Banca Monte dei Paschi di Siena

Una storia italiana dal 1472

1Q2015 GMPS Results
Business Plan update

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MONTE DEI PASCHI DI SIENA
BANCA DAL 1472

Executive Summary

1Q15 Results Highlights

- **Net profit** for the period **(EUR 72.6mln)** and **Pre-provision profit** at EUR 614mln, **up 63.7% QoQ**
- **NII slightly up (+0.2%)** vs. 4Q14 and **strong performance from fees (+9.3% QoQ)**, driven by WM component (+26.5% QoQ)
- **Commercial Loans stable QoQ**, following strong deleveraging in previous quarters
- **Direct funding up 4.2% QoQ**, mainly thanks to commercial components, and **Indirect funding increase 4.7% QoQ**
- **Ongoing reduction of ECB exposure**, with full repayment of LTRO

Updated guidance of Business Plan targets

- **Well on track in the implementation of Restructuring Plan initiatives**
- **Main strategic actions confirmed**, with strong **focus on productivity and asset quality**
- New regulatory environment (AQR, SREP) and new macroeconomic conditions set **targets to be achieved in 2018**

Capital

- **CET1 ratio* as at Mar-15** at 10.9%; 12% in 2018E**, always above the 10.2% requested SREP level
- **EUR 3bn rights issue completion expected by end of 2Q15**
- Full reimbursement of the remaining EUR 1.1bn of NFIs ahead of schedule, originally by 2017

* Basel 3 transitional ratio, pro-forma including EUR 3bn capital increase, the payment of NFIs coupon through the issue of new shares and the repayment of the remaining EUR 1,1bn NFIs

** CET1 ratio has been calculated capitalizing 1Q15 net income; consider that the effective computability of interim net income in regulatory capital is subject to ECB specific authorization (Art. 26 Regulation EU – No 575/2013), for which GMPS has already submitted official request

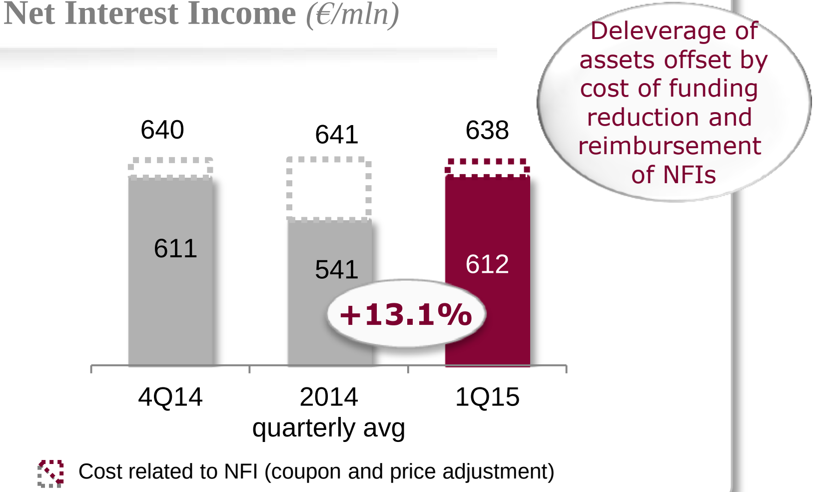
1Q15 Results

1Q15 Results

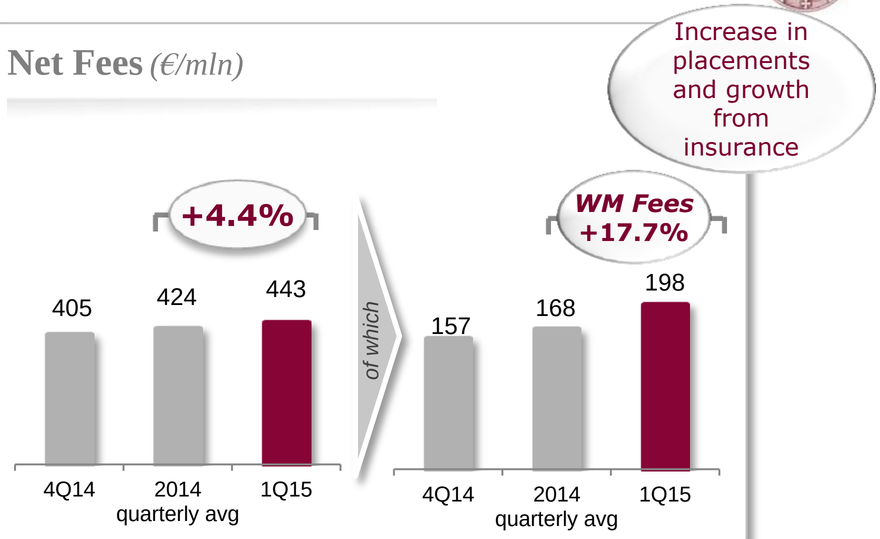
- ***1Q15 Results - Key messages***
- *1Q15 Results - Balance sheet*
- *1Q15 Results - P&L*

Ongoing positive trend in the core banking business

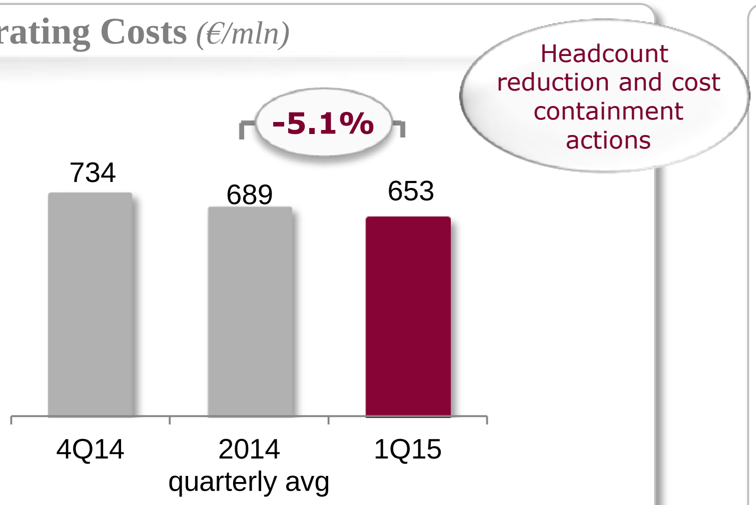
Net Interest Income *(€/mln)*



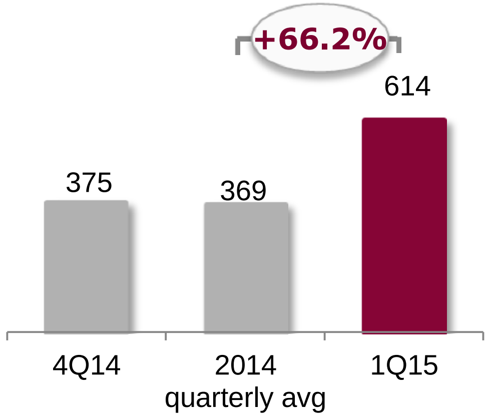
Net Fees *(€/mln)*



Operating Costs *(€/mln)*

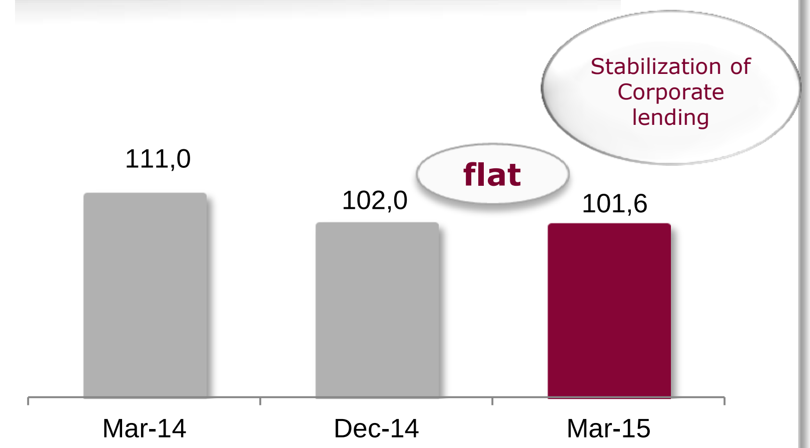


Pre Provision Profit *(€/mln)*

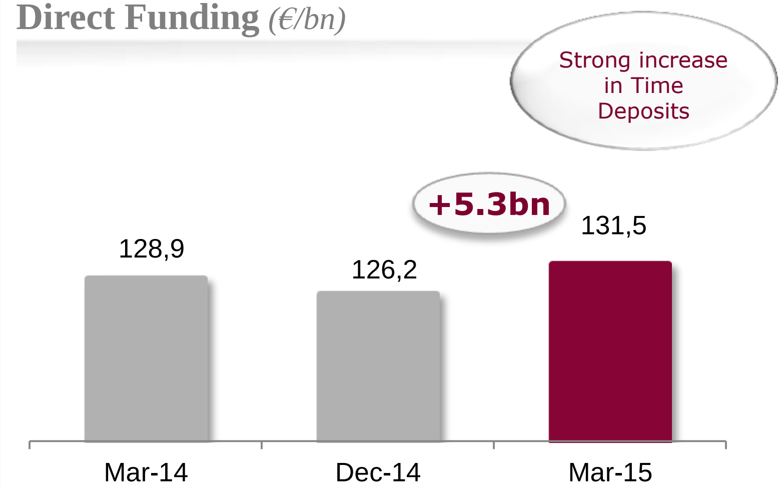


Funding optimization, with increase in commercial components

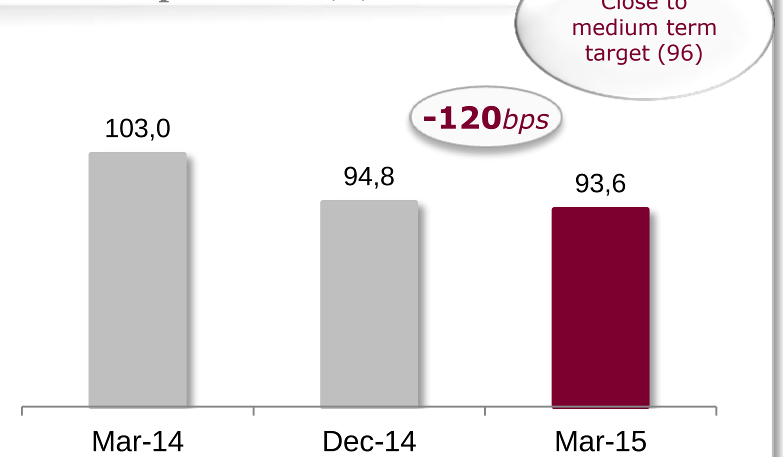
Retail and Corporate Loans* *(€/bn)*



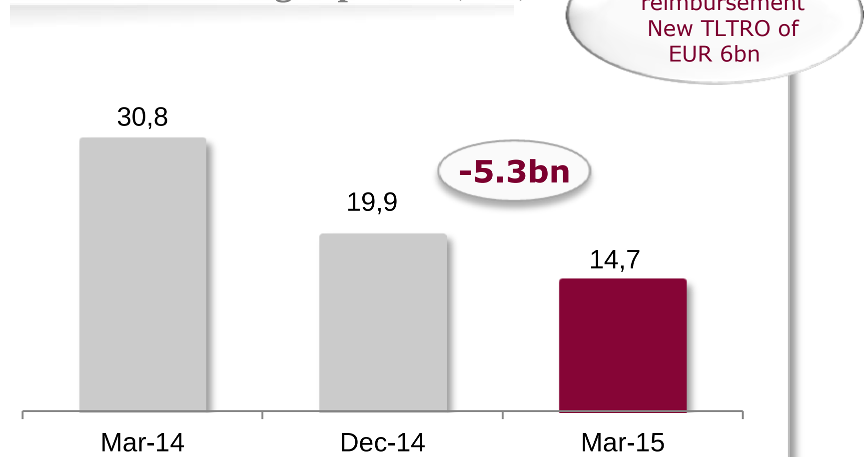
Direct Funding *(€/bn)*



Loan/Deposit ratio *(%)*



Net Interbanking exposure *(€/bn)*



*Loans excluding net NPLs

New approach to NPE management in a more stringent environment

❑ **AQR driven provisions and reclassifications**:

- updated methodologies and parameters applied from the end of 2014 for classification and evaluation of credit exposures

❑ **Credit Department reorganization fully operational:**

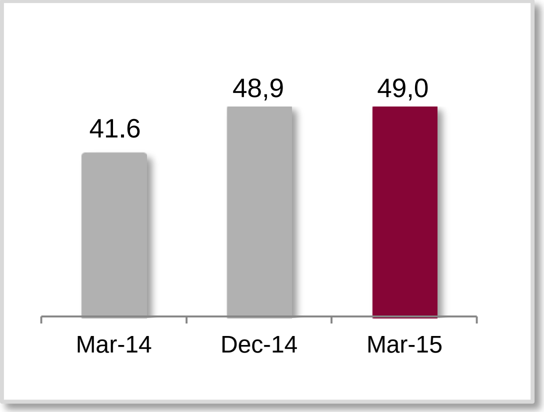
- additional expertise in Portfolio Managers, Asset Managers and Real Estate through new hires
- creation of a dedicated unit for the management of Non Performing Exposures
- use of specialised vehicles to participate in bankrupty auctions to protect value of loans subject to legal proceeding

➢ **Cost of risk improving slightly**

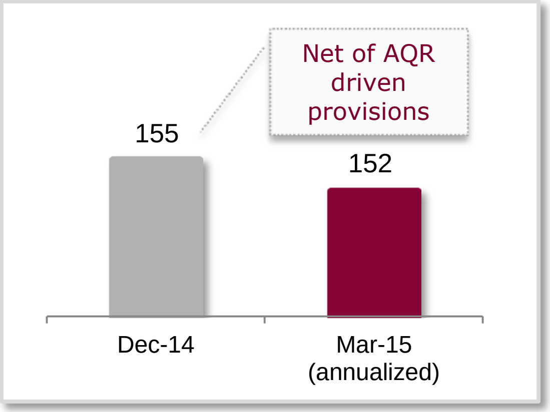
➢ **Improved coverage** of **non performing exposures**, from 41.6% as at Mar-14 to 49% as at Mar-15

➢ Further improvements are expected within the time horizon of the current plan depending on macroeconomic assumptions

Non Perfoming Exposure coverage *(%)*

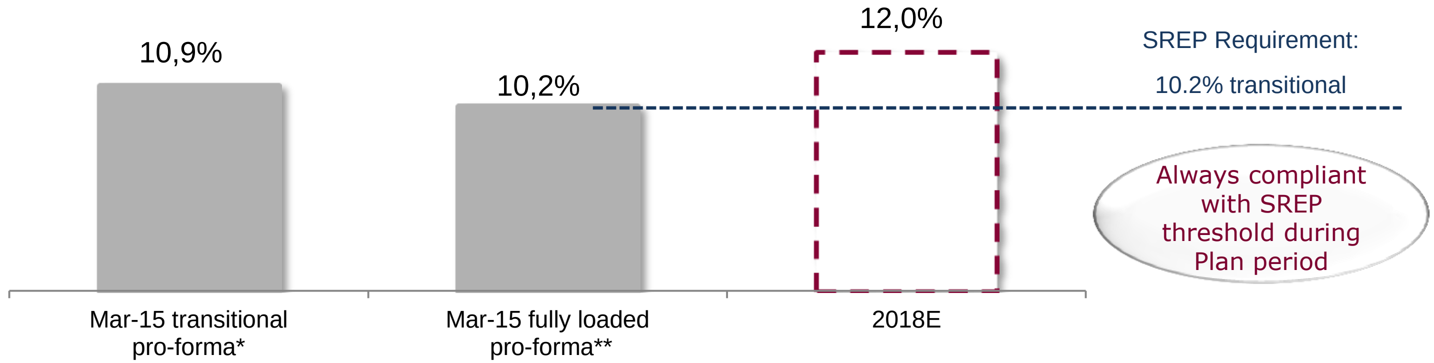


Cost of Risk *(bps)*



Capital ratios and capital increase

CET 1 ratio



The roadmap of capital increase

- **Size**: EUR 3.0bn right issue, fully underwritten
- **Timing**: expected during 2Q15, within the Comprehensive Assessment deadline for remedial actions (9 months from 26 October 2014)
- **Early full reimbursement of** the remaining EUR 1.1bn of **NFIs**

* CET1 ratio calculated capitalizing 1Q15 net income; inclusion of interim net income in regulatory capital is subject to ECB specific authorization (Art. 26 Regulation EU – No 575/2013), for which GMPS has already submitted an official request.
**Basel 3 ratio pro-forma including EUR 3bn capital increase, the payment of NFIs 2014 coupon through the issue of new shares and the rapayment of the remaining EUR 1.1bn NFIs

1Q15 Results

- *1Q15 Results - Key messages*
- ***1Q15 Results - Balance sheet***
- *1Q15 Results - P&L*

Assets & Liabilities trends

Total Assets

€/mln	Mar-14	Dec-14	Mar-15	QoQ%	YoY%
Customer loans	132,677	119,676	123,139	2.9%	-7.2%
Loans to banks	10,204	7,723	7,856	1.7%	-23.0%
Financial assets	43,500	39,776	41,236	3.7%	-5.2%
PPE and intangible assets	4,004	3,229	3,139	-2.8%	-21.6%
Other assets*	10,637	13,040	12,156	-6.8%	14.3%
Total Assets	**201,022**	**183,444**	**187,525**	**2.2%**	**-6.7%**

Total Liabilities

€/mln	Mar-14	Dec-14	Mar-15	QoQ%	YoY%
Deposits from customers and securities issued	128,859	126,224	131,511	4.2%	2.1%
Deposits from banks	40,991	27,648	22,519	-18.5%	-45.1%
Other liabilities**	24,888	23,583	27,000	14.5%	8.5%
Group equity	6,251	5,965	6,471	8.5%	3.5%
Minority interests	34	24	24	2.0%	-28.3%
Total Liabilities	**201,022**	**183,444**	**187,525**	**2.2%**	**-6.7%**

- **Deleveraging is slowing** thanks to improving macro-economic conditions
- **Financial assets up** in relation to MPS Capital Services' activity as primary broker
- **Increase in funding,** both direct and indirect components
- **Net Interbank position improved** (+EUR 5.3bn QoQ) thanks to the reduction of ECB exposure (LTROs reimbursement completed)
- **Shareholders' equity up** thanks to improvement in valuation reserves and profit for the period

*Cash and cash equivalents, equity investments, DTAs and other assets
** Financial liabilities held for trading, provision for specific use, other liabilities

Lending and Funding

Total Lending

€/mln	Mar-14	Dec-14	Mar-15	QoQ%	YoY%
Current accounts	11,404	8,745	8,488	-2.9%	-25.6%
Mortgages	62,966	55,328	55,031	-0.5%	-12.6%
Other forms of lending	29,474	27,276	27,219	-0.2%	-7.7%
Reverse repurchase agreements	5,457	4,142	7,667	85.1%	40.5%
Loans represented by securities	1,453	1,042	961	-7.8%	-33.8%
Impaired loans	21,925	23,143	23,773	2.7%	8.4%
Total	**132,677**	**119,676**	**123,139**	**2.9%**	**-7.2%**

- **Commercial Customer loans** stable QoQ, with **Retail lending** (-1.1% QoQ) impacted by the planned run-off of Consum.it and slight improvement in **Corporate lending** (+0.5% QoQ). **Total loans** up 2.9% QoQ due to increase in repos with institutional counterparties, on which temporary surpluses of liquidity have been allocated
- **Direct funding** up 4.2% QoQ driven by time deposits (+17.2%) and recovery in bonds (+4.1%) thanks to the Consum.it securitization. **Corporate funding** increase vs. 4Q14 (+13.3% QoQ) thanks to sight deposits; **Retail funding** stable at EUR 61bn (+0.3% QoQ)
- **Assets under custody** up 2.3% affected by a positive market effect partially offset by a shift towards other forms of Wealth Management
- **Wealth Management** increased 7.3% QoQ: Mutual funds increased 11%, thanks to positive inflows and market impact; Life insurance increased 3.6% driven by Unit Linked products

Direct funding

€/mln	Mar-14	Dec-14	Mar-15	QoQ%	YoY%
Current accounts	56,912	53,373	54,311	1.8%	-4.6%
Time deposits	8,709	10,800	12,657	17.2%	45.3%
Repos	13,749	21,158	21,069	-0.4%	53.2%
Bonds	38,022	31,406	32,690	4.1%	-14.0%
Other types of direct funding*	11,466	9,487	10,784	13.7%	-6.0%
Total	**128,859**	**126,224**	**131,511**	**4.2%**	**2.1%**

Wealth Management/Asset under Custody

€/mln	Mar-14	Dec-14	Mar-15	QoQ%	YoY%
Assets under custody	58,617	54,622	55,874	2.3%	-4.7%
Wealth Management	46,656	51,519	55,300	7.3%	18.5%
Total	**105,273**	**106,140**	**111,175**	**4.7%**	**5.6%**

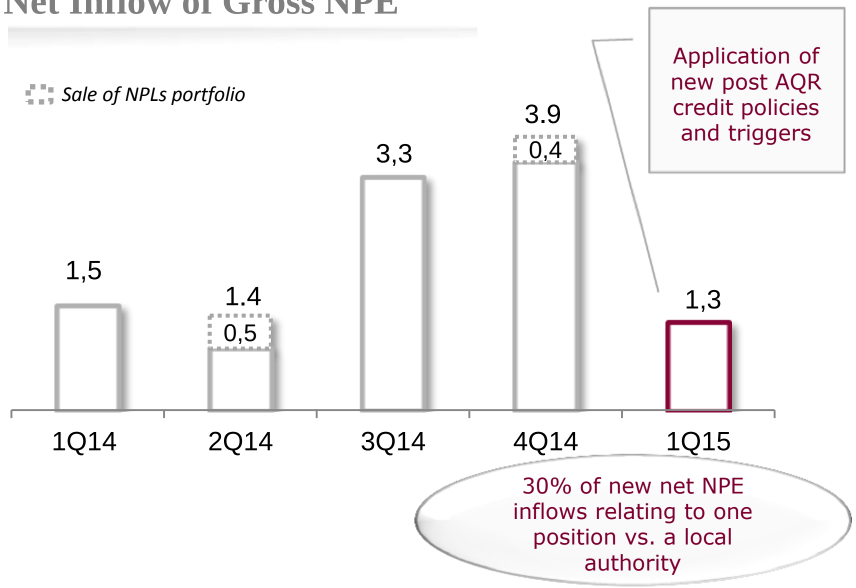
* As at Mar-15, the item includes EUR 1,376bn in NFIs, including accrued, unpaid interest

Asset Quality

Net Non Performing Exposures (NPE)*

(€ mln)	Net	QoQ (%)	YoY (%)
Doubtful loans (sofferenze)	8,718	+3.2	-6.6
Unlikely to Pay	12,238	+5.1	+90.1
NP past due / overdue exposures	2,817	-7.7	-54.2
Total NPE	**23,773**	**+2.7**	**+8.4**

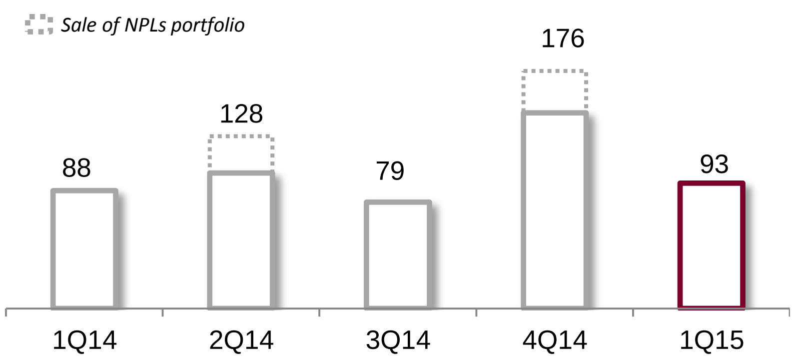
Net Inflow of Gross NPE



Non Performing Exposures Coverage

(€ mln)	Mar-14	Dec-14	Mar-15
Doubtful loans (sofferenze)	58.5%	65.3%	65.5%
Unlikely to Pay	23.4%	32.3%	31.6%
NP past due / overdue exposures	7.2%	19.6%	18.1%
Total NPE	**41.6%**	**48.9%**	**49.0%**

Doubtful loans Recovery Inflows *(€/mln)*

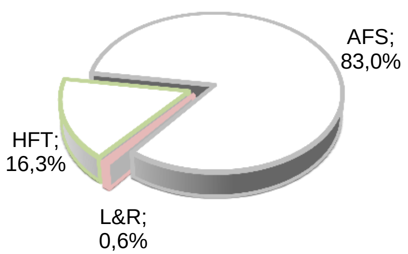


*Refer to seventh revision of July 30, 2008 to Bank of Italy circular 272/2008 – "Matrice dei conti" issued by Bank of Italy on January 20, 2015

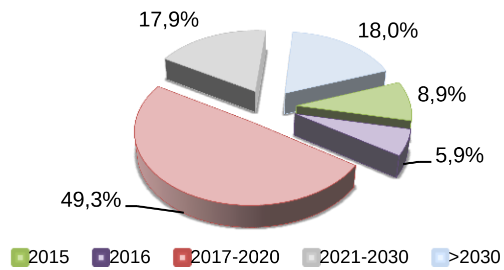
Financial assets: focus on Italian Govies portfolio

Italian Government Bonds: EUR 25bn*

Breakdown by IAS category



Breakdown by maturity



of which

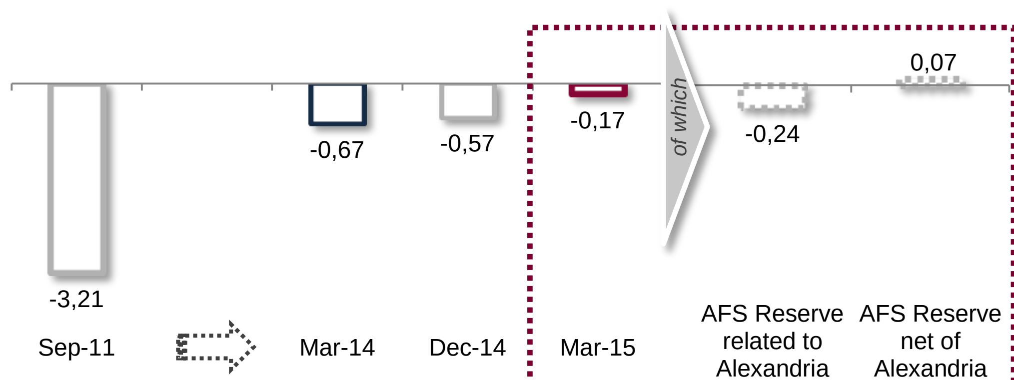
- **Securities and Derivatives Portfolio** at EUR 33.8bn in Mar-15, increased 1.6% QoQ, mainly in HFT component (+EUR 2bn) driven by MPS Capital Services
- **Nominal Value of the Italian Government Bond Portfolio in AFS**: EUR 16.7bn vs. EUR 18.7bn in Dec-14, **-11.5% QoQ** (sold about EUR 6.4bn of Italian Govies and bought approx. EUR 4.4bn)
- **Reduction in AFS portfolio** due to strategy aimed at managing portfolio duration and optimising carry/capital gains in current low rate environment, with a positive contribution of EUR 122mln to P&L

AFS Italian Government Bonds**: Nominal Value

	Nominal Value *(€bn)*	Duration *(years)*	AFS Net Reserve *(€bn)*
Outright	7.83	2.82	+0.10
in ASW	9.19	10.37	-0.27
in ASW ex Alexandria	6.14	8.44	-0.03
Total	**17.02**	**7.34**	**-0.17**

EBA AFS Reserve** *(€/bn)*

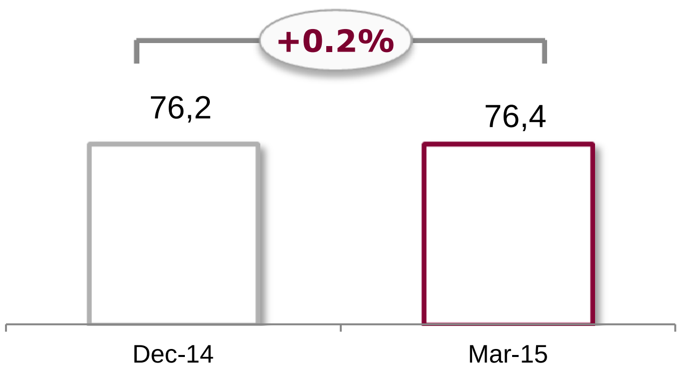
Credit spread sensitivity (to 1bp change) is about EUR 17mln of which EUR 7mln related to Alexandria



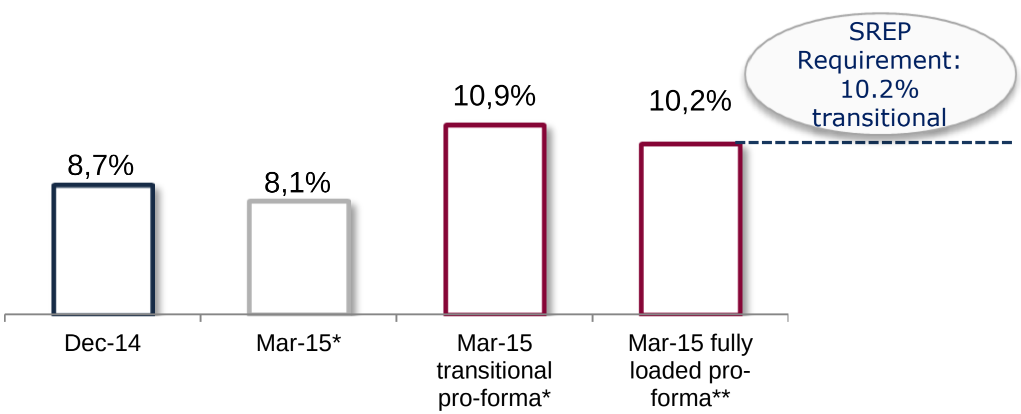
*Market Value
** Figures from operational data management system (Risk Management)

RWAs and Capital ratios

RWAs over time *(€/bn)*



CET 1 ratio



- **RWAs stable** (+EUR 140mln QoQ) due to offsetting effects related to the increase in credit/counterparty and market risks and the reduction in RWA's due to capital deductions below CET1 threshold
- Main drivers of **CET1 evolution**:
  - Positive: net income generated during the period; reduction of the negative AFS reserve related to Alexandria (-EUR 239mln vs. -EUR 423mln as at Dec-14); reduction of DTA deductions and other prudential filters
  - Negative: regulatory impacts (increase in phasing-in deductions from 20% in 2014 to 40% in 2015) and capitalization of reserves of the 2014 net losses (previously partially included in Additional Tier 1)

* CET1 ratio calculated capitalizing 1Q15 net income; inclusion of interim net income in regulatory capital is subject to ECB specific authorization (Art. 26 Regulation EU – No 575/2013), for which GMPS has already submitted an official request.

**Basel 3 ratio pro-forma including EUR 3bn capital increase, the payment of NFIs 2014 coupon through the issue of new shares and the rapayment of the remaining EUR 1.1bn NFIs

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1Q2015 P&L

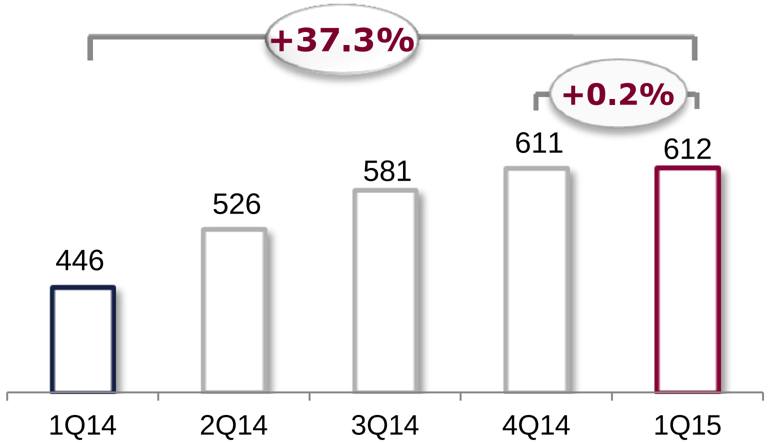
€ mln	1Q14	4Q14	1Q15	Change (QoQ %)	Change (YoY %)
Net Interest Income	445.8	610.9	611.9	+0.2	+37.3
Net Fees	445.2	405.2	443.0	+9.3	-0.5
Other revenues	67.6	93.2	212.3	n.m.	n.m.
Total Revenues	**958.6**	**1,109.4**	**1,267.2**	**+14.2**	**+32.2**
Operating Costs	**(660.5)**	**(734.5)**	**(653.3)**	**-11.1**	**-1.1**
Personnel costs	*(429.3)*	*(430.7)*	*(419.4)*	*-2.6*	*-2.3*
Other admin expenses	*(182.6)*	*(227.5)*	*(185.5)*	*-18.4*	*+1.6*
Pre Provision Profit	**298.0**	**374.9**	**613.8**	**+63.7**	**n.m.**
Total provisions	**(491.7)**	(5,502.2)	(454.2)	-91.7	-7.6
LLPs	*(476.6)*	*(5,357.0)*	*(468.2)*	-91.3	-1.7
Non operating items*	(9.0)	(105.2)	(29.4)	-72.0	n.m.
Profit (Loss) before tax	**(202.7)**	**(5,232.5)**	**130.2**	**n.m.**	**n.m.**
Taxes	38.4	1,736.8	(44.3)	n.m.	n.m.
PPA & Other items	(9.8)	(9.5)	(13.3)	+39.7	+34.6
Impairment on goodwil and intangible assets		(687.9)		n.m.	n.m.
Net income	**(174.1)**	**(4,193.2)**	**72.6**	**n.m.**	**n.m.**

- **Net Income at EUR 72.6mln** thanks to strong **Pre Provision Profit growth** (+63.7% QoQ, at EUR 614mln), leading to a positive result for the period
- **Interest margin resilience**, thanks to the improvement in funding/lending spread
- **Commission income growth** notwithstanding exceptionally low rate environment
- **Strong results** from **securities portfolio** management and MPSCS brokerage activity
- Continuing focus on **cost reduction**
- LLPs impacted by 1Q15 ECB supervisory activities

* Net provisions for risks and charges, Gains (losses) on investments, Restructuring costs / One-off costs, Gains (losses) on disposal of investments.

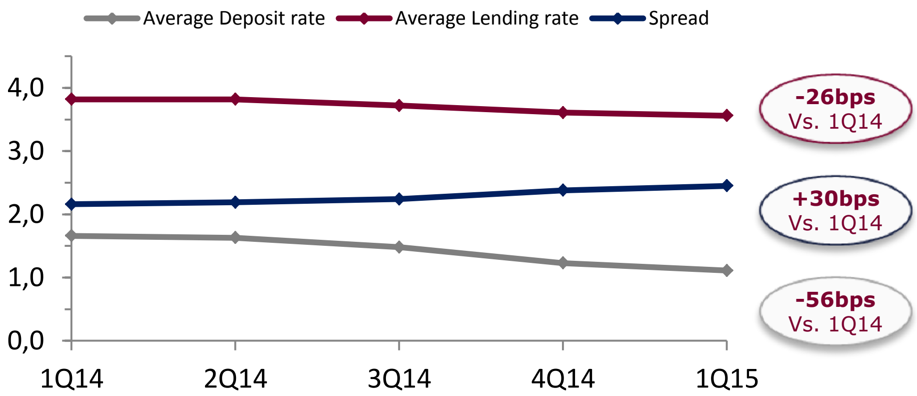
Net Interest Income

Net Interest Income *(€/mln)*

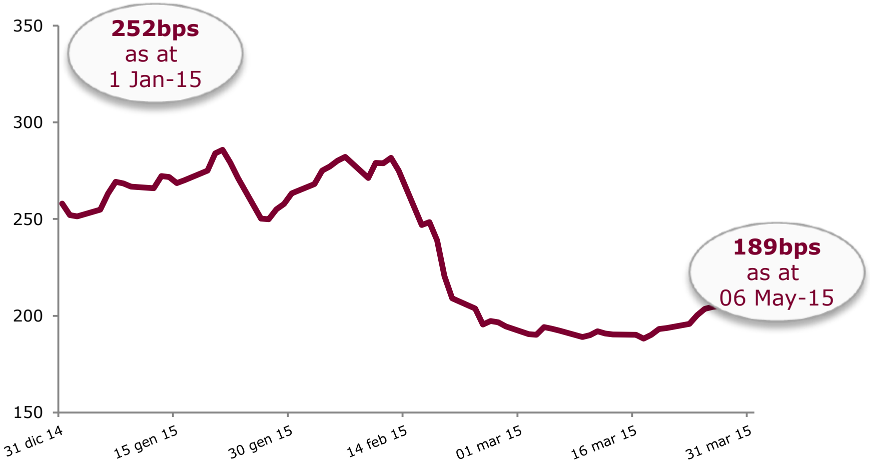


- **Net Interest Income** increased 37.3% YoY thanks to improving funding/lending spread (approx. +30 bps), as well as reimbursement in 3Q14 of EUR 3bn NFIs
- Quarterly evolution mainly driven by:
  - Ongoing cost of funding reduction (+EUR 29mln)
  - Deleverage effect (-EUR 34mln)

Spread trend (%)

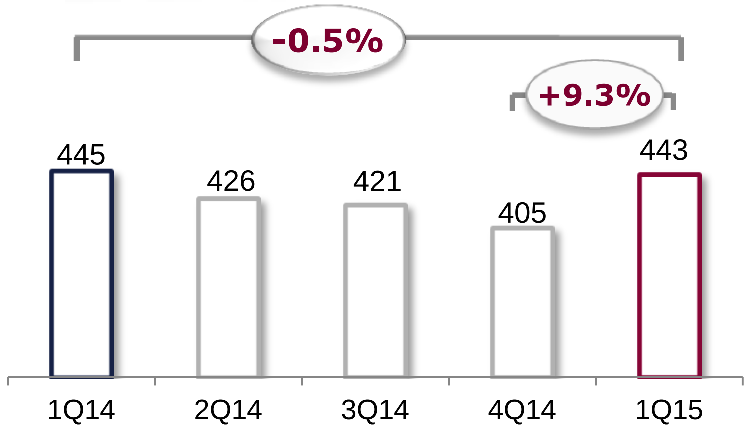


MPS 5Y CDS evolution

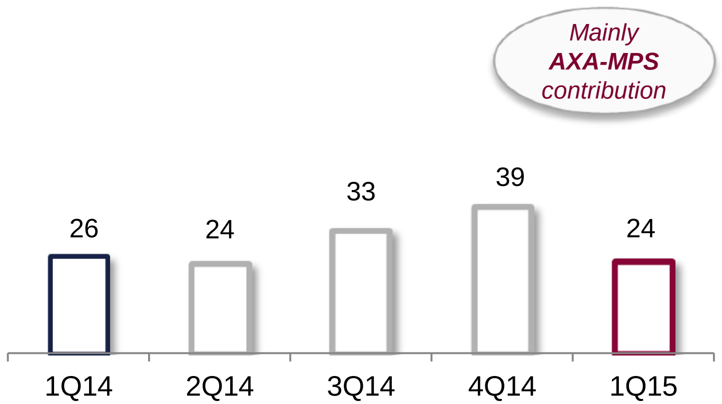


Fees, Dividends and Trading Income

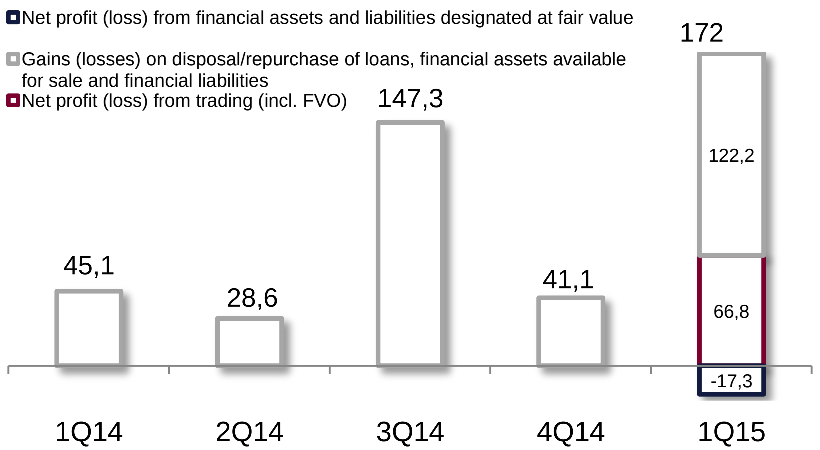
Fees *(€/mln)*



Dividends /Profit from investments *(€/mln)*



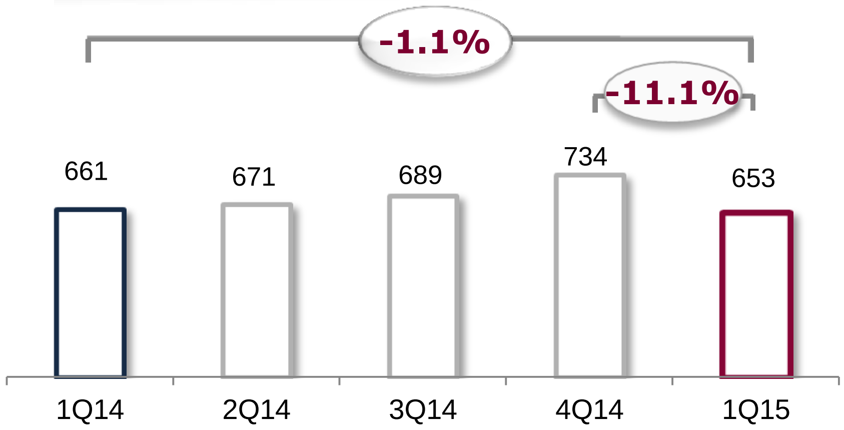
Trading/valuation of financial assets *(€/mln)*



- **Net fees and commissions** up 9.3% QoQ on the back of revenues from the placement of WM products (+65.5%)
- Positive trend from **credit facilities fees** (+6.5% QoQ) thanks to loans stabilization
- Yearly evolution driven by the increase of WM components (+5.9% YoY) offset by the reduction of the traditional banking fee component (-4.6%)
- **Dividends, similar income and gains (losses) on investments** at EUR 24mln thanks to the contribution from AXA-MPS
- **Trading**: strong results from securities portfolio management (approx. EUR 122mln) and MPSCS brokerage activity (EUR 67mln), partially offset by higher FVO of MPS bonds (–EUR 17mln)

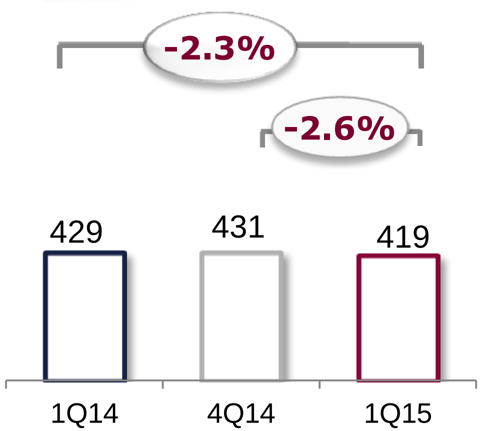
Operating Costs

Operating Costs *(€/mln)*

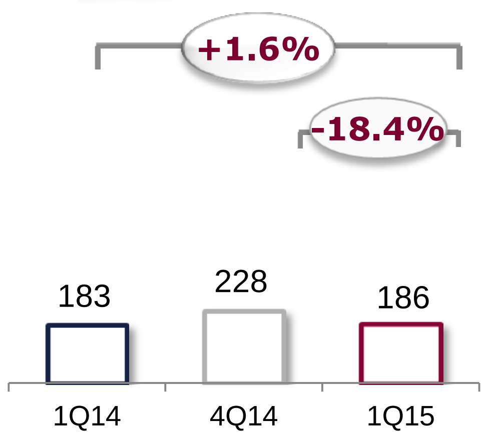


- **Personnel expenses** decreased 2.6% QoQ mainly due to headcount reduction, which more than offset increased expenses associated with the National Collective Labour Agreement
- **Other Admin Expenses** down 18.4% QoQ in connection to seasonality of 4Q and to the ongoing focus on cost rationalization

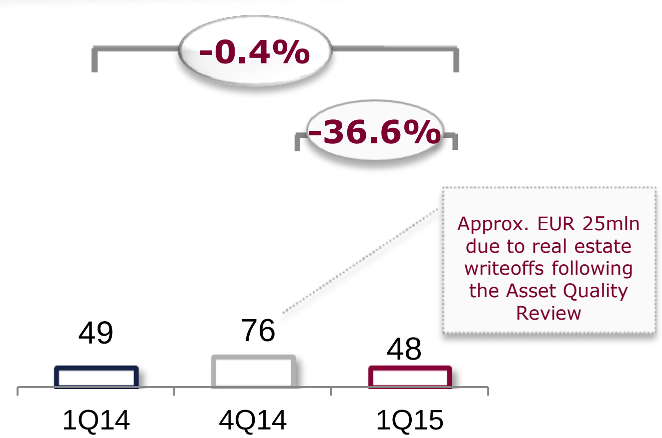
Personnel expenses *(€/mln)*



Admin expenses *(€/mln)*

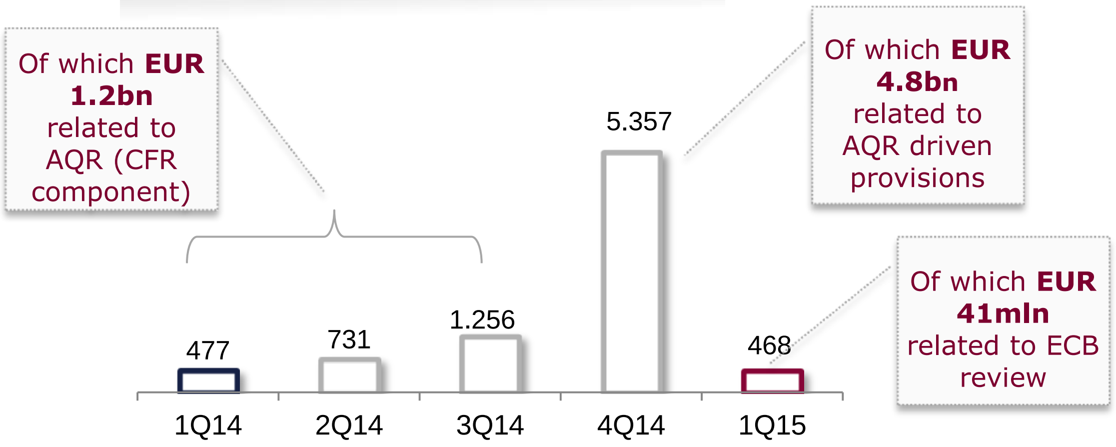


Amortization and Depreciation *(€/mln)*

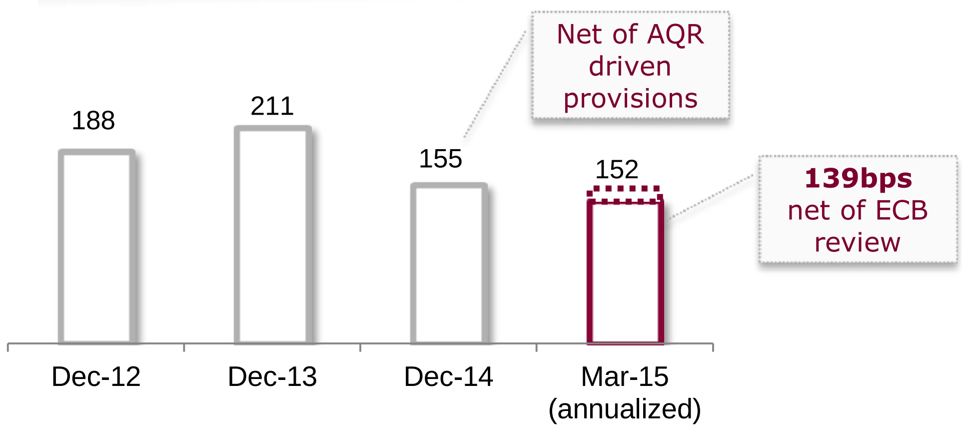


Provisions and Cost of Risk

Net loan loss provisions *(€/mln)*



Cost of Risk *(bps)*



- **Net loan loss provisions** down by around EUR 90mln vs. the previous quarter normalized and slightly below 1Q14
- **Cost of credit** of 152bps improving from 2014 (654bps as at December 2014 including AQR driven actions)
- In the first months of the year the ECB conducted a review of the Residential Real Estate, Shipping, Project Finance and Institutions portfolios (approx. EUR 35bn in total), not previously included in the AQR exercise, but already cured by MPS during the 2014 year end process. MPS estimated impact of CFR of EUR 41mln booked in 1Q15 although official results not yet communicated by ECB

90% of performing exposure and almost all of the non performing exposures checked

Business Plan update

Restructuring Plan: main results achieved

Downsizing/Derisking

Total assets down EUR 50bn from Dec-11 to Dec-14

AFS sovereign bonds from EUR 22bn* as at Dec-12 to EUR 19bn* as at Dec-14. 29% of the portfolio expires in 2017

Network rationalization

Closure of domestic branches ahead of the Plan (from 2,915# as at Dec-11** to 2,186# as at Dec-14)

Efficiency improvement

Operating costs: reduced by ≈EUR 750mln (-21.3%) since Dec-11**

Over achievement of Plan targets

Disposal of non-core investments

Disposal of **non strategic assets** with a positive P&L impact. Ongoing: MPS Leasing, BMP Belgio, MP Banque; **Consum.it fully incorporated**

Improved liquidity

Full LTRO reimbursement

Government Guaranteed Bonds expiring in 1Q15

L/D ratio close to medium term target

Full transparency

Review of **accounting treatmen**t of three structured transactions and **closing of Santorini**

Balance Sheet restructuring

Full goodwill write off; restructuring of Chianti Classico

Asset Quality

Increase coverage on NPE from 41% to 49% and on Doubtful loans from 55% to 65% (in 2011-2014 period), at the best-in-class levels (avg. Italian banks' doubtful loans coverage from 51% to 53% in the same period)

Capital

Completion of EUR 5bn capital increase in 2014 and reimbursement of EUR 3bn State Aid

Additional EUR 3bn fully underwritten

Planned reimbursement of remaining NFIs

MPS: a lean and fully restructured bank ready to deliver results and capture market opportunities

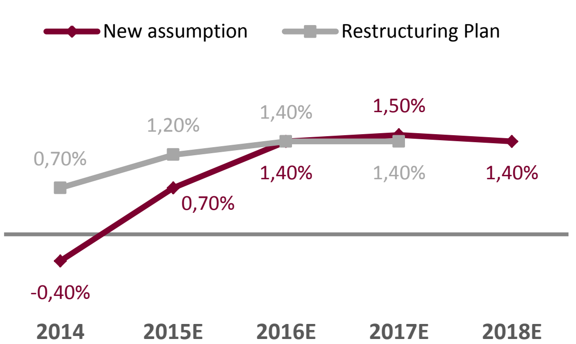
*Nominal Value
**Including Biverbanca

Rationale for the updated Business Plan targets

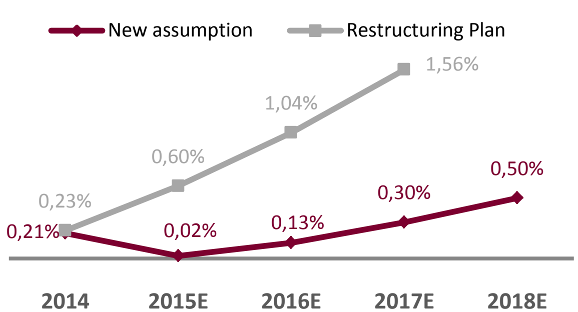
- **Supervisory Review Evaluation Process (SREP) completed:** 10.2% CET1 transitional threshold set as minimum "SREP target"
- **Asset Quality Review:** review of the entire credit portfolio with impacts fully reflected in 2014 results; introduction of new criteria for classification and evaluation (detection and coverage) of credit exposures
- **Full repayment of New Financial Instruments (NFIs)**
- **Evolution of the macroeconomic scenario**, with record low interest rates and slower recovery than originally expected

New macro assumptions

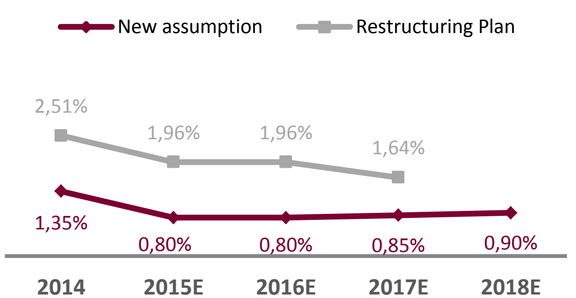
GDP* (YoY %)



3M Euribor – annual average* (%)



BTP – BUND Spread* (%)



Source: Processing BMPS Research on market data of the leading research centers and the DPEF; Restructuring Plan 2013-2017

Key targets 2018

Growth (CAGR 14-18)	Revenues *(%)*	+4.8
	Net fees and commission *(%)*	+7.3
	Operating expenses *(%)*	-2.2
	Pre Provision Profit *(%)*	+15
Efficiency	Cost / income *(%)*	~ 49
Risk	Cost of credit *(bps)*	106
Balance sheet structure	Loans / deposits* *(%)*	~ 94
	CET1 (fully loaded) *(%)*	~ 12
Profitability	RoTE** *(%)*	~ 8
	ROE*** *(%)*	~ 8
	Net income *(€/mln)*	~ 880

- **2015 guidelines**:
  - PPP: EUR 1.6–1.8bn
  - Net result positive

*Loans to customers, excluding debt securities /Direct funding excluding NFIs
** Net income for the current year / Average Net equity of the previous year and the current year excluding dividend accrued in the year
***Net income for the current year / Average Net equity of the previous year and the current year excluding dividend accrued in the year and net of goodwill

Main drivers of the updated guidance

1	**Further increase in commercial productivity**	• Structural review of distribution and business model • Dedicated service model for high potential growth companies
2	**Improvement of asset quality**	• Lending management and credit policies process review completed • Strong transformation of management of problem loans, through the enhancement of dedicated organizational structures and review processes
	Ongoing liquidity and financial strength	• Downsizing of ECB to a level consistent with T-LTRO facility in line with other banks (completed the repayment of LTRO) • Capital increase of EUR 3.0bn, with early repayment of the remaining EUR 1.1bn of New Financial Instruments

1 Continued structural optimization of distribution and business model

Optimisation of local footprint

- Closure of further 350 branches by 2018
- ~1,800 branches in 2018
- ~700 branches restyled
- 200 branches relocated

Expected ~EUR 23mln run rate cost savings *per year from branch closures*

EUR 35mln of one-off costs related to branch closures

EUR 140mln of investments (2015-2018)

Hub & Spoke Branches

- A new distribution model transforming the existing branches in a modular network:
  - "Hub" branches: branches of medium-large size, with high commercial relevance, staffed with account managers for Small Business, Premium and Value Customers; hub for the management and development of the Small Business portfolio
  - "Spoke" branches: smaller branch offices with commercial focus on Premium and Value Customers
  - "Independent" branches to cover big cities and high potential areas

Better focus on small business customers

Multichannel Integration

- Digitization of end-to-end processes
- Migration of transactions to online channels
- Improvement of online channels
- Enhancement of self banking in branches

widiba

The new online bank as catalyst in the new multichannel approach

Simplifying and innovating offer

- Simplification of the product portfolio
- Innovating in the offering packages
- Optimization in the pricing approach

1 Dedicated service model for high potential growth companies

Goals

- ➢ **Seize opportunities linked to increased customer demand and business competitiveness**
- ➢ **Improve the profitability through the establishment of a dedicated commercial team to maximize cross-selling**

Levels

Dedicated network

- Dedicated branches focusing on more selected group of client to improve service quality
- Highly qualified relationship managers

Organization

- Dedicated coordinators for each area
- Local autonomy for pricing and credit authorization to reduce customer response time

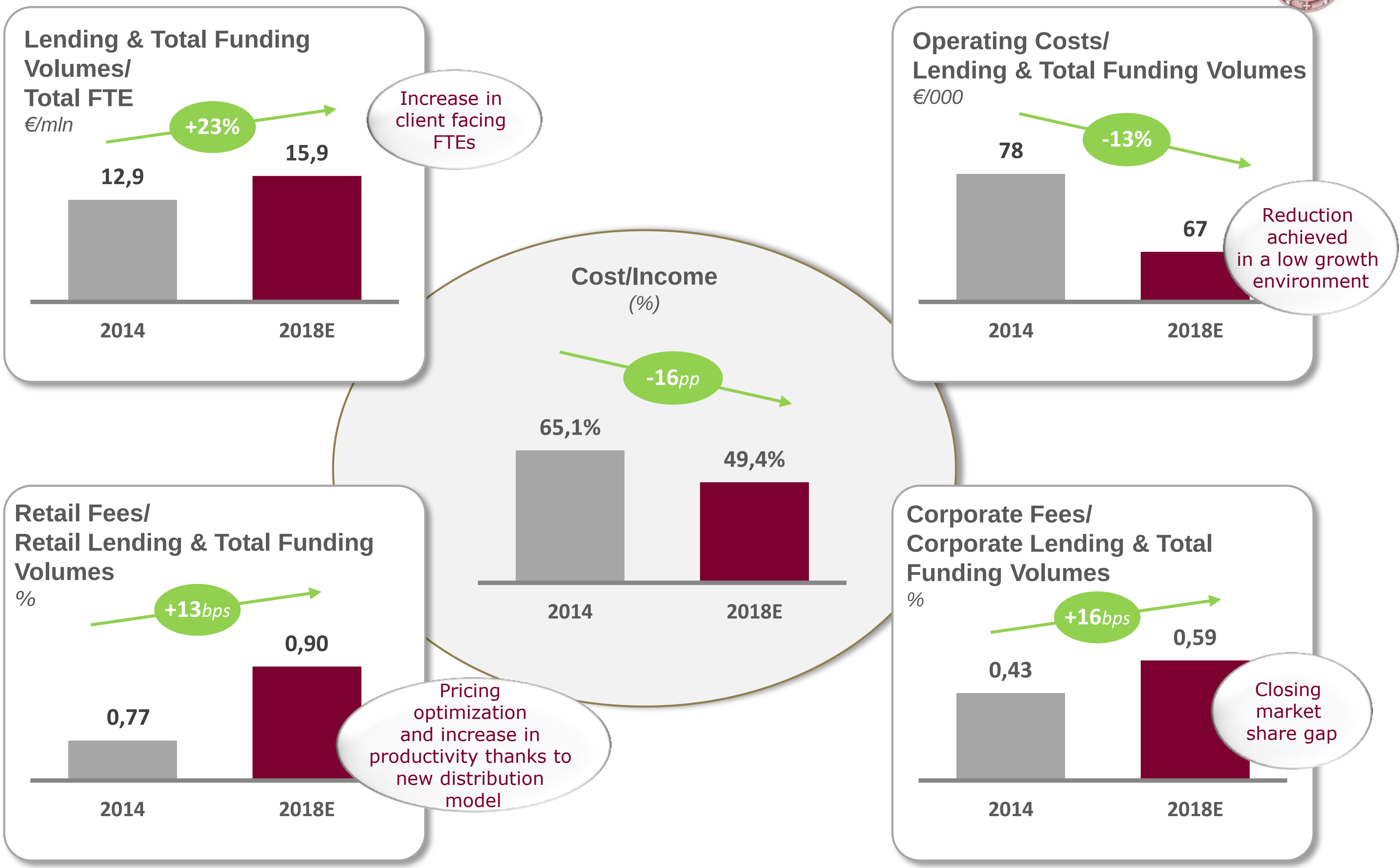
Product Offering

- Offering based on high value added and specialized product and services
- Team approach to enhance the network of specialists and sophistication of products

Other initiatives

- **Hedge of financial risk**
- **International**
- **Transaction banking**
- **Capital Market and Advisory**

1 Key performance indicators



2 Actions taken to enhance the management of problem loans: dedicated unit

- The need to deal with a potentially problematic situation before the loan actually becomes Unlikely to pay has resulted in a reorganization of the Debt Collection Area

DEBT COLLECTION UNIT

Reinforcement in terms of collection management and instruments

DISTRESSED CREDIT RISK AND DEBT COLLECTION UNIT

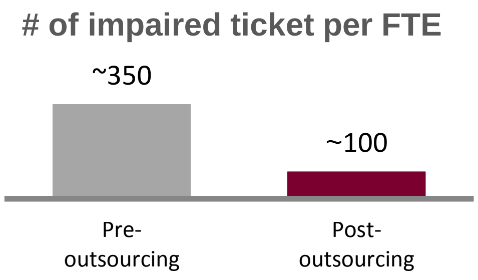
Advantages:

- Reduced intervention timing (including through voluntary asset disposals and debt reconfiguration/repayment support activities)
- Management by regional areas as well, resulting in greater vicinity and visibility/awareness of situations at risk
- Flow shared, in terms of information quantity and quality, between the two Areas, with evident benefits in terms of knowledge and analysis of the portfolio
- Synergies of resources and analytical/management instruments
- Sharing of the main management and collection strategies

2 Actions taken to enhance the management of problem loans

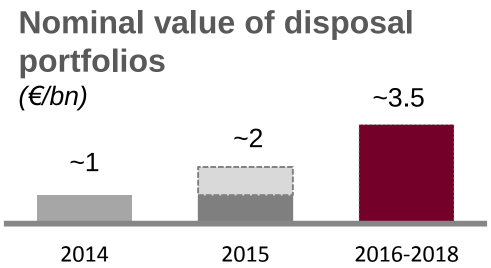
Focus on higher value positions

- Outsourcing the management of small-ticket positions
  - Completed outsourcing of 100,000 NPEs, representing approximately 80% of the total positions
  - Selected segments and substandard loans outsourced
  - Partnerships with best-in-class outsourcers



Structured program of portfolios disposals

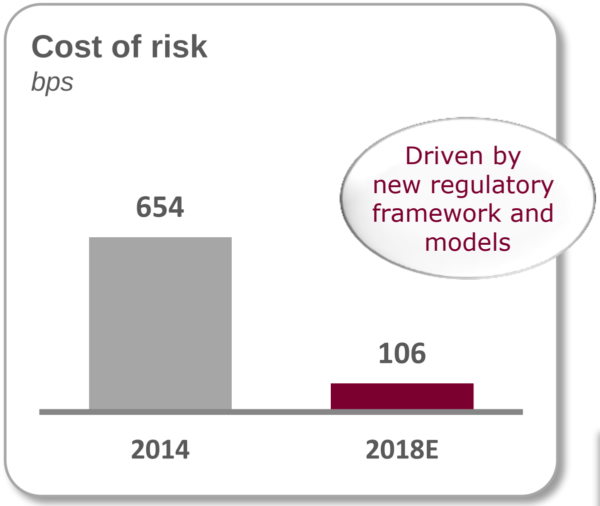
- Multiannual program to dispose of portfolios, of which ~EUR 5.5bn to be realized between 2015 and 2018
  - EUR 2bn disposals planned in 2015
  - EUR 3.5bn disposals in 2016-2018

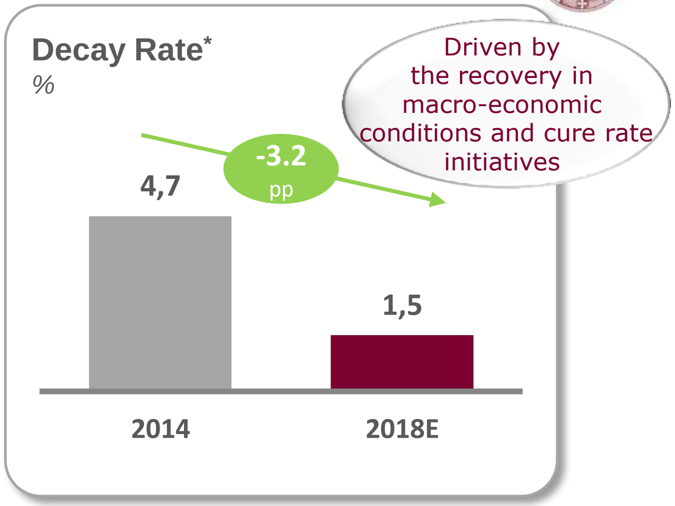


REOCO

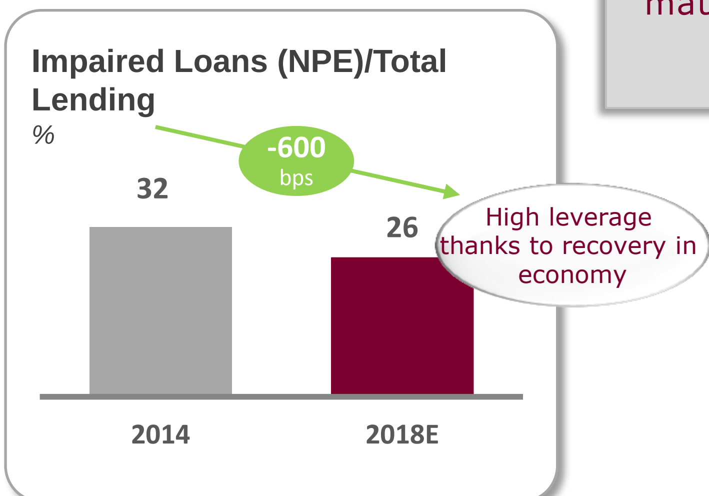
- To limit the reduction in value of mortgaged real estate pledged as guarantee, following the continuous decrease in adjudication value during forced sales, the use of REOCOs (Real Estate Operative Company) will need to be intensified, also involving a review of the associated organisation and activities
- Given its nature as a defensive instrument, the objective of the REOCO is not to be awarded the collateral, but, through participation in the auction, to favour the competitive bidding process, reducing the desertion rate and maximising the expected sale price
- REOCO to reach full operational capacity in the first half 2015

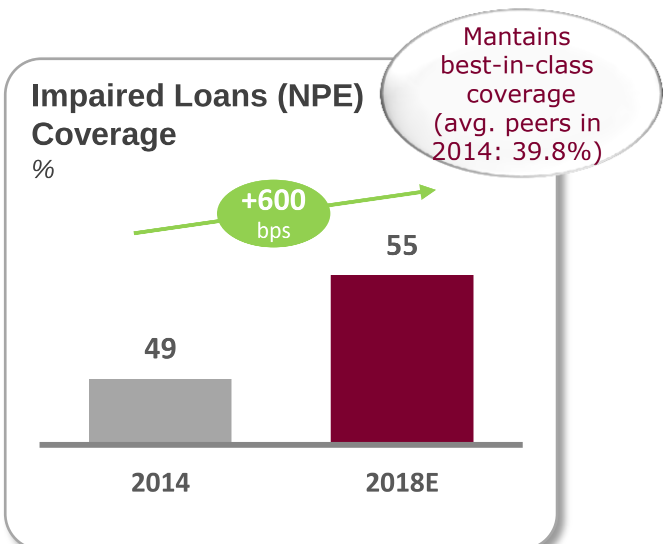
2 Key performance indicators





Structural measures under discussion by the government could have material positive impact on recoveries

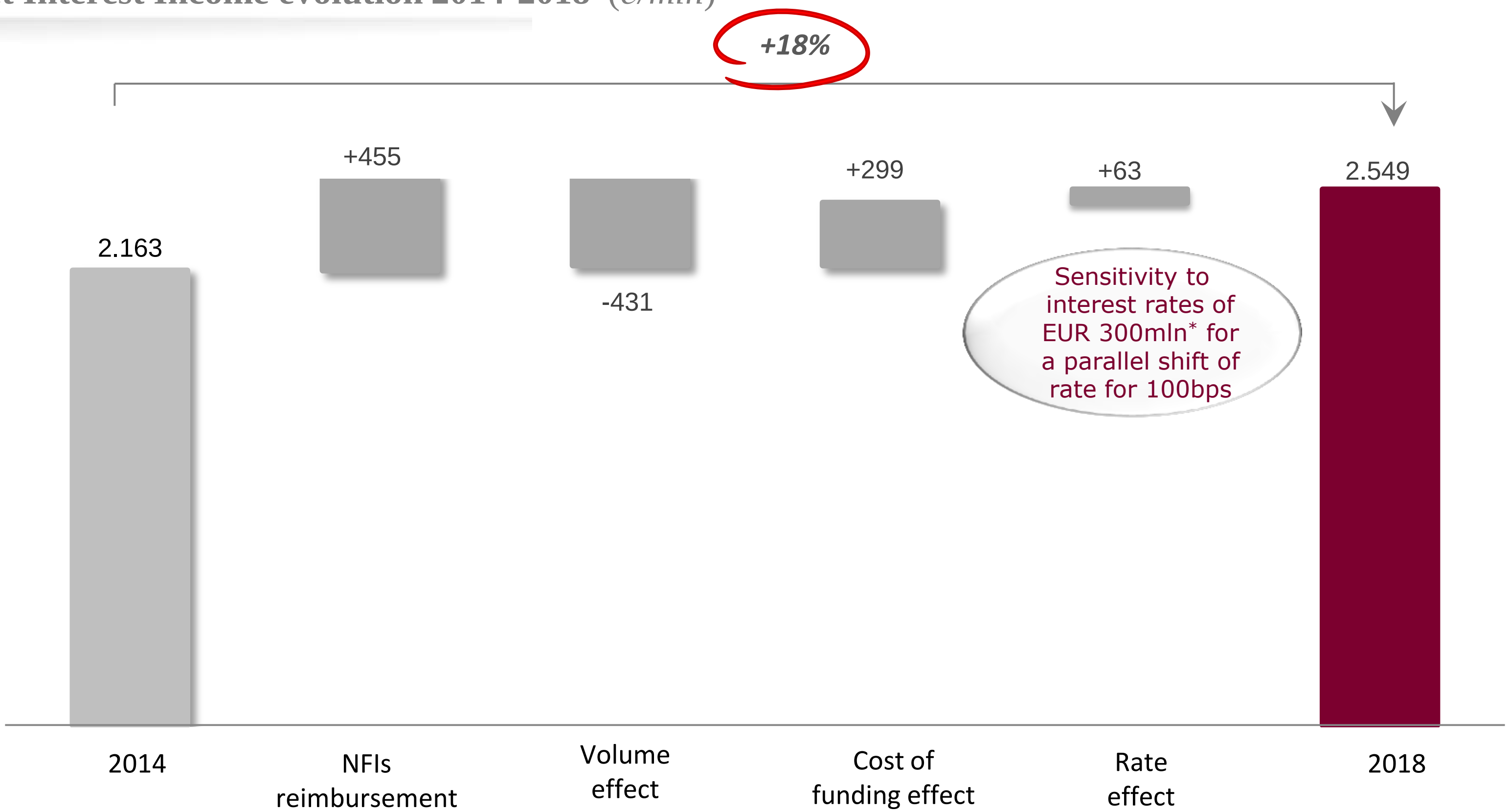




*New doubtful loans inflows in the period/performing loans at the beginning of the period

Net interest income

Net Interest Income evolution 2014-2018 *(€/mln)*

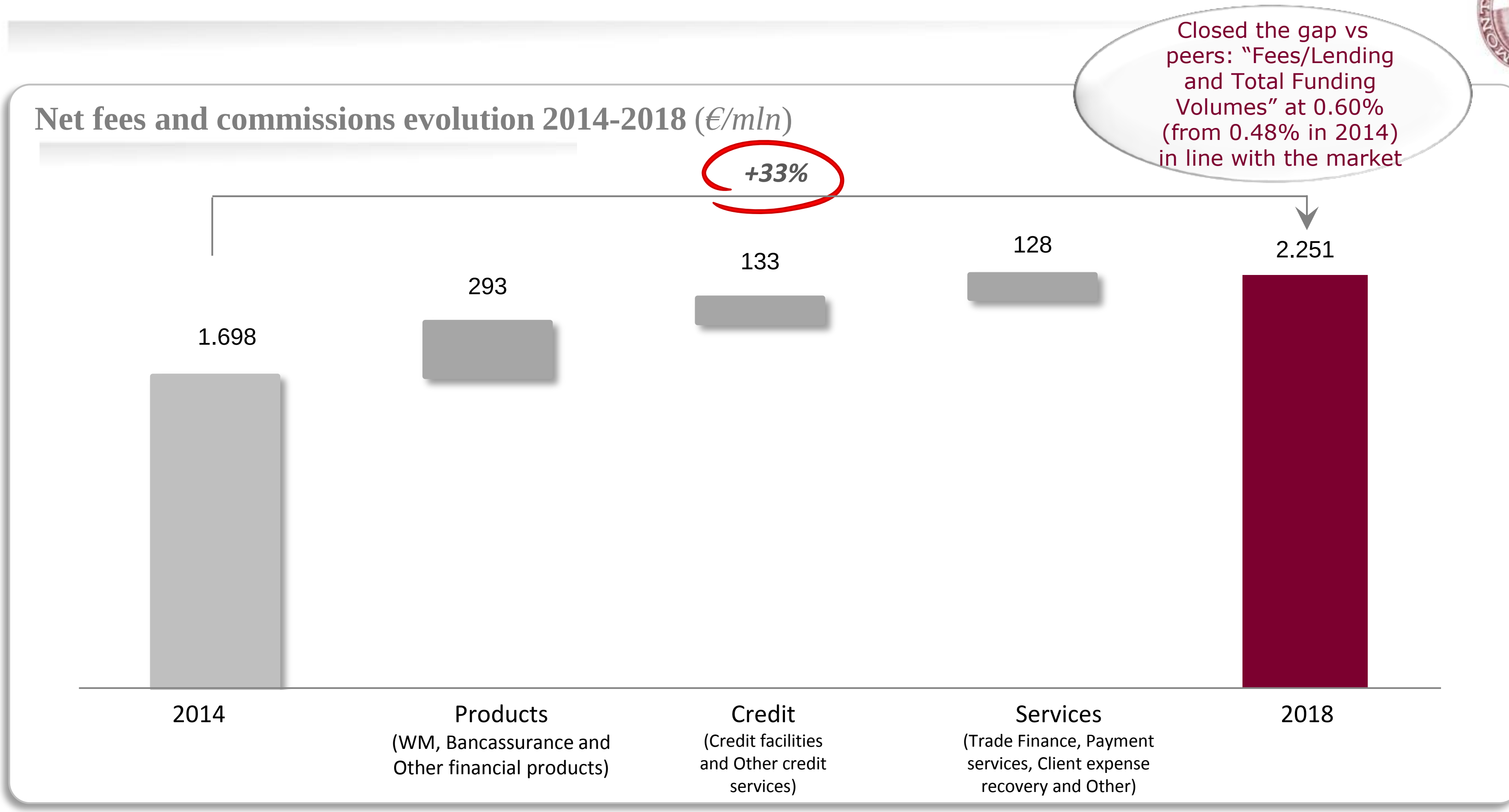


2014
NII/Total assets:
118bps

2018
NII/Total assets:
144bps

*With the ECB cost of funding not correlated with the movement in market rates

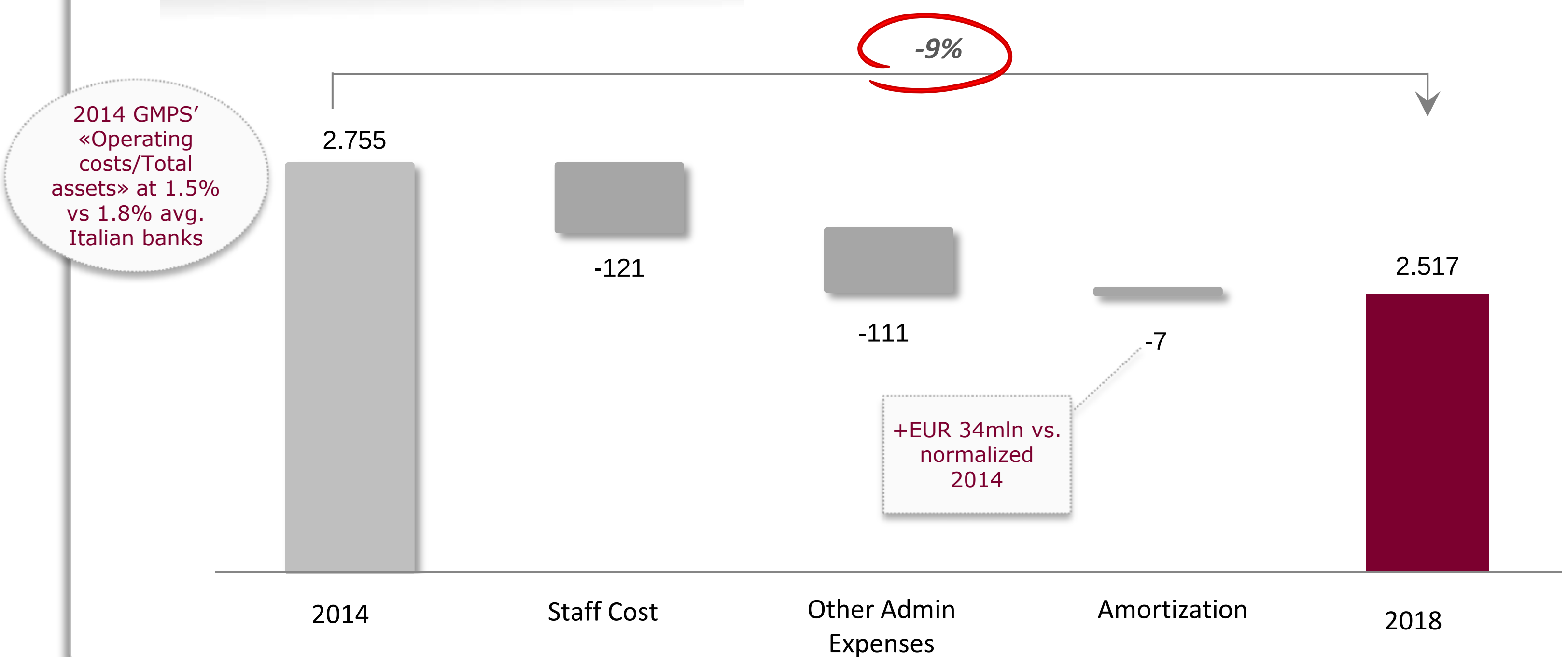
Net fees and commissions



- **Wealth Management** growth driven by the new distribution model and increasing market share
- **Bancassurance** increase driven by product remix (focus on P&C inflow +30% Cagr 14-18)
- **Corporate fees** growth driven by the new service model, new products and services and the optimization of pricing
- Increase in **payment services** from growth of the market

Operating Costs

Operating costs evolution 2014-2018 *(€/mln)*

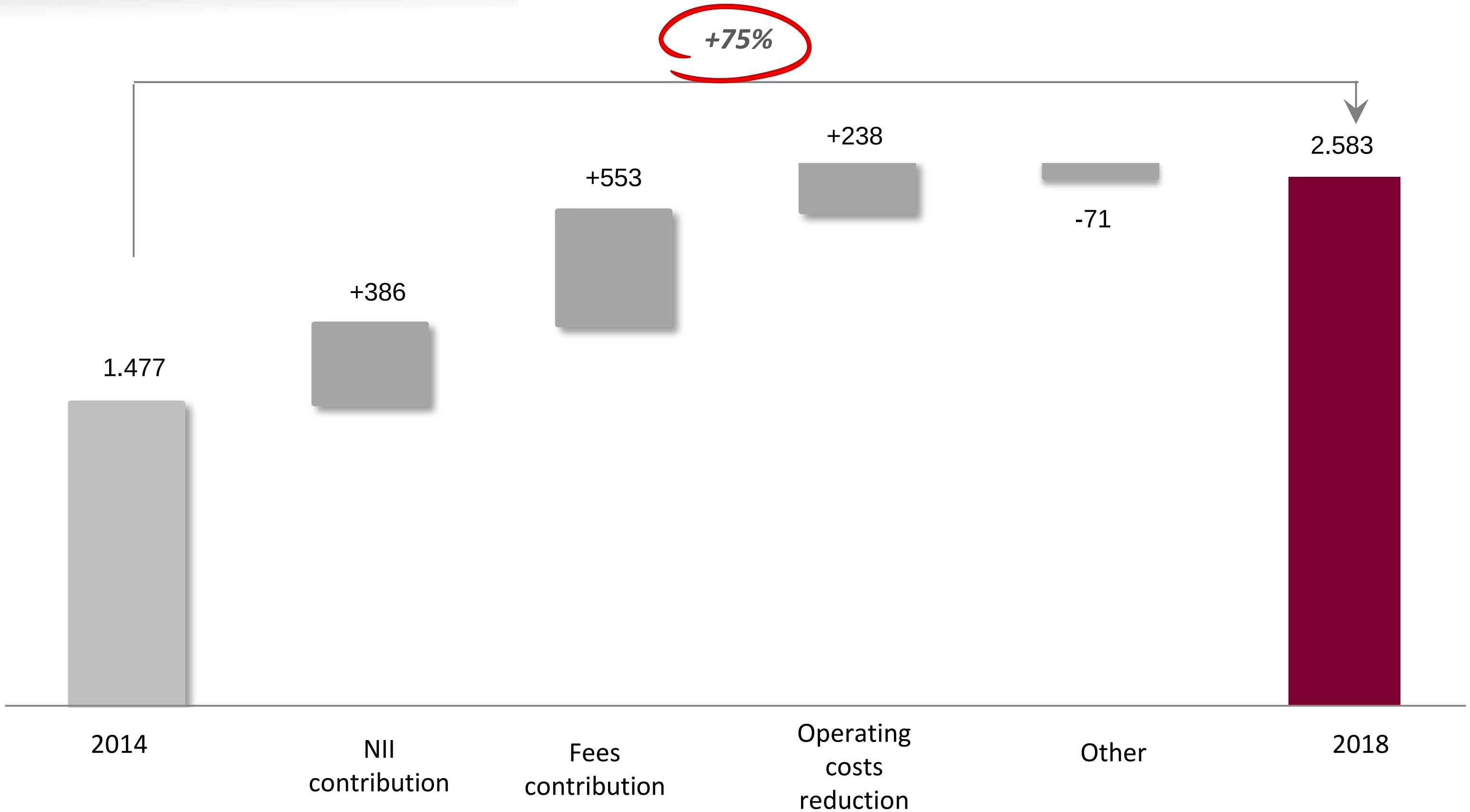


- **Staff costs**: further reductions planned relying on existing laws and national agreement regulating the sector
- **Additional savings** are expected from review and rationalization of organizational model and processes
- **Amortization**: planned ~EUR 660mln of investment (IT and Real estate) in the period

Over delivering vs. Restructuring plan with additional measures introduced to achieve new target for 2018

Breakdown of the Pre Provision Profit growth

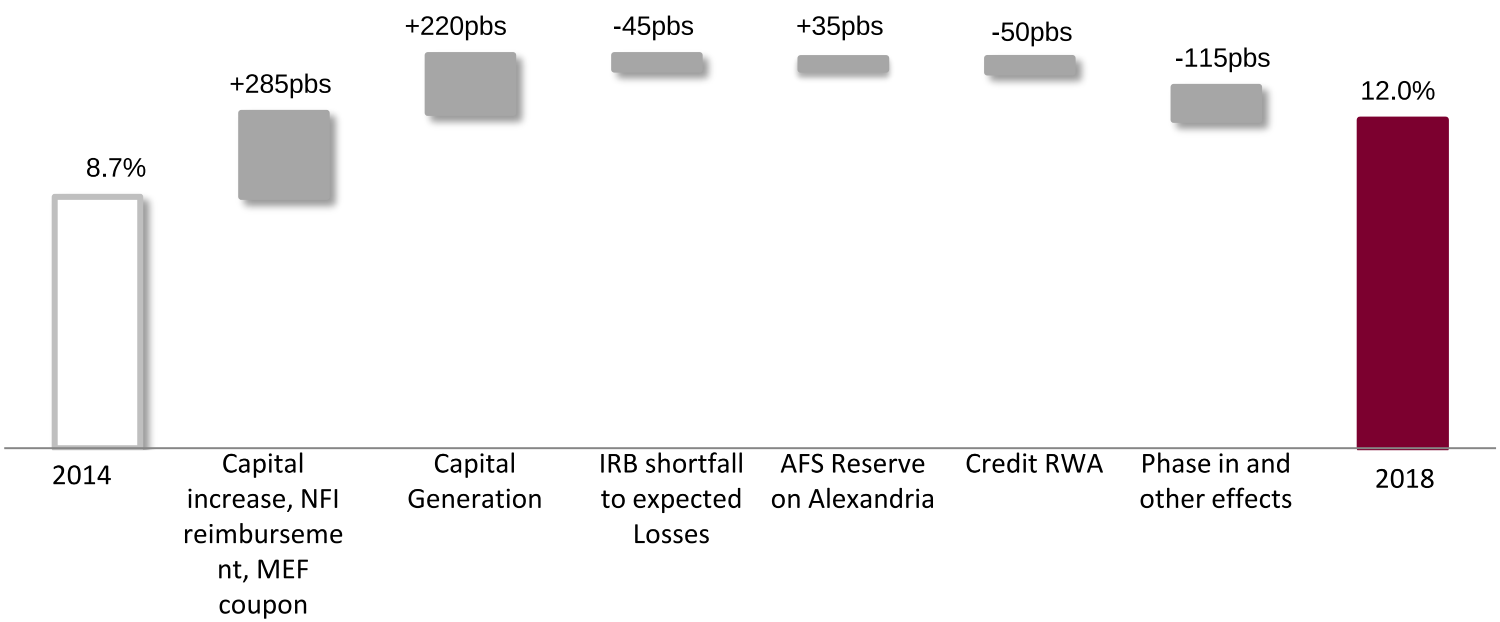
Pre Provision Profit evolution *(€/mln)*



Capital

Common Equity Tier 1 evolution 2014-2018 (Transitional; *€/mln*)

2018 CET1 Fully loaded 12.0%



- **CET1 ratio transitional above SREP threshold** (10.2%) at all times
- **DTAs** that do not rely on future profitability (Weighted at 100% in RWAs) are expected to reduce over the period because of their partial conversion into tax credits (~43% of 2014 transformable DTAs already in June 2015)
- **Negative AFS reserve related to Alexandria transaction always fully deducted** from CET1, according to ECB requirement
- **RWAs** projection includes the effects of recalibrated IRB models and credit portfolio evolution

Final remarks

Final remarks

- ***Return to profitability thanks to operational performance and normalization of cost of credit***
- ***Strong capital base with additional EUR 3bn right issue and no reliance on State Aid***
- ***Strong commitment to reduce the high level of NPEs as a driver to achieve higher levels of profitability***
- ***Open to M&A value-enhancing opportunities to accelerate the achievement of higher returns***

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Pursuant to para. 2, article 154-bis of the Consolidated Law on Finance, the Financial Reporting Officer, Mr. Arturo Betunio, declares that the accounting information contained in this document corresponds to the underlying documentary evidence and accounting records.

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