MONTE DEI PASCHI DI SIENA
BANCA DAL 1472

PRESS RELEASE

Positive results and a return to profit in the first quarter of 2015

Results as at March 31, 2015

- **Net profit of EUR 72.6 million**
- **Pre Provision Profit of EUR 614 million (+63.7% QOQ)**
- **Revenues up as a result of net interest margin stability, a positive trend in commissions income and the contribution made by trading activity**
- **Ongoing implementation of efficiency improvements by management**
- **Cost of credit moving towards normalisation**

Updated Business Plan

- **Alignment of Plan with the new regulatory and macroeconomic environment and extension of plan timeframe to the end of 2018**
- **EUR 3 billion capital increase and full repayment of New Financial Instruments**
- **Profitability targets essentially confirmed within the extended duration of the plan to 2018: Revenues +4.8% (CAGR 14-18) and Operating Costs -2.2% (CAGR 14-18)**
- **Common Equity Tier 1 ratio of 12% expected as of 2018; Common Equity Tier 1 ratio transitional always compliant with SREP threshold (10.2%) throughout the period covered by the plan**

Siena, 8 May 2015 – The Board of Directors of Banca Monte dei Paschi di Siena Spa has today reviewed and approved the 2015 first quarter results and the Business Plan update.

> **Fabrizio Viola, CEO of Monte dei Paschi di Siena commented: "The return to a net profit for the first quarter of 2015 is the confirmation that our industrial plan is working and that we have successfully adapted the bank to the stringent new regulatory environment. Going forward, this opens new opportunities and raises our determination to strengthen the bank further."**

Main consolidated Income Statement results:

- *Net interest income of EUR 612 million stable compared with the fourth quarter of 2014 (+0.2% QOQ), as a result of a further reduction in the cost of funding (average borrowing rate -12 bps QOQ), offsetting the fall in interest bearing assets*
- *Net commissions of EUR 443 million (+9.3% QOQ) sustained primarily by Wealth Management Fees (+26.5% QOQ) and in particular by fees for placements (+65.5% QOQ), with signs of recovery in commissions on services (+2.1% QOQ)*
- *Trading activities generated an income of EUR 172 million, a significant rise resulting from the on-going optimization of the portfolio and from positive market trends*
- *Operating costs (EUR 653 million) confirmed their downward trend (-11.1% QOQ and -5.1% compared with the average quarterly value in 2014)*
- *Pre Provision Profit of EUR 614 million (+63.7% QOQ)*

- *Cost of credit (annualised) of 152 bps vs 155 bps in the fourth quarter 2014, net of non-recurring adjustments; Non Performing Exposure coverage at 49%, maintaining the high levels already reported at the end of 2014*
- *Net Income for the period of EUR 72.6 million*

Main consolidated Balance Sheet results:

- *Continued optimisation and de-risking of the AFS portfolio (-6.2% QOQ), with Italian Government bonds standing at about EUR 17 billion (EUR 19 billion at end 2014) at nominal value), and of the trading portfolio risk (average VaR of EUR 3.6 million compared with EUR 5.8 million last year)*
- *Signs that deleveraging has come to a halt: Loans stand at about EUR 123 billion (+2.9% QOQ), with the retail and corporate components at the same level as at the end of 2014*
- *Direct funding stands at EUR 132 billion (+4.2% QOQ), with commercial customer deposits benefiting from further growth in term deposits (+17.2% QOQ) and current accounts also increasing (+1.8% QOQ)*
- *Indirect funding of about EUR 111 billion, up 4.7% on December 2014, with growth of both wealth management (+7.3% QOQ), resulting from positive net inflows as well as the insurance component, and of assets under custody (+2.3% QOQ), resulting from the positive market effect, which more than offset the rebalance towards wealth management products*
- *Interbank exposure of EUR 15 billion, down 26.4% on a quarterly basis, mainly due to full repayment of LTROs*
- *Unencumbered counterbalancing capacity of about EUR 17 billion (9.3% on total assets from 8.7% in 2014)*
- *Pro forma CET1 transitional ratio at 31/03/2015 of 10.9%[1], including the EUR 3 billion capital increase*

Main updated Business Plan guidelines:

- *Return to a sustainable level of profitability (Net Income of about EUR 880 million by the end of 2018)*
- *Initiatives to improve the efficiency of commercial processes and the commercial productivity of the network, resulting in a rise in Commissions of +7.3% (Cagr 14-18) and Revenues +4.8% (Cagr 14-18)*
- *Better control over quality of capital, with a reduction in Non Performing Exposure stocks and therefore of the cost of credit (106 bps 2018E)*
- *Further increase in operational efficiency*

Strategic options:

- *Explore M&A opportunities in order to accelerate the achievement of higher profitability targets*

[1] The ratio factors in the effects of the capital increase of EUR 3 billion, the full repayment of the Nuovi Strumenti Finanziari (NSF - New Financial Instruments), as well as the payment of interest maturing on NSFs in financial 2014 by means of the issue of new shares

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Group Profit and Loss for Q1 2015

In the first quarter of 2015, Group revenues totalled approx. EUR 1,267 mln, representing an increase of 14.2% on Q4 2014 and 32.2% compared to the same period last year, thanks to the improvement in basic income and the positive trend in trading income. More specifically:

- **Net interest income** was approx. EUR 612 mln, in line with levels in the last quarter of 2014 (+0.2%) as a result of a further decline in the cost of funding, both for retail/corporate and the market, which offset a lower income resulting from a reduction in interest-bearing assets. Compared to Q1 2014, the aggregate grew by 37.3% thanks to both the improved funding/lending spread (approx. +30bps), which was positively impacted by both a lower cost of funding, especially from corporate customers, and the reimbursement of New Financial Instruments (NFIs) in the course of 2014, which led to lower costs in terms of interest expense. It should also be noted that results in Q1 2014 were affected by the price adjustment of NFIs to the contractual provisions governing these instruments;

- **Net fees and commissions**, totalling approx. EUR 443 mln, rose by 9.3% from Q4 2014, thanks to a strong drive from sales and distribution, which led to significant increases in the quarter, especially in commissions on the placement of wealth management products. Income from credit facilities also grew in the quarter, as did income from foreign banking services. A year-on-year comparison reveals a largely stable aggregate (-0.5% YoY) in which the rise in commissions from wealth management (especially continuing fees) compensate for the lower income from credit/international trade and commissions on services;

- **Dividends, similar income and profit (loss) on investments**, totalled approx. EUR 24 mln (approx. EUR 39 mln in Q4 2014), largely attributable to the contribution of AXA-MPS (consolidated at net equity);

- **Net profit/loss from trading/valuation/repurchase of financial assets/liabilities** in Q1 2015 stood at around EUR 172 mln, against approx. EUR 41 mln in Q4 2014 and approx. EUR 45 mln in the same period of last year. A closer look at the result reveals that:
  - **Net profit from trading** showed a positive balance of approx. EUR 68 mln (it was roughly EUR 14 mln in Q4 2014) mainly owing to the income from the subsidiary MPS Capital Services, driven by positive market trends;
  - **Disposal/repurchase of loans and available-for-sale financial assets and liabilities** showed a positive balance of approx. EUR 122 mln (EUR 9 mln in 4Q14 and EUR 47 mln in 1Q14) mainly attributable to the disposal of AFS securities;
  - **Net profit (loss) on financial assets/liabilities accounted for at fair value** showed a negative balance of approx. EUR 17 mln (positive balance of EUR 18 mln in Q4 2014) mainly due to the higher value of bonds issued with Retail and Institutional customers, as a consequence of the considerable improvement in Banca MPS's creditworthiness.

- **Net income from hedging** showed a positive balance of approx. EUR 15 mln (negative amount of EUR 5 mln in the fourth quarter of 2014);

- **Other operating expenses/income** (net of recovery expenses reclassified to Other Administrative Expenses) showed a positive balance of approx. EUR 1 mln vs approx. EUR 18 mln in Q4 2014.

Operating expenses totalled approx. EUR 653 mln, down 11.1% on the previous quarter and down 1.1% as compared to 31 March 2014. More specifically:

- **Personnel expenses** (net of restructuring costs), amounting to around EUR 419 mln, were down 2.6% on the previous quarter and down 2.3% YoY mainly due to the headcount reductions implemented in late 2014 and early 2015;
- **Other administrative expenses** (net of customer expense recovery) in Q1 2015 stood at approx. EUR 186 mln, slightly up compared to 31 March 2014 (+1.6% YoY). These were characterized by slower payments for some services, in particular professional, but then accelerated in subsequent quarters. Compared to the fourth quarter of 2014, these were down 18.4% due in part to the acceleration of project spending at the end of last year and in part to structural cutbacks in spending also planned for the current year;
- **Net value adjustments to tangible and intangible assets** were EUR 48.4 mln, stable compared to Q1 2014 (-0.4%). Compared to Q4 2014, the aggregate reflects a decline of 36.6% due to real estate writeoffs at the end of 2014, partially due to the Asset Quality Review.

On the back of these factors, **Pre Provision Profit** totaled EUR 614 mln (vs. EUR 375 mln in the fourth quarter of 2014 and EUR 298 mln in the first quarter of 2014)

The cost/income ratio[2] stood at 51.6% (vs. 66.2% as at Q4 2014)

Net impairment losses (reversals) on loans stood at approx. EUR 468 mln, essentially the same levels of Q1 2014. The quarterly comparison is not meaningful, since the Q4 2014 figure includes higher impairment losses recognized following the review of the methodology and parameters applied in the classification and evalutation of the entire loan portfolio (a wider scope of application than the one used in the Asset Quality Review).
In the first months of the year the Supervisory Authority conducted a review of the Group's credit exposures in Residential Real Estate (EUR 29.8bn), Institutions (EUR 1.7bn), Project Finance (EUR 1.8bn) and Shipping (EUR 1.3bn), totaling about 23% of loans to customers and 8% of deteriorated loans, previously not included in the 2014 AQR exercise. Although the verification is substantially completed, it has been presented to the management of the Bank only as a preliminary estimate of the impact. The official announcement of the final results will take place at a later date. Nonetheless by 31 March 2015 the specific effects of the Credit File Review of EUR 41 mln have been booked, related to an overall portfolio of around EUR 35 bn. With regard to projections and collective provisions, considering the absence of a need to account for the results, and in analogy to what was done during the 2014 AQR, the Bank will only later know the possible relevance for accounting purposes. In any case, based on operating criteria, the impact is expected to not be significant, especially in relation to the portion of the portfolio analyzed. Overall, one can therefore state that the majority of the performing loan portfolio and almost all of the non performing exposures have been analyzed on several occasions and in different ways, (the portfolios "Central & Local Governments" - for about 5.8 billion euro, loans to foreign banks - for 2.4 billion euro and Other Secured loans - for 2.3 billion euro, all together amounting to about 11% of performing loans at the end of 2014, have not been analyzed).
It should be noted that the statistical adjustments relating to performing loans, past due and former objective watchlist loans were determined considering the parameters of Probability of Default (PD) and Loss Given Default (LGD) in force at year end. The recalibration of the parameters could lead, ceteris paribus, to an increase of statistical adjustments. It should however be considered that these effects may in whole or in part be offset by those arising from the dynamics of the loan portfolio during 2015.

The ratio of loan loss provisions over total customer loans in Q1 2015 reflects a **provisioning rate** of 152 bps (annualized), as compared to 654 bps at the end of 2014 (including the non-recurring loans loss provisions, net of which the provisioning rate would have been 155 bps)

[2] The cost / income ratio is expressed as the ratio of Operating expenses and Total Revenues (Income from banking and insurance activities). Please note that with the quarter ending 31/03/2015, the Group has adopted a new reclassified income statement that includes in Total Revenues also the balance of "Other operating expenses / income".

Net impairment losses (reversals) on financial assets showed a positive balance of approx. EUR 14 mln (- EUR 145.2 mln in Q4 2014) due to the recovery of write-downs on an exposure performed on EUR 140 million euro in the previous quarter.

On the back of these factors, **Net Operating Results** showed a positive balance of EUR 160 mln (vs. a negative balance both in Q4 2014 to Q1 2014, respectively of - EUR 5,127 mln and - EUR 194 mln).

Net profit for the period was also affected by:

- **Provisions for risks and charges:** amounted of approx. - EUR 30 mln, almost entirely due to lawsuits and claw-back actions;

- **Gains (losses) from investments:** positive contribution of 0.2 million euro (-72 million euro in Q4 2014). The 42 million euro in 1Q 2014, included the sale of the stake in Sorin and the price adjustment for the sale of the participation in MPS Vita and MPS Danni to AXA Mediterranean Holding;

- **Restructuring costs/One-off charges:** amounted to approx. - EUR 0.2 mln related to some resolutions of labor relations. In 4Q 2014 the amount stood at - EUR 54 mln, mainly because of provisions for early-retirement incentives established under the Trade Union agreement of 7 August 2014 and because of branch closures;

- **Gains (losses) on disposal of investments** showed a positive balance of EUR 0.4 mln. In Q4 2014 the figure included the reclassification of the Biverbanca earnout and capital gains from the sale of real estates in London and New York

Due to the events mentioned above, in the first quarter of 2015 the **Profit (loss) before tax from continuing operations** amounted to approximately EUR 130 mln.

Taxes on profit (loss) for the period from continuing operations amounted to approx. -EUR 44 mln (a positive balance of approx. EUR 38 mln in Q4 2014) which included an extraordinary charge of around -EUR 22 mln.

Considering the effects of PPA (approx. - EUR 13 mln), the **Group's profit for the period** amounted to approx. EUR 73 mln compared with a loss of about EUR 174 mln recorded in the same period last year.

Group balance sheet aggregates for Q1 2015

As at 31 March 2015 **total funding** volumes for the Group amounted to approximately EUR 243 bn, amounting to quarterly growth of 4.4% supported both by direct funding and by distribution of Wealth Management products. Also positive was the contribution of Assets Under Custody, which helped bring about growth in assets to the tune of over EUR 1 bn.
Compared to 31 March 2014, total funding recorded a 3.7% increase thanks to Wealth Management (supported by Funds/Open-end collective schemes [Sicav] and by insurance products) and forms of direct funding, which more than offset the reduction in the volumes of Assets Under Custody.
More specifically:

Direct funding, totalling approximately EUR 132 bn, registered growth of 4.2% compared to the end of 2014. In Q1 2015 the aggregate benefited from the increase in Time Deposits (+17.2% compared to 31/12/2014), supported by marketing of the product called “Conto Italiano di Deposito”, and by the increase in the volumes of Bonds (+4.1% compared to 31/12/2014) relating to the placement of securities from

Consum.it securitization transactions. The item “Other forms of Direct Funding[3]” recorded an increase of 13.7% compared to 31/12/2014 thanks above all to funding operations with Key Clients. Compared to the same period last year, Direct Funding rose 2.1% due to the increase in Repurchase Agreements with institutional counterparties (+53.2%) and in Time Deposits (+45.3%), which more than offset the drop in Current Accounts (-4.6%) and in Bonds (-14%).

Indirect funding for the Group, totalling approximately EUR 111 bn, registered a quarterly increase of 4.7% (+5.6% compared to 31/03/2014). More specifically:

- **Wealth Management** ended the 1st quarter 2015 with volumes totalling approximately **EUR 55 bn**, up 7.3% compared to 31/12/2014 and 18.5% compared to 31/03/2014. A breakdown of the aggregate shows:
  - **Mutual investment funds and open-end collective schemes (Sicav)**, amounting to approximately EUR 24 bn, were up 11.1% compared to 31/12/2014 (+32% compared to 31/03/2014), due partly to the positive market trend and partly to the net flows of around EUR 1.3 bn during the quarter, including those related to guaranteed capital products;
  - **Individual portfolio management** totalled approximately EUR 6.8 bn, up 8.4% compared to 31/12/2014, with quarterly gross inflows amounting to around EUR 500 million;
  - the **insurance component** of approximately EUR 24 bn (+3.6% compared to 31/12/2014; +9.3% compared to 31/03/2014) benefited from insurance premiums collected in the first quarter of approximately EUR 1.9 bn, driven largely by Unit Linked products.

- **Assets Under Custody**, amounting to approximately EUR 56 bn, registered an increase compared to 31/12/2014 (+2.3%), though they were down 4.7% compared to 31/03/2014, largely because of the negative market effect on the portfolio of a number of Key Clients, following a collapse in the prices of energy stocks.

As at 31 March 2015 the Group’s **Loans to customers** amounted to approximately EUR 123 bn, up 2.9% compared to 31/12/2014 due to the increase in Repurchase Agreements (+85.1% compared to 31/12/2014) used largely as a form of temporary deployment for surpluses of liquidity. Compared to 31/12/2014 all the other various types of loans were largely stable.
Compared to 31/03/2014, assets decreased by a total of EUR 9.5 bn (-7.2%), accounted for largely by Mortgage Loans (EUR -7.9 bn; -12.6%) and Current Accounts (EUR -2.9 bn; -25.6%).
The level of aggregate was affected by special-purpose disbursements. More specifically:

- MPS Capital Services granted new loans totalling around EUR 93 million, down 34.7% on Q4 2014 but up 36.9% compared to the same period last year;
- Leasing contracts amounted to approximately EUR 102 million (-30.4% compared to Q4 2014 and -13.9% QoQ), while Factoring Turnover came to around EUR 991 million (-28.5% compared to Q4 2014 and -12.4% QoQ).

As regards consumer lending, it should be remembered that the Group signed a partnership with Compass. The partnership meets the aim to support the offer of credit to households, despite the ongoing downturn, and to continue to enhance the sales & distribution network through the placement of qualified third-party products, while rapidly developing business segments with high distribution value.
As at 31/03/2015 the Group’s **net non performing exposures**[4] totalled approximately EUR 24 bn, up 2.7% compared to the end of last year. More specifically, doubtful loans (“sofferenze”) increased by 3.2% and

[3] The aggregate includes New Financial Instruments issued by the Italian Ministry of Economy and Finance, whose nominal value was unchanged compared with 31/12/2014.
[4] The first quarter of 2015 marked the introduction of the new concept of non performing exposures adopted by the Banca d’Italia in the 7th update of 20 January 2015 published in Circular no. 272 “Matrice dei Conti”, following transposition of the new definitions of Non-Performing Exposures (NPEs) introduced in the implementation of technical standards on supervisory, harmonised reporting defined by the European Banking Authority and approved by the European Commission on 9 January 2015. As a result, non performing exposures were reclassified into the categories of doubtful (“sofferenze”), unlikely to pay, overdue and/or past due non-performing exposures, while the concepts of watchlists and restructured loans were abolished.

unlikely to pay loans were up by 5.1%, while overdue and/or past due non-performing exposures decreased by 7.7%.

As at 31 March 2015 **coverage** of non performing exposures was 49% (+3 bps compared to 31/12/2014) with doubtful loans ("sofferenze") coverage amounting to 65.5%, a slight increase compared to 31/12/2014 (+18 bps), while there was a reduction in coverage of unlikely to pay loans (-68 bps) and past-due and overdue exposures (-145 bps). Coverage of performing loans decreased by 0.8%, compared to 0.9% at the end of 2014, largely on account of the trend in volumes.

As at 31 March 2015 the Group's **securities and derivatives portfolio** amounted to around EUR 34 bn, approximately EUR 519 million higher than 31/12/2014 on account of the growth in the Held For Trading portfolio (EUR +2 bn), due to the activities as primary dealer of the subsidiary MPS Capital Services; conversely, there was a reduction in the Available For Sales portfolio (EUR -1.4 bn) due to the sale of securities aimed partly at portfolio optimisation. The portfolio of bonds recognised under L&R was largely stable compared to 31/12/2014.

As at 31 March 2015 the Group's net **interbank position** of approximately EUR 15 bn in funding, an improvement of EUR 5.3 bn compared to the net balance registered at 31/12/2014 and of around EUR 16 bn compared to 31/03/2014. Q1 2015 saw the full repayment of the Long-Term Refinancing Operations with the ECB (approximately EUR 7.7 bn), which was partly offset by the greater recourse to auctions (around EUR +1.5 bn compared to the stock at the end of 2014), while the Target Long-Term Refinancing Operations was largely stable in line with the levels recorded at the end of last year.
As at 31 March 2015 the operating **liquidity position** had a unencumbered Counterbalancing Capacity of around EUR 17 bn, up EUR 1 billion compared to the level recorded at the end of 2014.

As at 31 March 2015 the Group's **net equity and non-controlling interests** came to approximately EUR 6.5 bn, an increase of around EUR 506 million compared to the end of 2014 due to the improvement in the Valuation Reserves (EUR +433 million) – owing to the higher value of the AFS portfolio as a result of a tighter Italian spread – and to the Group's return to profitability. The quartely reduction in the Reserve was due to allocation of the loss for FY 2014.

As at 31/03/2015 Risk Weighted Assets (RWAs) were stable overall in line with the values recorded at the end of 2014 (EUR +140 million) with the increase in credit/counterparty risk being offset by the decrease in threshold deductions in RWAs[5].
CET1 capital decreased by approximately EUR 390 million compared to December 2014. The change was brought about by two contrasting phenomena:

- a positive impact was caused particularly by the approximately EUR 73 million of net income generated in the period[6]; the reduction in the negative AFS reserve resulting from the transaction dubbed "Alexandria" with Nomura[7], amounting to around EUR 184 million; the reduction in non-convertible DTAs, in fiscal losses and in other prudential filters totalling approximately EUR 60 million; the positive variation in the AFS reserve for the portfolio of non-government securities amounting to around EUR 22 million;
- a negative impact was caused by certain aspects of the regulatory framework such as the increase in the phase-in percentage of deductions under the new "Basel 3" rules (from 20% in 2014 to 40% in

[5] It is pointed out that Risk Weighted Assets (RWA) were calculated considering the parameters of Probability of Default (PD) and Loss Given Default (LGD) in force at the end of the year. The recalibration of the parameters could lead to an increase, ceteris paribus, in RWAs. It should be taken into account, however, that any such effect could be wholly or partly offset by the performance of the credit portfolio during 2015.
[6] The capital adequacy data presented herein were all calculated including the positive effect of income for the period. In this regard it is pointed out that, on the basis of Article 26 of EU Regulation No. 575/2013, the calculation of income in a company's own funds is subject to specific authorisation from the relevant JST (Joint Supervisory Team) at the ECB and to this end the Gruppo Montepaschi has already submitted an official application.
[7] Contrary to the rules laid down by National Discretions, whereby the positive filter on the AFS Reserve is linked to government bonds issued by EU countries, the ECB has requested the removal of the positive filter on the negative AFS Reserve linked specifically to the "Alexandria" transaction with Nomura; accordingly, the AFS Reserve was fully deducted from CET1 with effect from 31/12/2014.

2015) and the allocation to the reserve of the loss for fiscal 2014, which at the end of 2014 was recorded in Additional Tier1 (AT1), with an overall impact of these two factors of around EUR -735 million.

As a result of the above, as at 31/03/2015 the Common Equity Tier 1 (CET1) ratio and the Total Capital (TC) ratio decreased but were still above the minimum regulatory requirements, while the Tier 1 ratio increased due to the positive buffer created in Additional Tier 1 (AT1).

More specifically, the Common Equity Tier 1 ratio was 8.1% (compared to 8.7% in December 2014); the pro forma data including the EUR 3 bn capital increase amounted to 10.9% (compared to 11.4% pro forma in December 2014).

As previously disclosed, the European Central Bank ("ECB") has required BMPS to fall back within the regulatory limits on its Large Exposure towards Nomura by 26 July 2015. This may be done through a number of different measures – all of which are currently being examined. These measures include the possibility to terminate the Alexandria transaction either in whole or in part. Clearly, this option cannot be unilaterally implemented by BMPS since it requires the consent of the counterparty.

Furthermore, following the recent publication of the EBA Single Rule Book Q&A 2014_716, BMPS has initiated discussions with the ECB with regard to a review of the calculation methodology of the Nomura exposure. Post the completion of the 3bn rights issue, this may lead to the full remediation of the current breach of the regulatory limit.

Updated Guidelines of the Business Plan

Within the framework of the approval of the quarterly results, the Board of Directors of Banca MPS approved the updated guidelines of the Business Plan.
This update was necessary because of significant factors that have impacted on the original assumptions and on the results of the Group, which are as follows:

- the persistent difficult macroeconomic and financial environment
- the outcome of the Comprehensive Assessment, carried out by the ECB between November 2013 and October 2014, which showed, in the context of the adverse scenario stress test, a capital shortfall of EUR 2,111 million, to be filled by July 2015
- the new target capital requirements imposed by the Regulatory Authority following the conclusion of the Supervisory Review and Evaluation Process (SREP), which require the Group to achieve and maintain, on a transitional basis, a Common Equity Tier 1 Ratio of 10.2%, from the date of the completion of the Capital Increase considered in the Capital Plan
- the impacts of the Asset Quality Review's results, which led to a revision of methodology[8] and parameters for classification and evaluation of the entire credit portfolio.

In view of all this, the new targets are intended to provide a forecasting framework more consistent with the described scenario, while confirming all the commitments made by the Bank within the State Aid procedure and with the issuance of New Financial Instruments.
The update of the Business Plan targets includes an extension to 2018 of the forecasting horizon. The targets and the main action tools by which these are to be achieved are mostly confirmed, with emphasis on the development of initiatives aimed at increasing commercial productivity and controlling credit quality.
Below are summarized the guidelines which have driven the development of the new targets:

Productivity

The process of updating the branch network is ongoing, and is strengthened by the redefinition of the distributive framework by means of an approach based on an efficient local presence. This is to be achieved through the definition of a new local footprint of the network and of a new service model, multichannel integration and strengthening of on-line channels supporting transactions and client relations, which in turn would also support branch operations.

The ongoing increase in the efficiency of commercial processes will allow for more time for a more effective interaction with the client base, resulting in the bank being able to operate a slimmer branch network, characterized by more flexible and client-centered points of sale. On the corporate client side, a new service model dedicated to high-potential SME is planned. This will leverage the high degree of specialization of the branch managers, who will rely on high value added products and on efficient decision and feedback processes to ensure an optimized degree of effectiveness.

Efficiency

In addition to efficiency projects already made in recent years (simplification of the Group structure, changes in the organizational model and in corporate governance), the Bank continues to aim for operational efficiency, with benefits in terms of making available resources and time for commercial sales processes and cost synergies. These efficiencies are related not only to the process of review of the operating model and the distribution network described above, but are extended to facilities and footprint management activities through the review of the organizational model.

Improvement of credit quality

The new forecast aims for a decrease in credit cost from 654 basis points in 2014 to 106 basis points in 2018. This target is to be achieved through an extensive review of the credit management process.

[8] The application of this new accounting policy resulted in net impairment losses on loans in FY 2014 amounted to about Euro 6 bn and a reclassification of loans from "performing" to "no-performing" for about EUR 7 bn.

The identified actions, focused on the management of the entire process, aim to optimize the risk/return profile of the loan portfolio by implementing strict credit policies and rigorous selection criteria for new loans. Following the Comprehensive Assessment, the Bank has also identified key initiatives to manage critical issues identified by the Regulatory Authority. In terms of problematic loans, in particular, the Bank has launched a plan for revising organizational models and management processes, in order to significantly increase the recovery rates the implementation of these actions is to be completed by the end of this year.

Specifically, in order to increase the Doubtful loans ("sofferenze") and the Unlikely to Pay recovery rates, the following activities have been initiated:

- **Focus of the internal organization on the recovery of the most important positions**: *outsourcing* of *small-ticket* positions and selected segments of likely defaults and early stages of problematic loans;
- **Multiannual structured program for portfolio disposal**, of approximately EUR 5.5 billion, to be implemented between 2015 and 2018 (EUR 2 billion already disposed of in 2015);
- **REOCo (Real Estate Owned Company)**: to limit the value reduction of mortgaged properties as collateral, caused by a steady value decline due to foreclosure, increased use of REOCo will be made

Structural liquidity strengthening

The strengthening of structural liquidity is expected to reach a loan/deposit ratio of around 94% in 2018.
In addition, the Bank in the period of 2015-2018 will use opportunities offered by TLTRO to optimize the cost of funding and, at the same time, to plan bond issues in the medium to long term, with the aim of ensuring a balanced funding structure in terms of cost and duration, while allowing a gradual absorption of funding from the ECB.

Strengthening the quantity and quality of the Bank's capital

A strengthening of the quantity and quality of the Bank's capital will be achieved by:

- A EUR 3 billion right issue, which offers the opportunity to fully repay the New Financial Instruments in advance of the final deadline of 2017 in according with the Restructuring Plan;
- Capital management actions and optimization of the Risk Weighted Assets (RWA) includes a selective reduction of the loan portfolio to enhance its quality but without reducing the support to the economy.

More benefits may arise from the disposal of the subsidiaries MP Banque, MPS Belgium and the Leasing activities carried out by subsidiary MPS Leasing & Factoring. However, given the uncertainties about the timing and modalities of these disposals, the potential effects of these sales were not included in the new targets.

Key Financial targets:

	$CAGR_{14-18}$ %
Revues (%)	+4,8
Net fees and commission (%)	+7,3
Operating Costs (%)	-2,2
Pre Provision Profit (%)	+15,0

	2018 E
Cost / Income (%)	~49
Cost of Credit (bps)	106
Loans / deposit [9](%)	~94
CET1 (fully loaded) (%)	12
RoE (%)	~8
RoTE (%)	~8
Net Income (€/mln)	880

[9] Loans to Customers, excluding debt securities/Direct funding excluding NFIs

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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 press release corresponds to the underlying documentary evidence and accounting records.

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The content of this document has a merely informative and provisional nature and is not to be construed as providing investment advice.
This press release may contain certain forward-looking statement, projections, objectives, estimates and forecasts reflecting the management's current views with respect to certain future events. Forward-looking statements, projections, objectives, estimates and forecasts are generally identifiable by the use of the words "may," "will," "should," "plan," "expect," "anticipate," "estimate," "believe," "intend," "project," "goal" or "target" or the negative of these words or other variations on these words or comparable terminology. These forward-looking statements include, but are not limited to, all statements other than statements of historical facts, including, without limitation, those regarding the Group's future financial position and results of operations, strategy, plans, objectives, goals and targets and future developments in the markets where the Group participates or is seeking to participate. Due to such uncertainties and risks, readers are cautioned not to place undue reliance on such forward-looking statements as a prediction of actual results. The Group's ability to achieve its projected objectives or results is dependent on many factors which are outside management's control. Actual results may differ materially from (and be more negative than) those projected or implied in the forward-looking statements. Such forward-looking information involves risks and uncertainties that could significantly affect expected results and is based on certain key assumptions. All forward-looking statements included herein are based on information available to the Company as of the date hereof. The Company undertakes no obligation to update publicly or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as may be required by applicable law
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Reclassified accounts

Income statement and balance sheet reclassification principles

As of the first quarter of 2015, the structure of the reclassified consolidated Income Statement has been amended to introduce the concept of “Pre Provision Profit”, in accordance with the practice already adopted by the leading Italian banking groups and the European supervisory authorities. The differences between the new structure of the Reclassified Income Statement and the one applied by Group until 31/12/2014 are as follows:

- the inclusion of "Other operating income (expense)" in “Total Revenues” (previously “Net income from banking and insurance”), which had been accounted for under "Net provisions to reserves for risks and charges and other operating income (expense)" until 31/12/2014;
- reporting of “net value adjustments to loans and financial assets” under operating expenses, thereby introducing the item “Gross Operating Result” which is the difference between ordinary revenues and operating costs;
- The “Net Operating Result” is, therefore, calculated as the difference between the Gross Operating Result and the Net impairment losses (reversals) on financial assets.

The comparative figures for the periods have been re-aggregated according to the new structure of the Income Statement reclassified on the basis of operating criteria.
In view of the above, provided below are the Income Statement and Balance Sheet accounts reclassified on the basis of operating criteria with a description of the reclassifications made in the first quarter of 2015:

<u>Income Statement</u>

a) **“Net profit (loss) from trading/valuation/repurchase of financial assets/liabilities"** in the reclassified income statement, includes Item 80 "Net profit (loss) from trading", Item 100 "Gains (losses) on disposal/repurchase of loans, financial assets available for sale or held to maturity and financial liabilities" and Item 110 "Net profit (loss) on financial assets and liabilities designated at fair value". The item incorporates dividends earned on securities held in the Group's securities portfolio (approx. EUR 3.4 mln)**.**

b) **“Dividends, similar income and gains (losses) on investments”** in the reclassified income statement incorporates item 70 “Dividends and similar income” and a portion of item 240 “Gains (losses) on investments” (approx. EUR 24 mln, corresponding to the share of profit and loss for the period contributed by investments in associate AXA, consolidated at equity). Dividends earned on securities held in the securities portfolio, as outlined under the item above, have also been eliminated from the aggregate;

c) The income statement item “**Other operating income (expense)** excludes stamp duty and client expense recovery, which have been reclassified to the item “**Other administrative expenses**”.

d) The income statement item “Personnel expenses” was reduced by EUR 0.2 mln owing to the termination of a number of employment contracts. The amount was reclassified under “Restructuring costs/One-off charges”.

e) “**Other administrative expenses**” in the reclassified income statement was deducted of the portion of stamp duty and client expense recovery (approx. EUR 91 mln) posted under item 220 “Other operating expenses (income)”.

f) “**Net impairment losses (reversals) of financial assets and other transactions**” includes the item 130b “Financial assets available for sale”, 130c “Financial assets held to maturity” and 130d “Other financial transactions”.

g) The income statement item “**Restructuring costs/one-off charges**” includes one-off charges of approx. n the reclassified income statement includes EUR 0.2 mln reclassified out of Personal Expenses.

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h) **"Gains (losses) on investments"** was cleared of components reclassified as "Dividends and similar income".

i) The effects of Purchase Price Allocation (PPA) posted to this specific account were reclassified out of other items (in particular **"Net interest income"** for EUR 12.2 mln and **Depreciation/Amortisation** for EUR 6.9 mln, net of a theoretical tax burden of approx. - EUR 6.3 mln that is included in the related item).

Balance Sheet

a) **"Tradable Financial assets"** on the assets side of the reclassified balance-sheet includes item 20 "Financial assets held for trading", item 30 "Financial assets designated at fair value" and item 40 "Financial assets available for sale".

b) **"Other assets"** on the assets side of the reclassified balance-sheet incorporates item 80 "Hedging derivatives", item 90 "Change in value of macro-hedged financial assets", item 140 "Tax assets", item 150 "Non-current assets and groups of assets held for sale and discontinued operations" and item 160 "Other assets";

c) **"Deposits from customers and debt securities issued"** on the liabilities side of the reclassified balance-sheet includes item 20 "Deposits from customers", item 30 "Debt securities issued" and item 50 "Financial liabilities designated at fair value";

d) **"Other liabilities"** on the liabilities side of the reclassified balance sheet incorporates item 60 "Hedging derivatives", item 70 "Change in value of macro-hedged financial liabilities", item 80 "Tax liabilities", item 90 "Liabilities associated with non-current assets held for sale and discontinued operations" and item 100 "Other liabilities".

CONSOLIDATED REPORT ON OPERATIONS

Highlights at 31/03/2015

INCOME STATEMENT AND BALANCE SHEET FIGURES AND KEY INDICATORS

MPS GROUP

INCOME STATEMENT FIGURES (EUR mln)	31/03/15	31/03/14	% chg
Income from banking activities	1,054.9	891.0	18.4%
Income from banking and insurance activities	1,267.2	958.6	32.2%
Net operating income	159.6	(193.7)	n.m
Net profit (loss) for the period	72.6	(174.1)	n.m
BALANCE SHEET FIGURES AND INDICATORS (EUR mln)	**31/03/15**	**31/12/14**	**% chg**
Direct funding	131,511	126,224	4.2%
Indirect funding	111,175	106,140	4.7%
of which: assets under management	*55,300*	*51,519*	*7.3%*
of which: assets under custody	*55,874*	*54,622*	*2.3%*
Loans to customers	123,139	119,676	2.9%
Group net equity	6,471	5,965	8.5%
KEY CREDIT QUALITY RATIOS (%)	**31/03/15**	**31/12/14**	**Abs. chg**
Net doubtful loans/Loans to Customers	7.1	7.1	0.0
Net Unlikely to pay/Loans to Customers	9.9	9.7	0.2
Net NP past due and overdue exposures/Loans to Customers	2.3	2.6	-0.3
PROFITABILITY RATIOS (%)	**31/03/15**	**31/12/14**	**Abs. chg**
Cost/Income ratio	51.6	65.1	-13.5
Net loan loss provisions / End-of-period loans	1.52	6.54	-5.0
CAPITAL RATIOS (%)	**31/03/15**	**31/12/14**	**Abs. chg**
Total Capital ratio	12.6	13.0	-0.4
Common Equity Tier 1 (CET1) ratio	8.1	8.7	-0.6
Return on Assets (RoA) ratio	0.04	-2.91	2.95
INFORMATION ON BMPS STOCK	**31/03/15**	**31/12/14**	
Number of ordinary shares outstanding	5,116,513,875	5,116,513,875	
Price per ordinary share:	**From 31/12/14 to 31/03/15**	**From 31/12/13 to 31/12/14**	**% chg**
average	0.52	1.19	-56.0%
low	0.40	0.46	-13.8%
high	0.62	2.56	-75.8%
OPERATING STRUCTURE	**31/03/15**	**31/12/14**	**Abs. chg**
Total head count - end of period	25,763	25,961	(198)
Number of branches in Italy	2,185	2,186	(1)
Number of specialised centres	277	279	(2)
Financial advisory branches	115	118	(3)
Number of branches & representative offices abroad	40	40	-

Reclassified Income Statement (Euro mln)				
	31/03/15	31/03/14	Change	
Montepaschi Group			Abs.	%
Net interest income	611.9	445.8	166.1	37.3%
Net fee and commission income	443.0	445.2	(2.2)	-0.5%
Income from banking activities	**1,054.9**	**891.0**	**163.9**	**18.4%**
Dividends, similar income and gains (losses) on investments	24.3	25.7	(1.4)	-5.4%
Net profit (loss) from trading	171.8	45.1	126.7	n.m.
Net profit (loss) from hedging	14.8	(4.6)	19.4	n.m.
Other operating income (expenses)	1.4	1.3	0.1	3.9%
Income from banking and insurance activities	**1,267.2**	**958.6**	**308.6**	**32.2%**
Administrative expenses:	(604.9)	(611.9)	7.0	-1.1%
a) personnel expenses	(419.4)	(429.3)	10.0	-2.3%
b) other administrative expenses	(185.5)	(182.6)	(2.9)	1.6%
Net losses/reversal on impairment on property, plant and equipment / Net adjustn	(48.4)	(48.6)	0.2	-0.4%
Operating expenses	**(653.3)**	**(660.5)**	**7.2**	**-1.1%**
Pre Provision Profit	**613.8**	**298.0**	**315.8**	**106.0%**
Net impairment losses (reversals) on:	**(454.2)**	**(491.7)**	**37.5**	**-7.6%**
a) loans	(468.2)	(476.6)	8.3	-1.7%
b) financial assets	14.0	(15.2)	29.1	n.m.
Net operating income	**159.6**	**(193.7)**	**353.3**	**n.m.**
Net provisions for risks and charges	(29.8)	(54.5)	24.7	-45.3%
Gains (losses) on investments	0.2	41.9	(41.7)	-99.4%
Restructuring costs / One-off costs	(0.2)	(1.1)	0.9	-79.9%
Gains (losses) on disposal of investments	0.4	4.7	(4.3)	-91.8%
Profit (loss) before tax from continuing operations	**130.2**	**(202.7)**	**332.9**	**n.m.**
Tax expense (recovery) on income from continuing operations	(44.3)	38.4	(82.7)	n.m.
Profit (loss) after tax from continuing operations	**85.9**	**(164.3)**	**250.1**	**n.m.**
Net profit (loss) for the period including non-controlling interests	**85.9**	**(164.3)**	**250.1**	**n.m.**
Net profit (loss) attributable to non-controlling interests	(0.5)	(0.5)	(0.0)	0.8%
Profit (loss) for the period before PPA , impairment on goodwill and intangibles	**85.4**	**(164.7)**	**250.1**	**n.m.**
PPA (Purchase Price Allocation)	(12.8)	(9.4)	(3.4)	36.3%
Impairment on goodwill and intangibles	-	-	-	n.m.
Net profit (loss) for the period	**72.6**	**(174.1)**	**246.7**	**n.m.**

Quarterly trend in reclassified incomen statement (Euro mln)					
	2015	2014			
Montepaschi Group	1Q	4Q	3Q	2Q	1Q
Net interest income	611.9	610.9	580.6	526.2	445.8
Net fee and commission income	443.0	405.2	421.5	425.8	445.2
Income from banking activities	**1,054.9**	**1,016.2**	**1,002.1**	**952.0**	**891.0**
Dividends, similar income and gains (losses) on investments	24.3	38.8	32.6	23.8	25.7
Net profit (loss) from trading	171.8	41.1	147.3	28.6	45.1
Net profit (loss) from hedging	14.8	(4.7)	2.2	(8.7)	(4.6)
Other operating income (expenses)	1.4	17.9	2.0	(17.7)	1.3
Income from banking and insurance activities	**1,267.2**	**1,109.4**	**1,186.1**	**978.0**	**958.6**
Administrative expenses:	(604.9)	(658.2)	(623.8)	(620.4)	(611.9)
a) personnel expenses	(419.4)	(430.7)	(427.9)	(421.9)	(429.3)
b) other administrative expenses	(185.5)	(227.5)	(195.9)	(198.5)	(182.6)
Net losses/reversal on impairment on property, plant and equipment / Net adjustments to (recoveries on) intangible assets	(48.4)	(76.3)	(65.6)	(50.2)	(48.6)
Operating expenses	**(653.3)**	**(734.5)**	**(689.5)**	**(670.7)**	**(660.5)**
Pre Provision Profit	**613.8**	**374.9**	**496.7**	**307.3**	**298.0**
Net impairment losses (reversals) on:	**(454.2)**	**(5,502.2)**	**(1,296.1)**	**(735.2)**	**(491.7)**
a) loans	(468.2)	(5,357.0)	(1,256.5)	(731.4)	(476.6)
b) financial assets	14.0	(145.2)	(39.6)	(3.8)	(15.2)
Net operating income	**159.6**	**(5,127.3)**	**(799.4)**	**(427.9)**	**(193.7)**
Net provisions for risks and charges	(29.8)	(57.2)	(37.3)	(27.5)	(54.5)
Gains (losses) on investments	0.2	(72.0)	(13.4)	133.4	41.9
Restructuring costs / One-off costs	(0.2)	(53.8)	(318.2)	(2.7)	(1.1)
Gains (losses) on disposal of investments	0.4	77.9	1.7	0.4	4.7
Profit (loss) before tax from continuing operations	**130.2**	**(5,232.5)**	**(1,166.6)**	**(324.3)**	**(202.7)**
Tax expense (recovery) on income from continuing operations	(44.3)	1,736.8	374.2	155.4	38.4
Profit (loss) after tax from continuing operations	**85.9**	**(3,495.7)**	**(792.4)**	**(168.9)**	**(164.3)**
Net profit (loss) for the period including non-controlling interests	**85.9**	**(3,495.7)**	**(792.4)**	**(168.9)**	**(164.3)**
Net profit (loss) attributable to non-controlling interests	(0.5)	0.6	4.9	(0.6)	(0.5)
Profit (loss) for the period before PPA , impairment on goodwill and intangibles	**85.4**	**(3,495.2)**	**(787.5)**	**(169.5)**	**(164.7)**
PPA (Purchase Price Allocation)	(12.8)	(10.1)	(9.2)	(9.4)	(9.4)
Impairment on goodwill and intangibles	-	(687.9)	-	-	-
Net profit (loss) for the period	**72.6**	**(4,193.2)**	**(796.7)**	**(178.9)**	**(174.1)**

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Reclassified balance sheet (Euro mln)

ASSETS	31/03/15	31/12/14	Chg vs 31/12/14 abs.	Chg vs 31/12/14 %
Cash and cash equivalents	682	1,007	(324)	-32.2%
Receivables :				
a) Loans to customers	123,139	119,676	3,463	2.9%
b) Loans to banks	7,856	7,723	133	1.7%
Financial assets held for trading	41,236	39,776	1,460	3.7%
Financial assets held to maturity	-	-	-	
Equity investments	947	1,014	(67)	-6.6%
Property, plant and equipment / Intangible assets	3,139	3,229	(90)	-2.8%
of which:				
a) goodwill	*8*	*8*	-	
Other assets	10,526	11,019	(493)	-4.5%
Total assets	**187,525**	**183,444**	**4,082**	**2.2%**

LIABILITIES	31/03/15	31/12/14	Chg vs 31/12/14 abs.	Chg vs 31/12/14 %
Payables				
a) Deposits from customers and securities issued	131,511	126,224	5,287	4.2%
b) Deposits from banks	22,519	27,648	(5,128)	-18.5%
Financial liabilities held for trading	16,381	13,702	2,680	19.6%
Provisions for specific use				
a) Provisions for staff severance indemnities	268	271	(3)	-1.2%
b) Pensions and other post retirement benefit obligations	52	66	(14)	-20.9%
c) Other provisions	1,104	1,085	19	1.7%
Other liabilities	9,195	8,459	735	8.7%
Group net equity	6,471	5,965	506	8.5%
a) Valuation reserves	(253)	(685)	433	-63.1%
c) Equity instruments carried at equity	3	3	-	
d) Reserves	(5,838)	(496)	(5,342)	n.m.
e) Share premium	2	2	-	
f) Share capital	12,484	12,484	-	
g) Treasury shares (-)	(0)	(0)	-	
h) Net profit (loss) for the year	73	(5,343)	5,416	n.m.
Non-controlling interests	24	24	0	2.0%
Total Liabilities and Shareholders' Equity	**187,525**	**183,444**	**4,082**	**2.2%**

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Reclassified Balance Sheet - Quarterly Trend (Euro mln)					
ASSETS	31/03/15	31/12/14	30/09/14	30/06/14	31/03/14
Cash and cash equivalents	682	1,007	878	860	823
Receivables :					
a) Loans to customers	123,139	119,676	126,307	132,770	132,677
b) Loans to banks	7,856	7,723	6,884	8,638	10,204
Financial assets held for trading	41,236	39,776	41,856	39,863	43,500
Financial assets held to maturity	-	-	-	-	-
Equity investments	947	1,014	1,001	952	960
Property, plant and equipment / Intangible assets	3,139	3,229	3,934	3,971	4,004
of which:					
a) goodwill	*8*	*8*	*670*	*670*	*670*
Other assets	10,526	11,019	9,837	9,474	8,855
Total assets	**187,525**	**183,444**	**190,697**	**196,528**	**201,022**

LIABILITIES	31/03/15	31/12/14	30/09/14	30/06/14	31/03/14
Payables					
a) Deposits from customers and securities issued	131,511	126,224	126,610	130,777	128,859
b) Deposits from banks	22,519	27,648	29,425	31,810	40,991
Financial liabilities held for trading	16,381	13,702	13,144	11,718	14,630
Provisions for specific use					
a) Provisions for staff severance indemnities	268	271	295	285	273
b) Pensions and other post retirement benefit obligations	52	66	59	59	60
c) Other provisions	1,104	1,085	1,024	991	1,020
Other liabilities	9,195	8,459	9,777	9,811	8,905
Group net equity	6,471	5,965	10,340	11,048	6,251
a) Valuation reserves	(253)	(685)	(549)	(634)	(788)
c) Equity instruments carried at equity	3	3	3	3	3
d) Reserves	(5,838)	(496)	(451)	4,548	(274)
e) Share premium	2	2	2	-	-
f) Share capital	12,484	12,484	12,484	7,485	7,485
g) Treasury shares (-)	(0)	(0)	(0)	(0)	(0)
h) Net profit (loss) for the period	73	(5,343)	(1,150)	(353)	(174)
Non-controlling interests	24	24	24	29	34
Total Liabilities and Shareholders' Equity	**187,525**	**183,444**	**190,697**	**196,528**	**201,022**