;
- volumes traded on the secondary market for bank, corporate, emerging, sovereign and ABS (secondary credit) securities showed an increase of around 4% over 2016;
- volumes deriving from the activity of broking of government securities on the secondary market and on auctions decreased by around 36%. The reduction was due to the non-rotation of the portfolio of some of the main customers;
- volumes generated by placing of primary market securities with institutional investors decreased 8% compared to 2016. With respect to the previous year, the contribution of syndicated deals for the MEF fell, which was partially balanced by the excellent result achieved in the placement of the government guaranteed bonds (GGB) issued by the parent company and placed for around € 3 billion;
- volumes deriving from the secondary market for government (Govies) securities and for bank, corporate, emerging, sovereign and ABS (credit) securities on the electronic channels saw an increase with respect to the previous year of around 42% and 79%, respectively, due to increasing use of these sales channels, which are preferable in terms of compliance with MiFID II requirements.

(amounts in millions of Euro)

Product	*31/12/2017*	*31/12/2016*	*Changes %*
Customer desk interest rate hedging	696	1,300	(46.46%)
Institutional interest rate hedging	2,434	734	231.61%
Exchange rate hedging	2,680	2,601	3.04%
Commodity hedging	699	628	11.31%
Flexible term	1,857	1,592	16.65%
Flexible term and institutional	3	0	
Equity hedging	140	27	418.52%
Repos	5,679	5,016	13.22%
ETF	49	0	
Secondary Credit and Supranational	3,185	3,067	3.85%
Secondary government and auctions	14,676	22,978	(36.13%)
Primary	6,250	6,763	(7.59%)
Sec. Gover. electronic channels (BET, BondVison, Tradeweb)	22,234	15,625	42.30%
Secondary Credit electronic channels (BET, Tradeweb)	5,154	2,872	79.46%
Total	**65,736**	**63,203**	4.01%

Note:
these are sales volumes determined using management criteria, aimed at representing the trend in amounts changing during the year.

Moving on to examine equity aggregates, it can be seen that, with respect to 2016, net amounts of securities held for trading increased by € 161,877 thousand, with a slight decrease in positions in government securities that was more than compensated for by the increase in securities from other issuers:

(amounts in thousands of Euro)

Trading portfolio long position securities	*31/12/2017*	*31/12/2016*	*Changes Absolute*	*%*
Government and public entity securities (*)	4,253,449	4,008,017	245,432	6.12%
Other	2,639,184	2,399,154	240,030	10.00%
Total securities	**6,892,633**	**6,407,171**	**485,462**	**7.58%**

(amounts in thousands of Euro)

Trading portfolio short position securities	*31/12/2017*	*31/12/2016*	*Changes Absolute*	*%*
Government and public entity securities (*)	(2,868,654)	(2,453,886)	(414,768)	(16.90%)
Other	(34,564)	(125,747)	91,183	72.51%
Total securities	**(2,903,218)**	**(2,579,633)**	**(323,585)**	**(12.54%)**

(amounts in thousands of Euro)

Trading portfolio net long position securities	*31/12/2017*	*31/12/2016*	*Changes Absolute*	*%*
Government and public entity securities (*)	1,384,795	1,554,131	(169,336)	(10.90%)
Other	2,604,620	2,273,407	331,213	14.57%
Total securities	**3,989,415**	**3,827,538**	**161,877**	**4.23%**

(*) For a detailed analysis of “Sovereign Risk”, please see the Part E, section A “Credit Risk” of the Notes to the Financial Statements.

The net long position in securities, and in general the activity of Global Markets, is financed by almost 60% (86% at the end of the previous year) through repurchase agreements. The residual amount is covered with short term deposits payable taken out with the parent company.

Repurchase agreements	*31/12/2017*	*31/12/2016*	*Changes Absolute*	*%*
repurchase agreements receivable	7,751,548	13,878,386	(6,126,838)	(44.15%)
repurchase agreements payable	(10,071,942)	(17,183,052)	7,111,110	41.38%
Net repurchase agreements	**(2,320,394)**	**(3,304,666)**	**984,272**	**29.78%**

The other significant portion of Global Markets business is focused on trading credit and financial derivatives.

As regards credit derivatives, from comparison between the nominal amounts at 31 December 2017 and those of the previous year, a significant decrease can be seen in both purchases and sales. This reduction is attributable substantially to the natural maturity, during the year, of contracts in being at 31 December 2016.

Operations are mainly carried out with banking counterparties or with financial companies. Single-name credit derivatives mainly refer to government securities. For more details on the contraction of protection purchases with Sovereign underlyings please see the analysis of "Sovereign Risk" in Part E, section A "Credit risk", of the Notes to the Financial Statements.

(nominal amounts in thousands of Euro)

Credit derivatives	*31/12/2017*	*31/12/2016*	*Changes*	
			Absolute	*%*
Protection purchases	622,608	1,003,878	(381,270)	(37.98%)
Protection sales	2,325,302	3,044,604	(719,302)	(23.63%)

Credit derivatives underlying single name	*Protection purchases %*	*Protection sales %*
Corporate	1.08%	4.43%
Sovereign	96.61%	85.77%
Banking insurance	2.31%	9.80%

Credit derivatives Counterparty type	*Protection purchases %*	*Protection sales %*
Banks	65.78%	12.40%
Financial companies	34.22%	85.38%
Insurance companies	0.00%	2.22%

For additional quantitative information, please see Section 2.4 of Part E of the Notes to the Financial Statements.

As regards financial derivatives, below we offer a breakdown expressed both in notional and fair values:

(nominal amounts in thousands of Euro)

Financial derivatives	*31/12/2017*	*31/12/2016*	*Changes*	
			Absolute	*%*
Over the counter	272,292,490	561,661,210	(289,368,719)	(51.52%)
Central counterparties	350,155	182,243	167,912	92.14%
Total	**272,642,645**	**561,843,452**	**(289,200,807)**	**(51.47%)**

The underlyings of OTC financial derivatives referred to "debt securities and interest rates" for 93.32% (96.11% at 31 December 2016). Derivatives with central counterparties were those taken out with Cassa di Compensazione e Garanzia (CC&G), with equity/stock indices as underlyings.

The carrying amounts at 31 December 2017 are presented below, compared with the previous year. Obviously, listed future-style agreements, whose marginalisations are included directly in the total treasury balances as offset entries in the income statement, are excluded.

(amounts in thousands of Euro)

Financial derivatives (fair value)	*31/12/2017*	*31/12/2016*	*Changes Absolute*	*%*
Positive market value (item 20 of the Assets)	3,571,591	4,297,126	(725,535)	(16.88%)
Negative market value (item 40 of the Liabilities)	(1,866,804)	(2,523,133)	656,329	26.01%

We emphasise that, in line with application of IAS 32, paragraph 42, both active and passive exposures with “direct” central counterparties (only CC&G) and with “indirect” access (LCH - London Clearing House, ICE - ICE Clear Europe and central counterparties relative to foreign markets which the Bank accesses through Merrill Lynch), all classified among OTC derivatives, are subject to offsetting and the net balance is hence shown in the financial statements. For more information on clearing, please see section 2.1 in part B of the Notes and the comments found in paragraphs 5 and 6 of the “other information” section in part B of the Notes to the Financial Statements.
OTC derivatives, which represent the largest proportion of total exposure, are almost exclusively traded with banks and financial companies.

For additional quantitative information on the disaggregation of the fair values of OTC derivatives by counterparty and by underlying, please see Section 2.4 of Part E of the Notes to the Financial Statements. In particular, in the section referred to, the amount and type of OTC derivative contracts, whether subject to netting agreements or not, are illustrated. Note that almost all of the Bank’s counterparties operate with netting agreements, which in most cases provide for the reciprocal provision of guarantees to mitigate risk deriving from net exposure.

Equity Investments

The amount of equity investments in stocks or those similar to equity securities,-classified under balance sheet items 40."Financial assets available for sale" and 100."Equity investments"-amounted to € 62.3 million, compared to € 8.5 million at 31 December 2016.
The change in the aggregate amount is mainly due to the conversion of the subordinate debt securities issued by Banca Monte dei Paschi di Siena S.p.A. to shares following the "burden sharing" (see section A.4.2 "Measurement processes and sensitivity" in part A of the Notes to the Financial Statements). The subordinate securities, which were held in the portfolios of financial assets held for trading and available for sale, were converted to shares by the parent company and registered in item 40, for a book value of € 116.7 million. At the end of the year, these shares were subject to impairment, with an impact of € 58.9 million in the income statement.
Other changes can be attributed to the sale of the equity investment in ITAL TBS - Telematic & Biomedical Services S.p.A. for around € 1.6 million, to receipts relative to investee association contracts totalling € 1.5 million and value adjustments for € 1.5 million, as well as the value adjustment on Interporto Toscano totalling € 0.9 million, and to positive fair value changes of € 0.5 million. Additionally, as part of a restructuring plan, shares of Jeckerson SPA equal to € 1 million were assigned to the Bank.

(amounts in thousands of Euro)

Company	*% Stake*	*Book value*
Investments in cinema productions		1,460
Other		2,208
parent company shares		57,806
40. Financial assets available for sale		**61,474**
Interporto Toscano Amerigo Vespucci S.p.A.	19.00%	0
Sviluppo Imprese Centro Italia S.G.R. S.p.A.	15.00%	779
Other		-
100. Equity investments		**779**
TOTAL		**62,253**

A few brief notes on the investee companies included in item 100 are presented below:

Interporto Toscano Amerigo Vespucci S.p.A. - Leghorn. This is a company responsible for the construction and management of the logistics centre located on the Guasticce plain, in the municipality of Collesalvetti (Leghorn). The majority of share capital is held by public entities and administrations (Tuscany Regional Authority, Provincial Authorities and local municipalities, Chambers of Commerce (CCIAA) of Leghorn and Pisa). The Bank holds approximately 19% of the capital and Banca Monte dei Paschi di Siena S.p.A. holds approximately 21.8% of the capital.

Sviluppo Imprese Centro Italia S.G.R. S.p.A. - Florence. The company manages four closed-end mutual funds, Fondo Centroinvest, Fondo Toscana Venture, Fondo Toscana Innovazione and Fondo Rilancio e Sviluppo.
the Bank holds 15% of the capital; the other shareholders of the asset management company are: Fidi Toscana (31%), Cassa di Risparmio di Firenze S.p.A. (15%), Gepafin S.p.A. (14%) Cassa di Risparmio di San Miniato S.p.A. (10%); Cassa di Risparmio di Prato S.p.A. (10%) and Nuova Banca dell'Etruria e del Lazio S.p.A. (5%).

Main economic aggregates and management indicators

ECONOMIC AGGREGATES

The Bank closed the financial statements at 31 December 2017 with a loss of € 632.9 million. The main aggregates from the management income statement are shown below compared with the figures for the previous year.

(Values in € millions)

IAS Income Statement, Management	*Cons. at 31/12/2017*	*Cons. at 31/12/2016*	*Change ASS. 2017 - 2016*	*Change % 2017 - 2016*
NET INTEREST INCOME	**92.8**	**145.0**	**-52.1**	**-35.96%**
Net fees, "Global Markets"	-15.0	-19.3	4.3	-22.24%
Net fees, "Investment Banking"	5.8	4.0	1.8	44.90%
Net fees, "Loans Service"	7.0	6.5	0.5	6.96%
TOTAL FEES FROM CUSTOMERS	**-2.3**	**-8.8**	**6.5**	**-74.18%**
Dividends, gains (losses) from equity investments and similar income	1.9	3.2	-1.3	-40.90%
Net result trading/fair value measurement of assets and liabilities	17.9	107.3	-89.4	-83.31%
Net hedging gains (losses)				
Gains (losses) from sale or repurchase	7.5	5.1	2.4	47.33%
OTHER REVENUES FROM FINANCIAL MANAGEMENT	**27.3**	**115.5**	**-88.3**	**-76.39%**
OTHER OPERATING INCOME/CHARGES	**-0.1**	**-0.3**	**0.2**	**-57.76%**
TOTAL REVENUES	**117.7**	**251.5**	**-133.7**	**-53.18%**
Administrative expenses:	**-68.1**	**-64.1**	**-4.0**	**6.27%**
- personnel costs	-28.3	-29.1	0.8	-2.73%
- Other administrative expenses	-39.8	-35.0	-4.8	13.75%
Net value adjustments on property, plant and equipment	-0.9	-0.3	-0.6	179.18%
Net value adjustments to intangible fixed assets	0.0	0.0	0.0	
OPERATING COSTS	**-69.1**	**-64.4**	**-4.6**	**7.16%**
GROSS OPERATING PROFIT	**48.7**	**187.0**	**-138.3**	**-73.97%**
Net value adjustments for impairment	-827.8	-955.6	127.8	-13.37%
-on loans	-781.2	-946.6	165.4	-17.47%
-on other assets	-46.6	-9.0	-37.6	419.43%
NET OPERATING PROFIT	**-779.1**	**-768.6**	**-10.6**	**1.37%**
DTA fee	-6.2	-6.2	0.0	0.13%
Net provisions for risks and charges	-5.9	2.6	-8.5	-326.47%
Risks and charges related to SRG, DGS and similar	-12.9	-32.5	19.6	-60.35%
Restructuring charges	-4.8	-1.3	-3.5	276.02%
Gains (losses) on disposal of investments				
PROFIT (LOSS) BEFORE TAXES	**-808.8**	**-805.9.**	**-2.9**	**0.36%**
Income taxes on current operations	175.9	36.3	139.7	385.24%
Tax Rate	0.2	0.0		
PROFIT (LOSS) FOR THE PERIOD -632.9	**-632.9**	**-769.7**	**136.7**	**-17.77%**

Before commenting on the individual items, in order to make comparison with the official income statement schedule easier, the main changes are justified here:

- “net interest income” differs by around € 0.7 million, relative to individual items not included in current operations and transferred to “other operating charges”;
- “net fees from customers” were decreased: (i) by fee expense relative to the securitisation of NPLs, equal to around € 2.6 million, which for management purposes were transferred to the item “restructuring charges” and (ii) by € 0.1 million relative to items not included in current operations and transferred to “other operating charges”;
- “net income from trading activities” saw costs relative to the reclassification to the income statement of the negative reserve for AFS debt securities transferred for € 0.2 million;
- “profit/loss from sale or repurchase” saw: (i) the costs indicated in the previous point (€ 0.2 million) deducted; (ii) losses on equity investments for € 0.9 million transferred; (iii) revenues totalling € 0.2 million deducted, in turn transferred to the item “restructuring charges”;
- from “other operating income/charges” recovered appraisal and legal fees for € 5.3 million and other recovered expenses for € 0.2 million were deducted and transferred to decrease “other administrative expenses”; then, non-current interest for € 0.7 million and non-current fee expense for € 0.1 million was then transferred;
- “personnel expense” was reduced by provisions relative to early retirement for € 2.4 million. These costs were then transferred to the item “restructuring charges”;
- “other administrative expenses” saw: (i) the removal of certain items exposed separately as explained in the comments below (DTA fee for € 6.2 million; SRF charges for € 12.9 million); (ii) a decrease relative to appraisal and legal fees recovered relative to enforcements of disputed positions for around € 5.2 million and other positions for € 0.1 million; (iii) a decrease of other recovered expenses for € 0.2 million which, in the official schedule, are assigned to the item “other operating income/charges”;
- “restructuring charges”, as indicated above, saw the following transferred: (i) fee expense relative to securitisations of NPLs, equal to around € 2.6 million; (ii) provisions relative to early retirement for € 2.4 million; revenues for € 0.2 million classified in the official income statement under item 100 “profit/loss from sale or repurchase”.

Net interest income decreased by 35.96% compared to financial year 2016, due both to the reduction in interest-bearing loans and to the compression of margins.
The **net customer fees** aggregate saw a contrasting result, improving by around € 6.5 million with respect to the previous year, due both to lower net fee expense deriving from Global Markets transactions and to the results achieved by Investment Banking.
The trend for **other revenues from financial management** decreased significantly compared to the previous year, equal to around € 88 million in absolute terms and 76.4% in percentage terms, mainly attributable to a decrease in net income from trading activities, which fell by almost € 90 million in absolute terms and 83% in percentage terms. This trend reflected the dynamics outlined in the section “Significant aspects of operations” relative to the Global Markets BU.

As a result of the performance of these components, **total revenues** came out at approximately € 117.7 million, down by 53.2 % compared to the result of the previous year.

Operating costs, an aggregate which for management purposes includes, in addition to other operating costs in the strict sense, costs relative to write-downs on tangible and intangible assets while excluding certain items not directly pertaining to the operating management of the bank and are represented in specific items included under “net operating profit” (DTA fee, SRG contributions and similar, restructuring charges), saw an increase of around € 4.6 million or 7.2%, compared to 2016. Examining the individual components in detail, it can be seen that other

administrative expenses rose by around € 4.8 million compared to the previous year, attributable to greater legal expenses associated with collections of disputed loans, for the most part relative to assets that were disposed of. Personnel expense, after removal of charges relative to early retirement of employees reclassified under "restructuring charges", instead fell slightly by around € 0.8 million (-2.7%).
Gross operating income was positive for € 48 million, down by 74% compared to the previous year.
As an effect of the large value adjustments made to the non-performing loans disposed of in the context of the "Valentine" project (€ 657 million out of a total of € 827.8 million in net value adjustments on loans), **net operating profit** showed a loss of € 779.1 million, substantially in line with the results in 2016 (€ -768.6 million), which also suffered from significant write-downs on loans.
As highlighted above, certain items which are not strictly operating were exposed separately under net operating profit. In particular, these included: (i) costs relative to the DTA fee equalling € 6.2 million, unchanged compared to the previous year; (ii) net provisions for risks and charges for € 5.9 million (against net uses of € 2.6 million in 2016), almost entirely related to legal disputes; (iii) contributions to the Resolution Funds (SRF) for € 12.9 million, down by 60% compared to the previous year, when extraordinary contributions were required; finally, restructuring charges for € 4.8 million (against € 1.3 million the previous year), with € 2.4 million relative to early retirement of employees in the context of the MPS Group restructuring plan.

Profit from current operations before taxes showed a negative result of € 808.8 million, essentially in line with the result seen in 2016.

The loss for the year, as an effect of the positive contribution of deferred taxes (€ +175.9 million), came to € -632.9 million, an improvement of around € 137 million compared to 2016, when tax recoveries amounted to € 36 million.

OPERATING INDICATORS

Profitability indices (%)	31/12/2017	31/12/2016	Changes in %
Net interest income / Operating revenues *(1)*	78.86	57.66	21.20
Net fees / Operating revenues *(1)*	(1.93)	(3.50)	1.57
Cost/Income ratio *(2)*	58.66	25.63	33.03
R.O.E. *(3)*	(42.49)	(42.61)	0.12
R.O.A. *(4)*	(2.18)	(2.02)	(0.16)

Notes:

(1) Operating revenues: equal to "total revenues" from operating management in the reclassified income statement.

(2 Cost/Income: the ratio between operating costs and "total revenues" in the reclassified income statement.

(3) Return On Equity: the ratio between the result for the period and the average of shareholders' equity (including gains/losses) at the end of the previous year and that of the year in question.

(4) Return On Assets: the ratio between the net result for the period and total assets at period end.

Risk governance

The risk governance strategies are defined in keeping with the Group's business model, with the medium-term objectives of the Business Plan and with the external constraints of a legislative and regulatory nature.
The policies regarding the assumption, management, hedging, monitoring and control of risks are defined by the Parent Company's Board of Directors. In particular the Board of Directors defines and approves periodically the strategic guidelines on the subject of risk governance and expresses quantitatively the overall level of risk propensity of the whole Group, in keeping with the annual Budget and with the multi-year projections.
The parent company's Board of Directors defines the Risk Appetite Framework (RAF) for the entire Group and approves the Group Risk Appetite Statement (RAS) at least once a year. The Risk Control Unit is tasked in particular with carrying out the quarterly monitoring of the indicators, preparing a periodic report to the Board of Directors and activating the escalation/authorisation processes if a position goes over the limit.
The RAS is fundamental in terms of defining the Group's risk strategy. Risk objectives/constraints are identified and indicators for the business units/legal entities are also established. This process is known as Risk Appetite cascading down. This moves in the direction of increasing the Group's Risk Culture and making fully responsible all the relevant Organisational Units for observing and pursuing the risk appetite targets, as required by the legislation and suggested also by the best practices.
The overall RAF (Risk Appetite Framework) system is structured for the Group's main Business Units and Legal Entities, also in terms of operating limits on the various business segments, and formalised in policies for governing processes for managing the various business risks.
The Risk Appetite Process is structured in such a way as to be consistent with both the ICAAP and ILAAP processes and the Planning and Budget and Recovery processes in terms of governance, roles, responsibilities, metrics, stress test methods and monitoring of the key risk indicators.
The Group's risk governance is guaranteed in a centralised manner by the Board of Directors of the parent company, which is also responsible for supervising the updating and issuing of internal policies and regulations, with a view to promoting and guaranteeing an ever-increasing and more capillary diffusion of risk culture at all levels of the organisational structure. Awareness of risks and correct knowledge and application of the internal processes and models overseeing these risks - above all those validated for regulatory purposes - constitute the fundamental prerequisite for effective, healthy and prudent business management.
The incorporation in the remuneration and bonus policies for the personnel of the macro-indicators of risk and risk-adjusted performance, in keeping with the RAF, represents a further lever for promoting awareness of the appropriate behaviour by all resources and the growth of a healthy risk culture.
During 2017, internal initiatives continued, aimed at guaranteeing continuous compliance with national and international regulatory provisions. Relative to risk management, internal reference norms were updated in regards to managing interest rate risk for the banking book, credit risk, market risk and for the ICAAP, ILAAP and internal validation process. Additionally, the sending of the ICAAP and ILAAP packages to the Regulatory was completed in line with the ECB's regulatory provisions on the "*Technical implementation of the EBA Guidelines on ICAAP/ILAAP information for SREP Purposes*".
Additional, initiatives were begun aimed at strengthening Group governance relative to risk reporting, to guarantee compliance with the indications of the Basel Committee for Bank Supervision (BCBS Paper 239), which asks banks of systemic importance to adopt a series of principles to guarantee accurate collection of risk data and an efficient reporting project. This involved the start of dedicated projects, which also led to the issuing of a Group Directive on Integrated Risk Reporting.
In terms of promoting a risk culture within the Group, in addition to moving forward with initiatives aimed at the administrative bodies (board induction programs on specific issues), general training initiatives were also begun during the year (online courses) on the subject of risk management and mitigation for all employees, as well as other targeted classroom training courses.
The MPS Group is one of the Italian banks that are subject to the ECB's Single Supervisory Mechanism. During 2017 the Group continued to support actively the discussions with the ECB-Bankit Joint Supervisory Team (JST).

The equity position

Total risk-weighted assets (RWAs) at 31 December 2016 amounted to € 9,064 million (€ 9,969 million at 31/12/2016), 62.49% represented by credit and counterparty risk (60.75% at 31/12/2016), 26.84% by market risk (28.67% at 31/12/2016) 7.80% by operational risks (6.98% at 31/12/2016) and 2.87% by the risk of Credit Value Adjustment (3.60% at 31/12/2016).
Calculating the ratio between Own Funds, of € 1,711 million and RWAs, the Common Equity Tier 1 ratio (Common Equity Tier 1 capital/Risk-weighted assets) and the Tier 1 ratio (Total Tier 1 Capital/Risk-weighted assets) come out at 13.74% (9.89% at 31/12/2016) while the Total capital ratio (Total Own Funds/Risk-weighted assets) is 18.87% (14.32% at 31/12/2016).
The increase of € 238 million with respect to December 2016 is the result of the loss recorded in 2017, equal to € 632.9 million and, on the other hand, the capital increase completed on 15 November 2017 for a total of € 899 million, in addition to other less significant effects associated with techniques used to calculate regulatory capital.
Own Funds, at 31 December 2017, present a surplus of around € 870 million, taking into account also the Capital Conservation Buffer requirement (1.25%), with respect to the minimum regulatory thresholds.

Capital ratios (%)	*31/12/2017*	*31/12/2016*	*Changes*
CET1 and Tier 1 capital ratio	13.74	9.89	3.85
Total capital ratio	18.87	14.32	4.55

Human Resources

STAFF TREND

The bank's workforce at 31 December 2017 was as follows:

	(a) MPSCS employees	*(b) MPSCS employees at Group companies or subsidiaries*	*(c) Group company employees at MPSCS*	*Work force (a-b+c)*
Executives	23	10	6	**19**
Managers	286	116	34	**204**
Professionals	206	107	16	**115**
Total	**515**	**233**	**56**	**338**

Work force	*31/12/2017*	*31/12/2016*	*Changes*	
Comparison 2017/2016			*Absolute*	*%*
Executives	19	22	(3)	(13.64)%
Managers	204	212	(8)	(3.77%)
Professionals	115	121	(6)	(4.96%)
Total	**338**	**355**	**(17)**	(4.79%)

The changes in the workforce in the year are presented below:

Workforce trend	*2017*	*2016*
Opening balance	**355**	**359**
Increases	**16**	**8**
due to hiring	8	5
due to ceased secondments to the Group	2	1
due to secondments from the Group	6	2
Decreases	**33**	**12**
due to resignations	5	4
due to access to the Solidarity Fund	14	0
due to secondments in the Group	14	8
Closing number	**338**	**355**

DISTRIBUTION BY AGE

The following information pertains to the workforce situation at 31 December 2017:

	Age group in years					*Average*
	up to 30	*30-40*	*41-50*	*over 50*	*Total*	*age*
Women	7	20	72	26	125	44.7
Men	9	25	97	82	213	47.4
Total 2017	**16**	**45**	**169**	**108**	**338**	**46.4**
Proportion	4.73%	13.31%	50.00%	31.95%		

PERSONNEL TRAINING

In keeping with the training planned for 2017, training activity consisted of specialist and/or obligatory courses, catering to all employee categories or specific professions, in the following areas:

- *People*: promoting professional development by working on performance management: 2017 update aimed at managers of organisational departments, with a total of 975 hours provided;
- *Business:* developing entry-level professional skills or consolidation in roles, in particular for the business departments of Global Markets and Corporate Finance, through specialist classroom courses provided by consultants with proven professional qualifications, for a total of 586.5 hours;
- *Compliance and Safety*: fulfilling the training obligations related to the subjects of anti-money-laundering and updates on the issues of corporate liability and risk culture and risk governance for a total of 318 hours of classroom training and 1,038 hours of online training; additionally, a total of 92 hours of specific classroom training was provided for those with health and safety responsibilities and 348 hours in obligatory updates for all employees, again on the subject of health and safety.

EMPLOYMENT AND TRADE UNION RELATIONS

In the company there is a model of trade union relations oriented to logics of transparency, reciprocal respect and sense of responsibility, in order to safeguard a corporate climate of positive collaboration and to promote an increasingly active involvement of the trade unions.

Organisational and Technological Trends

2017 saw technological and organisational developments of a strategic nature, which were guided both by external regulatory developments and the large stabilisation projects for the Montepaschi Group.
The activity that had the greatest impact was doubtless the implementation of actions relative to Directive 2014/65/EU (MiFID II) and Regulation (EU) 600/2014 (MiFIR).
Within the context of the MPS Banking Group, 2 main areas were developed: the first involved the Investor Protection component, which was led and coordinated by Banca Monte dei Paschi, while the other involved aspects associated with financial markets, coordinated by MPS Capital Services with significant involvement from the MPS Group's Operating Consortium.
Remaining within the regulatory context, the notable impacts on the financial statements and on company policies associated with the entry into effect of the new international accounting standard IFRS9 should be highlighted. This standard, which replaced the previous IAS39 as of 1 January 2018, introduced significant changes to the classification and measurement of financial assets not for trading. To handle these changes, significant actions have been carried out or are still under way relative to the Group's information gathering processes and reporting systems.
Relative to infrastructure and processes supporting anti-money laundering actions, the project GIANOS 3D was completed which, making use of sophisticated algorithms in part based on a wide swathe of information available within the Group's IT system, provides better monitoring of customer risk profiles and supports periodic monitoring of that required by AML regulations.
Other large-scale initiatives with significant effects on the Bank's activities involved those relative to the securitisation of nearly all of the Bank's non-performing loans portfolio as part of the Valentine project (for more details on this, please see the paragraph "Loan aggregates - Impaired exposures" in this Report on Operations) and the kick off of improvements to management efficiency, again relative to the NPL component, which in 2018 will become concrete through the Sirio Project regarding the externalising of credit collection using the platform of the same name, to be managed by JULIET S.p.A.
On the lending side, initiatives to acquire standard Group IT systems continued, with the issuing of METRIAS, a Group tool to support management and accounting for provisions relative to credit risk.
Additionally, analysis continued for migration to new management applications for medium and long term loans and specialized lending (project and object financing, acquisitions and real estate) which characterise the Bank's lending business.
On the finance side, the Execution Hub project that was begun in 2016 was completed, which made the Bank the Group's sole executor for all types of financial instruments, both domestic and foreign.
Relative to the organisational model, the compliance department was centralised within the parent company, as part of a project to improve the overall efficiency of the department.

Internal Audit

The Internal Audit Office constitutes, in MPS Capital Services, the Internal Audit Unit, as defined in the section on the Internal Controls System of Bank of Italy Circular No. 285/2013 and in the previously effective Circular 263/2006.
The Office reports hierarchically to the Body with the Function of Strategic Supervision (Board of Directors) and has the task of verifying in an independent manner, with a "third level" viewpoint, the regularity of operations and the trend in risks, and of assessing the workings of the overall Internal Controls System (I.C.S.).
The Unit also operates under the coordination of the Parent Company's Unit with the same function (the Chief Audit Executive Department), in observance of the "Audit Standards of the Montepaschi Group" and of the related Code of Conduct issued by the same, in accordance with a specific Annual Audit Plan (agreed with the said Chief Audit Executive Department) approved by the Board of Directors, after examination by the Auditing Body (Board of Statutory Auditors).
The Plan, in addition to establishing strategic objectives for multi-year activity to be carried out within a pre-set time cycle, takes into account the need to carry out the audits provided for in specific external and/or internal prescriptions, the indications of the Board of Auditors, of the Oversight Committee pursuant to Italian Legislative Decree. 231/2001 and, if expressed and agreed, of the Bank's other Audit Units. Actions on significant components in the area of operations and corporate structures, on compliance with internal and external regulations, on subjects of a transversal nature or with a view to assurance of the Top Management and Auditing Bodies are obviously also planned, depending on the resources available.
The totality of requirements also include the assurance/consulting activities provided to other Bank departments in relation to the establishment of control safeguards and their effectiveness. The Audit Unit reports systematically on the activities performed and the critical issues that have emerged in the context of audits, through a Reporting System in line with regulatory provisions and audit standards. The ordinary actions are reported through the use of a template which describes the results of the audits carried out, the analysis process performed, the main critical issues that have emerged and the "grade" assigned to the action. Notes containing the criticisms and observations formulated are transmitted to the operating units audited, ensuring that over time the anomalies found are removed (follow up activity).
For the Top Management and Auditing Bodies summary quarterly reports on the final results of the work done by the Office are also prepared, while the report relating to the assessment of the Internal Controls System, including also an overall final report on the activities carried out, is presented to the Board of Directors on an annual basis. The Office also prepares specific reports for the Oversight Committee pursuant to Italian Legislative Decree 231/2001, at least once a year, on the auditing activity carried out on current operations exposed to the "231 risk".
During financial year 2017, the Internal Audit Office carried out its responsibilities according to the schedule found in the 2017 Audit Plan approved by the Board of Directors, performing also a number of unplanned actions on the basis of new needs that emerged and/or were requested by the top management bodies and the authorities.
In accordance with the pre-set objectives, the audit activities performed in financial year 2017 made it possible to ascertain the substantial regularity of the corporate operations. Areas for improvement found are not considered to significantly affect the Bank's overall risk profile. The Bank's Internal Control System is considered substantially adequate, in terms of both design (Control Design) and effective operation (Test of Effectiveness).

Compliance

In 2017, the Bank's Organisational Model for the Compliance Department was modified. In fact, in line with the recommendations received from the European Central Bank, the MPS Group implemented a specific plan to strengthen the Compliance Department which involved, among other things:

- centralising the Compliance Department of Italian subsidiaries within the parent company, which also involved MPS Capital Services S.p.A.. To that end, in December 2017 the Bank's Board of Directors approved the *"Agreement to externalise the compliance department to the parent company"*;
- the elimination of the "Common Compliance Model", through centralising operating activities within the Compliance Department that had previously been entrusted to Specialist Compliance Safeguards, with the exclusion of those relative to workplace health and safety and environmental protection and tax compliance.

The work done by the Compliance Department in 2017 had the main goal of completing the actions described in the 2017 Compliance Plan and implementing the main legislative changes within company regulations and processes.

Special attention was paid to monitoring activities and safeguards established relative to:

- *ICT Compliance* (Bank of Italy circular 285) and international combating of tax evasion (FATCA/CRS);
- Banking transparency, with the updating of the new release of internal regulatory documents on "*Provisions for the Transparency of Banking Transactions and Services*" which implemented the developments associated with Legislative Decree 72/2016;
- Fighting usury, by adjusting control procedures to the progressive updates made to the Bank of Italy Supervisory Instructions;
- Protection of personal information (privacy) with participation in periodic SAL meetings on the "*Project to adjust to Regulation EU 2016/679 (GDPR)*" and the actions associated with the same;
- Investment services, including defining and carrying out actions necessary to comply with the PRIIPS Regulation, MiFID II Directive and MiFIR Regulations by January 2018;
- Corporate liability, through updating the Organisational Model pursuant to Legislative Decree 231/2001 for MPS CS and the relative internal regulatory document, following the introduction of new crimes classifiable as 231 crimes;

Relative to customer complaints, during the year 36 complaints were received. Only one of these, which was not accepted, involved investment services. The other 35 referred to banking services and mainly the issue of usury. Of these latter, only 5 were accepted, while all the other complaints of this type were identified as unfounded, as they were the consequence of erroneous calculation of interest on arrears by the client or their consultants.

Environmental Issues

During the year, activities to maintain the environmental management system continued, which included updating the management system to the new international standards of reference, ISO 14001:2015. These standards maintain the distinction between the direct and indirect impacts of the Bank's activities. Direct impacts are linked to operations, and relate to consumption of paper, water and energy, and to the production of waste and greenhouse gases, while indirect impacts are attributable to activities of suppliers and customers, for the environmental risk of activities financed, the improvement in ecological efficiency encouraged through specific financing and for polluting activities of suppliers or of the products purchased.
The new ISO standards also envisage maintaining an adequate level of training as well as increasingly significant involvement from top management, including the Board of Directors. Therefore, personnel responsible for the main aspects system were adequately trained and all staff is periodically made aware of various initiatives and receive specific update training courses.
With regards to operational aspects relative to certification, in March 2017 internal audits were carried out in preparation for verification by the external entity, at the offices in Florence, Siena and Milan.
In May 2017, the RINA Services certification Agency carried out its usual annual visit to confirm certification. The field of application of the management system remained unchanged and includes loan disbursement, corporate finance and structured finance services, investment services and activities on the capital market, consultancy and services to the Public Administration for the concession of public subsidies.
The audit was completed positively with the notification of a single recommendation for improvement, which is currently being managed.

Relations with Group companies

Transactions carried out with the Parent Company Banca Monte dei Paschi di Siena and with the other MPS Group Companies were numerous and significant throughout the financial year. Part H "Transactions with Related Parties" in the Notes to the Financial Statements gives a breakdown of the existing relations with Group companies as of 31 December 2017. The most important aspects are commented on below.
Given that the guidance, control and support provided by the Parent Company over the Bank's operations was focused on the areas of planning and control, legal and compliance, corporate identity and oversight of relations with supervisory authorities, these relations were characterised by proactive, constant and constructive cooperation, in accordance with the guidelines (directives, policies, process regulations) issued by the Parent Company and promptly brought to the attention of the Bank's Board of Directors, which ensured they were implemented.
The outsourcing of specific activities to other MPS Group organisations and companies has enabled the Bank to continue upon its own path to maximise synergies and economies. Services outsourced to and financial transactions carried out with MPS Group counterparties, summarised below, are as a rule settled on the basis of ordinary market conditions regulated by dedicated agreements between the Parties (called Service Level Agreements - SLAs).
As regards relations with the Parent Company and its subsidiaries, the following is specifically noted:

- operations on the financial markets carried out as part of the Bank's strategic mission, set forth in detail in the paragraphs above;
- the agreement on the subject of regulating relations with other Group companies regarding the repurchase on the secondary market of innovative finance products designed by MPSCS and placed with customers through the Group's commercial networks;
- the granting of short and medium/long-term loans by Banca MPS aimed at funding the Bank's normal activity; all carried out in keeping with and observing the objectives and limits set by the Parent Company in the context of the centralised management of liquidity risk and interest-rate risk;
- non-performing loan recovery activities and the delegated management of the related expense items, entrusted to the Parent Company's Credit Recovery Area, and governed by specific SLAs;
- the presence of personnel seconded from the Parent Company and other Group entities to the Bank;
- the secondment of Bank employees to the Parent Company and its subsidiaries, including the Consorzio Operativo Gruppo MPS (MPS Group Operational Consortium);
- the centralised supervision of Risk Management by the Parent Company's Risks Department;
- the activity to supervise publicity, communications and image through the Banca MPS Communications Area;
- technological supervision, maintenance and development of the IT system assigned to the Consorzio Operativo Gruppo MPS, with which a specific SLA has been defined;
- the Back Office and Middle Office administrative activities of the finance area centralised respectively at the Specialised Business Services Area (SBSA) and at the Finance, Cash and Capital Management Area of the Parent Company;
- the purchases of goods and services in amounts exceeding the specific thresholds by Parent Company structures, in the function of the Centralised Group Purchasing and Cost Optimisation Service;
- conferment to the Parent Company's CFO Department - Equity investments and M&A Area - Real Estate Investments and Disinvestments Staff (formerly MPS Immobiliare) of the activities connected to the disposal/sale of properties still owned by the Bank;
- conferment of the delegated management of the expense items of the real estate sector to the Parent Company's Real Estate Operational Management Service;
- the support provided by the Parent Company's Prevention, Protection and Environment Service, regarding workplace health and safety, as well as the sustainable development of the activities of the Bank, with reference to the possible consequences in terms of the environment;
- the lease of premises owned by the Group.

Significant Events During 2017 Significant Subsequent Events and Outlook on Operations

On 15 November 2017, the share capital increase resolved by the Shareholders' Meeting of 18 August 2017 was completed. The new shares issued, entirely subscribed and paid in by the parent company, led to an increase in equity of € 898,857,120.00.

On 20 December 2017, the transaction to dispose of non-performing loans was completed through a securitisation transaction, with the involvement of the Fondo Atlante II (managed by Quaestio Capital Management SGR S.p.A.), with which it signed a binding agreement to purchase 95% of the junior and mezzanine securities on 26 June 2017.

On 22 December 2017, an agreement was signed with Quaestio Capital SGR S.p.A. on the account of the Italian Recovery Fund (formerly the Fondo Atlante II) to sell 95% of the mezzanine notes relative to the securitisation of the MPS Group's portfolio of non-performing loans. This transaction, which took effect on 9 January 2018, is part of the agreements signed with Quaestio Capital SGR S.p.A. on 26 June 2017 and an integral part of the MPS Restructuring Plan announced on 5 July 2017.

No significant changes in the Bank's operations were noted during the year and also in the first few months of 2018 activities continued as in the past and in line with the current business plan.

Proposals to the Shareholders' Meeting

Dear Shareholders,

We invite you to approve the 2017 Financial Statements, comprising the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity with the related movements in reserves, the cash flow statement and the Notes to the Financial Statements, as well as the related attachments and Report on Operations, as a whole and in their individual items, as presented by the Board of Directors, and to cover the loss recorded in the year as follows:

PROPOSED COVERAGE OF LOSSES FOR 2017

- use of the share premium reserve	Euro	161,445,807.71
- use of the legal reserve	Euro	41,323,485.06
- use of the reserve pursuant to Law 218 of 30/7/1990 ("Amato law")	Euro	10,632,004.86
- use of the reserve relative to parent company shares (pursuant to article 2359 bis, Civil Code)	Euro	57,805,846.43
- postponing to cover residual losses to future years	Euro	361,730,253.70
LOSS FOR 2017	Euro	**632,937,397.76**

FINANCIAL STATEMENTS

Balance Sheet

	Assets	*31/12/2017*	*31/12/2016*	*Change*	
				Absolute	*%*
10.	Cash and cash equivalents	331	64	267	417.19%
20.	Financial assets held for trading	10,476,326,898	12,205,307,451	(1,728,980,553)	(14.17%)
40.	Financial assets available for sale	69,494,803	68,834,399	660,404	0.96%
60.	Loans to banks	6,054,189,381	8,960,085,737	(2,905,896,356)	(32.43%)
70.	Loans to customers	10,760,277,414	16,398,040,391	(5,637,762,977)	(34.38%)
100.	Equity investments	779,480	1,680,147	(900,667)	(53.61%)
110.	Property, plant and equipment	12,328,930	12,452,361	(123,431)	(0.99%)
130.	Tax assets	499,495,410	508,551,860	(9,056,450)	(1.78%)
	a) current	*306,811,332*	*217,157,453*	*89,653,879*	*41.29%*
	b) prepaid	*192,684,078*	*291,394,407*	*(98,710,329)*	*(33.88%)*
	of which Italian Law 214/2011	*134,226,463*	*245,821,368*	*(111,594,905)*	*(45.40%)*
140.	Non-current assets and assets held for sale	979,941,993	807,074	979,134,919	*121,319%*
150.	Other assets	196,838,016	35,256,528	161,581,488	458.30%
	Total Assets	29,049,672,656	38,191,016,012	(9,141,343,356)	(23.94%)

Balance Sheet

Liabilities and Shareholders' Equity	31/12/2017	31/12/2016	Change	
			Absolute	%
10. Due to banks	15,449,515,916	20,748,102,794	(5,298,586,878)	(25.54%)
20. Due to customers	6,939,910,501	9,423,623,698	(2,483,713,197)	(26.36%)
30. Outstanding securities	456,550,688	456,683,596	(132,908)	(0.03%)
40. Financial liabilities held for trading	4,804,233,426	6,408,190,751	(1,603,957,325)	(25.03%)
100. Other liabilities	62,868,197	88,690,811	(25,822,614)	(29.12%)
110. Severance indemnities for personnel	2,603,223	3,111,804	(508,581)	(16.34%)
120. Provisions for risks and charges:	27,780,958	22,252,396	5,528,562	24.84%
a) pensions and similar obligations	*4,602,326*	5,035,635	(433,309)	*(8.60%)*
b) other provisions	*23,178,632*	17,216,761	5,961,871	*34.63%*
130. Valuation reserves	(2,241,702)	(2,161,933)	(79,769)	3.69%
160. Reserves	110,426,757	107,686,272	2,740,485	2.54%
170. Share premiums	161,445,808	875,214,055	(713,768,247)	(81.55%)
180. Capital	1,669,516,282	829,304,239	840,212,043	101.32%
200. Profit (Loss) for the period	(632,937,398)	(769,682,471)	136,745,073	(17.77%)
Total Liabilities and Shareholders' Equity	29,049,672,656	38,191,016,012	(9,141,343,356)	(23.94%)

Income Statement

	Items	*31/12/2017*	*31/12/2016*	*Change*	
				Absolute	*%*
10.	Interest and similar income	309,645,662	376,409,570	(66,763,908)	(17.74%)
20.	Interest expense and similar charges	(217,550,370)	(232,651,495)	15,101,125	(6.49%)
30.	**Net interest income**	**92,095,292**	**143,758,075**	**(51,662,783)**	**(35.94%)**
40.	Fee income	43,194,534	43,577,826	(383,292)	(0.88%)
50.	Fee expense	(48,232,125)	(52,937,508)	4,705,383	(8.89%)
60.	**Net fee and commission income**	**(5,037,591)**	**(9,359,682)**	**4,322,091**	**(46.18%)**
70.	Dividends and similar income	1,885,405	3,189,974	(1,304,569)	(40.90%)
80.	Net trading gains (losses)	18,070,635	107,280,654	(89,210,019)	(83.16%)
90.	Net hedging gains (losses)				
100.	Gains (losses) from sale or repurchase of:	8,421,173	5,073,130	3,348,043	66.00%
	a) loans	*8,511*	*2,482,572*	*(2,474,061)*	*(99.66%)*
	b) financial assets available for sale	*1,587,539*	*2,590,558*	*(1,003,019)*	*(38.72%)*
	c) financial assets held to maturity				
	d) financial liabilities	*6,825,123*		*6,825,123*	
120.	**Operating income**	**115,434,914**	**249,942,151**	**(134,507,237)**	**(53.82%)**
130.	net value adjustments/write-backs due to impairment of:	(827,797,943)	(955,584,467)	127,786,524	(13.37%)
	a) loans	*(781,220,885)*	*(946,617,594)*	*165,396,709*	*(17.47%)*
	b) financial assets available for sale	*(57,211,174)*	*(9,549,217)*	*(47,661,957)*	*499.12%*
	c) financial assets held to maturity				
	d) other financial transactions	*10,634,116*	*582,344*	*10,051,772*	*1726.09%*
140.	**Net income from financial management**	**(712,363,029)**	**(705,642,316)**	**(6,720,713)**	**0.95%**
150.	Administrative expenses	(95,155,029)	(109,718,442)	14,563,413	(13.27%)
	a) personnel expenses	*(30,713,492)*	*(30,386,577)*	*(326,915)*	*1.08%*
	b) other administrative expenses	*(64,441,537)*	*(79,331,865)*	*14,890,328*	*(18.77%)*
160.	Net provisions for risks and charges	(5,868,406)	2,591,302	(8,459,708)	(326.47%)
170.	net value adjustments/write-backs on property, plant and equipment	(930,505)	(333,277)	(597,228)	179.20%
190.	Other operating income/charges	6,369,103	7,167,898	(798,795)	(11.14%)
200.	**Operating costs**	**(95,584,837)**	**(100,292,519)**	**4,707,682**	**(4.69%)**
210.	Profit (loss) from equity investments	(900,667)		(900,667)	
250.	**Profit (Loss) from current operations before taxes**	**(808,848,533)**	**(805,934,835)**	**(2,913,698)**	**0.36%**
260.	Income taxes for the period from current operations	175,911,135	36,252,364	139,658,771	385.24%
290.	**Profit (Loss) for the period**	**(632,937,398)**	**(769,682,471)**	**136,745,073**	**(17.77%)**

Basic and Diluted Earnings per Share

	31/12/2017	*31/12/2016*
Basic earnings per share		
- from current operations	(788.65692)	(2,877.13480)
- on discontinued operations		
Diluted earnings per share		
- from current operations	(788.65692)	(2,877.13480)
- on discontinued operations		

Note:
during the year 535,034 new ordinary shares were issued for the purpose of the share capital increase (see "Section 14 - The Bank's Capital").

Statement of Comprehensive Income

	Items	*31/12/2017*	*31/12/2016*
10.	**Profit (Loss) for the period**	**(632,937,398)**	**(769,682,471)**
	Other income components net of taxes without transfer to income statement		
20.	Property, plant and equipment		
30.	Intangible assets		
40.	Defined benefit plans	67,344	(266,969)
50.	Non-current assets held for sale		
60.	Portion of equity investment revaluation reserves booked to shareholders' equity		
	Other income components net of taxes with transfer to income statement		
70.	Foreign investment hedging		
80.	Exchange differences		
90.	Cash flow hedging		
100.	Financial assets available for sale	(147,112)	6,624,400
110.	Non-current assets held for sale		
120.	Portion of equity investment revaluation reserves booked to shareholders' equity		
130.	**Total other income components net of taxes**	**(79,768)**	**6,357,431**
140.	**Comprehensive income (Item 10+130)**	**(633,017,166)**	**(763,325,040)**

Statement of Changes in Consolidated Shareholders' Equity 31/12/2016 - 31/12/2017

	Balances as at 31/12/2016	Changes in initial balances	Balances as at 01/01/2017	Allocation of the result of the preceding financial year: Reserves	Allocation of the result of the preceding financial year: Dividends and other allocations	Changes for the period: Changes in Reserves	Shareholders' Equity transactions: Issue of new shares	Shareholders' Equity transactions: Purchase of treasury shares	Shareholders' Equity transactions: Extraordinary dividend distribution	Shareholders' Equity transactions: Change in equity instruments	Shareholders' Equity transactions: Derivates on treasury shares	Shareholders' Equity transactions: Stock options	Comprehensive income 31/12/2017	Shareholders' equity as at 31/12/2017
Capital:	**829,304,239**		**829,304,239**				**840,212,043**							**1,669,516,282**
a) ordinary shares	***829,304,239***		***829,304,239***				***840,212,043***							**1,669,516,282**
b) other shares														
Share premiums	**875,214,055**		**875,214,055**	**(749,260,486)**		**(23,152,838)**	**58,645,077**							**161,445,808**
Reserves:	**107,686,272**		**107,686,272**	**(20,421,985)**		**23,162,469**								**110,426,756**
a) profit	***82,143,326***		***82,143,326***	***(5,511,044)***		***9,631***								***76,641,913***
b) other	***25,542,946***		***25,542,946***	***(14,910,941)***		***23,152,838***								***33,784,843***
Valuation reserves	**(2,161,933)**		**(2,161,933)**										**(79,768)**	**(2,241,701)**
Equity instruments														
Treasury shares														
Profit (Loss) for the period	**(769,682,471)**		**(769,682,471)**	**769,682,471**									**(632,937,398)**	**(632,937,398)**
Shareholders' equity	**1,040,360,162**		**1,040,360,162**	**0**		**9,631**	**898,857,120**						**(633,017,166)**	**1,306,209,747**

Statement of Changes in Consolidated Shareholders' Equity 31/12/2015 - 31/12/2016

				Allocation of the result of the preceding financial year		Changes for the period								
							Shareholders' Equity transactions							
	Balances as at 31/12/2015	Changes in initial balances	Balances as at 01/01/2016	Reserves	Dividends and other allocations	Changes in Reserves	Issue of new shares	Purchase of treasury shares	Extraordinary dividend distribution	Change in equity instruments	Derivates on treasury shares	Stock options	Comprehensive income 31/12/2016	Shareholders' equity as at 31/12/2016
Capital:	**276,434,746**		**276,434,746**				**552,869,493**							**829,304,239**
a) ordinary shares	***276,434,746***		***276,434,746***				***552,869,493***							***829,304,239***
b) other shares														
Share premiums	**228,089,231**		**228,089,231**				**647,124,824**							**875,214,055**
Reserves:	**1,300,616,334**		**1,300,616,334**	**6,100,202**		**11,404**	**(1,199,041,668)**							**107,686,272**
a) profit	***76,031,720***		***76,031,720***	***6,100,202***		***11,404***								***82,143,326***
b) other	***1,224,584,614***		***1,224,584,614***				**(1,199,041,668)**							***25,542,946***
Valuation reserves	**(8,519,364)**		**(8,519,364)**										**6,357,431**	**(2,161,933)**
Equity instruments														
Treasury shares														
Profit (Loss) for the period	**6,100,202**		**6,100,202**	**(6,100,202)**									**(769,682,471)**	**(769,682,471)**
Shareholders' equity	**1,802,721,149**		**1,802,721,149**	**0**		**11,404**	**952,649**						**(763,325,040)**	**1,040,360,162**

Cash Flow Statement (indirect method)

(amounts in Euro)

		31/12/2017	31/12/2016
A.	**OPERATING ACTIVITIES**		
1.	**Operations**	**79,377,480**	**(107,991,939)**
	- result of the period (+/-)	(632,937,398)	(769,682,471)
	- capital gains/losses on financial assets held for trading and on financial assets/liabilities carried at fair value	4,122,499	(303,742,995)
	- net value adjustments/writebacks due to impairment	899,971,589	979,969,625
	- net value adjustments/write-backs on property, plant and equipment and intangible assets	930,505	333,277
	- net provisions for risks and charges and other costs/revenues	5,930,972	(2,493,112)
	- taxes not paid	(175,911,136)	(35,717,576)
	- other adjustments	(22,729,551)	23,341,313
2.	**Cash flows absorbed by financial activities:**	**8,194,805,590**	**3,825,737,085**
	- financial assets held for trading	1,686,133,438	11,029,411,856
	- financial assets available for sale	(58,106,098)	4,118,702
	- loans to banks	2,903,344,267	(99,128,514)
	- loans to customers	3,801,388,995	(7,101,069,652)
	- other assets	(137,955,012)	(7,595,307)
3.	**Cash flows generated by financial liabilities:**	**(9,173,039,923)**	**(3,718,698,006)**
	- due to banks	(5,276,018,909)	4,193,791,748
	- due to customers	(2,483,593,846)	9,236,077,444
	- outstanding securities		
	- financial liabilities held for trading	(1,573,201,886)	(17,154,495,530)
	- other liabilities	159,774,718	5,928,332
	Net cash flows absorbed/generated by operating activities	**(898,856,853)**	**(952,860)**
B.	**INVESTING ACTIVITIES**		
1.	**Cash flows generated by:**	**0**	**0**
	- sale of equity investments		
	- dividends from equity investments		
	- sale of property, plant and equipment		
	- sale of intangible assets		
2.	**Cash flows absorbed by:**	**0**	**0**
	- purchase of equity investments		
	- purchase of property, plant and equipment		
	- purchase of intangible assets		
	Net cash flows absorbed/generated by investing activities	**0**	**0**
C.	**FUNDING ACTIVITIES**		
	issue/purchase of treasury shares	898,857,120	952,648
	issue/purchase of equity instruments		
	distribution of dividends and other purposes		
	Net cash flows absorbed/generated by funding activities	**898,857,120**	**952,648**
D	**(A+B+C) NET CASH FLOWS ABSORBED GENERATED DURING THE PERIOD**	**267**	**(212)**

The cash flow statement was prepared following the indirect method, whereby flows deriving from operating activities are represented by the income/loss for the year rectified of effects due to operations of a non-monetary nature.

Reconciliation

Items	*31/12/2017*	*31/12/2016*
Cash and cash equivalents at the beginning of the period	64	276
Total net cash flows absorbed/generated during the period	267	(212)
Cash and cash equivalents: effect of changes in exchange rates		
Cash and cash equivalents at the end of the period	331	64

NOTES TO THE FINANCIAL STATEMENTS

Part A
Accounting Policies

A.1 - GENERAL INFORMATION

Section 1 - STATEMENT OF COMPLIANCE WITH THE INTERNATIONAL ACCOUNTING STANDARDS

These Financial Statements, in application of Italian Legislative Decree No. 38 of 28 February 2005, have been drawn up according to the International Accounting Standards issued by the International Accounting Standards Board (IASB) and the related interpretations by the International Financial Reporting Interpretations Committee (IFRIC), endorsed by the European Commission, as established by EU Regulation No. 1606 of 19 July 2002, and in force at 31 December 2017.
The International Accounting Standards were also applied with reference to the IASB "Framework for the Preparation and Presentation of Financial Statements" (the "Framework").
In the absence of an accounting standard or interpretation specifically applicable to a transaction, other event or circumstance, the Company Management used its own judgement in developing and applying an accounting standard, in order to provide disclosure that is:
- significant for the purposes of financial decisions made by users of the financial statements;
- reliable, so that the financial statements:
  - provide a true representation of the financial position and equity, business performance and cash flows of the Bank;
  - reflect the economic substance of the transactions, other events and circumstances, and not merely their legal form;
  - are neutral, i.e. unbiased;
  - are prudent;
  - are complete, with reference to all significant aspects.

In exercising this judgement, the Company Management referred to and considered the applicability of the following sources, in decreasing order of importance:
- the rules and application guidelines contained in the accounting standards and in the related interpretations dealing with similar or related cases;
- the definitions, recognition criteria, and measurement concepts in accounting for assets, liabilities, revenues and costs contained in the Framework.

In expressing judgements, the Company Management may also consider:
- the rules most recently issued by other entities responsible for establishing accounting standards, which use a conceptually similar framework in developing the accounting standards;
- other accounting literature;
- generally accepted practices in the sector.

In compliance with Article 5 of Italian Legislative Decree No. 38 of 28 February 2005, whenever, in exceptional cases, the application of a provision of the International Accounting Standards were to be incompatible with the true and accurate representation of the equity, financial and income situation, this provision would not be applied. The Notes to the Financial Statements provide explanations for these derogations and their influence on the presentation of the equity, financial and income position.
In the financial statements, any profits deriving from such derogation would be recorded in a reserve which could be distributed only to the extent of the actual amount recovered.

Section 2 - GENERAL PRINCIPLES FOR THE PREPARATION OF THE FINANCIAL STATEMENTS

The Financial Statements have been prepared in accordance with the IAS/IFRS issued by the International Accounting Standard Board (IASB) and the related interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), endorsed by the European Commission and subject to mandatory application in 2017. Additionally, the provisions of Bank of Italy Circular No. 262 as amended by the fourth revision of 15 December 2015 were applied. These govern the format and rules for the preparation of bank financial statements.
The company's Financial Statements include:
- balance sheet
- income statement
- statement of comprehensive income
- statement of changes in shareholders' equity
- cash flow statement
- Notes to the Financial Statements

and are accompanied by the directors' report on operations, on the economic results achieved and on the Bank's financial position and equity.
The Bank, controlled by the Parent Company Banca Monte dei Paschi di Siena S.p.A., which draws up consolidated financial statements compliant with the IAS/IFRS for public use, presents its own separate financial statements as its sole annual financial statements.
The Consolidated Financial Statements are drawn up by the Parent Company Banca Monte dei Paschi di Siena S.p.A. - with registered office in Piazza Salimbeni No. 3 - Siena, enrolled in the Banking Register and the Banking Groups Register with No. 5274 - and are made available to the public at the said registered office.
The Financial Statements have been prepared with clarity, and provide a true and accurate representation of the financial situation, equity and income of the year.
In the Notes to the Financial Statements, all of the information required by the international accounting standards and the provisions contained in Bank of Italy Circular 262 is provided, in addition to further non-obligatory information considered necessary to provide a true, correct, relevant, reliable, comparable and comprehensible representation.
The balance sheet, income statement and statement of comprehensive income consist of numbered items, sub-items (identified by letters), and by additional details (the "of which" of the items and sub-items). The items, sub-items and related details constitute the financial statement accounts.
The prior-year balance has also been reported for each item of the balance sheet, income statement and statement of comprehensive income. If the account balances are not comparable, the prior-year balances are adjusted. The lack of comparability and the restatement or the impossibility of restatement are noted and discussed in the Notes to the Financial Statements.
Assets and liabilities and costs and revenues are not offset, except where allowed or required by the International Accounting Standards or the provisions of the Bank of Italy's Circular 262.
Balance sheet, income statement and statement of comprehensive income items with a zero balance for the year and for the prior year are not presented. If an asset or liability can be booked to more than one balance sheet item, the Notes to the Financial Statements provide an explanation of its referability to accounts other than the account in which it is recognised, if necessary for the purpose of understanding the financial statements.
Revenues are reported in the income statement, the statement of comprehensive income and the related section of the Notes to the Financial Statements without a +/- sign, while costs are indicated in brackets.
The statement of comprehensive income, starting from the profit (loss) for the year, presents the income components recognised against the valuation reserves, net of the related tax effect, in accordance with the international accounting standards. Comprehensive income is presented providing separate evidence of the income components which will not in future be recognised in the income statement and of those which, on the contrary, may subsequently be

reclassified in the profit (loss) for the period if certain conditions are fulfilled.
The statement of changes in shareholders' equity shows the breakdown and movement of shareholders' equity during the reporting and previous periods, divided into share capital (ordinary shares and other shares), capital and profit reserves, reserves from the valuation of accounting assets and liabilities, equity instruments and operating results. Treasury shares in the portfolio are recognised as a reduction of shareholders' equity.
The cash flow statement was prepared following the indirect method, whereby flows deriving from operating activities are represented by the income/loss for the year rectified by the effects of operations of a non-monetary nature. Cash flows are divided into those deriving from operating activities, those provided by investing activities and those produced by funding activities. In the statement, cash flows provided during the year are indicated without a sign, while those used are indicated in brackets.
In compliance with Article 5 of Italian Legislative Decree No. 38 of 28 February 2005, the financial statements have been prepared using the Euro as the functional currency. In particular, the balance sheet, the income statement, the statement of comprehensive income and the statements of changes in shareholders' equity are prepared in units of Euro, whilst the Notes to the Financial Statements are in thousands of Euro. Tables that do not contain any figures are omitted in the Notes to the Financial Statements.
The Financial Statements have been drawn up with the view of the company as a going concern, in accordance with the accruals concept, the principle of the importance and significance of information, and the principle of the prevalence of economic substance over legal form, as well as in order to favour consistency with future presentations. Items with different natures or purposes have been presented separately, unless the related amounts were considered immaterial. When necessary, the amounts indicated in the Financial Statements were adjusted to reflect events subsequent to the reporting date which, pursuant to the standard IAS 10, involve the obligation of making an adjustment (adjusting events). Subsequent events that do not involve adjustments and that hence reflect circumstances that occurred after the reporting date (non-adjusting events) are disclosed in section 3 below when relevant and able to influence the economic decisions of users.

Section 3 - EVENTS AFTER THE REPORTING PERIOD

IAS 10, "Events after the Reporting Period" expressly governs the treatment to be applied to favourable or unfavourable events occurring between the reporting date and the date on which the Board of Directors authorises the financial statements for publication. The standard distinguishes between events requiring an adjustment to accounting data and events which do not require adjustment but necessitate the provision of disclosure should the events be significant or important.
This being established, we note that continuing the disposal transaction through the securitisation of the MPS Group's portfolio of non-performing loans, on 9 January 2018 95% of the mezzanine notes were sold by the three originators (BMPS, MPSCS and MPSLF) as in the agreement signed on 22 December 2017 with Quaestio Capital SGR S.p.A. on behalf of the Italian Recovery Fund (formerly Fondo Atlante II). Deconsolidation of the portfolio of non-performing loans will occur by June 2018, with the transfer of 95% of the junior securities to the Italian Recovery Fund. Recall that the economic impacts of the securitisation were fully included in the Bank's financial statements at 31.12.2017.
Finally, with reference to future impacts on equity deriving from the Bank's exposure to impaired loans, note that on 4 October 2017 the ECB began a consultation process in relation to an addendum to the guidelines for banks on non-performing loans issued on 20 March 2017. In particular, the addendum states that for all loans classified as impaired as of 2018, total coverage must be achieved at the latest within two years for unsecured loans and within seven years for secured loans. From a regulatory point of view, the effects on capital adequacy benchmarks can be determined once the relative regulations are made definitive, which is expected to occur by the end of March 2018.

Section 4 - OTHER INFORMATION

Going concern

These financial statements have been drawn up considering appropriate the assumption of the Bank's continuation as a going concern.
With regard to the indications provided within the scope of Document no. 4 of 3 March 2010 issued jointly by Bank of Italy, CONSOB and IVASS, as updated, the Bank has the reasonable expectation of continuing with its operating existence in a foreseeable future and, therefore, it has prepared the Financial Statements in view of its continuation as a going concern.
For the purposes of the assessment in question it becomes significant that the assumption of the Bank as a going concern cannot be separated from a consideration of the overall situation of the MPS Group and, in particular, of the Parent Company Banca Monte del Paschi di Siena S.p.A. (Banca BPMS) which exercises management and coordination activities.
This assumption is founded, in particular, on the considerations identified below:

- the approval of the Restructuring Plan by the European Commission on 4 July 2017;
- the establishment on 11 August 2017 of the capital increase for a total of € 8,327 million, following the conversion of the AT1 and T2 financial instruments into ordinary shares by the parent company, in compliance with that established in article 23, paragraph 3 of Decree 237, as well as in article 2 of the "burden sharing" Decree, and the subscription of the ordinary shares by the MEF;
- the restoration of capital ratios to above the SREP thresholds currently in effect: at 31 December 2017, the CET1 ratio was 14.8% while the TC ratio was 15%, decidedly higher than those set even for 2018 with the SREP decision of 19 June 2017 (which sets the CET 1 Ratio and TC Ratio limits respectively at 9.4% and 12.9%, excluding solely the P2 Guidance component).

Relative to its liquidity position, after the significant deterioration seen during 2017, Banca MPS obtained guarantees from the government regarding financial liabilities to be issued for a total of € 15 billion (for a maximum duration of three years). the parent company carried out three issues of government backed securities in 2017 for a total amount of € 11 billion, which were entirely used, both in sales transactions on the market and as collateral to guarantee financing transactions. As an effect of these transactions, the recovery of commercial funding and the financial contribution provided by the MEF, both with reference to the capital increase and the partial public settlement and exchange offer regarding the subordinate UT2 2008-2018, liquidity indicators have returned to ordinary levels.
Relative to the Bank specifically, on 15 November 2017 the share capital increase resolved by the Extraordinary Shareholders Meeting of 18 August 2017 was completed, with the full subscription, paying in and issuing of 535,034 new ordinary shares with no nominal value at the unit price of € 1,680.00 (of which € 1,570.39 as capital and € 109.61 as share premium). The share capital thus went up from € 829,304,238.84 to € 1,669,516,282.10 and the share premiums from € 125,953,569.13 to € 184,598,645.87, with a total increase in the Bank's capital of € 898,857,120.00. As an effect of this transaction, capital ratios have returned well above the minimum required limits and the Bank can continue to develop its business.
Therefore, in the light of the above, given that it is held reasonable that the Bank will continue to operate in the foreseeable future, the financial statements have been prepared with the assumption of the business as a going concern.

List of IAS/IFRS international accounting standards and related SIC/IFRIC interpretations whose application is mandatory as from the 2017 financial statements

On 29 January 2016 the IASB published the document "**Disclosure Initiative (Amendments to IAS 7)**" which contains amendments to the international accounting standard IAS 7.
The document provides certain clarifications to improve the disclosure on financial liabilities. In particular, the amendments introduce a requirement to provide a disclosure which will enable users of financial statements to understand the changes in liabilities deriving from financing operations, 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 previous years is not required.
The document was endorsed by the European Commission on 9 November 2017, with regulation 2017/1990.
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 the international accounting standard IAS 12.
The document has the objective of providing a number of clarifications on recognition of deferred tax assets on unrealised losses. In particular, the amendments arise from a request for clarifications promoted by the IFRS IC on applying IAS 12 in relation to the recognition of deferred tax assets in the following circumstances:

- an entity holds a fixed rate debt instrument classified as available for sale with profits and losses recorded in other comprehensive income (OCI);
- a change in market conditions, in particular an increase in interest rates, causes a reduction of the fair value of the instrument to less than the initial cost value;
- the tax legislation does not permit the deductibility of a loss for tax purposes until the latter becomes realised;
- the entity expects to recover all the contractual cash flows maintaining the instrument up to its natural maturity;
- the entity does not have sufficient taxable temporary differences and does not have 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 on 9 November, with regulation 2017/1989.

IAS/IFRS international accounting standards and related SIC/IFRIC interpretations endorsed by the European Commission, whose mandatory application is subsequent to 31 December 2017

On 18 May 2014 IFRS 15 "**Revenue from Contracts with Customers**" was published by the IASB; this replaces the 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, with the exception of those which fall, even partially, within the scope of application of other specific standards.
The new standard proposes a model according to which an entity must recognise revenue so as to faithfully present the process of transferring goods and services to customers and in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services provided. On this point, the standard provides for five steps:

1. identification of the contract, defined as an agreement (written or verbal) with commercial substance between two or more parties which creates in relation to the customer legally enforceable rights and obligations;
2. identification of the "performance obligations" contained in the contract;
3. determination of the price of the transaction as the consideration that the entity expects to be entitled to in

exchange for the transfer of goods or the provision of services to the customer, in keeping with the techniques provided for in the Standard and depending on the presence of any financial components;
4. allocation of the transaction price to each "performance obligation" provided for in the contract;
5. recognition of the revenue when the obligation is settled, taking into consideration the fact that the services could be rendered not in one specific moment, but also over a period of time.

The clarifications published by the IASB in 2016 in the document **"Clarifications to IFRS 15 Revenue from Contracts with Customers"** are part of the standard, and are relative to:
• Identification of the performance obligations;
• Considerations on the qualification of principal versus agent;
• Application guide on licences.
The document was endorsed by the European Commission on 9 November 2017, with regulation 2017/1987.
The standard must be applied as of the first day of the first financial year starting on 1 January 2018 or later.

Analysis of the provisions of this standard did not give rise to any significant impacts to be noted upon initial application.

On 24 July 2014 the IASB published the final version of **IFRS 9 - "Financial Instruments"**, which replaces IAS 39. Macro hedging is not regulated under this standard, for which the IASB has decided to undertake an autonomous project.
The document was endorsed by the European Commission on 22 September 2016 with regulation 2016/2067 and it must obligatorily be applied beginning from the starting date of the first financial year which begins on 1 January 2018 or subsequently.

In brief the main changes regard:
Classification and measurement of financial assets
The new accounting standard provides for three portfolio categories: amortised cost, fair value through profit and loss (FVTPL) and fair value through other comprehensive income (FVOCI). As regards debt instruments, the standard provides for a single method of determining classification in one of the three categories; this method is based on the combination of two "drivers", represented by the method of managing the financial instruments adopted by the entity (business model) and by the contractual characteristics of the cash flows of the same instruments. As regards equity instruments, classification in the FVTPL category is provided for; the only exception consists of the option to classify irrevocably in the FVOCI category equity instruments not held for trading. In this case only dividends are recognised in the income statement, while the measurements and the results deriving from the sale are allocated to shareholders' equity; no impairment is provided for.

Classification and measurement of financial liabilities
It confirms the obligation to separate the derivatives embedded in financial liabilities; the full recording of fair value changes as offset entries in the income statement is prescribed, for instruments other than derivatives, only for financial liabilities held for trading. For financial liabilities designated within the fair value option, the change in fair value attributable to changes in the credit risk of the liability is recorded directly among the other comprehensive income entries, unless this creates or increases the accounting mismatch, in which case the entire change in fair value is recorded in the income statement. The amount recognised in other comprehensive income is not reversed to the income statement when the liability is settled or extinguished.

Impairment
The standard provides for a single impairment model to be applied to all debt instruments not carried at FVTPL:

financial assets carried at amortised cost, carried at fair value through other comprehensive income, receivables deriving from rental contracts and trade receivables. The model, characterised by a prospective vision, requires, starting from first recognition in the financial statements, recognition of expected credit losses (ECL) on the financial instrument. Estimates of losses are to be made on the basis of supportable information, available without unreasonable expenses or efforts and that include historical, current and prospective data. Relative to impairment, IFRS 9 establishes for classification within three categories (buckets), based on the extent that creditworthiness has been impaired. The first category includes financial instruments that have not seen any significant worsening of their creditworthiness with respect to that seen at the time they were initially recognised in the financial statements. For exposures in this initial category, expected losses over a 12 month timeframe must be recognised. For exposures classified within the other two categories, lifetime expected losses must be recognised.
IFRS 9 also provides for greater disclosure of losses on loans and of credit risk. In particular, entities must illustrate the methods for calculating expected losses on loans and those adopted for measuring changes in credit risk.

Hedge accounting
Exclusive of macro hedging, for which IAS 39 remains in force, the standard tends to align the accounting presentation with the risk management activities and, secondly, to strengthen the disclosure of the risk management activities undertaken by the entity that prepares the financial statements.

The standard allows separate application from the rest of IFRS 9 of the rules that govern the treatment of the entity's own creditworthiness on financial liabilities in the fair value option. The MPS Group has exercised this right, applying these norms in advance as of financial year 2017. Note that the Bank was not affected by this phenomenon.

The general logic of IFRS 9, above all with reference to the ECL approach, will entail, with respect to IAS 39, greater use of experiential judgement and intrinsically complex calculations, with an accounting approach based even more on valuation models. Preparation for the ECL method required significant changes in the data, IT systems and internal Group processes and also involved the definition of appropriate strategies for functional and accounting IT implementation, following the introduction of new measurement models.
In relation to classification and measurement, the Group has undertaken a detailed examination of the characteristics of the contractual flows of debt instruments classified at amortised cost according to IAS 39, in order to identify any assets which, not passing the so-called SPPI test, will be measured at fair value according to IFRS 9.

The main quantitative impacts are essentially attributable to the following issues:
- reclassification of financial instruments in line with the Bank's business model;
- increase in the scope of instruments measured at fair value through profit and loss as a consequence of not passing the SPPI test (mandatory FVPL), in part deriving from retrospective application of modification & derecognition accounting;
- application of the new impairment model, which will involve a significant increase in provisions due to the inclusion i) of lifetime expected losses on non-impaired assets classified in stage 2 as a consequent of the significant impairment of the debtor's creditworthiness with respect to that at the time the loan was initially recognised, ii) prospective macroeconomic scenarios for all loan categories and iii) prospective scenarios involving the sale of a given portfolio of gross impaired loans for which a high probability of disposal has been identified, in line with that envisaged in the 2017-2021 Restructuring Plan.

Recall that the final two issues indicated above could also lead to greater income statement volatility after initial application, due to the possibility of a greater number of instruments measured at fair value and the passage of financial instruments between bucket 1 and bucket 2 and vice versa. In this case, volatility will be positively correlated with the duration of financial instruments.

With particular reference to the regulatory impacts of the new impairment model, we note that on 27 December 2017 Regulation EU 2017/2395 was published in the Official Journal of the European Union, issued on 12 December 2017 by the European Parliament and Council ("Regulation"), amending regulation 2013/575 and introducing transitional provision aimed at reducing the impacts of the introduction of IFRS 9 on own funds, as well as modifying the treatment of significant exposures regarding certain public exposures in the public sector denominated in the national currency of a member state. The Regulation took effect on 28 December 2017 and applies as of 1 January 2018.

The introduction of the transitional regime makes it possible to gradually recognise the negative impacts deriving from application of the expected loss model in terms of determining value adjustments on loans, as envisaged with transfer to the new IFRS 9. To that end, pursuant to paragraph 9 of article 1 of the above cited Regulation, the Group exercised the right to adopt the transitional regime, informing the European Central Bank on 23 January 2018. As an effect of this transitional regime, the impacts expected on own funds at 1 January 2018 are not significant.

Finally, recall that the new accounting treatment of interest on assets classified in stage 3, that is impaired loans, based on which the effective interest rate must be applied to the net and not the gross exposure, will have consequences relative to the methods used to present interest in the income statement, starting in 2018.
Relative to the exercising of options provided for in the standard, we note that the Group will make use of:
• the option to maintain current hedge accounting recognition rules contained in IAS 39;
• the right to not present comparison information in the year of initial application.

Relative to impacts on processes, note that the final updates to the Group's internal regulations are underway, in order to implement the operational/organisational changes associated with classification and measurement of financial instruments.

On 12 September 2016, the IASB published the amendment to IFRS 4 **"Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"**, later endorsed by the European Commission with regulation 2017/1988 on 9 November 2017.
This amendment introduced a series of changes, which allow:
• entities that issue insurance contracts, to recognise in the statement of comprehensive income (i.e. the OCI statement), instead of in the income statement, the effects deriving from the volatility that could arise in the moment in which an entity applies IFRS 9 before applying the new standard IFRS 4 ("overlay approach").
• entities whose business consists predominantly of insurance, to make use of a temporary exemption from applying IFRS 9 up to 2021. Entities that defer application of IFRS 9 will continue to apply the current standard IAS 39 ("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 standard IAS 17 - Leases, and 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 a criterion based on control (right of use) of an asset to distinguish leasing contracts from contracts for services, identifying as discriminants: identification of the asset, the right to replace the same, the right to obtain substantially all the economic benefits deriving from use of the asset and the right to manage the use of the asset underlying the contract.
The standard was endorsed by the European Commission on 9 November 2017 with regulation 2017/1986 and applies as of 1 January 2019.

IAS/IFRS international accounting standards and related SIC/IFRIC interpretations published by the IASB and still awaiting European Commission endorsement

On 12 December 2017, the IASB published the **Annual Improvements to IFRSs 2015-2017 Cycle**, which include amendments to IAS 12 *Income Taxes*, IAS 23 *Borrowing Costs*, IFRS 3 *Business Combination* and IFRS 11 *Joint Arrangements*. Specifically:
• the amendments to IAS 12 clarify that impacts on taxes on income from dividends (as in the case of distribution of profits) must be recognised in the income statement independent of how the taxes originate;
• the amendments to IAS 23 clarify that in the case in which a specific loan continued to exist after the corresponding asset is ready for use or sale, this loan is then included in the provisions considered when calculating the capitalisation rate in relation to general loans;
• the amendments to IFRS 3 clarify that when an entity obtains control over a business, which was formerly a joint operation, it must redetermine the equity investment held in said business;
• the amendments to IFRS 11 clarify that when an entity obtains joint control over a business, which was previously a joint operation, the entity does not need to redetermine the equity investment held in said business.
The amendments apply as of 1 January 2019. Early application is allowed.
On 7 June 2017, the IASB published **"IFRIC 23 "Uncertainty over Income Tax Treatments**", which clarifies how to apply requirements for recognition and measurement of IAS 12 when there is uncertainty about which treatment to apply to income taxes.

In these circumstances, for the purposes of recognising and measuring current and deferred tax assets and liabilities in application of IAS 12, taxable profits/loss, taxable bases, unused tax losses, unused tax credits and fiscal taxes are determined on the basis of the interpretation provided in IFRIC 23.
The entity is required to use its judgement to determine whether an uncertain tax treatment should be considered independently or jointly with other tax treatments around which there is uncertainty. The decision should be based on an approach which best guarantees the resolution of the uncertainty.
The entity must also consider whether the relevant tax authorities, in the context of examining the data communicated, can accept the application of the tax treatment or group of tax treatments proposed by the entity.
If it is held probable that a given tax treatment will be accepted, the entity must determine the taxable income, taxable bases, unused tax losses, unused tax credits or tax rates in line with the tax treatment included in the tax statement.
If, on the other hand, it is held improbable that it will be accepted, it must reflect the effects of this uncertainty when determining the tax components, using one of the following methods:
• the "most likely amount", identifying the most likely amount within a range of possible results;
• the expected value, based on the weighted sum of probable values within a range of possible values.
The decision must fall upon the method offering the greatest guarantees of resolving the uncertainty.
Additionally, the entity must revise its judgements and estimates if facts and circumstances change.
IFRIC 23 applies starting from 1 January 2019. Early application is allowed.

On 18 May 2017, the IASB issued **IFRS 17 Insurance Contracts** which establishes standards for the recognition, measurement, presentation and disclosure of insurance contracts within the context of the standard.
The objective of IFRS 17 is to ensure that significant information which faithfully represents the contracts is provided as a basis for users of the financial statements to evaluate their effects of the financial performance and cash flows of the entity.
On 12 October 2017 the IASB published **Amendments to IFRS 9: Prepayment Features with negative compensation**, which:

• makes it possible to measure financial assets characterised by particular early repayment options with negative compensation at the amortised cost or, based on the business model, at fair value through other comprehensive income, which would otherwise not meet SPPI conditions.
• contains a clarification regarding the accounting treatment of a change in the amortised cost of a financial liability, which does not involve the cancellation of the liability. The adjustment to the amortised cost of the financial liability, calculated as the difference between original contractual cash flows and modified cash flows discounted at the effective interest rate, is reflected in the income statement on the date of the change.

The changes apply from 1 January 2019 but early application is allowed.

On 12 October 2017 the IASB published **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 equity investments in an associated company or joint venture that are part of the net investment in the associated company or joint venture but to which the equity method is not applied.
The changes apply from 1 January 2019 but early application is allowed.

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

• Amendments to IFRS 2 "**Classification and Measurement of share-Based payment Transactions**", applicable as of 1 January 2018 and providing clarification in relation to the following aspects:
  - accounting for the effects of vesting conditions in the case of cash-settled share-based payments;
  - classification of share-based payments with net settlement characteristics;
  - accounting for changes to the terms and conditions a share-based payment that modify the 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 comes into force from 1 January 2018;
• Amendment to IAS 40 **Investment Property: Transfers of Investment Property**, which comes into force from 1 January 2018.

A.2 - PRINCIPAL FINANCIAL STATEMENT AGGREGATES

Section 1 - ACCOUNTING STANDARDS

The accounting standards adopted in preparing the separate financial statements at 31 December 2017 are described below. The presentation is made with reference to the stages of recognition, classification, measurement and derecognition of the different Asset and Liability items, and to the recognition criteria of revenue components.

1) FINANCIAL ASSETS HELD FOR TRADING

a) recognition criteria
For financial assets, debt and equity securities are initially recognised on the trade date, while derivative contracts are recognised on the date they are signed.
Financial assets held for trading are initially measured at their fair value, which generally corresponds to the amount paid, without considering the transaction costs or income directly attributable to the instrument itself, which are booked to the income statement.
In this item are classified the implicit derivatives present in complex agreements not strictly correlated with them, which, having the characteristics to meet the definition of a derivative, are separated from the host agreement and recognised at fair value.
The appropriate reference accounting standard is applied to the primary agreement.

b) classification criteria
The following are classified in this category: i) financial assets acquired primarily for the purpose of generating short-term profits deriving from variations in the prices of said instruments; ii) financial assets that are part of portfolios of financial instruments whose overall management is geared towards effective strategies for securing profits in the short term; iii) derivative contracts (for the positive value), including past due and impaired derivatives that have not been closed in advance in the context of a master netting agreement; contracts designated as hedging derivatives are excluded; and iv) structured instruments (for these financial instruments, derivatives embedded in the primary contracts have not been reported separately).

c) measurement criteria
After initial recognition, financial assets held for trading are carried at fair value, recording changes as offsetting entries in the income statement.
Please see section A.4 “Fair value disclosure”, below, for a description of the criteria used to determine the fair value of financial instruments.
Equity securities and the related derivatives whose fair value cannot be reliably determined according to the guidelines above, remain recognised at cost, adjusted for any impairment losses. These impairment losses are not written back.
In determining the cost of the securities portfolio, the Bank applies the “weighted average daily cost” method.

d) derecognition criteria
Financial assets are eliminated when the contractual rights over the cash flows deriving from the assets expire or when the financial assets are sold, essentially transferring all the related risks and benefits. Securities received within a transaction that contractually calls for the subsequent sale and securities handed over within a transaction that contractually calls for the subsequent repurchase are not, respectively, recorded in or eliminated from the accounts.

Consequently, in the case of securities acquired with resale agreement the amount paid is recorded in the financial statements as a receivable from customers or banks, whereas in the case of securities sold with repurchase agreement the liability is recorded among amounts due to banks or to customers.

e) income recognition criteria
The effects of measurements, sales and/or closures of financial assets are booked to Item 80 of the income statement, "Net income from trading activities", while interest accrued on securities and the remuneration accrued for activities regarding repurchase agreements or securities lending (with the exception of fees, accounted for under the fee items) are recorded in the income statement, under Item 10 "Interest and similar income" and Item 20 "Interest and similar expense".
Dividends on equity instruments are booked to the income statement on the date when the right to receive payment becomes effective, under Item 70 "Dividends and similar income".
The spreads of transactions in derivative instruments are registered on the income statement under the appropriate item according to the managerial nature of the contracts, as also the adjustments made on the occasion of the valuation of exposures for impaired derivatives.

2) FINANCIAL ASSETS DESIGNATED AT FAIR VALUE

This portfolio is not used by the bank.

3) FINANCIAL ASSETS AVAILABLE FOR SALE

a) recognition criteria
Financial assets are initially recognised at the settlement date for debt and equity securities, and at the disbursement date for loans.
They are initially recorded at their fair value, which normally corresponds to the amount paid, inclusive of transaction costs or income directly attributable to the instruments. If recognition takes place following reclassification of assets held to maturity, the recognition value is represented by the fair value at the time of the transfer. For debt securities, any difference between the initial amount and the repayment amount is recognised in the income statement throughout the life of the security, using the amortised cost method.

b) classification criteria
This category includes non-derivative financial assets not classified as loans, financial assets held for trading, financial assets at fair value recorded in the income statement or financial assets held to maturity. This category specifically includes equity investments, even of a strategic nature, not held for trading purposes and not classifiable as in subsidiaries, associates or joint-ventures, and bonds which are not subject to trading.
These investments can be subject to sale for any reason, such as liquidity needs or changes in interest rates, in exchange rates or in stock prices.

c) measurement criteria
After initial recognition, assets available for sale continue to be assessed at fair value, with the recording in the income statement of the interest portion as it results from the application of the amortised cost and with the allocation in a dedicated shareholders' equity reserve of the gains/losses deriving from the fair value change net of the related tax effect (liability item 130 "Valuation reserves") with the exception of impairments. Exchange rate changes relating to non-monetary instruments (equity securities) are recorded in the specific shareholders' equity reserve, while those

relating to monetary instruments (loans and debt securities) are recorded in the income statement. Equity securities whose fair value cannot be reliably determined are carried at cost, adjusted for any impairment losses.
Impairment testing is carried out at the close of each set of financial statements or interim report. Indicators of a possible impairment are, for example, significant financial distress of the issuer, breaches or failure to pay interest or principal, the possibility that the beneficiary may file for bankruptcy or is subjected to another insolvency procedure, the disappearance of an active market for the asset. In particular, regarding equity securities listed on active markets, objective evidence of impairment is considered the presence of a market price, as of the date of the financial statements, that is at least 30% lower than the original purchase cost, or the prolonged presence for over twelve months of a market value lower than cost. If additional reductions occur in the following years, they are recognised directly in the income statement. Regardless of whether debt securities are listed on active markets, their impairment is recognised in the income statement strictly in relation to the issuer's ability to fulfil its obligations and therefore to pay the required remunerations and to repay the principal at the maturity date. Therefore, it is necessary to assess whether there are indications of a loss event which could have a negative impact on expected cash flows. If there are no actual losses, no loss is recorded on the security, and any capital loss is accounted for in the negative shareholders' equity reserve. The amount of any write-down resulting from the impairment test is recorded in the income statement as a cost for the year. When the reasons for the impairment no longer apply, as a result of an event occurring subsequent to the recognition of impairment, the amounts are written back in the shareholders' equity for equity securities and in the income statement for debt securities.

d) derecognition criteria
Financial assets are derecognised upon expiration of the contractual rights on the cash flows deriving from the assets themselves or when the financial asset is sold, transferring substantially all rights/benefits connected to it.
Securities received within a transaction that contractually calls for the subsequent sale, and securities handed over within a transaction that contractually calls for the subsequent repurchase are not, respectively, recorded or eliminated from the accounts. Consequently, in the case of securities acquired with resale agreement the amount paid is recognised in the financial statements as a receivable from customers or banks, whereas in the case of securities sold with repurchase agreement the liability is recorded among amounts due to banks or to customers.

e) income recognition criteria
At the time of the sale or exchange with other financial instruments or in the presence of an impairment recorded as a result of the impairment test, the results of the assessments cumulated in the reserves for assets available for sale are recorded in the income statement:
- under item 100 "Gains (losses) from sale or repurchase of: b) financial assets available for sale", in the case of disposal;
- in item 130 "Net value adjustments/writebacks for impairment of: b) financial assets available for sale", if a loss in value is recognised.

If the reasons for the impairment are removed subsequent to an event occurring after the recording of the impairment, writebacks are entered: i) on the income statement (under the aforesaid item 130) if the loss is related to debt and credit securities; ii) in shareholders' equity, item 130 of the liabilities "Valuation reserves", if related to instruments representing capital. However, the amount of the writeback cannot exceed the amortised cost of the instrument had there been no prior adjustments. Subsequent increases exceeding the cost must be posted to shareholders' equity as revaluation reserves.
The effective interest accrued is booked to the income statement, under Item 10 "Interest and similar income". Dividends on equity instruments are booked to the income statement on the date when the right to receive payment becomes effective, which generally corresponds to the year in which the dividend is paid, under Item 70 "Dividends and similar income".

4) FINANCIAL ASSETS HELD TO MATURITY

This portfolio is not used by the bank.

5) LOANS

a) recognition criteria
Initial recognition takes place:
• for a loan:
  - at the disbursement date;
  - when the creditor acquires a right to the payment of the amounts agreed contractually;
• for a debt security:
on the settlement date.
The initial amount is quantified on the basis of the fair value of the financial instrument, normally equal to the amount disbursed, or the subscription price, including costs/income directly attributable to the individual instrument, which can be defined from the beginning of the transaction, even if settled subsequently. Costs that have the aforementioned characteristics but are reimbursed by the debtor counterparty or which can be classified as normal internal administrative expenses are excluded.
Contangos and repurchase agreements with future resale obligations are recognised in the accounts as loan operations. In particular, the latter are recognised as receivables for the amount paid spot.

b) classification criteria
Loans include loans to customers and banks, provided directly and/or acquired from third parties, involving fixed or definable payments, which are not quoted on an active market and which were not originally classified among financial assets available for sale and among financial assets designated at fair value in the income statement.
The loans and receivables item also includes accounts receivable, repurchase agreements entered into starting from the last quarter of 2016, given the purpose of the same mainly attributable to temporary use of cash assets, receivables arising from financial leasing operations, and securities purchased in subscription or private placement, with determined or determinable payments, not quoted on active markets.

c) income measurement and recognition criteria
After initial recognition, loans are measured at the amortised cost, equal to the originally recorded value decreased/increased by repayments of principal, writedowns/writebacks and amortisation - calculated using the effective interest rate method - of the difference between the amount disbursed and the amount repayable at maturity, typically attributable to the costs/income directly related to the individual loan. The effective interest rate is the rate that renders the present value of future loan flows, both in terms of principal and interest, estimated in the expected lifetime of the loan equal to the amount disbursed, including the costs/income attributable to the loan. The economic effect of the costs and income is distributed throughout the expected residual life of the loan.
The amortised cost method is not used for short-term loans, for which the effect of application of the discounting logic is negligible. These loans are shown at their original book value. A similar measurement criterion is adopted for loans with undefined maturity date or which are valid until derecognised.
In classifying impaired exposures into the various risk categories (non-performing loans, probable defaults and past-due impaired exposures; jointly non-performing exposures), the Bank refers to regulations issued by the regulatory authorities, complemented by internal provisions setting criteria and automatic rules and triggers for the allocation of the loans to the distinct risk categories. In particular, the classification is made by the various structures

autonomously, with the exception of loans past due and/or over the limit for more than 90 days which are recognised using automated procedures.
With reference to the general concept of restructuring credit exposures, three cases are identified:
• "forborne exposures" (as defined in the instructions contained in Bank of Italy circular 272, which correspond to the definitions provided in the EBA's ITS - Implementing Technical Standards);
• renegotiation for commercial reasons/practice;
• elimination of the debt through replacement of the debtor or debt for equity swap.

In keeping with the Bank of Italy regulations, "forborne exposure" means a debt contract for which tolerance measures (otherwise identifiable as "forbearance measures") have been applied. Forbearance measures consist of concessions - in terms of changes and/or refinancing of the existing debt contract - in relation to a debtor which is or is about to be in difficulty in observing its financial commitments (the debtor is, in other words, in financial difficulty).
Forborne exposures are divided into:
• impaired forborne exposures, which correspond to "non-performing exposures with forbearance measures" pursuant to the ITSs. These exposures represent a detail, according to the cases, of non-performing loans, probable defaults or past-due impaired exposures; they therefore do not form a separate category of impaired assets;
• other forborne exposures, which correspond to "forborne performing exposures" pursuant to the ITSs.
Renegotiating of credit exposures agreed upon by the Bank with performing customers can essentially be seen as the opening of a new position, in the case that this is essentially for commercial reasons, other than financial/economic difficulties of the debtor (not falling, therefore, in the definition of forborne exposures described above), and provided that the interest rate applied is a market rate at the time of renegotiation.
As an alternative to the cases described above (renegotiations owing to the debtor's difficulty and renegotiations for commercial reasons/practice), the Bank and debtor may agree on the elimination of the original debt through:
• novation or replacement by another debtor (releasing succession);
• a substantial change in the nature of the contract which envisages a debt for equity swap.
These events, involving a substantial change in the contractual terms, from an accounting view lead to the elimination of the pre-existing relationship and the consequent recognition of the new relation at fair value, with recognition of a gain or loss in the income statement equal to the difference between the fair value of the assets received and the carrying amount of the loan derecognised.
Loans are analytically or collectively measured, depending on the various levels of impairment, in order to determine the adjustments to be made to the carrying amounts, as illustrated below.
Non-performing loans, probable defaults and impaired past-due exposures are measured analytically (when they present exposures above a given threshold value) or applying the LGD parameter in the remaining cases. Performing exposures are measured statistically.
For loans subject to analytical measurement, the amount of the value adjustment to each loan is equal to the difference between the carrying amount of said loans at the time of measurement (amortised cost) and the present value of future cash flows, calculated applying the original effective interest rate. If the original interest rate is not directly obtainable, or obtaining it is excessively burdensome, the best approximation to it is applied.
For all positions at fixed rate the interest rate thus determined is kept constant also in subsequent years, while for floating-rate positions the interest rate is updated in relation to the variable reference component keeping constant the spread originally set.
The expected cash flows take into account the expected recovery times, the estimated realisable value of any guarantees, as well as the costs that are likely to be incurred for the recovery of the credit exposure.
The value adjustment is recognised in the income statement under item "130 - Net value adjustments/writebacks due to impairment". The adjustment component attributable to the discounting of cash flows is recognised on an accruals basis using the effective interest rate method, and booked to write-backs.

In the Notes to the Financial Statements write-downs on impaired exposures are classified as specific in the aforementioned income statement item even when the calculation method is of a statistical type.
If the quality of the impaired loan improves to the point that a reasonable certainty exists that principal and interest will be recovered in a timely manner, the original value of the loans is restored in subsequent years to the extent to which the reasons that led to the adjustment no longer hold true, provided that this assessment is objectively connectible to an event that took place after the adjustment itself. The write-back is booked to the income statement, and cannot exceed the amortised cost of the loan had there been no prior adjustments.
Loans for which no individual, objective evidence of impairment was detected are subject to collective measurement to detect impairment. This measurement is carried out on homogeneous categories of loans in terms of credit risk, and the related loss percentages are estimated by taking into account historical series, based on observable elements on the measurement date, which enable the value of the latent impairment to be estimated for each category of loan.
The model for this type of measurement comprises the following steps:

- segmenting the loans portfolio according to:
  - the customer's turnover
  - industry
  - geographical location
- determining the loss rate of the individual portfolio segments, assuming the Group's historical experience as reference.

The value adjustments determined on a collective basis are booked to the income statement. At each annual or interim reporting date, any additional value adjustments or writebacks are recalculated, using differential calculation methods, with reference to the entire portfolio of loans at the same date.

d) derecognition criteria
Loans transferred are written off from the assets in the financial statements only when the sale results in the essential transfer of all risks/benefits linked to the loans. On the other hand, when all the risks and benefits relating to the transferred loans are retained, these loans continue to be recorded under financial statement assets, even though legally, ownership of the loan has been effectively transferred.
If substantial transfer of all the risks and benefits cannot be ascertained, the loans are derecognised when no type of control is exercised over the same. Conversely, the maintenance of even partial control requires the loans to be kept in the financial statements in an amount equal to the residual involvement, measured by the exposure to changes in the value of the loans transferred and to changes in their cash flows.
In addition, transferred loans are eliminated from the financial statements if the contractual right to receive the related cash flows has been retained, with the concurrent assumption of an obligation to pay said flows, and only said flows, to other third parties (pass through arrangements).
Finally the loans are fully derecognised when the same are considered unrecoverable or fully written off. Derecognitions are booked directly to the income statement item 130 a) "Net value adjustments/write-backs due to impairment of loans" and are recognised as a reduction of the principal of loans. Recoveries of part or of entire amounts previously derecognised are booked to the same item.

6. HEDGING OPERATIONS

a) initial recognition - purpose
Hedging transactions are aimed at neutralising potential losses on a specific item or group of items, attributable to a specific risk, by using profits from a different item or group of items should that particular risk effectively occur.

b) classification - hedging type

The standard IAS 39 envisages the following types of hedges:

- fair value hedging, which aims at hedging exposure to changes in the fair value of a financial statement item attributable to a specific risk;
- cash flow hedging, which aims at hedging exposure to changes in future cash flows attributable to specific risks associated with accounting items;
- foreign investment hedging, which aims at hedging the risks of an investment in a foreign operation in foreign currency.

c) income measurement and recognition criteria

Hedging derivatives are measured at fair value. Specifically:

- in the case of fair value hedging, the change in fair value of the item hedged is offset with the change in fair value of the hedging instrument. This offsetting is recognised by booking the changes in value to the income statement under item 90 "Net income from hedging activities", for both the item hedged (as regards the changes produced by the underlying risk factor), and the hedging instrument. Any difference, representing the partial ineffectiveness of the hedge, consequently constitutes its net economic effect;
- in the case of cash flow hedging, the changes in fair value of the derivative are recorded under shareholders' equity in a specific reserve, for the effective amount of the hedge, and are recorded in the income statement under Item 90 "Net income from hedging activities" only when the change in fair value of the hedging instrument does not offset the changes in cash flows of the hedged transaction;
- foreign investment hedges are accounted for using the same method as for cash flow hedges.

The hedging transaction must be related to a predefined risk management strategy, and must be consistent with the risk management policies adopted. Moreover, the derivative instrument is designated as for "hedging" if there is official documentation regarding the relationship between the instrument hedged and the hedging instrument, and if it is effective both at the time the hedging begins and throughout the life of the hedge.

Hedging effectiveness depends on the degree to which the changes in fair value of the instrument hedged or the related expected cash flows are offset by those of the hedging instrument. Consequently, the effectiveness is measured by comparing these changes, taking into account the intended goal of the Bank at the time the hedge was established.

A hedge is effective when the changes in the fair value (or cash flows) of the hedging financial instrument almost completely neutralise (within the limits established by the range 80-125%) the changes in the hedged instrument, resulting from the risk element being hedged.

The effectiveness of the hedge is assessed at the end of each year, using:

- prospective tests, which justify application of hedge accounting, as they demonstrate its expected effectiveness;
- retrospective tests, which highlight the degree of hedging effectiveness achieved during the related period.

Derivatives considered hedges from an economic point of view, as they are connected for management purposes to financial liabilities measured at fair value (Fair Value Option), are classified among trading derivatives. The related spreads or positive and negative margins which accrue up to the reference date of the financial statements, in respect of their hedging functions, are recognised among interest income and expense, while the profits and losses from the measurement are recognised in income statement item 110 "Net result from financial assets and liabilities at fair value".

d) derecognition criteria - ineffectiveness

If the tests do not confirm the effectiveness of the hedge, both retrospectively and prospectively, the accounting of the hedging transactions, according to the above, is interrupted and the hedging derivative contract, if not past due or extinguished, is reclassified among instruments held for trading, while the financial instrument being hedged is once again measured based on its original class.

For fair value hedges, when the hedging transaction is interrupted, the positive or negative adjustment made to the hedged item until the date that the hedge is no longer applied is transferred to the income statement. Specifically, if the hedged item was not derecognised, that transfer is carried out over a time horizon corresponding to the remaining lifetime of the hedged item, through the change in the effective interest rate of that item; if the interruption of the hedging is accompanied by derecognition of the hedged item (for example, if repaid early) the adjustment is entirely posted to the income statement at the moment in which the element hedged is derecognised.
For cash flow hedges, any reserve is transferred to the income statement when the hedged item, still existing, generates its effects on the income statement. However, if the hedged instrument is derecognised, expires or is extinguished, the reserve is transferred to the income statement at the time the hedged element is derecognised.

7) EQUITY INVESTMENTS

a) recognition criteria
The item includes the interests held in associated entities and joint ventures. Upon initial recognition, these equity investments are entered at the purchase cost, with the addition of any costs directly attributable to the purchase.

b) classification criteria
Companies in which the Bank, directly or indirectly, holds one fifth or more of the voting rights (including "potential" voting rights) and in which it has the power to participate in determining the financial and management policies, are considered associates, that is subject to significant influence. Companies in which - although with a smaller proportion of voting rights - the Bank has the power to participate in determining the financial and management policies in virtue of particular legal ties are also considered associates. Such ties may, for example, be participation in shareholders' agreements, participation in significant committees of the investee company and the presence of the right to veto significant decisions.

c) income measurement and recognition criteria
The measurement criterion adopted for equity investments in subsidiaries and associates and in joint ventures is cost. At each annual or interim reporting date, any objective evidence that the equity investment has undergone impairment is assessed.
When a parent company relinquishes control over an investee company but nonetheless continues to hold a minority interest in the company, it must measure the retained interest on the balance sheet at fair value and allocate any gains or losses deriving from the loss of control to the income statement.
If evidence exists that the value of any equity investment may have undergone impairment, steps are taken to estimate the recoverable value of the equity investment represented by the higher amount between the fair value net of costs to sell and the value in use. Value in use is equal to the current value of the future cash flows which the investment may generate, including its final disposal value.
If the recovery value is lower than the book value, the related difference is stated in the income statement under item 210 "Gains/(losses) from equity investments". On the other hand, if the reasons for the impairment cease to exist following an event which occurs after recognition of the impairment, write-backs are made with booking to the income statement under the same item 210 as above.

d) derecognition criteria
Equity investments are eliminated when the contractual rights over the cash flows deriving from the assets expire or when the financial assets are sold, essentially transferring all the related risks and benefits.

8) PROPERTY, PLANT AND EQUIPMENT

a) recognition criteria

Property, plant and equipment are initially recognised at cost which comprises both the purchase price and all the possible related charges directly attributable to the purchase and commissioning of the asset.

Extraordinary maintenance costs which involve an increase in the future economic benefits are booked as an increase in the value of the assets, while ordinary maintenance costs are recorded in the income statement under item 150 “Administrative expenses - other”.

b) classification criteria

Property, plant and equipment items include land, properties used for business purposes, investment properties, plant, furniture and furnishings and all types of equipment.

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

This item also includes, if there are any, assets used under financial lease agreements, even if the legal ownership of the same remains with the lessor, improvements and incremental costs incurred on third party assets relating to property, plant and equipment which can be identified and separated from which future economic benefits are expected. With regard to properties, the components referring to land and buildings represent separate assets for accounting purposes and are stated separately at the time of purchase.

c) income measurement and recognition criteria

Property, plant and equipment, including properties not used for business purposes, are measured at cost, less any accumulated depreciation and impairment losses.

The fixed assets are systematically depreciated over their useful lives, adopting the straight-line basis as the depreciation method, with the exception of land and works of art which have an indefinite useful life and cannot be depreciated. The useful life of property, plant and equipment subject to depreciation is periodically verified; in case of adjustment of the initial estimate, the related depreciation rate is changed accordingly. The specific sections of the Notes to the Financial Statements show the depreciation rate and the consequent expected useful life of the main asset categories.

At each annual or interim reporting date, the presence of any signs of impairment is checked, meaning indications which demonstrate that an asset may have undergone a loss in value.

In the event of the presence of said signs, the book value of the asset is compared to its recoverable value, i.e. the lower of the fair value, net of any costs to sell, and the related value in use of the asset, taken to be the current value of the cash flows originated by the asset. Any adjustments are recorded in the income statement under item 170 “Net value adjustments/writebacks to property, plant and equipment”. Periodic depreciation is recorded in the same item. If the reasons which led to the recognition of the impairment loss cease to exist, a write-back is made. This must not exceed the value that the asset would have had, net of the depreciation calculated in the absence of prior impairment.

d) derecognition criteria

Property, plant and equipment are derecognised from the balance sheet at the time of disposal or when the assets are permanently withdrawn from use and future economic benefits are not expected from their disposal.

9) INTANGIBLE ASSETS

a) recognition criteria

Intangible assets are non-monetary assets, which are identifiable and lacking a physical presence, held to be used over the long-term or indefinitely. They are recognised at cost, as adjusted by any related charges, only if it is probable that the future economic benefits attributed to the assets will arise and if the cost of the assets can be reliably determined. Otherwise, the cost of the intangible assets is recorded in the income statement in the period in which it was incurred.
Goodwill is booked to assets when it derives from a business combination transaction in accordance with the calculation approach envisaged by accounting standard IFRS 3, as the residual excess between the cost incurred in total for the transaction and the net fair value of the assets and liabilities acquired constituting companies or business units.
If the cost incurred is lower than the fair value of the assets and liabilities acquired, the negative difference (badwill) is booked directly to the income statement.

b) income classification, measurement and recognition criteria

The cost of intangible fixed assets is amortised on a straight-line basis over the related useful life. If the useful life is indefinite, the asset is not amortised, but merely subjected to a periodic check of the adequacy of the value recorded for the fixed assets in the financial statements. Intangible assets deriving from software developed internally or acquired from third parties are amortised on a straight-line basis as from the completion and commissioning of the application on the basis of the related useful life. Assets representing relations with customers, which can be recognised at the time of business combinations, are amortised at constant rates.
At each reporting date, in the presence of evidence of impairment, steps are taken to estimate the recoverable value of the assets. The amount of the impairment loss, recorded in the income statement item "180 Net value adjustments to intangible fixed assets", is equal to the difference between the book value of the assets and the recoverable value. Periodic depreciation is recorded in the same item.
Recorded goodwill is not amortised but subject to periodic checks on its book value, carried out annually or more frequently in the presence of signs of an impairment in value. For such purposes, the cash generating units to which the goodwill is to be allocated are identified. The amount of any impairment is determined on the basis of the difference between the initial recognition value of the goodwill and its recoverable value, if lower. This recoverable value equates to the fair value of the cash generating unit, net of any cost to sell, or the related value in use, represented by the current value of the estimated cash flows for the periods of operation of the cash generating unit, and deriving from its disposal at the end of its useful life, whichever amount is the higher. The consequent value adjustments are recorded in the income statement item 230 "Value adjustments to goodwill". As regards goodwill, accounting for any subsequent write-backs is not permitted.

c) derecognition criteria

Intangible fixed assets are derecognised from the balance sheet at the time of disposal and if future economic benefits are not expected from the same.

10) NON-CURRENT ASSETS HELD FOR SALE

a) recognition criteria

Non-current assets and asset groups held for sale are measured at the time of initial recognition at book value or fair value net of costs to sell, whichever is lower.

b) classification criteria

The item contains the classification of non-current assets and asset groups held for sale (tangible, intangible and financial), with the relevant associated liabilities, when the book value will be recovered mainly through a sale transaction deemed highly likely, instead of through continuous use.

c) income measurement and recognition criteria

Subsequent to initial recognition non-current assets and asset groups held for sale, with the relevant associated liabilities, are measured at book value or fair value net of costs to sell, whichever is lower.

Valuation reserves relative to non-current assets held for sale, registered as contra-entries to changes in value significant for said purposes, are shown in the statement of comprehensive income.

The related income and expenses net of tax effects are recognised in the income statement under item 280 "Gain (Loss) on assets held for sale after tax". Gains and losses attributable to individual discontinued assets are recognised in the most suitable income statement item.

In the case of discontinued operations it is also necessary to present the same economic disclosure again in a separate entry also for the previous periods presented in the financial statements, reclassifying the income statements accordingly.

At the time of classification of a non-current asset under non-current assets held for sale, the amortisation/depreciation process is suspended.

d) derecognition criteria

Non-current assets and asset groups held for sale are eliminated from the balance sheet on disposal.

11) CURRENT AND DEFERRED TAXATION

a) recognition criteria

The effects relating to current and deferred taxes calculated in observance of national tax legislation are recorded on an accruals basis, in line with the methods for recording the costs and revenues which have generated them in the financial statements, applying current tax rates.

Income taxes are recorded in the income statement, with the exception of those relating to items booked or credited directly to shareholders' equity.

The provision for income taxes is determined on the basis of a prudent forecast of the current, prepaid and deferred tax liability.

In particular current taxation includes the net balance between current liabilities for the year and the current tax assets with respect to the Tax Authorities represented by advances, credits deriving from previous tax returns and other tax credits for withholdings made. Current assets also include tax credits a rebate of which has been requested from the competent Tax Authorities. Tax assets transferred to secure own payables also remain recorded in this item.

Deferred tax assets and liabilities are determined on the basis of the timing differences - without time-limits - between the value assigned to an asset or a liability according to statutory criteria and the corresponding values adopted for tax purposes, applying the so-called balance sheet liability method.

Deferred tax assets determined on the basis of temporary deductible differences are recognised in the financial statements to the extent that their recovery is probable. Said probability is determined through a probability test, on the basis of the Bank's ability to continuously generate positive taxable income and that of all of the Group companies participating in tax consolidation.

For a description of the specific methods with which the probability test is conducted please see the Notes to the Financial Statements, paragraph 13.7 of Section 13 - Part B - Notes to the Balance Sheet.

The probability of recovering deferred tax assets related to goodwill, other intangible assets and writedowns on loans must be considered automatically fulfilled as a result of the legal provisions which contemplate their transformation into tax credit in losses for the period according to civil and/or tax legislation.

Specifically:
- in the case of a loss in the period according to civil legislation, the deferred tax assets related to goodwill, other intangible assets and writedowns on loans will be subjected to partial transformation into tax credit pursuant to the provisions of Art. 2, section 55, of Italian Decree Law N° 225 of 29 December 2010, converted with amendments by Italian Law N° 10 of 26 February 2011. The transformation takes effect as of the date of approval, on the part of the shareholders' meeting, of the financial statements on which the loss is posted, as contemplated by Art. 2, section 56, of the said Decree Law 225/2010.
- in the case of a loss in the period according to tax legislation, the related deferred tax assets, limited only to the part generated by deductions regarding goodwill, other intangible assets and writedowns on loans will be subjected to transformation into tax credit pursuant to the provisions of Art. 2, section 56-bis, of the said Decree Law 225/2010, introduced by Art. 9 of Decree Law No. 201 of 6 December 2011, converted with amendments by Law No. 214 of 22 December 2011. The said transformation takes effect as of the date of the presentation of the tax return related to the financial year in which the loss is recorded.

As a result of the changes made by Italian Law No. 147 of 27 December 2013, to the above rules, starting from the tax period in progress at 31 December 2013 the transformability into tax credit of deferred tax assets related to goodwill, to other intangible assets and to write-downs and losses on loans has been extended also to IRAP, both in the presence of a civil-law loss for the year and in the presence of negative value of production.
On 27 June 2015 the text of Italian Law Decree No. 83/2015 was published in the Official Journal (No. 147). This was later converted by Italian Law No. 132 of 6 August 2015. The Decree modified, among other things, the tax deductibility system for IRES and IRAP purposes to which losses and write-downs on loans to customers of credit and financial institutions and insurance companies and the transformability into tax credits of DTAs related to goodwill and other intangible assets.
On this subject the fiscal measure establishes, in brief:
- as of 2016, full deductibility of write-downs and losses on loans in the year they are recognised in the income statement, in contrast to the previous situation which provided for deduction over 5 years;
- a new schedule of 10 years, starting in 2016, for the stock of write-downs and losses on loans carried over from previous years pursuant to the regulations in effect (eighteenths and fifths);
- the elimination of the possibility of transforming DTAs relative to goodwill and other intangible assets to tax credits, if recognised in financial statements from 2015 onwards.

As an effect of these provisions, transformable DTAs ceased to increase as of 2016. In particular, the condition for recognising so-called "transformable" DTAs related to goodwill and other intangible assets and to writedowns and losses on loans ceases for the future, as these latter become entirely deductible negative income components (with the aforementioned exception of the non-deductible portion in 2015). "transformable" DTAs related to goodwill and other intangible assets and to writedowns and losses on loans ceases for the future, as these latter become entirely deductible negative income components (with the aforementioned exception of the non-deductible portion in 2015).
On 3 May 2016 Italian Law Decree 59/2016 was published in the Official Journal (no. 102), (This was later converted by Italian Law of 30 June 2016, no. 119). In addition on 17 February 2017 Italian Law Decree no. 237 of 23 December 2016 - "Urgent measures to protect savings in the lending sector" was converted by Italian Law no. 15. Relative to transformable DTAs, this Decree establishes that, to continue to apply the current rules on converting deferred tax assets into tax credits, the company must exercise an irrevocable option and pay an annual fee for each financial year from 2016 onward, if the conditions exist, until 2030. The Parent Company exercised the said option, maintaining in

this way for the future, both for itself and for the companies that are part of the tax consolidation, the right to transformability into tax credit of the DTAs related to goodwill, to other intangible assets and to write-downs and losses on loans.
Deferred taxes on tax losses not used are recognised on the basis of the same criteria envisaged for the recognition of deferred taxes on deductible temporary differences: they are therefore recognised only to the extent to which their recovery is likely, on the basis of the ability to generate positive taxable incomes in the future. As the existence of unused tax losses can be a symptom of difficulty in achieving positive taxable incomes in the future, IAS 12 states that, in the presence of losses made in recent periods, suitable evidence must be provided to support the existence of such income in the future. In addition we can note that the current Italian tax legislation allows unlimited carrying forward over time of IRES tax losses (Art. 84 paragraph 1 of the Consolidated Income Tax Law); consequently, verification of the existence of future taxable earnings against which to use these losses is not subject to time limits.
Deferred tax assets and liabilities are calculated using the tax rates expected at the date of payment of the temporary differences, on the basis of the measures existing at the reporting date. Any changes in the tax rates or fiscal legislation, issued or communicated after the reporting date and before the date of authorisation for publication, which have a significant effect on deferred tax assets and liabilities are treated as events that occurred after the reporting date that do not entail adjustment under the terms of IAS 10, with consequent disclosure in the Notes to the Financial Statements.
Prepaid and deferred taxes are recognised at the capital level by offsetting at the level of the same tax.
On this point we can note that Italian Law No. 208 of 28 December 2015, (the so-called 2016 Stability Law) stated that:

- starting from 1 January 2017, with effect for tax periods after the one in progress at 31 December 2016, the IRES rate will be reduced to 24%;
- for credit and financial institutions pursuant to Italian Legislative Decree 87 of 27.1.1992 an IRES surcharge of 3.5% is applied with effect for the tax periods after the one in progress at 31 December 2016, to be calculated, for companies accepting tax consolidation, on the individual taxable incomes.

b) classification and measurement criteria
The deferred tax assets and liabilities recognised are measured systematically to take account of any changes made to legislation or tax rates. Any expenses that could derive from assessments already notified, or in any case from disputes in being with the tax authorities, are instead recognised under the item "Net provisions for risks and charges".
In relation to the Tax Consolidation between the Parent Company and the subsidiaries that have accepted it contracts were signed that regulate the offsetting flows in relation to transfers of tax profits and losses. These flows are determined applying the IRES rate in force to the tax losses of the companies involved. For companies that transfer tax losses, the offsetting flow, calculated as above, is paid by the consolidating to the consolidated company when, and in the amount of which, the same consolidated company transfers to the tax consolidation, in tax periods subsequent to that in which the loss was made, positive taxable income. Offsetting flows determined in this way can be recognised as credits and debits relative to the consolidating entity, classified among other assets (item 150, Assets) and other liabilities (item 100, Liabilities), as a contraentry to item "260 - Income taxes for the year from current operations".

c) income recognition
Current taxes are recognised in the income statement item 260 "Income taxes for the year on current operations". The same item contains the deferred tax assets and liabilities relating to components which have affected the income statement. In the cases where deferred tax assets and liabilities concern transactions which have directly affected the shareholders' equity without influencing the income statement, for example valuations of financial instruments available for sale or cash flow hedging derivatives, the same are recorded as an offsetting entry to shareholders' equity, affecting the specific reserves when envisaged.

12) PAYABLES AND OUTSTANDING SECURITIES

a) recognition criteria

The initial recognition of these financial liabilities takes place upon collection of the deposited amounts or upon issue of the debt securities.

Initial recognition is performed on the basis of the fair value of the liabilities, which is normally equivalent to the amount collected or the issue price, increased by any additional costs/revenues directly attributable to the single issue or funding operation and not refunded by the creditor counterparty. Internal administrative costs are excluded. The fair value of any financial liabilities issued at conditions different from those of the market is subject to a specific estimate and the difference compared to the price received is recognised directly in the income statement, exclusively when the conditions provided for in the standard IAS 39 are fulfilled, that is if the fair value of the instrument issued is determinable using the reference prices on similar instruments in an active market or is determined using a measurement technique based exclusively on parameters observable on the market.

b) classification criteria

Amounts due to banks, to customers and outstanding securities include the various forms of deposits, both inter-bank and with respect to customers and deposits made through certificates of deposits and outstanding bonds, net of any repurchases. Among outstanding securities are classified all securities not subject to “natural” hedging with derivatives, which are classified among the liabilities at fair value.

Also included are payables recorded by the lessor within any financial leases that may have been entered into, and repurchase agreements of the banking book entered into starting from the last quarter of 2016, given the purpose of the same mainly attributable to collecting funds to finance the operations of the trading business.

c) income measurement and recognition criteria

After initial recognition, financial liabilities are measured at the amortised cost with the effective interest rate method. Short term liabilities, when the time factor is negligible, are excepted and remain recognised for the amount collected. With regard to structured instruments, if there are the requirements envisaged by IAS 39 for separate recognition of embedded derivatives, these are separated from the host agreement and recognised at fair value as assets or liabilities held for trading. In this latter case, the host agreement is recognised at the amortised cost.

Contractual interest accrued is charged to the income statement, item 20 “Interest expense and similar charges”.

d) derecognition criteria

Financial liabilities are eliminated from the financial statements when they have matured or been discharged.

Derecognition also takes place when previously issued securities are repurchased. The difference between the book value of the liability and the amount paid to acquire it is recorded in the income statement under item 100 “Profit (Loss) from sale or repurchase of financial liabilities”. The re-placing of own securities on the market subsequent to their repurchase is considered a new issue with recognition at the new re-placement price, without any effect on the income statement. In compliance with the provisions of IAS 32, the potential commitment to purchase treasury shares due to the issue of put options is represented in the financial statements as a financial liability with a reduction in the shareholders’ equity for the present value of the contractually set repayment amount as a direct offsetting entry.

13. FINANCIAL LIABILITIES HELD FOR TRADING

a) recognition criteria

For financial liabilities, debt securities are initially recognised on the issue date, while derivative contracts are

recognised on the date they are signed.
Financial liabilities held for trading are initially measured at their fair value, which generally corresponds to the amount collected, without considering the transaction costs or income directly attributable to the instrument itself, which are booked directly to the income statement. In this item are classified the implicit derivatives present in complex agreements not strictly correlated with them, which, having the characteristics to meet the definition of a derivative, are separated from the host agreement and recognised at fair value. The appropriate reference accounting standard is applied to the primary agreement.

b) classification criteria
This category contains:
derivatives (with the exception of derivatives which are designated and effective hedging instruments), including embedded derivatives separated from structured financial instruments in accordance with the indications of IAS 39; liabilities related to technical overdrafts on securities, posted in the sub-items of amounts due to banks and to customers.

c) income measurement, derecognition and recognition criteria
The approach for measurement, derecognition and recognition of income components is the same as that illustrated in the previous Section 1 “Financial assets held for trading”.

14) FINANCIAL LIABILITIES AT FAIR VALUE

This portfolio is not used by the bank.

15) PROVISIONS FOR RISKS AND CHARGES

a) income recognition, classification, measurement and derecognition criteria
Provisions for risks and charges are set aside only when:
- there is a current (legal or implied) obligation as a result of a past event;
- it will probably be necessary to use resources able to produce economic benefits to meet the obligation;
- the amount of the obligation can be estimated reliably.

If the temporal element is significant, the allocations are discounted to the present.
Allocations to provisions are recorded in the income statement under item 160 “Net provisions for risks and charges”, where the interest expense accrued on the provisions that were discounted are also recorded.
No provision is made for liabilities which are merely potential and not probable, but disclosure is in any case provided in the Notes to the Financial Statements, unless the likelihood of using resources is remote or the phenomenon is not significant.
As of each reporting date, these provisions are adjusted to reflect the best current estimate. If it is no longer necessary, the provision is cancelled and reversed to the income statement item 160 “Net provisions for risks and charges”.
The sub-item 120 “Pensions and similar obligations” includes the provisions recorded on the basis of the 2011 revised version of international accounting standard IAS 19 “Employee Benefits” for the purpose of making good the technical deficit of the supplementary welfare funds with defined benefits. Pension plans are divided up into the two categories with defined benefits and defined contributions. While for defined contribution plans the liability of the company is established in advance, with regard to defined benefit plans, the liability is estimated and must take into account any

insufficiency in the contributions or an insufficient return on the assets in which these contributions may have been invested.
With regard to defined benefit pension plans, the determination of the actuarial values required by the application of the aforementioned standards is carried out by an independent actuary, with the use of the Projected Unit Credit Method. In particular, the logical path followed to represent the liabilities inherent to defined benefit funds in the financial statements is the following:
• the surplus or deficit of the plan is determined as the difference between the current value of the Defined Benefit Obligation (DBO) and the fair value of the assets serving the plan;
• when the plan is in deficit, the net liability for defined benefits to be recognised in the balance sheet coincides with the deficit itself;
• when the plan is in surplus, it is necessary to first determine the current value of the future economic benefits available for the Bank under the form or reimbursements or reductions in future contributions to the plan (asset ceiling);
• when the asset ceiling is less than the surplus, the net assets for defined benefits must be recognised in the financial statements at an amount equal to the asset ceiling.
Essentially, when the Bank cannot make use of the surplus in any way, no net assets are recognised in the balance sheet.
The increase in the current value of the DBO attributable to services provided by employees during the current period is recognised in the Bank's income statement regardless of the surplus or deficit position of the plan, equal to that related to the services provided during past years and the interest component.
Instead, the following components are recognised immediately in the statement of comprehensive income:
• actuarial gains and losses of the DBO;
• the difference between the effective yield of the assets serving the plan and the interest component for the same assets;
• the changes in adjustments carried out to adjust the surplus to the asset ceiling, net of the interest component.
The sub-item 120 "Provisions for risks and charges: other provisions" includes the provisions against estimated losses on legal disputes, including action for revocation, the estimated outlays for customer claims on security brokerage activities, and other outlays estimated for legal or implicit obligations existing at the end of the period.

16) FOREIGN CURRENCY TRANSACTIONS

a) recognition criteria
Foreign currency transactions are recorded in the financial statements on the initial recognition date, in the reporting currency, and are converted into Euro using the exchange rate in force on the transaction date.

b) income classification, measurement, derecognition and recognition criteria
At the end of every financial year or interim period, foreign currency items are measured as follows:
• cash items are converted at the exchange rate in force on the balance sheet date;
• non-cash items are carried at their historical cost converted at the exchange rate in force on the date of the transaction;
• non-monetary items valued at fair value are converted using the exchange rates in force as of the period-end date.
The exchange differences which derive from the settlement of monetary elements or from the conversion of monetary elements at rates other than for initial conversion, or conversion of the previous financial statements, are recorded in the income statement of the period in which they arise under Item 80 "Net income from trading activities" (with the exception of financial instruments designated at fair value).

When a gain or a loss relating to a non-monetary element is recorded under shareholders' equity, the exchange difference relating to this element is also stated under equity. By contrast, when a gain or a loss is recognised in the income statement, the related exchange difference is also recorded in the income statement, again under item 80.

17) OTHER INFORMATION

Content of other significant accounting items

The content of other significant accounting items is described below.

■ Treasury shares

Any treasury shares held are recorded in the financial statements under their own item and charged directly against shareholders' equity. No gain or loss is recorded in the income statement on the purchase, sale, issue or cancellation of the Bank's equity instruments. The amount paid or received is directly recorded under shareholders' equity.

■ Share-based payments

The stock granting plans, if in force, envisage in general, on the fulfilment of certain conditions, the purchase and assignment on an annual basis to employees of a number of Banca Monte dei Paschi di Siena S.p.A. (parent company) shares, equivalent in value to the amounts recognised as part of the Company Bonus.
This value is recorded as a personnel expense on an accruals basis.

■ Severance indemnities

The employee severance indemnity is recorded on the basis of its actuarial value since it takes the form of a post-employment benefit, due on the basis of a defined-benefit plan. For discounting purposes, the "Projected Unit Credit" method is used which envisages the projection of the future outlays on the basis of historic statistical analysis and the population curve and the financial discounting back of these flows on the basis of a market interest rate. To determine the liabilities to be recognised in the financial statements, the 2011 revised version of IAS 19 "Employee Benefits" is used. We therefore refer the reader to what is illustrated in the section "Provisions for risks and charges" in relation to defined-benefit pension funds.
Costs accrued during the year for servicing the plan are recorded in the income statement, under item 150 "Administrative expenses of which: a) personnel expenses".
Following the supplementary welfare reform pursuant to Italian Legislative Decree No. 252 of 5 December 2005, the portions of severance indemnity accrued up until 31.12.2006 remain with the Bank, while the portions of severance indemnity accruing as from 1 January 2007 are, at the discretion of the employee, assigned to supplementary welfare plans or are maintained within the Bank, which then transfers said portions to the Treasury Funds managed by INPS (National Institute of Social Insurance).

■ Other assets and other liabilities

The other assets and liabilities posted in the balance sheet, respectively in the asset item 150 "Other assets" and the liability item 100 "Other liabilities", refer mainly to:

- items in transit;
- trade and tax receivables and payables;
- credit/debit positions deriving from the tax consolidation system;
- improvements and incremental expenses paid on third party properties other than those recorded in the asset item 110 "Property plant, and equipment", hence not being identifiable and separable on their own. Such costs are posted here because as a result of the lease agreement the (user) Bank has control over the assets and may draw future economic benefits from them. The costs are recorded in the income statement item 190 "Other operating

income/charges" according to the shorter period between the one in which the improvements and expenses can be used and the residual validity of the agreement;
- accrued income/expense other than that to be capitalised on the pertinent financial assets/liabilities.

They are recognised only when one of the parties has provided the assets or concluded their service in accordance with the provisions of the contract; by contrast, derecognition takes place upon maturity, which usually corresponds with the collection or payment date.
Starting from the financial statements for 2015, capital gains/losses deriving from the measurement of regular way securities operations not yet settled, with a settlement date in the first few days of the subsequent year, are recognised, respectively, under asset item 150 "Other assets" and under liability item 100 "Other liabilities".

■ Dividends and recognition of revenues and costs

Revenues are recognised when they are obtained or in any case: for sales of goods or services, when it is likely that future benefits will be received and such benefits can be quantified reliably; for services, when they are rendered.
Specifically:
- interest is recognised *pro rata temporis* according to the contractual interest rate or to the effective interest rate in case of application of the amortised cost;
- default interest is recorded in the income statement solely at the time it is effectively collected;
- dividends are recorded in the income statement when their distribution is resolved (usually coinciding with the date of resolution by the shareholders' meeting of the investee company which approves the financial statements and the related profit allocation proposal) and thus the right to receive the payment is established;
- fees for revenues from services are stated, on the basis of the existence of contractual agreements, in the period in which the services were provided;
- revenues deriving from brokering or issuing financial instruments, determined by the difference between the price of the transaction and the fair value of the instrument, are recognised in the income statement when the transaction is recorded if the fair value can be determined with reference to parameters or recent transactions observable on the same market where the instrument is traded; otherwise, they are distributed over time, taking into account the duration and nature of the instrument;
- costs are stated in the income statement in the periods in which the related revenues are recorded; costs which cannot be associated with income are immediately stated in the income statement.

■ Guarantees given

Adjustments due to any impairment in guarantees given are recorded under item 100 "Other liabilities". Write-downs due to impairments are recorded in Income Statement item 130 "Net value adjustments/writebacks due to impairment of other financial transactions".

■ Amortised cost

The amortised cost of a financial asset or liability is the value at which it has been measured on initial recognition net of repayments of principal, increased or decreased by total amortisation calculated using the effective interest rate method, on the differences between the initial value and net of any permanent impairment.
The effective interest rate is that which makes the present value of the contractual flows of the future payments or collections in cash until maturity or as of the subsequent date of recalculation of the price equal to the net book value of the financial asset or liability. For the calculation of the current value, the effective interest rate is applied to the flow of the future collections or payments estimated over the entire useful life of the financial asset or liability or a shorter period in the presence of certain circumstances (for example the review of the market rates).
The effective interest rate must be re-determined if the financial asset or liability was subjected to fair value hedging

and this hedging relationship has ceased to exist.
In cases where it is not possible to reliably estimate the cash flows or the estimated life, the Bank uses the cash flows envisaged contractually for the entire duration of the agreement.
Subsequent to initial recognition, the amortised cost makes it possible to allocate revenues and costs decreasing or increasing the instruments over the entire estimated life of the same via the amortisation process. The determination of the amortised cost differs according to whether the financial assets/liabilities being measured are fixed or floating rate. With regard to fixed-rate instruments, the future cash flows are quantified on the basis of the interest rate noted over the duration of the loan. With regard to floating-rate financial assets/liabilities, whose variability is not known in advance (because, for example, it is linked to an index), the cash flows are determined on the basis of the last known rate. At every rate revision date, the repayment plan is recalculated as is the effective rate of return over the entire useful life of the instruments, in other words to maturity. The adjustment is recognised as a cost or as income in the income statement.
Measurement at amortised cost is carried out for receivables, financial assets held to maturity and those available for sale, payables and outstanding securities. For debt instruments posted under assets available for sale, the amortised cost is calculated only in order to enter on the income statement the interest on the basis of the effective interest rate (the difference between the fair value and the amortised cost is posted in a special shareholders' 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 - for instruments valued at amortised cost - of the transaction costs and the directly attributable commissions such as fees and commissions paid to agents, consultants, brokers and operators, as well as contributions collected by regulatory bodies and by the Stock Exchanges, taxes and transfer charges. These costs, which must be directly ascribable to the individual financial asset or liability, affect the original effective return and render the effective interest rate associated with the transaction different from the contractual interest rate.
The calculation of the amortised cost does not taken into account the costs which the Bank should incur irrespective of the transaction (for example: administrative, stationery, communication costs), that is those which, despite being specifically attributable to the transaction, belong to the normal loan management activities (for example: assets for the purpose of disbursing the credit facility).
With particular reference to loans, the flat-fee reimbursements of costs incurred by the Bank for the performance of a service must not be booked as a decrease of the cost of disbursing the loan but, since they are able to adopt the form of other operating income, the related costs must be charged to their own income statement item.

■ Accounting treatment of the contributions made to the resolution funds and to the Interbank Deposit Protection Fund

Italian Legislative Decrees 180 and 181 of 2015 transposed into Italian legislation Directive 2015/59/EU, the Banking Resolution and Recovery Directive (" BRRD"), which provides for the establishment of resolution funds.
These funds are endowed, among other things, by:

a) contributions paid by banks on an annual basis, aimed at reaching the target level of fund endowment set by the legislation;
b) extraordinary contributions paid by banks if the ordinary contributions are insufficient to cover the interventions decided in the context of resolution.

Both types of contributions come within the scope of application of the interpretation IFRIC 21 "Levies", because these contribution obligations derive from legislative provisions. On the basis of this interpretation a liability must be recognised on occurrence of the "obligating event" that creates the payment obligation. The counter-item of this liability is represented by Income Statement item 180 (b) "administrative expenses - other administrative expenses", as the conditions are not fulfilled either for recognition of an intangible asset under the terms of the accounting standard IAS 38 "Intangible Assets", or for recognition of an asset for advance payment.

As regards the additional contributions recognised in 2016 under the terms of art. 25 of Italian Law Decree 237/2016, as in the Bank of Italy communication dated 27 December 2016, these charges were recognised in the 2016 financial statements under Income Statement item 180 (b) “Administrative expenses - other administrative expenses” as an offsetting entry to item 100 “Other liabilities”, in accordance with the instructions transmitted by the Bank of Italy with its communication of 25 January 2017.
The same treatment is reserved for the “*ex ante*” contributions paid to the Interbank Deposit Protection Fund in the context of Directive 2014/49/EU “Deposit Guarantee Schemes” (DGS), contributions that the Bank does not pay because it does not have a “contributive base”.

■ Use of estimates and assumptions in preparing the statutory financial statements. Main reasons for uncertainty (with specific reference to the provisions of IAS 1 paragraph 125 and of documents No. 4 of 3 March 2010 and No. 2 of 6 February 2009 issued jointly by Bank of Italy/CONSOB/ISVAP)
Preparation of the financial statements also requires use of estimates and assumptions which may have significant effects on the amounts recorded in the balance sheet and in the income statement, as well as on information about contingent assets and liabilities reported in the financial statements.
The estimates required to apply the accounting standards may have significant effects on the amounts recorded in the balance sheet and in the income statement, as well as on information about contingent assets and liabilities reported in the financial statements. Processing those estimates requires using the information available and making subjective evaluations. For their very nature, the estimates and assumptions used may vary from year to year and, as such, it cannot be excluded that in future years the current values posted on the financial statements may differ, even significantly, as the subjective assessments used alter. These estimates and evaluations are therefore difficult to make and inevitably cause some uncertainty, even in stable macroeconomic conditions.
The main cases for which the use of subjective evaluation by the Company Management is required are:

a) use of valuation models to measure the fair value of financial instruments not quoted on active markets;
b) quantification of losses for impairment of loans and, in general, of the other financial assets;
c) evaluation of the congruity of the value of equity interests and of other intangible assets, property, plant and equipment;
d) the estimate of the liabilities deriving from the defined-benefit company pension funds;
e) the estimate of the recoverability of deferred tax assets;
f) the estimate of the expenses related to legal and tax disputes.

As regards point a), please see the description in section A.4 “Fair value disclosure”, below; for the other cases, the most relevant and significant qualitative issues subject to discretion are illustrated in more detail below.
In the context of the single sections of the notes to the balance sheet and income statement where the contents of the individual accounting items are detailed, the actual technical and conceptual solutions adopted by the Bank are analysed and discussed in depth. As regards point d) please see section 12.3 of the Liabilities in the Notes to the Financial Statements “Defined benefit company pension funds”; as regards point e) please see section 13 of the Assets in the Notes to the Statements “Tax assets and liabilities”. With reference to point f) please see section 12 of the Liabilities in the Notes to the Financial Statements “Provisions for risks and charges” and section 4 Operational risks in part E of the Notes to the Financial Statements.

Procedures for determining the impairment of loans and other financial assets
At each reporting date, financial assets not classified as “Financial assets held for trading” or as “Financial assets at fair value” are subjected to assessment to verify whether there is objective evidence of impairment which may lead to the determination that the book value of the assets is not fully recoverable.
A financial asset has suffered impairment and the impairment losses must be accounted for if, and only if, there is

objective evidence of a reduction in future cash flows, relative to the originally estimated ones, as a result of one or more specific events which have occurred after the initial recognition; the impairment must be reliably quantifiable and be related to current events.

Impairments can also be caused by the combined effect of different events, rather than by a single event.

The objective evidence that a financial asset or a group of financial assets has undergone an impairment includes measurable data that become known with respect to the following events:

- significant financial hardships of the issuer or debtor;
- contract violation, e.g. a breach or a missed payment of interest or principal;
- granting the beneficiary some favourable terms which the Bank took into consideration mainly due to economic or legal reasons linked to the beneficiary's financial hardship, which otherwise it would not have granted;
- reasonable likelihood that the beneficiary will declare bankruptcy or other financial restructuring procedures;
- disappearance of an active market for that financial asset due to financial difficulties; however, the disappearance of an active market because the financial instruments of the company are no longer publicly traded is not evidence of an impairment;
- measurable data indicating the existence of a considerable reduction in estimated future cash flows for a group of financial assets from the time of the initial measurement of those assets, although the reduction cannot yet be identified with the individual financial assets in the group, including:
  - unfavourable changes in the status of beneficiaries' payments in the group;

or

  - local or national economic conditions related to the breaches pertaining to the assets within the group.

The objective evidence of impairment for an investment in an equity instrument includes information about important changes with an adverse effect that have taken place 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 assessment is carried out on an analytical basis for financial assets that exhibit objective evidence of impairment losses and collectively for financial assets for which such objective evidence does not exist. The objective evaluation is based on the identification of homogeneous risk classes of the financial assets with reference to the characteristics of the debtor/issuer, to the industry, the geographical area, the presence of any guarantees or of other significant factors.

With reference to loans to customers and to banks, loans to which the status of non-performing loan is attributed are subjected to analytical evaluation; probable defaults and past-due impaired exposures are subjected to a process of analytical evaluation, or with determination of the expected loss for homogeneous categories and analytical attribution to each position. The amount of the loss is equal to the difference between the carrying amount of the loan at the moment of measurement (amortised cost) and the present value of forecast future cash flows, calculated by applying the original effective interest rate. The expected cash flows take into account the expected recovery times, the estimated realisable value of any guarantees, as well as the costs that are likely to be incurred for the recovery of the credit exposure. In this regard, in order to determine the cash flows considered recoverable, in the assessment process used by the MPS Group, in the absence of analytical schedules statistical schedules are used.

The amount of the loss is booked to the income statement under Item 130 "a) Net value adjustments/writebacks due to impairment of loans".

Loans classified as performing and some impaired loans (with exposures below a given threshold amount) are subjected to statistical assessment. This assessment takes place for categories of loans that are homogeneous in terms of credit risk and indicative of the debtor's ability to return the amounts due according to the contractual terms. The segmentation drivers used for this purpose comprise: Business segment, geographical location and customer segments (turnover); on the basis of this last indicator the main portfolio segmentations are identified:

- Retail;
- Small and Medium Enterprise Retail;

• Small and Medium Enterprise Corporate;
• Corporate;
• Large Corporate;
• Banks;
• Other.

For each portfolio segment, the loss rate is determined identifying the greatest possible synergies (to the extent allowed by the different regulations) with the approach prescribed for supervisory purposes. In particular, the amount of the impairment in the period of each loan belonging to a given homogeneous class is given by the difference between carrying value and the recoverable amount on the evaluation date, determined using the parameters of the calculation model prescribed by the supervisory provisions, represented by the PD (probability of default) and by the LGD (loss given default).

For impaired loans the collective assessment is carried out applying the specific LGD parameter to the carrying amount of the exposures.

If, in a subsequent year, the amount of the impairment loss decreases and the decrease can be objectively connected to an event that occurred after the recognition of the impairment (such as an improvement in the debtor's financial solvency), the impairment loss recognised previously is reversed. The amount of the reversal is booked to the income statement under Item 130 "Net value adjustments/writebacks due to impairment".

With regards to impaired loans and in particular non-performing loans, measurements were carried out taking into account ordinary collection methods (enforcement of guarantees, participation in settlement procedures, etc.), with the exception of the non-performing portfolio subject to transfer (without derecognition) which occurred on 20 December 2017, for which the net book value reflects the conditions established in the transfer agreement (see the next paragraph).

With reference to the loans that are not subject to restructuring with their partial or full conversion into shares of the borrower companies, in compliance with the indications provided in joint Bank of Italy/ISVAP/CONSOB Document No. 4 of 3 March 2010, these positions are evaluated taking into account the fair value of the shares received. In particular, in cases of impaired exposures this classification is also maintained for financial instruments received in conversion and, in the case of classification in the category "Assets available for sale", the capital losses recognised after conversion are allocated directly to the income statement.

For debt securities classified as loans to customers, if there is objective evidence that an impairment loss has occurred, the amount of the loss is given by the difference between the book value of the asset and the present value of the estimated cash flows, discounted at the original effective interest rate of the asset.

If in a later period the amount of the impairment loss decreases and the decrease can be linked objectively to an event that occurred after recognition of the impairment loss, the value of the financial asset must be reinstated without however recognising a book value higher than the amortised cost that there would have been if the impairment loss had not been received. The amount of the write-back must be booked to income statement.

With regard to financial assets recognised in the balance sheet item "Assets available for sale", the impairment is recorded in the income statement when a reduction in fair value has been recognised directly in shareholders' equity and the aforesaid "objective evidence" exists. In such cases, the cumulative loss that was recognised directly in the shareholders' equity must be reversed and recognised in the income statement even though the financial asset has not been eliminated. The amount of the total loss that is reversed from the shareholders' equity and recognised in the income statement is given by the difference between the purchase cost (net of any repayment of principal and interest) and the current fair value, deducting any impairment losses on that asset previously booked to the income statement.

Impairment losses booked to the income statement for an investment in an equity instrument classified as available for sale must not be reversed with effect booked to the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can objectively be correlated to an event that occurs after the impairment loss had been booked to the income statement, the impairment loss must be

eliminated, with the reversed amount booked to the income statement. On the contrary, the existence of a negative reserve is not sufficient in itself to determine the recording of a write-down in the income statement.
The nature and number of the assumptions used in identifying impairment factors and quantifying the impairment and the value recovery, represent elements of the uncertainty of the estimate.
In any case, regarding equity securities listed on active markets, the following are considered objective evidence of impairment: i) the presence of a market price at least 30% lower than the original purchase cost; or ii) the prolonged presence for more than 12 months of a market value lower than cost. If additional reductions occur in the following years, they are recognised directly in the income statement.

Assumptions made relative to the transfer of the portfolio of non-performing loans
As envisaged in the MPS Group Restructuring Plan approved by the European Commission on 4 July 2017, in December 2017 the transaction to transfer the non-performing loans occurred, which involved the sale of a portfolio of non-performing loans with a net book value of € 4.5 billion at the Group level as at 20 December 2017, with around 1 billion relative to the Bank, through a securitisation transaction. The transaction provides for the involvement of Fondo Atlante II (managed by Quaestio Capital Management SGR S.p.A.), with which it signed a binding agreement to purchase 95% of the junior and mezzanine securities on 26 June 2017. Note that the latter were subject to transfer, effective 9 January 2018, with a pledge on the portion for which payment was deferred to the date the Junior securities are transferred, which is to occur after GACS are received for the Senior tranche.
The non-performing loans in the portfolio subject to transfer were classified as such as of 30 June 2017 in the Assets item 140 "non-current assets held for sale and discontinued operations", in that the disposal transaction satisfied the requirements envisaged in IFRS 5 (non-current assets for which sale is held highly probable within the 12 months subsequent). Note that deconsolidation of the portfolio of non-performing loans will occur by June 2018 with the transfer of the junior notes and that in any case the economic impacts of the securitisation, in addition to being inserted in the Restructuring Plan, were fully recognised within the interim report at 30 June 2017, on the basis of the agreements signed at the time with Quaestio.
In fact, highlighting a change in the strategy used to manage these assets, for which collection no longer depends on ordinary activities (enforcement of guarantees, participation in settlement procedures, etc.), but rather on transfer to third parties, the net book value of these non-performing loans was reduced to reflect expected cash flow from this transaction, as envisaged in paragraph 63 of IAS 39. Value adjustments on the perimeter of positions subject to transfer were adjusted so that the net book value of said non-performing loans also reflected the conditions established in the disposal contract signed on 20 December 2017. Additional adjustments deriving from this, equal to € 3.9 billion at the Group level and around € 0.7 billion relative to the Bank, were for the most part already recognised in the first half of 2017 under income statement item 130 a) "Net value adjustments/write-backs due to impairment of loans". This accounting representation also takes into account assessment of the combination of conditions contained in the agreement with Quaestio.

Procedure for determining the impairment of equity investments and of other tangible and intangible assets
Equity Investments
The impairment process provides for the determination of the recoverable value, represented by the fair value net of costs to sell or value in use, whichever is the higher. Value in use is the present value of the expected financial flows deriving from the impaired assets; it reflects the estimate of the cash flows expected from the asset, the estimate of the possible changes in the amount and/or in the timing of the cash flows, the cash value over time, the price able to remunerate the riskiness of the business and other factors that may influence the appreciation, by market operators, of the expected cash flows deriving from the asset. Therefore, to estimate the congruity of the recognition value of the equity investments, numerous assumptions are necessary; consequently, the result of this test inevitably discounts a certain level of uncertainty.

Other tangible and intangible assets
Property, plant and equipment and intangible assets with defined useful life are subjected to impairment testing if there is an indication that the book value of the asset can no longer be recovered. The recoverable value is determined with reference to the fair value of the property, plant and equipment or intangible asset net of disposal costs or to the value in use if it can be determined and if it exceeds fair value.
As regards properties, the recoverable value is determined on the basis of appraisals or valuations using indices. The impairment is recognised only if the fair value net of the selling costs or the value in use is lower than the carrying amount. Also for these values and for the consequent checks on the persistence of the value, the nature and number of the assumptions represent elements of uncertainty. For more details on the assumptions please see section 11 of the assets in the Notes to the Financial Statements.

Assumptions adopted in relation to the provisions of Italian Law Decree 237/2016, converted with amendments into Italian Law no. 15 of 17 February 2017
On 1 August 2017, in compliance with that established in article 23, paragraph 3 of Decree 237, as well as article 2 of the "burden sharing" Decree, issued on 28 July 2017, the T2 financial instruments held by the Bank were converted to newly issued ordinary parent company shares, with a unit price of € 8.65.
Pursuant to the combined provisions of IFRIC 19 "Extinguishing financial liabilities with equity instruments" and those of IAS 39, the difference between the book value of the converted bonds and the fair value of the shares assigned to bondholders was recognised in the income statement.

■ Correction of errors
Correction of errors is governed by IAS 8 (Accounting standards, changes in accounting estimates and errors). Based on this standard, errors may be committed in relation to the recognition, measurement, presentation or disclosure of elements in the financial statements.
When the errors are identified in the period in which they were committed they are corrected before publication of the financial statements is authorised.
Material errors identified in years subsequent to those in which they were committed are corrected, where determinable, modifying the comparative information presented in the financial statements of the year in which the errors were identified. In particular, material errors committed in previous periods must be corrected in the first financial statements authorised for publication after their discovery; the correction must be made recalculating retrospectively the comparative amounts of the period in which the error has occurred or, if the error occurred in a period that precedes the periods presented in the financial statements, recalculating the opening balances of assets, liabilities and equity of the first comparative period presented.

A.3 - DISCLOSURE ON TRANSFERS BETWEEN FINANCIAL ASSET PORTFOLIOS

The Bank did not apply the amendment to the accounting standards IAS 39 and IFRS 7 "reclassifications of financial assets" issued on 13 October 2010 by the IASB and endorsed by the European Commission on 15 October 2010 with Regulation 1004/2010. No transfer was therefore made in previous financial years or in the current year.

A.4 - FAIR VALUE DISCLOSURE

QUALITATIVE INFORMATION

Below is the disclosure regarding the measurement techniques and input used for measurements relative to assets and liabilities measured at fair value in the balance sheet on a recurring and non-recurring basis (the latter are essentially discontinued operations pursuant to IFRS 5).

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

	Fair value 31/12/2017									
Items	*Financial assets held for trading*	*Financial assets valued at fair value*	*Financial assets available for sale*	*Hedging derivatives*	*Financial liabilities held for trading*	*Financial liabilities valued at fair value*	*Hedging derivatives*	***Types***	***Measurement technique***	***Input used***
Debt securities	1,871,824	-						Bonds	Discounted Cash Flow	Rates curve, CDS Curve, Yield, Inflation Curve
								Structured Bonds	Discounted Cash Flow	Rates curve, CDS curve, Yield Inflation curve + parameters necessary to value the optional component
								Bonds	Market price	Market price
Equitiy securities	99	-	306					Equity investments	Net Asset Adjusted	Book Asset Value
									Discount cash flow	Share prices, sectore beta, risk free rate
								Shares	Market price	Market price
Units in collective investment undertakings	-	-	5,433						Market price	Market price
Loans/Payables	-	-	-		1,852				Accrual	Interest rates on transactions
Financial derivatives	3,468,729				1,866,804		-	IR/Asset/Currency Swaps	Discounted Cash Flow	Rate curve, CDS curve, yield, inflation curve, exchange rates, rate correlation
								Total return swaps	Discounted Cash Flow	Bond prices, rate curve, exchange rates
								Equity swaps	Discounted Cash Flow	Share prices, rate curve, exchange rates
								Forex Singlename Plain	Option Pricing Model	Rate curve, exchange rates, Forex volatility
								Forex Singlename Exotic	Option Pricing Model	Rate curve, exchange rates, Forex volatility (surface)
								Forex Multiname	Option Pricing Model	Rate curve, exchange rates, Forex volatility, correlation
								Equity Singlename Plain	Option Pricing Model	Rate curve, share prices, exchange rates, equity volatility
								Equity Singlename Exotic	Option Pricing Model	Rate curve, share prices, exchange rates, equity volatility (surface), model parameters
								Equity Multiname Plain	Option Pricing Model	Rate curve, share prices, exchange rates, equity volatility Quanto correlations, equity/equity correlations
								Equity Multiname Exotic	Option Pricing Model	Rate curve, share prices, exchange rates, equity volatility (surface), model parameters, quanto correlations, equity/equity correlations
								Plain Rate	Option Pricing Model	Rate curve, inflation curve, bond prices, exchange rates, rate volatility, rate correlations
								Foreign currency transactions	Market price	Market price, Swap Point
Credit derivatives	11,415				34,211		-	Credit Index	Market price	Market price
								Default swaps	Discounted Cash Flow	CDS curve, rates curve
								Cdo tranche	Discounted Cash Flow	Market price, basis, CDS curve, correlation base, rates curve
Total assets	**5,352,067**		**5,739**	**-**						
Total liabilities					**1,902,867**	**-**	**-**			

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

Items	Fair value 31/12/2017										
	Financial assets held for trading	Financial assets valued at fair value	Financial assets available for sale	Non-current assets held for sale and discontinued operations	Financial liabilities held for trading	Financial liabilities valued at fair value	Hedging derivatives	Types	Measurement technique	Non-observable input	Range (weighted average)
Debt securities	3,042							Bonds	Discounted Cash Flow	IRR (Yield)	
Equity securities			3,362					Equity investments	Cost/Shareholders' Equity	Fair value asset	€ 0-1 million
Units in collective investment undertakings			2,588					Reserved Closed-End Real Estate Fund	Adjusted NAV	FV active components	2.6 €/mln
Credit derivatives											
Total assets	**3,042**		**5,950**								
Total liabilities					**-**	**-**	**-**				

A.4.2 Measurement processes and sensitivity

Within financial assets held for trading in the category "Bonds measured with the discounted cash flow method", the non-observable parameter is the overall return of the security. For each percentage point of returns, the change in value is estimated at around € 0.01 million.
At the end of the previous year, the category "Debt securities" of level 3 included the subordinated bonds issued by the Parent Company and the subject of the measures contained in Italian Law Decree 237/2016 "Urgent measures to protect savings in the lending sector", then converted into law on 16/2/2017. On 1 August 2017, in compliance with that established in article 23, paragraph 3 of Decree 237, as well as article 2 of the "burden sharing" Decree, issued on 28 July 2017, these securities were converted to ordinary shares which at the end of the year, following readmission to trading on the stock market organised and managed by Borsa Italiana S.p.A., were classified as fair value level 1.
The category "Equity securities" includes equity investments belonging to "Financial assets available for sale" recognised under item 40 of the Assets and carried at cost or at equity, for which, given the absence of a market-based approach in the valuation, were classified at level 3. These positions amount to around € 3.4 million (€ 5.3 million at 31/12/2016).
The category "UCITS units" consists entirely of a position of around € 2.6 million in the Reserved Closed-Ended Real Estate Fund Rainbow as "datio in solutum" as part of a loan restructuring transaction.

A.4.3 Fair value hierarchy

In determining the fair value of a financial instrument, IFRS 13 establishes a hierarchy of criteria based on the source, type and quality of the information used in the calculation. This classification has the objective of establishing a hierarchy in terms of the reliability of the fair value as a function of the degree of discretion applied by the companies, giving priority to the use of parameters than can be observed on the market which reflect the assumptions which market participants would use in pricing said assets/liabilities. The objective of the hierarchy is also to increase the consistency and comparability of fair value measurements.
Below we illustrate the three different measurement levels envisaged by the amendment in question, the choice of which is not optional, as the levels indicated must be applied in hierarchical order:
Level 1 (*effective market quotes*)
In this level, the input consists of prices quoted (not modified) on active markets for instruments for identical assets and liabilities, which can be accessed as of the measurement date.
Level 2 (*comparable approach*)
This level includes instruments which, for the purposes of measurement, prices quoted on active markets for similar assets or liabilities are used, or prices calculated using measurement techniques where all the significant input is based on parameters that can be observed on the market, directly or indirectly. An input is observable when it reflects the same assumptions used by market participants, based on market data provided by sources that are independent of the appraiser.
Level 3 (*mark-to-model approach*)
This level, instead, is used when prices calculated using measurement techniques are made use of where at least one significant input is based on non-observable parameters.
To determine the methods of classifying assets in fair value Level 1, the Bank, in line with the policies of the Parent Company, used the presence of regulated markets for some categories financial instruments. In any case, classification in an active market requires the meeting of given requirements established ad hoc for each type of financial instrument. In particular equity securities and bonds (with the exception of plain vanilla government securities issued

in hard currency and government securities from the G10 and Spain, for which it was held that the significance test was not necessary to carry out for the prices given the breadth and depth of the markets on which they are listed) are subject to periodic tests in order to verify the presence of various elements such as the bid-ask spread, the presence of numerous price contributors, the absence of listings that remain unchanged over time which demonstrate sufficient liquidity to make it possible to classify them in Level 1. Specifically, listed derivatives, exchange rates and Units in collective investment undertakings (limited to SICAVs and mutual investment funds) are considered as level 1.
All other financial instruments (OTC derivatives, Hedge Funds, Private Equity Funds, equity investment structures valued at fair value) and the same instruments that do not pass the liquidity and price significance tests are inserted in Level 2, as a rule.
If certain instruments have peculiarities that make it possible to measure them only with the assistance of measurement models that make use of unobservable market data input and/or entity specific assumptions, they are classified in Level 3.
The measurement method defined for an instrument is adopted and then kept over time, modified only following significant changes in market conditions or the subjective conditions of the issuer of the financial instrument. The Group's policy is that any movement of a given financial instrument between Levels 1 and 2 must be motivated by changed conditions, either improving or worsening, of the liquidity or price significance which determine whether or not the periodic tests are passed. Movement to and from Level 3, on the other hand, may depend on changes in the observability of the unknown parameters, as well as the adoption of different measurement techniques (models, replicas, etc.). It must be stressed that, in relation to item 40 "Financial assets available for sale", the amounts shown among Level 3 equity securities are referable to equity investments, which are included in this fair value level when they are measured at adjusted cost, irrespective of measurements based on market parameters.

QUANTITATIVE INFORMATION

A.4.5 Fair value hierarchy

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

Assets / liabilities measured at fair value	*31/12/2017* Level 1	Level 2	Level 3	*31/12/2016* Level 1	Level 2	Level 3
1. Financial assets held for trading	5,121,217	5,352,067	3,042	4,522,553	7,628,874	53,880
2. Financial assets designated at fair value						
3. Financial assets available for sale	57,806	5,739	5,950		7,822	61,013
4. Hedging derivatives						
5. Property, plant and equipment						
6. Intangible assets						
Total	**5,179,023**	**5,357,806**	**8,992**	**4,522,553**	**7,636,696**	**114,893**
1. Financial liabilities held for trading	2,901,366	1,902,867		2,573,621	3,834,569	
2. Financial liabilities designated at fair value						
3. Hedging derivatives						
Total	**2,901,366**	**1,902,867**	**0**	**2,573,621**	**3,834,569**	**0**

The performance of level 3 classified assets, eliminated in the case of trading or significantly decreased in the case of assets available for sale with respect to the previous year, can be explained by the conversion to shares of subordinate securities issued by the parent company, following the burden sharing. These shares, as detailed in paragraph A.4.2 Measurement processes and sensitivity, were classified as level 1.
The values at 31/12/2017 of financial assets held for trading at fair value level 1, include, for a total amount of around € 205 million, financial instruments that at the end of the previous year were classified as level 2. The change in level regarded bonds and was due essentially to an improvement in the liquidity conditions of the said securities (measured in terms of bid-ask spread of the quoted price) which, according to the provisions of the group policy on the subject of measuring financial instruments, enabled this reclassification.
The change in the fair value level from 1 to 2 instead involved positions for a total amount of € 22.4 million, again in the trading portfolio. The change in level regarded bonds and was due essentially to a worsening in the liquidity conditions of the said securities (measured in terms of bid-ask spread of the quoted price) which, according to the provisions of the group policy on the subject of measuring financial instruments, led to this reclassification.
The change in fair value from 2 to 3 involved, for around € 3 million, AxA-MPS debt securities which were measured using the mark to model technique (discounted cash flow), using entity specific assumptions relative to total product yield.
In keeping with the accounting standard IFRS 13, the Bank calculates the value adjustment of OTC derivatives to take account of the creditworthiness of the individual counterparties. This corrective, known as Credit Value Adjustment (CVA), is estimated for all positions in OTC derivatives with non-collateralised commercial and institutional counterparties and with counterparties with which Collateral Support Annex (CSA) contracts outside of market standards have been signed.
The method is based on calculating the operating expected loss associated with the rating of the counterparty and estimated on the duration of the position. The exposure includes the component of future credit variation represented by the add-ons.

In the calculation of the CVA "risk premium" probability measurements are used in order to incorporate the expectations of the market coming from the CDS quotations, together with the historical information available internally.
The value of the CVA at 31.12.2017 totalled approximately € -20 million (€ -38.8 million at 31/12/2016), with an effect on the income statement on the year of approximately € 18.8 million, due essentially to the improvement of the portfolio in lending terms.
In a specular manner and on the same perimeter the Bank calculates the adjustment of the value of OTC derivatives to take account of its own creditworthiness, that is Debit Value Adjustment (DVA). At the end of the year the value of the DVA totalled approximately € 1 million (€ 3.3 million at 31/12/2016), with a negative effect on the statement of € -2.3 million, essentially due to the worsening of the Group's credit rating.

A.4.5.2 Yearly changes in assets measured at fair value (level 3) on a recurring basis

		Financial assets held for trading	*Financial assets valued at fair value*	*Financial assets available for sale*	*Hedging derivatives*	*Property, plant and equipment*	*Intangible assets*
1.	**Opening balances**	**53,880**		**61,013**			
2.	**Increases**	**6,667**		**9,221**			
2.1	Purchases			3,629			
2.2	Income allocated to:						
2.2.1	Income statement	3,625		3,300			
	- of which capital gains			*3,300*			
2.2.2	Shareholders' equity			1,639			
2.3	Transfers from other levels	3,042		120			
2.4	Other increases			533			
3.	**Decreases**	**57,505**		**64,284**			
3.1	Sales						
3.2	Redemptions			1,511			
3.3	Losses allocated to:						
3.3.1	Income statement	1,221		1,627			
	- of which capital losses						
3.3.2	Shareholders' equity			1,627			
3.4	Transfers to other levels						
3.5	Other decreases	56,284		59,519			
4.	**Closing balances**	**3,042**		**5,950**			

A.4.5.3 Annual changes in liabilities carried at fair value on a recurring basis (level 3)

		Financial liabilities held for trading	*Financial liabilities valued at fair value*	*Hedging derivatives*
1.	**Opening balances**	**0**		
2.	**Increases**	**0**		
2.1	Issues			
2.2	Losses allocated to:			
2.2.1	Income statement			
	- of which capital losses			
2.2.2	Shareholders' equity			
2.3	Transfers from other levels			
2.4	Other increases			
3.	**Decreases**	**0**		
3.1	Redemptions			
3.2	Repurchases			
3.3	Income allocated to:			
3.3.1	Income statement			
	- of which capital gains			
3.3.2	Shareholders' equity			
3.4	Transfers to other levels			
3.5	Other decreases			
4.	**Closing balances**	**0**		

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

Financial statements at 31/12/2017

Assets/Liabilities not measured at fair value or measured at fair value on a non-recurring basis	*Book value*	*Fair value Level 1*	*Fair value Level 2*	*Fair value Level 3*
1. Financial assets held to maturity				
2. Loans to banks	6,054,189		6,054,189	
3. Loans to customers	10,760,277		4,566,430	6,489,930
4. Property, plant and equipment held for investment purposes	12,147			14,147
5. Non-current assets and groups of assets held for sale	979,942			979,942
Total	**17,806,555**		**10,620,619**	**7,484,019**
1. Due to banks	15,449,516		15,449,516	
2. Due to customers	6,939,910		6,939,910	
3. Outstanding securities	456,551		502,331	
4. Liabilities associated with discontinued disposal				
Total	**22,845,977**		**22,891,757**	

Financial statements at 31/12/2016

Assets/Liabilities not measured at fair value or measured at fair value on a non-recurring basis	*Value of Book*	*Fair value Level 1*	*Fair value Level 2*	*Fair value Level 3*
1. Financial assets held to maturity				
2. Loans to banks	8,960,086		8,960,086	
3. Loans to customers	16,398,040		8,051,629	8,655,951
4. Property, plant and equipment held for investment purposes	12,270			16,412
5. Non-current assets and groups of assets held for sale	807			
Total	**25,371,203**		**17,011,715**	**8,673,952**
1. Due to banks	20,748,103		20,748,103	
2. Due to customers	9,423,624		9,423,624	
3. Outstanding securities	456,684		107,117	
4. Liabilities associated with discontinued disposal				
Total	**30,628,411**		**30,278,844**	

As regards impaired loans, classified in level 3 of the fair value hierarchy, it is assumed that the carrying amount represents a reasonable approximation of the fair value. This assumption derives from the circumstance that the calculation of fair value is affected mainly by recovery expectations, the result of a subjective valuation by the manager; the discounting back rate applied is the contractual one, because the low liquidity and competitiveness of the market of impaired loans does not allow the recognition of the observable market premiums.
In the same way we can note that the fair value of non-impaired loans, also mostly classified in level 3, is based on models that use mainly non-observable inputs (e.g.: internal risk parameters).
For these reasons and owing to the absence of a secondary market, the fair value recognised in the financial statements for the sole purposes of disclosure could also be significantly different from the prices of any sales.

A.5 Disclosure on the so-called "day one profit/loss"

The fair value of financial instruments, in situations of non-active market, is determined using an evaluation technique, as indicated in IAS 39, paragraphs AG74-AG79. The same standard also prescribes that the best proof of the fair value of an instrument is represented at the time of the initial recognition by the price of the transaction (i.e. the fair value of the consideration paid or received), unless the conditions per IAS 39, Paragraph AG 76 are fulfilled.
The potential consequence, accentuated in determined market situations and for particularly complex and illiquid products, is the manifestation of a difference between the fair value of the financial asset or liability at the initial recognition and the amount that would have been determined at the same date using the selected evaluation technique. The difference income/charges, must be registered on the first valuation after the "initial recognition": this "phenomenon" is known as "day one profit/loss".
This concept does not include the profits deriving from the characteristic intermediation of the investment banks if arbitrage between different markets and products, in the presence of contained, book entry risk positions, leads to the formation of a trading margin aimed at remunerating the intermediary for the service rendered and for the assumption of financial and credit risks.
During the year, there were no cases to be reported and handled according to the above criteria.

Part B
Notes to the Balance Sheet

ASSETS

Section 1 - CASH AND CASH EQUIVALENTS - ITEM 10

1.1 Cash and cash equivalents: breakdown

	31/12/2017	*31/12/2016*
a. Cash in hand	-	-
b. Unrestricted deposits with Central Banks		
Total	**0**	**0**

Cash on hand at 31/12/2017 amounted to € 330.87 (€ 64.34 at 31/12/2016).

Section 2 - FINANCIAL ASSETS HELD FOR TRADING - ITEM 20

2.1 Financial assets held for trading: breakdown by type

Items/Balances	*31/12/2017*			*31/12/2016*		
	Level 1	*Level 2*	*Level 3*	*Level 1*	*Level 2*	*Level 3*
A. Cash assets						
1. Debt securities	4,930,951	1,871,824	3,042	4,410,426	1,899,495	53,880
1.1 Structured securities	*14,668*	*110,601*			*123,867*	
1.2 Other debt securities	*4,916,283*	*1,761,223*	*3,042*	*4,410,426*	*1,775,628*	*53,880*
2. Equity securities	24,992	99		31,226	25	
3. Units in collective investment undertakings	61,723			12,118		
4. Loans					1,458,235	
4.1 Repurchase agreements					*1,458,235*	
4.2 Other						
Total A	**5,017,666**	**1,871,923**	**3,042**	**4,453,770**	**3,357,755**	**53,880**
B. Derivative instruments						
1. Financial derivatives:	103,551	3,468,729		68,783	4,231,231	
1.1 for trading	*103,551*	*3,468,729*		*68,783*	*4,231,231*	
1.2 associated with the fair value option						
1.3 other						
2. Credit derivatives		11,415			39,888	
2.1 for trading		*11,415*			*39,888*	
2.2 associated with the fair value option						
2.3 other						
Total B	**103,551**	**3,480,144**		**68,783**	**4,271,119**	
Total (A+B)	**5,121,217**	**5,352,067**	**3,042**	**4,522,553**	**7,628,874**	**53,880**

Note:

"Debt securities - 1.2 Other debt securities" include securities with Securitisation transactions, senior for € 1,068,273 thousand (€ 985,626 thousand at 31/12/2016), mezzanine for € 187,922 thousand (€ 164,035 thousand at 31/12/2016) and junior for € 4,066 thousand (€ 5,004 thousand at 31/12/2016).

The performance of level 3 in subitem 1.2 "Other debt securities" can be explained by the conversion into shares of subordinate securities issued by the parent company, following "burden sharing", as detailed in paragraph A.4.2 Measurement processes and sensitivity of part A of the Notes to the Financial Statements.

Starting in the last quarter of 2016, the Bank classified new repurchase agreements in the banking book, given that the main purpose of these was to obtain net deposits to finance Global Market transactions. Previously transactions of this kind were classified in the trading portfolio because they are put in place in the context of a wider trading strategy. This explains the elimination of repurchase agreements reported in item 4.1.

The sub-item "Financial derivatives - 1.1 held for trading" includes the fair value of OTC derivative contracts signed with corporate customers which present an evident low credit quality for a net amount of € 412 thousand (€ 6,054 thousand al 31/12/2016).

In application of IAS32 para. 42, level 1 derivatives quoted on regulated markets were offset for € 82,449 thousand (€ 158,104 at 31/12/2016) as well as OTC level 2 regulated derivatives settled through the London Clearing House for € 1,028,498 thousand (€ 1,148,907 at 31/12/2016). In the last quarter of 2016 the Bank began to operate with the Central Counterparty ICE Clear Europe (ICE) for the Clearing of level 2 credit derivatives, but no cleared positions were recognised. The Bank has "indirect" access to the Clearing of OTC derivatives through the Clearing Members.

2.1.a Detail of debt instruments: structured instruments

Structured debt securities	*31/12/2017*	*31/12/2016*
- *Index Linked*	50,238	60,765
- *Reverse convertible*		
- Convertible	1,827	
- *Credit linked notes*		
- *Equity Linked*	17,144	18,991
- *Step-up, Step-down*		
- *Dual Currency*		
- *Drop Lock*		
- *Target redemption notes*		
- *Cap Floaters*	1,600	
- *Reverse Floaters*	9,167	
- *Corridors*		
- *Commodities*	36,439	38,166
- *Fund Linked*	8,619	4,018
- *Inflation*		
- Others	236	1927
Total	**125,270**	**123,867**

2.1.b Analysis of debt securities: subordinated assets

Items / Balances	*31/12/2017*	*31/12/2016*
- Debt securities	308,694	251,631
- Other loans		
Total	**308,694**	**251,631**

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

Items / Balances	*31/12/2017*	*31/12/2016*
A. CASH ASSETS		
1. **Debt securities**	**6,805,818**	**6,363,802**
a) Governments and Central Banks	4,252,545	4,008,015
b) Other public entities	904	2
c) Banks	1,103,328	990,325
d) Other issuers	1,449,041	1,365,460
2. **Equity securities**	**25,092**	**31,251**
a) Banks	10,942	4,313
b) Other issuers	14,150	26,938
- insurance companies	*958*	
- financial companies	*113*	*397*
- non-financial companies	*13,079*	*26,541*
- others		
3. **Units in collective investment undertakings**	**61,723**	**12,118**
4. **Loans**		**1,458,235**
a) Governments and Central Banks		
b) Other public entities		
c) Banks		1,253,724
d) Others		204,511
Total A	**6,892,633**	**7,865,406**
B. DERIVATIVE INSTRUMENTS		
a) Banks	1,918,260	2,532,320
- fair value		
b) Customers	1,665,435	1,807,581
- fair value		
Total B	**3,583,695**	**4,339,901**
Total (A+B)	**10,476,328**	**12,205,307**

Note:

Item "A. Cash assets", of which "1. Debt securities - a) Governments and Central Banks" is made up for an amount of € 4,232,587 thousand (€ 3,982,260 thousand at 31/12/2016) of Italian government securities with maturities as follows: € 1,535,285 thousand within a year (€ 1,403,809 at the end of the previous year); € 1,915,838 thousand from 1 to 5 years (1,335,813 at the end of the previous year); € 781,464 thousand from 5 to 10 years (1,242,638 at the end of the previous year). Technical overdrafts are associated with this exposure, classified under Item 40 of the Liabilities for an amount of € 2,862,859 thousand (€ 2,443,621 thousand at 31/12/2016).

Starting in the last quarter of 2016, the Bank classified new repurchase agreements in the banking book, given that the main purpose of these was to obtain net deposits to finance Global Market transactions. Previously transactions of this kind were classified in the trading portfolio because they are put in place in the context of a wider trading strategy. This explains the elimination of repurchase agreements reported in item 4. Loans. The amount indicated under the item "B. Derivative Instruments", of which "b) Customers", includes € 154,461 thousand (€ 157,286 thousand at 31/12/2016) as net exposure towards Clearing Brokers that are members of LCH (LCH.Clearnet).

2.2.a U.C.I.T.S. units: breakdown by main categories

Categories/Balances	31/12/2017	31/12/2016
a. Stock		
b. Bonds	50,578	159
c. Balanced		
d. Hedge Funds		
e. Private Equity		
f. Real estate		
g. Other	11,145	11,959
Total	**61,723**	**12,118**

2.2.b analysis of equity securities issued by parties classified under non-performing loan or probable default status

The fair value of impaired equity securities at 31/12/2017 amounted to € 428.74 (€ 59.62 at the end of the previous year).

Section 3 - FINANCIAL ASSETS DESIGNATED AT FAIR VALUE - ITEM 30

The Bank holds no financial instruments classified within this category.

Section 4 - FINANCIAL ASSETS AVAILABLE FOR SALE - ITEM 40

4.1 Financial assets held for sale: breakdown by type

Items/Balances	*31/12/2017*			*31/12/2016*		
	Level 1	*Level 2*	*Level 3*	*Level 1*	*Level 2*	*Level 3*
A. Cash assets						
1. Debt securities					956	55,687
1.1 Structured securities						
1.2 Other debt securities					*956*	*55,687*
2. Equity securities	57,806	306	3,362		1,530	5,326
2.1 Carried at fair value	*57,806*	*306*	*1,902*		*1,530*	*802*
2.2 Measured at cost			*1,460*			*4,524*
3. Units in collective investment undertakings		5,433	2,588		5,336	
4. Loans						
Total	**57,806**	**5,739**	**5,950**		**7,822**	**61,013**

Note:
The elimination of level 3 debt securities can be explained by the conversion into shares of subordinate securities issued by the parent company, following "burden sharing", as detailed in paragraph A.4.2 "Measurement processes and sensitivity" in part A of the Notes to the Financial Statements.

4.1.a Analysis of debt securities: structured securities

The Bank holds no structured securities in this portfolio.

4.1 Financial assets held for sale: subordinated assets

Items / Balances	*31/12/2017*	*31/12/2016*
- Debt securities	0	55,687
- Loans		
Total	**0**	**55,687**

Note:
The elimination of subordinate assets was a consequence of the conversion to shares of the subordinate security issued by the parent company following the "burden sharing", which was the sole subordinate security in this portfolio, as detailed in paragraph A.4.2 "Measurement processes and sensitivity" in part A of the Notes to the Financial Statements.

4.2 Financial assets held for sale: breakdown by debtor/issuer

Items / Balances	*31/12/2017*	*31/12/2016*
1. **Debt securities**		**56,643**
a) Governments and Central Banks		
b) Other public entities		
c) Banks		55,687
d) Other issuers		956
2. **Equity securities**	**61,474**	**6,856**
a) Banks	57,806	64
b) Other issuers	3,668	6,792
- insurance companies		
- financial companies		
- non-financial companies	*3,668*	*6,792*
- others		
3. **Units in collective investment undertakings**	**8,021**	**5,336**
4. **Loans**		
a) Governments and Central Banks		
b) Other public entities		
c) Banks		
d) Others		
Total	**69,495**	**68,835**

4.2.a Units in collective investment undertakings Breakdown by main categories

Categories / Balances	*31/12/2017*	*31/12/2016*
a. Stock		
b. Bonds		
c. Balanced		
d. Hedge Funds		
e. Private Equity		
f. Real estate	6,401	1,498
g. Other	1,620	3,838
Total	**8,021**	**5,336**

4.2.b Analysis of equity securities issued by parties classified under non-performing loan or probable default status

	Historical cost	*Cumulative write-downs*	*Carrying amount*	*Adjustments ascertained in the year*
Non-performing loan:	3,341	(3,341)	0	
- Moncada Solar Equipment Srl	*3,341*	*(3,341)*	*0*	
Probable defaults	55,692	(54,650)	1,044	
- Targetti Poulsen S.p.A.	*2,882*	*(2,882)*	*0*	
- Marina di Stabia S.p.A.	*6,861*	*(6,861)*	*0*	
- Panini S.p.A.	*2,830*	*(2,830)*	*0*	
- Fenice Holding S.p.A.	*42,077*	*(42,077)*	*0*	
- Jeckerson Spa Cat. B	*1,042*		*1,044*	
Total	**59,033**	**(57,991)**	**1,044**	

4.3 Financial assets available for sale subject to micro-hedging

No financial assets classified in this portfolio are subject to micro-hedging.

Section 5 - FINANCIAL ASSETS HELD TO MATURITY - ITEM 50

The Bank holds no financial instruments classified within this item.

Section 6 - RECEIVABLES DUE FROM BANKS - ITEM 60

6.1 Due from banks: breakdown by type

			Total 31/12/2017		
	Type of transaction / Balances	*Value of book*	*Level 1*	*Fair value Level 2*	*Level 3*
A.	**Due from Central Banks**				
1.	Restricted deposits				
2.	Compulsory reserve				
3.	Repurchase agreements				
4.	Other				
B.	**Due from banks**	**6,054,189**		**6,054,189**	
1.	Loans	6,054,189		6,054,189	
1.1	Current accounts and demand deposits	1,584,428			
1.2	Restricted deposits	894,925			
1.3.	Other loans:	3,574,836			
	- Reverse repurchase agreements	*3,351,449*			
	- Financial lease				
	- Others	*223,387*			
2.	Debt securities				
2.1	Structured securities				
2.3	Other debt securities				
	Total	**6,054,189**		**6,054,189**	

Note:

The sub-item B. "Due from banks - 1.2. Restricted deposits" includes: € 5,073 thousand (€ 4,730 thousand in 2016), as mandatory reserve fulfilled indirectly through the Parent Company Banca Monte dei Paschi di Siena.

The sub-item B. "Due from banks - 1.3. Other loans: - Others" is made up mainly of loans against collaterals paid against operations in OTC and listed derivatives and in repurchase agreements (these last by way of additional marginalisations) on the basis of the agreements made between the parties (CSAs for OTC derivatives, GMRAs for repurchase agreements).

	Type of transaction / Balances	Total 31/12/2016 Value of book	Level 1	Fair value Level 2	Level 3
A.	**Due from Central Banks**				
1.	Restricted deposits				
2.	Compulsory reserve				
3.	Repurchase agreements				
4.	Other				
B.	**Due from banks**	**8,960,086**		**8,960,086**	
1.	Loans	8,960,086		8,960,086	
1.1	Current accounts and demand deposits	2,760,234			
1.2	Restricted deposits	1,496,088			
1.3.	Other loans:	4,703,764			
	- Reverse repurchase agreements	*4,516,276*			
	- Financial lease				
	- Others	*187,488*			
2.	Debt securities				
2.1	Structured securities				
2.3	Other debt securities				
	Total	**8,960,086**		**8,960,086**	

6.1.a Due from banks: impaired assets

The Bank holds a subordinated debt instrument for a nominal € 6,000 thousand issued by Banca Popolare di Garanzia, which was subjected to compulsory winding-up with decree of the Ministry of the Economy and Finance of 16 December 2009. The position, classified under non-performing loan, was subjected to a full value adjustment over the course of previous years.

6.2 Due from banks subject to micro-hedging

No financial assets classified in this category have been subject to micro-hedging.

6.3 Financial leasing

There are no existing agreements.

Section 7 - LOANS TO CUSTOMERS - ITEM 70

7.1 Loans to customers: breakdown by type

	Total 31/12/2017					
	Carrying Amount			*Fair value*		
Type of transaction / Balances	*Non-impaired*	*Impaired purchased*	*Impaired other*	*Level 1*	*Level 2*	*Level 3*
Loans	9,188,104		1,572,173	-	4,566,430	6,489,930
1. Current accounts	9					
2. Reverse repurchase agreements	4,400,099					
3. Loans	4,273,113		1,568,638			
4. Credit cards, personal loans and loans secured over wages and salaries	2,981		17			
5. Financial leasing						
6. Factoring						
7. Other loans	511,902		3,518			
Debt securities				-	-	
8. Structured securities						
9. Other debt securities						
Total	**9,188,104**		**1,572,173**	**-**	**4,566,430**	**6,489,930**

Note:

Sub-item 7. "Other loans" includes loans for collaterals related to securities lending activity, for OTC and listed derivatives and for repurchase agreements (these last by way of additional marginalisations), as per agreements made between the parties (CSAs for OTC derivatives, GMRA for repurchase agreements).

Total 31/12/2016

Type of transaction / Balances	*Carrying Amount*			*Fair value*		
	Non-impaired	*Impaired*				
		purchased	*other*	*Level 1*	*Level 2*	*Level 3*
Loans	12,762,395		3,635,570	-	8,051,629	8,655,951
1. Current accounts	10					
2. Reverse repurchase agreements	7,903,875					
3. Loans	4,680,007		3,627,134			
4. Credit cards, personal loans and loans secured over wages and salaries	3,412		17			
5. Financial leasing						
6. Factoring						
7. Other loans	175,091		8,419			
Debt securities			75	**-**	-	75
8. Structured securities						
9. Other debt securities			75			
Total	**12,762,395**		**3,635,645**	**-**	**8,051,629**	**8,656,026**

7.1.a Loans to customers: analysis of impaired assets

Category / Balances	*31/12/2017*	*31/12/2016*
1. Non-performing loans	446,207	1,984,413
2. Probable defaults	1,106,798	1,628,366
3. Impaired past-due exposures	19,168	22,866
Total carrying amount	**1,572,173**	**3,635,645**

Note:
Impaired debt securities are classified in the category of probable defaults.

7.2 Loans to customers: breakdown by debtor/issuer

Type of transaction / Balances	*31/12/2017*			*31/12/2016*		
	Non-impaired	*Impaired*		*Non-impaired*	*Impaired*	
		purchased	*other*		*purchased*	*other*
1. Debt securities:						**75**
a) Governments						
b) Other public entities						
c) Other issuers						75
- non-financial companies						*75*
- financial companies						
- insurance companies						
- others						
2. Loans to:	**9,188,104**		**1,572,173**	**12,762,395**		**3,635,570**
a) Governments	4,363			4,146		
b) Other public entities	10,300		641	10,912		808
c) Others	9,173,441		1,571,532	12,747,337		3,634,762
- non-financial companies	*3,860,409*		*1,495,097*	*4,278,425*		*3,490,318*
- financial companies	*5,210,819*		*53,679*	*8,361,702*		*80,984*
- insurance companies						
- others	*102,213*		*22,756*	*107,210*		*63,460*
Total	**9,188,104**		**1,572,173**	**12,762,395**		**3,635,645**

7.3 Loans to customers: assets subject to micro-hedging

No financial assets classified in this category have been subject to micro-hedging.

7.4 Financial leasing

There are no existing agreements.

Section 8 - HEDGING DERIVATIVES - ITEM 80

There were no transactions for this accounting item.

Section 9 - VALUE ADJUSTMENTS TO FINANCIAL ASSETS SUBJECT TO MACRO-HEDGING - ITEM 90

There were no transactions for this accounting item.

Section 10 - EQUITY INVESTMENTS - ITEM 100

10.1 Equity investments: information on investment relationships

Name	Registered Offices	Operating office	stake of equity investment %	Available votes %	Carrying Amount	Fair value
A. Full subsidiaries						
B. Subsidiaries under joint control						
C. Companies subject to significant influence					779	
1. Immobiliare Centro Milano S.p.A.	Milan	Milan	33.333	33.333		
2. Terme di Chianciano S.p.A.	Chianciano T.	Chianciano T.	28.072	28.072		
3. Interporto Toscano A. Vespucci S.p.A.	Collesalvetti	Collesalvetti	19.001	19.001		
4. Sviluppo Imprese Centro Italia S.p.A.	Florence	Florence	15.000	15.000	779	
Total (A+B+C)					**779**	

The fair value of the equity investments is not indicated because the securities are not listed.

10.2 Significant equity investments: carrying amount, fair value and dividends received

Name	Carrying Amount	Fair value	Dividends received
A. Full subsidiaries			
B. Subsidiaries under joint control			
C. Companies subject to significant influence	**779**		
1. Immobiliare Centro Milano S.p.A.	0		-
2. Terme di Chianciano S.p.A.	0		-
3. Interporto Toscano A. Vespucci S.p.A.	0		-
4. Sviluppo Imprese Centro Italia S.p.A.	779		-
Total (A+B+C)	**779**		

10.2.a Analysis of equities issued by parties classified under non-performing loan or probable default status

	Historical cost	Cumulative write-downs	Carrying amount	Adjustments ascertained in the year
Probable defaults				
- Immobiliare Centro Milano S.p.A.	40	(40)	0	0
- Terme di Chianciano S.p.A.	2,010	(2,010)	0	0
- Interporto Toscano A. Vespucci S.p.A.	8,369	(8,369)	0	901
Total	**10,419**	**(10,419)**	**0**	**901**

10.3 Significant equity investments: accounting information

Name	*Cash and cash equivalents*	*Financial assets*	*Non-financial assets*	*Financial liabilities*	*Non-financial liabilities*	*Total revenues*	*Net interest income*	*Adjustments and value writebacks on property, plant and equipment and intangible assets*	*Profit (Loss) from current operations before tax*	*Profit (Loss) from current operations net of taxes*	*Gain (Loss) on discontinued operations, net of taxation*	*Profit (loss) for the period (1)*	*Other income components net of taxes (2)*	*Comprehensive income (3)=(1)+ (2)*
A. Full subsidiaries														
B. Subsidiaries under joint control														
C. Companies subject to significant influence														
1. Interporto Toscano A. Vespucci S.p.A.	1,222	281	139,822	61,463	61,393	6,692			(695)	(469)	-	(469)	-	(469)
3. Sviluppo Imprese Centro Italia S.p.A.		6,132	2,806		470	1,180			(277)	(277)	-	(277)	-	(277)

Note:

The figures refer to the financial statements at 31/12/2016, the latest approved.

Sviluppo Imprese Centro Italia S.G.R. S.p.A. was classified among companies subject to significant influence, although in the presence of an interest of less than 20% of the share capital because the Bank has the power to take part in determining the financial and management policies by indicating a name for the company's Board of Directors.

The nature of the activity carried out by the investees none of which is considered strategic for the Bank is shown below:

Interporto Toscano A. Vespucci S.p.A.: the company responsible for the construction and management of the logistics centre located on the Guasticce plain, in the municipality of Collesalvetti (Leghorn);

Sviluppo Imprese Centro Italia S.G.R. S.p.A. The company manages four closed-end mutual investment funds.

10.4 Non-significant equity investments: accounting information

Name	Carrying amount of the equity investments	Total assets	Total liabilities	Total revenues	Profit (Loss) from current operations net to taxes	Gain (Loss) on discontinued operations, net of taxation	Profit (Loss) for the period (1)	Other income components net of taxes (2)	Comprehensive income (3) = (1) + (2)
A. Full subsidiaries									
B. Subsidiaries under joint control									
C. Companies subject to significant influence									
1. Immobiliare Centro Milano S.p.A.		200	157	-	(46)	-	(46)	-	(46)
2. Terme di Chianciano S.p.A.		6,915	1,301	1,711	(199)	-	(199)	-	(199)

Note:
The figures refer to the most recently approved financial statements (31 December 2015 for Terme di Chianciano S.p.A. and 31 December 2016 for Immobiliare Centro Milano S.p.A.).

10.5 Equity investments: annual changes

		31/12/2017	31/12/2016
A.	**Opening balances**	**1,680**	**1,680**
B.	**Increases**		
	B1. Purchases		
	B2. Write-backs		
	B3. Revaluations		
	B4. Other changes		
C.	**Decreases**	**901**	
	C1. Sales		
	C2. Value adjustments	901	
	C3. Other changes		
D.	**Closing balances**	**779**	**1,680**
E.	**Total revaluations**		
F.	**Total adjustments**	10,419	9,518

10.6 Commitments relating to equity interests in subsidiaries under joint control

At the reporting date, there were no equity investments in subsidiaries.

10.7 Commitments relating to equity investments in companies under significant influence

At the reporting date, there were no commitments relating to equity investments in companies under significant influence.

10.8 Significant restrictions

There are no significant restrictions to report.

10.9 Other information

Nothing to report.

Section 11 - PROPERTY, PLANT AND EQUIPMENT - ITEM 110

11.1 Property, plant and equipment for use in business: breakdown of assets measured at cost

Assets / Balances	*31/12/2017*	*31/12/2016*
1. Company owned	**181**	**182**
a) land	6	
b) buildings	9	
c) furniture	10	26
d) electronic systems		
e) other	156	156
2. Assets acquired under financial leases		
a) land		
b) buildings		
c) furniture		
d) electronic systems		
e) other		
Total	**181**	**182**

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

		Total 31/12/2017		
Assets / Balances	*Carrying Amount*	*Fair value*		
		Level 1	*Level 2*	*Level 3*
1. Company owned	**12,147**			**14,147**
a) for credit recovery				
b) other				
- land	9,684			8,817
- buildings	2,463			5,330
2. Assets acquired under financial leases				
a) land				
b) buildings				
Total	**12,147**			**14,147**

		Total 31/12/2016		
Assets / Balances	*Carrying Amount*	*Fair value*		
		Level 1	*Level 2*	*Level 3*
1. Company owned	**12,270**			**16,412**
a) for credit recovery				
b) other				
- land	9,826			10,329
- buildings	2,444			6,083
2. Assets acquired under financial leases				
a) land				
b) buildings				
Total	**12,270**			**16,412**

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

There were no revalued property, plant or equipment items used for business.

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

There are no property, plant and equipment items held for investment purposes carried at fair value.

11.5 Property, plant and equipment used for business: annual changes

	Land	*Buildings*	*Furniture*	*Electronic equipment*	*Other*	*Total*
A. Opening balances - gross			**1,236**	**446**	**189**	**1,871**
A.1 Total value reductions - net			1,210	446	33	1,689
A.2 Net opening balances			**26**	**0**	**156**	**182**
B. Increases:	**6**	**10**				**16**
B.1. Purchases						
B.2 Capitalised improvement costs						
B.3 Write-backs						
B.4 Positive fair value changes						
booked to:						
a) shareholders' equity						
b) income statement						
B.5 Exchange gains						
B.6 Transfer from investment property	6	10				16
B.7 Other changes						
C. Decreases:		**1**	**16**			**17**
C.1 Sales						
C.2 Depreciation		1	16			17
C.3 Value adjustments due to						
impairment booked to:						
a) shareholders' equity						
b) income statement						
C.4 Negative fair value changes booked to:						
a) shareholders' equity						
b) income statement						
C.5 Exchange losses						
C.6 Transfers to:						
a) property, plant and equipment						
held for investment purposes						
b) discontinued operations						
C.7 Other changes						
D. Net closing balances	**6**	**9**	**10**	**0**	**156**	**181**
D.1 Total net value reductions		24	1,226	446	33	1,729
D.2 Gross closing balances	**6**	**33**	**1,236**	**446**	**189**	**1,910**
E. Measured at cost	7	28	10		156	201

Note:
the item "other" regards furnishings not subject to amortisation (in particular works of art).

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

		Land	*Buildings*	*Total*
A.	**Opening balances**	**9,826**	**2,444**	**12,270**
B.	**Increases:**	**600**	**207**	**807**
B.1.	Purchases			
B.2	Capitalised improvement costs			
B.4	Positive fair value changes			
B.3	Write-backs			
B.5	Exchange gains			
B.6	Transfers from properties used for business			
B.7	Other changes	600	207	807
C.	**Decreases:**	**742**	**188**	***930***
C.1	Sales			
C.2	Depreciation		177	177
C.3	Negative fair value changes			
C.4	Write-downs for impairment	736		736
C.5	Exchange losses			
C.6	Transfers to other asset portfolios:	6	11	17
	a) properties used for business	*6*	*11*	
	b) non-current assets held for sale			*0*
C.7	Other changes			
D.	**Closing balances**	**9,684**	**2,463**	**12,147**
E.	Fair value measurement	**8,817**	**5,330**	**14,147**

11.7 Commitments for the purchase of property, plant and equipment (IAS 16/74.c)

As of the reporting date, there were no commitments undertaken to purchase property, plant and equipment.

11.8 Property, plant and equipment: useful life

Main categories of Property, plant and equipment	*years*
Land and works of art	Indefinite
Buildings	33
Furniture	8
Electronic and ordinary office machines	5
Electronic data processing equipment	2
Vehicles	4
Telephones	5

Statement of revaluations made (Article 10 of Italian Law No. 72/83)

Properties	*L.576/75*	*L.72/83*	*L. 408/90*	*L. 413/91*	*L. 342/00*	*L. 266/06*
Florence - via Scialoia, 47			180		336	237
Florence - piazza D'Azeglio, 22	230	840	2,745	1,175	336	1,857
Florence - piazza D'Azeglio, 26		319	173	4,638	1,109	3,670
Florence - via della Mattonaia						97
Florence - piazza Stazione (car park)					14	3
Total	**230**	**1,159**	**3,098**	**5,813**	**1,795**	**5,864**

Section 12 - INTANGIBLE ASSETS - ITEM 120

There were no transactions for this accounting item.

Section 13 - TAX ASSETS AND LIABILITIES - ASSET ITEM 130 AND LIABILITY ITEM 80

Current taxes

Current taxes include the estimated payable for current liabilities or liabilities referring to transactions from previous years. Current tax assets and liabilities are shown in their net balance in the respective balance sheet items following the offset carried out at the level of the said tax.

Current tax assets amounted to € 306,811 thousand and include for € 294,382 thousand the tax credit under Italian Law 214/11 and for € 14,432 thousand the IRAP credit offset with payables of the same nature for € 2,003 thousand.

As a result of the adhesion to the national tax consolidation system under the terms of Art. 117 ff. of the Consolidated Act on Income Tax as a consolidated company, the Bank determines, in the presence of a taxable profit, the tax charges for which it is liable and the corresponding IRES taxable income is transferred to the Parent Company BMPS, which, as the consolidating company, after consolidating the taxable amounts coming under the scope of consolidation, will pay any tax due to the tax authorities. In financial year 2017 a tax loss was recognised; in the absence of future income capable of reabsorbing the loss recognised, the results of the probability test determined the write-off of € 16,512 thousand of the tax credit recognised in the amount of € 179,703 thousand.

With respect to IRES, the debit and credit positions are posted respectively among “Other assets” and “Other liabilities”.

Deferred tax assets and liabilities

Deferred taxation is measured with the “balance sheet liability method” specified in IAS 12 in accordance with the specifications prescribed by the Bank of Italy. This method takes account of the tax effect connected with temporary differences between the carrying value of assets and liabilities and their fiscal value, which lead to taxable or deductible amounts in future periods. For these purposes, “taxable temporary differences” are those which in future periods will determine taxable amounts and “deductible temporary differences” are those which in future periods will determine deductible amounts.

Deferred tax assets and liabilities are calculated applying the tax rates established by the provisions of current laws to the taxable temporary differences in relation to which there is the probability that the taxes will actually have to be paid and to the deductible temporary differences for which there exists reasonable certainty of recovery.

To that end, the probability test made it necessary to write off the deferred tax assets relative to non-transformable tax losses for € 18,394 thousand.

Prepaid and deferred taxes are shown as the net balance of the respective balance sheet item, subsequent to offsetting at the same tax level and for each financial year, taking into account when payment is expected to fall due. Consequently, at 31 December 2017 the deferred tax liabilities were completely offset with the deferred tax assets.

13.1 Deferred tax assets: breakdown

Deferred tax assets, gross of offsetting against deferred tax liabilities, essentially derive from costs deductible in different periods from the one in which they were recorded in the financial statements and they refer to IRES for € 175,274 thousand and to IRAP for € 17,584 thousand.
Specifically:
- the sub-item "loans" represents the total amount of the value adjustments on loans exceeding the portion allowed for deduction for IRES and IRAP purposes and to be carried forward in future financial years, as well as provisions for documentary credit;
- the item "AEG tax credit" represents the amount of the subsidy related to financial years 2016 and 2017, which will be recovered in future years;
- "tax losses" for € 31,184 thousand, net of write-downs carried out due to the probability test, refer to financial years 2016 and 2017 and will be recovered based on taxable income in future years;
- the item "other" refers to allocations for legal disputes and liabilities connected to external events.

Items / Balances		*31/12/2017*				*31/12/2016*
	Deffered tax assets contra item CE IRES	*Deffered tax assets contra item PN IRES*	*Deffered tax assets contra item CE IRAP*	*Deffered tax assets contra item PN IRAP*	*Total*	*Total*
Receivables	117,536		17,533		**135,069**	**237,297**
- of which It. Law 214/2011	*116,693*		*17,533*		***134,226***	***233,530***
Other financial instruments						
Goodwill						
Deferred charges						
Property, plant and equipment	253		51		**304**	**99**
- of which It. Law 214/2011						
Entertaining expenses						
Personnel-related costs	94	369			**463**	**183**
AEG tax credit	19,464				**19,464**	**13,440**
Tax losses	31,184				**31,184**	**35,661**
- of which It. Law 214/2011						**12,291**
Reserves for valuation of financial instruments						**55**
Other	6,374				**6,374**	**4,805**
Deferred tax assets - gross	**174,905**	**369**	**17,584**		**192,858**	**291,540**
Offsetting against deferred tax liabilities	**(60)**	**(83)**	**(12)**	**(19)**	**(174)**	**(146)**
Deferred tax assets - net	**174,845**	**286**	**17,572**	**(19)**	**192,684**	**291,394**

13.2 Deferred tax liabilities: breakdown

Deferred tax liabilities refer to IRES for € 143 thousand and IRAP for € 31 thousand. They are recorded as offsetting entries in the income statement for € 72 thousand (compared to € 110 thousand for 2016) in addition to € 102 thousand recorded as an offsetting entry in shareholders' equity, the latter fully recorded as revaluations of financial assets available for sale (in 2016, they were € 36 thousand).
The main taxable temporary differences which caused deferred taxes to be recognised are related to the sub-item "Financial instruments", in particular to valuation gains recorded on equity investments in collective investment undertakings and equity investments and to the sub-item "Property, plant and equipment and intangible assets" as a result of a higher civil-law value with respect to the fiscal value of the same.

Items / Balances		*31/12/2017*				*31/12/2016*
	Deffered tax assets contra item CE IRES	*Deffered tax assets contra item PN IRES*	*Deffered tax assets contra item CE IRAP*	*Deffered tax assets contra item PN IRAP*	*Total*	*Total*
Capital gains to be collected						
Goodwill						
Property, plant and equipment and intangible assets	60		12		**72**	**110**
Financial instruments						
Personnel-related costs						
Reserves for valuation of financial instruments		83		19	**102**	**36**
Other						
Deferred tax liabilities - gross	**60**	**83**	**12**	**19**	**174**	**146**
Offsetting against deferred tax assets	**(60)**	**(83)**	**(12)**	**(19)**	**(174)**	**(146)**
Net deferred tax liabilities	**0**	**0**	**0**	**0**	**0**	**0**

13.3 Change in deferred tax assets (as offsetting entry to the income statement)

The table shows all deferred tax assets to be absorbed in subsequent years as offsetting entries to the income statement. Among the main "deferred tax assets recorded in the year", we note those generated by the 2017 tax losses for € 26,206 thousand, from the ACE subsidy for € 6,024 thousand and from taxed allocations to provisions made during the year equal to € 3,054 thousand (€ 1,729 thousand in 2016). Within "prepaid taxes cancelled during the year", the item "reversals" refers to portions of the provision for risks and charges and endorsement credits used during the year; the item "written-off as non-recoverable" represents the results of the previously cited probability test, while "other decreases" includes the use of deferred tax assets for transformation into tax credits pursuant to Law 214/2011 (see table 13.3.1).

		31/12/2017	31/12/2016
1.	**Opening balance**	**291,321**	**255,079**
2.	**Increases**	**18,067**	**55,315**
2.1	Prepaid taxes recorded in the year	17,987	55,315
	a) relating to prior years		
	b) due to changes in accounting policies		
	c) writebacks	*7,813*	
	d) other	*10,174*	*55,315*
2.2	New taxes or increase in tax rates		
2.3	Other increases	80	
3.	**Decreases**	**116,900**	**19,073**
3.1	Prepaid taxes cancelled during the year	5,305	19,073
	a) reversals	*5,305*	*14,604*
	b) written down as now considered unrecoverable		*4,469*
	c) change in accounting policies		
	d) other		
3.2	Reductions in tax rates		
3.3	Other decreases	111,595	
	a) transformation into tax credit as per law No. 214/2011	*111,595*	
	b) other		
4.	**Closing balance**	**192,488**	**291,321**

13.3.1 Changes in deferred taxes pursuant to law 214/2011 (offset to the income statement)

	IRES	*IRAP*	*Total 31/12/2017*	*Total 31/12/2016*
1. Opening balance	**213,712**	**32,109**	**245,821**	**245,821**
2. Increases				**12,291**
3. Decreases	**97,019**	**14,576**	**111,595**	**12,291**
3.1 Reversals				12,291
3.2 Transformation into tax credit	97,019	14,576	**111,595**	
a) deriving from losses of the period	*86,333*	*12,971*	*99,304*	
b) deriving from tax losses	*10,686*	*1,605*	*12,291*	
3.3 Other decreases				
4. Closing balance	**116,693**	**17,533**	**134,226**	**245,821**

These are deferred tax assets potentially transformable into tax credits, on the occurrence of a loss in the period and/or a tax loss on the basis of the provisions of Italian Law 214/2011.

13.4 Change in deferred taxes (as offsetting entry to the income statement)

The table shows all deferred tax liabilities to be absorbed in subsequent years as offsetting entries to the income statement.

	31/12/2017	*31/12/2016*
1. Opening balance	**110**	**120**
2. Increases		
2.1 Deferred tax liabilities recorded in the year		
a) relating to prior years		
b) due to changes in accounting policies		
c) other		
2.2 New taxes or increase in tax rates		
2.3 Other increases		
3. Decreases	**38**	**10**
3.1 Deferred taxes cancelled during the year	38	10
a) reversals	*38*	*10*
b) due to changes in accounting policies		
c) other		
3.2 Reductions in tax rates		
3.3 Other decreases		
4. Closing balance	**72**	**110**

13.5 Change in deferred taxes (as offsetting entry to shareholders' equity)

Deferred tax assets as an offsetting entry in shareholders' equity refer to the discounting reserve for the defined-benefit pension fund.

	31/12/2017	*31/12/2016*
1. Opening balance	**220**	**3,554**
2. Increases	**17,900**	**8,993**
2.1 Deferred tax liabilities recorded in the year	17,696	8,993
a) relating to prior years		
b) due to changes in accounting policies		
c) other	*17,696*	*8,993*
2.2 New taxes or increase in tax rates		
2.3 Other increases	204	
3. Decreases	**17,751**	**12,327**
3.1 Deferred taxes cancelled during the year	17,751	12,327
a) reversals	*17,751*	*12,327*
b) written down as now considered unrecoverable		
c) due to changes in accounting standards		
d) other		
3.2 Reductions in tax rates		
3.3 Other decreases		
4. Closing balance	**369**	**220**

13.6 Change in deferred taxes (as offsetting entry to shareholders' equity)

The changes pertain to taxes measured on the changes in the shareholders' equity reserves relating to the financial assets available for sale. With regard to the revaluation of equity investments with the requisites for exemption, the deferred taxes are applied on 5% of the value.

	31/12/2017	*31/12/2016*
1. Opening balance	**36**	**61**
2. Increases	**171**	**3**
2.1 Deferred tax liabilities recorded in the year	171	3
a) relating to prior years		
b) due to changes in accounting policies		
c) other	*171*	*3*
2.2 New taxes or increase in tax rates		
2.3 Other increases		
3. Decreases	**105**	**28**
3.1 Deferred taxes cancelled during the year	105	28
a) reversals	*105*	*28*
b) due to changes in accounting policies		
c) other		
3.2 Reductions in tax rates		
3.3 Other decreases		
4. Closing balance	**102**	**36**

13.7 Other information

Probability test

The recognition of prepaid tax assets was made after verifying the existence of sufficient future taxable income to reabsorb the same (the so-called Probability test).
This test took into account the different rules provided for in the Italian tax legislation that have an impact on the measurement in question, in particular:

- art. 2, paragraphs 55-59, of Italian Law Decree 29/12/2010 n. 225 (converted, with amendments, by Law 10 of 26/2/2011) which requires financial intermediaries, in the case of a statutory loss and/or tax loss, to transform DTAs (IRES and IREP) to tax credits, relative to goodwill, other intangible fixed assets and write-downs on loans;
- art. 84 paragraph 1 of the Consolidated Income Tax Law, which permits IRES tax losses to be carried forward with no time limits;
- art. 1, paragraph 4, of Italian Law Decree No. 201 of 06/12/2011 (converted, with amendments, into Italian Law No 214 of 22/12/2011) which states that the AEG surplus not used can be carried forward with no time limits, or, alternatively, converted into tax credit to be used to offset the IRAP payable in 5 annual instalments;
- paragraphs from 61 to 66 of the Stability Law for 2016 (Italian Law No. 208 of 28 December 2015) which cut the IRES rate from 27.5% to 24% and introduced at the same time an IRES surcharge, of 3.5%, for lending and financial institutions.

In the previous year, methodological changes were made to the Probability test, in consideration of the events that occurred in the Group's recent history and, in general, of the legislative changes made with an impact on the profitability of the same.

Relative to events in the Group's recent history, the significant tax losses recorded in the last few years, those relative to the year of reference and the tax losses expected as a consequence of the process of deconsolidating non-performing loans, have required special attention to the process of measuring the extent to which deferred tax assets can be recognised. IAS 12 (para. 35-36) states in fact that "*However, the existence of unused tax losses is strong evidence that future taxable profit may not be available. Therefore, when an entity has a history of recent losses, the entity recognises a deferred tax asset arising from unused tax losses or tax credits only to the extent that the entity has sufficient taxable temporary differences or there is convincing other evidence that sufficient taxable profit will be available against which the unused tax losses or unused tax credits can be utilised*".

In addition to the above, it must be remembered that various events have occurred, in the last few years, that have had negative impacts on the Group's profitability; among these: i) the reduction of interest rates, ii) the increase in borrowing costs due to both to the recession which hit the country and to the revision of the provisioning policy in a more conservative direction, for gradual alignment with the classification and measurement criteria that emerged in the context of the ECB AQR and of the subsequent supervisory action in the context of the SSM, iii) the introduction of new significant cost components, namely the *ex ante* contributions to the Resolution Fund and the Interbank Deposit Protection Fund and the introduction of the fee on transformable DTAs.
The recent evolution of the tax legislation also reduced significantly the prospective ability to absorb losses.
In this sense, we note the change to the tax regime for write-downs on loans to customers (Decree Law 83/2015), which provides for full deductibility during the year in which they are recognised, in contrast to previous regimes which provided for deduction over nine/eighteen/five years (in the order of past legislation). This change meant that write-downs on loans carried out during the year effect the taxable base for the current year in their entirety, as well as portions of the same adjustments not deducted in previous years and carried forward pursuant to the previous legislation.

Another significant impact in terms of reduction of taxable income is attributable to AEG (Aid for Economic Growth), the "benefit" of which is deducted from the taxable income of each year in the amount of a rate, set at 2.3% for the year 2017 (2.7% for subsequent financial years), of the capital increases carried out from 2011 onwards and within the limit of the accounting shareholders' equity current each time.
The evolution of the method for performing the probability test, adopted by the Group during 2016, consists substantially of applying a discount factor to the prospective incomes deduced from the income statement forecasts include in the business plan (the so-called Risk-adjusted profits approach); this factor, used in a compound manner, discounts a growing amount of future income for reflect its uncertainty. The discount factor is calculated taking into account observable market parameters, avoiding the risk of introducing discretionary assumptions. Until the change in question the test verified the recovery horizon of the DTAs from tax losses making sure that the horizon itself was within a reasonable period of time. The recovery forecast was developed normally over a period of 6-8 years, of which a significant proportion in the horizon of the current plan.

From the practical point of view, the Probability Test was carried out following the steps specified below.
The DTAs related to goodwill, other intangible assets and write-downs on loans ("qualified" DTAs) were excluded from the total amount of the DTAs for which the existence of sufficient future taxable income must be verified. This was because the aforementioned Art. 2, paragraphs 55-59, of Italian Law Decree 225/2010 made certain the recovery of this tale type of DTA, for both IRES and IRAP purposes, irrespective of the presence of future taxable income. The law states, in fact, that if the taxable income of the financial year in which the rebate of the qualified DTAs is not sufficient for their re-absorption, the consequent tax loss will be transformable into tax credit which can alternatively be: i) used to offset, with no time limits, the various levies ordinarily payable by the Bank, or ii) requested as a rebate or iii) transferred to third parties. In addition, qualified DTAs can be transformed into tax credit, in advance with respect to the natural maturity, in the event of a civil-law loss for the period, voluntary liquidation or being made subject to bankruptcy proceedings. In other words, for qualified DTAs the probability test must be understood as automatically passed; this is confirmed also by the joint Bank of Italy, CONSOB and ISVAP document No. 5 of 15/05/2012.
For DTAs other than qualified ones the year in which they are expected to be rebated was identified (or estimated when not certain).
The Parent Company then made an estimate of the taxable incomes of future years, on the basis of the forecast income statements in the MPS Group's business plan for each subsidiary; the taxable incomes were estimated:
- applying the compound discount factor provided for by the Risk-adjusted profits approach;
- at the level of the national tax consolidation, for the probability test for IRES purposes, given that the Bank settles the said tax making use of the arrangement provided for in Arts 117 ff. of the Consolidated Income Tax Law;
- at the individual level for the purposes of the IRES surcharge;
- at the individual level for IRAP purposes.

The figures thus prepared showed the ability of the taxable income of future years to absorb the rebates of the non-qualified DTAs, other than tax losses and AEG deductions, recognised at 31/12/2017.
The DTAs referred to AEG deductions carried forward from previous years were found to be recognisable.
As regards tax losses, the probability test entailed the non-recognition of DTAs on the tax loss emerging in 2017 for € 18,394 thousand, and the derecognition of a portion equal to € 16,512 thousand of the credit in relation to the consolidating company for IRES calculated on the tax loss for € 179,703 thousand.

13.7.1 Current tax assets

Items / Balances	31/12/2017	31/12/2016
1. IRES advances		
2. IRAP advances	9,799	9,799
3. IRAP receivables	4,633	4,633
4. Other receivables and withholdings	294,382	204,728
Current tax assets - gross	**308,814**	**219,160**
Offsetting against current tax liabilities	(2,003)	(2,003)
Current tax assets - net	**306,811**	**217,157**

Note:
for IRES advances, please see Notes to the Financial Statements - Part B, Assets "Section 15 - Other assets".

13.7.2 Current tax liabilities

Items / Balances	31/12/2017		31/12/2016	
	taxation to shareholders' equity	taxation to income statement	taxation to shareholders' equity	taxation to income statement
1. IRES payables				
2. IRAP payables				
3. Other amounts due for current income taxes		2,003		2,003
Amounts due for current taxes - gross		**2,003**		**2,003**
Offsetting against current tax assets		(2,003)		(2,003)
Amounts due for current taxes - net		**0**		**0**

Sezione 14 - NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS, AND ASSOCIATED LIABILITIES - ASSET ITEM 140 AND LIABILITY ITEM 90

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

		31/12/2017	*31/12/2016*
A.	**Individual assets**		
A.1	Financial assets	979,942	
A.1	Equity investments		
A.2	Property, plant and equipment		807
	- for credit recovery		
	- others		*807*
A.3	Intangible assets		
A.4	Other non-current assets		
	Total A	**979,942**	**807**
of which valued at cost		**979,942**	**807**
of which valued at fair value level 1			
of which valued at fair value level 2			
of which valued at fair value level 3			
B.	**Groups of assets (discontinued operations)**		
B.1	Financial assets held for trading		
B.2	Financial assets designated at fair value		
B.3	Financial assets available for sale		
B.4	Financial assets held to maturity		
B.5	Due from banks		
B.6	Loans to customers		
B.7	Equity investments		
B.8	Property, plant and equipment		
B.9	Intangible assets		
B.10	Other assets		
	Total B		
of which valued at cost			
of which valued at fair value level 1			
of which valued at fair value level 2			
of which valued at fair value level 3			
C.	**Liabilities associated with individual assets held for sale**		
C.1	Payables		
C.2	Securities		
C.3	Other liabilities		
	Total C		
of which valued at cost			
of which valued at fair value level 1			
of which valued at fair value level 2			
of which valued at fair value level 3			
D.	**Liabilities associated with groups of assets held for sale**		
D.1	Due to banks		
D.2	Due to customers		
D.3	Outstanding securities		
D.4	Financial liabilities held for trading		
D.5	Financial liabilities at fair value		
D.6	Funds		
D.7	Other liabilities		
	Total D		
of which valued at cost			
of which valued at fair value level 1			
of which valued at fair value level 2			
of which valued at fair value level 3			

The property owned in via Scialoja n. 47, previously classified among “assets held for sale”, following the Board of Directors resolution of 28 September 2016 which approved the sale, was returned to item 110 “property, plant and equipment”, as the requirements for the sale no longer existed.

Section 15 - OTHER ASSETS - ITEM 150

15.1 Other assets: breakdown

Type of transaction / Balances	*31/12/2017*	*31/12/2016*
1. Amounts due from the tax authorities and similar	2,264	1,694
2. Items being processed	6,171	11,965
3. Amounts receivable associated with the supply of goods and services	834	223
4. Improvement and incremental costs on third party assets	1	1
5. Accrued income not attributable to own items	6,922	4,820
6. Prepaid expenses not attributable to own items	5,664	4,767
7. Receivable from consolidating entity for tax consolidation system	166,383	2,524
8. Receivables for reimbursement to personnel seconded with third parties	4,756	4,688
9. Measurement of securities to be settled ("regular way")	1,271	535
10. Other	2,572	4,039
Total	**196,838**	**35,256**

Note:
the sub-item "Amounts due from the tax authorities and similar" include credits due from foreign tax authorities equal to € 813 thousand (€ 805 in 2016).
The sub-item "Amounts due from the consolidating company" includes receivables for a total of € 2,105 thousand (€ 2,067 thousand at 31 December 2016) related to higher IRES taxes paid as a result of non-deduction of IRAP under the terms of Art. 6 of Italian Law Decree No. 185/2010 and Italian Law Decree 16/2012.

LIABILITIES

Section 1 - DUE TO BANKS - ITEM 10

1.1 Due to banks: breakdown by type

Type of transaction / Balances	*31/12/2017*	*31/12/2016*
1. Due to Central Banks		
2. Due to banks	**15,449,516**	**20,748,103**
2.1 Current accounts and demand deposits	206,859	496,039
2.2 Restricted deposits	10,941,792	12,669,536
2.3 Loans	3,884,258	7,062,648
2.3.1 Repurchase agreements	*3,506,391*	*6,734,545*
2.3.2 Other	*377,867*	*328,103*
2.4 Amounts due for commitments to repurchase own equity instruments		
2.5 Other amounts payable	416,607	519,880
Total15,449,516	**20,748,103**	
Fair value - level 1		
Fair value - level 2	**15,449,516**	**20,748,103**
Fair value - level 3		
Total fair value	**15,449,516**	**20,748,103**

Note:

The sub-item “Due to banks - 2.5 Other amounts payable” includes collaterals received against operations in OTC and listed derivatives and in repurchase agreements (these last by way of additional marginalisations) on the basis of the agreements made between the parties (CSAs for OTC derivatives, GMRAs for repurchase agreements).

In relation to the disclosure on fair value, we can note that most of the deposits involve an early repayment on demand option. As a consequence, it was decided to quantify the related fair value as equal to the carrying amount, excluding changes which occurred in the Bank’s creditworthiness subsequent to the date the individual relationships were begun.

1.2 Analysis of Item 10 "Due to banks": subordinated liabilities

No subordinated liabilities in relation to banks are recorded in the financial statements.

1.3 Analysis of Item 10 "Due to banks": structured payables

No structured liabilities in relation to banks are recorded in the financial statements.

1.4 Due to banks subject to micro-hedging

No financial liabilities classified in this category have been subject to micro-hedging.

1.5 Payables for financial leasing

There is no liability for financial leases recorded in the financial statements.

Section 2 - DUE TO CUSTOMERS - ITEM 20

2.1 Due to customers: breakdown by type

Type of transaction / Balances	*31/12/2017*	*31/12/2016*
1. Current accounts and demand deposits		
2. Restricted deposits	3,158	3,157
3. Loans	6,596,423	9,210,479
3.1 Repurchase agreements	*6,565,551*	*9,191,496*
3.2 Other	*30,872*	*18,983*
4. Amounts due for commitments to repurchase own equity instruments		
5. Other amounts payable	340,329	209,988
Total	**6,939,910**	**9,423,624**
Fair value - level 1		
Fair value - level 2	**6,939,910**	**9,423,624**
Fair value - level 3		
Total fair value	**6,939,910**	**9,423,624**

Note:
Sub-item "5. Other amounts payable" includes collaterals received from institutional counterparties against operations in OTC and listed derivatives and in repurchase agreements (these last by way of additional marginalisations) on the basis of the agreements made between the parties (CSAs for OTC derivatives, GMRAs for repurchase agreements).

2.2 Analysis of Item 20 “Due to customers”: subordinated liabilities

No subordinated liabilities in relation to customers are recorded in the financial statements.

2.3 Analysis of Item 20 “Due to customers”: structured payables

No structured liabilities in relation to customers are recorded in the financial statements.

2.4 Due to customers subject to micro-hedging

No financial liabilities classified in this category have been subject to micro-hedging.

2.5 Payables for financial leasing

There is no liability for financial leases recorded in the financial statements.

Section 3 - OUTSTANDING SECURITIES - ITEM 30

3.1 Outstanding securities: breakdown by type

Type of security /Balances	*31/12/2017*				*31/12/2016*			
	Carrying Amount	*Fair value*			*Carrying Amount*	*Fair Value*		
		Level 1	*Level 2*	*Level 3*		*Level 1*	*Level 2*	*Level 3*
A. Securities								
1. bonds	456,551		502,331		456,684		107,117	
1.1 structured								
1.2 others	*456,551*		*502,331*		*456,684*		*107,117*	
2. other securities								
2.1 structured								
2.2 other								
Total	**456,551**		**502,331**		**456,684**		**107,117**	

Note:
the 2017 carrying amount includes € 6,526 thousand in interest accrued as of the reporting date (compared to € 6,643 thousand in 2016).

3.2 Analysis of Item 30 "Outstanding securities": subordinated securities

Security name	*Currency*	*date of issue*	*maturity*	*interest rate*	*Carrying Amount 31/12/2017*	*Carrying Amount 31/12/2016*
1. IT0004809601 MPSCS-TV 12/22	Euro	30/03/2012	30/03/2022	variable	50,476	50,486
2. IT0005003451 MPSCS-TV 14/24	Euro	14/03/2014	14/03/2024	variable	253,232	253,296
3. IT0005041709 MPSCS-TV 14/24	Euro	31/07/2014	31/07/2024	variable	152,843	152,902
					456,551	**456,684**

Main characteristics of the subordinated securities in being at 31/12/2017:

1. Lower Tier II subordinated domestic bond issue, repayment of which will be in a single instalment at maturity; early repayment is not possible;
2. Tier II subordinated domestic bond issue, repayment of which will be in a single instalment at maturity; early repayment is not possible;
3. Tier II subordinated domestic bond issue, repayment of which will be in a single instalment at maturity; early repayment is not possible.

The subordination clauses state that, if the Bank is liquidated, the loans will be reimbursed only after all other creditors not equally subordinated have been repaid. The Bank may freely acquire on the market portions of the loans for no more than 10% of their value. Higher amounts shall be subject to prior approval by the Bank of Italy.

No portions of these securities were held in the receivable portfolio, at both reference dates.

3.3 Outstanding securities subject to micro-hedging

No financial liabilities classified in this category have been subject to micro-hedging.

Section 4 - FINANCIAL LIABILITIES HELD FOR TRADING - ITEM 40

4.1 Financial liabilities held for trading: breakdown by type

Type of transaction / Balances	*Total 31/12/2017*				
	Nominal value or notional	*Fair value*			
		Level 1	*Level 2*	*Level 3*	*Fair value*(*)
A. Cash liabilities					
1. Due to banks	931,754	1,002,677	1,852		1,004,529
2. Due to customers	1,701,715	1,898,689			1,898,689
3. Debt securities					
3.1 Bonds					
3.1.1 Structured					
3.1.2 Other bonds					
3.2 Other securities					
3.1.1 Structured					
3.1.2 Other					
4. Other securities					
Total A	**2,633,469**	**2,901,366**	**1,852**		**2,903,218**
B. Derivative instruments					
1. Financial derivatives			1,866,804		
1.1 For trading			*1,866,804*		
1.2 Associated with the fair value option					
1.3 Other					
2. Credit derivatives			34,211		
2.1 For trading			*34,211*		
2.2 Associated with the fair value option					
2.3 Other					
Total B			**1,901,015**		
Total (A+B)		**2,901,366**	**1,902,867**		

(*) *fair value calculated by excluding the changes in value due to the change in the creditworthiness of the issuer since the issue date.*

Note:
The amounts shown in lines "1. Due to banks" and "2. Due to customers" are mainly correlated with those in lines "1. Debt securities" and "4. Loans" in table 2.1 of the assets "Financial assets held for trading." We also note that the sub-items "Due to banks" and "Due to customers", as above, include technical overdrafts, The same are recorded at fair value consistently with the standards applied to "long" positions.
In application of IAS32 para. 42, level 1 derivatives quoted on regulated markets were offset for € 82,449 thousand (€ 158,104 at 31/12/2016) as well as OTC level 2 regulated derivatives settled through the London Clearing House for € 1,028,498 thousand (€ 1,148,907 at 31/12/2016). In the last quarter of 2016 the Bank began to operate with the Central Counterparty ICE Clear Europe (ICE) for the Clearing of level 2 credit derivatives, but no cleared positions were recognised. The Bank has "indirect" access to the Clearing of OTC derivatives through the Clearing Members.

Type of transaction / Balances	*Total 31/12/2016*				
	Nominal value or notional	*Fair value*			
		Level 1	*Level 2*	*Level 3*	*Fair value(*)*
A. Cash liabilities					
1. Due to banks	2,679,243	1,816,532	1,177,460		2,993,992
2. Due to customers	713,483	756,581	86,071		842,652
3. Debt securities					
3.1 Bonds					
3.1.1 Structured					
3.1.2 Other bonds					
3.2 Other securities					
3.1.1 Structured					
3.1.2 Other					
4. Other securities					
Total A	**3,392,726**	**2,573,113**	**1,263,531**		**3,836,644**
B. Derivative instruments					
1. Financial derivatives		508	2,522,625		
1.1 For trading		*508*	*2,522,625*		
1.2 Associated with the fair value option					
1.3 Other					
2. Credit derivatives			48,413		
2.1 For trading			*48,413*		
2.2 Associated with the fair value option					
2.3 Other					
Total B		**508**	**2,571,038**		
Total (A+B)		**2,573,621**	**3,834,569**		

(*) *fair value calculated by excluding the changes in value due to the change in the creditworthiness of the issuer since the issue date.*

4.2 Analysis of Item 40 "Financial liabilities held for trading": subordinated liabilities

There are no subordinated liabilities.

4.3 Analysis of Item 40 "Financial liabilities held for trading": structured debts

There are no structured debts.

Section 5 - FINANCIAL LIABILITIES AT FAIR VALUE - ITEM 50

No positions have been classified in this category.

Section 6 - HEDGING DERIVATIVES - ITEM 60

There were no transactions for this accounting item.

Section 7 - VALUE ADJUSTMENTS TO FINANCIAL LIABILITIES SUBJECT TO MACRO-HEDGING - ITEM 70

There were no transactions for this accounting item.

Section 8 - TAX LIABILITIES - ITEM 80

8.1 Current tax liabilities

Details of current tax liabilities are provided in the Notes to the Financial Statements Part B - Assets - Section 13 “Tax assets and tax liabilities”.

8.2 Deferred tax liabilities

Details of deferred tax liabilities are provided in the Notes to the Financial Statements Part B - Assets - Section 13 “Tax assets and tax liabilities”.

Section 9 - LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE - ITEM 90

None of the Bank’s liabilities are classified in this category.

Section 10 - OTHER LIABILITIES - ITEM 100

10.1 Other liabilities: breakdown

Type of transaction / Balances	*31/12/2017*	*31/12/2016*
1. Taxes due to the tax authorities and similar	2,383	2,409
2. Amounts due to social security and welfare institutions	1,584	1,639
3. Amounts due to the Parent Company for tax consolidation		
4. Sums available to customers	2,333	498
5. Other amounts due to employees	5,411	3,082
6. Items being processed	17,475	17,915
7. Amounts payable associated with the payment of supplies of goods and services	22,264	23,360
8. Guarantees given	3,063	13,697
9. Payables for reimbursement of cost of personnel seconded to Bank	1,397	1,348
10. Deferred income not attributable to own items	743	973
11. Accrued liabilities not attributable to own items	13	11
12. Measurement of securities to be settled (“regular way”)	3,715	644
13. Other	2,487	23,115
Total	**62,868**	**88,691**

Note:
sub-item 6. “Items being processed” includes transactions that were settled in the first few days of 2017; item 13. At the end of the previous year, “others” included payables for additional contributions to be paid to the National Resolution Fund of € 21,702 thousand.

Section 11 - EMPLOYEE SEVERANCE INDEMNITY - ITEM 110

11.1 Employee severance indemnity: annual changes

		31/12/2017	*31/12/2016*
A.	**Opening balances**	**3,112**	**2,950**
B.	**Increases**	**42**	**180**
B.2	Provision for the year	41	64
B.3	Other increases	1	116
C.	**Decreases**	**551**	**18**
C.1	Liquidations carried out	500	7
C.2	Other decreases	51	11
D.	**Closing balances**	**2,603**	**3,112**

Following the supplementary welfare reform pursuant to Italian Legislative Decree No. 252 of 5 December 2005, the portions of severance indemnity accrued as from 1 January 2007 are, at the discretion of the employee, assigned to supplementary welfare plans or transferred to the Treasury Funds managed by INPS (National Institute of Social Insurance). The said portions do not appear in the table of movements.

Below, the amount subject to the prudential filter is shown, recognised according to the indications issued by the Bank of Italy regarding the determination of regulatory capital.

		31/12/2017	*31/12/2016*
a)	Value of net liability for defined benefits on the basis of the new IAS 19	2,603	3,112
b)	Value of net liability for defined benefits on the basis of the approach adopted in the financial statements at 31/12/2012	1,752	2,135
c)	**Difference between the two values (a-b)**	**851**	**977**
d)	Tax effect on the difference	234	269
e)	**Net difference to be added as a prudential filter to supervisory capital**	**617**	**708**

11.2 Other information

11.2.a Changes during the year for defined benefit liabilities. Severance indemnities

Items / Balances	*A (-) Plan assets*	*B(+) Current DBO value*	*C(+) Asset ceiling*	*D=A+B+C Net liabilities/ assets for defined benefits*
Opening balances		**3,112**		**3,112**
Welfare cost relating to current work services				
Interest income/expense		41		41
Revaluation of net liabilities/assets				
for defined benefits:		(50)		(50)
Yield of plan assets net of interest				
Actuarial gains/losses deriving from				
changes in demographic assumptions		*1*		*1*
Actuarial gains/losses deriving from past experience		*(46)*		*(46)*
Actuarial gains/losses deriving from				
changes in financial assumptions		*(5)*		*(5)*
Changes in the effect of limitations on the				
availability of a net asset for defined benefit plans				
Welfare cost relating to past employment				
service and/or regulatory gains/losses				
Exchange differences				
Contributions:		(500)		(500)
Paid by the employer				
Paid by employees				
Payments made by the plan		*(500)*		*(500)*
Effects of business combinations and disposals				
Effect of reductions in fund				
Effect of discharges on fund				
Other changes				
Closing balances		**2,603**		**2,603**

11.2.b Main actuarial hypotheses used

	Main actuarial hypotheses / Percentages	*31/12/2017*	*31/12/2016*
1.	Average discounting back rate (*)	0.7915%	0.7577%
2.	Average future inflation rate	1.5000%	1.5000%
	Annual inflation rate	2.6300%	2.6300%

(*) for the purposes of calculating the discounting back of gains/losses, the Bank uses the BFV EUR Composite (AA) curve at the measurement date. This curve refers to a basket of securities issued by corporate issuers with an "AA" rating.

11.2.c Analysis of DBO sensitivity to changes in the main actuarial hypotheses

Actuarial hypotheses	*Change in the value of the bond*	*% change in the bond*
Average discounting back rate		
25 bp increase	(56)	(2.1566%)
25 bp decrease	37	1.4341%
Average future inflation rate		
25 bp increase	23	0.8738%
25 bp decrease	(42)	(1.6285%)

11.2.2 Amount of liabilities pursuant to Article 2424-bis of the Italian Civil Code

Under the terms of Article 2424-bis of the Italian Civil Code, the statutory liability accrued at year end for the employee severance indemnity was € 2,263 thousand (€ 2,707 thousand at 31 December 2016).

Section 12 - PROVISIONS FOR RISKS AND CHARGES - ITEM 120

12.1 Provisions for risks and charges: breakdown

Items / Balances	*31/12/2017*	*31/12/2016*
1. Company pension funds	4,602	5,036
2. Other provisions for risks and charges:	23,179	17,217
2.1 legal disputes	*19,167*	*15,942*
2.2 personnel expenses		*1,275*
2.3 other	*4,012*	
Total	**27,781**	**22,253**

Note:
the sub-item "Other provisions for risks and charges: 2.1 legal disputes" includes allocations for liabilities deemed likely in relation to miscellaneous ordinary cases with customers and for actions for revocation, accounting for 82% and 18%, respectively, of the total shown in the table (93% and 7% at 31 December 2016).

12.2 Provisions for risks and charges: annual changes

		Pension funds	*Other provisions*	*Total*
A.	**Opening balances**	**5,036**	**17,217**	**22,253**
B.	**Increases**	**91**	**11,107**	**11,198**
B.1	Provision for the year		11,107	11,107
B.2	Changes due to the passage of time	21		21
B.3	Changes due to discount rate changes			
B.4	Other increases	70		70
C.	**Decreases**	**525**	**5,145**	**5,670**
C.1	Uses in the year	518	3,919	4,437
C.2	Changes due to discount rate changes			
C.3	Other changes	7	1,226	1,233
D.	**Closing balances**	**4,602**	**23,179**	**27,781**

12.3 Defined-benefit company pension funds

12.3.1 Illustration of the features of the funds and of the related risks

Determination of the actuarial values, required by the application of IAS 19 "Employee Benefits" for defined-benefit complementary pension funds, is carried out by an independent actuary, using the "projected unit credit" method, as described in more detail in Part A of the Notes to the Financial Statements, Accounting Policies.

The internal defined benefit funds for which the Bank is jointly responsible are the following:
Defined benefit pension fund, of an integrative or additional type, reserved for the personnel of the former Mediocredito Toscano and the former Istituto Nazionale di Credito Agrario already retired as of 1 January 1999 and personnel in service hired before 27 April 1993 who have expressed the desire to remain in said section. The provision for which the Bank is solely responsible is determined on the basis of the mathematical reserve calculated by an independent actuary at the end of each financial year.
"Defined contribution" pension fund, extended to all the Bank's personnel, with separate assets but not a separate legal standing.
For more details, please refer to the statements of accounts for pension funds attached to the Notes to the Financial Statements.

12.3.2 Changes during the year for net defined benefit liabilities (assets)

Items / Balances	*31/12/2017*		*31/12/2016*	
	Internal plans	*External plans*	*Internal plans*	*External plans*
Opening balances	**5,036**		**5,366**	
Increases	**91**		**247**	
Welfare cost relating to current work services				
Borrowing costs	21		34	
Members contributions to plan				
Actuarial losses	70		213	
Exchange losses				
Welfare cost relating to past employment services				
Other changes				
Decreases	**525**		**577**	
Indemnities paid	518		527	
Welfare cost relating to past employment services				
Actuarial gains	7		50	
Exchange gains				
Effect of reductions in fund				
Effect of discharges on fund				
Other changes				
Closing balances	**4,602**		**5,036**	

12.3.2.a Changes in the year in defined-benefit net liabilities (assets)

Items / Balances	*A (-) Plan assets*	*B(+) Current DBO value*	*C(+) Asset ceiling*	*D=A+B+C Net liabilities/ assets for defined benefits*
Opening balances		**5,036**		**5,036**
Welfare cost relating to current work services				
Interest income/expense		21		21
Revaluation of net liabilities/assets for defined benefits:		63		63
Yield of plan assets net of interest				
Actuarial gains/losses deriving from changes in demographic assumptions		*16*		*16*
Actuarial gains/losses deriving from changes in financial assumptions		*(7)*		*(7)*
Actuarial gains/losses deriving from past experience		*54*		*54*
Changes in the effect of limitations on the availability of a net asset for defined benefit plans				
Welfare cost relating to past employment service and/or regulatory gains/losses				
Exchange differences				
Contributions:		(518)		(518)
Paid by the employer				
Paid by employees				
Payments made by the plan		*(518)*		*(518)*
Effects of business combinations and disposals				
Effect of reductions in fund				
Effect of discharges on fund				
Other changes				
Closing balances		**4,602**		**4,602**

12.3.3 Information about the fair value of the plan assets

The assets of the defined-benefit pension funds are invested in the Bank's assets; no specific assets have been classified as plan assets. As a consequence, it is not possible to provide precise information about the fair value of the plan assets.

12.3.4 Description of the main actuarial hypotheses

Main actuarial hypotheses / Percentages	*31/12/2017*	*31/12/2016*
1. Average annual discounting rate *(*)*	0.7915%	0.447%
2. Average annual salary increase rate (*)	n.a.	n.a.
3. Average annual future inflation rate	1.5000%	1.500%

(*) for the purposes of calculating the discounting back of gains/losses, the Bank uses the BFV EUR Composite (AA) curve at the measurement date

12.3.5 Information on amounts, timeframes, and uncertainties for financial flows

Below we provide the estimated uses in the coming years:

FUTURE PAYMENTS

Year	*2018*	*2019*	*2020*	*2021*	*2022*
Cash flow	494	468	440	410	378

OTHER INFORMATION

Main actuarial hypotheses / Percentages	*31/12/2017*	*31/12/2016*
Number of active employees	-	-
Number of pensioners	38	39
Service Cost 2016	-	-
Residual average length in years	6.25	6.50

12.3.5.a Analysis of DBO sensitivity to changes in the main actuarial hypotheses

Actuarial hypotheses	*Change in the value of the bond*	*% change in the bond*
Average annual discounting rate and inflation rate		
DBO + 0.25% discounting	(47)	(1.0199%)
DBO - 0.25% discounting	47	1.0306%
DBO + 0.25% inflation rate	36	0.7835%
DBO - 0.25% inflation rate	(34)	(0.7419%)

12.3.6 Plans related to more than one employer

There are no plans related to more than one employer.

12.3.7 Defined benefit plans that share the risks between entities under joint control

No plans with this feature exist.

Section 13 - REFUNDABLE SHARES - ITEM 140

There were no transactions for this accounting item.

Section 14 - BANK'S SHAREHOLDERS' EQUITY - ITEMS 130, 150, 160, 170, 180, 190 AND 200

The Bank's shareholders' equity has the following composition:

Items / Balances	*31/12/2017*	*31/12/2016*
1. Capital	1,669,516	829,304
2. Share premiums	161,446	875,214
3. Reserves	110,427	107,686
4. (Treasury shares)		
5. Valuation reserves	(2,242)	(2,162)
6. Equity instruments		
7. Profit (Loss) for the year	(632,937)	(769,682)
Total	**1,306,210**	**1,040,360**

14.1 "Share capital" and "Treasury shares": breakdown

14.1.a Share capital: breakdown

Items/Balances	*Number of shares*	*Unit par value*	*Capital*
a) ordinary shares (fully paid-up)	802,551	*n.p.*	1,669,516,282

On 15 November 2017 the share capital increase resolved by the Extraordinary Shareholders Meeting of 18 August 2017 was completed, with the full subscription, paying in and issuing of 535,034 new ordinary shares with no nominal value at the unit price of € 1,680.00 (of which € 1,570.39 as capital and € 109.61 as share premium). The share capital thus went up from € 829,304,238.84 to € 1,669,516,282.10 and the share premiums from € 125,953,569.13 to € 184,598,645.87, with a total increase in the Bank's capital of € 898,857,120.00. Issue share premiums were subsequently reduced to € 23,152,838.16, transferred to a non-available reserve established against the amount of the parent company shares recognised in the Assets (see the subsequent paragraph 14.4).

14.1.b Treasury shares: breakdown

As of the balance sheet date, the Bank did not hold any treasury shares.

14.2 Capital - number of shares: annual changes

Items / Types		*Ordinary*	*Other*
A.	**Shares existing at the start of the year**	**267,517**	
	- fully paid-up	267,517	
	- not fully paid-up		
A.1	Treasury shares (-)		
A.1	**Shares outstanding: opening balance**	**267,517**	
B.	**Increases**	**535,034**	
B.1	New issues		
	- for payment	535,034	
	- business combinations		
	- conversion of bonds		
	- exercise of warrants		
	- others	*535,034*	
B.2	Sale of treasury shares		
B.3	Other changes		
C.	**Decreases**		
C.1	Cancellation		
C.2	Purchase of treasury shares		
C.3	Business sale transactions		
C.4	Other changes		
D	**Shares outstanding: closing balances**	**802,551**	
D1	Treasury shares (+)		
D2	Shares existing at the end of the year		
	- fully paid-up		
	- not fully paid-up		

14.3 Capital: other information

The share capital is fully subscribed and paid in.

14.4 Profit reserves: other information

Profit reserves, constituted in accordance with the Italian Code, with the articles of association or in relation to specific resolutions passed by the Shareholders' Meeting as to the allocation of the income for the loss, have the purpose of strengthening the Bank's capital.

On 1 August 2017, in compliance with that established in article 23, paragraph 3 of the cited Decree 237, as well as article 2 of the "burden sharing" Decree, issued on 28 July 2017, the Bank converted the subordinate securities issued by Banca Monte dei Paschi di Siena S.p.A. (BMPS) into 14,768,995 ordinary shares, classified under item 40 of the Assets "financial assets available for sale", for a book value of € 116,690 thousand. These shares were again granted entry for listing on the stock market organised and managed by Borsa Italiana S.p.A. during the last quarter of 2017. At the end of the year, following the decrease in the market price by more than 30% with respect to the carrying value, impairment of € 58,884 thousand was recognised, which reduced the value shown in the financial statements to € 57,806 thousand. In compliance with article 2359 bis of the Civil Code, a non-available reserve was established in the amount of the parent company's shares recognised in the Assets. This reserve was established through transfers from the extraordinary reserve (€ 10 thousand) and the statutory reserve (€ 34,643 thousand) in addition to part of the share premium reserve for the remaining portion (€ 23,153 thousand). The table below indicates only the portion established with the cited profit reserves (extraordinary and statutory).

Items / Balances	*31/12/2017*	*31/12/2016*
Legal reserve	41,323	41,323
Reserve of parent company shares	34,653	
Statutory reserve		34,643
Reserve ex art. 13 Lgs. Decree 124/93		
Extraordinary reserve		5,511
Other reserves	666	666
Total	**76,642**	**82,143**

14.5 Equity instruments: breakdown and annual changes

There were no transactions for this accounting item.

14.6 Other information

14.6.1 Valuation reserves

14.6.1.1 Valuation reserves: breakdown

Items / Components	*31/12/2017*	*31/12/2016*
1. Financial assets available for sale	338	365
2. Property, plant and equipment		
3. Intangible assets		
4. Foreign investment hedging		
5. Cash flow hedging		
6. Exchange differences		
7. Non-current assets held for sale		
8. Special revaluation laws		
9. Employee severance indemnities	(1,257)	(1,307)
10. Company pension funds	(1,910)	(1,847)
11. Tax effect	587	627
Total	**(2,242)**	**(2,162)**

14.6.1.2 Valuation reserves: annual changes

	Assets financial assets available for sale	*Employee severance indemnities*	*Company pension funds*	*Taxation effect*	*Total*
A. Opening balances	**365**	**(1,307)**	**(1,847)**	**627**	**(2,162)**
B. Increases	**61,585**	**51**	**7**	**(244)**	**61,399**
B.1 Fair value increases	909			(171)	738
B.2 Other changes	60,676	51	7	(73)	60,661
C. Decreases	**61,612**	**1**	**70**	**(204)**	**61,479**
C.1 Fair value decreases	60,624			(37)	60,587
C.2 Other changes	988	1	70	(167)	892
D. Closing balances	**338**	**(1,257)**	**(1,910)**	**587**	**(2,242)**

14.6.1.3 Valuation reserves relating to financial assets available for sale: breakdown (before tax effects)

Assets / Balances	*31/12/2017*		*31/12/2016*	
	Positive reserve	*Negative reserve*	*Positive reserve*	*Negative reserve*
1. Debt securities				165
2. Equity securities	39		532	
3. Units in collective investment undertakings	414	115		2
4. Loans				
Total	**453**	**115**	**532**	**167**

Note:
For the measurement criteria used to determine the market value of this security please see paragraph A.4.2 Measurement processes and sensitivity.

14.6.1.5 Valuation reserves relating to financial assets available for sale: changes in the year (before tax effects)

		Debt securities	*Equity securities*	*Units in collective investment undertakings*	*Loans*
1.	**Opening balances**	**(165)**	**532**	**(2)**	
2.	**Positive changes**	**165**	**61,006**	**414**	
2.1	Fair value increases		495	414	
2.2	Transfer to income statement of negative reserves	165	60,511		
	- due to impairment		*60,511*		
	- due to conversion	*165*			
2.3	Other changes				
3.	**Negative changes**		**61,499**	**113**	
3.1	Fair value decreases		60,511	113	
3.2	Transfer to income statement of positive reserves		988		
	- due to conversion		*988*		
3.3	Other changes				
4.	**Closing balances**		**39**	**299**	

14.6.2 The Bank's capital: availability and possibility of distribution of the various items

	Amount	Possibility of utilisation (*)	Stake available	Summary of uses made in previous three years: for coverage of losses	Summary of uses made in previous three years: for other reasons
Capital **1,669,516**					
Capital reserves	**184,599**	A,B	**184,599**	**885,036**	
Profit reserves	**76,642**	A,B	**76,642**	**429,383**	
Other reserves subject to deferred taxation	**10,632**	A,B	**10,632**	**42,766**	
Other IAS reserves	**(2,242)**				
TOTAL RESERVES	**269,631**		**271,873**	**1,357,185**	
Loss for the year 2017	(632,937)				
Total Equity	**1,306,210**				

(*) Key:
A for share capital increases; B for coverage of losses; C for distribution to shareholders

Note:
the "profit reserves" include the legal reserve, unavailable reserve relative to parent company shares (for the portion established with transfers from the extraordinary reserve (€ 10 thousand) and the statutory reserve (€ 34,643 thousand), and the reserve of IAS 19 FTA profits. We specify that the legal reserve is available solely to cover losses and not for capital increases.
Capital reserves include the share premium reserve and the unavailable reserve relative to parent company shares - for the residual portion. The "Other IAS reserves" are made up of Item 130 of the Balance Sheet liabilities.
Utilisations were made in 2015 to cover 2014 losses (for € 587,503 thousand) and in 2017 to cover 2016 losses (for € 769,682 thousand).

OTHER INFORMATION

1 Guarantees issued and commitments

Transactions	*31/12/2017*	*31/12/2016*
1. Financial guarantees given	127,804	193,829
a) Banks *4,117 4,117*		
b) Customers *123,687 189,712*		
2. Commercial guarantees given	8,125	11,560
a) Banks	*4,810*	*4,958*
b) Customers	*3,315*	*6,602*
3. Irrevocable commitments to grant finance	3,877,609	4,763,130
a) Banks	651,649	612,686
- certain to be called on	*651,649*	*612,686*
- not certain to be called on		
b) Customers	3,225,960	4,150,444
- certain to be called on	*2,848,515*	*3,691,781*
- not certain to be called on	*377,445*	*458,663*
4. Commitments underlying derivatives on receivables: protection sales	2,325,302	3,044,604
5. Assets lodged as collateral for third party bonds	1,047,214	1,964,400
6. Other commitments	223,188	153,498
Total	**7,609,242**	**10,131,021**

Note:
sub-item 5. "Assets lodged as collateral for third party bonds" shows the Bank's loans backing Eurosystem loan transactions stipulated by the Parent Company.

2 Assets lodged as collateral for the Bank's liabilities and commitments

Portfolios	*31/12/2017*	*31/12/2016*
1. Financial assets held for trading	4,841,727	5,206,293
2. Financial assets designated at fair value		
3. Financial assets available for sale		
4. Financial assets held to maturity		
5. Loans to banks	185,071	187,097
6. Loans to customers	512,152	194,938
7. Property, plant and equipment		

Note:
these are mainly assets used as collateral for repurchase agreements, securities lending and derivatives.

3 Information on operating leases

Items / Balances	*31/12/2017*	*31/12/2016*
- Within 1 year	360	340
- Between 1 and 5 years	483	577
- Beyond 5 years	-	-

4. Management and brokerage on behalf of third parties

Type of services	*31/12/2017*	*31/12/2016*
1. Execution of order on customers' behalf		
a) Purchases	12,278,364	4,002,891
1. Settled	*12,204,649*	*3,984,088*
2. Not settled	*73,715*	*18,803*
b) Sales	12,257,692	4,130,370
1. Settled	*12,185,463*	*4,112,321*
2. Not settled	*72,229*	*18,049*
2. Portfolio management		
a) Individual		
b) Collective		
3. Custody and administration of securities		
a) Third party securities deposited with the Bank associated with its role as custodian bank (excluding asset management)		
1. Securities issued by the bank which draws up the financial statement		
2. Other securities		
b) Third party securities on deposit (excluding asset management): other	7,936,145	12,985,843
1. Securities issued by the bank which draws up the financial statement		
2. Other securities	*7,936,145*	*12,985,843*
c) Third party securities deposited with third parties	7,870,672	12,920,370
d) Bank's securities deposited with third parties	6,602,475	6,248,466
4. Other transactions	**1,540,138**	**8,001,540**

Note:
The amounts indicated in point 3 "Custody and administration of securities" concern the par value of the securities.
The sub-items "third party securities" include € 659,817 thousand as collateral received to guarantee derivative and repurchase agreements payable exposures (€ 749,079 thousand in 2016), as well as securities received for repurchase and securities lending operations receivable for a nominal value of € 6,932,453 thousand (€ 12,023,922 thousand at 31 December 2016). The aggregate had a total fair value of € 8,465,142 thousand (€ 14,650,655 at 31 December 2016).
The "Other transactions" indicated at point 4, represent the volumes of placement activities with or without guarantees.

5. Financial assets subject to netting in the financial statements, or subject to outline netting or similar agreements

Technical forms	*Gross amount of financial assets (a)*	*Amount of financial liabilities offset in the financial statements (b)*	*Net amount of financial assets recognised in the financial statements (c=a-b)*	*Correlated amounts not subject to netting in the financial statements*		***Net amount 31/12/2017*** *(f=c-d-e)*	***Net amount 31/12/2016***
				Derivative instruments (d)	*Cash deposits received as guarantees (e)*		
1. Derivatives	4,555,486	1,110,947	3,444,539	1,684,428	1,377,094	**383,017**	**331,379**
2. Repurchase agreements	7,751,549		7,751,549	7,670,727		**80,822**	**88,965**
3. Securities lending							
4. Other							
Total 31/12/2017	**12,307,035**	**1,110,947**	**11,196,088**	**9,355,155**	**1,377,094**	**463,839**	
Total 31/12/2016	**19,380,602**	**1,307,010**	**18,073,592**	**16,990,102**	**663,146**		**420,344**

Note:

The assets indicated in the table above are valued in accordance with the criteria outlined in the relevant accounting standards, i.e. Section 1 part A.2, 1) Financial assets held for trading and 5) Loans and receivables.

The amounts related to derivatives refer to: i) derivatives quoted on regulated markets; ii) OTC financial derivatives settled at the Central Counterparties LCH London Clearing House and ICE Clear Europe, through Clearings Members; iii) OTC derivatives entered into with institutional counterparties settled by ISDA, MNA and CSA.

The amounts related to repurchase agreements refer to transactions settled, respectively, through GMRA and GMSLA collateralisation agreements.

The amounts shown in column "c" correspond to those presented in the Balance Sheet Assets under Item 20. Financial assets held for trading and, as regards repurchase agreements, to items 60. Receivables due from banks and 70. Loans to customers.

Description of netting rights subject to netting framework agreements or similar agreements, including cases in which the criteria envisaged in section 42 of IAS 32 are not met.

Operations regarding derivatives listed on regulated markets have the characteristics referred to in the amendment to IAS 32 for offsetting financial assets and liabilities, in that the Bank has a current and unconditional right, which can be exercised during the normal course of business and also in the cause of default, insolvency or bankruptcy of the counterpart, to offset the financial asset or liability (IAS 32 §AG38B), whether the intention is to settle the amount on a net basis or to make use of the asset while simultaneously eliminating the liability (IAS 32 §AG38E).

With reference to OTC financial derivatives settled with the Central Counterparties LCH and ICE, the relation between the Bank and the Clearing Members is governed by an ISDA MNA and CSA contract in which, unlike what occurs in the context of the agreements envisaged with the other counterparties, the application of a "Multiple Transaction Payment Netting" clause is envisaged, defined under article 2(c) of the 2002 ISDA MNA. Activation of the Multiple Transaction Payment Netting option involves:

- *settlement on a net basis on a daily or infra-daily basis;*
- *the execution of a single transfer of funds for each regulated currency inclusive of exchanges of contractual flows, any amounts to be paid in the case of early termination and payments/deposits related to the initial and variation margin (collateral).*

In the event of default of a Clearing Member the Bank can choose whether to transfer the positions to another Clearing Member or have the existing positions liquidated; in any case the netting mechanism provided for in the ISDA MNA is applied.

This type of transaction also has the characteristics envisaged in the amendment to IAS 32 (see previous point).

OTC derivatives entered into with institutional counterparties are governed by ISDA MNA and CSA contracts. The contractual clauses for these operations allow for offset adjustment of the financial assets and liabilities in question only in the case in which certain events occur, while the possibility of offsetting during the course of normal business being excluded. With the exception of the agreements stipulated with the Clearing Members of the CCP, no agreements exist with institutional counterparties that envisage the application of the Multiple Transaction Payment Netting clause.

Therefore, this type does not have the characteristics necessary for netting in the financial statements, as regulated by the amendment to IAS 32.

Repurchase agreements and securities borrowing and lending are all governed by the following agreements, developed with an eye to mitigating credit risk:
• Global Master Repurchase Agreement (GMRA) for repurchase agreements;
• Global Master Securities Lending Agreement (GMSLA) for securities lending.
On the basis of the analysis carried out, with particular reference to the contractual rules relating to the settlement of cash flows, no cases were identified that envisage settlement on a net basis of daily or infra-daily cash flows, during the normal course of business. Therefore, the requirements referred to in the amendment to IAS 32 for relative netting in the financial statements are not met.

6. Financial liabilities subject to netting in the financial statements, or subject to outline netting or similar agreements

Technical forms	Gross amount of financial liabilities (a)	Amount of financial assets offset in the financial statements (b)	Net amount of financial liabilities recognised in the financial statements (c=a-b)	Correlated amounts not subject to netting in the financial statements		**Net amount 31/12/2017** (f=c-d-e)	**Net amount 31/12/2016**
				Financial instruments (d)	Cash deposits received as guarantees (e)		
1. Derivatives	3,007,744	1,110,947	1,896,797	1,757,042	128,987	**10,768**	**11,582**
2. Repurchase agreements	10,071,942		10,071,942	10,071,942			
3. Securities lending							
4. Other							
Total 31/12/2017	**13,079,686**	**1,110,947**	**11,968,739**	**11,828,984**	**128,987**	**10,768**	
Total 31/12/2016	**21,056,475**	**1,307,010**	**19,749,465**	**19,604,096**	**133,787**		**11,582**

Note:
The liabilities indicated in the table above are valued in accordance with the criteria outlined in the relevant accounting principles, that is Section 1 part A.2, 12) Payables and outstanding securities and 13) Financial liabilities held for trading.
The amounts shown in column "c" correspond to those presented in the Balance Sheet Liabilities under Items 10. Due to banks, 20. Due to customers and 40. Financial liabilities held for trading.
In relation to the disclosure for netting rights, please refer to the information provided at the bottom of table "5 above. Financial assets subject to netting in the financial statements, or subject to outline netting or similar agreements".

7. Securities borrowing and lending

Securities borrowing and lending operations, as for similar repurchase agreement transactions, are carried out mostly to hedge against similar and specular transactions. They are also carried out to hedge against short positions on securities (known as technical overdrafts, representing, in terms of volumes, mainly exposures to government issuers) taken on by the trading desks for strategies focused on short/medium-term maturities.
Overall, we can note dynamic and complex management of the Global Markets portfolios, regarding both investments and funding, as can be seen from the figures involved: the amount of the securities lending transactions, at 31 December 2017, came out at € 1,647 million (compared to € 2,338 million at 31 December 2016). These transactions, aimed at acquiring available securities to be used for funding operations or to cover technical overdrafts, were for the most part carried out with the parent company (which, in turn, carries out securities lending with its customers) and involved Italian government securities for more than 90% of the total.
Considering all of the securities lending and repurchase agreement transactions, the total net funding position, correlated with financing of net long positions in securities, is € 2,320 million.

8. Disclosure on jointly-controlled companies

There is nothing to report.

Part C
Notes to the Income Statement

Section 1 - INTEREST - ITEMS 10 AND 20

Interest and other income: breakdown

Items / Technical forms	Debt securities	Loans	Other transactions	**Total 31/12/17**	**Total 31/12/16**
1. Financial assets held for trading	59,030	98		**59,128**	**141,545**
2. Financial assets available for sale	608			**608**	**3,020**
3. Financial assets held to maturity					
4. Loans to banks		53,064		**53,064**	**48,560**
5. Loans to customers		196,807		**196,807**	**183,247**
6. Financial assets designated at fair value					
7. Hedging derivatives					
8. Other assets			38	**38**	**38**
Total	**59,638**	**249,969**	**38**	**309,645**	**376,410**

Note:
the interest accrued during the year relating to positions classified as "impaired" amounted to € 42,448 thousand (€ 54,901 at 31 December 2016). Default interest was fully written down and is measured for accounting purposes only at the time of collection.

1.1.a of which: interest income on financial liabilities

Items / Technical forms	Debt securities	Loans	Other transactions	**Total 31/12/17**	**Total 31/12/16**
1. Financial assets held for trading		98		**98**	**42,644**
2. Financial assets available for sale					
3. Financial assets held to maturity					
4. Loans to banks		18,310		**18,310**	**5,434**
5. Loans to customers		52,261		**52,261**	**11,345**
6. Financial assets designated at fair value					
7. Hedging derivatives					
8. Other assets					
Total		**70,669**		**70,669**	**59,423**

The table shows the positive income components accrued on financial liabilities which, on the basis of the EBA clarification of 22 May 2016, must be presented among interest income.

1.2 Interest and similar income: spreads related to hedging transactions

1.3 Interest and similar income: other information

	31/12/2017	31/12/2016
1. Interest income on foreign currency financial assets	11,703	10,254
2. Interest income on financial lease transactions	-	-

1.4 Interest expense and similar charges: breakdown

Items / Technical forms	*Payables*	*Securities*	*Other transactions*	***Total 31/12/17***	***Total 31/12/16***
1. Due to Central Banks					
2. Due to banks	(159,579)			**(159,579)**	**(169,107)**
3. Due to customers	(38,038)			**(38,038)**	**(10,354)**
4. Outstanding securities		(19,586)		**(19,586)**	**(20,210)**
5. Financial liabilities held for trading	(347)			**(347)**	**(32,812)**
6. Financial liabilities designated at fair value					
7. Other liabilities and provisions					**(168)**
8. Hedging derivatives					
Total	**(197,964)**	**(19,586)**	**0**	**(217,550)**	**(232,651)**

1.4.a of which: interest expense on financial assets

Items / Technical forms	*Payables*	*Securities*	*Other transactions*	***Total 31/12/17***	***Total 31/12/16***
1. Due to Central Banks					
2. Due to banks	(8,526)			**(8,526)**	**(2,503)**
3. Due to customers	(37,273)			**(37,273)**	**(9,328)**
4. Outstanding securities					
5. Financial liabilities held for trading	(283)			**(283)**	**(24,293)**
6. Financial liabilities designated at fair value					
7. Other liabilities and provisions					
8. Hedging derivatives					
Total	**(46,082)**			**(46,082)**	**(36,124)**

The table shows the negative income components accrued on financial assets which, on the basis of the EBA clarification of 22 May 2016, must be presented among interest expense.

1.5 Interest expense and similar charges: differentials relative to hedging operations

During the last two financial years, no hedging operations were carried out.

1.6 Interest expense and similar charges: other information

	31/12/2017	*31/12/2016*
1. Interest expense on foreign currency liabilities	(6,203)	(3,900)
2. Interest expense on liabilities for financial lease transactions		

Section 2 - FEES - ITEMS 40 AND 50

Fee income: breakdown

	Type of services / Balances	*31/12/2017*	*31/12/2016*
a)	guarantees given	1,351	1,773
b)	credit derivatives		
c)	asset management, brokerage and consultancy services:	13,738	14,221
	1. financial instrument trading		
	2. foreign exchange trading		
	3. portfolio management		
	3.1. individual		
	3.2 collective		
	4. custody and administration of securities		
	5. custodian bank		
	6. placing of securities	*11,899*	*13,178*
	7. order reception and transmission	*1,839*	*1,043*
	8. advisory services		
	8.1 on investments		
	8.2 on financial structure		
	9. distribution of third party services		
	9.1. portfolio management		
	9.1.1. individual		
	9.1.2. collective		
	9.2. insurance products		
	9.3. other products		
d)	collection and payment services		
e)	servicing for securitisation transactions		
f)	factoring services		
g)	tax collection and State lottery services		
h)	management of multilateral trading systems		
i)	holding and managing current accounts		
j)	other services	28,106	27,584
	Total	**43,195**	**43,578**

Note:
in relation to the sub-item "c) 6. securities placement", 31 placing operations with/without guarantee were handled by the Bank, in line with the previous year.

2.1.a Fee income: breakdown of fees for other services

Type of services / Balances	*31/12/2017*	*31/12/2016*
a) for early repayment/termination of loans and mortgage loans	1,246	1,669
b) fees for advisory services	12,232	14,405
c) fees for services	4,328	4,024
d) fees for securities lending	82	257
e) other	10,218	7,229
Total	**28,106**	**27,584**

Note:
The detail "e) other" refers mainly to enquiry and secretarial fees, fees for non or late use of the line granted, disinvestment charges and agency fees.

2.2 Fee income: distribution channels for products and services

Channels / Balances	*31/12/2017*	*31/12/2016*
a) **at Bank branches:**		
1. asset management		
2. placing of securities		
3. third party services and products		
b) **door-to-door sales:**		
1. asset management		
2. placing of securities		
3. third party services and products		
c) **other distribution channels:**		
1. asset management		
2. placing of securities	11,899	13,178
3. third party services and products		

2.3 Fee expense: breakdown

	Services / Balances	*31/12/2017*	*31/12/2016*
a)	guarantees received	(197)	(2,005)
b)	credit derivatives		
c)	management and brokerage services:	(24,526)	(25,868)
	1. financial instrument trading	*(20,414)*	*(19,560)*
	2. foreign exchange trading	*(1)*	
	3. asset management:		
	3.1. treasury portfolio		
	3.2. portfolio of third parties		
	4. custody and administration of securities	*(1,478)*	*(568)*
	5. placing of financial instruments	*(2,633)*	*(5,740)*
	6. external marketing of financial instruments, products and services		
d)	collection and payment services	(11)	(14)
e)	other services	(23,498)	(25,051)
Total		**(48,232)**	**(52,938)**

2.3.a Fee expense: breakdown of fees for other services

	Type of services / Balances	*31/12/2017*	*31/12/2016*
a)	presentation of loan applications	(4,292)	(6,769)
b)	handling of non-performing loans	(12,775)	(13,322)
c)	expenses and fees paid to Barclays, Citibank and Clearstream	(3,273)	(4,223)
d)	fees for securities lending	(87)	(139)
e)	other	(3,071)	(598)
Total		**(23,498)**	**(25,051)**

Section 3 - DIVIDENDS AND SIMILAR INCOME - ITEM 70

3.1 Dividends and similar income: breakdown

Items / Income	*31/12/2017*		*31/12/2016*	
	Dividends	*Income from units in collective investment undertakings*	*Dividends*	*Income from units in collective investment undertakings*
A. Financial assets held for trading	1,573	303	2,845	337
B. Financial assets available for sale	9		8	
C. Financial assets designated at fair value				
D. Equity investments				
Total	**1,582**	**303**	**2,853**	**337**

Section 4 - NET INCOME FROM TRADING ACTIVITIES - ITEM 80

4.1 Net income from trading activities: breakdown

Transactions / Income components	*Capital gains (A)*	*Trading gains (B)*	*Capital losses (C)*	*Trading losses (D)*	*Net profit (Loss) (A+B-C-D) 31/12/17*	*31/12/16*
1. Financial assets held for trading						
1.1 Debt securities	21,434	81,465	(40,483)	(74,997)	**(12,581)**	**(82,381)**
1.2 Equity securities	3,298	2,289	(1,537)	(5,255)	**(1,205)**	**(894)**
1.3 Units in collective						
investment undertakings	563	4,459	(25)	(5,581)	**(584)**	**1,647**
1.4 Loans						
1.5 Others						
2. Financial liabilities held for trading						
2.1 Debt securities	32,944	39,420	(203)	(38,734)	**33,427**	**57,907**
2.3 Payables						
2.2 Others	107	549	(112)		**544**	**(3,474)**
3. Other financial assets and liabilities						
- exchange differences					**(9,199)**	**3,650**
4. Derivative instruments						
4.1. Financial derivatives:						
- on debt securities and interest rates	425,726	1,868,663	(411,634)	(1,901,331)	**(18,576)**	**80,865**
- on equity securities and share indices	70,786	780,966	(79,731)	(753,484)	**18,537**	**(2,986)**
- on foreign currencies and gold					**18,453**	**23,433**
- others	16,276	112,339	(16,033)	(109,363)	**3,219**	**3,442**
4.2 Credit derivatives	9,263	114,780	(34,761)	(103,246)	**(13,964)**	**26,072**
Total	**580,397**	**3,004,930**	**(584,519)**	**(2,991,991)**	**18,071**	**107,281**

Note:
In financial year 2017 € 4,323 thousand of capital losses and € 1,167 thousand of trading losses were recognised. These are attributable to the deterioration of the debtor's creditworthiness, and were concentrated essentially in the segment of financial derivatives.

Section 5 - NET INCOME FROM HEDGING ACTIVITIES - ITEM 90

During the last two financial years, no hedging operations were carried out.

Section 6 - PROFIT (LOSS) ON SALE/REPURCHASE - ITEM 100

6.1 Profit (Loss) on sale/repurchase: breakdown

Items / Income components	*31/12/2017*			*31/12/2016*		
	Gains	*Losses*	*Net profit (Loss)*	*Gains*	*Losses*	*Net profit (Loss)*
Financial assets						
1. Loans to banks		(188)	(188)			
2. Loans to customers	15,862	(15,666)	196	7,863	(5,381)	2,482
3. Financial assets available for sale	1,753	(165)	1,588	2,601	(10)	2,591
3.1 Debt securities	*752*	*(165)*	*587*		*(10)*	*(10)*
3.2 Equity securities	*1,001*		*1,001*	*2,601*		*2,601*
3.3 Units in collective investment undertakings						
3.4 Loans						
4. Financial assets held to maturity						
Total assets	**17,615**	**(16,019)**	**1,596**	**10,464**	**(5,391)**	**5,073**
Financial liabilities						
1. Due to banks	6,825		6,825			
2. Due to customers						
3. Outstanding securities						
Total liabilities	**6,825**		**6,825**			

Section 7 - NET RESULT FROM FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE - ITEM 110

There were no transactions for this accounting item.

Section 8 - NET VALUE ADJUSTMENTS/WRITEBACKS DUE TO IMPAIRMENT - ITEM 130

8.1 Net value adjustments due to impairment of receivables: breakdown

Transactions / Income components	*Value adjustments*			*Write-backs*				*Total*	
	Specific			*Specific*		*Portfolio*			
	Derecognitions	*Other*	*Portfolio*	*From interest*	*Other write-backs*	*From interest*	*Other write-backs*	*31/12/2017*	*31/12/2016*
A. Due from banks			(16)					(16)	2
- Loans			*(16)*					*(16)*	*2*
- Debt securities									
B. Loans to customers	(4,101)	(1,066,963)	(4,137)	61,096	232,900			(781,205)	(946,620)
Impaired loans purchased									
- Loans									*(1,042)*
- Debt securities									
Other receivables									
- Loans	(4,101)	(1,066,963)	(4,137)	61,096	232,892			*(781,213)*	*(944,605)*
- Debt securities					8			*8*	(973)
C. Total	**(4,101)**	**(1,066,963)**	**(4,153)**	**61,096**	**232,900**			**(781,221)**	(946,618)

Note:
the "Derecognitions" column shows the losses recorded in the face of the definitive cancellation of the receivables, while the "other" column includes specific write-downs on impaired loans subject to analytical evaluation. The values shown in the "specific write-backs - from interest" are related to the release of the interest of value adjustments for discounting of recoveries from non-performing loans and impaired positions with doubtful analytical results.

8.2 Net value adjustments due to impairment of financial assets available for sale: breakdown

Transactions / Income components	*Value adjustments Specific*		*Write-backs Specific*		*Total*	
	Derecognitions	*Other*	*From interest*	*Other write-backs*	*31/12/2017*	*31/12/2016*
A. Debt securities				3,300	3,300	(7,456)
B. Equity securities		(60,511)			(60,511)	(2,094)
C. Units in collective investment undertakings						
D. Loans to banks						
E. Loans to customers						
F. Total		**(60,511)**		**3,300**	**(57,211)**	**(9,550)**

Note:
The value adjustments carried out in 2017 are attributable for:
€ 58,884 thousand to BMPS shares;
€ 64 thousand to MPSBelgio shares;
€ 1,563 thousand to investee associations for cinematographic credit.
The write-back is, instead, entirely associated with the BMPS subordinate debt security subject to conversion in shares.

8.3 Net value adjustments due to impairment of financial assets held to maturity: breakdown

The Bank does not have any financial assets held to maturity.

8.4 Net value adjustments due to impairment of other financial transactions: breakdown

Transactions / Income components	*Value adjustments*			*Write-backs*				*Total*	
	Specific			*Specific*		*Portfolio*			
	Derecognitions	*Other*	*Portfolio*	*From interest*	*Other write-backs*	*From interest*	*Other write-backs*	*31/12/2017*	*31/12/2016*
A. Guarantees given		(748)	(69)		11,451			10,634	582
B. Credit derivatives									
C. Commitments to grant finance									
D. Other transactions									
E. Total		**(748)**	**(69)**		**11,451**			**10,634**	**582**

Note:
the amounts relative to the item "A. Guarantees given" represent the value adjustments/write-backs carried out on guarantees given in the face of expected losses in the case of enforcement of the same.

Section 9 - ADMINISTRATIVE EXPENSES - ITEM 150

9.1 Personnel expense: breakdown

Type of costs / Values	*31/12/2017*	*31/12/2016*
1. Employees	**(42,387)**	**(41,964)**
a) wages and salaries	(29,185)	(29,648)
b) social security contributions	(7,772)	(7,950)
c) retirement indemnities	(1,190)	(1,188)
d) other pension costs		
e) provision for personnel severance indemnities	(41)	(64)
f) provision for pensions and similar obligations:	(453)	(464)
- defined contribution	*(432)*	*(430)*
- defined benefit	*(21)*	*(34)*
g) payments to external supplementary welfare funds		
- defined contribution		
- defined benefit		
h) costs deriving from payment agreements based on		
- parent company equity instruments (stock granting)		
i) other employee benefits	(3,746)	(2,650)
2. Other working personnel		
3. Directors and Statutory Auditors	**(401)**	**(515)**
4. Retired personnel	**(32)**	**(31)**
5. Recovered expenses for employees seconded at other companies	**17,373**	**17,151**
6. Expense reimbursements for third party employees seconded at the Bank	**(5,266)**	**(5,028)**
Total	**(30,713)**	**(30,387)**

Note:
The fees paid to Directors and Statutory Auditors, shown before contributions and tax expenses, are divided as follows: € 282 thousand to Directors (€ 380 thousand in 2016) and € 119 thousand to Statutory Auditors (€ 134 thousand in 2016).

9.2 Average number of employees by category

Employee categories /Average number	*31/12/2017*	*31/12/2016*
Employees	**339**	**355**
b) executives	20	22
c) managers	206	212
c) other personnel	113	121
Other personnel		
Total	**339**	**355**

9.3 Defined-benefit company pension funds: costs and revenue

Items / Balances	*31/12/2017*		
	Defined-benefit company pension funds		*Severance indemnities*
	Internal plans	*External plans*	
Interest income/expense	(21)		(41)
- welfare cost relating to current employment services			
- welfare cost relating to past employment services			
Gain/loss from discharge of fund			
Total	**(21)**		**(41)**

9.3.a Contributions to the Plan which the Bank estimates it will pay out in the next year

Items / Balances	*31/12/2017*	
	Defined-benefit company pension funds	*Severance indemnities*
1. Contributions to the Plan which the Bank estimates it will pay out in the next year	(25)	(45)

9.5 Other administrative expenses: breakdown

Items / Balances	*31/12/2017*	*31/12/2016*
1. substitute tax		-
2. municipal property tax	(103)	(103)
3. stamp duty	(1,076)	(1,113)
4. fee for DTAs	(6,165)	(6,156)
5. other taxation	(149)	(209)
6. rental of bank properties	(2,802)	(2,861)
7. fees for outside professionals	(11,962)	(7,280)
8. maintenance of furnishings and property used for business purposes	(620)	(451)
9. postal	(51)	(48)
10. telephone	(88)	(157)
11. advertising	-	-
12. sundry rents and leasing	(7,316)	(7,034)
13. information and inquiries	(6)	-
14. transport	(216)	(259)
15. electricity, heating and water	(6)	(6)
16. surveillance	(4)	(4)
17. reimbursement of staff vehicle and travel costs	(310)	(489)
18. other staff costs	(971)	(1,075)
19. contracts for cleaning of premises	(163)	(163)
20 rental of data transmission lines	(54)	(54)
21. printed matter, stationery and consumables	(23)	(30)
22. insurance policies	(19)	(16)
23. services outsourced to Group companies	(17,021)	(17,482)
24. membership fees	(458)	(498)
25. entertaining expenses	(47)	(43)
26. subscriptions to publications	(16)	(17)
27. contributions to Resolution Funds and Deposit Guarantee Systems	(12,897)	(32,528)
28. sundry	(1,898)	(1,256)
Total	**(64,441)**	**(79,332)**

The decrease in "other administrative expenses" is mostly attributable to lower contributions paid to the National Resolution Fund (€ -19,631 thousand compared to 31/12/2016).

Section 10 - NET PROVISIONS FOR RISKS AND CHARGES - ITEM 160

10.1 Net provisions for risks and charges: breakdown

	31/12/2017			*31/12/2016*		
	Personnel expenses	*Legal disputes*	*Other*	*Personnel expenses*	*Legal disputes*	*Other*
1. Provisions for the year		(7,094)			(1,901)	
2. Write-backs		1,226		675	3,817	
Total		**(5,868)**	**0**	**675**	**1,916**	**0**

SECTION 11 - NET VALUE ADJUSTMENTS/WRITEBACKS ON PROPERTY, PLANT AND EQUIPMENT - ITEM 170

11.1 Net value adjustments on property, plant and equipment: breakdown

	Assets / Income components	*Depreciation (A)*	*Adjustments in value to impairment (B)*	*Write-backs (C)*	*Net profit (loss) (A+B-C)*	
					31/12/17	*31/12/16*
A.	**Property, plant and equipment**					
A.1	**Owned by the Bank**	(196)	(735)		(931)	(333)
	- For business use	*(18)*			*(18)*	*(41)*
	- For investment	*(178)*	*(735)*		*(913)*	*(292)*
A.2	**Acquired under financial lease**					
	- For business use					
	- For investment					
	Total	**(196)**	**(735)**		**(931)**	**(333)**

Section 12 - NET VALUE ADJUSTMENTS/WRITEBACKS ON INTANGIBLE ASSETS - ITEM 180

There were no transactions for this accounting item.

Section 13 - OTHER OPERATING INCOME/CHARGES - ITEM 190

13.1 Other operating charges: breakdown

Items / Balances	*31/12/2017*	*31/12/2016*
1. Amounts not receivable not attributable to own items	(42)	(17)
2. Out-of-period expense not attributable to own items	(25)	(41)
3. Depreciation of leasehold improvement costs classified among “Other assets”		(73)
4. Settlements paid for litigation	(1,032)	(210)
5. Other	(7)	(2)
Total	**(1,106)**	**(343)**

13.2 Other operating income: breakdown

Items / Balances	*31/12/2017*	*31/12/2016*
1. Amounts not payable not attributable to own items		226
2. Out-of-period income not attributable to own items	8	134
3. Rental income from investment properties		
4. Other costs charged back	5,713	5,776
5. Other	1,754	1,375
Total	**7,475**	**7,511**

Section 14 - PROFIT (LOSS) FROM EQUITY INVESTMENTS - ITEM 210

14.1 Profit (loss) from equity investments: breakdown

Income components / Balances	*31/12/2017*	*31/12/2016*
A. Income		
1. Revaluations		
2. Gains on disposal		
3. Write-backs		
4. Other income		
B. Charges	**901**	
1. Write-downs		
2. Value adjustments due to impairment	901	
3. Losses on disposal		
4. Other charges		
Net profit (Loss)	**901**	

Notes:
The value adjustment due to impairment is from the valuation of the equity investment in Interporto Toscano A. Vespucci S.p.A.

Section 15 - NET RESULT FROM PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS AT FAIR VALUE - ITEM 220

There were no transactions for this accounting item.

Section 16 - VALUE ADJUSTMENTS TO GOODWILL - ITEM 230

There were no transactions for this accounting item.

Section 17 - GAINS (LOSSES) ON DISPOSAL OF INVESTMENTS - ITEM 240

There were no transactions for this accounting item.

Section 18 - INCOME TAXES FOR THE YEAR ON PROFIT FROM CURRENT OPERATIONS - ITEM 260

18.1 Income taxes for the year on profit from current operations: breakdown

	Components / Balances	*31/12/2017*	*31/12/2016*
1.	Current taxes (-)	163,191	
2.	Changes in current taxes for previous years (+/-)		
3.	Reduction in current taxes for the year (+)		
3.bis	Reduction in current taxes for the year due to tax credit as per law no. 214/2011 (+)	111,594	
4.	Change in deferred tax assets (+/-)	(98,913)	36,242
5.	Change in deferred tax liabilities (+/-)	39	10
6.	**Taxes for the year (-)**	**175,911**	**36,252**

Note:
Financial year 2017.
Tax losses led to the non-recognition of provisions for current taxes. In the presence of an IRES or IRAP tax loss the aggregate does not present provisions for current taxes. The "change in prepaid taxes" as already described in table 13.3, mainly includes recognition of prepaid taxes on non-transformable tax losses for € 26,206 thousand, the ACE subsidy of € 6,024 thousand and taxed provisions for risks and charges for € 3,054 thousand.
We can note that the probability test entailed the write-down from item 260:
- *of the income recognised on the tax loss of € 16,512 thousand;*
- *the increase in deferred tax assets relative to non-transformable tax losses for € 18,394 thousand.*

Financial year 2016.
In the presence of an IRES or IRAP tax loss the aggregate does not present provisions for current taxes. The "change in prepaid taxes" mainly includes recognition of prepaid taxes on non-transformable tax losses for € 23,371 thousand and that recognised relative to the ACE subsidy for € 13,439 thousand. We can note that the probability test entailed the write-down from item 260:
- *of the income recognised on the tax loss of € 190,902 thousand;*
- *the increase in deferred tax assets relative to non-transformable tax losses for € 4,468 thousand.*

18.2 Reconciliation between the theoretical tax charge and the actual tax charge in the financial statements

IRES

Items / Balances	*31/12/2017*		*31/12/2016*	
	Amount	*%*	*Amount*	*%*
A. Profit (Loss) on current operations, before taxes	(808,849)		(805,935)	
B. Gain (Loss) on discontinued operations before taxes				
Profit (Loss) gross of taxes (A+B)	**(808,849)**		**(805,935)**	
Theoretical tax charge - IRES with application of the nominal rate	**(222,433)**	**27.50%**	**(221,632)**	**27.50%**
- Non-deductible interest expense			2,559	
- Exempt dividends	(2)			
- Capital gains and revaluations on exempt equity investments	(261)		(715)	
- Impairment on exempt equity investments	16,888		576	
- Non-deductible administrative expenses	492		556	
- Non-deductible contingencies	711		821	
- Tax losses for which recovery is not expected	16,512		195,370	
- AEG Deduction	(6,025)		(13,439)	
- Value adjustments for deferred taxes from previous years	18,393			
- Change in current IRES taxes for previous years			54	
- Other permanent differences	(219)		(371)	
Total permanent differences	**46,489**		**185,411**	
IRES taxation to income statement	**(175,944)**		**(36,221)**	
of which:				
- Income taxes for the year from current operations	(175,944)		(36,221)	
- Income taxes for the year of asset groups held for sale				

IRAP

Items / Balances	*31/12/2017*		*31/12/2016*	
	Amount	*%*	*Amount*	*%*
A. Profit (Loss) on current operations, before taxes	(808,849)		(805,935)	
B. Gain (Loss) on discontinued operations before taxes				
Profit (Loss) gross of taxes (A+B)	**(808,849)**		**(805,935)**	
Theoretical tax charge - IRAP with application of the nominal rate	**(37,611)**	**4.65%**	**(37,476)**	**4.65%**
- Non-deductible interest expense	433			
- Net value adjustments on receivables	2,660			
- Net value adjustments for other financial transactions	494		70	
- Personnel expenses	53		36	
- Allocations to provision for risks and charges	203		(98)	
- Losses on equity investments	42			
- Lump sum recovery of administrative expenses	300		398	
- Sundry non-deductible administrative expenses	74		10	
- Lump sum recovery of amortisation/depreciation	43		14	
- Other non-significant operating income/charges	(50)		(85)	
- Dividends excluded	(51)		(82)	
- Tax rate increases implemented by regions	(6,714)		(7,361)	
- Non-reportability of tax loss	40,760		44,536	
- 2008-2012 adjustments on loans subject to disposal	(397)			
- Other decreases	(170)		(29)	
Total permanent differences	**37,644**		**37,445**	
IRAP taxation to income statement	**33**		**(31)**	
of which:				
- Income taxes for the year from current operations	33		(31)	
- Income taxes for the year of asset groups held for sale				

Section 19 - GAIN (LOSS) ON DISCONTINUED OPERATIONS, NET OF TAXES - ITEM 280

There were no transactions for this accounting item.

Section 21 - EARNINGS PER SHARE

21.1 Weighted average reconciliation of outstanding ordinary shares

(number of shares)

Items / Balances	*31/12/2017*	*31/12/2016*
1. Weighted average of ordinary shares outstanding (+)	802,551	267,517
2. Diluting effect deriving from put options sold (+)		
3. Diluting effect deriving from ordinary shares to be assigned as the result of share-based payments		
4. Diluting effect deriving from convertible liabilities (+)		
Weighted average of outstanding ordinary shares for diluted earnings per share	**802,551**	**267,517**

Note:
Compared to 31/12/2016, the number of shares increased by 535,034 units following the capital increase for payment completed on 15/11/2017.

21.2 Other information

21.2.a Reconciliation of profit (loss) for the period - basic earnings per share numerator

(amounts in Euro)

Items / Balances	*31/12/2017*	*31/12/2016*
1. Net profit (Loss)	(632,937,398)	(769,682,471)
2. Profit (loss) attributable to other categories of shares		
Net profit attributable to ordinary shares -		
basic earnings per share numerator	**(632,937,398)**	**(769,682,471)**

21.2.b Net profit (loss) reconciliation - diluted earnings per share numerator

(amounts in Euro)

Items / Balances	*31/12/2017*	*31/12/2016*
1. Net profit (Loss)	(632,937,398)	(769,682,471)
2. Profit (loss) attributable to other categories of shares		
3. Interest expense on convertible instruments (+)		
4. Others (+/-)		
Net profit attributable to ordinary shares -		
diluted earnings per share numerator	**(632,937,398)**	**(769,682,471)**

21.2.c Basic and diluted earnings per share

(amounts in Euro)

Items / Balances	*31/12/2017*	*31/12/2016*
1. Basic earnings per share	(788.657)	(2,877.135)
2. Diluted earnings per share	(788.657)	(2,877.135)

Part D
Comprehensive Income

ANALYTICAL STATEMENT OF COMPREHENSIVE INCOME

Items	*Gross amount*	*Income tax*	*Net amount*
10. Profit (Loss) for the period	**(808,849)**	**175,911**	**(632,938)**
Other income components without transfer to income statement			
20. Property, plant and equipment			
30. Intangible assets			
40. Defined benefit plans	(13)	80	**67**
50. Current assets held for sale			
60. Portion of equity investment valuation reserves			
booked to shareholders' equity			
Other comprehensive income with transfer to income statement			
70. Foreign investment hedging:			
a) fair value changes			
b) transfer to income statement			
c) other changes			
80. Exchange differences:			
a) fair value changes			
b) transfer to income statement			
c) other changes			
90. Cash flow hedging:			
a) fair value changes			
b) transfer to income statement			
c) other changes			
100. Financial assets available for sale	(26)	(121)	(147)
a) fair value changes	(59,715)	(134)	(59,849)
b) transfer to income statement	59,689	13	59,702
- writedowns for impairment	*60,511*		*60,511*
- gains/losses on disposal	*(822)*	*13*	*(809)*
c) other changes			
110. Non-current assets held for sale:			
a) fair value changes			
b) transfer to income statement			
c) other changes			
120. Portion of equity investment valuation reserves			
booked to shareholders' equity			
a) fair value changes			
b) transfer to income statement			
- writedowns for impairment			
- gains/losses on disposal			
c) other changes			
130. Total other income components	**(39)**	**(41)**	**(80)**
140. Comprehensive income (Item 10+130)	**(808,888)**	**175,870**	**(633,018)**

Part E
Information on Risks and Related Hedging Policies

Introduction

The organisational model on which the Internal Controls System is based provides for outsourcing to the Parent Company of the Risk Management Unit, in observance of the specific rules laid down in the corporate policy on the subject of outsourcing of the corporate auditing units within the banking Group and in a specific SLA signed with the Parent Company. Therefore the Bank's Board of Directors, in keeping with the provisions laid down by the Supervisory Authorities and with the consent of the Board of Statutory Auditors, assigned responsibility for the unit to the Parent Company's *pro-tempore*Chief Risk Officer.

The internal contact point for the Risk Management activities is identified as the Manager of the AML and Risk Contact Point Unit for the Bank, responsible for:

- guaranteeing a constant connection between the Bank and the outsourced Risk Management unit;
- providing his or her support to the outsourced Risk Management unit;
- reporting to the Risk Management unit, on the basis of the available information, particular events or situations capable of modifying the risks generated by the Bank.

The organisation of the MPS Group's risk governance, the related processes and the key units involved are illustrated briefly below. An estimate of the Bank's Total Internal Capital at 31 December 2017 is also provided.

Governance System

The risk governance system adopted by the Group features a clear distinction of roles and responsibilities between the first, second and third level control functions.

The policies regarding the assumption, management, hedging, monitoring and control of risks are defined by the Parent Company's statutory bodies. Specifically:

- the Board of Directors of the Parent Company defines and approves the strategic guidelines and risk governance policies and, at least once a year, expresses in numeric terms, the Group's total level of risk appetite;
- the Board of Statutory Auditors and the Risks Committee assess the level of efficiency and adequacy of the internal control system, specifically regarding control of risks;
- the Managing Director/General Manager guarantees compliance with the risk policies and procedures;
- The Director assigned responsibility for the internal control and risk management system, established in accordance with the Code of Conduct for Listed Companies, is responsible for establishing and maintaining an effective system of internal control and risk management.

In order to support efficiency and flexibility in the decision making process and to smooth interaction between the various corporate departments involved, specific Management Committees exist, which are responsible for risks:

- The Risk Management Committee establishes the risk management policies, assesses the Group's risk appetite, in accordance with the annual and multi-annual targets for value creation for the Group and verifies overall observance of the limits assigned to the various levels of operations; proposes the allocation of capital to be submitted for approval by the Board of Directors; evaluates, at a comprehensive level and at the level of individual companies, the risk profile achieved and hence capital consumption; analyses trends in risk/return performance indicators;
- The Finance and Liquidity Committee formulates the principles and strategic guidelines for proprietary finance; resolves and puts forward proposals regarding exposure to interest rate risk and liquidity in the banking book and to define capital management actions;
- the Credit and Credit Policies Committee expresses guidelines regarding lending processes and an opinion on credit policies at least once per year, verifying commercial sustainability and compliance with the Risk Appetite, approving company policies on Credit Measurement at least annually, as well as being responsible, on the basis of powers assigned, for resolving on issues of credit disbursement and managing problematic loans and assets.

In the context of the Internal Control System, the Chief Audit Executive Department carries out third level controls,

while the Chief Risk Officer Department and the Compliance Area are responsible for second level controls and the Business Control Units (BCUs) for the first level controls.
The Chief Audit Executive Department carries out independent and objective assurance and advisory activities aimed on one hand to check, also with on-site tests, the regularity of operations and risk performance, and on the other hand to assess the functionality of the overall internal control system, also in order to pursue the improvement of the effectiveness and efficiency of the organisation. It serves the role of Internal Secondary Supervisor with the objective of focussing on the main characteristics of the prudential supervision process adopted by the European supervisory authorities and the guidelines/priorities that it outlines on occasion, in order to evaluate the Bank's position with respect to the expectations of the Single supervisory mechanism.

- the Chief Risk Officer Department, reporting directly to the Board of Directors and reporting functionally to the Managing Director, includes the risk management unit, the anti-money laundering unit and the internal validation unit. The Department is therefore responsible for:
  - guaranteeing the overall functioning of the risk management system;
  - verifying capital adequacy in the context of the ICAAP process and the adequacy of liquidity in the context of the ILAAP process;
  - participating in defining the performance check on the Risk Appetite Framework (RAF), besides guaranteeing the consistency with the RAF of the most significant operations;
  - defining strategic policies on the credit portfolio;
  - performing the anti-money laundering function provided for by the Law and that of internal validation of the risk management models;
  - ensuring the necessary reporting to the Group's decision-making bodies and top management.
  - guaranteeing the provision of proper and adequate auditing activity to Group companies that have externalised this company function.

In particular, within the Chief Risk Officer Department:

- the Risk Management Area defines the integrated methods for assessing and analysing risks and ensures that they are constantly monitored, verifying their consistency with the Risk Appetite and observance of the threshold defined in terms of adequacy with respect to the capital and liquidity reserves, and participating in the definition of any mitigation actions required. It collaborates in the preparation, drafting and monitoring of the Recovery Plan. It supervises the evolution of the proprietary financial risk measurement and control system, in line with internal and regulatory standards. It guarantees management risk reporting for company bodies and top management.
- the Area Lending Risk Officer supervises the evolution of the credit risk measurement system, in line with internal and regulatory standards, both in terms of statistical models and analytical and process measurements, monitoring measurement of the credit risk relative portfolio quality down to individual positions. They perform second level controls on Group credit exposures.
- the Area Operating Risk Officer supervises the evolution of the risk measurement and control system associated with the operational execution of the Bank's business model (including operational risk, reputational risk, business model risk and risks associated with customer portfolios).

- The Compliance Area performs the function of controlling conformity with the laws for the Banking Parent Company. The unit has direct responsibility for managing the risks related to breaches of the most significant laws in bank-customer relations and reports periodically to the top management bodies and to the supervisory authorities on the overall compliance status of the Bank's systems and operations. In accordance with the supervisory rules, the Compliance Unit reports directly to the Managing Director.
- The peripheral BCUs, located at the controlled banks or the main business areas, implement compliance checks on operations and represent the first level of organisational control of operations within the more general Internal Control System.

- While observing the autonomy and independence requirements of each participating unit, the Committee for Coordination of the Units also operates with auditing tasks. The Committee has the aim of promoting and sharing operating and methodological aspects to identify possible synergies in the auditing activities by the second and third level Units, coordinating the methods and timing on the subject of planning and reporting to the Corporate Bodies and of planning initiatives connected with the Internal Control System, sharing the areas for improvement highlighted by all the Units with auditing tasks and by the Supervisory Authorities.
- The Regulatory Relationship Staff, reporting directly to the Managing Director, was also set up to oversee in a centralised manner the management of relations and the moments of verification with the Supervisory Authorities, coordinating and monitoring the planning of the commitments assumed and the main lines of evolution of the European regulatory context.

Autonomy and independence requirements of the Risk Control Unit

The Parent Company's Risk Control Unit is headed by the Chief Risk Officer (CRO).

Autonomy and independence are ensured by direct reporting with the Collegial Body with strategic supervision functions (the Board of Directors), and only functionally with the Management Body (AD/DG). It has direct access to the control body (Board of Statutory Auditors), and can communicate with it continuously without restrictions or liaisons. The CRO also has the right at its discretion to take part in the meetings of the Risks Committee to intervene or propose discussions on specific matters.

In particular the Manager of the Parent Company's Chief Risk Officer is appointed/dismissed by the Board of Directors, on the proposal of the Risks Committee, making use of the contribution of the Appointments Committee, after consulting the Board of Statutory Auditors.

The determination of the remuneration of the Parent Company's Chief Risk Officer is resolved by the Board of Directors, on the proposal of the Remuneration Committee, acquiring the opinion of the Risks Committee, after consulting the Board of Statutory Auditors.

Activities related to the International Supervisory Legislation

- First pillar: since 2008, the Group has used internal models validated by the Bank of Italy to assess and manage credit risks (AIRB - Advanced Internal Rating Based) and operational risks (AMA - Advanced Measurement Approach). Over time, in agreement with the Supervisory Authority, these models have been further developed and their scope of application has been extended to Group entities not included in the initial validation perimeter.
- Second pillar: in the year in particular the initiatives continued aimed at guaranteeing compliance with the new Supervisory Review and Evaluation Process (SREP) framework and at improving further the self-assessment process regarding the Group's capital and liquidity adequacy (the ICAAP - Internal Capital Adequacy Assessment Process and ILAAP - Internal Liquidity Adequacy Assessment Process) of which obligatory disclosure is provided to the Supervisors. During 2017, the overall internal framework of reference for determining the Group's risk appetite developed further (the Risk Appetite Framework - RAF). The Group was also involved in various projects aimed at improving the management systems for various risks.
- Third pillar: the related Market Disclosure is released quarterly on the Group's website, at www.mps.it/investors and is updated continuously in compliance with the regulatory developments on the subject.

Analysis of Internal Capital

The Total Internal Capital (or Total Absorbed Internal Capital) is the minimum operational amount of capital required to cover economic losses due to unexpected events generated by simultaneous exposure to various types of risk.

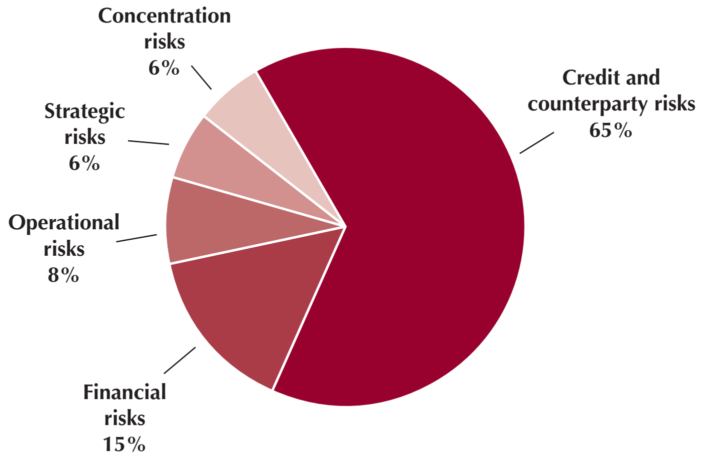
The main types of risk to which the Bank is exposed during its normal business activities, can be schematically classified as follows:

- credit risk;
- market risk (Trading Book + AFS portfolio);
- operational risk;
- Banking Book interest rate risk;
- counterparty risk;
- property risk;
- issuer risk;
- concentration risk;
- equity investment portfolio risk;
- business/strategic risk
- liquidity risk;
- reputational risk.

The Total Internal Capital is quantified based on all the above types of risks, with the exception of liquidity risk and of reputational risk, which instead are mitigated through policies and organisational processes.
Protection is also put in place against the risks inherent in investment products/services designed for the Group's customers, both to protect the customers and to prevent potential impact on the Group's reputation.

Measurement models:
The Risk Control Department quantifies Internal Capital on a regular basis in relation to each risk type and periodically reports to the Risk Management Committee and the Top Management in the context of the informational flows prepared by the Chief Risk Officer Department.
The approach used for quantifying the risks-to-capital, to which the bank is exposed, is what in the literature is called Pillar 1 Plus. This approach entails that, to the Pillar 1 requirements for Credit and Counterparty Risk (which already include the requirements related to Issuer Risk on the Banking Book and Equity Investment Risk), for Property Risk and Operational Risk, are added the requirements calculated using internal models related to Market Risks (relating to both the Trading Book and the Banking Book) and Banking Book Interest Rate Risk (Financial Risks), as well as the requirements related to Concentration Risk and Business/Strategic Risk.
The Total Internal Capital is calculated without considering the inter-risk diversification, directly adding together therefore the contributions of internal capital for the individual risks (Building Block Approach). This approach tends to assimilate the indications present in the SREP (Supervisory Review and Evaluation Process) Guidelines.

TOTAL INTERNAL CAPITAL
MPS CAPITAL SERVICES - 31.12.2017



The MPS Group also continually manages and quantifies Liquidity Risk (risks-to-liquidity, as defined in the SREP Guidelines) using internal methodologies and policies of an organisational nature.

SECTION 1 - CREDIT RISK

QUALITATIVE INFORMATION

1. General aspects

The Bank, in the context of its strategic priorities set by the Parent Company's Business Plan, continues to pursue the improvement of the quality of its loan portfolio.
The Parent Company's Credit Department defines annually, with possible revision every six months, the strategic guidelines related to the loan portfolio, both at the Group level and at the level of the single subsidiaries. The Group's lending is managed with a view to risk oversight and taking advantage of opportunities for growth. The lending policies and management systems developed aim to make use of trend-related information at the level of the individual relationship, and are characterised by deep awareness and strategic management of the position (credit culture).
The main elements that contribute to the definition of the lending policy can be summarised briefly as:
• internal rating system;
• sectoral classification;
• geographical area of location;
• service models usable (retail, corporate e private).

Already back in 2008, the MPS Group received from the Bank of Italy the authorisation for the use of the advanced internal approaches for determining the capital requirements against credit risk (AIRB - Advanced Internal Rating Based approach). The Bank uses the internal estimates of the probability of default (PD) and the loss given default (LGD) for the loan portfolio, relating to the exposures towards businesses. To make the valuation of the legal-economic links objective and unequivocal, within the MPS Group, a customised process entitled "Associated Customer Groups" is now operational; it makes it possible to establish and up-date the mapping of the afore-mentioned links by means of the application of automatic process rules which handled the objective data which can be gathered from internal and external official sources.

2. Credit risk management policies

2.1. Organisational aspects

2.1.1 Organisational aspects: banking book

The Bank carries out medium and long-term lending related to extraordinary enterprise finance and corporate finance, in all its technical forms, directed at the growth of manufacturing and production sectors. In some cases, a subsidised loan is arranged, although only in a remaining few cases since public aid is limited to a few research and industrialisation projects.
New finance operations are also agreed in the context of agreements for the restructuring of pre-existing debts.

Evaluation of creditworthiness, to supervise the risk assumed, is carried out both through an analysis of the repayment

sources on the basis of income and cash production capacity (former, current and prospective), and as a function of the specific features of the project financed (competitive positioning, management quality, quality and quantity of equity and financial resources available, and equity capacity of the shareholders). Generally, real guarantees are acquired (mortgages, privileges, liens) and/or unsecured guarantees (sureties, letters of patronage) in order to mitigate risk and reduce capital absorption.
Loans are classified in categories of different risk intensity on which the lending decision autonomy limits of the lower level delegated bodies are parametrised; these limits are increased or decreased depending on the rating attributed to the counterparty: the Bank in fact assesses its customers through the rating system attributed by the Parent Company.
Relative to the process of assigning project ratings for specialised lending transactions (operating since 2009), more specifically identified as IPRE (Income Producing Real Estate, Project Finance or Object Finance), note that the Bank of Italy has authorised the Monte dei Paschi di Siena Group to use the Slotting Criteria approach for specialised lending with exposures equal to or greater than € 5 million. Transactions for an amount of less than € 5 million are instead assessed according to the ordinary process and reported with the standard method.

The lending activity also involves granting credit lines for derivative transactions, aimed at limiting the exposure of the contracting parties (Corporate customers) to market risks (interest and exchange rates and commodities).

The General Management of the Bank, in keeping with the guidance issued by the Credit Department of the Parent Company BMPS, establishes the criteria and methods for monitoring the portfolio, on an on-going basis making the best possible use of information about the credit facility position, which is made available within the banking Group.
As a result of the introduction of the new general principles contained in the 7th update of Bank of Italy Circular 272, the Bank transposed the new Policy on the subject of Loan classification and measurement (cf. paragraph 2.4 below: Impaired financial assets).
At the organisational structure level, the Loan Division carries out the activity described above with the Bank's competent organisations, represented by:

- Credit Department Staff who, as well as the task of supporting the other structures of the Department itself, coordinate the loan monitoring activity according to the principles contained in the "Group Policy on Loan Classification and Measurement";
- Credit Assessment Office, responsible for the activities summarised below:
  - assessing the creditworthiness of institutional and financial counterparties for the concession of specific credit lines;
  - assessing the creditworthiness of corporate counterparties for the concession of credit lines of a financial nature;
  - deciding the project rating, through validation of the "Specialized Lending" questionnaire with related periodical rating reviews. The decisions are made by validating the specific section of the BI-PEF application (Banca Impresa Pratica Elettronica di Fido - Bank Company Electronic Credit File) inserted into the enquiry model in use;
  - preparing technical opinions, by the Proposals Review and Loans Sector, for all new loan proposals and changes in already approved credit operations, investigated by various functions in the Credit Department, with decision-making powers external to the Corporate Finance Department;
  - deciding on loan proposals falling under its powers and proposing them, also for those received from other Departments, to higher bodies;
- Ordinary Performing Portfolio Post-Disbursement Office which handles the assessment of all the proposed changes related to ordinary finance operations in amortisation, as well as monitoring the correct classification of the performing positions according to the principles contained in the "Group Policy on Loan Classification and Measurement";

- Loan Portfolio Operational Management Office, which, in addition to serving as the reference for the Bank regarding the General Database, supervises operational actions connected to anti-money laundering related to the activities carried out in the Credit Department. The same Office is responsible for examining applications for loans from employees. The office also handles the enquiry on merit for assigning the counterparty rating in the context of the rating review activity and the monitoring of the rating review activity in relation to the project ratings. It also carried out the monitoring of the guarantees backing loan operations and coordinates the activity of updating the valuation of properties acquired as guarantees;
- Non-Performing Portfolio Management Office responsible for monitoring anomalous credit according to the principles contained in the "Group Policy on Loan Classification and Measurement" and undertakes the most opportune initiatives in the related management as better specified below.

The above topics are analytically regulated by specific corporate standards.

2.1.2 Organisational aspects: trading book

The assessment of market counterparties for transactions involving financial instruments carried out by the Global Markets Department, is the responsibility of the Credit Assessment Office - Counterparty Assessment Service. Usually, market counterparties are regulated intermediaries, such as banks, IMELs (Electronic money institutions), investment firms, financial firms (as per Art. 107 of the Consolidated Finance Act), AMCs, SICAVs, Italian and foreign-law Funds, insurance companies, as well as territorial, governmental and supranational agencies; some of these economic entities have a rating attributed by important international agencies.
The acceptance process requires a resolution by the parent company BMPS regarding the "country risk" assigned to the Bank which, in compliance with this limit, independently approves credit lines. The Counterparty Assessment Service is tasked with carrying out all stages of the lending process, from collecting the necessary documentation to the initial investigation review from the assessment of creditworthiness to the loan proposal.
The credit granted is of a dynamic nature, that is it can be used up to the total limit for operations of a financial nature, in its various technical forms and among the various companies related to a single Group, if not otherwise indicated at the moment of acceptance. In order to absorb the total counterparty risk the Parent Company's Risk Management Unit identifies the calculation algorithms differentiated in relation to the different financial nature of the operations.
The Counterparty Assessment Service, also on the basis of the operating needs expressed by the Front Office units, periodically reviews and revises the creditworthiness of the borrower counterparties. If anomalous situations emerge, the Service proceeds with an extraordinary revision of the position and/or, if necessary, immediately applies an appropriate reduction in its amount. Each revision is immediately notified to the involved corporate functions.
With quarterly periodicity, the Counterparty Assessment Service produces a report for the Board of Directors concerning exposure to counterparty risk, indicating i) the trend of the credit line/utilisation ratio, the risk concentration, the guarantees and the quality of the risk; ii) the record of overdrafts relative to the credit lines granted, together with comments on the causes and nature of the overdrafts; iii) the counterparties provided with credit lines and the record of pre-lending investigations, the situation of collaterals and of the country risk.
The Parent Company BMPS is informed with updates on loans granted to counterparties and the related utilisations, by feeding a dedicated application (Zeta limit), in accordance with the directives issued by the same.
Regarding operational controls, the Counterparty Assessment Service oversees compliance with the total credit limit granted and assures the correct distribution of uses dynamically; it makes the checks on the exact allocation of the credit granted and on the record of its use. Over-the-limit positions - in terms of amount and duration - are monitored daily by the Counterparty Assessment Service. The irregularities noted are notified to the Top Management and to the Internal Audit Department.

Monitoring takes place through the Murex3 application, which is able to reflect the effects of the transactions made, in real time. The operating limits granted and the utilisations referred to individual market counterparties are analysed using the MLC extension of the Murex3 application.

2.2 Management, measurement and control systems

Analysis of the credit risk is carried out internally for operating purposes by means of the Loan Portfolio Model developed internally by the Parent Company; as analytical output it produces the classic risk measurements of the Expected Loss and Unexpected Loss, both operating (diversified intra-risk, with a time frame of one year and a confidence interval calibrated to the target rating of the Group itself) and regulatory. The inputs are numerous: probability of default (PD), obtained using validated and non-validated models, operating and regulatory loss given default (LGD) rates, number and type of guarantees that back the single lending relationships, regulatory and operating Credit Conversion Factors (CCFs) on the basis of which, respectively, the regulatory and operating EAD (Exposure At Default) is estimated.
The internal PD, LGD, and EAD models for credit risk measurement represent one of the main assessment elements used for all the Group structures involved in the credit industry, both central (Risk Management, Credit Department, CFO, General Management, Risk Committee, Board of Directors) and peripheral (Ratings Agencies and Account Managers). Currently the Group is authorised to use Advanced Internal Rating-Based (AIRB) systems for determining the capital requirements to cover credit risk on business portfolios and retail exposures. For all the other portfolios the standardised approach is used; this is to be applied according to the provisions of the roll-out plan delivered to the Supervisory Authority. In particular, the MPS Group is authorised to use the internal estimates of Probability of Default (PD) and Loss Given Default (LGD), while for the risk parameter of Exposure at Default (EAD) the coefficients provided for by the standardised approach are used while awaiting validation of the internal estimates by the Supervisory Authority.

To develop the internal rating systems, rigorous advanced statistical methods have been used, in compliance with the requirements envisaged in the supervisory regulations. At the same time, models have been selected so that the results obtained are in line with the historical experience of the Bank and the Group in credit management. Finally, in order to optimise proper use of the new instruments, the rating models have been shared in a top-down manner - from Risk Management down to the individual customer managers. In the loss rate model estimate, internal evidence related to capital flows, recoveries, and expense effectively recorded for past non-performing loans have been used. The results obtained from the model are subsequently compared with that observed by the Credit Recovery Area which, within the Parent Company's Credit Department, is dedicated to managing and recovering non-performing loans.
The main features of the advanced rating systems are illustrated below:
- the rating for all validated regulatory portfolios is calculated using a counterparty approach, in line with management practices that envisage credit risk assessment, both during disbursement and monitoring stages, at the level of the individual borrower;
- the rating is based on a Group logic: each individual counterparty is attributed a single rating at the banking Group level, on the foundation of the information set relative to all the lending Banks within the AIRB perimeter. The LGD is distinct for the different companies, due to the variation in the products disbursed and the type of customers to which they are offered;
- segmentation of the rating models has been defined so as to make the individual model clusters align with the commercial logics, credit process logics and the regulatory portfolios envisaged by law;
- the final ratings determination varies by counterparty type. The credit process involves a level of study proportional to the risk associated with the counterparty: the assessment of loans granted has a complex detailed structure for

medium/large corporate counterparties (Small and Medium-sized Enterprises -SME - and Large Corporate - LC- segments), with greater exposure and concentration risks, and a simplified structure for Small Business - SB - and Retail customers;
- in line with the process, the final rating for SME and LC companies is determined as the integration of several components: statistical rating, qualitative rating, override option and assessment of the economic group they belong to; for SB and Retail counterparties instead, the rating is determined on the basis of only the statistical component;
- the rating has an internal validity of 12 months and is normally reviewed once a year, except in the case of rating reviews that follow highly structured and codified rules or that are brought forward on the initiative of the account manager or following serious impairment of the counterparty.
- the LGD rate refers to economic losses recorded and not only accounting losses; for this reason, costs incurred during the recovery process and the time factor are also included in the estimate stage;
- the loss given default (LGD) rate is distinct for the various types of financing and the attribution occurs at the level of the individual operations; it is differentiated by geographical area, as different recovery rates have been encountered, over time and currently, between Northern and Central Italy and the South and Islands;
- the loss rate estimate on positions with default status other than non-performing loans is carried out using Cure Rates. For counterparties with an administrative status of impaired loan (with reference to the old classification: Watchlist, Restructured and Past-Due) percentages of return to Performing have been determined and these percentages are used to adjust the LGD rate estimated starting from disputed cases;
- The MPS Group has adopted a single Master Scale for all types of exposures: this allows all the structures involved in managing credit to have an immediate comparison of the risk associated with various counterparties or portfolios. In addition, the probability of default (PD) for internal rating classes is mapped to the external Standard & Poor's rating scale to make internal risk assessments comparable to those available on the financial market.

Activities to develop and monitor the rating systems are assigned to Risk Management and subjected to control on the part of the units responsible for Internal Validation and Internal Auditing.

The Bank used the PD, LGD and EAD parameters, estimated for regulatory purposes for the calculation of Risk-Weighted Assets, also for other operational purposes and internal management. In effect, these constitute the foundation for calculation for the various systems of measurement and monitoring, specifically:
- for measurement of economic capital in the face of credit risk;
- for the process of calculating risk-adjusted performance and measuring value creation;
- for risk-adjusted pricing processes;
- in all credit processes (disbursement, review, management and continuation) which have been engineered within the PEF application (Electronic Credit File), in the context of which the counterparty rating is the result of a process which evaluates all the economic, financial, performance and qualitative information related to the customers with which credit risk exists in a transparent, structured and uniform process.

The prudential supervisory rules for banks, in line with the indications of the Basel Committee guidelines and the best practices, envisage that credit institutions carry out appropriate stress testing.

The Bank conducts stress tests regularly on all risk factors. Stress tests make it possible to assess the ability of the Bank to absorb sizeable potential losses upon the occurrence of extreme market events, in order to identify the measures to take to reduce the risk profile and preserve the capital.

Stress tests are developed on the basis of historical and discretionary scenarios:
- historical scenarios: shocks are hypothesized for a combination of risk factors observed in the past, which continue to have a certain degree of relevance and repeatability;
- discretionary scenarios: shocks are hypothesized for a combination of risk factors that could occur in the near future, in relation to the foreseeable environmental, social and economic context. The discretionary stress scenarios currently examined are simple (only one risk factor changes) and joint (several risk factors change simultaneously). Simple discretionary scenarios are calibrated to hit independently one category of risk factors at a time,

hypothesising that the shocks will not propagate to the other factors. Joint discretionary scenarios instead are aimed at evaluating the impact of global shocks that simultaneously hit all types of risk factors.

The MPS Group's methodological approach to stress tests is based on the identification of the main risk factors, with the objective being the selection of events and combinations of events (scenarios) that highlight special vulnerabilities at the Group level. To this end, specific stress test plans have been established regarding the First Pillar risks (credit, market and operating) which were then combined - together with a given stress designed ad hoc with the other risk factors - in an overall Second Pillar stress test, aimed at determining the potential impact on the Group, in the context of the ICAAP process.

Specifically, as regards Credit Risk, the MPS Group has defined a regressive macro-economic model to estimate changes in Probabilities of Default (PDs), as a function of the main credit drivers.

Initially, the credit drivers that explain variations in PD in a significant manner are identified. Then, on the basis of the regressive model, disturbances in the credit drivers are estimated, in line with the current and prospective economic situation. This shock to the credit drivers determines the change in the PDs of the credit portfolio, triggering the simulation of a hypothetical downgrading of counterparties, with the consequent variation of risk in terms of Expected Loss, Unexpected Loss and the entry of new defaults.

The results of the stress tests are brought to the attention of Top Management and the Parent Company's Board of Directors. This latter body formally examines them in the context of the approval of the Annual ICAAP Report, with an eye to self-assessing the current and prospective capital adequacy of the MPS Group.

2.3 Credit risk mitigation techniques

The MPS Group makes use of a system for managing credit risk attenuation techniques (CRM model) which oversees the entire process of acquiring, assessing, controlling and creating the Credit Risk Mitigation instruments used.

This management system is structured so as to guarantee observance of the regulatory, legal and organisational requirements laid down in the Supervisory Measures for applying the credit risk mitigation rules. The admissibility requirements are both of a general nature, as they are valid for all CRM techniques, and of a specific nature for each technique.

The general requirements, aimed at ensuring the legal certainty and effectiveness of the guarantees are ensured in respect of the following significant elements:

- the binding nature of the legal commitment between the parties and the enforceability in court;
- the ability to be documented, the unenforceability of the instrument with third parties in all jurisdictions relevant for the purposes of establishment and enforcement;
- the timeframe for enforcement in the case of non-fulfilment;
- the respect for organisational requirements.

Regarding the respect for organisational requirements, attenuation of the risk is ensured:

- by the presence of an IT system that supports each stage in the life cycle of the guarantee (acquisition, assessment, management, revaluation, enforcement);
- by the formulation of guarantee management policies (principles, methods, processes), which are regulated and available to all users.

The Bank does not apply processes for netting credit risk exposures with items of the opposite sign in the on-balance-sheet or "off-balance-sheet" contexts, as regards the commercial portfolio. It adopts instead policies to reduce the counterparty risk with institutional counterparties, signing netting agreements according to the ISDA (International

Swaps and Derivatives Association)/ISMA (International Securities Market Association) standards and the related collateral agreements, for derivatives (CSAs, Credit Support Annexes), for repos (GMRAs: Global Master Repurchase Agreements) and, finally for securities lending operations (GMSLAs: Global Master Securities Lending Agreements).

The main credit protection forms of a real type used by the Bank are pledges and mortgages on properties but other types are also present (insurance policies, guarantee funds). On occasion the exposures are also backed by unsecured guarantees, mainly provided by private individuals (sureties) but also by companies (sureties and binding letters of patronage).
The Bank has provided itself with a single process for the acquisition of real guarantees, which at the same time is a working tool and expression of the management policies.
Management of guarantees is begun following the decision to grant the loan and the process is divided into several stages:
- acquisition (also multiple): in this stage, controls are carried out (formal and regarding the amount) to ensure that the guarantees proposed during the decision-making stage match those provided;
- adjustment/variation/correction: makes it possible to modify the features of the guarantee without interrupting credit protection;
- querying: makes it possible to learn the current figures and historical evolution of the guarantees received;
- termination/cancellation.

If monitoring measures regarding real guarantees indicate operational anomalies during the acquisition stage or possible inadequacies/losses of the values received as liens, events provided for in the credit monitoring policy are activated that aim to update the credit risk assessment.
The disbursement of credit with the acquisition of guarantees is subject to specific control measures, which are differentiated by the guarantee type, applied at the time of disbursement and during monitoring.
Overall the Bank, to protect loans, accepts the various instruments summarised below:
- sureties (including omnibus sureties and unsecured guarantees provided by third party subjects);
- endorsements;
- surety policies;
- letters of comfort/binding letters of patronage;
- independent guarantee contracts;
- assumptions;
- unsecured guarantees under foreign law;
- credit derivatives:
- credit default swaps;
- total return swaps;
- credit linked notes.

The main guarantors are indicated below:
- Sovereign States and Central Banks;
- entities in the public sector and regional entities;
- multilateral development banks;
- regulated intermediaries;
- guarantee bodies (joint facilities);
- companies and private individuals.

As already mentioned in the introduction, in the case of relations with market counterparties for operations in financial

instruments (repurchase agreements, securities trading and lending, forex, and financial and credit derivatives), the Bank uses (bilateral) netting agreements which allow, in the case of default, for offsetting within its own operating sphere of all the existing credit and debit positions.
To optimise the credit risk management and mitigation, the Bank adopts the following protocols: ISDA (with CSAs for derivatives), GMSLA (Global Master Securities Lending Agreements for securities lending) and GMRA (Global Master Repurchase Agreements for repurchase agreements). At the end of 2017, 100% of uses of derivatives are for counterparties with whom an ISDA Master Agreement exists, of which 99.8% are also supported by collateral agreements (CSAs).
Another risk mitigation technique used by the Bank during 2017 is indirect adhesion to the “SwapClear” service, through the brokers Barclays Bank PLC, Merrill Lynch International and Morgan Stanley & Co. International PLC. This is a clearing activity (performed by LCH.Clearnet Ltd for the professional inter-bank market) for the more standardised types of OTC derivative agreements (such as plain vanilla IRS), whereby individual transactions are centralised with the clearer, through the legal mechanism of novation. This “circuit” not only entails an initial margin, but also the liquidation of a daily variation margin on individual transactions, deriving from automatic netting of mutual credit and debit positions, to which is added the indirect adhesion to the credit derivative clearing service operated by ICE CLEAR Ltd through the clearing broker Merrill Lynch International. The possibility of making use of the “SwapClear” service directly is still being examined.

2.4 Impaired financial assets

The activity of managing, monitoring and controlling impaired receivables, with the exception of non-performing loans of which only the administrative part is followed, is entrusted to the Non-Performing Portfolio Management Office. Collection activities for non-performing positions are entrusted to the parent company’s Credit Recovery Area which makes use of assistance and administrative support from the Non-Performing Administration Sector within the Non-Performing Portfolio Management Office with regards to the associated accounting entries. In any case, the Office is responsible for verifying proper assessment of loans and relative decisions.
For a review of the activities carried out in 2017, please see the section “Loan aggregates - impaired exposures” in the Report on Operations.
In the context of managing all the impaired positions that are not bad, the Non-Performing Portfolio Management Office has the objective of recovering the arrears and bringing the position back to performing. On this point, on the basis of the analysis of each individual position and joining up with the other Group banks, it makes the decisions considered most opportune, both with regard to the recovery times and methods and in relation to the classification of said position and the assessment of the related receivable in observance of the current policy.
The return of “impaired loans” to performing status takes place in various ways according to the classification category:
- for “*past-due and/or over-the-limit impaired exposures*” the simple payment of the arrears exceeding 90 days is sufficient;
- for “*probable defaults*”, besides payment of the arrears, the cessation of any subjective conditions must also be verified, with particular reference to the customer’s state of financial difficulty, which had determined this classification; in this last case the monitoring of forborne non-performing concessions begins; this provides for a cure period of 12 months during which the customer must necessarily remain classified as a Probable Default; after this period, in the event of regular payments or after the payment of at least one instalment after the forbearance measure granted comes into effect if with maturity of more than the 12 months, the customer can come back to the “performing” status and the forborne position is transformed into performing, but remains still under observation for a further 24 months (probation period). In the case of a shared customer, the removal from the “Probable Default” classification must be agreed with the other Group banks;

- relative to non-performing loans, a return to performing is possible if, in addition to payment of the amount in arrears (in addition to any payments due in the very near future), the following conditions are met:
    i. absence of enforcement procedures and reports of dispute to the Risk Authority;
    ii. the overcoming of the economic-financial difficulties which led to the classification.

Since bad positions, as already previously mentioned, are handled by the Parent Company Credit Recovery Area, returns to performing status must be analysed and proposed to the Bank by the assignee. To that end, recall that on 4.12.2017 externalisation of credit collection has already been decided through the SIRIO platform managed by JUILET S.p.A.

The analysis and management of “impaired assets” includes obviously also the estimate of the write-downs of the nominal values of the receivables (doubtful outcomes and discounting according to the criteria identified in application of the IAS/IFRS accounting standards) for all non-performing customers “above the threshold” according to what is laid down in the group’s policy. To that end, note that the threshold has been raised to € 500 thousand as of November 2017.

The analytical quantification of the doubtful outcome can be made by estimating the cash flows or by assessing the guarantees; the relevant calculations are carried out using a specific tool which in the first case uses a “going concern” and, in the second, a “gone concern” assumption.

QUANTITATIVE INFORMATION

A. CREDIT QUALITY

A.1 Impaired and performing loan exposures: amounts, value adjustments, trend, economic and geographical distribution

A.1.1. Quality Distribution of exposures by portfolio category and credit quality (carrying amount)

Portfolios/Quality	*Non-performing loans*	*Probable defaults*	*Impaired past-due exposures*	*Non-impaired past-due exposures*	*Other non-impaired assets*	***Total***
1. Financial assets available for sale						**0**
2. Financial assets held to maturity						
3. Loans to banks					6,054,189	**6,054,189**
4. Loans to customers	446,207	1,106,798	19,169	53,037	9,135,067	**10,760,278**
5. Financial assets designated at fair value						
6. Financial assets pending disposal	948,544	5,605			25,792	**979,941**
Total 31/12/2017	**1,394,751**	**1,112,403**	**19,169**	**53,037**	**15,215,048**	**17,794,408**
Total 31/12/2016	**1,984,413**	**1,628,366**	**22,866**	**66,309**	**21,712,814**	**25,414,768**

A.1.1.a Analysis of forborne loan exposures by portfolio and credit quality (carrying amount)

Portfolios/Quality	*Non-performing loans*	*Probable defaults*	*Impaired past-due exposures*	*Non-impaired past-due exposures*	*Other non-impaired assets*	***Total***
1. Financial assets available for sale						
2. Financial assets held to maturity						
3. Loans to banks						
4. Loans to customers	200,682	940,303	5,591	22,294	697,093	**1,865,963**
5. Financial assets designated at fair value						
6. Financial assets pending disposal	212,604	5,605				**218,209**
Total 31/12/2017	**413,286**	**945,908**	**5,591**	**22,294**	**697,093**	**2,084,172**

A.1.1.b Analysis of non-impaired loan exposures: seniority of past-due positions

Portfolios/Quality	*Past due up to 3 months*	*Past due for more than 3 months up to 6 months*	*Past due for more than 6 months up to 1 year*	*Past due for more than 1 year*	*Not past due*	***Total***
1. Financial assets available for sale						**0**
2. Financial assets held to maturity						
3. Loans to banks					6,054,189	**6,054,189**
4. Loans to customers	24,930	13,135	14,972		9,135,067	**9,188,104**
5. Financial assets designated at fair value						
6. Financial assets pending disposal					25,792	**25,792**
Total 31/12/2017	**24,930**	**13,135**	**14,972**	**0**	**15,215,048**	**15,268,085**

A.1.2 Distribution of exposures by portfolio category and credit quality (gross and net amounts)

Portfolios / Quality	*Impaired assets*			*Non-Impaired assets*			
	Gross exposure	*Specific adjustments*	*Exposure net*	*Gross exposure*	*Portfolio value adjustments*	*net exposure*	***Total (net exposure)***
1. Financial assets available for sale						0	**0**
2. Financial assets held to maturity							
3. Loans to banks				6,054,216	(26)	6,054,190	**6,054,190**
4. Loans to customers	3,106,625	(1,534,452)	1,572,173	9,262,071	(73,967)	9,188,104	**10,760,277**
5. Financial assets carried at fair value							
6. Financial assets pending disposal	3,728,167	(2,774,017)	954,150	25,792		25,792	**979,942**
Total 31/12/2017	**6,834,792**	**(4,308,469)**	**2,526,323**	**15,342,079**	**(73,993)**	**15,268,086**	**17,794,409**
Total 31/12/2016	**7,326,103**	**(3,690,458)**	**3,635,645**	**21,865,365**	**(86,242)**	**21,779,123**	**25,414,768**

A.1.2.a Analysis of financial assets held for trading and hedging derivatives

Portfolios / Quality	*Assets of evident low credit quality*		*Other assets*
	Accumulated capital losses	*Net exposures*	*Net exposures*
1. Financial assets held for trading	50,398	498	10,389,014
2. Hedging derivatives			
Total 31/12/2017	**50,398**	**498**	**10,389,014**
Total 31/12/2016	**60,961**	**6,649**	**12,155,290**

A.1.2.b Impaired financial assets purchased

Portfolios / amounts	*Nominal value (A)*	*Purchase price (B)*	*Difference (A-B)*
1. Financial assets held for trading	3,113	18	3,095
2. Loans to customers			
Total 31/12/2017	**3,113**	**18**	**3,095**
Total 31/12/2016	**2,810**	**119**	**2,691**

With reference to the disclosure requested by Bank of Italy in its communication of 7 February 2014, note that at 31 December 2017, the Bank had 33 exposures relative to creditors who had presented requests for a "blank agreement", for a net exposure of around € 41.3 million. On the other hand, there are no positions relative to creditors who have made a request for a "continuity agreement".

Partial derecognitions carried out by the Bank during the year on impaired financial assets totalled € 40,986 thousand (€ 541,836 thousand in 2016).

A.1.3 On- and off-balance-sheet exposures to banks: gross and net amounts

Type of exposure / Balances	Gross exposure – Impaired assets – Up to 3 months	Gross exposure – Impaired assets – From more than 3 and up to 6 months	Gross exposure – Impaired assets – From more than 6 months up to 1 year	Gross exposure – Impaired assets – Due after 1 year	Gross exposure – Non-impaired assets	Specific value adjustments	Portfolio value adjustments	Net exposure
A. On-balance-sheet exposures								
a) Non-performing loans								
- of which forborne exposures								
Probable defaults								
- of which forborne exposures								
c) Impaired past-due exposures								
- of which forborne exposures								
d) Non-impaired past-due exposures								
- of which forborne exposures								
e) Other non-impaired exposures					7,157,543		(26)	7,157,517
- of which forborne exposures								
Total A					**7,157,543**		**(26)**	**7,157,517**
B. Off-balance sheet exposures								
a) Impaired								
b) Other					2,530,887			2,530,887
Total B					**2,530,887**			**2,530,887**
Total A+B					**9,688,430**		**(26)**	**9,688,404**

A.1.4 On-balance-sheet loan exposures to banks: trend of gross impaired exposures

No on-balance-sheet loan exposure to banks was classified among impaired exposures in either the financial statements at 31 December 2017 or the financial statements at 31 December 2016.

A.1.5 On-balance-sheet loan exposures to banks: trend of total value adjustments

No value adjustments on on-balance-sheet loan exposures to banks were made in either the financial statements at 31 December 2017 or the financial statements at 31 December 2016.

A.1.6 On- and off-balance-sheet exposures to customers: gross and net amounts

Type of exposure / Balances	Gross exposure - Impaired assets: Up to 3 months	From more than 3 and up to 6 months	From more than 6 months up to 1 year	Due after 1 year	Non-impaired assets	Specific value adjustments	Portfolio value adjustments	Net exposure
A. On-balance-sheet exposures								
a) Non-performing loans				4,786,235		(3,391,484)		**1,394,751**
- of which forborne exposures				*1,072,536*		*(659,251)*		***413,285***
Probable defaults	779,031	51,317	195,960	998,162		(912,067)		**1,112,403**
- of which forborne exposures	*726,860*	*48,293*	*139,481*	*803,373*		*(772,100)*		***945,907***
c) Impaired past-due exposures	4,297	3,411	12,683	3,695		(4,918)		**19,168**
- of which forborne exposures	*2,219*	*1,625*	*3,894*			*(2,147)*		***5,591***
d) Non-impaired past-due exposures					55,840		(2,803)	**53,037**
- of which forborne exposures					*23,853*		*(1,559)*	***22,294***
e) Other non-impaired exposures					14,934,513		(71,164)	**14,863,349**
- of which forborne exposures					*723,673*		*(26,580)*	***697,093***
Total A	**783,328**	**54,728**	**208,643**	**5,788,092**	**14,990,353**	**(4,308,469)**	**(73,967)**	**17,442,708**
B. Off-balance sheet exposures								
a) Impaired	39,058					(1,550)		**37,508**
b) Other					4,871,195		(51,303)	**4,819,892**
Total B	**39,058**				**4,871,195**	**(1,550)**	**(51,303)**	**4,857,400**
Total A+B	**822,386**	**54,728**	**208,643**	**5,788,092**	**19,861,548**	**(4,310,019)**	**(125,270)**	**22,300,108**

Non-impaired off-balance-sheet exposures include exposures generated by derivative contracts of low credit quality for a gross amount of € 50,203 thousand (€ 66,723 thousand at 31/12/2016); accumulated write-downs amounted to € 49,791 thousand (€ 60,669 thousand at 31/12/2016)and are conventionally recognised among "Portfolio value adjustments". For further details on the credit quality of derivative instruments and assets held for trading please see the disclosure provided in table A.1.2.a.

Impaired forborne exposures in the "cure period" that are not past due amounted to a total of € 421,289 thousand (gross figure € 689,273 thousand) of which € 419,683 thousand classified as probable default and € 1,606 thousand classified as impaired past due exposures.

A.1.7 On-balance-sheet loan exposures to customers: trend of gross impaired exposures

	Reasons / Categories	*Non-performing loans*	*Probable defaults*	*Impaired past-due exposures*
A.	**Initial gross exposure**	**4,405,772**	**2,892,700**	**27,632**
	- of which: exposures sold but not derecognised			
B.	**Increases**	**577,569**	**313,694**	**25,740**
B.1	transfers from non-impaired loan exposures	2,901	161,615	21,214
B.2	transfers from other categories of impaired exposures	483,666	19,239	2,918
B.3	other increases	91,002	132,840	1,608
C.	**Decreases**	**197,106**	**1,181,924**	**29,286**
C.1	transfers to non-impaired loan exposures		128,476	5,375
C.2	derecognitions	35,607	205,503	9
C.3	collections	139,271	163,203	2,844
C.4	disposals	6,465	101,189	
C.5	losses on disposal	605	15,061	
C.6	transfers to other categories of impaired exposures	3,213	482,082	20,528
C.7	other decreases	11,945	86,410	530
D.	**Gross closing balance**	**4,786,235**	**2,024,470**	**24,086**
	- of which: exposures sold but not derecognised	*107,343*		

A.1.7a Cash loan exposures to customers: trend of gross forborne exposures broken down by credit quality

	Reasons / Quality	*Forborne exposures: impaired*	*Forborne exposures: non-impaired*
A.	**Initial gross exposure**	**3,146,322**	**775,494**
	- of which: exposures sold but not derecognised		
B.	**Increases**	**314,066**	**265,812**
B.1	transfers from non-forborne non-impaired exposures	53,188	173,600
B.2	transfers from forborne non-impaired exposures	68,856	
B.3	transfers from impaired forborne exposures		56,648
B.4	other increases	192,022	35,564
C.	**Decreases**	**662,106**	**293,781**
C.1	transfers to non-forborne non-impaired exposures		101,598
C.2	transfers to forborne non-impaired exposures	56,648	
C.3	transfers to impaired forborne exposures		68,856
C.4	derecognitions	186,291	551
C.5	collections	252,260	66,338
C.6	disposals	104,166	
C.7	losses on disposal	13,536	
C.8	other decreases	49,205	56,438
D.	**Gross closing balance**	**2,798,282**	**747,525**
	- of which: exposures sold but not derecognised	*107,343*	

Note:
impaired credit exposures at 31/12/2016 which during the course of 2017 were subject to forbearance measures total € 44,975 thousand.

A.1.8 On-balance-sheet loan exposures to customers: trend of total value adjustments

Reasons / Categories	*Non-performing loans*		*Probable defaults*		*Impaired past-due exposures*	
	Total	*Of which: forborne exposures*	*Total*	*Of which: forborne exposures*	*Total*	*Of which: forborne exposures*
A. Initial value adjustments	**2,421,359**	**329,391**	**1,264,333**	**1,045,987**	**4,766**	**190**
- of which: exposures sold but not derecognised						
B. Increases	**1,125,071**	**362,256**	**298,815**	**262,545**	**4,786**	**2,147**
B.1 value adjustments	877,005	178,702	268,595	229,765	4,248	2,121
B.2 losses on disposal	605		15,061	13,536		
B.3 transfers from other categories of impaired exposures	243,567	183,072	3,900	3,477	121	
B.4 other increases	3,894	482	11,259	15,767	417	26
C. Decreases	**154,947**	**32,396**	**651,081**	**536,432**	**4,634**	**190**
C.1 write-backs from valuation	97,826	22,287	125,220	86,459	756	55
C.2 write-backs from collection	17,484	976	41,656	34,483	8	
C.3 gains on disposal	1,468	1,351	16,069	16,069		
C.4 derecognitions	35,607	5,700	205,502	180,591	9	
C.5 transfers to other categories of impaired exposures	1,065	1,066	242,661	182,984	3,861	135
C.6 other decreases	1,497	1,016	19,973	35,846		
D. Final total value adjustments	**3,391,483**	**659,251**	**912,067**	**772,100**	**4,918**	**2,147**
- of which: exposures sold but not derecognised	*60,812*	*60,812*				

EXPOSURE TO SOVEREIGN RISK

As contemplated by the main international accounting standards (in particular IAS 1 and IFRS7) related to disclosures on exposures to sovereign credit risk (such as issuers of debt securities, counterparties of OTC derivative contracts, reference entities of credit derivatives and financial guarantees), details of the Bank's exposures at 31 December 2017 are given.

Overall, exposure to sovereign credit risk, in net nominal values, amounted to € 3,151 million (€ 3,743 million at 31 December 2016) and for € 3,139 million is represented by the net long position with the Republic of Italy (€ 3,553 million at 31 December 2016) and for € 190 million by a net long position with the rest of the world (net long position of € 190 million at 31 December 2016).

The exposures indicated in the following table, including the interest accrued at the end of the year, include the short positions of the HFT portfolio. For credit derivatives the net amount (long or short) of the notional values underlying protection purchases and sales is given. The column "total exposure" shows the net total asset/liabilities, at nominal value, related to the single countries and included in the assets at the end of every year. Any derivative contracts listed on regulated markets are excluded since the economic effects of these are directly posted as an offsetting entry in the cash and cash equivalents, as a result of the settlement of the changes in the margins on a daily basis.

Exposure to sovereign risk

Country	Debt securities							Loans			Credit derivatives	31/12/2016
	Financial assets held for trading		Financial assets available for sale		Receivables			Receivables			Financial assets held for trading	Total
	Nominal	Market value of book	Nominal	Market value of book	Nominal	Market value	Book value	Nominal	Market value	Nominal / book value	Nominal	Nominal
Argentina	717	735										717
Austria	54	76										54
Belgium	(5,624)	(5,727)										(5,624)
Bosnia and Herzeg.	9	2										9
Brazil	117	169										117
Canada	332	303										332
Croatia												0
Philippines	78	117										78
France	182	194									3,000	3,182
Germany	9,460	10,446										9,460
Greece	58	58										58
Ireland	2	2										2
Italy	1,368,988	1,369,728			*10,941*	*10,941*	*10,941*				1,757,867	3,126,855
Lithuania	207	217										207
Netherlands	227	263										227
Poland	437	485										437
Portugal	670	759										670
United Kingdom	197	202										197
Romania	286	312										286
Russia												0
Spain	3,905	4,725									(3,200)	705
United States	242	259										242
Turkey	1	1										1
Hungary	37	42										37
Venezuela	33	7										33
TOTAL	**1,380,615**	**1,383,375**			**10,941**	**10,941**	**10,941**	**0**	**0**	**0**	**1,757,667**	**3,138,282**

OTHER INFORMATION

The Bank does not have exposures with government issues in the "Financial assets available for sale" portfolio.

Credit derivatives in Italy	*31/12/2017*	*31/12/2016*
Protection purchases		
- Nominal	138,338	139,486
- Positive fair value	4,588	17,711
- Negative fair value	119	
Protection sales		
- Nominal	1,897,867	2,102,737
- Positive fair value		
- Negative fair value	22,981	26,463

A.2 Classification of exposures according to external and internal ratings

A.2.1 Distribution of on- and "off-balance-sheet" loan exposures by external rating class

Non-impaired	*External rating classes*						*Unrated*	*Total*
	AAA/AA- *Class 1*	*A+/A-* *Class 2*	*BBB+/BBB-* *Class 3*	*BB+/BB-* *Class 4*	*B+/B-* *Class 5*	*Lower than B-* *Class 6*		
A. **On-balance-sheet exposures**	327,286	196,232	4,772,692	236,059	6,527,302	2,696	12,607,703	**24,669,970**
B. **Derivatives**	15,008	267,762	51,177	1,332	213,129	0	1,350,858	**1,899,266**
1. Financial derivatives	*15,008*	*267,762*	*51,177*	*1,332*	*213,129*		*1,350,858*	***1,899,266***
2. Credit derivatives								***0***
C. **Guarantees issued**					1,056,141		127,002	**1,183,143**
D. **Commitments to grant finance**	5,824	3,304	2,446,151	309	307,695		1,334,390	**4,097,673**
E. **Other**		31,337	3,420	17,906	154,624		918	**208,205**
Total	**348,118**	**498,635**	**7,273,440**	**255,606**	**8,258,891**	**2,696**	**15,420,871**	**32,058,257**

The external rating classes adopted to fill out the table are those used by Standard & Poor's.
The exposures considered are those in the balance sheet, shown in the above Tables A.1.3 (exposures to banks) and A.1.6 (exposures to customers) including U.C.I.T.S. (excluding equity instruments).
Exposures in financial derivatives are expressed net of the short positions for counterparties with which netting agreements are in force.
The commitments to issue finance refer mainly to mortgages stipulated and to be issued, unsecured loans and commitments to underwrite equity investments.
In the presence of multiple assigned external ratings, the criteria adopted to select the rating are those prescribed by the Bank of Italy (in the presence of two ratings, the worse one is used, in the presence of three or more assigned ratings, the second-best is selected).
To assure that the information is significant, transcoding tables were used to convert the classification provided by the different rating companies to the one adopted by Standard & Poor's.

A.2.2 Distribution of on- and off-balance sheet exposures by internal rating classes

		Internal rating classes							
Non-impaired	*High quality*	*Good quality*	*Quality sufficient*	*Mediocre quality*	*Quality weak*	*Default*	*Group administrative default*	*Unrated*	*Total*
A. **On-balance-sheet exposures**	261,115	779,088	1,574,373	1,926,839	237,160	2,557,701	18,525	17,245,425	**24,600,226**
B. **Derivatives**	227,021	75,839	51,425	45,694	6,838	19,720	0	1,472,730	**1,899,267**
1. Financial derivatives	*227,021*	*75,839*	*51,425*	*45,694*	*6,838*	*19,720*		*1,472,730*	***1,899,267***
2. Credit derivatives								***0***	
C. **Guarantees issued**	5,234	80,548	8,107	12,051	730		1,076,473	**1,183,143**	
D. **Commitments to grant finance**	10,773	51,920	156,288	399,108	10,995	36,778		3,431,809	**4,097,671**
E.**Other**	7,940		17,906					182,359	**208,205**
Total	**506,849**	**912,081**	**1,880,540**	**2,379,748**	**267,044**	**2,614,929**	**18,525**	**23,408,796**	**31,988,512**

The table describes the breakdown of the Bank's customer by risk classes attributed according to the rating assigned by internal models. For this purpose, only the exposures (counterparties) whose internal rating is periodically determined (Corporate and Private customers) without any transcoding from official rating to internal rating concerning instead sectors such as "banks", "non-banking financial institutions" and "Governments and Government Agencies". Based on this caveat, therefore, the positions referred to these latter segments - while provided with official ratings - were also indicated as "unrated" in the internal rating models. As per Bank of Italy orders on-balance-sheet exposures, unlike in the statement related to external ratings, do not include units in collective investment undertakings (of € 69,744 thousand).

A.3 Distribution of guaranteed exposures by type of guarantee

A.3.1 Guaranteed exposures to banks

		Secured guarantees (1)				*Unsecured guarantees (2)*									
						Credit derivatives					*Endorsement credits*				
							Other derivatives								
	Net exposure value	*real estate - mortgages*	*fixed assets held under financial leases*	*securities*	*other secured guarantees*	*credit linked notes*	*governments and Central Banks*	*other public entities*	*banks*	*other operators*	*governments and Central Banks*	*other public entities*	*banks*	*others*	***Total (1)+(2)***
1. Guaranteed on balance-sheet loan exposures	**3,351,450**			**3,266,091**											**3,266,091**
1.1 fully secured	3,351,450			3,266,091											**3,266,091**
- of which impaired															
1.2 partially secured															
- of which impaired															
2. Guaranteed "off-balance-sheet" loan exposures	**993,247**			**585,133**	**385,982**										**971,115**
2.1 fully secured	783,723			585,133	198,439										**783,572**
- of which impaired															
2.2 partially secured	209,524				187,543										**187,543**
- of which impaired															

Exposures guaranteed by securities are represented by loan operations such as repos, with the exchange of cash collateral with counterparty's full availability.
Secure guarantees backing "off book" exposures refer to the net counterparty risk, i.e. determined on the basis of the netting agreements defined according to the ISDA directives, and guaranteed by collateral acquired according to the methods specified in the CSA agreements stipulated between the parties. These guarantees are recognised at fair value estimated at the reporting date, or when this information is lacking, at the contractual value of the same.

A.3.2 Guaranteed exposures to customers

		Secured guarantees (1)				*Unsecured guarantees (2)*									
						Credit derivatives					*Endorsement credits*				
							Other derivatives								
	Net exposure value	*real estate - mortgages*	*fixed assets held under financial leases*	*securities*	*other secured guarantees*	*credit linked notes*	*governments and Central Banks*	*other public entities*	*banks*	*other operators*	*governments and Central Banks*	*other public entities*	*banks*	*others*	***Total (1)+(2)***
1. Guaranteed on balance-sheet loan exposures	**10,622,316**	**4,497,783**		**4,682,587**	**959,005**						**59**	**6,645**	**1,986**	**125,071**	**10,273,136**
1.1 fully secured	9,840,801	4,135,138		4,646,368	951,943							6,645	1,675	66,729	**9,808,498**
- of which impaired	*2,082,684*	*1,965,311*		*43,221*	*34,458*								*843*	*38,851*	***2,082,684***
1.2 partially secured	781,515	362,645		36,219	7,062						59		311	58,342	**464,638**
- of which impaired	*375,833*	*306,312*		*8,484*	*2,763*						*59*		*62*	*9,192*	***326,872***
2. Guaranteed “off-balance-sheet” loan exposures	**1,830,325**	**61,701**		**601,645**	**1,045,340**									**32,727**	**1,741,413**
2.1 fully secured	1,496,952	58,875		599,531	824,362									12,063	**1,494,831**
- of which impaired	*36,630*	*35,825*												*805*	***36,630***
2.2 partially secured	333,373	2,826		2,114	220,978									20,664	**246,582**
- of which impaired															***0***

Exposures guaranteed by securities are represented by loan operations such as repos, with the exchange of cash collateral with counterparty’s full availability.

Secure guarantees backing “off book” exposures refer to the net counterparty risk, i.e. determined on the basis of the netting agreements defined according to the ISDA directives, and guaranteed by collateral acquired according to the methods specified in the CSA agreements stipulated between the parties. These guarantees are recognised at fair value estimated at the reporting date, or when this information is lacking, at the contractual value of the same.

B. LOAN EXPOSURE DISTRIBUTION AND CONCENTRATION

B.1 Sectoral distribution of on- and off-balance-sheet loan exposures to customers (carrying amount)

B.1.1 Sectoral distribution of loan exposures: on-balance-sheet exposures to customers (carrying amount)

	Non-performing loans		*Probable defaults*		*Impaired past-due exposures*		*Non-impaired exposures*			
Counterparties / Exposures	*Total*	*of which forborne exposures*	*Total*	*of which forborne exposures*	*Total*	*of which forborne exposures*	*Total*	*of which forborne exposures*	***Total 31/12/17***	***Total 21/12/16***
Governments and Central Banks										
- Net exposure							4,256,909		**4,256,909**	**4,012,160**
- Specific value adjustments										
- Portfolio value adjustments							(6)		**(6)**	
Other public entities										
- Net exposure			641	*619*			11,204		**11,845**	**11,722**
- Specific value adjustments			(328)	*(312)*					**(328)**	**(395)**
- Portfolio value adjustments							(15)		**(15)**	**(14)**
Financial companies										
- Net exposure	13,088	*1,615*	57,091	*43,190*	567		6,546,627	*65,918*	**6,617,373**	**9,916,895**
- Specific value adjustments	(54,103)	*(3,880)*	(98,836)	*(78,747)*	(217)				**(153,156)**	**(123,381)**
- Portfolio value adjustments							(4,222)	*(349)*	**(4,222)**	**(2,677)**
Insurance companies										
- Net exposure							28,169		**28,169**	**14,674**
- Specific value adjustments										
- Portfolio value adjustments										
Non-financial companies										
- Net exposure	1,351,011	*410,459*	1,042,665	*893,034*	17,507	*5,592*	3,971,265	*650,600*	**6,382,448**	**7,850,864**
- Specific value adjustments	(3,269,593)	*(653,037)*	(809,119)	*(689,845)*	(4,591)	*(2,147)*			**(4,083,303)**	**(3,518,874)**
- Portfolio value adjustments							(69,414)	*(27,769)*	**(69,414)**	**(83,248)**
Others										
- Net exposure	30,652	*1,212*	12,007	*9,064*	1,094		102,213	*2,869*	**145,966**	**170,670**
- Specific value adjustments	(67,787)	*(2,334)*	(3,785)	*(3,197)*	(110)				**(71,682)**	**(47,808)**
- Portfolio value adjustments							(310)	*(21)*	**(310)**	**(293)**

B.1.2 Sectoral distribution of loan exposures: "off-balance-sheet" exposures to customers (carrying amount)

Counterparties / Exposures	*Non-performing loans*	*Probable defaults*	*Other impaired assets*	*Non-impaired exposures*	*Total 31/12/17*	*Total 31/12/16*
Governments and Central Banks						
- Net exposure				2,450,295	**2,450,295**	**4,341,443**
- Specific value adjustments						
- Portfolio value adjustments						
Other public entities						
- Net exposure				40,000	**40,000**	**21**
- Specific value adjustments						
- Portfolio value adjustments						
Financial companies						
- Net exposure				1,758,372	**1,758,372**	**3,134,805**
- Specific value adjustments						
- Portfolio value adjustments				(625)	**(625)**	**(413)**
Insurance companies						
- Net exposures				354	**354**	**5,881**
- Specific value adjustments						
- Portfolio value adjustments						
Non-financial companies						
- Net exposure		37,508		570,443	**607,951**	**913,473**
- Specific value adjustments		(1,550)			**(1,550)**	**(12,440)**
- Portfolio value adjustments				(50,678)	**(50,678)**	**(61,512)**
Others						
- Net exposure				256	**256**	**1,179**
- Specific value adjustments						
- Portfolio value adjustments						

The above data may differ from the quantitative information indicated in the preceding table A.1.6. "Cash and off balance sheet exposure towards customers: gross and net values" for the total of the exposures connected with the counterparty risk relative to operations for the acquisition of disposal of securities or goods on loan.

B.2 Geographical distribution of on- and "off-balance sheet" loan exposures to customers (carrying amount)

B.2.1 Geographical distribution of exposures: on-balance-sheet loan exposures to customers (carrying amount)

Counterparties / Exposures	*Non-performing loans*	*Probable defaults*	*Impaired past-due exposures*	*Non-impaired exposures*	*Total 31/12/17*	*Total 31/12/16*
Italy						
- Net exposure	1,392,218	1,100,343	19,169	14,488,500	**17,000,230**	**21,638,133**
- Total value adjustments	(3,376,783)	(911,342)	(4,918)	(73,600)	**(4,366,643)**	**(3,760,566)**
Other European countries						
- Net exposure	2,393	12,060		419,186	**433,639**	**316,647**
- Total value adjustments	(14,638)	(725)		(367)	**(15,730)**	**(16,049)**
America						
- Net exposure	140			7,874	**8,014**	**21,592**
- Total value adjustments	(63)				**(63)**	**(74)**
Asia						
- Net exposure				819	**819**	**135**
- Total value adjustments						
Rest of world						
- Net exposure				6	**6**	**477**
- Total value adjustments						

B.2.2 Geographical distribution of loan exposures: "off-balance-sheet" exposures to customers (carrying amount)

Counterparties / Exposures	*Non-performing loans*	*Probable defaults*	*Other impaired assets*	*Non-impaired exposures*	*Total 31/12/17*	*Total 31/12/16*
Italy						
- Net exposure		37,508		3,644,458	**3,681,966**	**6,457,694**
- Total value adjustments		(1,550)		(50,977)	**(52,527)**	**(74,039)**
Other European countries						
- Net exposure				1,142,190	**1,142,190**	**1,879,810**
- Total value adjustments				(327)	**(327)**	**(327)**
America						
- Net exposure				33,071	**33,071**	**44,997**
- Total value adjustments						
Asia						
- Net exposure						
- Total value adjustments						
Rest of world						
- Net exposure					**0**	**14,302**
- Total value adjustments						

The above data may differ from the quantitative information indicated in the preceding table A.1.6. "Cash and off balance sheet exposure towards customers: gross and net values" for the total of the exposures connected with the counterparty risk relative to operations for the acquisition of disposal of securities or goods on loan.

B.3 Geographical distribution of on- and "off-balance-sheet" loan exposures to banks (carrying amount)

B.3.1 Geographical distribution of exposures: on-balance-sheet loan exposures to banks (carrying amount)

Geographic area / Exposures	*Non-performing loans*	*Probable defaults*	*Non-Impaired past-due exposures*	*Non-impaired exposures*	*Total 31/12/17*	*Total 31/12/16*
Italy						
- Net exposure				6,682,454	**6,682,454**	**10,901,239**
- Total value adjustments				(6)	**(6)**	**(6)**
Other European countries						
- Net exposure				406,918	**406,918**	**288,994**
- Total value adjustments				(20)	**(20)**	**(4)**
America						
- Net exposure				16,006	**16,006**	**16,897**
- Total value adjustments						
Asia						
- Net exposure						
- Total value adjustments						
Rest of world						
- Net exposure				52,139	**52,139**	**52,691**
- Total value adjustments						

B.3.2 Geographical distribution of exposures: "off-balance-sheet" loan exposures to banks (carrying amount)

Geographic area / Exposures	*Non-performing loans*	*Probable defaults*	*Other impaired assets*	*Non-impaired exposures*	*Total 31/12/17*	*Total 31/12/16*
Italy						
- Net exposure				1,935,057	**1,935,057**	**2,746,174**
- Total value adjustments						
Other European countries						
- Net exposure				209,046	**209,046**	**395,651**
- Total value adjustments						
America						
- Net exposure				178,750	**178,750**	**212,167**
- Total value adjustments						
Asia						
- Net exposure						
- Total value adjustments						
Rest of world						
- Net exposure						
- Total value adjustments						

The above data may differ from the quantitative information indicated in the preceding table A.1.3. "Cash and off balance sheet exposure towards banks: gross and net values" for the total of the exposures connected with the counterparty risk relative to operations for the acquisition of disposal of securities or goods on loan.

B.4 Significant exposures

	31/12/2017	*31/12/2016*
a) amount (carrying amount)	27,518,747	45,548,655
b) amount (weighted value)	1,220,318	1,464,687
c) number	-	17

The Supervisory Regulations define a position as a “large exposure” on the basis of the unweighted exposure for credit risk. A position is considered a “large exposure” if of an amount equal to or greater than 10% of the regulatory capital.
As provided for in the aforementioned regulations, exposures in Government Securities were also considered.
No positions exceed the risk concentration limit.

C. SECURITISATION TRANSACTIONS

QUALITATIVE INFORMATION

The Bank acts as investor as well as market maker. The internal organisational structure which oversees these operations is the Credit Trading Desk. Its main objective involves providing liquidity and pricing for the transactions carried out by the MPS Group and support, again in terms of pricing, both to the Parent Company and to customers that have invested in the securitisations. For such purposes, ongoing and structured analysis is used on the underlying flows of these transactions principally attributable to residential mortgage loans and consumer credit disbursement activities.
For deals originating outside the MPS Group, the Desk's activity is oriented to seizing the various opportunities that the market offers, in order to maximise the income returns of the portfolios as an investor in this segment also and mainly in the light of the operations carried out by the Central Bank following approval of the purchase programme on this Asset Class. The process for assessing and measuring the risks connected to the positions temporarily held is centralised at the Risk Management Area of the Parent Company BMPS within the scope of market risk measurement. Activities for controlling and mitigating risks are mainly carried out via the study and daily analysis of the underlying flows, all by the use of advanced models.
During 2017, operating activities were carried out both through the secondary market trading channel and using available funding lines.
The amount held in the trading book (item 20 of the Assets "Financial assets held for trading") was € 1,260 million (€ 1,155 million at 31 December 2016) with a preponderant exposure on the senior part of the capital structure.
The Bank holds only on-balance-sheet exposures and has not issued either guarantees or credit lines to securitisation vehicles.

QUANTITATIVE INFORMATION

C.1 Exposures deriving from the main "own" securitisation transactions divided by type of asset securitised and type of exposure

Type of underlying assets/Exposure	On-balance-sheet exposures					
	Senior		Mezzanine		Junior	
	Carrying Amount	*Value Adjustments/ write-backs*	*Carrying Amount*	*Value Adjustments/ write-backs*	*Carrying Amount*	*Value Adjustments write-backs*
C. Not derecognised from the financial statements						
- mortgage loans					28,437	
- ship finance					85,810	
Total 31/12/2017					**114,247**	
Total 31/12/2016						

There are no exposures either as guarantees given or as credit lines.

C.2 Exposures deriving from the main "third party" securitisation transactions divided by type of asset securitised and type of exposure

Type of underlying assets/Exposure	On-balance-sheet exposures					
	Senior		Mezzanine		Junior	
	Carrying Amount	*Value Adjustments/ write-backs*	*Carrying Amount*	*Value Adjustments/ write-backs*	*Carrying Amount Amount*	*Value Adjustments write-backs*
- residential mortgage loans	134,574	(186)	17,105	(117)		
- non-residential mortgage loans	882,624	101	142,951	1,453		
- bonds						
- consumer credit	48,987	(129)	27,002	211		
- other assets	2,088	(2)	864		4,066	(13)
Total 31/12/2017	**1,068,273**	**(216)**	**187,922**	**1,547**	**4,066**	**(13)**
Total 31/12/2016	**985,627**	**3,349**	**164,035**	**(16,873)**	**5,004**	**(1)**

There are no exposures either as guarantees given or as credit lines.

C.3 Special purpose vehicle for securitisation

Name of securitisation / Name of special purpose vehicle	*Registered Offices*	*Consolidation*	*Assets*			*Liabilities (*)*		
			Receivables	*Debt securities*	*Other*	*Senior*	*Mezzanine*	*Junior*
2017 Popolare Bari RMBS S.r.l.	Via V. Alfieri, 1 Conegliano (TV)	NO	704,901			571,872	58,264	92,516
Argo Mortgage 2 S.r.l.	Via Cassa di Risparmio 15 Genova	NO	63,112			6,962	26,800	29,350
Berica ABS 3 S.r.l.	Via Battaglione Framarin, 18 Vicenza	NO	572,688			310,911	93,900	115,012
Bumper 7 S.A.	Av. Du XX Sept. 52-54 Luxembourg	NO	552,739		26,527	332,195		49,100
Cars Alliance Auto Loans Germany V 2013-1		NO	135,533			26,520	56,799	52,300
Citizen Irish Auto Receivables Trust 2017 DAC	3 George's Dock IFSC Dublin 1	NO	127,561			101,968	8,700	16,600
Claris ABS 2011 S.r.l.	Via V. Alfieri, 1 Conegliano (TV)	NO	112,604			525,117	654,178	
Deco 2015 CHARLEMAGNE S.A.	2 Blv K. Adenauer, Luxembourg	NO	226,130			116,483	40,098	69,553
Dilosk RMBS No1 Designated Activity Company	16 Hume Street, Dublin 2, Ireland	NO	145,683			100,311	24,700	20,600
E-MAC NL 2005		NO	356,651					342,355
FASTNET SECURITIES 13 DAC	3 George's Dock, I.F.S.C. Dublin 1	NO	512,740		10,526	413,100	86,900	26,300
Fip Funding S.r.l.	Via Parigi, 11 Rome	NO	1,848,597			844,022		
First Swiss Mobility 2017-2-AG	Bellerivestrasse 201, 8008 Zürich	NO	329,998			228,422	14,100	12,647
GRAND CANAL SECURITIES 2 DAC	Kilmore House, Spencer Dock,Dublin 1	NO	517,638		13,994	230,860	67,809	218,961
GREEN APPLE 2017 I NHG BV	Prins Bernhardplein 200, Amsterdam	NO	1,339,463		20,340	1,182,000	156,000	10,690
Italfinance Securitisation Vehicle S.r.l.	Via V. Alfieri, 1 Conegliano (TV)	NO	1,660,601			1,434,376	261,898	235,099
Madeleine SPV S.r.l.	Via V. Alfieri, 1 Conegliano (TV)	NO	61,884		6,074	33,754	15,665	17,522
Marche M6 S.r.l.	Via V. Alfieri, 1 Conegliano (TV)	NO	1,244,207			748,266		494,565
NORMA SPV S.R.L.	Via V. Alfieri, 1 Conegliano (TV)	NO	474,817		1,613	8,377	159,174	308,879
Sestante Finance S.r.l.	Via G. Negri 10 - 20123 Milan	NO	109,310			59,744	30,530	30,547
SME GRECALE 2017 S.R.L.	Piazza della Costituzione 2 - Bologna	NO	767,680		17,550	508,000	77,000	184,800
SRF 2017 1 Fondo de Titulisacion	Calle Orense, 58 Madrid	NO	392,159		1,103	240,160	68,000	84,000
Tagus Sociedade de Titularizacao de Creditos S.A.	Rua Castilho, 20 Lisbon	NO	770,391			612,897	17,865	45,581
Taurus 2015-1 IT S.r.l.	Via Gustavo Fara 26 - Milan	NO	189,193			136,069	15,192	37,931
Titulisacion de Activos CAM N 9	Calle Orense, 58 Madrid	NO	474,886		8,860	416,814	76,500	15,000
Towers CQ S.r.l.	Via A. Pestalozza, 12/14 Milan	NO	832,913			625,716	87,100	121,720
VCL Multi-Compartment S.A. VCL 23	52-54 av du X Septembre, Luxembourg	NO	270,259			237,153	12,837	
VOBA N. 5 S.r.l.	Via V. Alfieri, 1 Conegliano (TV)	NO	279,646				169,591	89,450
Wizink Master Credit Cards	C/Principe Vergara 131 Planta 3, Madrid	NO	776,889			781,505		
Siena Mortgages 10-7 SRL	Via V. Alfieri, 1 Conegliano (TV)	YES	450,426		217	451,066		(422)
Casaforte SRL	Via E. Duse, 53 Rome	YES	1,304,186		13,140	1,106,064		211,261
TOTAL		**17,605,485**		**119,944**	**12,390,704**	**2,279,600**	**2,931,917**	

(*) The liabilities do not show the remaining items different from the financial instruments issued, including the accumulated profits (losses) for the year.

With reference to the consolidated securitisations, we can inform you that:

- Siena Mortgages 10-7 Srl is a securitisation transaction carried out in 2010. The transaction took the form of the sale by BMPS to the vehicle of a portfolio of performing residential mortgage loans for approximately € 3.5 billion. The Parent Company did not derecognise the underlying receivables, because it maintained substantially all the risks and benefits associated with ownership of the receivables transferred;
- Casaforte is a securitisation transaction carried out in 2010, which took the form of the sale to the special purpose vehicle "Casaforte Srl" of the receivable originating from the mortgage loan granted to the consortium 'Perimetro Gestione Proprietà Immobiliari'. The underlying receivable was fully derecognised by the Parent Company, because

the related risks and benefits were transferred to the special purpose vehicle not only in the form but also in the substance. The residual debt at 31/12/2017 amounted to € 1,269.5 million. In December 2013 the bank completed the full repurchase of the PGPI 2010 financial equity instruments and the related class Z Securities for an amount of approximately € 70 million. As a result of these purchases the bank gained control over the company, with consequent consolidation of the same in the financial statements.

C.4 Special purpose vehicles for securitisation (non-consolidated)

Accounting items / Type of structured entity	*Item 20 Financial assets held for trading*	*Total assets (A)*	*Item 40 Financial liabilities held for trading*	*Total liabilities (B)*	*Net book value (C=A-B)*	*Maximum exposure to risk of loss (D)*	*Difference between exposure to risk of loss and carrying amount (E=D-C)*
2017 Popolare Bari RMBS S.r.l.	28,492	28,492			28,492	28,492	
Argo Mortgage 2 S.r.l.	99	99			99	99	
Berica ABS 3 S.r.l.	3,060	3,060			3,060	3,060	
Bumper 7 S.A.	2,000	2,000			2,000	2,000	
Cars Alliance Auto Loans Germany V 2013-1	2,088	2,088			2,088	2,088	
Citizen Irish Auto Receivables Trust 2017 DAC	3,501	3,501			3,501	3,501	
Claris ABS 2011 S.r.l.	18,337	18,337			18,337	18,337	
Deco 2015 CHARLEMAGNE S.A.	1,599	1,599			1,599	1,599	
Dilosk RMBS No1 Designated Activity Company	2,015	2,015			2,015	2,015	
E-MAC NL 2005	7,598	7,598			7,598	7,598	
Fastnet Securities 13 DAC	2,501	2,501			2,501	2,501	
Fip Funding S.r.l.	17,203	17,203			17,203	17,203	
First Swiss Mobility 2017-2-AG	1,026	1,026			1,026	1,026	
Grand Canal Securities 2 DAC	6,545	6,545			6,545	6,545	
Green Apple 2017 I NHG BV	4,983	4,983			4,983	4,983	
Italfinance Securitisation Vehicle S.r.l.	9	9			9	9	
Madeleine SPV S.r.l.	5,745	5,745			5,745	5,745	
Marche M6 S.r.l.	28,855	28,855			28,855	28,855	
NORMA SPV S.R.L.		46,531		2,508	44,023	44,023	
Sestante Finance S.r.l.	807	807			807	807	
SME Grecale 2017 S.R.L.	15,001	15,001			15,001	15,001	
SRF 2017 1 Fondo de Titulisacion	101	101			101	101	
Tagus Sociedade de Titularizacao de Creditos S.A.	51,134	51,134			51,134	51,134	
Taurus 2015-1 IT S.r.l.	4,857	4,857			4,857	4,857	
Titulisacion de Activos CAM N 9	3,431	3,431			3,431	3,431	
Towers CQ S.r.l.	18,853	18,853			18,853	18,853	
VCL Multi-Compartment S.A. VCL 23	1,894	1,894			1,894	1,894	
VOBA N. 5 S.r.l.	29,775	29,775			29,775	29,775	
Wizink Master Credit Cards	2,500	2,500			2,500	2,500	
TOTAL	**264,009**	**310,540**		**2,508**	**308,032**	**308,032**	**0**

Notes:

2017 Popolare Bari RMBS S.r.l. (POPBA 2017-TV 17/58): Vehicle established on 17 May 2017 in the Italian Republic pursuant to article 3 of the Supervisory Law, as a limited liability company with the name 2017 Popolare Bari RMBS

Srl, with tax ID and VAT no. 04881030268. The issuer is registered with the Treviso-Belluno Companies Registry under number 04881030268 and with the register of vehicle companies held by the Bank of Italy pursuant to the regulation issued by the Bank of Italy on 7 June 2017 (“Provisions on information and statistical requirements for companies involved in securitisation transactions”), under no. 35362.3. The mortgages serving as the vehicle’s assets are Italian residential mortgage loans, particularly concentrated in the Apulia region.

Argo Mortgage 2 S.r.l. (ARGOM 2 B-TV 04/43): Securitisation of originated loans with 13,322 residential mortgage loans distributed throughout Italy. Originator: Banca Carige SpA.

Berica ABS 3 S.r.l. (BERICA - TV 14/61 SUB): vehicle set up pursuant to Italian Law 130/1999. Multi-originator securitisation (Banca Popolare di Vicenza and Banca Nuova S.p.A.) which involves the sale without recourse of performing loans made up of residential mortgage loans granted to residents of Italy.

Bumper 7 S.A (BUMP 78-TV 16/26 SUB): German loan securitisation company. Originator *LeasePlan Deutschland GmbH*. This is a portfolio made up of 36,580 operating leasing contracts granted to private or public customers resident in Germany.

Cars Alliance Auto Loans Germany V 2013-1 (CAR A 13/24 TV): Vehicle established with loans disbursed in Germany to purchase cars. The vehicle was initially established with 139,361 loans with an LTV of 83.06%

Citizen Irish Auto Receivables Trust 2017 DAC (CIART B-TV 17/24 SUB e CIART C-TV 17/24 SUB): Vehicle established under Irish law. Relative to a portfolio of loans disbursed in Ireland to purchase cars.

Claris ABS 2011 S.r.l. (CLAAB-TV 12/60): vehicle set up pursuant to Italian Law 130/1999. Multi-originator securitisation (Banca Apulia, CASSA DI RISPARMIO DI FABRIANO E CUPRAMONTANA and Veneto Banca) which involves the sale without recourse of performing loans made up of residential mortgage loans granted to residents of Italy.

Deco 2015 CHARLEMAGNE S.A. (DECO D 15/25 TV SUB): Collateralised portfolio of commercial properties, including over ten offices and retail shops located in the Netherlands and in Germany, plus eight office buildings in an industrial park in Belgium. Country of issue: Luxembourg

Dilosk RMBS No1 Designated Activity Company (DILSK1B-TV 15/51 SUB): Portfolio consisting of mortgage loans originated with *ICS Building Society* and guaranteed by residential properties in Ireland, sold by *Bank of Ireland* to *Dilosk Funding No.1 Limited*.

E-MAC NL 2005 (EMAC NL05 A 05/38 TV e EMACNL A 05/38 TV): 3,428 loans to 2,121 subjects. Dutch residential mortgage loans.

Fastnet securities 13 DAC (FSTNT C 17/57 TV SUB and FSTNT-TV 17/57 SUB): Portfolio consisting of mortgage loans originating with *Permanent TSB plc* (*Permanent TSB* or PTSB, in its role as a seller of mortgage loans) and guaranteed by residential properties in Ireland.

Fip Funding S.r.l. (FIP FUND 05/23 TV): FIP Funding is the first investment fund promoted by the Italian Republic in the context of a wider process of value enhancement promoted by the MEF (Ministry for the Economy and Finance) through the transfer/contribution of property assets to real estate mutual investment funds.

First Swiss Mobility 2017-2-AG (SWMOB 1B 17/27 1 SUB and SWMOB 2MILIONIB 17/27 1 SUB): Vehicle with loans disbursed in Switzerland in the form of loans and leasing to purchase cars.

Grand Canal Securities 2 DAC (GCS 2 A TV 17/58, GCS 2B-TV 17/58 SUB and GCS-TV 17/58 SUB): The vehicle will make payments on the bonds, through payment of capital and interest deriving from a portfolio containing mortgage loans originating with *Irish Nationwide Building Society (Anglo Irish Bank, Irish Bank Resolution Corporation, Hill Samuel Irlanda Ltd, Scottish Legal Trustee Ltd, Irish Industrial Building Society and Irish Mutual Building Society*) and Springboard Mortgages Limited by mortgage-holders guaranteed with real estate properties located in Ireland. A small number of mortgage loans for which the enforcement procedure in relation to the mortgaged properties has been completed are also included in the mortgage loan portfolio.

Green Apple 2017 I NHG BV (GAPPL-TV 17/56): The vehicle is a private limited liability company (*besloten vennootschap met beperkte aansprakelijkheid*) incorporated with the name Green Apple 2017-I NHG B.V. pursuant to the laws of the Netherlands on 1 August 2017, for an indefinite period and with the registered offices in Amsterdam. Dutch residential mortgage loans.

Italfinance Securitisation Vehicle S.r.l. (ITALF D-TV 05/21 SUB): Vehicle established on 23 November 2004 in the Italian Republic (with the Treviso Companies Register) pursuant to Law 130 of 30 April 1999, as a vehicle used to issue asset-backed securities. The issuer is a limited liability company established with the name Doride Finance Srl, which subsequently changed its name to Italfinance Securitisation Vehicle Srl, and is registered in the Bank of Italy special register pursuant to article 107 of the banking law. Its registered offices are located in Via Vittorio Alfieri n. 1, 31015 Conegliano, Treviso, Italy; telephone: +39 0438 360478. The initial duration of the Issuer extends to 31 December 2050, unless extended pursuant to Italian law**.** Assets held by the vehicle are loans in the form of leasing disbursed to companies throughout Italy.

Madeleine SPV S.r.l. (MADL B 14/38 3.5 SUB): The objective of the vehicle, as envisaged in article 2 of its Bylaws, is to acquire monetary loans for the purpose of securitisation transactions and the issuing of securities backed by said assets. The Issuer was established as a multi-purpose vehicle and, consequently, can carry out other securitisations in addition to the initial securitisation. The loans involved in the securitisation are salary-backed loans disbursed to Italian public and private employees.

Marche M6 S.r.l. (MARCH 6A2-TV 13/64): vehicle set up pursuant to Italian Law 130/1999. Originator: Banca delle Marche S.p.A. This is a portfolio of performing loans deriving from residential property mortgage loans backed by first mortgages.

Norma SPV: in the context of a transaction to securitise non-performing loans originating in part from banks external to the MPS Group, on 1 July 2017 Banca MPS and MPS Capital Services arranged for the sale of a portfolio of non-performing loans disbursed in the real estate and shipping sectors. The portfolio sold to the vehicle Norma SPV S.r.l. consisted, as of the disposal date, of 20 loans totalling € 284.9 million, of which:

- no. 12 loans disbursed by Banca MPS totalling € 24.0 million in the real estate sector and € 145.3 million in the shipping sector;
- no. 8 loans disbursed by MPS Capital Services totalling € 28.8 million in the real estate sector and € 86.8 million in the shipping sector.

At 31 December 2017, the residual debt (including interest on arrears accrued) for the portfolio originated with the MPS Group amounted to € 252.7 million (of which € 145.4 million and € 107.3 million respectively transferred by Banca MPS and MPS Capital Services). To finance the purchase of this portfolio, on 21 July 2017 the vehicle issued ABS securities (the “securities”) in classes A1, B, C and D for the real estate sector and ABS securities in classes A1, B, C1, C2 and D for the shipping sector. The senior classes of both the real estate and shipping operations were placed with institutional investors, while the mezzanine and junior classes were subscribed by each of the transferring banks in proportion to the loans transferred. Specifically, the MPS Group subscribed the following classes:

- Real Estate: Class B for a nominal amount of € 31.2 million; Class C for a nominal amount of € 4.2 million; Class D for a nominal amount of € 15.8 million.
- Shipping: Class B for a nominal amount of € 86.7 million; Class C1 for a nominal amount of € 37.6 million; Class C2 for a nominal amount of 12.0 million; Class D for a nominal amount of € 121.3 million.

The sale of part of the notes did not lead to derecognition of the underlying loans from the financial statements of the transferring Banks, which substantially maintained all the risks and benefits associated with ownership of the receivables transferred.

Sestante Finance S.r.l. (SESTA 03/40 TV SUB): Sestante Finance S.r.l. is a limited liability company, incorporated within the Italian Republic pursuant to article 3 of Law 130 of 30 April 1999 (Provisions on securitisation of loans). The Issuer is registered with the Milan Companies Register under number 03367430968 and with the registry maintained by the Italian Exchange Office pursuant to article 106 of the Banking Law, under number 33852, as well as with the special list maintained by the Bank of Italy pursuant to article 107 of the Banking Law. Since it was established, the Issuer has not undertaken any business outside of the acquisition of the initial claims and the signing of the settlement documents. It has not prepared any financial statements or declared or paid any dividends, nor suffered any debt outside of the costs and expenses to establish the Issuer, or otherwise pursuant to the settlement documents. The Issuer's registered offices are located in via Borromei, 5, I-20123 Milan, Italy. The Issuer has no employees. The Issuer was established on 17 December 2001 with the name of Gea S.r.l. It changed its name to Sestante Finance S.r.l. at the Extraordinary Shareholders' Meeting held on 7 November 2003. Authorised capital, issued and fully paid in by the Issuer, amounts to € 10,000. The share capital of the Issuer is subscribed as follows: Stichting Artemide: € 6,000 representing 60% of the share capital Stichting Olimpo: € 4,000 representing 40% of own capital. The loans held by the vehicle are Italian residential mortgage loans.

SME Grecale 2017 S.R.L. (GRECS-TV 17/56): Vehicle consisting of a portfolio of loans granted to small and medium enterprises located throughout Italy (with and without collateral).

SRF 2017 1 Fondo de Titulisacion (SRFFT-TV 17/63 SUB): Vehicle established under Spanish law consisting of a portfolio of residential mortgage loans (5325 contracts) guaranteed by residential properties located in Spain.

Tagus Sociedade de Titularizacao de Creditos S.A. (AQUA 4B-TV 17/35 SUB): Portuguese vehicle which issued securitised notes with loans for the purchase/leasing of cars and trucks; (VERSE4 16/21 2.423- VERSE -TV 15/19, VERSE-TV 15/19 and VERSE 5 17/22 0.85): vehicle subject to Portuguese law with a portfolio of electricity receivables serving as collateral. Originator EDP Servico Universal SA.

Taurus 2015-1 IT S.r.l. (TAURS15-TV 15/27 SUB): The Issuer was incorporated in the Italian Republic pursuant to the Securitisation Law on 23 October 2014 as a limited liability company and, on 17 November 2014, changed its name to "TAURUS 2015-1 IT S.R.L.". The Issuer's Bylaws provide for it to be dissolved on 31 December 2100. The Issuer's registered offices are in Via Gustavo Fara, 26, 20124 Milan, Italy, tax ID and Milan Companies Register number 08814400969. It is registered with the Vehicle Company Register maintained by the Bank of Italy, pursuant to article 4 of the Italian regulation of 1 October 2014. The Issuer has no employees or subsidiaries. The Issuer's telephone number is +39 027788051. Share capital authorised and issued by the Issuer totals € 10,000, entirely paid in. The Issuer's current shareholder is: Quota Stichting SFM Italia no. 1, € 10,000 (100% of share capital). The Issuer's main business and sole corporate purpose, pursuant to article 2 of its Bylaws and in compliance with the Securitisation Law, is the execution of securitisation transactions. The vehicle is collateralised by a portfolio which consists 95% of three loans guaranteed by 14 commercial and office properties located in Northern Italy and Rome.

Titulisacion de Activos CAM N 9 (TDA 07/50 TV e TDAC9 A 07/50 TV): vehicle subject to Spanish law. Loan originator: Caja de Ahorros del Mediterraneo. Spanish residential mortgage loans.

Towers CQ S.r.l. (TOWCQ-TV 16/33 SUB): vehicle set up pursuant to Italian Law 130/1999. This is a securitisation of salary- or pension-backed loans granted by Accedo S.p.A. (Originator).

VCL Multi-Compartment S.A. VCL 23 (VCL23 B-TV 16/22 SUB): VCL Multi-Compartment SA, a limited liability company, was established to issue asset backed securities pursuant to Luxembourg law on 16 September 2009, for an unlimited period of time and with its registered offices located at 52 -54 Avenue du X Septembre, L-2550 Luxembourg (telephone: (+352) 2602 491), working in the name of and on the account of its specific VCL 23 compartment, duly created with a resolution by its Board of Directors on 24 February 2016. VCL Multi-Comparto SA is registered with the Luxembourg Commerce and Companies Registers with the number B 148436. In its Bylaws, the issuer has made an express decision to be governed by the Luxembourg securitisation law. The business purpose of the issuer VCL Multi-Compartment SA is to issue securitised loans. VCL Multi-Compartment SA can issue securities of any type and in any currency and, in the highest amount allowed under the Luxembourg securitisation law, pledges and mortgage loans. VCL Multi-Compartment SA can stipulate any agreement and carry out any action necessary or useful for the purposes of carrying out the operations allowed under the Luxembourg securitisation law including, by way of example, the decommissioning of its assets in compliance with the relative agreements. VCL Multi-Comparto SA can carry out the above activities only and to the extent that they are in compliance with the Luxembourg securitisation law. The loans in the vehicle are guaranteed with 73,605 contracts for car loans purchased in Germany.

VOBA N. 5 S.R.L.: the fifth securitisation transaction "Voba 5" involves the without recourse of performing loans

consisting of mortgage loans, disbursed to companies with SAE codes 600, 614 or 615 (privates, freelance workers or individual companies), to a newly established special purpose vehicle, called Voba N.5 S.r.l.
Wizinik master credit cards ft: vehicle company, securitisation of Spanish personal loans. The group holds senior units.

The maximum exposure to risk of loss was determined as an amount equal to the book value. During the year of reference the bank did not provide and has no intention to provide financial or any other type of support.

D. DISCLOSURE ON STRUCTURED ENTITIES NOT CONSOLIDATED IN THE ACCOUNTS (OTHER THAN SPECIAL PURPOSE VEHICLES FOR SECURITISATION)

QUALITATIVE INFORMATION / QUANTITATIVE INFORMATION

Accounting items / Type of structured entity	*Asset accounting portfolios*			*Liability accounting portfolios*				
	Item 20 Financial assets held for trading	*Item 40 Financial assets available for sale*	*Total assets (A)*	*Item 40 Financial liabilities held for trading*	*Total liabilities (B)*	*Net book value (C=A-B)*	*Maximum exposure to risk of loss (D)*	*Difference between exposure to risk of loss and carrying amount (E=D-C)*
1. Special purpose vehicles								
2. Collective investment undertakings	985,278	8,021	993,299	172,744	172,744	820,555	1,076,244	255,689
3. Other								
TOTAL	**985,278**	**8,021**	**993,299**	**172,744**	**172,744**	**820,555**	**1,076,244**	**255,689**

The aggregate includes, in correspondence to the column "Financial assets held for trading":

- € 61.7 million (€ 12.1 million at 31.12.2016) related to the interests held by the Bank in units of Open-ended Investment Funds and Exchange Traded Funds that invest in equities, bonds and derivatives. These units are purchased for the purpose of hedging the risks generated structured bonds issued on funds placed through the Parent Company's network or for the purpose of repurchase on the secondary market of structured funds of which the original structuring has been handled;
- € 923.6 million (€ 985.0 million at 31.12.2016) related to exposures in credit and financial derivatives with positive fair value with Rainbow counterparties for € 485.2 million (€ 614.9 million at 31.12.2016) and with the Axa Im Deis investment funds for € 325.0 million (€ 370.1 million at 31.12.2016). Rainbow, Anima and Axa Im Deis are Irish-law funds managed respectively by Anima Asset Management and AXA Investment Managers. These funds are divided into segments that are purchased by MPS AXA Financial Limited and represent the funds to which are linked the performance of the Unit-Linked policies placed with its customers with the name "AXA MPS Valore Performance". The Bank operates with Rainbow, Anima and Axa Im Deis as the counterparties with which the derivatives included in the Funds' assets are traded.

The column Financial assets available for sale includes:

- € 1.4 million related to the units of a closed-end real estate fund reserved for qualified investors (Fondo Cosimo I), held by the Bank. The fund's objective is to maximise the returns for its investors through both a growing dividend yield and enhancing the value of the assets in the portfolio.
- € 1.6 million related to units of a closed-end multi-segment Italian alternative mutual investment fund (Idea CCR I). First Italian DIP (Debtor-in-possession) Financing fund, it pursues the purpose of contributing to relaunching medium-sized Italian businesses in financial difficulty, but with solid fundamentals.
- € 2.4 million related to units of a private contribution closed-end real estate investment fund (Athens RE Fund B) reserved for qualified investors. The fund, managed by Unipol Sai Investimenti SGR, holds prestigious tourist complexes located in Tuscany and Sicily.
- € 2.6 million related to the units of a closed-end alternative real estate investment fund reserved for professional investors (Fondo Rainbow), held by the Bank. The fund's objective is to maximise the returns for its investors by en-

hancing the value of investments made. The fund, managed by Serenissima SGR, holds some hotel complexes located in Apulia.

The column Financial liabilities held for trading includes:
- € 172.7 million (€ 171.5 million at 31.12.2016) related to the negative fair value of credit and financial derivatives with Rainbow counterparties for € 107.6 million (€ 135.9 million at 31.12.2016), with Anima for € 34.1 million (not present in 2016) and with the Axa Im Deis investment funds managed by AXA Investment Managers for € 31.0 million (€ 35.6 million at 31.12.2016).

The entities in question finance themselves by issuing units.
The maximum exposure to risk of loss was indicated as an amount equal to the book value for exposures in units in collective investment undertakings other than financial and credit derivatives, for which the reference is to the positive fair value plus the add-on (calculated taking into account also the positions with negative fair value).
During the year of reference the Bank did not provide and has no intention of providing financial or any other type of support to the unconsolidated structured entities indicated above.
There are no sponsored unconsolidated structured entities for which the Bank, at the reporting date, holds interests.

E. SALE TRANSACTIONS

Financial assets sold but not fully derecognised

QUALITATIVE INFORMATION

The assets indicated in the following tables are debt and credit securities and have been sold in the context of repurchase agreements and securities lending with repurchase obligations at maturity.
Repurchase agreements, as for similar securities lending operations described in paragraph 7 of the Notes to the Financial Statements - part B - Other transactions, are carried out, largely, to cover similar operations in the other direction in the context of the dynamic and complex management of Global Markets business.
Considering SFTs (Securities Financing Transactions) as a whole, there emerges a net total funding position, related to the financing of long positions in securities.
The underlying assets of repurchase agreements are mainly Italian government securities, mostly BTPs. The bank-owned securities used for repurchase agreements are posted among assets in the balance sheet, under item 20, and the related benefits and risks remain, in any case, those of the Bank. Securities transferred are shown as “committed” but this status does not exclude the possibility of selling them, by covering the momentary lack of the availability of the security through securities lending or reverse repurchase agreements.

QUANTITATIVE INFORMATION

E.1 Financial assets sold but not derecognised: carrying amount and full value

The financial assets sold but not derecognised are shown below at full and at carrying amount.

Portfolio / Technical forms	*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 31/12/2017*	*Total 31/12/2016*
A. Cash assets	**4,841,727**					**46,531**	**4,888,258**	**5,206,293**
1. Debt securities	4,841,169						**4,841,169**	**5,183,586**
2. Equity securities	558						**558**	**22,707**
3. Collective investment undertakings								
4. Loans						46,531	**46,531**	
B. Derivative instruments								
Total 31/12/2017	**4,841,727**					**46,531**	**4,888,258**	
of which impaired						46,531	**46,531**	
Total 31/12/2016	**5,206,293**							**5,206,293**
of which impaired								

E.1.a Type of sale transaction relating to financial assets not derecognised

Type of transaction / Balances	*31/12/2017*	*31/12/2016*
Repurchase agreements	4,841,727	5,191,249
Securitisations	46,531	
Pool securities lending		
Disposals		
Other		15,044
Total	**4,888,258**	**5,206,293**

E.2 Financial liabilities with respect to financial assets sold but not derecognised: carrying amount

Financial liabilities with respect to financial assets sold but not derecognised as per point E.1 above, recorded in the liability items 10 "Due to Banks" and 20 "Due to Customers", can be broken down as follows:

Portfolio assets / liabilities	*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. Due to customers	**2,505,918**						**2,505,918**
a) against assets recognised in full	2,505,918						**2,505,918**
b) against assets recognised partially							
2. Due to banks	**2,300,632**						**2,300,632**
a) against assets recognised in full	2,300,632						**2,300,632**
b) against assets recognised partially							
Total 31/12/2017	**4,806,550**						**4,806,550**
Total 31/12/2016	**5,166,439**						**5,166,439**

Repurchase agreements carried out using own securities "transferred and not derecognised" were stipulated for 46.28% with the Parent Company BMPS and for 52.15% with Cassa Compensazione e Garanzia.

E.3 Sale transactions with liabilities with recourse only on assets sold: fair value

Portfolio assets / liabilities	Financial assets held for trading	Financial assets designated at fair value	Financial assets available for sale	Financial assets held to maturity	Loans to banks (fair value)	Loans to customers (fair value)	Total
A. Cash assets							
1. Debt securities							
2. Equity securities							
3. Collective investment undertakings							
4. Loans						**46,531**	**46,531**
a) assets sold and recognised in full						46,531	**46,531**
b) assets sold and partially recorded							
B. Derivative instruments							
Total assets						**46,531**	**46,531**
C. Associated liabilities							
1. Due to customers						**2,508**	**2,508**
a) against assets recognised in full						2,508	**2,508**
b) against assets recognised partially							
2. Due to banks							
a) against assets recognised in full							
b) against assets recognised partially							
Total liabilities						**2,508**	**2,508**
Net value 31/12/2017							
a) financial assets sold							
- fully recognised						**44,023**	**44,023**
b) financial assets sold - partially recognised							
Net value 31/12/2016							

B. Financial assets sold and fully derecognised with recognition of continuing involvement

Qualitative information

There is nothing to report.

Quantitative information

There is nothing to report.

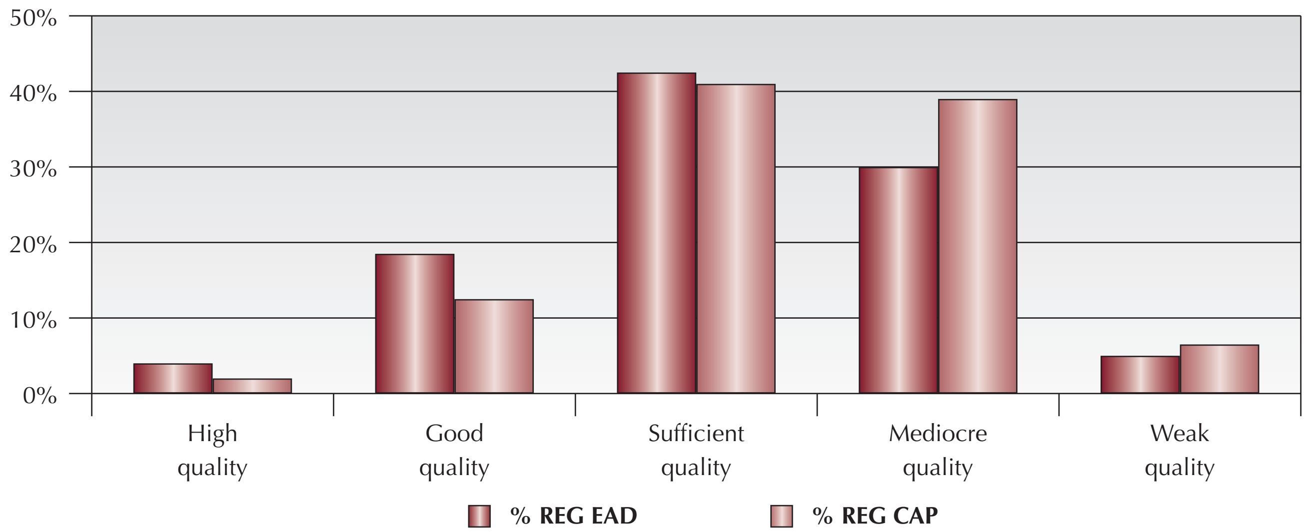
E.4 Covered bond transactions

The Bank issued no covered bank bonds.

F. CREDIT RISK MEASUREMENT MODELS

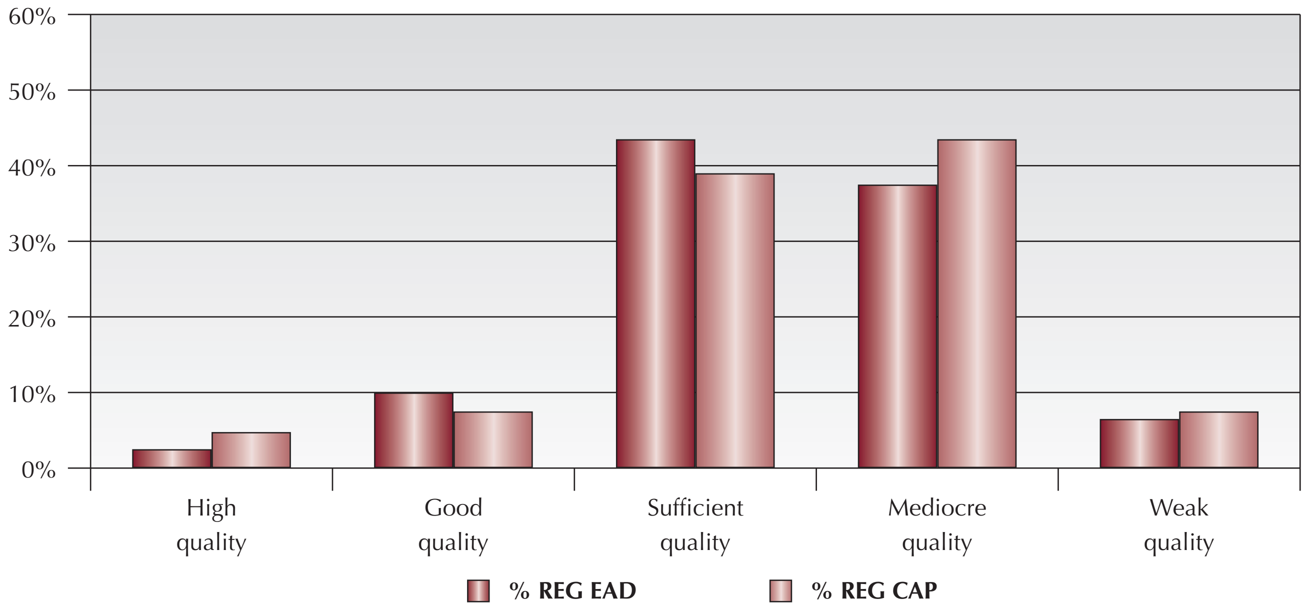
For the purposes of the quantitative disclosure on credit risk, the distribution of the credit quality of the Bank's portfolio at 31/12/2017 for risk exposure (EAD REG) and Regulatory Capital (CAP REG) is presented below. The graphic representation below shows that approximately 22% of the exposures at risk are granted to high and good quality customers (positions in financial assets are excluded). The grading indicated below also includes the exposures to unsupervised banks, government bodies and financial and banking entities, not included in the AIRB models. For these counterparties, a credit standing assessment is any case attributed, using official ratings when available, or appropriate internally computed values.

QUALITY DISTRIBUTION OF PERFORMING LOAN PORTFOLIO
BANCA MPS CAPITAL SERVICES - 31.12.2017



The chart below, by contrast, shows the distribution of credit quality only in relation to the Corporate and Retail portfolios for which the MPS Group has received from the Supervisory Authority the authorisation for use of the advanced internal models relating to the PD and LGD parameters. Note that the incidence of exposures with high and good quality as of 31/12/2017 is 13% of total exposures.

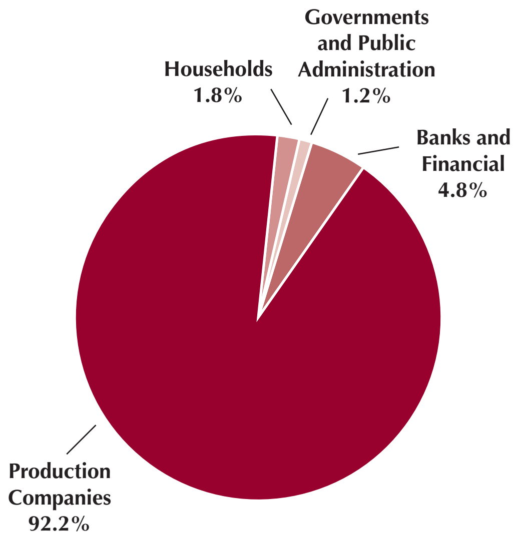
QUALITY DISTRIBUTION OF PERFORMING LOAN PORTFOLIO
CORPORATE AND RETAIL SEGMENTS
BANCA MPS CAPITAL SERVICES - 31.12.2017



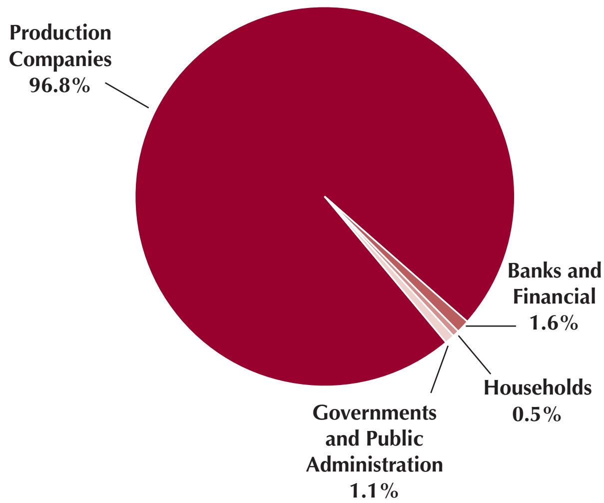
The findings obtained at the end of 2017, indicate that the exposures at risk are mainly related to the sectors "Production Companies" (92.2% of total disbursements) and "Banks and Financial Firms" (4.8%). The remaining portion is divided between the "Family" and "Governments and Public Administration" sectors, with 1.8% and 1.2%, respectively.

In terms of Regulatory Capital, this is absorbed for 96.8% by the segment of customers of "Production Companies". These are followed by "Banks and Financial Firms" with 1.6%, "Governments and Public Administration" with 1.1%, and "Families" with 0.5%:

RISK EXPOSURE
BANCA MPS CAPITAL SERVICES - 31.12.2017

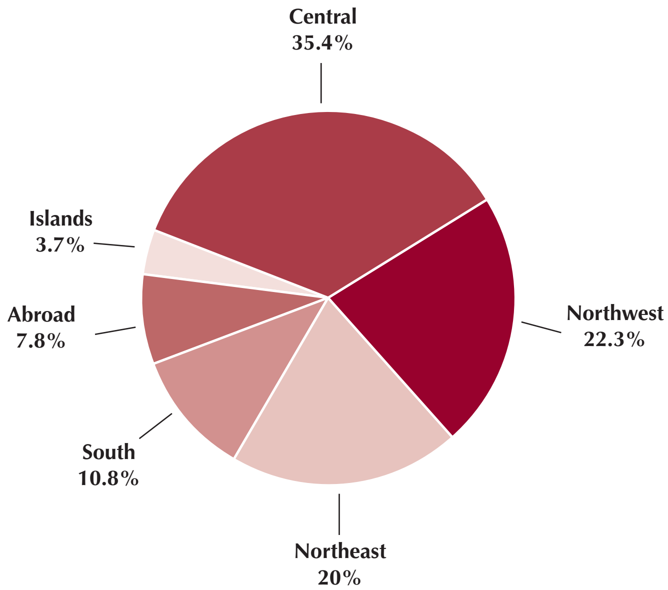


REGULATORY CAPITAL
BANCA MPS CAPITAL SERVICES - 31.12.2017

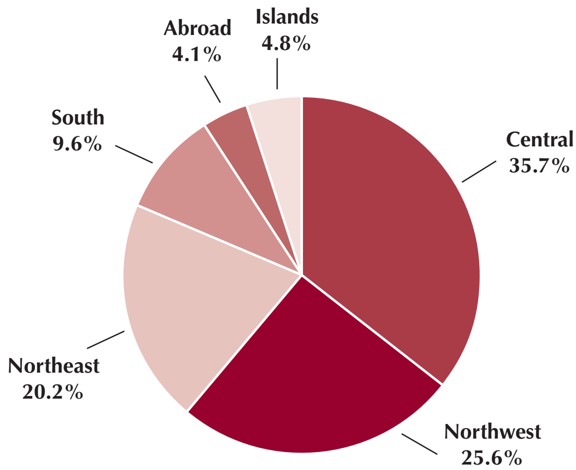


Analysis of the geographical distribution of the Bank's customers shows that risk exposures are mainly concentrated in the Central regions (35.4%), followed by the North West and North East (with 22.3% and 20%, respectively), the South (10.8%), Foreign Countries (7.8%), and the Islands (3.7%).
The absorption of Regulatory Capital also finds more explanation in the composition of lending more concentrated in the Centre (35.7%), the Northwest (25.6%), the Northeast (20.2%), the South (9.6%), the Islands (4.8%) and Foreign Countries (4.1%).

RISK EXPOSURE
BANCA MPS CAPITAL SERVICES - 31.12.2017



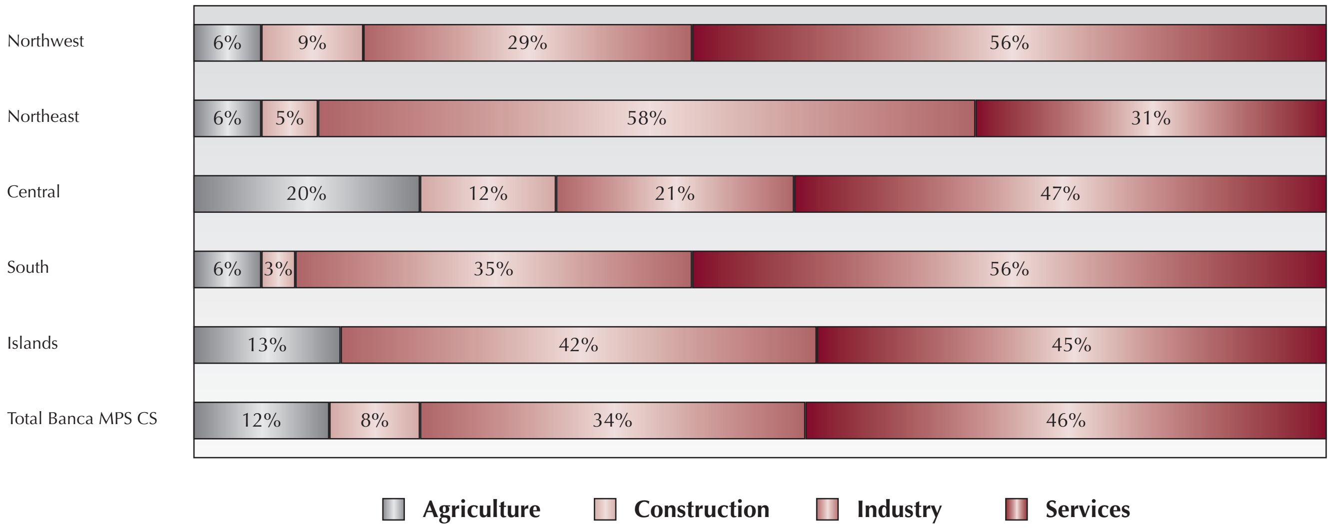
REGULATORY CAPITAL
BANCA MPS CAPITAL SERVICES - 31.12.2017



The charts below, finally, show only for Corporate customers in Italy, the percentage distribution by individual Geographical Area of the exposure to Default and of the absorption of Regulatory Capital by sector of economic activity.

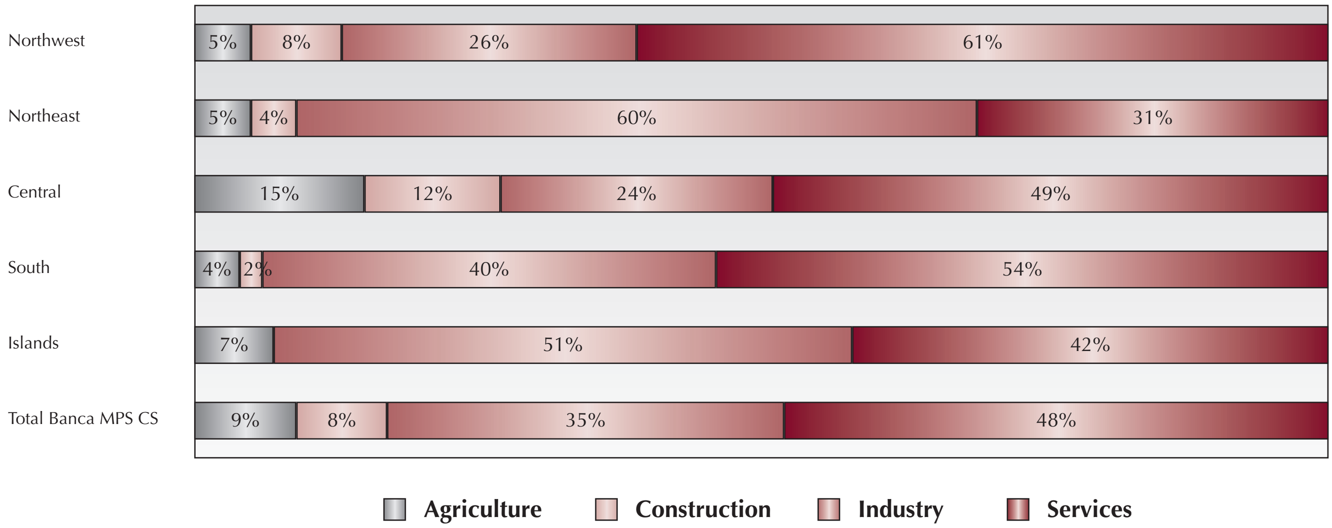
The largest proportion of Exposure to default of Companies in all Geographical Areas is concentrated in the Services sector, except in the North East where Industry predominates with 58%. Out of the total, the concentration on Services is 46% and is followed by that of Industry (34%), Agriculture (12%) and finally Construction with 8%.

BANCA MPS CAPITAL SERVICES
PERFORMING ITALIAN CORPORATE CUSTOMERS AT 31.12.2017
Distribution of Exposure at Default (EAD REG) by geographical area and business



Also as regards Regulatory Capital (CAP), the largest concentration in total is related to the Services sector. Only in the Northeast and the Islands did the Industry sector dominate (60% and 51%, respectively).

BANCA MPS CAPITAL SERVICES
PERFORMING ITALIAN CORPORATE CUSTOMERS AT 31.12.2017
Distribution of Regulatory Capital by geographical area and business



SECTION 2 - MARKET RISKS

2.1 Interest rate risk and price risk - supervisory trading book

The risk management model for market risks related to the Trading Book

The MPS Group's Supervisory Trading Book (STB) - or Trading Book - is made up of the set of Supervisory Trading Books managed by the Parent Company and by the Bank. The STBs of the other subsidiaries are closed to market risks. Transactions in derivatives, carried out on behalf of retail customers, are centralised and the risk is monitored by the Bank.

The market risks of the trading book are monitored for operating purposes in terms of Value-at-Risk (VaR). The Group Finance and Liquidity Committee is tasked with directing and coordinating the overall process for management of the Group's proprietary finance, ensuring consistency between the management actions of the different business units.

The Group's Trading Portfolio is subject to daily monitoring and reporting by the Parent Company's Financial Risk Officer in the Risk Area, on the basis of proprietary systems. The operational VaR is calculated independently with respect to the operating departments, using the internal risk measurement model implemented by the Risk Management Department, in line with the leading international best practices. Solely for reporting purposes, on the subject of Market Risks the Group employs in any case the standardised methodology.

The operating limits on trading activities are expressed for each level of authority in terms of VaR diversified between risk factors and portfolios and monthly and annual Stop Loss and Stress. In addition, the credit risk of the trading book, besides being included in the VaR calculations and in the respective limits for the credit spread risk part, is also subject to specific operating limits with regard to bond issuer and concentration risk, which envisage notional ceilings for types of guarantor and rating classes.

The VaR is calculated with a confidence interval of 99% and a holding period of the positions of one business day. The method used is that of historic simulation with daily full revaluation of all the elementary positions, on a window of 500 historic readings of the risk factors (lookback period) with daily flow. The VaR calculated in this manner makes it possible to take into account all the effects of diversification between risk factors, portfolios and type of instruments traded. It is not necessary to hypothesise up front any functional form in the distributions of the returns of the activities and also the correlations between different financial instruments are implicitly captured in the VaR on the basis of the historic joint performance of the risk factors. The historical scenarios used in the model are constructed as the daily change, in terms of ratio, of the single risk factors; the shock created is applied to the current market level making the VaR measurement reactive to the changing market conditions.

Periodically, the daily management reporting flow on market risks is forwarded to the Risk Management Committee, to the Managing Director, to the Chairperson and to the Board of Directors of the Parent Company in the Risk Management Report, the instrument through which the Top Management and the Governing Bodies are informed about the Group's overall risk profile.

The macro-types of risk factors considered within the Internal Markets Risks Model are IR, EQ, CO, FX, CS, as illustrated below:

- IR: interest rates on all the relevant curves, inflation curves and related volatility;
- EQ: equity prices, indexes and related volatility;
- CO: commodity prices, indexes on commodities;
- FX: exchange rates and related volatility;
- CS: credit spread levels.

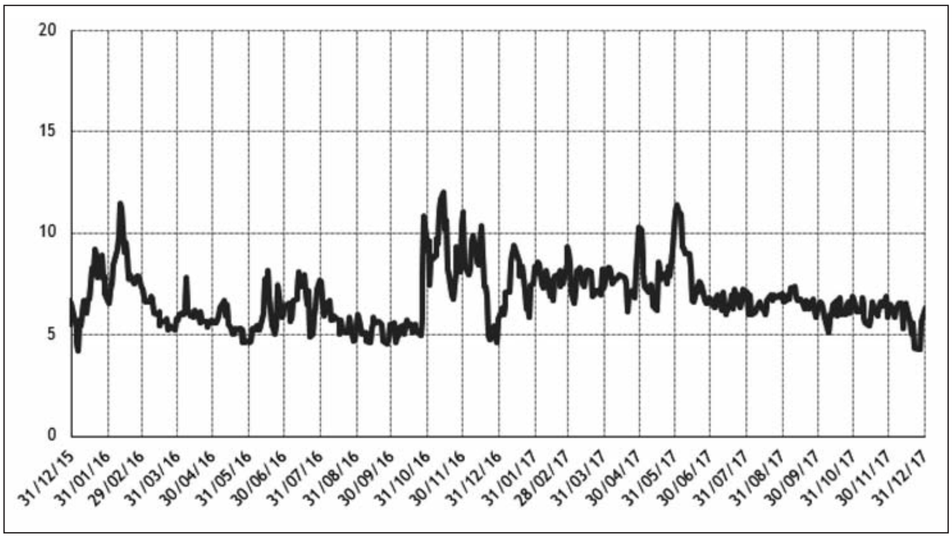
The VaR (or diversified VaR, or Net VaR) is calculated and separated daily for internal management purposes, also with respect to other analysis dimensions:

- organisation/operations of the Portfolios,
- for Financial Instruments,
- for Risk Families.

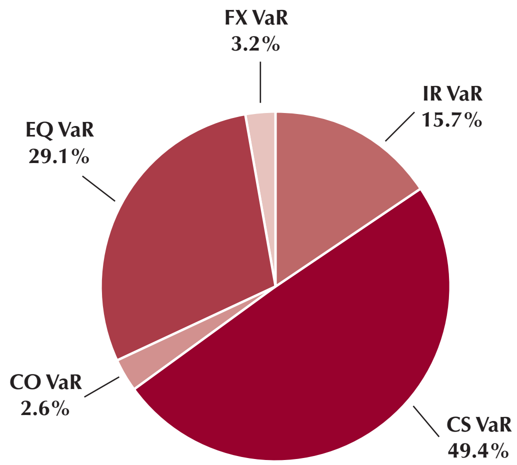
It is then possible to assess the VaR in relation to each combination of these dimensions so as to be able to facilitate very detailed analyses of the phenomena which affect the portfolios.
With reference in particular to the risk factors, the following are identified: the Interest Rate VaR (IR VaR), the Equity VaR (EQ VaR), the Commodity VaR (CO VaR), the Forex VaR (FX VaR) and the Credit Spread VaR (CS VaR). The algebraic sum of these components produces the “Gross VaR” (or non-diversified VaR) which compared with the diversified VaR makes it possible to quantify the benefit of diversification between risk factors deriving from holding portfolios allocated on asset classes and risk factors that are not perfectly correlated. This information too can be analysed along all the aforesaid dimensions.
The model makes it possible to produce diversified VaR metrics for the entire Group, in order to be able to appreciate in an integrated manner all the diversification effects that can be generated among the banks of the Group, by virtue of the joint specific positioning implemented by the different business units.
Additionally, scenario analyses and stress tests are regularly conducted on the various risk factors with differentiated granularity levels for the entire structure of the Group portfolio tree and for all analysed categories of instruments.
Stress tests make it possible to assess the ability of the Bank to absorb sizeable potential losses upon the occurrence of extreme market events, in order to identify the measures to take to reduce the risk profile and preserve the capital.
Stress tests are developed on the basis of historical and discretionary scenarios. Historical scenarios are defined on the basis of actual disruptions historically recorded on the markets. These scenarios are identified on the basis of a time interval in which the risk factors were subjected to stress. No particular hypotheses are necessary with respect to the correlation between risk factors, observing what happened historically in the identified stress period.
Stress tests based on discretionary scenarios consist of hypothesising the occurrence of extreme variations in some market parameters (interest and exchange rates, stock market indexes, credit spreads and volatility) and of measuring the corresponding impact on the value of the portfolios, irrespective of their actual historical occurrence. The discretionary stress scenarios currently examined are simple (only one risk factor changes) and joint (several risk factors change simultaneously). Simple discretionary scenarios are calibrated to hit independently one category of risk factors at a time, hypothesising that the shocks will not propagate to the other factors. Joint discretionary scenarios instead are aimed at evaluating the impact of global shocks that simultaneously hit all types of risk factors.

During 2017, market risks for the Bank’s supervisory trading book demonstrated, in terms of VaR, a trend influenced by trading activities (proprietary trading and activities to structure and hedge policies and other structured products), mainly in the credit spread and interest rate segments (operations with Italian government securities and derivatives, mainly long futures and interest rate future options) and to a less significant degree, in equity purchases (options and equity futures on the main stock indexes). Volatility in VaR measurements at the end of the year were associated with proprietary trading for Italian government security auctions and long futures operations.

MPS CAPITAL SERVICES: SUPERVISORY TRADING BOOK
VAR 99% 1 DAY IN EUR/MLN



VAR MPS CAPITAL SERVICES
Supervisory trading book
VaR Breakdown per Risk Factor: 31/12/2017



In terms of VaR composition by risk factors, as of 31.12.2017 the MPSCS portfolio is mainly absorbed by the Credit Spread risk factor (CS VaR, 49.4%). This is followed by the stock risk factor (EQ VaR, 29.1%), the interest rate risk factor (IR VaR, 15.7%), the exchange rate risk factor (FX VaR, 3.2%) and the commodity risk factor (CO VaR, 2.6%).

MPS CAPITAL SERVICES
VaR PNV 99% 1 day in EUR/mln

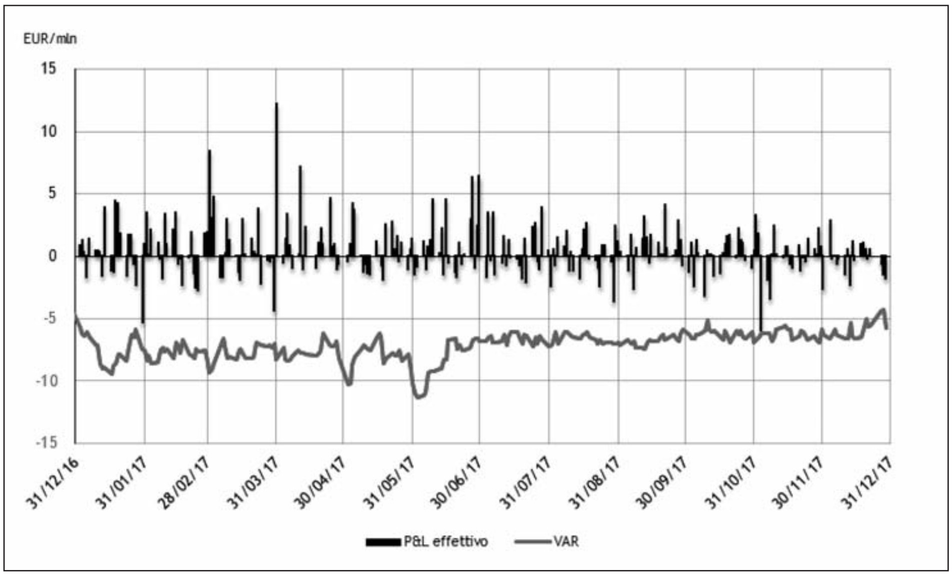
	VaR	Date
Period End	6.37	31/12/2017
Minimum	4.31	27/12/2017
Maximum	11.36	01/06/2017
Average	7.10	

During the course of 2017, the Bank's RTB VaR oscillated between a minimum of € 4.31 million at 27.12.2017 and a maximum of € 11.36 million at 1.6.2017, recording an average value of € 7.10 million. The RTB VaR at 31.12.2017 was € 6.37 million.

VaR Model Backtesting

The MPS Group has implemented a structure of retrospective tests in compliance with the current regulations for Market Risks within its risk management system.
Backtesting involves checks carried out on the results of the VaR model with respect to the daily change in the portfolio value, in order to evaluate the predictive ability of the model in terms of the accuracy of the risk measurements produced. If the model is robust, then the periodic comparison of the daily estimate of the VaR with the daily losses from trading activities related to the following day should show that the effective losses are higher than the VaR with a frequency in line with that defined by the confidence level.
In the light of the current regulatory provisions, the Risk Management Area has found it appropriate to carry out the test using theoretical and effective backtesting, and to integrate it within the Group's management reporting systems.
The first type of test (Theoretical Backtesting) has greater statistical significance in reference to the evaluation of the accuracy of the VaR model ("non-contaminated test").
The second type of test (Effective Backtesting), answers the need to verify the predictive reliability of the VaR model in reference to the actual operations of the Bank (daily trading losses and gains), net of the effects of interest maturing between day t-1 and t for securities and the effect of fees.
These "net" P&L results are compared with the VaR of the previous day. If the losses are greater than those predicted by the model, a so-called "exception" is recorded.
The graph below shows the results of the Effective Backtesting of the internal Market Risk Model, in relation to the Bank's Supervisory Trading Book for 2017:

MPS CAPITAL SERVICES: EFFECTIVE BACK TESTING OF SUPERVISORY TRADING BOOK



The retrospective test did not identify any noteworthy exceptions during the course of the year.

QUALITATIVE INFORMATION

A. GENERAL ASPECTS

A.1 Interest Rate Risk

The Bank manages a portfolio of its own which contains trading positions on rates and on credit. The trading is carried out by the Global Markets Department.
In general, interest rate positions are taken on through the purchase or sale of bonds, as well as through the construction of positions in listed derivatives (for example futures) and OTC instruments (for example IRSs, swaptions). The activity is carried out exclusively on the Bank's own behalf, with absolute return targets, in compliance with the delegated limits in terms of VaR and monthly and annual Stop Loss.
As regards the credit risk present in the trading book, in general the positions on securities are managed both by purchase or sale of bonds issued by companies, and through the construction of synthetic positions in derivative instruments. The activity aims to obtain long or short positions on single issuers, or a long or short exposure on particular types of securities. The activity is carried out exclusively on the Bank's own behalf, with absolute return targets, and in compliance with the further specific issuer and concentration risk limits resolved by the Board of Directors.

A.2 Price Risk

With reference to the price risk factor the Bank manages an owned portfolio and assumes trading positions on equities, indexes and commodities. In general, equity security positions are taken on through the purchase or sale of shares, as well as through the construction of positions in listed derivatives (for example futures) and OTC instruments (for example options). The activity is carried out exclusively on the Bank's own behalf, with absolute return targets, in compliance with the delegated limits of VaR and monthly and annual Stop Loss. The trading is carried out by the Global Markets Department.

B. Interest rate risk and price risk: management processes and measurement methods

With regard to the market risk management process pertaining to management and the methods for gauging the interest rate risk and the price risk, reference should be made to the matters already described in the section "The risk management model for market risks inherent to the trading portfolio".

QUANTITATIVE INFORMATION

1. **Supervisory trading book: breakdown by residual life (repricing date) of the on-balance-sheet financial assets and liabilities and the financial derivatives.**
   This table is not provided in that a sensitivity analysis is provided for interest rate and price risk for the supervisory trading book on the basis of internal models.
2. **Supervisory trading book: breakdown of exposures for equity securities and stock indexes for the main stock market countries.**
   This table is not provided in that a sensitivity analysis is provided for interest rate and price risk for the supervisory trading book on the basis of internal models.
3. **Supervisory trading book - internal models and other methods for sensitivity analysis**
   The interest rate and price risk of the Trading Book is monitored in terms of VaR and scenario analysis.

3.1 Interest Rate Risk

The positions are managed by appropriate desks, each with its own specific operating limits. Each desk adopts an integrated risk management approach (also for risks other than interest rate risk, when permitted) in order to benefit from the natural hedges deriving from simultaneously holding positions whose risk factors are not perfectly correlated.
The positions pertaining to the Trading Book are all classified for accounting purposes as Held For Trading, and Market Value changes are recorded directly in the Income Statement.
The simulated interest rate scenarios are:
• parallel shift of +100bp on all the interest rate curves and inflation curves,
• parallel shift of -100bp on all the interest rate curves and inflation curves,
• parallel shift of +1% of all the volatility surfaces of all the interest rate curves.

The overall effect of the scenario analyses is presented below.

MPS CAPITAL SERVICES Trading Portfolio
Figures in € millions

Risk Family	Scenario	Total Effect
Interest Rate	+ 100bp on all curves	42.58
Interest Rate	- 100bp on all curves	36.17
Interest Rate	+1% Interest Rate Volatility	0.09

The asymmetry related to the interest rate +100bp e -100bp scenarios is due to the exposure in options of the interest rate segment (mainly Swaptions).
To complete the interest rate risk analysis, the sensitivity analysis of the Bank's Trading Book credit spread risk linked to the volatility of issuers' credit spreads is reported below. The simulated scenario for the sensitivity analysis is:
• parallel shift of +1bp on all credit spreads.

MPS CAPITAL SERVICES Trading Portfolio
Figures in € millions

Risk Family	Scenario	Total Effect
Credit Spread	+ 1bp on all curves	(1017)

3.2 Price Risk

The positions are managed by appropriate desks, each with its own specific operating limits. Each desk adopts an integrated risk management approach (also for risks other than the rate risk, when allowed) in order to benefit from the natural hedges deriving from simultaneously holding positions whose risk factors are not perfectly correlated.
The simulated price scenarios are:
• +1% of each equity, commodity, index price,
• -1% of each equity, commodity, index price,
• +1% of all the volatility surfaces of all the equity and commodity risk factors.
The positions pertaining to the Trading Book are all classified for accounting purposes as Held For Trading, and Market Value changes are recorded directly in the Income Statement. The overall effect of the scenario analyses for the Equity and Commodity segments is presented below:

MPS CAPITAL SERVICES Trading Portfolio
Figures in € millions

Risk Family	Scenario	Total Effect
Equity	+ 1% Equity Prices (prices, indexes)	(0.419)
Equity	- 1% Equity Prices (prices, indexes)	0.23
Equity	+ 1% Equity Volatility	(0.76)

MPS CAPITAL SERVICES Trading Portfolio
Figures in € millions

Risk Family	Scenario	Total Effect
Commodity	+1% Commodity prices	0.06
Commodity	-1% Commodity prices	(0.06)
Commodity	+1% Commodity Volatility	0.00

2.2 Interest rate risk and price risk - banking book

QUALITATIVE INFORMATION

A. Interest rate risk and price risk: general aspects, management processes and measurement methods

A.1 Interest Rate Risk

The Banking Book consists of all exposures not contained in the Trading Portfolio and, in accordance with international best practices, identifies all the Bank's commercial transactions associated with transforming maturity dates of assets and liabilities and financial assets for the ALM (treasury and risk hedging derivatives).
Strategic interest rate decisions for the Banking Book are periodically defined in the IRRBB Strategy, approved by the parent company's Board of Directors and rendered operational through the Group's Finance and Liquidity Committee. These decisions are based on interest rate risk measurements expressed in terms of changes in both the economic value and net interest income.
The Montepaschi Group, with reference to the sensitivity of the economic value, applies a predefined set of interest rate scenarios consistent with the Basel guidelines, applying non-parallel movements to the curve, as well as parallel shifts of 25, 100 and 200 basis points. Net interest income analysis, which is the most important short term measure, exclusively involves application of parallel scenarios. The economic value sensitivity measurements are determined by excluding the development of the cash flows from the components not directly related to interest rate risk.
The Group is engaged in the continual updating of the risk measurement methods, through a gradual refinement of the estimation models, in order to include the main phenomena that over time modify the interest-rate risk profile of the banking book.
The Group adopts an interest rate risk government and management system, known as the IRRBB Framework, which makes use of:
- a quantitative model, on the basis of which the exposure of the Group and of its individual companies/structures to interest rate risk is calculated, in terms of risk indicators;
- risk monitoring processes, aimed at ensuring compliance with operating limits (risk limits and risk tolerance) assigned to the Group as a whole and to the individual legal entities, within the context of the Risk Appetite Statement;
- risk control and management processes, aimed at carrying out adequate initiatives to optimise the risk profile and to activate any necessary corrective actions in the case thresholds are passed and/or misalignment is seen with respect to the IRRBB Strategy.

Within the aforesaid system, the Parent Company centralises the following responsibilities:
- definition of the policies for managing the Group's Banking Book and controlling the related interest rate risk;
- coordination of the implementation of the aforesaid policies within the companies included in the reference perimeter;
- governing the Group's short, medium and long term interest rate risk, both overall and in terms of each individual company, through the centralised operating management.

In its governing function, therefore, the Parent Company defines criteria, policies, responsibilities, processes, limits and instruments for managing the interest rate risk.
The Group Companies included in the application perimeter are responsible for complying with the policies and the interest rate risk limits defined by the Parent Company.

Within the defined model, the Parent Company's Finance, Cash and Capital Management Department is responsible for the operating management of the exchange and liquidity risk of the Group as a whole.
Specifically, within the Finance, Cash and Capital Management Department, the Strategic Risk Governance Service handles the short-term interest rate risk and the structural interest rate risk. The Department also monitors and manages hedges in accordance with the accounting policies, single monitoring for the formation of the internal interest rates of the "network" (BMPS and other Group companies) for the Euro and currency transactions with maturities beyond the short-term.

A.2 Price Risk

Measurement of price risk on the Bank's Banking Book is carried out on equity positions held for mainly strategic or institutional/instrumental purposes other than equity investments. The relevant portfolio for these purposes consists exclusively of equity investments, AFS equities and/or UCITS. Given the limited significance of these assets, specific information is not provided about internal management and control processes for banking book price risk.
With reference to the component consisting of equity investments, the internal measurement system uses a measure derived from the regulatory approach, using the standardised method, to determine internal capital. This method entails the exposures in equity instruments being assigned a risk-weighting factor of 100% or 150% if at high risk, unless they have to be deducted from Own Funds. The mechanisms of deduction from Own Funds based on current supervisory rules (CRD4/CRR) include within the perimeter investments in non-significant financial sector subjects (<10%), and introduce excesses on the deduction.

B. Fair value hedging activities

C. Cash flow hedging activities

QUANTITATIVE INFORMATION

1. Banking book: breakdown by residual life (repricing date) of the financial assets and liabilities

This table is not provided in that a sensitivity analysis is provided for interest rate and price risk for the banking book on the basis of internal models.

2. Banking book: internal models and other methods for sensitivity analysis

2.1 Interest Rate Risk

The Bank's sensitivity, at 31 December 2017, presented a risk exposure profile due to a rise in interest rates. The economic value at risk for a +100 bp parallel shift of the rates curves at year end amounted to € -14.55 million and € +12.02 million for a shift of -100 bp.
The sensitivity of the Group's net interest income (margin sensitivity) in the event of a rise in interest rates of 25bp amounted at the end of 2017 to € +0.60 million (€ -0.50 million for -25bp).

2.2 Price Risk

At the end of 2017 there were no positions in equities held for mainly strategic or institutional/instrumental purposes.

QUANTITATIVE INFORMATION

1. Banking book: breakdown by residual life (repricing date) of the financial assets and liabilities

This table is not provided in that a sensitivity analysis is provided for interest rate and price risk for the banking book on the basis of internal models.

2. Banking book: internal models and other methods for sensitivity analysis

2.1 Interest Rate Risk

The Bank's sensitivity, at 31 December 2016, presented a risk exposure profile due to a rise in interest rates. The economic value at risk for a +100 bp parallel shift of the rates curves at year end amounted to € -59.67 million (€ 39.97 million for a shift of -100bp).
The sensitivity of the Group's interest margin (Margin Sensitivity) in the event of a rise in interest rates of 25bp amounted at the end of 2016 to € -0.08 million (€ 0.92 million for -25bp).

2.2 Price Risk

The equity investment portfolio of the Bank comprises about 16 equity investments in companies outside the Group, that is in companies not consolidated at the Group level either line-by-line or proportionally, and about 88% of its value is concentrated on 5 investments.
The VaR of the equity investment portfolio (99%, holding period of 1 quarter) amounted at year end to around 19% of the Fair Value of the portfolio, with a concentration of the risk on the 5 most significant equity investments.
A scenario analysis is provided below; it contemplates all the equity investments.

2.3 EXCHANGE RATE RISK

QUALITATIVE INFORMATION

A. Exchange rate risk: general aspects, management processes and measurement methods.

B. Exchange rate risk hedging activities.

A.1 Supervisory trading book

Exposure to exchange rate risk is substantially of a limited amount and derives mainly from the role played by the Bank in the activity of:

- trading of structured products and of the related hedges put in place, which owing to the their characteristics entail exposure in non-euro currencies;
- market maker for derivatives carried out for the purpose of hedging the MPS Group’s corporate customers.

Operations are in fact concentrated mainly on the crosses of the main G7 currencies. The activity is essentially based on trading and on the aggregate management of risks with a short-term view and with a substantial balance of the risks originated from commercial transactions. As a risk mitigation strategy, the Bank in fact carries out funding in the same currency as the assets, through disbursements from the Parent Company (when necessary) or through the synthetic transformation of funding into Euro. The main financial instruments used in this segment are spot forwards, options, futures. The risks are measured and monitored, as in the other segments, via sensitivities and VaR; consequently reference should be made to the description provided above. Management of this risk takes place by aggregating all the risk factors indicated above using the Risk Management system of the Murex application. The activity is carried out mainly by the Global Markets Department, through its own desks that manage their own exposure individually within the delegated limits and in any case in view of currency risk minimisation.

A.2 Banking book

With regard to this type of portfolio, the exchange risk is represented by losses which the Bank could incur due to sudden fluctuations in the exchange rates should foreign currency loans and deposits not be perfectly balanced. Typically, foreign currency investments are financed by deposits expressed in the same currency without incurring any exchange rate risk. In fact, at the date of the closure of this financial statement the Bank had an essentially balanced foreign exchange position for the banking book.

QUANTITATIVE INFORMATION

1. Distribution by currency of assets, liabilities and derivatives

Items / Currency	*Dollar USA*	*Yuan Renminbi*	*English Pound*	*Yen*	*Swiss Franc*	*Other currencies*
A. Financial assets	**435,433**	**10,297**	**336**	**7,526**	**40,359**	**32,283**
A.1 Debt securities	139,239	-	290	-	1,027	311
A.2 Equity securities	1,720	-	-	56	143	-
A.3 Loans to banks	25,554	10,297	46	4	36,868	25,097
A.4 Loans to customers	268,920	-	-	7,466	2,321	6,875
A.5 Other financial assets						
B. Other Assets	**35**	**-**	**-**	**233**	**-**	**3**
C. Financial liabilities	**(426,092)**	**0**	**(55,213)**	**(17,206)**	**-10813**	**(37,148)**
C.1 Due to banks	(413,911)	-	(55,213)	(16,385)	(10,813)	(37,148)
C.2 Due to customers	(12,181)	-	-	(821)	-	-
C.3 Debt securities						
C.4 Other financial liabilities						
D. Other liabilities	**-**	**-**	**-**	**(59)**	**(158)**	**(1,779)**
E. Financial derivatives						
- Options						
+ long positions	109,483	326	4,875	1,336	2,450	29,847
+ short positions	289,741	43,683	-	1,383	59	26,189
- Other derivatives						
+ long positions	1,650,471	29,734	50,491	-	2,357	11,856
+ short positions	1,619,607	980	8,175	7,291	-	8,406
Total assets	**435,468**	**10,297**	**336**	**7,759**	**40,359**	**32,286**
Total liabilities	**(426,092)**	**0**	**(55,213)**	**(17,265)**		**(38,927)**
Differences (+/-)	**9,376**	**10,297**	**(54,877)**	**(9,506)**	**40,359**	**(6,641)**

2. Internal models and other sensitivity analysis methods

The exchange risk is monitored in terms of VaR and analysis scenarios (for the methodology, please refer to the paragraph “The risk management model for market risks related to the trading book”).

The simulated scenarios on exchange rates are:
• +1% of all exchange rates against EUR,
• -1% of all exchange rates against EUR,
• +1% of all volatility surfaces of all exchange rates.

The effect on operating income and on profit for the year was estimated considering only positions classified in the accounts as Held For Trading, for which changes in Market Value are recognised directly in the Income Statement. The effect on shareholders’ equity is estimated instead with reference to positions classified in the accounts as AFS and to the related hedging under a Fair Value Hedging (FVH) scheme, if present. The total effect is reflected by the algebraic sum of the two components. A summary of the scenario analysis follows.

MPS CAPITAL SERVICES
Figures in € millions

Risk Family	Scenario	Effect on operating income and economic result	Effect on Shareholders’ Equity	Total Effect
Forex	+1% commodity prices	0.19	0.00	0.19
Forex	-1% commodity prices	(0.07)	0.00	(0.07)
Forex	+1% commodity volatility	0.35	0.00	0.35

2.4 DERIVATIVE FINANCIAL INSTRUMENTS

A. FINANCIAL DERIVATIVES

A.1 Supervisory trading book: period-end notional values

Underlying assets / Type of derivatives	*31/12/2017*		*31/12/2016*	
	Over the counter	*Central counterparties*	*Over the counter*	*Central counterparties*
1. Debt securities and interest rates	**254,104,384**	**0**	**539,836,360**	**0**
a) options	40,480,527		377,368,376	
b) swaps	212,248,143		161,504,675	
c) forwards	55,554		5,197	
d) futures	1,320,160		958,112	
e) other				
2. Equity securities and stock market indices	**13,028,549**	**350,155**	**16,171,123**	**182,243**
a) options	12,351,115	285,250	15,514,878	140,900
b) swaps	244,368		199,841	
c) forwards				
d) futures	433,066	64,905	456,404	41,343
e) other				
3. Currencies and gold	**4,477,319**		**5,087,504**	
a) options	1,236,471		1,643,032	
b) swaps	1,584,514		2,050,925	
c) forwards	1,656,334		1,393,547	
d) futures				
e) other				
4. Goods	**682,238**		**566,222**	
5. Other underlying assets				
Total	**272,292,490**	**350,155**	**561,661,209**	**182,243**

Note:
for completeness, we note that complex contracts such as collar, strangle, straddle, etc. are represented, breaking the instruments down into the elementary options.

A.2 Banking book: period-end notional values

A.2.1 For hedging

No agreements were extant on 31 December 2017 and 31 December 2016.

A.2.2 Other derivatives

No agreements were extant on 31 December 2017 and 31 December 2016.

A.3 Financial derivatives: positive gross fair value - breakdown by product

Underlying assets / Type of derivatives	*31/12/2017*		*31/12/2016*	
	Over the counter	*Central counterparties*	*Over the counter*	*Central counterparties*
1. Supervisory trading book	**4,675,732**	**6,806**	**5,601,217**	**2,919**
a) options	424,289	6,806	500,065	2,919
b) interest rate swaps	4,174,633		4,932,929	
c) cross currency swaps	18,200		100,501	
d) equity swaps	11,819		8,946	
e) forwards	30,197		43,036	
f) futures	1,671		893	
g) other	14,923		14,847	
2. Banking book - hedging				
a) options				
b) interest rate swaps				
c) cross currency swaps				
d) equity swaps				
e) forwards				
f) futures				
g) other				
3. Banking book - other derivatives				
a) options				
b) swaps				
c) forwards				
d) futures				
e) other				
Total	**4,675,732**	**6,806**	**5,601,217**	**2,919**

A.4 Financial derivatives: negative gross fair value - breakdown by product

Underlying assets / Type of derivatives	*31/12/2017*		*31/12/2016*	
	Over the counter	*Central counterparties*	*Over the counter*	*Central counterparties*
1. Supervisory trading book	**2,975,500**	**2,251**	**3,828,048**	**2,096**
a) options	540,466	2,251	678,653	2,096
b) interest rate swaps	2,349,926		2,980,527	
c) cross currency swaps	38,962		103,256	
d) equity swaps	4,523		4,274	
e) forwards	21,386		41,309	
f) futures	3,533		2,933	
g) other	16,704		17,096	
2. Banking book - hedging	**0**		**0**	
a) options				
b) interest rate swaps				
c) cross currency swaps				
d) equity swaps				
e) forwards				
f) futures				
g) other				
3. Banking book - other derivatives				
a) options				
b) swaps				
c) forwards				
d) futures				
e) other				
Total	**2,975,500**	**2,251**	**3,828,048**	**2,096**

A.5 OTC financial derivatives - supervisory trading book: notional values, positive and negative gross fair values by counterparty - contracts not included in netting agreements

Contracts not included in netting agreements	*Governments and Central Banks*	*Other public entities*	*Banks*	*Finance companies*	*Insurance companies*	*Non-financial companies*	*Others operators*
1. Debt securities and interest rates							
- notional value			1,286,435	407,945		1,877,142	
- positive fair value			232	4,083		93,512	
- negative fair value				863		3,284	
- future exposure			5,314	903		13,027	
2. Equity securities and share indices							
- notional value	2		36,647	5,257			
- positive fair value	24		34,700	5,657			
- negative fair value							
- future exposure			2,202	421			
3. Currencies and gold							
- notional value						20,896	
- positive fair value						258	
- negative fair value						71	
- future exposure						104	
4. Other values							
- notional value						461	
- positive fair value						1	
- negative fair value							
- future exposure						46	

A.6 OTC financial derivatives - supervisory trading book: notional values, positive and negative gross fair values by counterparty - contracts part of netting agreements

Agreements included in netting agreements	*Governments and Central Banks*	*Other public entities*	*Banks*	*Finance companies*	*Insurance companies*	*Non-financial companies*	*Others operators*
1. Debt securities and interest rates							
- notional value			130,221,927	120,018,899	56,793	235,244	
- positive fair value			1,839,605	2,329,826	9,800	665	
- negative fair value			1,320,691	1,116,634		567	
2. Equity securities and share indices							
- notional value			2,560,839	10,224,998	200,806		
- positive fair value			87,078	187,356			
- negative fair value			114,954	241,945	81,797		
3. Currencies and gold							
- notional value			4,187,615	268,809			
- positive fair value			64,162	734			
- negative fair value			70,679	3,200			
4. Other values							
- notional value			249,852	423,893		8,032	
- positive fair value			11,653	3,178		3,206	
- negative fair value			14,904	5,845		68	

A.7 OTC financial derivatives - banking book: notional values, positive and negative gross fair values by counterparty - contracts not part of netting agreements

At 31 December 2017 there were no contracts of the kind not part of netting agreements.

A.8 OTC financial derivatives - banking book: notional values, positive and negative gross fair values by counterparty - contracts part of netting agreements

At 31 December 2017 there were no contracts of the kind part of netting agreements.

A.9 Residual life of OTC financial derivatives: notional values

Underlying elements / Residual life	*Up to 1 year*	*Over 1 year and up to 5 years*	*Due after 5 years*	*Total*
A. Supervisory trading book	**55,461,817**	**168,079,465**	**48,751,209**	**272,292,491**
A1 Financial derivatives on debt securities and interest rates	46,007,834	160,018,058	48,078,493	**254,104,385**
A2 Financial derivatives on equity securities and stock indexes	6,097,561	6,258,272	672,716	**13,028,549**
A3 Financial derivatives on exchange rates and gold	2,724,587	1,752,732		**4,477,319**
A4 Financial derivatives on other valuables	631,835	50,403		**682,238**
B. Banking book	**0**	**0**	**0**	**0**
B1 Financial derivatives on debt securities and interest rates				
B2 Financial derivatives on equity securities and stock indexes				
B3 Financial derivatives on exchange rates and gold				
B4 Financial derivatives on other valuables				
Total 31/12/2017	**55,461,817**	**168,079,465**	**48,751,209**	**272,292,491**
Total 31/12/2016	**269,061,346**	**237,497,520**	**55,102,343**	**561,661,209**

In this table the remaining life is determined with reference to the contractual maturity of the derivatives in question, except for the interest rate swaps (IRSs) with variable notional capital, for which the remaining life has been calculated with reference to the single IRS into which they can be broken down.

A.10 OTC financial derivatives: counterparty risk/financial risk - Internal models

The Bank, like the MPS Group, does not currently use EPE models, either for internal management purposes or for reporting purposes.

B. CREDIT DERIVATIVES

B.1 Credit derivatives: period-end notional values

Transaction categories	Regulatory trading book		Banking book	
	on one item	on several items (basket)	on one item	on several items (basket)
1. Protection purchases				
a) credit default products	563,793	58,814		
b) credit spread products				
c) total rate of return swaps				
d) others				
Total 31/12/2017	**563,793**	**58,814**		
Total 31/12/2016	**965,518**	**38,360**		
2. Protection sales				
a) credit default products	2,321,487	3,814		
b) credit spread products				
c) total rate of return swaps				
d) others				
Total 31/12/2017	**2,321,487**	**3,814**		
Total 31/12/2016	**3,031,243**	**13,360**		

B.2 OTC credit derivatives: positive gross fair value - breakdown by product

Portfolio / Type of derivative	31/12/2017	31/12/2016
A. Supervisory trading book	**11,415**	**39,888**
a) credit default products	11,415	39,888
b) credit spread products		
c) total rate of return swaps		
d) others		
B. Banking book		
a) credit default products		
b) credit spread products		
c) total rate of return swaps		
d) others		
Total	**11,415**	**39,888**

B.3 OTC credit derivatives: negative gross fair value - breakdown by product

Portfolio / Type of derivative	*31/12/2017*	*31/12/2016*
A. Supervisory trading book	**34,211**	**48,413**
a) credit default products	*34,211*	*48,413*
b) credit spread products		
c) total rate of return swaps		
d) others		
B. Banking book		
a) credit default products		
b) credit spread products		
c) total rate of return swaps		
d) others		
Total	**34,211**	**48,413**

B.4 OTC credit derivatives: fair values (positive and negative) by counterparty - contracts not part of netting agreements

All OTC derivative contracts are included in netting agreements.

B.5 OTC credit derivatives: fair values (positive and negative) by counterparty - contracts not included in netting agreements

Agreements included in netting agreements	*Governments and Central Banks*	*Other public entities*	*Banks*	*Financial companies*	*Insurance companies*	*Non-financial companies*	*Others operators*
Regulatory trading							
1. Protection purchase							
- notional value			409,536	213,071			
- positive fair value			4,588	29			
- negative fair value			5,124	6,077			
- future exposure							
2. Protection sale							
- notional value			288,276	1,985,248	51,778		
- positive fair value			4,615	2,182			
- negative fair value			29	22,364	616		
- future exposure							
Banking book							
1. Protection purchase							
- notional value							
- positive fair value							
- negative fair value							
2. Protection sale							
- notional value							
- positive fair value							
- negative fair value							

B.6 Residual life of credit derivatives: notional values

Underlying elements / Residual life	*Up to 1 year*	*Over 1 year and up to 5 years*	*Due after 5 years*	*Total*
A. Supervisory trading book	**135,801**	**1,274,069**	**1,538,040**	**2,947,910**
A.1 Credit derivatives with				
"qualified" reference obligation	64,710	1,199,069	1,502,009	2,765,788
A.2 Credit derivatives with				
"unqualified" reference obligation	71,091	75,000	36,031	182,122
B. Banking book				
B.1 Credit derivatives with				
"qualified" reference obligation				
B.2 Credit derivatives with				
"unqualified" reference obligation				
Total 31/12/2017	**135,801**	**1,274,069**	**1,538,040**	**2,947,910**
Total 31/12/2016	**937,368**	**1,775,740**	**1,335,374**	**4,048,482**

In this table, residual life is determined referring to the contractual maturity of the derivatives.

B.7 Credit derivatives: counterparty and financial risk - Internal models

The Bank, like the MPS Group, does not currently use EPE models, either for internal management purposes or for reporting purposes.

C. FINANCIAL AND CREDIT DERIVATIVES

C.1 OTC financial and credit derivatives: net fair value and future exposure by counterparty

	Governments and Central Banks	*Other public entities*	*Banks*	*Financial companies*	*Insurance companies*	*Non-financial companies*	*Others operators*
1. Bilateral agreements							
- financial derivatives							
- positive fair value				260,509			
- negative fair value			3,076				
- future exposure			109,497	797,435			
- net counterparty risk			98,584	932,966			
2. Bilateral agreements							
- credit derivatives							
- positive fair value							
- negative fair value				4,373			
- future exposure				2,200			
- net counterparty risk				2,200			
3. "Cross product" agreements							
- positive fair value			620,621	871,118		3,308	
- negative fair value			132,223	14	72,613	70	
- future exposure			346,728	333,134	6,003	2,354	
- net counterparty risk			564,891	285,241	6,003	1,592	

The item "net counterparty risk" indicates the algebraic balance between the positive fair value increased by the future exposure and the current value of the collateral received.

SECTION 3 - LIQUIDITY RISK

QUALITATIVE INFORMATION

A. Liquidity risk: general aspects, management processes and measurement methods

During 2017 the Group updated and improved the efficiency of its strategic and operating processes for managing liquidity risk, paying attention to integrating the Internal Liquidity Adequacy Assessment process (ILAAP) into the context of the corporate decision-making processes and of the Liquidity Risk Framework. Additionally, data quality safeguards were strengthened, in particular with regards to regulatory matrices, and a more robust control system was developed relative to concentration risk, both in terms of funding sources and available assets.

Group Liquidity Risk Framework
Several years ago the MPS Group adopted a Liquidity Risk Framework, understood as the set of tools, methods, organisational and governance systems which ensures both compliance with national and international regulations and adequate management of the liquidity risk in the short (Operating Liquidity) and medium/long term (Structural Liquidity), under normal business conditions and in the event of turbulence. The Montepaschi Group's liquidity risk reference model is a "centralised" type, which involves management of short-term liquidity reserves and medium/long-term financial balance at the parent company level, guaranteeing solvency on an individual and consolidated basis for the subsidiaries.
Management of the Group's Operating Liquidity pursues the purpose of ensuring the Group's ability to satisfy the short-term cash payment commitments. The essential condition for normal operational continuity of the banking activity is to maintain a sustainable difference between the incoming and outgoing cash flows in the short term. The measure of reference in this sphere is the difference between the accumulated net cash flow and the Counterbalancing Capacity, i.e. the liquidity reserve which allows for dealing with stress conditions in the short term, as well as the regulatory liquidity coverage ratio (LCR) - delegated regulation. From the point of view of the very short term, the MPS Group has adopted the system of analysis and monitoring of the intraday liquidity with the objective of guaranteeing the normal development of the treasury day and its ability to meet its intra-day payment commitments.
Management of the Group's Structural Liquidity aims to ensure the financial balance of the structure according to due dates over a period of time of more than one year, at both Group level and at that of the single companies. Maintaining an adequate dynamic ratio between medium/long term liabilities and assets is aimed at avoiding pressure in respect of both present and future short term collections. Gap ratios serve as the reference metric, measuring the ratio between total loans and funding maturing after 12 months and 5 years, as well as the ratio between loans and commercial funding independent of maturity, in addition to the regulatory net stable funding ratio (NSFR), based on the BCBS definition (Basel Committee for Bank Supervision). The Group has also defined and formalised the Asset Encumbrance management and monitoring framework with the objective of analysing:

- the overall degree of commitment for total assets;
- the existence of a sufficient quantity of assets that can be committed but are free;
- the Group's ability to transform bank assets into eligible assets (or equivalently to commit non-eligible assets in bilateral operations).

The liquidity position is monitored both under normal conditions in the course of business and in Stress Scenarios of a specific and/or systemic nature according to the Liquidity Stress Test Framework. The exercises have the dual objective of bringing to light immediately the Bank's main vulnerability to liquidity risk and allowing for prudential determination of the supervisory limits to be applied to the liquidity risk measurement metrics in the context of the

annual Risk Appetite Statement.
In the context of the Risk Appetite Framework, the Liquidity Risk Framework contemplates the identification of the liquidity risk tolerance thresholds, understood as maximum exposure to risk deemed sustainable under normal business conditions and incorporating situations of stress. The short term and medium/long term limits for liquidity risk are based on the definition of these Risk Appetite thresholds. The operating limits system, known as Liquidity Risk Limits, is defined so as to promptly identify any nearing of the risk tolerance threshold defined in the annual process to develop the Risk Appetite Statement.
For immediate warning of possible vulnerability of the liquidity position, the Group has set up Early Warnings, distinguishing them as generic or specific according to whether the purpose of the single indicator is to warn of possible critical aspects regarding the entire economic contest, or specifically to the Group.
Management of operating and structural liquidity is governed by the parent company's Liquidity Management Department, which is responsible for defining and implementing short and medium/long-term funding strategies.
With reference to management of operating liquidity, the Liquidity Management Department manages the Group's liquidity reserves, in order to guarantee the Bank's ability to face planned and unplanned outflows, making use of the various instruments available on the interbank market (unsecured deposits, collateralised deposits, repos), as well as operations with the Central Bank.
With reference to management of structural liquidity, the Liquidity Management Department pursues the objectives detailed in the annual Funding Plan which outlines the medium/long-term strategies in operational terms defined in the Liquidity and Funding Strategy. This defines guidelines for funding activities in terms of risk appetite at the Group level, with a three year time horizon, in compliance with the multi-year risk tolerance thresholds relative to operating and structural liquidity, both internal and regulatory, as defined in the Group's Risk Appetite Statement (RAS).
Additionally, the Liquidity Management Department, in support of the Funding Plan, prepares the **Contingency Funding Plan**, the operating tool to manage liquidity risk that defines action strategies in the case of extreme liquidity tensions, establishing procedures and actions that can be readily put into place to obtain financing sources in the case of emergency. The strategies to be applied are defined on a case by case basis by the Executive Committee during the Liquidity Stress/Crisis session, in consideration of the type, duration and intensity of the crisis and the reference scenario at the time the crisis occurs.
Finally, overall internal assessment of liquidity is carried out periodically as part of the strategic ILAAP process.

QUANTITATIVE INFORMATION

Quantitative information regarding liquidity risk is shown below and is broken down based on exposures in Euro and other currencies.

1.1.A Breakdown by contractual residual maturity of financial assets and liabilities - EURO

Items / Maturities	On demand	From more than 1 day to 7 days	From more than 7 days to 15 days	From more than 15 days to 1 month	From more than 1 month to 3 months	From more than 3 months to 6 months	From more than 6 months up to 1 year	From more than 1 year to 5 years	Due after 5 years	Duration unspecified
Cash assets	**2,512,619**	**1,335,435**	**1,795,951**	**2,606,951**	**1,318,398**	**1,345,400**	**3,151,713**	**4,883,366**	**5,151,218**	**5,073**
A.1 Government securities	47	10	234	629	62,642	209,658	1,710,621	1,372,444	686,122	
A.2 Other debt securities	34,614	1,414	2,859	40,268	37,496	160,970	167,076	583,148	1,397,517	
A.3 Units in collective investment undertakings	68,312									
A.4 Loans	2,409,646	1,334,011	1,792,858	2,566,054	1,218,260	974,772	1,274,016	2,927,774	3,067,579	5,073
- banks	1,685,542	347,337	675,891	1,909,773	103,356	109,789	783,456	32,288	325,000	5,073
- customers	724,104	986,674	1,116,967	656,281	1,114,904	864,983	490,560	2,895,486	2,742,579	-
On-balance-sheet liabilities	**3,676,265**	**4,759,417**	**4,062,560**	**2,186,127**	**1,011,770**	**773,642**	**3,036,932**	**2,700,871**	**3,019,114**	**0**
B.1 Current accounts and deposits	51,017	200,000	500,000	1,644,998	100,000	770,000	2,504,321	2,615,622	2,307,717	
- banks	47,859	200,000	500,000	1,644,998	100,000	770,000	2,504,321	2,615,622	2,307,717	-
- customers	3,158									
B.2 Debt securities	-	-	-	3,434	6,409	-	9,843	50,000	400,000	-
B.3 Other liabilities	3,625,248	4,559,417	3,562,560	537,695	905,361	3,642	522,768	35,249	311,397	-
Off-balance-sheet transactions	**9,039,799**	**3,831,820**	**270,859**	**1,366,423**	**2,928,136**	**2,510,677**	**1,159,188**	**3,181,567**	**3,996,474**	
C.1 Financial derivatives with exchange of capital	963,427	2,962,615	270,859	1,066,423	2,867,968	2,301,134	862,929	1,870,960	709,594	
- long positions	351,341	624,614	76,952	157,525	1,642,767	1,716,945	503,893	1,071,017	486,763	
- short positions	612,086	2,338,001	193,907	908,898	1,225,201	584,189	359,036	799,943	222,831	
C.2 Credit derivatives with exchange of capital					60,000		180,000	1,037,656	3,076,080	
- long positions		-	-	-	30,000		90,000	518,828	1,538,040	-
- short positions		-	-	-	30,000		90,000	518,828	1,538,040	-
C.3 Financial derivatives without exchange of principal	6,406,140	0								
- long positions	4,092,548									
- short positions	2,313,592									
C.4 Credit derivatives without exchange of principal	4,372									
- long positions										
- short positions	4,372									
C.5 Deposits and loans to be received				300,000		0	0	0	0	
- long positions				150,000						
- short positions				150,000						
C.6 Irrevocable commitments to grant finance	1,647,714	869,205				208,523	104,208	210,906	180,648	
- long positions	37,058	869,203		-		208,523	104,208	210,906	180,648	
- short positions	1,610,656	2	-	-	-	-	-	-	-	
C.7 Financial guarantees given	18,146	-	-	-	168	1,020	12,051	62,045	30,151	-
C.8 Financial guarantees received										

1.1.B Breakdown by contractual residual maturity of financial assets and liabilities - OTHER CURRENCIES

Items / Maturities	*On demand*	*From more than 1 day to 7 days*	*From more than 7 days to 15 days*	*From more than 15 days to 1 month*	*From more than 1 month to 3 months*	*From more than 3 months to 6 months*	*From more than 6 months up to 1 year*	*From more than 1 year to 5 years*	*Due after 5 years*	*Unspecified duration*
Cash assets	**149,651**	**48**	**5**	**582**	**24,647**	**5,944**	**5,264**	**111,538**	**242,717**	**0**
A.1 Government securities	84	-		3	89	19	165	246	1,395	-
A.2 Other debt securities	278	-	5	16	3,040	3,215	1,068	40,958	102,587	
A.3 Units in collective										
investment undertakings1432										
A.4 Loans	147,857	48	0	563	21,518	2,710	4,031	70,334	138,735	
- banks	73,589	-	-	563	20,245	-	-	2,291	1,179	-
- customers	74,268	48	-		1,273	2,710	4,031	68,043	137,556	-
On-balance-sheet liabilities	**204,632**	**1,863**		**121,430**	**129,004**	**56,924**	**64**	**31,183**	**1,474**	**0**
B.1 Current accounts and deposits	169,022	1,863		102,167	128,222	56,860	0			
- banks	169,022	1,863	-	102,167	128,222	56,860	-	-	-	-
- customers										
B.2 Debt securities										
B.3 Other liabilities	35,610	-	-	19,263	782	64	64	31,183	1,474	-
Off-balance-sheet transactions	**511,239**	**76,380**	**219,174**	**926,333**	**1,210,754**	**827,446**	**382,554**	**1,657,325**	**15,842**	
C.1 Financial derivatives with										
exchange of capital										
- long positions	21,596	62,132	148,047	811,457	473,904	330,742	89,233	33,736	25	
- short positions	25,032	14,248	71,127	114,876	720,506	496,704	278,062	203,779	152	
C.2 Credit derivatives with										
exchange of capital										
- long positions	-	-	-	-	8,171		7,629	700,242	-	-
- short positions	-	-	-	-	8,171		7,629	700,242	-	-
C.3 Financial derivatives without										
exchange of principal										
- long positions	270,502									
- short positions	163,341									
C.4 Credit derivatives without										
exchange of principal										
- long positions										
- short positions										
C.5 Deposits and loans										
to be received										
- long positions										
- short positions										
C.6 Irrevocable commitments										
to grant finance										
- long positions	-	-	-	-	-	-	-	15,103	15,665	-
- short positions	30,768									
C.7 Financial guarantees given								4,223		
C.8 Financial guarantees received										

1.2. Self-securitisation transactions

Securitisation transactions in which the Bank subscribed all securities issued by the special purpose vehicle (self-securitisations) are not shown in the tables of the Notes to the Financial Statements in Part E, section C “Securitisation and Asset Sale Transactions”, pursuant to that envisaged in Bank of Italy Circular 262.
Self-securitisation transactions involving loans are generally carried out with the objective of improving management of liquidity risk, by optimising the amount of assets immediately available to meet liquidity requirements. Although the Bank’s direct and full subscription of the securities issued by the vehicles does not enable it to obtain direct liquidity from the market, the transaction in any case provides it with securities that can be used for repurchase agreements and refinancing transactions with the ECB, improving its safety margin relative to the Group’s liquidity risk. In these transactions, the loans continue to be included under item 70 in the assets “Loans to customers”, while the securities subscribed are not recognised in the financial statements.
At 31 December 2017, the sole self-securitisation carried out by the Bank was the Siena NPL 2018 transaction, carried out by the Group in December 2017. In the context of this transaction, on the basis of that established in the Restructuring Plan and in line with the terms of the agreements made with Quaestio Capital Management SGR S.p.A., the MPS Group completed the securitisation of a portfolio of non-performing loans originating with Banca Monte dei Paschi di Siena S.p.A., MPS Capital Services Banca per le Imprese S.p.A. and Monte dei Paschi di Siena Leasing & Factoring - Banca per i Servizi Finanziari alle Imprese S.p.A..
The nominal residual debt of this portfolio (GBV), at 31 December 2017, amounted to € 24,250 million, of which € 3,744 million relative to the Bank. On 20 December 2017 the portfolio was sold to the vehicle known as Siena NPL 2018 S.r.l, established for said purpose, which on 28 December 2017 issued asset backed securities (the “securities”) in the following classes:

- Senior A1 for € 2,683.5 million, with € 565.7 million relative to the Bank;
- Senior A2 for € 412.1 million, with € 86.9 million relative to the Bank;
- Mezzanine for € 847.6 million, with € 178.7 million relative to the Bank;
- Junior for € 565.0 million, with € 119.1 million relative to the Bank.

The securities were fully subscribed by the transferring parties and at 31 December 2017 were entirely held by the Group.
The 2017-2021 Restructuring Plan and the agreements with Quaestio also envisage, within the first half of 2018:
the transfer of 95% of the mezzanine securities to the Italian Recovery Fund, managed by Quaestio (already arranged on 22 December 2017, effective as of 9 January 2018);

- the assignment of a rating to the Senior A1 securities by at least two agencies (and possibly other classes of the securities);
- provided that an investment grade rating is received from at least two agencies, a request for the application of guarantees (GACS), issued by the Ministry of Economy and Finance (MEF or GACS Guarantor), pursuant to Decree Law 18 of 14 February 2016, converted with amendments with Law 49 of 8 April 2016, and in compliance with that established in the relative implementation measures (including, among other things, the MEF Decree of 3 August 2016) to the Senior A1 securities (and possibly the Senior A2 securities as well);
- subsequent to obtaining the GACS, transfer of 95% of the Junior securities to the Italian Recovery Fund, with simultaneous deconsolidation of the assets transferred;
- the sale of 95% of the class A2 securities to institutional investors.

For more details, please see the paragraph “Loan aggregates - impaired exposures” in the Report on Operations.

SECTION 4 - OPERATIONAL RISKS

QUALITATIVE INFORMATION

A. Operational risks: general aspects, management processes and measurement methods

General aspects and Framework Structure
With an administrative provision issued on 12 June 2008, the MPS Group was authorised by the Bank of Italy to use internal models for determining the capital requirements to cover credit and operational risks.
The adoption of the advanced model (AMA) requires banks to:
- develop an internal organisation which defines the roles of the bodies and the corporate departments involved in the operational risk management process;
- develop a control department for gathering and storage of data, calculation of the requirement, assessment of the risk profile and reporting;
- check on the quality of the management system and compliance with the legislative prescriptions on an ongoing basis;
- delegate the internal auditing body to make periodic checks on the Operational Risk management system;
- guarantee over time that the system is effectively used in the corporate operations (use tests).

For this purpose, the MPS Group has developed an integrated system for the management of operational risk, an internal framework built on a governance model which sees all the companies in the scope of application of the AMA model involved. The approach defines the standards, methods and instruments which make it possible to assess the exposure to risk and the effects of the mitigation for each business area.
The advanced approach is conceived in such a way as to combine all the main disclosure sources in a standardised manner (information or data), both qualitative and quantitative (mixed Loss Distribution Approach - Scenario Model).
The quantitative component, of the Loss Distribution Approach (LDA) type, is based on the gathering, analysis and statistical modelling of the historical figures on internal and external loss (provided by the DIPO Consortium - Italian Database of Operating Losses).
The qualitative component is focused on the valuation of the risk profile of each unit and is based on the identification of relevant scenarios. In this context, the involvement of the companies in the AMA scope takes place through the identification of the processes and risks to be assessed, the assessment of the risks by the individuals responsible for the process, the identification of possible mitigation plans, the sharing during scenario discussions with the central units of the priorities and technical-economic feasibility of the mitigation measures.
This is followed by the monitoring of the implementation of the planned measures and of compliance with targets and deadlines.
The Framework identifies the operational risk control unit as the Operational Risk Management (ORM) Department (within the parent company's Chief Risk Officer Department).
The Group ORM calculates the capital requirement for covering the operational risks by means of the use of various components of the model (internal data, external data, context and control factors, qualitative analysis) supports the Top Management's decision making process with a view to creating value by retaining, mitigating and transferring the detected risks and it collects, also for the other companies in the perimeter, the internal loss data and identifies the risks to be assessed in qualitative analyses.
All the main domestic banking and financial components come within the perimeter of the advanced approach (AMA), while for the remaining components and for the foreign companies the basic approaches are instead adopted.
At 31 December 2017 the coverage of the internal model, in terms of the relevant indicator, was more than 95%.

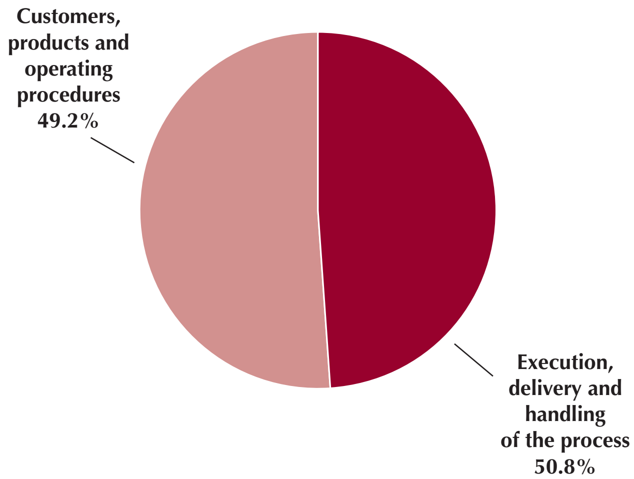
The ORM has also set up a reporting system that provides timely information about operational risks to the Top Management, which translates the strategic principles of the management system into specific management policies. The reports are regularly submitted to the Risk Management Committee and the decision-making bodies.
The adoption of the AMA model has assured, over time, a more knowledgeable management of operational risk, guaranteeing in practice a progressive reduction in the operational risk of the Bank and the Group.
As of 30 June 2017, the Advanced Measurement Model underwent a change involving an increase in the historical depth of internal loss data, going from 5 to 10 years, as well as the introduction of a scaling mechanism for external data, in order to prevent unexpected oscillations in the requirement.

QUANTITATIVE INFORMATION

The percentage distribution of the number of events and of the operating losses recorded in 2017 is given below, divided into the various risk classes mainly linked to the Bank's business, represented in practice by the offer of solutions to a wide range of financial and credit problems (medium and long-term credit products and those of a specialist type, corporate finance assets, capital market products and structured loans):

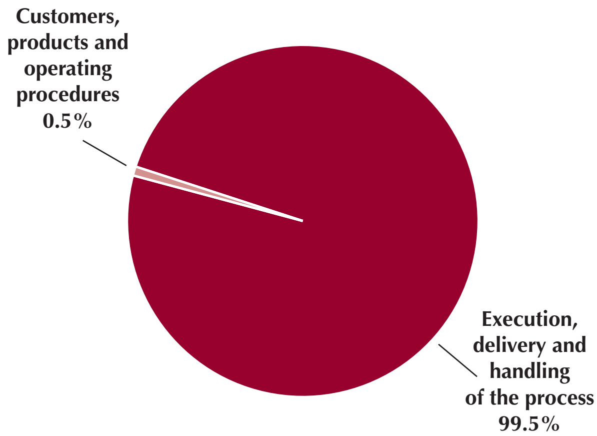
- customers, products and operating procedures: losses deriving from breaches relating to professional obligations vis-à-vis customers or from the nature or features of the product or service provided;
- Process execution, delivery and handling: losses due to shortfalls in the finalization of the transactions or the handling of the processes, as well as losses due to relations with commercial counterparties, sellers and suppliers.

% DISTRIBUTION OF NUMBER OF EVENTS
MPS CAPITAL SERVICES - 31.12.2017



Internal Fraud	0%
External fraud	0%
Lending Ratios	0%
Damages to property, plant and equipment	0%
System malfunctions	0%

% DISTRIBUTION OF LOSSES
MPS CAPITAL SERVICES - 31.12.2017



Internal Fraud	0%
External fraud	0%
Lending Ratios	0%
Damages to property, plant and equipment	0%
System malfunctions	0%

At 31 December 2017, the number of operational risk events was substantially stable with respect to 2016, while operating losses were on the rise, due to an attribution error in the pricing systems. Net of this event, operating losses were down with respect to previous years. The types of events with the most impact on the income statement were due to shortcomings in the completion of operations or in the management of processes ("Process execution, delivery and handling" class: 99% of the total).

Contingent liabilities related to legal actions

The risks inherent in or related to legal disputes - understood as such those involving judicial bodies and arbitrators - are subject to specific and careful examination by the Bank. In the case of disputes for which the outflow of economic resources to fulfil the implicit legal obligation is estimated as "*probable*", and it also seems possible to make a reliable estimate of the related amount, Provisions for Risk and Charges are set aside with statistical or analytical criteria. If an outflow of economic resources is possible, or when, although it is probable, it is not possible to make a reliable estimate of the financial expense, the contingent liability must be described in the Notes to the Financial Statements. As provided for in paragraph 92 of IAS 37, in extremely rare cases the indication of some or all the information required by the said standard on the subject of disclosure could have a serious adverse effect on the company's position in a dispute with third parties. In these cases the company does not have the obligation to provide the detailed information, but can limit itself to indicating the general nature of the dispute, explaining in any case the reasons that underlie the simplified disclosure.

The contingent liabilities of a significant amount in being at 31 December 2017 are described below:

- **Civil case brought by the limited liability consortium Oromare Bankruptcy Administration before the Court of Torre Annunziata**
  The limited liability consortium Oromare Bankruptcy Administration, with a writ served in February 2016, instituted legal proceedings against the Bank asking for it to be ascertained, with reference to the two mortgage loans contracts signed with the same, the abusive granting of credit identifiable, according to the plaintiff, on the basis of the following conditions: i) renewed disbursement of finance when the consortium financed requested an extension of the repayment agreed with the first loan, ii) false representation, as the purpose of the second mortgage loan, of the higher costs of the construction works, in the absence of suitable technical/documentary justification and iii) failure to report to the system (Central Credit Register) Oromare's constant inability to repay, generating the impression of regular payments in line with the terms agreed. Owing to all this, the Bankruptcy Administration asked for the Bank to be ordered to compensate for the damages, quantifying the related claim at € 22,473,00.00. The Bank first argued for the lack of active legitimacy of the Receiver given the jurisprudence of the Combined Sections of the Court of Cassation which found that an action aimed at ascertaining the abusive granting of credit is the responsibility of the individual creditors and, as regard the merit, reconstructed analytically the disbursements and the actions supplementary to the loan contracts providing the proof of its correct operations. The Court found for the active legitimacy of the Oromare Bankruptcy Receiver, on the point of compensation for damages, ordering an Expert Witness Report (EWR) aimed at ascertaining any illegitimate granting of credit on the basis of Oromare's economic and financial situation. The EWR, a draft of which was filed, is favourable to the Bank. The next hearing is set for 15 March 2018 to specify the findings. The risk of losing, currently, seems merely possible and in any case cannot be concretely estimated.
- **Civil case launched by Casa Oilio Sperlonga S.p.A. before the Court of Latina**
  The company Casa Oilio Sperlonga summoned the Bank, with a writ served on the eleventh of March 2009, before the Court of Latina to have i) ascertained and declared the Bank's liability for illegitimate reporting as a bad debtor to the centralised risk service managed by the Bank of Italy (the "Central Credit Register") and as a result to have ii) the Bank ordered to compensate for the financial damage quantified at € 8,000,000.00, plus legal interest, besides the non-financial damage to be quantified during the case. The premise of the action is based on the alleged error that the Bank is said to have committed not accepting the assumption of the debt (of approximately € 1,000,000.00) made by Casa Oilio Sperlonga as a consequence of the purchase of a property from another company financed by the Bank and then classifying as a bad debtor also the plaintiff company. In its defence the Bank pointed out that the assumption of the debt in relation to the Bank by Casa Oilio Sperlonga was completed also in the absence of acceptance and therefore it was correct to consider the plaintiff company obliged

to repay the loan. On the point of quantifying the damages, the Bank objected that it had not been given proof of the alleged damages. The Presiding Judge of the Court assigned the case to a new investigating magistrate, setting the date for the new appearance hearing for 19 April 2018. The risk of losing seems merely possible and in any case cannot be concretely estimated.

Part F
Information on the Capital

SECTION 1 - THE BANK'S CAPITAL

A. QUALITATIVE INFORMATION

The MPS Group pursues strategic objectives focused on the quantitative and qualitative strengthening of the capital, on structural rebalancing of the liquidity and on achieving sustainable levels of profitability.
With this in view the capital management, planning and allocation activities are of fundamental importance for guaranteeing observance over time both of the minimum capital requirements established by the regulations and by the supervisory authorities and of the degree of risk appetite approved by the Parent Company's strategic supervisory body.
To this end the Risk Appetite Framework (RAF) is used; through this every year the target levels of capitalisation are estimated and the capital is allocated to the business units according to the development expectations and the estimated risk levels, verifying that the capital endowment is sufficient to guarantee observance of the minimum requirements: in the context of the RAF prospective capital adequacy assessments are carried out on a multi-annual time horizon, in both normal and stressful conditions. The analyses are carried out both at the Group level and at the level of all the single legal entities subject to regulatory capital requirements.
Achievement of the targets and compliance with the minimum regulatory requirements are monitored continuously during the year.
The formal corporate processes in which the RAF is applied on at least an annual basis are the budget, the risk appetite review and the ICAAP.
The Group defines the budget targets on the basis of a method for measuring correct corporate performance for the risk, the Risk Adjusted Performance Measurement (RAPM), through which the earnings results are determined net of the cost of the capital to be held for regulatory purposes against the level of risk assumed.
The concepts of capital used are the regulatory supervisory ones: Common Equity Tier 1, Tier 1 and Own Funds; in addition in the context of the RAPM metrics the Invested Capital is also used; this consists of the amount of own capital pertaining to the shareholders (equity) needed to achieve the Common Equity Tier 1 figures, both established in advance as target levels and achieved afterwards as final results.
The concepts of capital at risk used are the regulatory requirements, corresponding to risk weighted assets (RWA), determined on the basis of the rules defined in the regulatory provisions, and economic capital which corresponds to the estimated maximum losses on the measurable risks at a pre-set confidence interval and on the basis of internal models and rules internal to the Group. In the context of the RAPM metrics both measurements are used.

B. QUANTITATIVE INFORMATION

B.1 The Bank's capital: breakdown

Items / Balances	*31/12/2017*	*31/12/2016*
1. Capital	1,669,516	829,304
2. Share premiums	161,446	875,214
3. Reserves	110,427	107,686
- of profits	76,642	82,143
a) legal	*41,323*	*41,323*
b) statutory		*34,643*
c) treasury shares		
d) other	*35,319*	*6,177*
- others	33,785	25,543
4. Equity instruments		
5. (Treasury shares)		
6. Valuation reserves	(2,242)	(2,162)
- financial assets available for sale	*236*	*383*
- property, plant and equipment		
- intangible assets		
- foreign investment hedging		
- cash flow hedging		
- exchange differences		
- non-current assets held for sale		
- actuarial gains (losses) relating to defined-benefit pension plans	*(2,478)*	*(2,545)*
- portions of the valuation reserves pertaining to investee companies booked to shareholders' equity		
- special revaluation laws		
7. Profit (Loss) for the period	(632,937)	(769,682)
Total	**1,306,210**	**1,040,360**

On 15 November 2017 the share capital increase resolved by the Extraordinary Shareholders Meeting of 18 August 2017 was completed, with the full subscription, paying in and issuing of 535,034 new ordinary shares with no nominal value at the unit price of € 1,680.00 (of which € 1,570.39 as capital and € 109.61 as share premium). The share capital thus went up from € 829,304,238.84 to € 1,669,516,282.10 and the share premiums from € 125,953,569.13 to € 184,598,645.87, with a total increase in the Bank's capital of € 898,857,120.00.
Under point 3. Reserves - of profits d) other, a portion of the "reserve relative to parent company shares" is allocated, in the amount of € 34,653 thousand. The remaining portion, equal to 22,487, is allocated under point 3. Reserves - other. For more information, please see the comments in section 14.4 "Profit reserves: other information" in part B of the Notes to the Financial Statements.

B.2 Valuation reserves relating to financial assets available for sale: breakdown

Assets / Balances	*31/12/2017*		*31/12/2016*	
	Positive Reserve	*Negative Reserve*	*Positive Reserve*	*Negative Reserve*
1. Debt securities				165
2. Equity securities	39		532	
3. Units in collective investment undertakings	414	(115)		2
4. Loans				
Total	**453**	**(115)**	**532**	**167**

Note:
the values indicated are gross of tax effects.

B.3 Valuation reserves relating to financial assets available for sale: annual changes

	Debt securities	*Equities securities*	*Units in collective investment undertakings*	*Loans*
1. **Opening balances**	**(165)**	**532**	**(2)**	
2. **Positive changes**	**165**	**61,006**	**414**	
2.1 Fair value increases		495	414	
2.2 Transfer to income statement of negative reserves	165	60,511		
- due to impairment		*60,511*		
- due to conversion	*165*			
2.3 Other changes				
3. **Negative changes**		**61,499**	**113**	
3.1 Fair value decreases		60,511	113	
3.2 impairment adjustments				
3.3 Transfer to income statement of positive reserves				
- due to conversion		*988*		
3.4 Other changes				
4. Closing balances	**0**	**39**	**299**	

B.4 Valuation reserves for defined benefit plans: yearly changes

	Severance indemnities	*Defined benefit pension funds*	*Tax effect*	*Total*
Opening balances	**(1,307)**	**(1,847)**	**609**	**(2,545)**
Revaluation of net liabilities/assets for defined benefits:				
Return on plan assets net of interest				
Actuarial gains/losses deriving from changes in demographic assumptions	(1)	(16)	5	**(12)**
Actuarial gains/losses deriving from changes in financial assumptions	5	7	(4)	**8**
Actuarial gains/losses deriving from past experience	46	(54)		**(8)**
Changes in the effect of limitations on the availability of a net asset for defined benefit plans				
Gains/losses from termination of the fund envisaged in the terms of the plan			79	**79**
Closing balances	**(1,257)**	**(1,910)**	**689**	**(2,478)**

SECTION 2 - OWN FUNDS AND CAPITAL RATIOS

The regulatory and institutional structure for banking supervision in the European Union (Basel 3), currently in effect, has the aim of strengthening the ability of banks to absorb shocks deriving from financial and economic tensions, irrespective of their origin, of improving risk management and governance, and at reinforcing the transparency and disclosure of banks, taking into account the lessons of the financial crisis.
The approach is based on three Pillars and aims at increasing the quantity and quality of the capital assets of intermediaries and provides for countercyclical supervisory instruments, rules on the management of liquidity risk and on the containment of financial leverage.
In particular, the First Pillar governs capital requirements to reflect the potential riskiness of assets and the requirements of capital assets.
In addition to the system of capital requirements aimed at countering credit, counterparty, market and operational risks, the introduction of a limit on financial leverage (including off-balance-sheet exposures) is envisaged with the function of backstop of the capital requirement based on the risk and to contain the growth of leverage at the system level.
"Basel 3" also provides for requirements and system for supervising liquidity risk, focused on a short-term liquidity requirement (Liquidity Coverage Ratio - LCR) and on a long-term structural balance rule (Net Stable Funding Ratio - NSFR), as well as on principles for the management and supervision of liquidity risk at the level of individual institutions and of the system.

The Second Pillar requires banks to develop a current and prospective capital adequacy monitoring strategy and process, leaving the Supervisory Authority responsible for verifying the reliability and conformity of the related results and for adopting, when the situation requires it, the appropriate corrective measures. Growing importance is attributed to the corporate governance structures and to the internal control system of intermediaries as a determining factor for the stability of the single institutions and of the financial system as a whole. In this area, the following were strengthened: (i) regulatory requirements concerning the role, qualifications and composition of the governing bodies; (ii) the awareness on the part of these bodies and of the top management on the organisational structure and the risks of the Parent Company and the banking group; (iii) the corporate auditing units, with particular reference to the independence of the managers of the unit, the recognition of the risks of off-balance-sheet assets and securitisations, the measurement of assets and stress tests; (iv) the remuneration and incentive systems.

The Third Pillar - regarding the obligations of disclosure to the public on capital adequacy, on the exposure to risks and on the general characteristics of the related management and control systems, in order to encourage market discipline - provides, among other things, for transparency requirements concerning exposures to securitisations, detailed information on the composition of regulatory capital and on the methods with which the Group calculates the capital ratios.

The Basel 3 framework is subject to a transitory system which projects the entry of the rules into full force (full application) at 2019 (2022 for the phase-out of certain equity instruments) and during which the new rules are applied in a growing proportion.

The regulatory capital, an element of the First Pillar, is therefore calculated according to the Basel 3 rules endorsed in Europe through structured legislation represented by the Capital Requirements Regulation (CRR), European Regulation No. 575/2013, by the related supplements, by the Capital Requirements Directive (CRD IV), by the Regulatory Technical Standards and by the Implementing Technical Standards issued by the EBA as well as by the supervisory instructions issued by the Bank of Italy (in particular Circulars 285 and 286).

2.1 OWN FUNDS

A. QUALITATIVE INFORMATION

Own funds are made up of the following aggregates:
- Tier 1 capital (T1), made up of:
  - Common Equity Tier 1 (CET1);
  - Additional Tier 1 capital (AT1);
- Tier 2 capital (T2).

Own funds are subject, as are the other supervisory indicators, to particular transition rules. Therefore there are requirements on full application and requirements for the transitory period.

Common Equity Tier 1 (CET1)

Requirements on full application
Common Equity Tier 1 is mainly made up of:
- ordinary shares;
- share premium reserve deriving from the calculated share capital;
- profit reserves;
- valuation reserves.

The requirements for eligibility in CET1 of equity instruments are very stringent. Among these we can note that:
- ✓ they must be classified as equity for accounting purposes;
- ✓ the nominal amount may not be reduced except in the case of liquidation or discretionary repurchases of the issuer after specific authorisation from the supervisory authority;
- ✓ they must have perpetual duration;
- ✓ the issue is not obliged to carry out distributions;
- ✓ the issue may carry out distributions only of distributable profits;
- ✓ there can be no preferential treatment in the distributions, unless this reflects different voting rights;
- ✓ absence of caps on distribution;
- ✓ the cancellability of distributions does not entail restrictions on the issuer;
- ✓ with respect to the other equity instruments issued, they absorb as a priority and proportionally more the losses in the moment that they occur;
- ✓ they represent the most subordinated instruments in the event of bankruptcy or liquidation of the Bank;
- ✓ they give the right to holders to the issuer's remaining assets in the case of liquidation of the issuer;
- ✓ they are not subject to guarantees or contractual provisions that increase their seniority.

The profit for the period can be computed in CET1 before final approval of the financial statements, only on the authorisation of the Supervisory Authorities and on the condition that the conditions required have been fulfilled, in particular: verification by the external auditors and deduction from the profit of any dividends planned to be distributed.
The valuation reserve generated by cash flow hedging (the so-called cash flow hedge reserve) and the capital gains/capital losses deriving from changes in the company's own creditworthiness (liabilities in the fair value option and derivative liabilities) are excluded from the determination of CET1.

CET1 also takes into account additional adjustments (so-called prudent valuation adjustments). These adjustments are made to exposures presented in the financial statements at fair value and must take into account the uncertainty of the parameters (model risk, closure costs, etc.) and of the potential future costs (operational risks, concentration risk, liquidity risk, etc.). The adjustments vary according to whether they are on financial instruments of level 1 or levels 2 and 3.

Besides these components, which make up the so-called prudential filters, CET1 is subject to the following main deductions:
- loss for the period;
- intangible assets, including implicit goodwill in equity investments of significant influence and joint ventures measured with the equity method;
- tax assets based on future revenues and not deriving from temporary differences (tax losses and Economic Growth Aid - ACE);
- deferred tax assets that depend on future revenues and deriving from temporary differences (net of the corresponding deferred tax liabilities); on the contrary deferred tax assets that do not depend on future revenues and are transformable into credits pursuant to Italian Law 214/2011 are not deducted; these last assets are instead included in RWAs and weighted at 100%;
- deferred tax assets connected with multiple exemptions of the same goodwill for the part not yet converted into current taxation;
- the excess of the expected loss on the value adjustments for portfolios validated for the purpose on adopting internal ratings - AIRB (so-called "expected loss delta");
- direct, indirect and synthetic investments in the company's own CET1 instruments;
- direct, indirect and synthetic non-significant investments (<10%) in CET1 instruments of financial institutions;
- direct, indirect and synthetic significant investments (>10%) in CET1 instruments of financial institutions;
- any deductions exceeding the AT1 equity instruments.

The deductions related to equity investments in financial institutions and to deferred tax assets apply only for the portions exceeding certain CET1 thresholds, called excesses, according to a particular mechanism which is described below:
- non-significant investments in CET1 instruments of financial institutions are deducted, for the part of the aggregate of the non-significant investments in CET1, AT1 and T2 instruments of financial institutions exceeding 10% of CET1, in proportion to the CET1 instruments themselves. The portions referred to AT1 and T2 instruments must instead be deducted respectively from the AT1 and T2 aggregates. The CET1 on which to calculate 10% is obtained after applying the prudential filters and all the deductions other than those related to deferred tax assets which depend on future revenue and derive from temporary differences, to direct, indirect and synthetic investments in CET1 instruments of financial institutions, to any deductions exceeding the AT1 equity instruments and to the deductions of qualified equity investments in financial institutions;
- net deferred tax assets that depend on future revenue and derive from temporary differences are deducted for the part exceeding 10% of CET1 which is obtained after applying the prudential filters and all the deductions other than those related to deferred tax assets which depend on future revenue and derive from temporary differences, to any deductions exceeding the AT1 equity instruments and to the deductions of qualified equity investments in financial institutions;
- significant investments in CET1 instruments of financial institutions are deducted for the part exceeding 10% of CET1 which is obtained after applying the prudential filters and all the deductions other than those related to deferred tax assets which depend on future revenue and derive from temporary differences, to any deductions exceeding the AT1 equity instruments and to the deductions of qualified equity investments in financial institutions;
- the amounts not deducted as a result of the 10% excess of significant investments in CET1 instruments of financial

institutions and of net deferred tax assets that depend on future revenue and derive from temporary differences, added together, are deducted only for the portion exceeding 17.65% of CET1 which is obtained after applying the prudential filters and all the deductions, including investments in financial institutions and deferred tax assets computed in their entirety without taking into account the aforementioned thresholds, with the exception of any deductions exceeding the AT1 equity instruments.

The amounts not deducted as a result of the excesses are included in the RWAs and subject to weighting at a level of 250%.

Transitory system

The main aspects of the transitory system are presented below:

- the losses of the period are computed in CET1 with a gradual introduction of 20% a year (80% in 2017 and 100% from 2018); the portion transitionally not deducted from CET1 must be computed as a negative element of AT1;
- the actuarial gains/losses deriving from the valuation of liabilities connected with so-called Employee Benefits (employee severance indemnity, defined-benefit pension funds, etc.) are recognised, net of the tax effect, in the valuation reserves and are considered in CET1 with a gradual introduction of 20% starting from 2015 (60% in 2017 and 100% from 2019);
- unrealised profits on financial instruments in the AFS portfolio are calculated in CET1 only starting in 2015, at 40%, increasing progressively by 20% per year (80% in 2017 and 100% in 2018); with Regulation EU 2016/445 of 14 March 2016, unrealised profits and losses related to exposures to central administrations of EU countries, classified in the AFS category, are treated in the same way as those deriving from AFS exposures to the other counterparty types, that is with the same transitional system, with the exception of sterilisation of the portion not counted in CET1 for which the national regulations previously in force continue to apply;
- deferred tax assets that depend on future revenue and derive from temporary differences are deducted at 80% for financial year 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 revenue and derive from temporary differences, exceeding the aforementioned excesses, existing at 1 January 2014 are deducted from CET1 with a gradual introduction of 10% a year starting from 2015 (30% in 2017 and 100% in 2024);
- deferred tax assets that depend on future revenue and derive from temporary differences, exceeding the aforementioned excesses, generated after 1 January 2014 are deducted from CET1 with a gradual introduction of 20% a year starting from 2014 (80% in 2017 and 100% in 2018);
- non-significant investments in Common Equity Tier 1 equity instruments in financial institutions held directly, indirectly or synthetically exceeding the aforementioned excesses, are deducted from CET1 with a gradual introduction of 20% a year starting from 2014 (80% in 2017 and 100% in 2018); direct investments in financial institutions transitionally not deducted from CET1 are deducted for 50% from AT1 and for 50% from T2; indirect and synthetic investments are subject to capital requirements and included in the RWAs;
- significant investments in Common Equity Tier 1 equity instruments in financial institutions held directly, indirectly or synthetically exceeding the aforementioned excesses, are deducted from CET1 with a gradual introduction of 20% a year starting from 2014 (80% in 2017 and 100% from 2018); direct investments in financial institutions transitionally not deducted from CET1 are deducted for 50% from AT1 and for 50% from T2, while indirect and synthetic investments are subject to capital requirements and included in the RWAs;
- the excess of expected losses on value adjustments (expected loss delta) are deducted from CET1 with a gradual introduction of 20% a year starting from 2014 (80% in 2017 and 100% from 2018); the portion transitionally not deducted from CET1 are deducted for 50% from and for 50% from T2.

The additional value adjustments on assets and liabilities carried at fair value are determined in proportion to the amount with which these assets and liabilities are computed in CET1 during the transition period.

Additional Tier 1 Capital (AT1)

Requirements on full application

The main requirements for instruments to be included in AT1, which in any case are not found in the Bank's financial statements, are:

- the subscription and purchase must not be financed by the Bank or by its subsidiaries;
- they are subordinated with respect to the T2 instruments in the event of bankruptcy;
- they are not subject to guarantees given by the Bank, by its subsidiaries or by other companies that have close ties with them, which increase their seniority;
- they are perpetual and do not have characteristics which encourage their redemption;
- in the presence of call options these can be exercised with the sole discretionality of the issuer and in any case not before 5 years, unless authorised by the supervisory authority permitted in particular circumstances;
- the interest is paid against the distributable profits;
- the Bank has full discretionality in the payment of interest and may at any time decide not to pay it for an unlimited period; the cancellation works on a non-cumulative basis;
- cancellation of the interest does not constitute default of the issuer;
- in the case of trigger event the nominal value may be reduced permanently or temporarily or the instruments are converted into CET1 instruments.

AT1 is subject to the following main deductions for the MPS Group:

- direct, indirect and synthetic investments in the company's own AT1 instruments;
- direct, indirect and synthetic investments in AT1 instruments of financial sector companies in which a significant equity investment is held;
- direct, indirect and synthetic investments in AT1 instruments of financial sector companies in which a significant equity investment is not held, for the part that exceeds the 10% excess, proportionally attributable to the AT1 instruments;
- any adjustments exceeding T2.

Transitory system

The main aspects of the transitory system for financial year 2017 are presented below:

- non-significant investments in Additional Tier 1 equity instruments in financial institutions held directly, indirectly or synthetically the amount exceeding the excess of which is temporarily not deducted from AT1 as a result of the transitory system, are deducted for 50% from AT1 and for 50% from T2;
- significant investments in Common Equity Tier 1 and Additional Tier 1 equity instruments in financial institutions held directly, indirectly or synthetically temporarily not deducted from CET1 and from AT1 as a result of the transitory system, are deducted for 50% from AT1 and for 50% from T2;
- the excess of expected losses on value adjustments (expected loss delta) temporarily not deducted from CET1 as a result of the transitory system, is deducted for 50% from AT1.

Tier 2 Capital (T2)

Requirements on full application

The main requirements for the equity instruments to be computed in T2 are:

- the subscription and purchase must not be financed by the Bank or by its subsidiaries;
- they are not subject to guarantees given by the Bank, by its subsidiaries or by other companies that have close ties with them, which increase their seniority;

- the original duration is not less than 5 years and not incentives are envisaged for early redemption;
- in the presence of call options these can be exercised with the sole discretionality of the issuer and in any case not before 5 years, unless authorised by the supervisory authority permitted in particular circumstances;
- the interest is not modified on the basis of the Bank's credit standing;
- the amortisation of these instruments for the purposes of computability in T2 is calculated *pro rata temporis* in the last 5 years.

T2 is subject to the following main deductions:
- direct, indirect and synthetic investments in the company's own T2 instruments;
- direct, indirect and synthetic investments in T2 instruments of financial sector companies in which a significant equity investment is held;
- direct, indirect and synthetic investments in T2 instruments of financial sector companies in which a significant equity investment is not held, for the part that exceeds the 10% excess, proportionally attributable to the T2 instruments.

Transitory system

The main aspects of the transitory system for financial year 2017 are presented below:
- non-significant investments in Tier 2 equity instruments in financial institutions held directly are deducted from T2 at 100% for the part that exceeds the excess; non-significant investments in Tier 2 equity instruments in financial institutions held indirectly or synthetically are deducted, for the part that exceeds the excess, with a gradual introduction of 20% a year starting from 2014 (80% in 2017 and 100% in 2018). The indirect or synthetic investments transitionally not deducted are subject to capital requirements and included in the RWAs;
- significant investments in Tier 2 equity instruments in financial institutions held directly are deducted from T2 at 100%; significant investments in Tier 2 equity instruments in financial institutions held indirectly or synthetically are deducted with a gradual introduction of 20% a year starting from 2014 (80% in 2017 and 100% in 2018). The indirect or synthetic investments transitionally not deducted are subject to capital requirements and included in the RWAs;
- significant investments in Common Equity Tier 1 and Additional Tier 1 equity instruments in financial institutions held directly, indirectly or synthetically temporarily not deducted from CET1 and from AT1 as a result of the transitory system, are deducted for 50% from AT1 and for 50% from T2;
- the excess of expected losses on value adjustments (expected loss delta) temporarily not deducted from CET1 as a result of the transitory system, is deducted for 50% from T2.

Other transitory rules

For equity instruments issued previously and computed up to 31 December 2013 in the regulatory capital that do not comply with the requirements provided for in the new legislative framework a gradual exclusion from the pertinent level of own funds is provided for, on certain conditions. These cases do not affect the Bank.

B. QUANTITATIVE INFORMATION

	31/12/2017	*31/12/2016*
A. Common Equity Tier 1 - (CET1) before application of the prudential filters	**1,306,210**	**1,040,360**
of which CET1 instruments subject to transitory rules		
B. CET 1 prudential filters (+/-)	(20,705)	(25,871)
C. CET1 gross of ineligible elements and effects of the transitory system (A +/- B)	**1,285,505**	**1,014,489**
D. Elements to be deducted from CET 1	(177,581)	(355,083)
E. Transitory system - Impact on CET1 (+/-)	**137,264**	**326,745**
F. Total Common Equity Tier *1 (CET1)* (C - D +/-E)	**1,245,188**	**986,151**
G. Additional Tier 1 Capital (AT1) gross of ineligible elements and effects of the transitory system		
of which AT1 instruments subject to transitory rules		
H. Elements to be deducted from AT1		
I. Transitory system - Impact on AT1 (+/-)		
L. Total Additional Tier 1 Capital (AT1) (G - H +/- I)	**0**	**0**
M. Tier 2 Capital (T2) gross of ineligible elements and effects of the transitory system	**465,421**	**475,965**
of which T2 instruments subject to transitory rules		
N. Elements to be deducted from T2	**0**	**(33,291)**
O. Transitory system - Impact on T2 (+/-)	**23**	**(1,478)**
P. Total Tier 2 Capital (T2) (M - N +/- O)	**465,444**	**441,196**
Q. Total own funds (F + L + P)	**1,710,632**	**1,427,347**

2.2 CAPITAL ADEQUACY

A. QUALITATIVE INFORMATION

The minimum capital adequacy requirements provided for in the prudential regulations (art. 92 CRR) for financial year 2017 are the following:

- a Common Equity Tier 1 ratio of at least 4.5% of the total exposure to risk;
- a Tier 1 capital ratio of at least 6% of the total exposure to risk;
- a total capital ratio of at least 8% of the total exposure to risk.

The prudential regulations also require banks to hold the following reserves:

- the capital conservation buffer; this reserve, made up of Common Equity Tier 1, is aimed at conserving the minimum level of regulatory capital in adverse market moments by setting aside high-quality capital resources in periods not characterised by market tensions. It is obligatory and is equal, at the individual level, to 1.25% of the Bank's total exposure to risk; this reserve is made up of Common Equity Tier 1;
- the countercyclical capital buffer; this reserve has the purpose of protecting the banking sector in periods of excessive growth of lending; its settings, in fact, make it possible to accumulate, during phases of overheating of the lending cycle, Common Equity Tier 1 which will then be destined to absorb the losses in the descending phases of the cycle. Unlike the capital conservation buffer, the countercyclical capital buffer is obligatory only in periods of lending growth and it is calculated according to certain criteria; in the fourth quarter 2017, the ratio of the countercyclical capital buffer for Italy was kept at zero per cent;
- the Systemic Risk Buffer destined to cope with non-cyclical systemic risk of the financial sector through Common Equity Tier 1; at the moment a capital reserve against systemic risk is not provided for;
- the capital reserves for Global Systemically Important Institutions (G-SII buffer) and for Other Systemically Important Institutions (O-SII buffer); these reserves are aimed at imposing higher capital requirements on subjects that owing precisely to their systemic importance, at the global or domestic level, involve greater risks for the financial system and any crisis that affects them could have impacts on taxpayers. The MPS Group is not among intermediaries of global systemic importance (G-SII), but is among the other intermediaries of systemic importance (O-SII), as defined by the Bank of Italy. The identification took into consideration, for each bank or banking group, the contribution of the four characteristics (dimensions, importance for the Italian economy, complexity and interconnection with the financial system) indicated by the EBA guidelines for establishing the systemic importance of each entity at the level of the single 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% for 2021.

The combination of the above buffers determines the Combined Buffer Requirement (CBR).

As regards the capital requirements, we can note that for credit risks the MPS Group uses the advanced internal rating-based (AIRB) method with reference to the regulatory portfolios "Retail loan exposures" and "loan exposures to Businesses". The scope of application of the AIRB method currently includes the Parent Company Banca MPS, MPS Capital Services Banca per le Imprese and MPS Leasing & Factoring. For the remaining portfolios and remaining Group entities, the capital requirements against credit risks are calculated according to the standardised approach.
The capital requirements against market risk are instead calculated applying the Standard approach.
The capital requirements against Operational risk calculated according to the AMA approach cover almost the entire perimeter of the Banking Group. The basic method was applied to the remaining part of the perimeter.

Relative to the SREP process (*Supervisory Review and Evaluation Process*), on 19 June 2017, the ECB indicated that the parent company should maintain, at the consolidated level and starting from 1 January 2018, a ratio of 11% in terms of the Total SREP Capital Requirement, including:

- 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 consequence, BMPS must comply with the following requirements at the consolidated level as of 1 January 2018:

- 9.44% CET1 Ratio on a transitional basis;
- 12.94% Total Capital Ratio on a transitional basis including, in addition to P2R, 1.875% in terms of the Capital Conservation Buffer and 0.06% in terms of the O-SII Buffer (Other Systemically Important Institutions Buffer).

Until 31 December 2017, the CET1 threshold to be observed remained 10.75%, as announced on 25 November 2015 in the previous SREP letter.

The target ratios requested by the ECB must be observed at all times in which the Decision of the Authority is in force; in the same way, in this period, the parent company and its subsidiaries may not distribute dividends to shareholders nor pass cash flows to holders of additional Tier 1 equity instruments.

B. QUANTITATIVE INFORMATION

Categories / Balances		Unweighted amounts		Weighted amounts/ requirements	
		31/12/2017	31/12/2016	31/12/2017	31/12/2016
A.	**RISK ASSETS**				
A.1	Credit and counterparty risk	**24,894,947**	**36,366,708**	**5,659,259**	**6,056,056**
	1. Standardised approach	14,165,451	24,498,335	1,833,446	1,728,619
	2. Internal ratings-based approach	10,729,496	11,868,373	3,825,813	4,327,437
	2.1 Basic				
	2.2 Advanced	10,729,496	11,868,373	3,825,813	4,327,437
	3. Securitisations				
B.	**REGULATORY CAPITAL REQUIREMENTS**				
B.1	Credit and counterparty risk			**453,105**	**484,484**
B.2	Credit valuation adjustment risk			**20,828**	**28,674**
B.3	Regulatory risk				
B.4	Market risks			**194,591**	**228,649**
	1. Standard approach			194,591	228,649
	2. Internal models				
	3. Concentration risk				
B.5	Operational risk			**56,574**	**55,700**
	1. Basic approach				
	2. Standardised approach				
	3. Advanced approach			56,574	55,700
B.6	Other calculation elements				
B.7	Total prudential requirements			**725,098**	**797,507**
C.	**RISK ASSETS AND SUPERVISORY RATIOS**				
C.1	Risk-weighted assets			**9,063,731**	**9,968,838**
C.2	Common Equity Tier 1/Risk-weighted assets (CET1 capital ratio)			**13.74%**	**9.89%**
C.3	Tier 1 Capital/Risk-weighted assets (Tier 1 capital ratio)			**13.74%**	**9.89%**
C.4	Total own funds/Risk-weighted assets (Total capital ratio)			**18.87%**	**14.32%**

The amount of the risk-weighted assets as per item C.1 is determined as the product of the total prudential requirements (item B.7) and 12.5 (inverse of the minimum mandatory ratio of 8%).
Following the capital increase completed in November 2017, the Bank greatly exceeds the minimum capital ratios prescribed despite the loss recognised for the year.

Part G
Business Combinations regarding companies or business units

SECTION 1 - TRANSACTIONS CARRIED OUT DURING THE YEAR

During the year, no business combination transactions were carried out regarding companies or business segments.

SECTION 2 - TRANSACTIONS CARRIED OUT AFTER THE END OF THE YEAR

Nothing to note.

SECTION 3 - RETROSPECTIVE CORRECTIONS

No correction to report.

Part H
Transactions with related parties

In accordance with IAS 24 "key management personnel" includes the following: Directors, Statutory Auditors, General Manager, Assistant General Managers, Heads of Departments who are assigned autonomous decision-making powers.

1. Information about the remuneration of key management personnel

	31/12/2017	*31/12/2016*
Short-term benefits	1,302	1,481
Benefits after the termination of the employment relationship		
Other long-term benefits		
Indemnity for the termination of the employment relationship		
Share-based payments		
Other remuneration		
Total	**1,302**	**1,481**

2. Information on transactions with related parties

The tables presented below show the accounting effects of the transactions carried out with related parties (2.a with the Parent Company and other group companies; 2.b with key management personnel and other related parties).
In accordance with the accounting standard IAS 24 the Bank has identified its related parties and has complied with the consequent disclosure obligations.
With a resolution of the Parent Company's Board of Directors of 12 November 2015, in compliance with the legislative provisions and with the opinions obtained in advance of the Committee for Transactions with Related Parties and of the Board of Statutory Auditors of the Parent Company, the "Global Policy on Transactions with Related Parties, Associated Subjects, Obligations with Bank Representatives" (hereinafter "Global Policy") was approved. This brings together in a single document the provisions for the Group on the governance of conflicts of interest on the subject of transactions with related parties under the terms of the aforementioned CONSOB Regulation No. 17221/2010, with associated subjects under the terms of Bank of Italy Circular No. 263/2006 in Title V, Chapter 5, and those on the subject of obligations with bank representatives under the terms of Art. 136 of the Consolidated Law on Banking, laying down the rules also for the subsidiaries.
The Global Policy sets forth the principles and rules which must be followed to monitor the risk deriving from situations of possible conflict of interest with certain subjects close to the decision-making centres of the parent company and replaces and abrogates the "Procedure on related party transactions" adopted on 25.11.2010 and updated on 24.06.2012.
The Global Policy was endorsed by the Bank with a resolution of 27 February 2015, by adopting the "Policy on Transactions with Related Parties, Associated Subjects, Obligations with Bank Representatives and Internal Policies on Controls" (hereinafter the "Policy").
The Policy was published on the Bank's website and the full version can be consulted at the following web address:
http://www.mpscapitalservices.it/NR/rdonlyres/782FF399-FA35-4059-A7E1-E4D7FB7C9C8D/76741/PolicyMPSCS particorrsoggcollespbancari2016vsINTERN.pdf

2.a Transactions with the Parent Company and with companies of the MPS Banking Group

Items / Balances	*Parent Company*	*MPS Group Companies*	*Proportion % of the aggregate*
Total financial assets	**6,245,097**	**1,069,563**	**26.543%**
- Receivables due from banks/customers	5,025,669	48,049	30.175%
- HFT and AFS assets	1,215,637	1,017,359	21.174%
- Other assets	3,791	4,155	4.021%
Total financial liabilities	**15,535,142**	**2,911**	**56.068%**
- Receivables due from banks/customers	14,578,513		65.113%
- HFT liabilities	485,087	34	10.098%
- Outstanding securities	456,551		100.000%
- Other liabilities	14,991	2,877	28.421%
Income statement			
Interest income	59,738	19,897	25.718%
Interest expense	(173,853)		79.914%
Fee income	2,305	10	5.359%
Fee expense	(30,986)		64,243%
Administrative expenses	(1,987)	(12,592)	15.322%
Other income	786	56	13.225%
Guarantees given	**1,047,214**		**13.762%**
Guarantees received	**176,697**	**23,979**	**1.235%**

2.b Transactions with key management personnel and other related parties

Upon completion of the precautionary recapitalisation manoeuvre for the parent company, the Ministry of Economy and Finance (MEF) became the controlling shareholder for Banca Monte dei Paschi di Siena; the "MEF Perimeter" column in the table below indicates the balances of the equity and economic items at 31 December 2017 relative to transactions arranged with the MEF and the companies within the MEF perimeter, that is companies directly and indirectly controlled by the MEF and its related companies.

Items/Balances	*Key management personnel*	*Other related parties*	*MEF Perimeter*	*Total*	*Proportion*
Total financial assets	**493**	**62,627**	**4,348,849**	**4,411,969**	**16.010%**
- Receivables due from banks/customers	493	40,274	76,317	117,084	0.696%
- HFT and AFS assets		22,353	4,271,035	4,293,388	40.712%
- Other assets			22	22	0.011%
Total financial liabilities		**82,414**	**37,780**	**120,194**	**0.434%**
- Receivables due from banks/customers		1	37,239	37,240	0.166%
- HFT liabilities		82,413	541	82,954	1.727%
- Other liabilities			278	278	0.442%
Income statement					
Interest income	2	(895)	13,692	12,799	4.133%
Interest expense			(619)	(619)	0.285%
Fee income		(14)	2,108	2,094	4.847%
Fee expense					
Net value adjustments/write-backs due to impairment		(2,556)	129	(2,427)	0.293%
Other income					
Guarantees given		**124**	**2,743**	2,867	**0.038%**
Guarantees received	**464**	**6,842**	**39,711**	47,017	**0.289%**

2.d Fees paid to the independent auditing firm and the bodies belonging to its network
(pursuant to art. 149 duodecies of CONSOB Resolution No. 15915 of 3 May 2007)

Type of services	*Party providing service*	*Fees*
Independent auditing	Ernst & Young S.p.A.	210
Certification services	Ernst & Young S.p.A.	29
Consultancy	Ernst & Young Financial-Business Advisors S.p.A.	-
Total		**239**

Note:
the afore-mentioned amounts are net of VAT and ancillary expenses.

GROUP PARENT COMPANY OR EU PARENT BANK

The Bank belongs to the MPS Group and is controlled by Banca Monte dei Paschi di Siena S.p.A., which exercises management and coordination activities.
The basic data of the most recent financial statements (2016) approved by the parent company are provided below.

2.1 Corporate Name: **BANCA MONTE DEI PASCHI DI SIENA S.p.A.**

2.2 Headquarters: Piazza Salimbeni, 3 - Siena, Italy

Other details: Share capital € 15,692,799,350.97
Siena Companies Registry Registration Number, VAT Number and
Tax Code: 00884060526
Banking Register No. 325 Code No. 1030.6
Register of Banking Groups Code No. 1030.6
Enrolled in the Banking Register of the Bank of Italy no. 5274
Member of the Interbank Deposit Protection Fund and the National Guarantee Fund

FINANCIAL STATEMENTS OF THE PARENT COMPANY BANCA MONTE DEI PASCHI DI SIENA AS OF 31.12.2016

Balance sheet *(amounts in € millions)*

Assets		Liabilities and Shareholders' Equity	
Cash and cash equivalents	1,070	Due to banks	40,787
Financial assets held for trading	1,417	Due to customers	69,363
Financial assets available for sale	16,273	Outstanding securities	20,982
Loans to banks	31,709	Financial liabilities held for trading	1,296
Loans to customers	85,044	Financial liabilities designated at fair value	1,697
Hedging derivatives	546	Hedging derivatives	1,206
Value adjustment of financial assets subject to macro hedging	112	Tax liabilities	5
Equity investments	1,943	Liabilities associated with non-current assets	10
Property, plant and equipment	1,032	Other liabilities	3,133
Intangible assets	64	Employee severance indemnities	245
Tax assets	3,447	Provisions for risks and charges	997
Non-current assets	55	**Total liabilities**	**139,721**
Other assets	1,776	Shareholders' equity	4,767
Total Assets	**144,488**	**Total Liabilities and Shareholders' Equity**	**144,488**

Income statement	*(amounts in € millions)*
Interest and similar income	3,180
Interest expense and similar charges	(1,422)
Net interest income	**1,758**
Fee income	2,028
Fee expense	(217)
Net fee and commission income	**1,811**
Dividends and similar income	67
Net trading gains (losses)	39
Net hedging gains (losses)	(104)
Gains (losses) on disposal or repurchase of:	155
Net gains/(losses) on financial assets and liabilities carried at fair value	109
Operating income	**3,835**
Net value adjustments/write-backs due to impairment	(3,347)
Net income from financial management 14	**488**
Administrative expenses	(3,162)
Net provisions for risks and charges	44
Net value adjustments on property, plant and equipment	(53)
Net value adjustments on intangible assets	(28)
Other operating income/charges	323
Operating costs 20	**(2,876)**
Profit (loss) from equity investments	(1,139)
Goodwill value adjustments	-
Gains/(losses) on disposal of investments	13
Profit (Loss) from current operations before tax	**(3,514)**
Income taxes on current operations	(208)
Profit (Loss) from current operations net of taxes	**(3,722)**
Gain (Loss) on discontinued operations, net of taxation	-
Profit (Loss) for the period	**(3,722)**

Part I
Share-based Payments

QUALITATIVE INFORMATION

The Bank's Shareholders' Meeting, on 18 August 2017, approved the *2017 Remuneration Report*, compliant in its contents with the analogous Report approved by the Shareholders' Meeting of Banca Monte dei Paschi di Siena on 12 April 2017 under the terms of Art. 123-ter of the Consolidated Finance Act.

The aforementioned report which fulfils the information requirements for listed companies as well as those established under sector regulations, is divided into three sections:
- the "first section", which summarises qualitative information regarding the remuneration policies the Group has adopted;
- the "second section", which describes the criteria used to determine fees to be agreed upon in the case of early termination of the employment relationship or departure from office;
- the "third section", which provides quantitative information about the payment structure for directors, statutory auditors and all key management personnel for CONSOB purposes, as well as "the most significant personnel" pursuant to the Supervisory Instructions.

In particular, the first section of the Report provides average data relative to the fixed payment component, by role and macro-department, at the Group level and for Banca MPS.

Structure of remuneration and incentive systems

In compliance with the requirements which the rules on remuneration and incentives establish for variable remuneration of the "most significant personnel", or:
- anchorage to performance measurement parameters with a view to the medium and long term;
- payment partly up-front and partly in financial instruments;
- disbursement in a minimum time period of three years;
- subjection of the deferred component to malus mechanisms;
- ratio between variable and fixed remuneration not exceeding 100% (1:1 ratio);
- for variable components of a particularly large amount, a deferral percentage of no less than 60% over no less than 5 years;
- presence of effective adjustment mechanisms for ex-post risks, which include qualitative indicators, linked to the conduct of the personnel during the employment relationship with the Bank;

disbursement of variable components in the cited perimeter occurs within the context of the maximum parameters approved by the Shareholders' Meeting - differentiated by clusters as a function of how they meet EB identification criteria (senior management, risk takers, quantitative criteria, etc.); they also include the malus mechanisms established by the Bank.

Malus and claw-back mechanisms indicated are formalised every time a variable component is activated (an incentive system is established or an employment relationship is terminated) and when new employees are hired.

The "most significant personnel" includes individuals from various organisational levels, some of which may accrue an incentive premium of a limited value, which when divided into shares or deferred would lead to insignificant units. In the light of this, for all clusters of the "most significant personnel", with the exception of I (the Managing Director, top management and other I employees reporting to the Managing Director), a bonus significance threshold has been established equal to € 40,000, below which all payments are made entirely in cash/up-front. This threshold - in line with the best market practices - which in any case are not applied if this amount is greater than 50% of the RAL received by the individual classified as "most significant personnel", is deemed appropriate to avoid the excessive

assumption of risks by individuals, taking into account that the Bank has decided to adopt an overall prudential position relative to the applications allowed under the supervisory regulations, both with reference to identifying the perimeter of the most significant personnel and in identifying the maximum theoretical variable thresholds.
For all other executives not included within the perimeter of the "most important personnel" and for all remaining personnel, the maximum percentage of the variable component relative to the fixed component is 50%. Nonetheless, the Bank reserves the right to derogate from this limit in the presence of business roles which, on the market, demonstrate an atypical variable remuneration structure (i.e. remuneration associated with commission revenue). In particular, with regards to the network of financial advisors, given the peculiarity of the remuneration system, which essentially consists of recurring commissions based on amounts managed/administered and non-recurring components deriving from development projects and multi-year loyalty programs similar to variable remuneration, the maximum ratio between variable/non-recurring remuneration and fixed/recurring remuneration is 100%, without prejudice to the deferral over three years of 50% of the amount and the payment of at least 50% in financial instruments and after the fact adjustment mechanisms.

On 12 April 2017, the Shareholders' Meeting of Banca Monte dei Paschi di Siena also approved the Performance Shares Plan, in favour of personnel of Banca Monte dei Paschi di Siena SpA and the subsidiaries which it controls, to be used when necessary to disburse any variable components, including amounts agreed upon at the time of early termination of employment relationships.

Part L
Segment Reporting

The segment reporting is prepared by the Parent Company Banca Monte dei Paschi di Siena S.p.A. in part L of the Notes to the Financial Statements to its consolidated financial statements as of 31 December 2017.

ATTACHMENTS TO THE NOTES TO THE STATEMENTS

PENSION FUND OF
MPS Capital Services
Banca per le Imprese S.p.A.

STATEMENT OF ACCOUNT
as of 31 DECEMBER 2017

Pension Fund of MPS Capital Services Banca per le Imprese S.p.A.

EXPLANATORY NOTE TO STATEMENT OF ACCOUNT AS OF 31 December 2017

(amounts in Euro)

The "MPS Capital Services Banca per le Imprese S.p.A. Pension Fund", enrolled in the Special Section of the Covip Register, under No. 9134 is the result of the historic and legal continuation of the supplementary pension scheme set up on 1 January 1974.

The "Fund" is made up of two separate segments with specific endowments aimed at guaranteeing the two benefit systems, in detail:

- the "defined benefit" segment of the "Fund" contains provisions, payable by the company, aimed at adapting the assets of the segment to the actuarial reserve estimated annually by an independent actuary;
- the section of the "defined contribution" Fund has its own separate and autonomous capital. The following are paid into the said section, which does not have a separate legal identity:
  - contributions payable by the Bank and the fund Members;
  - the portion of the employee severance indemnity allocated by the members enrolled to increase the endowment; the assets and liabilities referring to the operations of the segment are recorded in the related items of the Bank's balance sheet, despite maintaining separate asset autonomy with respect to the Bank;
  - the economic results deriving from the financial management of the assets, carried out by parties qualified to perform collective management of savings;

The assets, liabilities, costs, revenues and commitments referring to the segment's operations are not recorded in the Bank's financial statements.

The "Fund" is managed by the Bank's Board of Directors, which avails itself of advisory opinions and the support of a Supervisory Committee; the management of the positions of the members and any other activities, necessary or useful for the "Fund", are carried out by a Manager appointed by the Bank's Board of Directors.

A) "DEFINED BENEFIT" SEGMENT

The value of the Actuarial reserve as of 31.12.2017 was € 4,602,326= and it is recorded under liability item 120a in the Bank's balance sheet.

It is the value estimated so as to guarantee the periodic disbursement of the supplementary benefits of the legal pension to 38 members, all retired, of which 15 men and 12 women receiving a direct pension, along with 11 women receiving an indirect and survivor's pension.

The periodic benefits disbursed in 2017 amounted to € 517,597=.

During the year, it was necessary to increase the fund by € 84,288= to adjust it to the value of the mathematical reserve as calculated by the actuary.

No other members may join the Segment, by effect of the changes made to the Fund Regulations as a result of the collective agreements, but also on the basis of current law provisions.

B) "DEFINED CONTRIBUTION" SEGMENT

Total net assets as of 31 December 2017 amounted to € 47,607,198=.

During 2017, the Bank paid over the contributions payable by the Company to the "Fund", along with those payable by the members to their chosen extent; the portions of employee severance indemnity were also paid over to the extents indicated by said employees in accordance with the Regulations and in compliance with the law.

From the segment there were capital outflows for "transfers and redemptions" of € 2,540,585 and € 149,269 in

disbursements under the form of capital.
The disbursements by way of advances on the total position accrued, concerned requests for a total of € 1,108,870= in 2017.
A total of 560 persons are enrolled in the segment of the "Fund" as of 31 December 2017, of which **523** are active, **16** enrolled only in the so-called "Guaranteed" line and **21** are no longer active.

B.1) FINANCIAL MANAGEMENT INFORMATION

The resources of the "Fund" have been spread over seven different investment lines, of which one aimed at receiving the severance indemnity conferred tacitly, in accordance with Article 8, section 9 of Italian Legislative Decree No. 252/2005 (hereinafter, for the sake of brevity, "Guaranteed Line").
The afore-mentioned investment lines correspond to as many asset management schemes open with the Parent Company and managed by the Asset Management Service, with the exception of the so-called Guaranteed Line managed through an AXA-MPS insurance product. The contributions to said investment lines were made on the basis of the individual choice expressed by each member.
The features of the investment lines are as follows:

Description	*Line C001* GPM 386133	*Line C002* GPM 386134	*Line C003* GPM 386135	*Line C004* GPM 386164	*Line C005* GPM 386072	*Line C006* GPM 386163	*Guaranteed line*
Time Horizon(years)	*7-10*	*10-20*	*20-30*	*5*	*5*		*Collective policy*
- Risk free (monetary)				60%	42%	100%	
- Bond component	73%	52%	35%	33%	44%		
- Equity component	27%	48%	65%	7%	14%		

2017 annual return and average returns during the period from asset management

	GPM 386133 *Line C001*	GPM 386134 *Line C002*	GPM 386135 *Line C003*	GPM 386164 *Line C004*	GPM 386072 *Line C005*	GPM 386163 *Line C006*	*Guaranteed line*
2017 Return	**2.38%**	**4.43%**	**6.02%**	**0.80%**	**1.34%**	**0.28%**	**2.46%**
Annual average return for five-year period **2013/2017**	**5.35%**	**6.74%**	**7.89%**	**2.24%**	**2.96%**	**0.47%**	**2.65%**
Annual average return for three-year period **2015/2017**	**2.57%**	**3.64%**	**4.70%**	**1.05%**	**1.54%**	**0.14%**	**2.50%**

N.B. The figures express only the performance of the asset management portfolios underlying the single segments.

The values of the individual portions of the different lines during the five years 2013-2017 are as follows:

date	*Line C001*	*Line C002*	*Line C003*	*Line C004*	*Line C005*	*Line C006*	*Guaranteed line*
31/12/2013	**1.395**	**1.536**	**1.668**	**1.162**	**1.237**	**1.064**	*(1)*
31/12/2014	**1.537**	**1.688**	**1.829**	**1.213**	**1.307**	**1.067**	*(1)*
31/12/2015	**1.592**	**1.776**	**1.944**	**1.231**	**1.323**	**1.070**	*(1)*
31/12/2016	**1.636**	**1.827**	**2.010**	**1.247**	**1.346**	**1.070**	*(1)*
31/12/2017	**1.675**	**1.908**	**2.131**	**1.257**	**1.364**	**1.073**	*(1)*

(1) the insurance policy provides for the management of individual positions

With regard to the management policies of the GPM of the Pension Fund of MPS Capital Services Banca per le Imprese S.p.A., the details for financial year 2017 are as follows.
The monetary component of the portfolios was characterised by an slightly overweight positioning in terms of financial duration relative to the reference index. During the initial part of the year, it was decided to concentrate investments in fixed rate and variable Italian government securities, with an average duration of around one year to maturity, when very short term domestic bond still offered a pick up in return with respect to most of securities with equal maturities issued by other Eurozone countries. Investments in very short term corporate securities (maximum 1 year of residual life) were conserved, relative to Italian issuers with excellent credit ratings, in order to improve the expected return for the portfolio. Reinvestment of liquidity deriving from maturing securities was carried out on a case by case basis, attempting to work around the lack of investment opportunities on the governmental money markets, which featured negative returns. The monetary portfolio of the lines achieved in the year a negative absolute performance in keeping with the level of the market rates.
The bond component of the portfolios was characterised by an underweight positioning relative to the reference index in terms of financial average duration. The portfolio continued to maintain diversification in terms of exposures to core and peripheral countries, limiting the core component to solely German government securities and differentiating between Italian and Spanish bonds for the periphery. Active choices were implemented in the context of choosing curve segments. Active management of the portfolio, with particular regard to choices regarding geographical allocation (overweighting of Italy and Spain), was the main driver for the positive results achieved.
The stock component was characterised by allocation to ETF, selected by geographic area, which allowed for a greater degree of diversification and representation in investments, as well as high liquidity. Substantial overweighting of the Eurozone was maintained during the initial part of the year, to benefit from the very positive climate on the financial markets, supported by the sizeable liquid assets provided by the extremely accommodating central bank monetary policies. Especially in the Eurozone, the upward revision in expectations expressed by analysts for corporate profits, corroborated by positive surprises relative to macro data, triggered a rally that went on uninterrupted through the summer months, when we took the profits, eliminating the overweighting relative to the European equity market. During the second half of the year, a short position was kept open relative to the US stock market, which in relative terms had higher measurements with respect to Europe. This decision was not the winning one, above all when starting in August the currency exposure on the US dollar was neutralised, while awaiting possible recovery after the consistent depreciation of the first six months. The active positioning of the US market and the tactical management of exposure to the dollar did not, in any case, have a significant result on management with respect to the reference parameter. The contribution of the stock component to performance of the lines was slightly lower than the benchmark, but positive and more than satisfactory in absolute terms. Towards the end of the year, all positions in the stock component were returned to neutral status.

B.2) INFORMATION ON THE FINANCIAL STATEMENTS

The segment's financial statements are represented by a statement of account comprising a balance sheet and income statement, supplemented by the information contained in these explanatory notes. The income statement not only registers the profit or loss, but also the changes which derive from the gathering of the contributions and from the conversion of the individual positions into benefits under the form of capital or a life annuity.
The financial statements are drawn up by showing preference for the representation of substance over form; they are expressed in Euro.

B.2.1 Measurement of the investments and description of the portfolio

The securities have been valued at market value in observance of the accounting approach for financial instruments established by CONSOB.
As of 31 December 2017, there were no derivative contract transactions present in the portfolio.

B.2.2 Criteria for estimating the expenses and income

The charges and income have been recorded on an accruals basis, irrespective of the date of collection or payment. Interest on benefits and redemptions is calculated at the performance index known as of the date of leaving the Fund, net of taxation.
The tax regime of the defined contribution segment of the pension fund is disciplined by Article 17 of Italian Legislative Decree No. 252/2005 and subsequent amendments and additions.

The Fund Manager

PENSION FUND OF MPS CAPITAL SERVICES BANCA PER LE IMPRESE S.P.A.

BENEFITS OF THE "DEFINED CONTRIBUTION" SEGMENT
STATEMENT OF ACCOUNT AS OF 31 DECEMBER 2017

BALANCE SHEET

(amounts in Euro)

ACCUMULATION PHASE ASSETS	*31/12/2017*	*31/12/2016*
10 Direct investments	**-**	**-**
20 Assets under management	**48,333,823**	**45,615,048**
20-a) Bank deposits	(167,705)	480,793
20-b) Receivables for repurchase agreements	-	-
20-c) Securities issued by Governments or by international bodies	25,067,467	22,763,161
20-d) Listed debt securities	715,339	1,032,033
20-e) Listed equity securities	-	-
20-f) Unlisted debt securities	-	-
20-g) Unlisted equity securities	-	-
20-h) Units in collective investment undertakings	21,573,119	20,823,523
20-i) Options purchased	-	-
20-l) Accrued income and prepaid expenses	316,730	292,534
20-m) Result guarantees released to pension fund	-	-
20-n) Other assets of financial operations	561,421	-
20-o) Investments in insurance operations	267,452	223,004
20-p) Margins and receivables on forward/future transactions	-	-
30 Result guarantees acquired on individual positions	**-**	**-**
40 Assets of administrative operations	**328,607**	**358,971**
40-a) Cash and bank deposits	328,325	358,689
40-b) Intangible fixed assets	-	-
40-c) Property, plant and equipment	-	-
40-d) Other assets of administrative operations	282	282
50 Tax credits	**280**	**1,062**
TOTAL ACCUMULATION PHASE ASSETS	**48,662,710**	**45,975,081**

(amounts in Euro)

ACCUMULATION PHASE LIABILITIES	*31/12/2017*	*31/12/2016*
10 Liabilities of welfare operations	**596,312**	**432,341**
10-a) Payables of welfare operations	596,312	432,341
20 Liabilities of financial operations	**15,828**	**8,054**
20-a) Payables for repurchase agreements	-	-
20-b) Options issued	-	-
20-c) Accrued expenses and deferred income	-	-
20-d) Other liabilities of financial operations	15,828	8,054
20-e) Payables on forward/future transactions	-	-
30 Result guarantees recognised on individual positions	-	-
40 Liabilities of administrative operations	**3,485**	**151**
40-a) Employee severance indemnity	-	-
40-b) Other liabilities of administrative operations	3,334	-
40-c) Deferral of contributions for coverage of administrative charges	151	151
50 Tax payables	**439,887**	**218,718**
TOTAL ACCUMULATION PHASE LIABILITIES	**1,055,512**	**659,264**
100 Net assets destined for benefits	**47,607,198**	**45,315,817**

The item “Tax liabilities” represents the substitute tax applied to the results of financial operations.

INCOME STATEMENT

(amounts in Euro)

		31/12/2017	31/12/2016
10	**Balance of welfare operations**	**466,055**	**54,488**
	10-a) Contributions for benefits	4,333,758	3,338,707
	10-b) Advances	(1,108,870)	(1,394,516)
	10-c) Transfers and redemptions	(2,540,585)	(1,791,526)
	10-d) Transformations into annuities	-	-
	10-e) Disbursements under the form of principal	(149,269)	-
	10-f) Premiums for ancillary benefits	(68,979)	(98,177)
	10-g) Periodic benefits	-	-
	10-h) Other welfare outgoings	-	-
	10-i) Other welfare incomings	-	-
20	**Result of financial operations**	-	**-**
30	**Result of indirect financial operations**	**2,298,093**	**1,470,537**
	30-a) Dividends and interest	732,668	994,169
	30-b) Profits and losses from financial transactions	1,565,425	476,368
	30-c) Fees and commission on securities lending	-	-
	30-d) Income and charges for repurchase agreements	-	-
	30-e) Spread on result guarantees issued to the pension fund	-	-
40	**Operating charges**	(**33,885)**	**(31,100)**
	40-a) Management company	(33,885)	(31,100)
	40-b) Custodian bank	-	-
50	**Margin of financial operations (20)+(30)+(40)**	**2,264,208**	**1,439,437**
60	**Balance of administrative operations**	-	**-**
	60-a) Contributions to cover administrative expenses	151	399
	60-g) Sundry expenses and income	-	(248)
	60-i) Deferral of contributions to cover administrative expenses	(151)	(151)
70	**Change in net assets destined for benefits pre-substitute tax (10)+(50)+(60)**	**2,730,263**	**1,493,925**
80	**Substitute tax**	**(438,882)**	**(217,656)**
	Change in net assets destined for benefits (70)+(80)	**2,291,381**	**1,276,269**

STATEMENT OF ACCOUNT AT 31 December 2017
BREAKDOWN BY INVESTMENT LINE

(amounts in Euro)

BALANCE SHEET

ACCUMULATION PHASE ASSETS	C001	C002	C003	C004	C005	C006	C007
10 Direct investments	**-**	**-**	**-**	**-**	**-**	**-**	**-**
20 Assets under management	**9,374,617**	**15,833,885**	**15,960,366**	**2,397,119**	**3,201,060**	**1,299,324**	**267,452**
20-a) Bank deposits	(137,909)	(116,030)	80,087	(12,556)	8,323	10,380	-
20-b) Receivables for repurchase agreements	-	-	-	-	-	-	-
20-c) Securities issued by Governments or by international bodies	6,525,762	7,853,690	5,235,711	1,909,956	2,493,108	1,049,240	-
20-d) Listed debt securities	-	-	-	272,501	206,338	236,500	-
20-e) Listed equity securities	-	-	-	-	-	-	-
20-f) Unlisted debt securities	-	-	-	-	-	-	-
20-g) Unlisted equity securities	-	-	-	-	-	-	-
20-h) Units in collective investment undertakings	2,642,325	7,706,666	10,571,347	183,569	469,212	-	-
20-i) Options purchased	-	-	-	-	-	-	-
20-l) Accrued income and prepaid expenses	90,412	110,983	73,221	14,831	24,079	3,204	-
20-m) Result guarantees released to pension fund	-	-	-	-	-	-	-
20-n) Other assets of financial operations	254,027	278,576	-	28,818	-	-	-
20-o) Investments in insurance operations	-	-	-	-	-	-	267,452
20-p) Margins and receivables on forward/future transactions	-	-	-	-	-	-	-
30 Result guarantees acquired on individual positions	-	-	-	-	-	-	-
40 Assets of administrative operations	**43,919**	**85,463**	**140,059**	**17,417**	**24,014**	**17,735**	**-**
40-a) Cash and bank deposits	43,868	85,382	140,059	17,404	23,884	17,728	-
40-b) Intangible fixed assets	-	-	-	-	-	-	-
40-c) Property, plant and equipment	-	-	-	-	-	-	-
40-d) Other assets of administrative operations	51	81	-	13	130	7	-
50 Tax credits	**-**	**-**	**-**	**-**	**-**	**280**	**-**
TOTAL ACCUMULATION PHASE ASSETS	**9,418,536**	**15,919,348**	**16,100,425**	**2,414,536**	**3,225,074**	**1,317,339**	**267,452**

ACCUMULATION PHASE LIABILITIES								
		C001	**C002**	**C003**	**C004**	**C005**	**C006**	**C007**
10	**Liabilities of welfare operations**	**87,276**	**191,231**	**222,250**	**-**	**89,781**	**5,774**	**-**
	10-a) Payables of welfare operations	87,276	191,231	222,250	-	89,781	5,774	-
20	**Liabilities of financial operations**	**1,502**	**2,963**	**3,349**	**323**	**460**	**7,231**	**-**
	20-a) Payables for repurchase agreements	-	-	-	-	-	-	-
	20-b) Options issued	-	-	-	-	-	-	-
	20-c) Accrued expenses and deferred income	-	-	-	-	-	-	-
	20-d) Other liabilities of financial operations	1,502	2,963	3,349	323	460	7,231	-
	20-e) Payables on forward/ future transactions	-	-	-	-	-	-	-
30	**Result guarantees recognised on individual positions**	-	-	-	-	-	-	-
40	**Liabilities of administrative operations**	**-**	**-**	**151**	**-**	**-**	**-**	**3,334**
	40-a) Employee severance indemnity	-	-	-	-	-	-	-
	40-b) Other liabilities of administrative operations	-	-	-	-	-	-	3,334
	40-c) Deferral of contributions for coverage of administrative charges	-	-	151	-	-	-	-
50	**Tax payables**	**51,629**	**155,196**	**218,832**	**3,260**	**9,301**	**-**	**1,669**
	TOTAL ACCUMULATION PHASE LIABILITIES	**140,407**	**349,390**	**444,582**	**3,583**	**99,542**	**13,005**	**5,003**
100	**Net assets destined for benefits**	**9,278,129**	**15,569,958**	**15,655,843**	**2,410,953**	**3,125,532**	**1,304,334**	**262,449**

INCOME STATEMENT	C001	C002	C003	C004	C005	C006	C007
10 Balance of welfare operations	**43,713**	**475,751**	**(446,168)**	**41,980**	**206,131**	**109,473**	**35,175**
10-a) Contributions for benefits	655,502	1,626,203	894,130	424,434	502,387	188,833	42,269
10-b) Advances	(151,208)	(392,259)	(471,974)	(11,882)	(56,983)	(24,564)	-
10-c) Transfers and redemptions	(448,158)	(736,824)	(846,007)	(215,772)	(235,136)	(51,594)	(7,094)
10-d) Transformations into annuities	-	-	-	-	-	-	-
10-e) Disbursements under the form of principal	-	-	-	(149,269)	-	-	-
10-f) Premiums for ancillary benefits	(12,423)	(21,369)	(22,317)	(5,531)	(4,137)	(3,202)	-
10-g) Periodic benefits	-	-	-	-	-	-	-
10-h) Other welfare outgoings	-	-	-	-	-	-	-
10-i) Other welfare incomings	-	-	-	-	-	-	-
20 Result of financial operations							
30 Result of indirect financial operations	**271,677**	**808,620**	**1,130,430**	**24,787**	**53,451**	**3,189**	**5,939**
30-a) Dividends and interest	196,251	240,313	191,793	38,079	54,878	11,354	-
30-b) Profits and losses from financial transactions	75,426	568,307	938,637	(13,292)	(1,427)	(8,165)	5,939
30-c) Fees and commission on securities lending	-	-	-	-	-	-	-
30-d) Income and charges for repurchase agreements	-	-	-	-	-	-	-
30-e) Spread on result guarantees issued to the pension fund	-	-	-	-	-	-	-
40 Operating charges	**(5,906)**	**(11,266)**	**(12,967)**	**(1,301)**	**(1,811)**	**(634)**	**-**
40-a) Management company	(5,906)	(11,266)	(12,967)	(1,301)	(1,811)	(634)	-
40-b) Custodian bank	-	-	-	-	-	-	-
50 Margin of financial operations (20)+(30)+(40)	**265,771**	**797,354**	**1,117,463**	**23,486**	**51,640**	**2,555**	**5,939**
60 Balance of administrative operations	**-**	**-**	**-**	**-**	**-**	**-**	**-**
60-a) Contributions to cover administrative expenses			151				
60-g) Sundry expenses and income							-
60-i) Deferral of contributions to cover administrative expenses	-	-	(151)	-	-	-	-
70 Change in net assets destined for benefits pre-substitute tax (10)+(50)+(60)	**309,484**	**1,273,105**	**671,295**	**65,466**	**257,771**	**112,028**	**41,114**
80 Substitute tax	**(51,629)**	**(155,196)**	**(218,832)**	**(3,260)**	**(9,301)**	**280**	**(944)**
Change in net assets destined for benefits (70)+(80)	**257,855**	**1,117,909**	**452,463**	**62,206**	**248,470**	**112,308**	**40,170**

CERTIFICATION REPORT

Certification Report

The Certification Report issued on 13th March 2018 by Reconta Ernst & Young Spa may be read in the original version of the 2017 Annual Report, written in Italian.

The Certification Report relates only to that version of the Annual Report.

REPORT OF THE BOARD OF STATUTORY AUDITORS

Report of the Board of Auditors to the Shareholders' meeting called for the approval of the Financial Statements for the year ending 31/12/2017

(pursuant to art. 153 of Italian Legislative Decree 58/1998 and art. 2429 of the Italian Civil Code)

TABLE OF CONTENTS

To the Shareholders' Meeting of the company MPS Capital Services Banca per le Imprese S.p.A.

Dear Shareholders,
During the financial year ending at 31 December 2017, the undersigned Board of Auditors, appointed at the shareholders' meeting of 8 April 2016 (for two of the members in office) and of 20 June 2016 (for the third member in office), carried out supervisory activities in accordance with the provisions of the Italian Civil Code, Italian Legislative Decrees 385/1993 (Consolidated Law on Banking - CLB), 58/1998 (Consolidated Law on Finance - CLF) and 39/2010 (Consolidated Law on Auditing - CLA), the articles of association, those issued by the Independent Administrative Authorities that carry out supervisory and auditing activities, as well as the principles of conduct for Boards of Auditors recommended by the Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili (Italian National Council of Accountants and Accounting Experts).
The Board of Auditors has received the draft financial statements approved by the Board of Directors under the terms of the law. Also on the basis of the indications provided by CONSOB with Communication no. DEM/1025564 of 6 April 2001, as supplemented by the subsequent Communications DEM/3021582 of 4 April 2003 and DEM/6031329 of 7 April 2006, of the "Rules of conduct for boards of statutory auditors of listed companies" published on 15 April 2015 by the Italian National Council of Accountants and Accounting Experts, and of the principles contained in the Code of Conduct, the Board of Statutory Auditors reports as follows.

1 - FOREWORD

1.1 Reference Banking Group

As you know, the Bank is subject to management and coordination activities by the Parent Company, Banca Monte dei Paschi di Siena SpA. Relations with the Parent Company, aimed at optimising synergies and the productivity of the Company within the Group context, include operations carried out for the Parent Company on the financial markets, the agreement related to the option to adhere to National Tax Consolidation for financial years 2016, 2017 and 2018 and the outsourcing of a series of activities and services which are noted later in this report.

1.2 Summary of the operating result at 31 December 2017

The 2017 financial statements show a loss of € 632.9 million, compared to the loss of 769.7 recognised the previous year. The heavily negative result seen depends mostly on greater net value adjustments for impairment on non-performing loans to be transferred within the context of the overall Group securitisation transaction carried out during the year. The write-downs recognised relative to the perimeter of non-performing loans subject to transfer in fact was equal to € 657 million out of a total of € 781.2 million recognised under item 130 a) "Net value adjustments for impairment of loans".

2 - ACTIVITY OF THE BOARD OF STATUTORY AUDITORS

The Board of Statutory Auditors met 25 times during financial year 2017; it participated in the Shareholders' Meetings held on 7 April and 18 August 2017 and in 18 meetings of the Board of Directors. It must be acknowledged that during the board meetings the legal information was provided by the Administrative Bodies, including exhaustive information on the activity carried out and the transactions of greatest economic and financial significance performed by the Bank. During 2017, the Board of Statutory Auditors in office held a meeting with the manager of the Global Markets Department, Simone Freschi, as well as numerous meetings with the Compliance Department Manager, Franco Rossi, who held this role until 3/12/2017, preparatory to the centralisation of the Compliance Department within the parent company, as resolved by the Board of Directors of MPS Capital Services Spa on 30/5/2017 (implementing the communication sent to the parent company BMPS on 28 February 2017 by the ECB, providing recommendations on

the subject of internal government and risk management) the effects of which began as of 4/12/2017.
The Board of Statutory Auditors also met with the new Chairperson of the Bank Mario Comana for introductions and to illustrate how the Board of Statutory Auditors operates. He was appointed by the Shareholders' Meeting on 18 August 2017.
In the context of the legal provisions, the Board of Statutory Auditors of the Parent Company met with the Board of Statutory Auditors in office on 17/3/2017, 29/7/2017 and 11/12/2017.
With the assistance of the Internal Audit structure, the Board of Statutory Auditors in office, after meeting with the parent company's Board of Statutory Auditors, also carried out audits regarding:

- Related Parties, the results of which did not indicate any substantial problems relative to processes;
- Due Diligence (still being processed);
- In-depth investigation of tax compliance, aimed at assessing the expediency of the MPS Group adhering to the new cooperative fulfilment regime introduced by Legislative Decree 128 of 5 August 2015.

In addition, again with the support of the Internal Audit structure, the Board of Statutory Auditors in office carried out a visit to the Padua Area Office, which is under the Corporate Finance Department, during which we examined the procedures for origination and conduct of loan disbursement and structured finance operations.
On the basis of the activities and checks performed by the Board, we can state that the operations resolved and carried out by the Company were compliant with the law and with the Articles of Association. The Board of Auditors supervised observance of the laws and the Articles of Association.

3 - SUPERVISION OF THE ORGANISATIONAL STRUCTURE, ADEQUACY OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

3.1 Monitoring of the control units

The Board of Auditors supervised the operation of the Bank's organisational structure and the adequacy of the overall system of internal controls, ascertaining the efficacy of the structures and units involved, as well as the adequacy of the risk control and management system.
This supervisory activity was carried out through collectively performed audits, obtaining information from the managers of the corporate units, examining the documents, analysing the results of the work done by the Auditing Firm on the various accounting items which occurred through the meetings that were held during the year. In addition, monitoring was carried out on the activities of the second and third level control units, which are reported on in more detail in the paragraph devoted to this subject.
The Board of Auditors interacted constantly with the Internal Audit Unit, both to receive the necessary assistance to carry out the above referenced checks, and as the recipient of all the inspection reports containing the results of the assessments which the said Department made during the year.
The Board discussed with the managers of the operating units in order to examine the significant problems, in terms of control and risk of the main operating processes.

3.2 Internal Audit

The Board monitored the activity of the Internal Audit unit, examining the Activity Plan prepared for the year 2017, the reports on the work done during the year and verifying over time the qualitative and quantitative adequacy of the unit and the position of Independence it is considered to have within the context of the Company's organisational structure.
Particular attention was paid to the Annual Report for the year 2017 on the internal control system, submitted for examination by the Company's Board of Directors on 19 January 2018.
This report illustrates adequately the programme of activities carried out, the areas examined, the related results and the follow-up activities envisaged for the aspects of improvement; the summary judgement expressed by the Internal

Audit unit on the Bank's control system is "Rating 1 - Green". As regards this Report, the Board of Statutory Auditors expressed its appreciation for the activity performed, after stressing that the main themes presented in the Report were the subject, during the year, of periodic meetings with the manager of the department who illustrated the activities performed and the actions taken to resolve the shortcomings highlighted by the auditing activity.

3.3 Compliance

The department ensuring compliance with regulations was centralised within the parent company as of 4/12/2017. Until that date, monitoring was carried out on the Compliance department through discussions and direct contacts, in which the Internal Audit department also always took part; the Board examined, as usual, the activity plan for the year 2017 drawn up by the unit and the reporting as per the Annual Compliance Report.

The Annual Compliance Report was illustrated by the manager of the department to the Board of Directors at the meeting of 26 February 2018.

The activity performed by the Compliance department during 2017 was mainly aimed at achieving the actions described in the schedule found in the 2017 Compliance Plan, implementing legislative changes to company rules and processes, and assessing the compliance level of monitored areas, which at 31/12/2017 were found to be "compliant" or "mainly compliant", with a residual risk that was mainly classified as "moderate".

Special attention was paid to monitoring activities and safeguards established relative to:

- Intermediary and MiFID Regulations, defining and carrying out actions necessary to comply with the PRIIPS Regulation, MiFID II Directive and MiFIR Regulations by January 2018;
- Related Party and Associated Party Transactions, carrying out audits pertaining to the department and continuing to implement procedures in cooperation with the parent company's Compliance department;
- Banking Transaction and Services Transparency, updating the new release of internal regulatory documents to the "Provisions for the Transparency of Banking Transactions and Services" which implemented the developments associated with Legislative Decree 72/2016;
- Fighting Usury, adjusting control procedures to the progressive updates made to the Bank of Italy Supervisory Instructions;
- Protection of Personal Information (Privacy), with participation in periodic SAL meetings on the "Project to adjust to Regulation EU 2016/679 (GDPR)" and the actions associated with the same;
- Corporate Liability, updating the Organisational Model pursuant to Legislative Decree 231/2001 for MPS CS and the relative internal regulatory document, following the introduction of new crimes classifiable as 231 crimes;
- Anti-corruption and Anti-Mafia, monitoring regulatory developments following the issuing of Law 161 of 17/10/2017, "*Law amending the Anti-Mafia Code and prevention measures";*
- Customer complaints: During the period in question, the Bank received 35 complaints regarding banking services, of which 14 involved complaints of presumed usury relative to the rates applied by the Bank. Careful examination of all complaints, originating from a mistaken interpretation of Court of Cassation judgement 350 of 2013, made it possible to reject the customer complaints, given that the threshold for interest rates was always respected. The remaining 21 complaints all referred to other aspects associated with the provision of banking services, ranging from notifications made to the Central Credit Register to sureties. All of these complaints were rejected with the exception of 5 (five). Of these, 3 referenced mistakes in notifications to the Central Credit Register and 2 were requests to revoke sureties, which in any case did not give rise to a need for procedural activities.
  The 2017 figures showed a 20.45% decrease in complaints received compared to the previous year.

Together with the annual report, the Compliance department presented the activity plan for the year 2018, which was examined and assessed positively by this Board of Statutory Auditors.

3.4 Risk Management

The outsourcing of the Risk Control department to the Parent Company's Risk Management department, already

substantially implemented in previous years, became operational in the overall design of the Internal Control System, in accordance with regulatory changes, envisaging a centralised risk control model for MPSCS.
The Board of Statutory Auditors interacted during the year with the local Contact Point for Risk to receive updates on risk aspects related to MPSCS. In this regard, the quarterly reporting is now fully implemented; this reports the trend in the main risk categories in the exposure required by the supervisory authority, including also the assessment of the most important lending operations in the stage preceding disbursement.
The Risk Control department informed the Board of Auditors that the Bank, together with the Parent Company, had finalised specific Service Level Agreements, which also defined the opportune metrics and reference values to enable pertinent oversight on the effectiveness of the monitoring of the risks to which the Bank is exposed.
MPS Capital Services ended 2017 with RWA trending downwards, mainly due to the decrease in market risk following mitigation actions and optimisation of portfolios.
2017 saw further consolidation of the outsourcing of the Risk Control department of the subsidiary MPS Capital Services to the parent company. Improvements in methodologies, applications and reporting structures were made for each risk, within the activities carried out, guaranteeing monitoring of Group risk and with the aim of improving the overall risk culture and level or responsibility for all organisational units relevant in terms of compliance with and achievement of risk appetite objectives, as required by the regulations and also suggested by best practices.
The MPS Capital Services 2017 Risk Plan mainly included activities to maintain/develop the risk measurement systems, projects to mitigate internal and external inspection gaps, and updates to control activities and methodologies to ensure compliance with national and international supervisory regulations.

3.5 AML and Risk Contact Points

In 2017, following the centralisation of the Compliance department within the parent company, the anti-money laundering department (AML) was transferred to the newly established AML Office and Risk Contact Point.
The activities carried out by the AML Department in 2017 mainly served to carry out the actions described in the 2017 Plan, as well as covering the areas outlined below:

- Identification of mitigation actions relative to problems identified by the department as part of its control activities and Risk Self Assessment activities (AML and Terrorism Financing Risk Self Assessment);
- Follow up actions on mitigation, monitoring progress and effective resolution of problems identified;
- Supervision relative to Know Your Customer stages to accept new customers, and monitoring and reassessment of existing customers. In particular, as envisaged in the external reference regulations and on the basis of the powers granted by the General Manager, the AML Department Manager, with operation support from the department, carried out extended verification actions for the opening of new continual relationships, the extension of existing relationships and the execution of occasional transactions sent up for further evaluation (PEPs, opening of correspondence accounts with banks operating in non-White List countries and customers with a high risk profile);
- Regulatory alerts regarding changes introduced by Directive (EU) 2015/849, known as the IV AML Directive, implemented in Italy with Legislative Decree 90 of 25 May 2017, amended with Legislative Decree 231/2007;
- Gap analysis, identifying and assessment procedures relative to new applicable regulations, recognition of any compliance gaps and scheduling of actions to be taken;
- Focus on internal regulation revision requirements for areas falling under the responsibility of the AML department;
- Control activities governed by internal regulation D203 - “AML Department - Operating Instructions”;
- Acceptance of reporting from company departments and subsequent investigation and resolution, sending SOSs held to be founded on to the Bank of Italy - Financial Information Unit (UIF).

The AML Department performed a specific Risk Self Assessment (AML and Terrorism Financing Risk Self Assessment) using similar methodology to that of the previous year, based on that established in the new AML regulations issued during 2017.

On the basis of this activity:

- The inherent risk was classified as "medium-low" in consideration of the following elements: the Bank's characteristics (nature, size, differentiation and complexity); the volume and amount of transactions; the reference market for products and services provided; the distribution channels; type of customers; foreign country of origin or customer operations; correspondence relationships existing; relationships with subjects, entities and non-profit organisations; the findings of the company control departments and the supervisory authorities. Almost all customers are classified as having a "low/irrelevant" risk profile, with only a limited number being assigned "medium and high" risk profiles. For customers with "high and medium" risk profiles, the AML department has established very high frequency monitoring and updating of know your customer processes, in line with the indications provided in the regulatory provisions - once per year - while for remaining customers, the frequency is once every four years.
- Vulnerability of safeguards was found to be "insignificant" on average. This suggests that the Bank has adopted organisational, procedural and internal control measures that are reasonably effective at mitigating the risk of money laundering or financing of terrorism;
- The combination of risk judgements and the vulnerability of the safeguards led to a "LOW" residual risk on the basis of the matrix suggested by the Supervisory Authorities.

We also note that

- during the first quarter of 2017 the application GIANOS FINANCE MODULE was activated.
- activation of the GIANOS 3D MEDIOCREDITI application during 2017 made it possible to assign risk profiles to customers, identifying "unexpected transactions" and supplying data harmonised with the "Gianos Group Profile" function.
- During 2017, initiatives to obtain Know Your Customer information from customers who have not yet completed the KYC questionnaire continued.

Finally, we note that during 2017 the AML department periodically reported on its activities to the Board of Directors, providing exhaustive information. It also remained in constant contact with this Board of Statutory Auditors.

3.6 Outsourcing of functions and activities

The Board of Statutory Auditors notes that the Company has outsourced a series of services and activities to the Parent Company, or to third parties through the same. During 2017 relative to the aspect at hand no regulatory changes occurred, either at the Supervisory level or in terms of Group regulations.

The Organisation unit, which has been given the task of overseeing the adequate performance of the outsourced activities, illustrated to the Board of Directors, at its meeting on 26 February 2018, the management of the service agreements, both intra-group and extra-group, and the activity of monitoring the structured oversight procedures carried out during financial year 2017.

During 2017, the following was done:

Outsourcing of ICT Compliance

Implementing the Board resolution of July 2016 regarding centralisation of the ICT Compliance within the parent company, the General Manager signed the corresponding infragroup service agreement, which governs the services provided to MPSCS in this area (contract reference date: 22 March 2017; signed for acceptance date: 8 May 2017).

Outsourcing of legal compliance department

The Banca MPS Board of Directors approved a new Group level organisational model to govern non-compliance risk on 12 April, which included provisions to centralise legal compliance departments from subsidiaries within the parent company.

Below, we summarise the activities carried out at the local level under the aegis of the parent company, to centralise compliance departments:

30 May 2017:

the Board of Directors approved:

- ☐ centralisation within the MPSCS Compliance Department of the Bank's Specialist Safeguards, with the exclusion of the "workplace health and safety" and "tax compliance" Specialist Safeguards;
- ☐ externalisation of the MPSCS Compliance Department to the parent company;
- ☐ identification of the MPSCS Compliance Department Manager, pursuant to the regulatory provisions established in Bank of Italy Circular 285/13, as the manager of the parent company's Compliance Department;

4 December 2017:
The Board of Directors approved:
- ☐ the infragroup service agreement governing the services provided to MPSCS by BMPS following the externalisation of the Compliance department to the parent company. The agreement replaced all other previous contracts between the parties relative to the provision of compliance services, including that referenced in paragraph 2.1.2);
- ☐ the appointment of the parent company's pro-tempore Compliance department manager as the "MPSCS Compliance Department Manager";
- ☐ the identification of the local contact person for outsourced activities as the "contract contact person";
- ☐ the appointment of the "local contact person for the Compliance department", outsourced to the parent company, Gianluca Tortora, seconded to MPSCS, effective as of 4 December;
- ☐ the further appointment of Gianluca Tortora (for non-centralised roles) as:
- AML Department Manager,
- FATCA Contact Person,
- Local Contract Person for the Risk Control Department,
- Local Contract Person for the Internal Validation Department.

At the end of 2017, the situation of the outsourced functions and activities, within the Banking Group or to third parties, is the following:
INFRAGROUP:
- *Credit collection*: appointment to manage problem loans. Supplier: Banca MPS
- *Property Management:* contract to outsource the provision of services relative to the real estate segment. Supplier: Banca MPS;
- *Various services,* including: Market support, Back Office-Data and Surveys, Regulatory Reporting, Financial Statements: governance and consolidated supervision, Communication, Treasury Purchases and Logistics, Equity investments management, Personnel, Legal and Corporate Management, Specialist Credit Services: ratings decisions. Supplier: Banca MPS;
- *Workplace health and safety and Environmental management.* Supplier: Banca MPS;
- *Risk Management and Internal Validation*. Supplier: Banca MPS;
- *ICT Compliance*. Supplier: Banca MPS;
- *Compliance Department*. Supplier: Banca MPS;
- *Duties on the subject of Market Abuse: 2nd-level controls and Insider List management.* Supplier: Banca MPS
- *ICT-Information System. Supplier*: GruppoMontepaschi Operating Consortium

OUT OF GROUP:
- *Back Office - auxiliary services.* Supplier: Fruendo Srl;
- *Back Office- Administration and loan accounting.* Supplier: Accenture Spa;
- *Deal Pone Trading.* Supplier: List Spa

Monitoring of the performance of services provided has indicate substantial compliance with service levels as established. Relative to the checks performed by the Compliance Specialist Safeguard, note that these were under the

responsibility of the Organisation Office until 3/12/2017, as the following day outsourcing of the Compliance Department was completed. The checks performed up to that date had an overall judgement of “adequate”.
Relative to ICT Services provided by the Consortium, contact with the consortium departments were begun that are responsible for developing service quality monitoring/measurement methodologies. This was in order to implement a series of measures, based on automated tools, that determine the availability of infrastructure supporting applications deemed “critical” based on MPSCS criteria.

3.7 Organisation and Control Model pursuant to Italian Legislative Decree 231/01

Some time ago, the Company adopted the Organisation, Management and Control model, pursuant to Italian Legislative Decree 231/2001, prepared according to the ABI guidelines and in accordance with the instructions provided by the Parent Company.
The Oversight Committee pursuant to Italian Legislative Decree 231/2001 saw a changeover of its members during 2017 (Board of Directors meeting of 2 May 2017), given that following the expiry of the MPSCS Board of Directors, the Oversight Committee that had been appointed on 30 June 2014 also ceased its role, continuing on through an extension until the appointment occurred.
The 231 Oversight Committee has regularly reported, every six months, to the Board of Directors on the activity carried out by the same.
During 2017, the process of updating the Model 231 was completed, following changes made to the Bank’s organisational structures and the introduction of new types of included crimes (self-money laundering), as well as changes made with reference to pre-existing 231 crimes in the corporate and environmental sectors. The updated version of the Model 231 was approved by the Board of Directors on 15 March 2017.
The provisions of art. 8.10 of the Regulation of the 231 Oversight Committee were also observed. These regard the transmission to the Board of Auditors of the minutes of the Committee meetings, after they have been approved.
From the information acquired from the Oversight Committee, no elements arose which the Board must communicate to the Shareholders’ Meeting.

4. SUPERVISION OF THE ADMINISTRATIVE ACCOUNTING SYSTEM AND THE PROCESS OF PREPARING THE FINANCIAL STATEMENTS

4.1 General considerations

The Bank, in preparing the financial statements at 31 December 2017, applied the IAS/IFRS international accounting standards issued by the International Accounting Standards Board (IASB) and the associated interpretations provided by the International Financial Reporting Interpretations Committee (IFRIC), endorsed by the European Union and subject to obligatory application in financial year 2017.
The financial statements at 31 December 2017, and the associated attachments, were prepared on the basis of Bank of Italy Circular 262 of 22 December 2005 and subsequent updates. As an annex to the Notes to the Financial Statements, the Annual Report at 31 December 2017 related to the MPS Capital Services Banca per le Imprese SPA Pension Fund is provided.
The financial statements were submitted for legal auditing by Ernst & Young S.p.A., which on 13 March 2018 issued its report; this and the work done by the auditing firm, as far as the Board of Statutory Auditors is responsible, is described below in the present report.
This Board of Statutory Auditors assessed the adequacy of your Bank’s administrative accounting system, based on interventions of the Internal Audit department, discussions and inspections carried out directly and through exchanges of information with the auditing firm.
The Board of Statutory Auditors also met several times with the Financial Reporting Manager. On these occasions,

said Manager did not report any shortcomings in the operating and control processes which, owing to their significance, could affect the judgement of effectiveness and efficiency of the administrative structures and of adequacy and effective application of the administrative and accounting procedures.
The organisational processes are therefore capable of ensuring the correct presentation of the Bank's economic and financial situation and capital and conformity with the IAS/IFRS international accounting standards and the reliability of the content of the Report on Operations.
Regarding joint document 4 of 3 March 2010 (and subsequent updates), issued by the Bank of Italy, Consob and IVASS regarding application of the IAS/IFRS, this Board notes that the Financial Statements, Report on Operations and the Notes to the Financial Statements were prepared with the assumption of business continuity, given the assessment carried out regarding its capacity to continue to operate as a going concern. For the purposes of the assessment in question it becomes significant that the assumption of the Bank as a going concern cannot be separated from a consideration of the overall situation of the MPS Group and, in particular, the parent company Banca Monte dei Paschi di Siena SpA which provides management and coordination. This consideration is founded, in particular, on the considerations identified below:

- the approval of the Restructuring Plan by the European Commission on 4/7/2017;
- the signing, on 11 August 2017, of the capital increase for a total of € 8,327 million, following conversion of the AT1 and T2 financial instruments to ordinary parent company shares in compliance with that established in article 23, paragraph 3 of Decree 237, as well as in article 2 of the "burden sharing" decree and the subscription of ordinary shares by the MEF;
- the restoration of the capital ratios to above the SREP thresholds currently in effect.

Specifically relative to MPS Capital Services SpA, on 15 November 2017 the share capital increase approved by the Extraordinary Shareholders' Meeting of 18 August 2017 was completed. Share capital increased from € 829,304,238.84 to € 1,669,516,282.10. As an effect of this transaction, capital ratios have returned well above the minimum required limits and the Bank can continue to develop its business.
To that end, it should be highlighted that, with an eye to simplifying the corporate structure of the MPS Group, a feasibility study known as the "Pelican Project" was begun, with the aim of analysing the project to incorporate MPS Capital Services SpA in the parent company MPS, which has no impact on the assumption of business continuity referenced repeatedly above.

4.2 Financial statements auditing and certification firm

The auditing firm Ernst & Young received the appointment to audit the accounts for the financial years from 2014 to 2022 by the Shareholders' Meeting of 28 April 2014, following the proposal formulated by the pro-tempore Board of Statutory Auditors under the terms of Italian Legislative Decree 39/2010.
The same firm sent its report certifying the Bank's financial statements at 31 December 2017, dated 13 March 2018, without any objections and judged the same to be prepared with clarity, and able to truly and correctly represent the equity, the financial situation, the economic result and the cash flows of MPS Capital Services S.p.A. at 31 December 2017.
The Board of Auditors also notes that the auditing firm included in its certification its judgement of consistency between the report on operations and the financial statements and carried out the procedures as indicated in auditing standard no. 001 as issued by the Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili (National Council of Accountants and Accounting Experts), recommended by CONSOB.
During the year the Board of Statutory Auditors met several times with the auditing firm for the necessary exchange of information and in particular on the performance of the activity of legal auditing of the accounts.
No notifications were received from the auditing firm regarding facts considered worthy of objection identified during the execution of the activity of legal auditing of the accounts.
The Board of Statutory Auditors makes known that it has not encountered the presence of critical aspects in relation to possession of the independence requirements on the part of the auditing firm and that it has received confirmation

in this sense from the same auditors under the terms of art. 17, paragraph 9, letter a) of Italian Legislative Decree 39/10. The fees paid to the auditing firm for performing the legal auditing of the accounts amounted to a total of € 210 thousand. The firm then carried out further activities (certification services) which entailed fees for € 29 thousand. Note that the above amounts are net of VAT and ancillary expenses.

4.3 Monitoring and adequacy of regulatory capital

The Board of Statutory Auditors notes that to measure the economic capital absorbed, the models developed internally by the Parent Company based on the Value at Risk approach are applied.

The Parent Company, to which the Bank has outsourced the validation activity, carries out periodic checks on the adequacy of the models used and prepares the supervisory reports on a quarterly basis, including the statements of capital absorption and verification of the adequacy levels.

The Board of Statutory Auditors monitored the preparation of the Company's reporting on the capital, and verified that the Board of Directors monitored on the subject of keeping the regulatory capital at levels such as to ensure compliance with the capital ratios required.

On this point, following the capital increase completed in November 2017, the Bank has returned to capital ratios higher than the minimums prescribed, despite the loss recognised in the financial year. The Common Equity Tier 1 Ratio (Common Equity Tier 1 capital/Risk-weighted assets) and the Tier 1 Ratio (Total Tier 1 Capital/Risk-weighted assets) come out at 13.74% (9.89% at 31/12/2016) while the Total Capital Ratio (Total own Funds/Risk-weighted assets) is 18.87% (14.32% at 31/12/2016). Own Funds, of € 1,710 million, present a surplus of € 872 million (taking into account also the Capital Conservation Buffer requirement of 1.25%), with respect to the regulatory thresholds.

4.4 Operations on the capital

Relative to regulatory capital, we recall that as an effect of the losses recorded in the first half of 2017, equal to € 622,425,167.05=, the Bank's capital had fallen below the minimum regulatory requirements.

Additionally, as an effect of these losses, and consequent to the updated measurement of non-performing loans to be transferred as part of the overall Group securitisation transaction, the bank saw the conditions pursuant to article 2446 Civil Code applying, given that even using all existing reserves to cover the losses, the residual loss was greater than one third of share capital.

In response to this situation, at its meeting on 28/7/2017 the Board of Directors convened a Shareholders' Meeting, which on 18 August 2017 approved a capital increase for a maximum total amount of € 898,857,120.00, including the share premium. The parent company promised full willingness to subscribe the increase for any unoptioned amount, in addition to the portion pertaining to it.

The process relative to the share capital increase was completed on 15 November 2017, with the full subscription, paying in and issuing of 535,034 new ordinary shares with no nominal value at the unit price of € 1,680.00 (of which € 1,570.39 as capital and € 109.61 as share premium). The full amount was subscribed and paid in by the parent company Banca Monte dei Paschi di Siena S.p.A., which exercised its rights of first refusal relative to unoptioned shares. The share capital thus went up from € 829,304,238.84 to € 1,669,516,282.10 and the share premiums from € 125,953,569.13 to € 184,598,645.87, with a total increase in the company's capital of € 898,857,120.00. As an effect of this transaction, capital ratios returned well above the minimum required limits.

5. OTHER AUDITING ACTIVITY AND CERTIFICATIONS

5.1 Members of the Board of Directors

The current Board of Directors, appointed by the Shareholders' Meeting of 07/04/2017, will remain in office until approval of the financial statements for the year at 31 December 2019. At its meeting on 2 May 2017, the Board of

Directors appointed Giampiero Bergami as the Managing Director. On 31 May 2017, Antonio Nucci resigned as Chairman of the Bank and on 18 August 2017 the Shareholders' Meeting filled his position, appointing Mario Comana as Chairman of the Bank, as well as appointing Riccardo Tiscini to fill the missing Director position.

5.2 Transactions with related parties, associated subjects, obligations of bank representatives

The independent directors, who the MPS Capital Services Board of Directors has jointly assigned the tasks and functions previously attributed to the Related Parties Committee, carried out the activities placed under the responsibility under the current legislative and regulatory provisions.
In particular, during 2017, the independent directors carried out activities functional to verifying the adequacy of the qualitative/quantitative composition of the Board of Directors with respect to the optimal composition criteria previously set by the same administrative body.
Additionally, the independent directors received quarterly reports from the Legal Office on transactions with related and associated parties carried out by the Bank, as defined in the Bank of Italy and CONSOB provisions, performing sample checks on them; they also provided the opinions requested from them in relation to transactions with related parties which as initially cited could not be classified as cases for exemption and performed the further activities and tasks under their responsibility.
From the work done by the Independent Directors no situations and/or transactions have emerged that would be incompatible with the rules set on the matter by the Bank.

5.3 Remuneration policy

The Board verified that the Board of Directors provided a report to the shareholders, at the Shareholders' Meeting held on 18 August 2017, regarding the remuneration policies adopted and their application for financial year 2016.

5.4 Self-assessment of the Board of Statutory Auditors

Bank of Italy Circular 285 of 17 December 2013, updated, on the subject of Corporate Governance, on 6 May 2014, indicates the "self-assessment process" of the strategic supervision, management and control bodies as an essential element of an effective governance system for the Bank. On the basis of the conclusions of the task assigned to an external consultant, the Board of Statutory Auditors approved the new version of its Self-Assessment Regulations and the Self-Assessment Report which indicates a "satisfactory" assessment relative to the skills of Board members (knowledge and specialisation) and a "very satisfactory" assessment relative to the composition and structure of the control body, the operations and overall adequacy of the same, as well as the role of the Chairman, identifying areas for improvement with the aim of guaranteeing proper functioning.

5.5 Self-assessment of the Board of Directors

The Board of Statutory Auditors notes that the Board of Directors has been informed by the Chairman relative to the start of the self-assessment process relative to members of said management body. The process, carried out by the Legal Office - Corporate and Related Parties Sector, will likely be completed with the associated reporting on results by April 2018.

5.6 Opinions

During the year the Board of Statutory Auditors expressed itself on the subject: i) of the Annual Report on the status of Compliance and ii) on the Report on the activity performed by the Internal Audit Unit and assessment of the system of controls.
Additionally, the Board of Statutory Auditors provided its opening on the appointment of the new manager of the Internal Audit department, at the time of the Board of Directors meeting of 8 February 2017, as well as the new organisational model on non-compliance risk governance approved at the Board of Directors' meeting on 30 May 2017, with a consequent opinion also expressed relative to the appointment effective as of 4/12/2017 of the new MPSCS

Compliance Department Manager, Contract Contact Person and Local Contact Person for the Compliance Department. The Board of Statutory Auditors was also asked to express itself regarding the payment of fees to the Managing Director, for fees due to the Independent Director who is a member of the Oversight Committee pursuant to Legislative Decree 231/2001 and on indemnities due to the managers of the control departments. The Board of Statutory Auditors also expressed itself with regards to the additional fees requested by the auditing firm EY Spa.

5.7 Other certifications

No complaints pursuant to Article 2408 of the Italian Civil Code, nor claims of any other kind, were made to the Board. During all the activities performed and from the examination of the information obtained from the auditing firm, no omissions and/or irregularities or in any case significant facts, such as to require notification to the Oversight Committees or mention in this report, were found.

Conclusions

In conclusion, in view of what is described above and having no observations or proposals on the subject of the financial statements, the Board of Statutory Auditors has no objections to:

- the approval of the financial statements for the year closed at 31/12/2017, consisting of the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity with the related changes in the reserves, the cash flow statement and the Notes to the Financial Statements, as well as the associated annexes and the Report on Operations;
- the proposed coverage of the loss for the year as formulated by the Directors.

Florence, 26 March 2018

THE BOARD OF AUDITORS

Mr Graziano Gallo - Chairperson

Mr Werther Montanari - Regular Auditor

Ms Lara Zampiero - Regular Auditor

SHAREHOLDERS' MEETING RESOLUTIONS

The ordinary and extraordinary shareholders' meeting, called and held on first convocation on 11 April 2018, has passed the following resolutions:

POINT 1 OF THE AGENDA - Ordinary Part

Approval of the 2017 Financial Statements, comprising the balance sheet, the income statement, the statement of changes in shareholders' equity with the related movements in reserves, the cash flow statement and the Notes to the Financial Statements, as well as the related attachments and Report on Operations, as a whole and in their individual items, as presented by the Board of Directors.

Use of hedging reserves for 2017 losses equal to € 632,937,397.76 with the following terms:

- € 161,445,807.71 by use of the share premium reserve;
- € 41,323,485.06 by use of the legal reserve;
- € 10,632,004.86 by use of the reserve pursuant to Law 218 of 30/7/1990 ("Amato Law");
- € 57,805,846.43 by use of the reserve relative to parent company shares (pursuant to article 2359 bis, Civil Code);
- € 361,730,253.70 by postponing coverage of losses to future years.

POINT 2 OF THE AGENDA - Extraordinary Part

Definitively reduce and not re-establish the "Amato Law" reserve (Law 218 of 30/07/1990) used to cover the losses relative to 2017.

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