Monte dei Paschi di Siena Bank

Consolidated interim report as at 31 March 2019

MONTE
DEI PASCHI
DI SIENA
BANK SINCE 1472

Interim Report on Operations
Monte dei Paschi di Siena Group
31 March 2019

Banca Monte dei Paschi di Siena S.p.a.

Share Capital: € 10,328,618,260.14 fully paid in

Registered with the Arezzo-Siena Company Register – registration no. and tax code 00884060526

Member of the Italian Interbank Deposit Protection Fund. Registered with the Register of Banks under no. 5274

Monte dei Paschi di Siena Banking Group, registered with the Register of Banking Groups

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Introduction

Following the amendment of the Consolidated Law on Finance (art. 154-*ter*, Legislative Decree no. 58/1998) and the Issuers' Regulation (art. 82-ter, Consob Resolution no. 11971/1999), in implementation of the so-called Transparency II Directive (Directive 2013/50/EU), the obligation for listed companies to publish interim reports on operations (as at 31 March and as at 30 September) was repealed, allowing issuers to decide on a voluntary basis whether to disclose periodic financial information in addition to the annual and half-yearly reports.

Montepaschi Group has chosen, as its policy on additional periodic financial disclosures, to publish this information on a voluntary basis with reference to 31 March and 30 September of each year, by means of Interim Reports on Operations approved by the Board of Directors of the Parent Company, in essential agreement and continuity with the past.

The Interim Report on Operations as at 31 March 2019, not subject to audit requirements, provides a description of the activities and results which largely characterised Montepaschi Group's operations in the first quarter of 2019, both as a whole and in the various business lines into which consolidated operations are carried out.

Results in brief

The main income statement and balance sheet figures of Montepaschi Group as at 31 March 2019 compared with the same period of the previous year are shown below. In addition, the key economic and financial indicators[1] are provided, based on accounting data, corresponding to those used in internal performance management and management reporting systems, and consistent with the most commonly used metrics within the banking industry, thereby ensuring the comparability of reported figures.

Pursuant to the requirements set forth in the "Guidelines on Alternative Performance Measures" published by the European Securities and Markets Authority (ESMA) in June 2016, this section also contains the definitions and calculation methods of alternative performance measures.

Lastly, note that, in order to allow continued disclosure and understanding of the performance results, the subsidiary BMP Belgio S.A., even though subject to transfer, is included in the individual income statement and balance sheet items.

INCOME STATEMENT AND BALANCE SHEET FIGURES MPS GROUP			
INCOME STATEMENT FIGURES	**31/03/19**	**31 03 2018***	**Chg.**
Net interest income	408.9	421.5	-3.0%
Net fee and commission income	358.8	406.5	-11.7%
Other operating income	34.8	48.8	-28.8%
Total Revenues	802.5	876.8	-8.5%
Net impairment losses (reversals) on financial assets mesured at amortised cost and finanaicl assets measured at fair value through other comprehensive income	(164.3)	(137.9)	19.1%
Net operating income	69.1	166.1	-58.4%
Net profit (loss) for the period	27.9	187.6	-85.1%
EARNING PER SHARE (EUR)	**31/03/19**	**31 03 2018***	**Chg.**
Basic earnings per share	0.025	0.170	-85.1%
Diluted earnings per share	0.025	0.170	-85.1%
BALANCE SHEET FIGURES AND INDICATORS	**31/03/19**	**31 12 2018***	**Chg.**
Total assets	132,122.3	130,481.0	1.3%
Loans to customers	89,375.7	86,855.5	2.9%
Direct funding	92,686.1	90,471.7	2.4%
Indirect funding	99,638.0	96,488.6	3.3%
of which: assets under management	57,642.3	55,887.7	3.1%
of which: assets under custody	41,995.7	40,600.8	3.4%
Group net equity	9,088.6	8,992.0	1.1%
OPERATING STRUCTURE	**31/03/19**	**31 12 2018***	**Chg.**
Total head count - end of period	22,506	23,129	-623
Number of branches in Italy	1,529	1,529	n.s.

* The Group has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 16, thus the figures for 2018 are not fully comparable.

N.B.: The number of employees refers to the actual workforce and therefore does not include the staff seconded outside the scope of the Group.

[1] The indicators are calculated using the reclassified data shown in the chapters regarding income statement and balance sheet reclassification principles.

ALTERNATIVE PERFORMANCE MEASURES

MPS GROUP

PROFITABILITY RATIOS (%)	31/03/19	31 12 2018*	Chg.
Cost/Income ratio	70.92	71.5	-0.6
R.O.E.	1.23	2.9	-1.7
Return on Assets (RoA) ratio	0.08	0.2	-0.1
ROTE (Return on tangible equity)	1.24	2.9	-1.7

***** The Group has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 16, thus the figures for 2018 are not fully comparable.

KEY CREDIT QUALITY RATIOS (%)	31/03/19	31 12 2018*	Chg.
Net non-performing loans / Loans to Customers	8.4	9.0	-0.6
Gross NPL ratio	16.3	17.3	-1.0
Growth rate of gross NPL	-3.6	-60.8	57.2
Coverage non-performing loans	53.1	53.1	n.s.
Bad loans / Loans to Customers	3.6	3.7	-0.1
Loans to Customers measured at amortised cost - Stage 2/Performing exposures measured at amortised cost	15.2	15.9	-0.7
Coverage bad loans	61.4	62.4	-1.0
Net impairment losses on loans measured at amortised cost/ Loans to Customers measured at amortised cost (Provisioning)	0.7	0.7	n.s.
Texas Ratio	92.7	95.0	-2.3

* The Group has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 16, thus the figures for 2018 are not fully comparable.

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

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

Return On Assets (ROA): ratio between the annualised Net profit (loss) for the period and Total assets at the end of the period.

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

Gross NPL ratio: ratio between gross non-performing exposures to customers and gross exposures to customers.

Growth rate of gross NPL: represents the annual growth rate of gross non-performing exposures based on the difference between annual balances.

Coverage of non-performing loans and coverage of bad loans: the coverage ratio on non-performing credit exposures and credit exposures classified in bad loans is calculated as the ratio between the relative loss provisions and the corresponding gross exposures.

Texas Ratio: ratio between gross non-performing loans and the sum of tangible shareholders' equity and loan loss provisions.

REGULATORY MEASURES			
MPS GROUP			
CAPITAL RATIOS (%)	**31/03/19**	**31 12 2018***	**Chg.**
Common Equity Tier 1 (CET1) ratio	13.3	13.7	-0.4
Total Capital ratio	14.7	15.2	-0.5
FINANCIAL LEVERAGE INDEX (5)	**31/03/19**	**31 12 2018***	**Chg.**
Leverage ratio - Transitional Phase	5.6	5.5	0.1
LIQUIDITY RATIO (%)	**31/03/19**	**31 12 2018***	**Chg.**
LCR	240.7	231.7	9.0
NSFR	111.0	112.3	-1.3
Encumbered asset ratio	35.1	35.5	-0.4
Loan to deposit ratio	96.4	96.0	0.4
Counterbalancing capacity	22.7	21.2	1.5

* The Group has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 16, thus the figures for 2018 are not fully comparable.

Encumbered asset ratio: ratio between carrying amount of encumbered assets and collateral and total assets and collateral (XVII, section 1.6, point 9, of Regulation (EU) 2015/79).

Loan to deposit ratio: ratio between loans to customers and the sum of customer deposits including bonds issued (deposits from customers, debt securities issued and financial liabilities designated at fair value).

Executive summary

A summary of the trend in key items of the main aggregates of the Group as at 31 March 2019 is provided below:

- **Net interest income**, amounting to EUR 409 mln (-3.0% compared to 1Q18), was mainly affected by the negative trend in commercial lending (which recorded a decrease in average volumes and a drop in the related returns). This trend is only partially attenuated by the decrease in interest expense following the reduction in the cost of corporate funding. The aggregate was also impacted by the introduction of IFRS 16, which entailed the recognition of EUR 1.2 mln in interest expense in 1Q19.

- **Net fee and commission income**, amounting to EUR 359 mln, decreased by 11.7% compared to the previous year, mainly as a result of the reduction in income from product placement and loan commissions (the latter affected also by the elimination of one-off income recorded in 1Q18).

- **Other revenues**, amounting to EUR 35 mln, decreased by 28.8% compared to the previous year, mainly due to lower gains on the disposal of securities and receivables and the deterioration of the contribution of assets and liabilities measured at fair value, only partly offset by the improvement in the results on trading.

- As a result of the trend in these aggregates, **Total Revenues** amounted to EUR 803 mln, down 8.5% compared to the same period of the previous year.

- **Operating Expenses** amounted to EUR 569 mln (-0.6% compared to 1Q18). This aggregate includes **Personnel expenses**, amounting to EUR 369 mln, which were essentially in line with 1Q18, while **Other administrative expenses**, amounting to EUR 140 mln, were down by 5.6% compared to 1Q18, and **Net value adjustments on property, plant and equipment and intangible assets**, amounting to EUR 61 mln, were up compared to 1Q18 (+6.6%), also due to the effects from the entry into force of IFRS 16, which led to the recording of lower Other administrative expenses of EUR 15.2 mln and higher Net value adjustments on property, plant and equipment and intangible assets of EUR 14 mln.

- **Net impairment (losses)/reversals on financial assets measured at amortised cost and at fair value through other comprehensive income** amount to EUR 164 mln (EUR 26 mln higher than 1Q18) and have a **Provisioning Rate[2] of 73 bps**. The cost of credit for 1Q19 includes the effects of the downward revision of the estimates for GDP growth in 2019, incorporated in the forward-looking scenarios envisaged by IFRS 9.

- With regard to **Net provisions for risks and charges**, there was a negative balance of EUR 17 mln (EUR +53 mln in the corresponding period of 2018), mainly due to provisions for legal disputes and compensation relating to transactions in diamonds, only partly offset by releases of commitments and guarantees.

- As a result of the trend in the aforementioned income statement aggregates, together with **restructuring costs**, amounting to EUR +2 mln (compared to EUR -17 mln recorded in 1Q18), the **DTA fee**, amounting to EUR -18 mln, costs associated with **SRF (Single Resolution Fund), DGS (Deposit Guarantee Systems) and similar schemes**, amounting to EUR -61 mln (down 11.8% compared to 1Q18 due to lower contributions to be paid to the SRF), and to the **partial reassessment of DTAs** on tax losses, accrued and not recognised in previous years, the Group recorded a **Net Profit of EUR 28 mln**, compared to a profit of EUR 188 mln achieved in March 2018.

- **Total Funding** at the end of March 2019 amounted to approx. **EUR 192.3 bn,** essentially stable compared to 31 March 2018 due to the increase in Indirect Funding, which almost entirely offsets the reduction in Direct Funding. The aggregate, instead, grew by EUR 5.4 bn compared to 31

[2] Calculated as the ratio between annualised net impairment losses and Loans to Customers

December 2018, both with reference to Indirect Funding, whose assets under Custody and Management benefited from a significant positive market effect, and with reference to Direct Funding. The latter increased thanks to the growth in Current Accounts and Time Deposits (EUR +2.1 bn), Bonds (EUR +0.9 bn) and Other forms of funding, partially offset by the reduction of EUR 2.2 bn in repurchase agreements with institutional counterparties.

- **Loans to customers**, including only exposures measured at amortised cost, amounted to around **EUR 89.4 bn** as at 31 March 2019, essentially stable compared to 31 March 2018, but with growth in securities exposures (EUR +6.3 bn, following the recognition of senior notes deriving from the securitisation transaction and the purchase of government bonds in 4Q18) and mortgages (EUR +1.3 bn), offset by the drop in non-performing loans (EUR -1.3 bn), repurchasing agreements (EUR -3.7 bn), current accounts and other loans. Compared to 31 December 2018, the aggregate was up in all components with the exception of non-performing loans, which decreased by around 2%.
- **The net exposure in terms of non-performing loans**, which include, in addition to exposures measured at amortised cost, all cash exposures, regardless of the accounting portfolio to which they belong, with the exception of equity securities, UCITS, financial assets held for trading and hedging derivatives, stood at **EUR 7.6 bn** at the end of March 2019, down from the beginning of the year (EUR -0.3 bn), recording in particular a decrease in unlikely to pay (down from 5.2% in December 2018 to 4.7% in March 2019) and substantially stable bad loans and non-performing past due exposures. The percentage of coverage of non-performing loans was 53.1%, in line with 31 December 2018, with the coverage of bad loans going from 62.4% in December 2018 to 61.4% in March 2019 and unlikely to pay from 44.0% in December 2018 to 45.0% in March 2019.
- With regard to capital ratios, as at 31 March 2019 the **Common Equity Tier 1 Ratio** stood at **13.3%** (13.7% at the end of 2018) and the **Total Capital Ratio** at **14.7%**, compared to 15.2% recorded at the end of December 2018.
- As at 31 March 2019, the operational liquidity position showed an **unencumbered Counterbalancing Capacity of approx. EUR 22.7 bn**, up by EUR 1.5 bn compared to 31 December 2018, benefiting, in particular, from the higher corporate direct funding and the issue of covered bonds in January 2019.

Reference context

The international economic scenario continues to show signs of slowdown. Negative signals for the global economy are originating from business confidence indices in the main countries/areas where unfavourable assessments of the current situation combine with those of the forecasted situation. This pessimism reflects an unusual concentration of negative factors for global demand, such as political tensions in various countries, the uncertain outcome of Brexit and the ongoing US-China trade war. The possible escalation of protectionism continues to be one of the main downside risks for the international economy, fuelling uncertainty.

In the United States, GDP rose in the fourth quarter of 2018 (annualised quarterly change of +2.6%), but showed a deceleration compared to the previous quarter (+3.3%), still supported by domestic demand, and the forecasts for 2019 growth were lowered, including due to the weakening of global growth.

The slowdown in the economic cycle also affected the Eurozone economy. In the fourth quarter of 2018, in Germany, GDP recorded no economic change after -0.2% in the previous quarter, with a significant deceleration in trend growth. In January 2019, industrial production net of the construction sector in the Eurozone fell by 1.1% YoY, with conflicting signals from the largest countries: in France, the index grew by 2.2% YoY, while Germany was down 3.4% YoY, as temporary factors linked to the car market had a negative impact.

Some emerging economies (Argentina, Brazil, Iran and Turkey) have seen their growth prospects slashed, reflecting growing macroeconomic imbalances and heightened geopolitical tensions with subsequent capital outflows, also suffering from the effects of the rise in oil prices on their imports.

In this global context, in the first few months of 2019, the Italian economy showed a moderate recovery that interrupted the weak decline in activity recorded in the two previous quarters. Overall, the last year was characterised by a phase of substantial stagnation in GDP, the level of which in the first quarter of 2019 was almost unchanged compared to the beginning of 2018 (+0.1% YoY), resulting in a change for the current year of +0.1%.

With regard to markets, after a negative 2018, in the first few months of 2019 the appetite for risk returned, with share indices that recovered the losses accumulated in the worst December since the 1930s. The rebound of share prices in the first quarter of 2019 was sustained by a more accommodating approach by the main central banks: +12% for Euro Stoxx, +16% for FTSE MIB, +15% for S&P 500 index, and +8% for the Nikkei.

At the end of March 2019, the yield on the ten-year BTP stood at 2.49%, slightly down compared to 2.74% at the end of 2018, with the spread at around 250 bps (without notable changes compared to the end of December 2018). The ten-year US yield was also down (to 2.41% at the end of March 2019, from 2.68% at the end of 2018) and the ten-year German yield even reached negative levels, arriving at -0.08% on 27 March.

In this context of strong uncertainty regarding the evolution of the global economic cycle, monetary conditions remain expansionary in the main countries, possibly supporting economic activity. In fact, the Fed and the ECB suspended the normalisation processes for monetary policy to carefully assess the intensity and effects of the global slowdown.

At the end of its meeting on 20 March, the Fed left interest rates unchanged, as a result, the Fed Funds rates remained between 2.25% and 2.50%. The Central Bank announced that it will act with "patience" before undertaking any new measures. In its mid-March meeting, the ECB, in confirming its intention to leave its monetary policy unchanged at least until the end of 2019, announced that it would introduce a new series of quarterly "Targeted Long Term Refinancing Operations (TLTRO III)", beginning in September 2019 until March 2021, each with a two-year maturity. The stated objective of these initiatives is to preserve favourable credit conditions in order to maintain a satisfactory level of liquidity.

Shareholders

As at 31 March 2019, the Parent Company Banca Monte dei Paschi di Siena's share capital amounted to EUR 10,328,618,260.14, broken down into 1,140,290,072 ordinary shares, of which 36,280,748 treasury shares.

According to the communications received pursuant to the applicable legislation and based on other information available, as well as based on information on CONSOB's website, the entities that, as at 31 March 2019, directly and/or indirectly hold ordinary shares representing a shareholding exceeding 3% of the share capital of the Issuer and which do not fall under the cases of exemption set forth in art. 119-bis of the Issuers' Regulations are as follows:

Shareholder	% of outstanding ordinary shares
Ministry of Economy and Finance	68.247%
Assicurazioni Generali S.p.A.*	4.319%
BMPS S.p.A.**	3.181%

*Share held directly and through subsidiary companies.

**Own shares held by MPS Group following the capital strengthening transaction pursuant to Italian Law Decree no. 237/2016 (as subsequently amended and converted into law) and Ministerial Decrees of 27 July 2017.

Information on the BMPS share

Share price and trends

Despite concerns regarding the future performance of the European macroeconomic scenario, the European stock markets recorded satisfactory performance in the first quarter of 2019, with Milan rising 16.12% at the end of the quarter, followed by Paris at +14.10%, London +8.09%, Frankfurt +8.94% and Madrid +8.07%.

The BMPS share closed the first quarter of 2019 at Euro 1.245, with a drop of 16.75% and an average of daily volumes traded of around 3 million.

SHARE PRICE SUMMARY STATISTICS (from 01/01/2019 to 31/03/2019)	
Average	1.31
Minimum	1.20
Maximum	1.53

Ratings

The ratings assigned by the rating agencies as at 31 March 2019 are provided below:

Rating Agencies	Short-term debt	Outlook	Long-term debt	Outlook	Latest update
DBRS	R-4	Stable	B (High)	Stable	19/06/18
Fitch Ratings	B	-	B	Stable	24/07/18
Moody's Investors Service	NP	-	Caa1	Negative	03/12/18

- On 19 June 2018, the rating agency DBRS confirmed the long-term rating of “B (high)” and the short-term rating of “R-4”, “Stable” outlook.
  On 14 December 2018, DBRS increased the rating on the Bank’s long-term deposits by one notch from “B (high)” to “BB (low)”.

- On 24 July 2018, the Fitch rating agency confirmed the long-term rating of “B” with a “Stable” outlook and the short-term rating of “B”.

- On 3 December 2018, the rating agency Moody’s Investors Service lowered the long-term rating to “Caa1” from “B3”. The long-term rating outlook was confirmed as “Negative”.

After the end of the quarter, on 2 April 2019, the Fitch rating agency assigned the rating “B (stable)” to the Bank’s long-term deposits, in line with the long-term IDR (Issuer Default Rating).

Significant events in the first quarter of 2019

On **23 January 2019**, the Parent Company completed a new covered bond issue (bonds secured by Italian residential mortgages), intended for institutional investors, amounting to EUR 1 bn. The expected rating is A1/A+/AAL (Moody's/Fitch/DBRS). The issue expires in January 2024 and envisages an annual coupon of 2%. Taking into account the "below par" reoffer price, at 99.61%, the yield to maturity was 2.08% per annum. The transaction was settled on 29 January 2019.

On **19 February 2019**, a preventive attachment decree was carried out against the Bank for a total of EUR 35.7 mln in relation to the investigations under way by the Public Prosecutor of Milan on the reporting to DPI of the customer involved in the purchase of diamonds.

Significant events after the 1st quarter of 2019

On **2 April 2019**, Fitch Ratings assigned the rating "B (stable)" to the Parent Company's long-term deposits, in line with the long-term IDR (Issuer Default Rating). This rating initiative is the result of the full depositor preference, legislation introduced in Italy on 1 January 2019 with Law Decree 181/2015, which transposed European Directive no. 2014/59/EU (BRRD) for cases of bank insolvency and resolution proceedings. The full text of Fitch Ratings's press release is available on the rating agency's website www.fitchratings.com.

On **17 April 2019**, the Parent Company announced that the company WRM Capital Asset Management S.r.l. decided not to submit an offer for the Group's IT platform. The decision was reached at the end of the analysis and evaluation process launched on 9 November 2018, when the Parent Company, although it had noted that no strategic decision had yet been taken, communicated to the market that, as part of its discussions with the various counterparties and in relation to assessments concerning the Bank's IT platform and its management, it had decided to select WRM, with Oracle and TAS as technology partners, as the only candidate in order to further analyse the fulfilment of requirements that could result in the parties continuing with negotiations and possibly formalising a binding offer. The Parent Company will continue to make strategic assessments of the IT platform and its management, in line with the 2017-2021 Business Plan.

Strategy

The Group's strategy is outlined in the Restructuring Plan approved by the European Commission on 4 July 2017, which is subject to formal monitoring by the European Commission, through a Monitoring Trustee[3]. This monitoring assumes formal relevance in verifying compliance with the commitments only at specific deadlines agreed with the European Commission.

In line with the Restructuring Plan, the Parent Company continues with the process of relaunching the commercial business.

This includes the "Pegaso Programme", which started at the end of 2018 and involves the renewal of the Parent Company's organisational and distribution model through the simplification of the sales model and processes as well as the implementation of digital transformation to support the business. The first phase of the project, which will continue throughout 2019, was completed at the end of April and led to the standardisation of organisational models currently in use by the sales network and the optimisation of regional oversight and coordination of the network.

Again with reference to the commercial business, the initiatives undertaken in the various service models are ongoing. In particular:

- in the Retail area, the distribution, sales and operating models continue to evolve to consolidate and reinforce a new business model confirming the Bank as the reference partner for private and small business customers, setting up customer relations with an increasing focus on "solutions for needs" throughout the lifecycle. The maximisation of the value proposition is oriented towards satisfying and understanding investment, protection and credit requirements, with simple offerings to meet ordinary needs and personalised ones for evolving demands and innovative lending solutions for small businesses. In parallel, the evolution of the digital platforms continues, with a multi-channel approach in which the model 'hinging' on the manager is enhanced by the opportunities offered by new technologies, to render a physical relationship digital through remote collaboration tools that offer continuously updated solutions to meet customer needs, in the consumer and small business markets;
- for Private customers, we expect new relationships to be formed and existing ones to be recovered by:
  - activating the Advisory Service in the Investment Centre Area, in order to corroborate the value proposition for customers and improve the product selection capability, including by working on the product design process and making the interaction with the distribution network and customers more effective;
  - developing synergies with other segments (i.e. Private-Corporate cross selling) to extend the customer base and increase assets;
  - launching a process to redesign the technology platform to support advisory services.
- with regard to Corporate customers, developing and retaining the relationship cannot exclude the search for the maximum profitability adjusted for risk to be pursued in accordance with two guidelines: on one hand, expanding the range of tools aimed at containing capital absorption (RWA) and, on the other, extending the offer, also favouring synergy with the specialists of the product companies. In particular, in addition to increasing the level of digitalisation of the manager's tools and front-end and digital banking platforms, a joint monitoring mechanism was launched by virtue of which the manager and product specialists are responsible for the commercial planning and development activities with reference to a specific class of customers considered to have high potential.

Furthermore, the process to leverage the contribution of Widiba as a vehicle for digitalisation and innovation continues, through the extension to the Group of technological and automation solutions for certain processes, which, when fully implemented, will enable the Group to benefit from an overall reduction in the cost-to-serve; incorporated in this context is the transfer, in two subsequent steps, of

[3] The Bank confirmed Degroof Petercam Finance as Monitoring Trustee, with the favourable opinion of the European Commission Directorate General for Competition - hereinafter "DG Comp".

around 150 thousand retail customers from BMPS to Widiba, characterised by a behavioural profile marked by a strong propensity to self-banking and compatibility of the product perimeter. During the period, the development of the service and the offer continued, with the completion of the digitalisation of processes and the further development of the proprietary investment advisory platform. An additional strategic development is the data-driven intelligence system, which has expanded in size and processing, and is increasingly used to guide both analyses and decisions, as well as the development of the customer base and in terms of acquisition and cross-selling.

In line with the increased efficiency expected by the operating structure:

- the migration of cash transactions to cash-in ATMs continues, which has, to date, resulted in 51.6% of deposits made in self-service mode (calculated on all branches with cash-in functionality at 31 March 2019) and at the same time increasing the number of cash-light branches (cash desks closed in the afternoon), which enables the branches to «recover time for sales activities». Currently there are 234 cash-light branches and the programme envisages extending this to additional branches;
- the previous BMPS remote access platform (*PasKey*) will be completely replaced on 30 June 2019. The functional enrichment of the new Digital Banking platform continued, with the possibility of obtaining ISEE certification online for the main account types, full consultation of all insurance products of the partner AXA, and completion of an anonymous quali-quantitative feedback on the service. In the broader activity of adapting to the new security regulations as dictated in the Payment Services Directive (PSD2), the login and session duration were changed, and the migration to SMS and the elimination of the physical token was initiated, in order to access the platform and validate transactions. With regard to inclusion for the blind and visually impaired, the Digital Banking functionality continued to be updated and a dedicated support structure is being set up to ensure not only full use of the digital platform, but also access to other channels and services of the Parent Company.

In the period 2019 – 2021, MPS Group must cover the maturity of bonds amounting to approx. EUR 11.5 bn, of which the most significant component is the EUR 8 bn of senior notes backed by government guarantees that mature in 2020. The TLTRO II to which the Parent Company had access will also mature in 2020 for a total of approx. EUR 16.5 bn (EUR 10 bn maturing in June 2020 and EUR 6.5 bn in September 2020).

Against these maturities, and starting from a robust liquidity position at the end of 2018, the Group's funding strategy for the three-year period 2019-2021 envisages recourse to diversified funding sources that are distributed over time, primarily represented by new public issues (subordinated, senior, and covered), bilateral funding, flows originating from the sale of NPLs, and the repayment of senior tranches of the 2018 SIENA NPL transaction, as well as the positive contribution from the commercial balance (deposits). Moreover, the Parent Company will assess whether to access the new TLTRO III auctions announced by the ECB, which will be launched in September 2019, based on the Group's liquidity situation and in consideration of the final terms and conditions that will be communicated by the Central Bank for these refinancing transactions.

With regard to both the performing and non-performing loan portfolio, in accordance with the provisions of the Restructuring Plan, initiatives that seek to improve the risk profile, processes, methodologies and business tools have continued.

In this regard, the new credit policy guidelines were developed for 2019 ("PE Strategy") in order to focus the objectives on the quality of the loan portfolio, by identifying an evolutionary strategy that guarantees credit risk management able to adapt to changes in the environment in which BMPS operates. Furthermore, in accordance with the Risk Appetite Framework (RAF), 2019 strategies for the non-performing portfolio ("NPE Strategy") were defined, identifying, for each quantitative objective, the management initiatives that the individual structures that govern the different types of exposures will implement to achieve their assigned objective. In this context, the programme for the transfer/reduction of the portfolio of unlikely to pay and bad loans continues, the economic effects of which are included in the Restructuring Plan, so as to allow for the achievement of the target linked to the percentage of gross non-performing loans out of total loans (NPE ratio).

Once again in reference to non-performing loans, activities continue and are regularly monitored that are aimed at ensuring full compliance of the governance, management and control model for the non-performing loan portfolio with the regulatory instructions contained in the "Non-Performing Loans Guidelines" issued by the ECB in March 2017.

With reference to some of the main commitments of the Restructuring Plan, pursuant to art. 114, paragraph 5 of Italian Legislative Decree 58/1998, the relative implementation status as at 31 March 2019 is described below:

- Risk containment:
  - continuation of the sale/reduction programmes of the unlikely to pay portfolio, resulting in a decrease of EUR 0.2 bn in the first quarter of 2019;
  - continuation of the divestment and deconsolidation transactions, with a specific bad loan disposal plan, represented by receivables resulting from lease agreements for EUR 0.9 bn, with deferred implementation in the course of 2019, for which the first tranche amounting to EUR 0.4 bn was concluded.
- Exposure to sovereign debt: financial assets measured at fair value through other comprehensive income (FVTOCI) are down by around EUR 1.8 bn compared to the end of 2018, referable to Italian government debt securities.
- Transfer of foreign banks:
  - for Banca Monte Paschi Belgio S.A., the Parent Company reached a sale agreement in 2018 with an investee of funds managed by Warburg Pincus, at a price of EUR 42 mln, subject to a price adjustment mechanism. The sale is subject to approval by the National Bank of Belgium and the European Central Bank, whose decisions are expected within the first half of the year;
  - for Monte Paschi Banque S.A., given the unsuccessful attempts at the transfer, the Parent Company, as set out in the Plan, resolved the run-off of the subsidiary, which consists of limiting the bank's activities strictly to those targeted at the deleveraging of loans, excluding the development of new business. During said period, Monte Paschi Banque will retain the banking licence. With regard to monitoring activities for the orderly winding down of the subsidiary, the 2018 targets were achieved and the performance of the first quarter of 2019 is in line with set objectives.
- Closure of foreign branches: as of 31 December 2018, all assets and liabilities of the foreign branches in New York, London and Hong Kong were closed or transferred to Italy (with the exception of some residual relationships associated with the final administrative requirements) and all customer relationships were terminated; however, activities for the return of the banking licence and the preparation of regulatory reporting are still underway.
- Cost reduction measures:
  - through the activation of the Solidarity Fund, 4,800 employees were released during the Plan horizon, of which 1,800 already carried out in 2017, to which were added, as per the trade union agreement of 31 December 2018, an additional 650 releases as at 31 March 2019. After the phase of request acceptance and sustainability verification, this scope was expanded by 100 units within the cost limits already recognised in the 2018 financial statements, with termination expected in the first half of the current year;
  - around 500 branches closed (of which 216 in 2018), equal to 83% of the total objective to be met by 31 December 2021.
- Sale of property assets:
  - the commitment envisages the disposal during the Plan period of owned real estate for a countervalue of approximately EUR 500 mln, of which approximately EUR 80 mln has already been sold or in any case subject to sale agreements;

- restructuring of the Chianti Classico transaction is underway, which consists of the merger of Perimetro Gestione Proprietà Immobiliari S.p.A (PGPI) into Banca Monte dei Paschi di Siena S.p.A. and the dismantling of the Casaforte securitisation. The transaction will allow for more flexible management of the MPS Group's property assets and, by reducing the number of entities involved, to govern more effectively the administrative and decision-making processes related to the same. Following the authorisation issued by the European Central Bank on 27 December 2018, the proposed merger by absorption of PGPI into Banca Monte dei Paschi di Siena S.p.A. was filed with the Company Register, and the resolution approving the merger by the Parent Company's Board of Directors, dated 28 February 2019, was made available to the public. The merger is expected for the end of May 2019.

- Strengthening of the capital position: after the issuing of the first tranche of the subordinated Tier 2 loan in January 2018 for an amount of EUR 750 mln, the Parent Company constantly monitors the market conditions with the objective of performing a second issue of the same type by the end of the year.

Explanatory Notes

The Interim Report on Operations as at 31 March 2019, approved by the Board of Directors on 9 May 2019, was prepared in consolidated format by applying the recognition and measurement criteria envisaged in IAS/IFRS international accounting principles issued by the International Accounting Standards Board (IASB) and the related interpretations by the IFRS Interpretations Committee, as endorsed by the European Commission and effective at the time this interim report was prepared, pursuant to EC Regulation no. 1606 of 19 July 2002.

With reference to the classification, recognition, valuation and derecognition of the various asset, liability and equity entries, as well as the methods for recognising revenue and costs, the accounting principles used for the preparation of this Interim Report on Operations are the same as those used for preparation of the Consolidated Financial Statements as at 31 December 2018, to which the reader is referred for more detail. The only exception is in relation to the entry into force, on 1 January 2019, of the provisions contained in IFRS 16 “Leases”, which replaced the previous IAS 17 “Leases”, as well as the interpretations IFRIC 4 “Determining whether an Arrangement contains a Lease”, SIC-15 “Operating Leases — Incentives”, and SIC-27 “Evaluating the Substance of Transactions Involving the Legal Form of a Lease”. In this regard, please refer to the chapter “Transition to the new IFRS 16” in this report.

The additional IAS/IFRS accounting standards and related SIC/IFRIC interpretations, whose mandatory application took effect on 1 January 2019, but which had no significant impacts on the Group are listed below:

- on 24 October 2018, Regulation (EU) no. 2018/1595 was published, through which the European Commission endorsed IFRIC 23 “**Uncertainty over Income Tax Treatments**”, with the aim of clarifying which factors consider in recognising income taxes, to clarify some uncertainty;
- on 26 March 2018, Regulation (EU) no. 2018/498 was published, through which the European Commission endorsed “**Amendments to IFRS 9: Prepayment Features with Negative Compensation**”, which makes some minor changes to IFRS 9 “Financial Instruments”, aimed at specifying that the instruments that envisage early repayment may also comply with the SPPI test, even if the reasonable additional compensation, to be paid in the event of early repayment, represents a “negative compensation” for the lending entity;
- on 8 February 2019, Regulation (EU) no. 2019/237 was published, through which the European Commission endorsed “**Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures**”, which clarifies that IFRS 9 must be applied to long-term loans to associates or joint ventures that are, essentially, part of the net investment in the associate or joint venture (but for which the entity does not use the equity method);
- on 13 March 2019, Regulation (EU) no. 2019/402 was published, through which the European Commission endorsed “**Amendments to IAS 19**: **Plan Amendment, Curtailment or Settlement**”, which includes some modifications to the calculation of service cost and net interest when the plan is re-measured;
- on 14 March 2019, Regulation (EU) no. 2019/412 was published, through which the European Commission endorsed “**Annual Improvements to IFRS Standards 2015-2017 Cycle**” with certain marginal changes to IAS 12 “Income Taxes”, IAS 23 “Borrowing Costs”, IFRS 3 “Business Combinations”, and IFRS 11 “Joint Arrangements”.

The Interim Report as at 31 March 2019 is supplemented by the certification of the Financial Reporting Officer, pursuant to art. 154-bis of the Consolidated Law on Finance.

Income statement and balance sheet reclassification principles

It should be noted that, in order to allow continued disclosure and understanding of the performance results, the subsidiary BMP Belgio S.A., even if subject to transfer, is included in the individual income statement items.

- Item “**Net interest income**” was cleared of the negative contribution (equal to EUR -2 mln) of the Purchase Price Allocation (PPA), which was reclassified to a specific item, and supplemented by the amount relating to the subsidiary BMP Belgio S.A. for EUR +2 mln.
- Item “**Net fee and commission income**” was supplemented by the amount relating to the subsidiary BMP Belgio S.A. for EUR +0.4 mln.
- Item “**Dividends, similar income and gains (losses) on investments**” incorporates item 70 “Dividends and similar income” and the relevant portion of profits from investments in the associate AXA, consolidated using the equity method, equivalent to EUR 16 mln, included in item 250 “Gains (losses) on investments”. The aggregate was also cleared of dividends earned on equity securities other than equity investments (EUR 0.3 mln), reclassified to item “Net profit (loss) from trading and financial assets/liabilities measured at amortised cost and at fair value through profit and loss”.
- Item “**Net profit (loss) from trading and financial assets/liabilities measured at amortised cost and at fair value through profit and loss**” includes item 80 “Net profit (loss) from trading”, item 100 “Gains (losses) on disposal/repurchase of: i) financial assets measured at amortised cost; ii) financial assets measured at fair value through other comprehensive income, and iii) financial liabilities” and item 110 “Net profit (loss) from financial assets and liabilities measured at fair value through profit and loss”. The item also incorporates dividends earned on securities other than equity investments (EUR 0.3 mln) and the portion relating to the subsidiary BMP Belgio S.A. for EUR -2 mln, while the capital loss on the exposure to the IDPF “Interbank Deposit Protecion Fund” (for the Carige intervention) was cleared for approximately EUR 6 mln, reclassified to “Risks and charges related to SRF, DGS and similar schemes”.
- The item “**Other operating income (expense)**” includes the balance of item 230 “Other operating expenses/income” net of stamp duties and other expenses recovered from customers, which are included in the reclassified item “Other administrative expenses” (EUR 63 mln) and net of other expenses recovered, which are posted to “Net adjustments to (recoveries on) property, plant and equipment” (EUR 4 mln). Moreover, the item includes the amount relating to the subsidiary BMP Belgio S.A. for EUR +0.1 mln.
- The item “**Personnel expenses**” includes the balance of item 190a “Personnel expenses” reduced by EUR 5 mln for recoveries obtained from INPS on amounts allocated for previous early retirement/solidarity fund initiatives, reclassified under “Restructuring costs/One-off charges”. The item also includes the amount of the cost relating to BMP Belgio S.A. for EUR 2.5 mln.
- The item “**Other administrative expenses**” includes the balance of income statement item 190b “Other administrative expenses”, reduced by the following cost items:
  - expenses, amounting to EUR 55 mln, resulting from the EU Deposit Guarantee Schemes Directive (hereinafter “DGSD”) and Bank Recovery Resolution Directive (hereinafter “BRRD”) for the resolution of bank crises, posted under the reclassified item “Risks and charges associated with the SRF, DGS and similar schemes”;
  - DTA fee, convertible into tax credit, for an amount of EUR 18 mln (posted to the reclassified item “DTA fee”);
  - extraordinary charges, relating to project initiatives also aimed at complying with the commitments undertaken with DG Comp (also including the closure of domestic and foreign branches), for EUR 1 mln, stated under reclassified item “Restructuring costs/One-off charges”.

  This item also incorporates the stamp duty and expenses recovered from customers (EUR 63 mln) posted in the income statement under item 230 “Other operating expenses/income” and the relevant portion of the cost for the subsidiary BMP Belgio S.A. for EUR 3 mln.

- Item "**Net adjustments to (recoveries on) property, plant and equipment and intangible assets"** includes the values of items 210 "Net adjustments to (recoveries on) property, plant and equipment" and 220 "Net adjustments to (recoveries on) intangible assets" and was cleared of the negative contribution (EUR -6 mln) referring to the Purchase Price Allocation (PPA), which was recognised in a specific item, while it incorporates the amount of the expense recovery (EUR 4 mln) that was recorded under item 230 "Other operating expenses/income". The item also includes the amount relating to the subsidiary BMP Belgio S.A. for EUR 0.5 mln.
- Item "**Net impairment (losses)/reversals on financial assets measured at amortised cost**" includes items 130a "Financial assets measured at amortised cost" and 140 "Modification gains/(losses)". The item was supplemented by the amount relating to the subsidiary BMP Belgio S.A. for EUR -2.5 mln.
- Item "**Net impairment (losses)/reversals on financial assets measured at fair value through other comprehensive income**" includes item 130b "Net impairment (losses)/reversals on financial assets measured at fair value through other comprehensive income", and was supplemented by the portion relating to the subsidiary BMP Belgio S.A. for EUR 0.1 mln.
- Item "**Net provisions for risks and charges**" includes the balance of item 200 "Net provisions for risks and charges" and was supplemented with the portion relating to the subsidiary BMP Belgio S.A. for EUR 0.2 mln.
- Item "**Gains (losses) on investments**" includes the balance of item 250 "Gains (losses) on investments", cleared of the portion of profit relative to the investments in AXA, consolidated at equity and equivalent to EUR 16 mln, reclassified under item "Dividends, similar income and gains (losses) on equity investments".
- Item "**Restructuring costs/One-off charges**" mainly includes the recoveries recognised by INPS for previous early retirement/solidarity fund manoeuvres of EUR 5 mln, recognised in the financial statements under item 190a "Personnel expenses" and the charges relating to project initiatives, including for the implementation of the commitments undertaken with the DGComp, amounting to EUR 1 mln recorded in the financial statements under item 190b "Other administrative expenses", as well as the adjustment of the price relating to the sale of the subsidiary BMP Belgio S.A., amounting to EUR 2 mln, recognised in the financial statements under item 320 "Profit (loss) after tax from assets held for sale and discontinued operations".
- Item "**Risks and charges associated with SRF, DGS and similar schemes**" includes the charges deriving from EU directives DGSD for deposit guarantee and BRRD for the resolution of bank crises, amounting to EUR 55 mln, recognised in the financial statements under item 190b "Other administrative expenses", as well as the capital loss on the exposure to the IDPF "Interbank Deposit Protecion Fund" (for the Carige intervention) for approximately EUR 6 mln, recognised in the financial statements under item 110 "Net profit (loss) from financial assets and liabilities measured at fair value through profit and loss".
- Item "DTA fees" includes the expenses related to the fees paid on DTAs that can be converted into tax credit as set forth in art. 11 of Law Decree no. 59 of 3 May 2016, converted into Law no. 119 of 30 June 2016, recognised in the Financial Statements under item 190b "Other administrative expenses", for EUR 18 mln.
- Item "**Tax expense (recovery)**" includes the balance of item 300 "Tax expense (recovery) on income from continuing operations" cleared of the theoretical tax component relating to the Purchase Price Allocation (PPA), which was reclassified to a specific item for an amount of EUR 3 mln.
- Item "**Profit (loss) after tax from assets held for sale and discontinued operations"** was cleared of the profit (loss) for the period of the subsidiary (EUR -2 mln) posted in the individual income statement items as well as the effects of the price adjustment relating to the

sale of the subsidiary BMP Belgio S.A. amounting to EUR 2 mln, reclassified under "Restructuring costs/One-off charges".

- The overall negative effects of the **Purchase Price Allocation (PPA)** were reclassified to a specific item, excluding them from affected income statement items (in particular "Net interest income" for EUR -2 mln and "Net adjustments to (recoveries on) property, plant and equipment and intangible assets" for EUR -6 mln, net of a theoretical tax burden of EUR +3 mln which was added to the item).

Balance sheet reclassification principles

In order to allow continued disclosure and understanding of the performance results, the subsidiary BMP Belgio S.A., even if subject to transfer, is included in the individual balance sheet items.

- The asset item "**Cash and cash equivalents**" includes the amount relating to the subsidiary BMP Belgio S.A. for EUR 5 mln.
- The asset item "**Financial assets measured at fair value**" includes balance sheet items 20 "Financial assets measured at fair value through profit and loss" and 30 "Financial assets measured at fair value through other comprehensive income", as well as the portion referring to the subsidiary BMP Belgio S.A., which amounts to EUR 346 mln.
- The asset item "**Loans to banks**" was increased by the amount relating to the subsidiary BMP Belgio S.A. for EUR 187 mln.
- The asset item "**Loans to customers**" was increased by the amount relating to the subsidiary BMP Belgio S.A. for EUR 655 mln.
- The item "**Property, plant and equipment/intangible assets**" was increased by the amount relating to the subsidiary BMP Belgio S.A. for EUR 10 mln.
- The asset item "**Other assets**", includes items 50 "Hedging derivatives", 60 "Change in value of macro-hedged financial assets", 110 "Tax assets", 120 "Non-current assets and group of assets held for sale and discontinued operations" (excluding an amount of EUR 1,208 mln relating to the total assets of the subsidiary BMP Belgio S.A., net of the intercompany amount) and 130 "Other assets". The item also includes the portion relating to subsidiary BMP Belgio S.A. for EUR 5 mln.
- The liability item "**Deposits from customers and securities issued**", includes items 10b "Financial liabilities measured at amortised cost - deposits from customers", 10c "Financial liabilities measured at amortised cost - Securities issued" and 30 "Financial liabilities measured at fair value". The portion relating to the subsidiary BMP Belgio S.A. amounts to EUR 936 mln.
- The liability item "**Deposits from banks**" was increased by the amount relating to the subsidiary BMP Belgio S.A. for EUR 148 mln.
- The liability item "**Financial liabilities held for trading**" was increased by the amount relating to the subsidiary BMP Belgio S.A. for EUR 2 mln.
- The item "**Pensions and other post retirement benefit obligations**" was increased by the amount relating to the subsidiary BMP Belgio S.A. for EUR 0.4 mln and "**Other provisions for risks and charges**" was increased by the amount relating to the subsidiary BMP Belgio S.A. for EUR 1.3 mln
- The liability item "**Other liabilities**" includes items 40 "Hedging derivatives", 50 "Change in value of macro-hedged financial liabilities", 60 "Tax liabilities", 70 "Liabilities associated with non-current assets held for sale and discontinued operations" (excluding an amount of EUR 1,096 mln relating to the total liabilities of the subsidiary BMP Belgio S.A., net of the intercompany amount) and 80 "Other liabilities" (including the amount relating to the subsidiary BMP Belgio S.A. for EUR 8 mln).

Transition to the new IFRS 16

On 1 January 2019, the new international accounting standard IFRS 16 "Leases" became effective, replacing IAS 17 "Leases", IFRIC 4 "Determining Whether an Arrangement Contains a Lease", SIC 15 "Operating Leases – Incentives", and SIC 27 "Evaluating the Substance of Transactions in the Legal Form of a Lease".

In summary, IFRS 16 provides a new definition of lease based on control (right of use) of an identified asset (underlying) for a fixed period of time in exchange for consideration, establishing the following discriminating factors: identification of the asset, lack of entitlement of the lessor to replace the asset, the right to substantially obtain all economic benefits originating from the use of the asset and the right to direct the use of the asset underlying the agreement.

In addition to lease contracts termed as such, this category includes, for example, rental, lease and gratuitous lease contracts for valuable consideration.

Transactions excluded from the standard's scope of application include, specifically:

- intellectual property licenses granted by the lessor pursuant to IFRS 15 "Revenue from Contracts with Customers";
- rights held by the lessee as a result of licensing agreements pursuant to IAS 38 "Intangible Assets".

The standard introduces for the lessee a single model for recording lease contracts in financial statements, regardless of whether they are operating or finance leases, and entails the recognition of:

- in balance sheet assets, a right of use (for the asset, hereinafter "RoU"), equivalent to the lease liability plus initial direct costs and estimated dismantling costs, net of incentives;
- in balance sheet liabilities, a lease liability, equivalent to the present value of future payments, calculated using the discount rate defined at the effective date of the lease contract;
- in the income statement, a reduction in administrative expenses compared to the past (equal to lease payments) and a simultaneous increase in financial costs (remuneration of the recognised liability) and amortisation (relating to the right of use).

Furthermore, the lessee must measure the assets comprising the RoU by applying the cost model.

The exceptions to this rule are represented by short-term lease, with a contractual duration equal to or less than 12 months, and leases where the underlying asset is of low value, for which it is possible to essentially maintain the accounting treatment envisaged by IAS 17 for operating leases, with the lease payments charged to the income statement in compliance with the accrual principle.

For the lessor, the new provisions substantially confirm the accounting treatment of the lease envisaged by IAS 17, maintaining the distinction between finance leases and operating leases.

For the first-time adoption of IFRS 16, MPS Group decided: i) not to exercise the "grandfathering" option, ii) recognise the effects of the initial application of the standard in accordance with the modified retrospective option permitted by the temporary provisions contained in paragraphs C5(b) and C8(b)(ii) of said standard, therefore, not recognising the effects of applying the standard retrospectively in application of IAS 8, nor recalculating the comparative data from the 2018 financial statements on an equivalent basis, and iii) apply some practical expedients as envisaged by the standard (e.g., exemption for low-value contracts, exemption for short-term contracts for those contracts whose duration concludes within 12 months of the initial application date).

The provisions introduced by IFRS 16 entailed, upon first-time adoption, the recognition of the rights of use (under assets) and the corresponding financial liabilities for property leases and car rental contracts (under liabilities) for an amount of around EUR 0.3 bn, with no impact on the consolidated shareholders' equity or on CET1.

Going concern

This interim report on operations was prepared based on a going concern assumption.

In this regard, note that, with reference to the 2017-2021 Restructuring Plan approved by the competent authorities in July 2017, the Group continues the process of relaunching the commercial business and implementing the various operating guidelines. Moreover, consistent with the Plan's provisions, initiatives continued aimed at improving the risk profile of the loan portfolio, both performing and non-performing. For more details on these initiatives, please refer to the "Strategy" section of the Consolidated Report on Operations.

In light of the above and with reference to the indications contained in Document no. 4 of 3 March 2010, issued jointly by the Bank of Italy, Consob and IVASS, and subsequent amendments, the Parent Company reasonably expects to continue operating in the foreseeable future.

Reclassified income statement

Reclassified Consolidated Income Statement				
	31/03/19	31 03 2018*	Change	
MONTEPASCHI GROUP			Abs.	%
Net interest income	408.9	421.5	(12.5)	-3.0%
Net fee and commission income	358.8	406.5	(47.7)	-11.7%
Income from banking activities	**767.7**	**828.0**	**(60.2)**	**-7.3%**
Dividends, similar income and gains (losses) on equity investments	15.9	18.1	(2.2)	-11.9%
Net profit (loss) from trading and financial assets/liabilities measured at amortised cost and maesured at fair value through profit and loss	27.1	37.4	(10.2)	-27.4%
Net profit (loss) from hedging	-	1.1	(1.1)	-100.0%
Other operating income (expenses)	(8.3)	(7.8)	(0.6)	7.2%
Total Revenues	**802.5**	**876.8**	**(74.3)**	**-8.5%**
Administrative expenses:	(508.2)	(515.7)	7.4	-1.4%
a) personnel expenses	(368.6)	(367.8)	(0.8)	0.2%
b) other administrative expenses	(139.7)	(147.9)	8.2	-5.6%
Net adjustments to (recoveries on) property, plant and equipment / Net adjustments to (recoveries on) intangible assets	(60.9)	(57.1)	(3.8)	6.6%
Operating expenses	**(569.1)**	**(572.8)**	**3.7**	**-0.6%**
Pre Provision Profit	**233.4**	**304.0**	**(70.6)**	**-23.2%**
Net impairment losses (reversals) on:	**(164.3)**	**(137.9)**	**(26.4)**	**19.1%**
a) financial assets measured at amortised cost	(164.2)	(137.1)	(27.1)	19.8%
b) Financial assets measured at fair value through other comprehensive income	*(0.1)*	*(0.8)*	0.7	-87.5%
Net operating income	**69.1**	**166.1**	**(97.0)**	**-58.4%**
Net provisions for risks and charges	(17.3)	52.6	(69.9)	n.s.
*of which commitments and guarantees issued***	*21.8*	*44.9*	*(23.1)*	*-51.4%*
Gains (losses) on investments	0.9	(4.0)	4.9	n.s.
Restructuring costs / One-off costs	2.2	(17.0)	19.2	n.s.
Risks and charges related to the SRF, DGS and similar schemes	(60.9)	(69.0)	8.2	-11.8%
DTA Fee	(17.9)	(17.7)	(0.1)	0.8%
Gains (losses) on disposal of investments	0.6	0.3	0.3	100.0%
Profit (loss) before tax from continuing operations	**(23.3)**	**111.3**	**(134.5)**	**n.s.**
Tax expense (recovery) on income from continuing operations	56.7	83.3	(26.5)	-31.9%
Net profit (loss) for the period including non-controlling interests	**33.5**	**194.6**	**(161.1)**	**-82.8%**
Net profit (loss) attributable to non-controlling interests	0.2	-	0.2	n.s.
Profit (loss) for the period before PPA	**33.3**	**194.6**	**(161.3)**	**-82.9%**
PPA (Purchase Price Allocation)	(5.4)	(7.0)	1.6	-22.7%
Net profit (loss) for the period	**27.9**	**187.6**	**(159.7)**	**-85.1%**

* The Group has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 16, thus the figures for 2018 are not fully comparable.

Quarterly trend in reclassified consolidated income statement					
	2019	2018*			
Montepaschi Group	1°Q 2019	4°Q 2018	3°Q 2018	2°Q 2018	1°Q 2018
Net interest income	408.9	430.8	442.1	448.5	421.5
Net fee and commission income	358.8	360.4	353.4	403.0	406.5
Income from banking activities	**767.7**	**791.2**	**795.5**	**851.5**	**828.0**
Dividends, similar income and gains (losses) on equity investments	15.9	19.5	20.7	16.2	18.1
Net profit (loss) from trading and financial assets/liabilities measured at amortised cost and maesured at fair value through profit and loss	27.1	(18.8)	(2.0)	(29.5)	37.4
Net profit (loss) from hedging	-	0.8	(1.2)	(0.9)	1.1
Other operating income (expenses)	(8.3)	(23.6)	(3.4)	(5.1)	(7.8)
Total Revenues	**802.5**	**769.1**	**809.5**	**832.2**	**876.8**
Administrative expenses:	(508.2)	(554.4)	(504.2)	(526.4)	(515.7)
a) personnel expenses	(368.6)	(364.9)	(364.0)	(366.3)	(367.8)
b) other administrative expenses	(139.7)	(189.5)	(140.2)	(160.1)	(147.9)
Net adjustments to (recoveries on) property, plant and equipment / Net adjustments to (recoveries on) intangible assets	(60.9)	(81.0)	(56.9)	(55.1)	(57.1)
Operating expenses	**(569.1)**	**(635.4)**	**(561.1)**	**(581.4)**	**(572.8)**
Pre Provision Profit	**233.4**	**133.7**	**248.4**	**250.7**	**304.0**
Net impairment losses (reversals) on:	**(164.3)**	**(256.5)**	**(121.4)**	**(108.8)**	**(137.9)**
a) financial assets measured at amortised cost	*(164.2)*	*(267.0)*	*(115.9)*	*(108.1)*	*(137.1)*
b) Financial assets measured at fair value through other comprehensive income	*(0.1)*	*10.5*	*(5.5)*	*(0.7)*	*(0.8)*
Net operating income	**69.1**	**(122.8)**	**127.0**	**141.9**	**166.1**
Net provisions for risks and charges	(17.3)	(53.7)	(16.6)	(51.3)	52.6
*of which commitments and guarantees issued***	*21.8*	*(22.3)*	*(9.5)*	*1.8*	*44.9*
Gains (losses) on investments	0.9	0.3	5.0	0.0	(4.0)
Restructuring costs / One-off costs	2.2	(140.6)	(27.8)	(16.3)	(17.0)
Risks and charges related to the SRF, DGS and similar schemes	(60.9)	(7.6)	(28.6)	(25.9)	(69.0)
DTA Fee	(17.9)	(17.7)	(17.8)	(17.7)	(17.7)
Gains (losses) on disposal of investments	0.6	(0.1)	0.2	49.6	0.3
Profit (loss) before tax from continuing operations	**(23.3)**	**(342.2)**	**41.4**	**80.4**	**111.3**
Tax expense (recovery) on income from continuing operations	56.7	245.7	55.0	26.2	83.3
Net profit (loss) for the period including non-controlling interests	**33.5**	**(96.6)**	**96.4**	**106.6**	**194.6**
Net profit (loss) attributable to non-controlling interests	0.2	-	0.1	-	-
Profit (loss) for the period before PPA	**33.3**	**(96.6)**	**96.3**	**106.6**	**194.6**
PPA (Purchase Price Allocation)	(5.4)	(4.1)	(5.5)	(5.7)	(7.0)
Net profit (loss) for the period	**27.9**	**(100.7)**	**90.8**	**100.9**	**187.6**

* The Group has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 16, thus the figures for 2018 are not fully comparable.

Revenue trends

In 1Q19, the Group achieved total **Revenues** of **EUR 803 mln**, down 8.5% compared to the same period of the previous year, in particular due to the decrease in Net fee and commission income, Net interest income, and Net profit (loss) from trading and financial assets/liabilities. Revenue increased by EUR 33 mln in 1Q19 compared to the previous quarter, mainly due to the recovery in Net profit (loss) from trading and financial assets/liabilities (EUR +46 mln) and Other operating income and expenses (EUR +15 mln), while Net interest income (EUR -22 mln) and Net fee and commission income (EUR -2 mln) declined.

The table below shows the trend in revenues for each of the identified operating segments.

SEGMENT REPORTING	Business Segments								Corporate Center		Total MPS Group	
Primary segment	Retail banking		Wealth Management		Corporate banking		Widiba					
(EUR mln)	31/03/19	Chg % Y/Y	31/03/19	Chg % Y/Y	31/03/19	Chg % Y/Y	31/03/19	Chg % Y/Y	31/03/19	Chg % Y/Y*	31/03/19	Chg % Y/Y
PROFIT AND LOSS AGGREGATES												
Net interest income	259.4	8.6%	3.4	n.s.	130.4	-2.4%	14.5	27.0%	1.4	-96.1%	408.9	-3.0%
Net fee and commission income, of which:	293.4	-11.9%	27.4	-9.0%	72.3	-10.0%	2.5	-36.3%	(36.9)	-10.1%	358.8	-11.7%
fee and commission income	*298.3*	*n.d.*	*27.7*	*n.d.*	*83.3*	*n.d.*	*16.6*	*n.d.*	*(4.7)*	*n.d.*	*421.2*	*-10.7%*
fee and commission expense	*(4.9)*	*n.d.*	*(0.3)*	*n.d.*	*(10.9)*	*n.d.*	*(14.0)*	*n.d.*	*(32.2)*	*n.d.*	*(62.4)*	*-4.0%*
Other income	12.7	30.9%	3.7	n.s.	18.1	n.s.	(0.0)	n.s.	8.6	-78.4%	43.1	-23.8%
Other operating expenses/income	4.8	n.s.	0.0	17.2%	(3.1)	-45.1%	(0.3)	n.s.	(9.8)	n.s.	(8.3)	7.2%
Total Income	570.3	-1.4%	34.5	9.4%	217.7	1.5%	16.7	3.1%	(36.7)	n.s.	802.5	-8.5%

* The Group has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 16, thus the figures for 2018 are not fully comparable.

Net interest income for the first quarter of 2019 amounted to **EUR 409 mln,** down by 3.0% compared to the same period of 2018, mainly reflecting the negative trend in commercial loans, which recorded a decrease in average volumes and a drop in the relative returns. This trend was only partially offset by the decrease in interest expense resulting from the reduction in the cost of corporate funding, which saw a fall in average volumes and interest expense. The result of 1Q19 was down also compared to the previous quarter (-5.1%), mainly due to the lower contribution from commercial loans, particularly in terms of lower volumes. The aggregate was also impacted by the introduction of IFRS 16, which entailed the recognition of EUR 1.2 mln in interest expense in 1Q19.

Items	31 03 2019	31 03 2018*	Chg. Y/Y		1°Q 2019	4°Q 2018	Chg. Q/Q	
			Abs.	%			Abs.	%
Loans to customers measured at amortised cost	443.0	451.3	(8.3)	-1.8%	443.0	454.7	(11.7)	-2.6%
Securiries issued	(65.6)	(77.7)	12.1	-15.6%	(65.6)	(62.4)	(3.2)	5.1%
Net Differentials on hedging derivatives	(4.9)	0.6	(5.5)	n.s.	(4.9)	(9.8)	4.9	-50.0%
Loans to Banks measured at amortised cost	(4.4)	(3.4)	(1.0)	29.8%	(4.4)	1.9	(6.3)	n.s.
Trading portfolios	11.7	5.0	6.7	n.s.	11.7	8.4	3.3	39.3%
Portfolios measured at fair value	3.2	11.4	(8.2)	-71.9%	3.2	12.0	(8.8)	-73.3%
Financial assets measured at fair value through other comprehensive income	23.5	33.8	(10.3)	-30.5%	23.5	29.3	(5.8)	-19.8%
Other net interest income	2.4	0.5	1.9	n.s.	2.4	(3.3)	5.7	n.s.
Net interest income	**408.9**	**421.5**	**(12.5)**	**-3.0%**	**408.9**	**430.8**	**(21.9)**	**-5.1%**
*of which: interest income on impaired financial assets***	*53.5*	*80.8*	*(27.3)*	*-33.8%*	*53.5*	*57.2*	*(3.7)*	*-6.5%*

** The Group has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 16, thus the figures for 2018 are not fully comparable.*

Net fee and commission income for the first quarter of 2019, amounting to **EUR 359 mln**, decreased by 11.7% compared to the same period of the previous year, mainly as a result of the reduction in income from product placement and commissions on loans (the latter affected also by the absence of one-off income recorded in 1Q18). The trend was also down 0.4% compared to the previous quarter, mainly due to the decrease in the contribution from payment services that had benefited components relating to the end-of-year adjustments in 4Q18.

Services/value	31 03 2019	31 03 2018	Change Y/Y		1°Q 2019	4°Q 2018	Change Q/Q	
			abs.	%			abs.	%
Assets under management fee	**154.8**	**180.2**	**(25.4)**	**-14.1%**	**154.8**	**153.7**	**1.0**	**0.7%**
Product placement	49.3	70.7	(21.3)	-30.2%	49.3	43.9	5.4	12.3%
Continuing fees	85.0	88.5	(3.5)	-4.0%	85.0	87.6	(2.6)	-2.9%
Placement of securities	10.5	9.9	0.5	5.3%	10.5	9.5	0.9	9.9%
Sale of protection	10.0	11.1	(1.1)	-10.1%	10.0	12.7	(2.7)	-21.5%
Fee and commisions from traditional activities	**246.6**	**275.8**	**(29.2)**	**-10.6%**	**246.6**	**256.0**	**(9.4)**	**-3.7%**
Credit fees	119.4	143.2	(23.9)	-16.7%	119.4	120.4	(1.0)	-0.8%
fees from foreign service	12.4	14.4	(2.0)	-13.6%	12.4	11.9	0.5	4.2%
Other services	114.8	118.2	(3.4)	-2.9%	114.8	123.7	(8.9)	-7.2%
Other fees and commission income	**(42.6)**	**(49.5)**	**7.0**	**-14.1%**	**(42.6)**	**(49.3)**	**6.8**	**-13.7%**
Net fees and commission income	**358.8**	**406.5**	**(47.7)**	**-11.7%**	**358.8**	**360.4**	**(1.6)**	**-0.4%**

Dividends, similar income and gains (losses) on equity investments totalled **EUR 16 mln**, mainly due to the AXA-MPS contribution[4]. This component declined compared to both the 1Q18 (EUR -2.2 mln) and the previous quarter (EUR -3.6 mln).

[4] AXA-MPS was consolidated in the Group's financial statements using the equity method.

Net profit (loss) from trading and financial assets/liabilities measured at amortised cost and at fair value through profit and loss totalled **EUR 27 mln** in 1Q19, down from the same period of the previous year (EUR 37 mln). The analysis of the main aggregates shows the following:

- **Net profit (loss) from trading of EUR +36 mln**, up compared to both 1Q18 and the previous quarter due to the positive trend recorded by the subsidiary MPS Capital Services;
- **Net profit (loss) from financial assets/liabilities measured at fair value through profit and loss negative for EUR 20 mln**, down compared to 1Q18 (EUR -16 mln) and in line with the previous quarter (EUR -21 mln);
- **Gains on disposal/repurchase of EUR 12 mln,** down compared to EUR 39 mln in 1Q18, affected by higher profits from the sale of securities, and up from 4Q18 which was affected by higher losses from the sale of securities and receivables.

Items	31 03 2019	31 03 2018	Chg. Y/Y		1°Q 2019	4°Q 2018	Chg. Q/Q	
			Abs.	%			Abs.	%
Financial assets held for trading	17.5	(1.2)	18.7	n.s.	17.5	65.6	(48.1)	-73.3%
Financial trading liabilities	(22.4)	9.0	(31.4)	n.s.	(22.4)	(50.6)	28.2	-55.7%
Exchange rate effects	9.1	3.8	5.3	n.s.	9.1	3.6	5.5	n.s.
Derivatives	31.8	2.7	29.1	n.s.	31.8	5.4	26.4	n.s.
Trading results	**36.0**	**14.3**	**21.7**	**n.s.**	**36.0**	**24.0**	**12.0**	**50.2%**
Net profit (loss) from financial assets and liabilities measured at fair value through profit and loss	(20.4)	(16.3)	(4.1)	25.4%	(20.4)	(21.1)	0.7	-3.1%
Disposal / repurchase	11.6	39.4	(27.8)	-70.6%	11.6	(21.7)	33.3	n.s.
Net profit (loss) from trading and financial assets and liabilities measured amortised cost and measuerd at fair value through profit and loss	**27.1**	**37.4**	**(10.2)**	**-27.4%**	**27.1**	**(18.8)**	**46.0**	**n.s.**

The following items also make up Revenues:

- **Net profit (loss) from hedging essentially nil**, which had been EUR 1 mln in 1Q18 and EUR 0.8 mln in 4Q18;
- **Other operating income/expense negative for EUR 8 mln**, substantially in line with the result recorded in 1Q18 (EUR -8 mln) and up compared to the previous quarter (EUR +15 mln), which had been negatively affected by higher charges from rulings, settlements agreements, and contingent liabilities.

Operating expenses

Note that comparisons with 2018 figures are purely indicative, insofar as the data are inconsistent following the introduction of the new IFRS 16, which led to the recording of lower administrative expenses of EUR 15.2 mln and higher net value adjustments on property, plant and equipment and intangible assets of EUR 14 mln (see Explanatory Notes).

Operating expenses totalled **EUR 569 mln** in 1Q19, substantially in line with the previous year. The 1Q19 figure was down 10.4% from 4Q18 (EUR -66 mln), due mainly to the trend in Other administrative expenses and Net value adjustments on property, plant and equipment and intangible assets. A closer look at the individual aggregates reveals the following:

- **Administrative expenses** were **EUR 508 mln**, down by EUR 7 mln from the previous year and down EUR 46 mln from 4Q18. A breakdown of the aggregate shows:
  - **Personnel expenses**, which amounted to **EUR 369 mln**, were substantially in line with 1Q18 and 4Q18, with benefits deriving from the reduction in the workforce linked to the redundancy incentives for personnel, which will begin to show effect starting from 2Q19;
  - **Other administrative expenses** amounted to **EUR 140 mln**, down by 5.6% compared to 1Q18 and 26.3% compared to 4Q18. As shown above, this aggregate was affected by the first-time adoption of IFRS 16, net of which the trend would have been slightly higher than 1Q18, while it would have shown a considerable reduction from 4Q18.
- **Net value adjustments on property, plant and equipment and intangible assets** in 1° Quarter 2019 amounted to **EUR 61 mln**, up by 6.6% compared to the same period of the previous year;net of the effects of the first-time adoption of IFRS 16 the aggregate would have been down by 17.9% . Compared to the previous quarter the aggregate went down by 24.9% which increases to 42.1 % if excluding IFRS 16 effects

Type of transaction	31 03 2019	31 03 2018*	Chg Y/Y		1°Q 2019	4°Q 2018*	Chg Q/Q	
			Abs.	%			Abs.	%
Wages and salaries	(264.8)	(263.3)	(1.5)	0.6%	(264.8)	(265.6)	0.8	-0.3%
Social-welfare charges	(72.8)	(72.4)	(0.4)	0.6%	(72.8)	(71.1)	(1.7)	2.4%
Other personnel expenses	(31.0)	(32.1)	1.1	-3.5%	(31.0)	(28.2)	(2.8)	10.1%
Personnel expenses	**(368.6)**	**(367.8)**	**(0.8)**	**0.2%**	**(368.6)**	**(364.9)**	**(3.7)**	**1.0%**
Taxes	(59.9)	(63.0)	3.1	-4.9%	(59.9)	(49.0)	(10.9)	22.2%
Furnishing, real estate and security expenses	(22.5)	(38.9)	16.4	-42.2%	(22.5)	(37.9)	15.4	-40.6%
General operating expenses	(52.4)	(51.1)	(1.3)	2.5%	(52.4)	(50.1)	(2.3)	4.6%
Information technology expenses	(32.9)	(33.6)	0.7	-2.1%	(32.9)	(41.7)	8.8	-21.1%
Legal and professional expenses	(20.5)	(19.0)	(1.5)	7.9%	(20.5)	(60.6)	40.1	-66.2%
Indirect personnel costs	(1.5)	(1.5)	-	0.0%	(1.5)	(5.9)	4.4	-74.6%
Insurance	(8.7)	(8.8)	0.1	-1.1%	(8.7)	(10.0)	1.3	-13.0%
Advertising, sponsorship and promotions	(1.3)	(2.3)	1.0	-43.5%	(1.3)	(1.4)	0.1	-7.1%
Other	(2.6)	(2.8)	0.2	-7.3%	(2.6)	4.3	(7.0)	n.s.
Expenses recovery	62.7	73.2	(10.5)	-14.3%	62.7	62.8	(0.1)	-0.2%
Other administrative expenses	**(139.7)**	**(147.9)**	**8.2**	**-5.6%**	**(139.7)**	**(189.5)**	**49.8**	**-26.3%**
Tangible assets	(38.6)	(33.9)	(4.7)	13.7%	(38.6)	(54.8)	16.2	-29.6%
Intangible assets	(22.3)	(23.2)	0.9	-3.8%	(22.3)	(26.2)	3.9	-15.0%
Amortization and impairment losses	**(60.9)**	**(57.1)**	**(3.8)**	**6.6%**	**(60.9)**	**(81.0)**	**20.2**	**-24.9%**
Operating costs	**(569.1)**	**(572.8)**	**3.7**	**-0.6%**	**(569.1)**	**(635.4)**	**66.3**	**-10.4%**

** The Group has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 16, thus the figures for 2018 are not fully comparable.*

As a result of these trends, the Group's **Gross Operating Income** totalled **EUR 233 mln** (EUR 304 mln in 1Q18), up EUR 100 mln from the previous quarter.

Net impairment (losses)/reversals on financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income

In 1Q19, the Group recorded **Net impairment (losses)/reversals on financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income** amounting to **EUR 164 mln**, up EUR 26 mln from the figures recorded in the same period of the previous year. On the other hand, compared to 4Q18, the decrease in default flows and fewer deteriorations within non-performing loans (particularly, deteriorations to bad loans). The cost of credit in 1Q19 includes the effects of the downward revision of the estimates for GDP growth in 2019, incorporated in the forward-looking scenarios envisaged by IFRS 9.

The ratio of net impairment losses on loans to total Loans to Customers as at 31 March 2019 shows an annualised **Provisioning Rate of 73 bps**.

Items	31 03 2019	31 03 2018	Chg. Y/Y		1°Q 2019	4°Q 2018	Chg. Q/Q	
			Abs.	%			Abs.	%
Loans to banks measured at amortised cost	0.5	1.7	(1.2)	-70.6%	0.5	0.3	0.2	66.7%
- Loans	0.5	1.8	(1.3)	-72.2%	0.5	(0.2)	0.7	n.s.
- Debt securities	-	(0.1)	0.1	-100.0%	-	0.5	(0.5)	-100.0%
Loans to customers measured at amortised cost	(163.2)	(136.3)	(26.9)	19.7%	(163.2)	(261.4)	98.2	-37.6%
- Loans	(162.7)	(136.4)	(26.3)	19.3%	(162.7)	(259.5)	96.8	-37.3%
- Debt securities	(0.5)	0.1	(0.6)	n.s.	(0.5)	(1.9)	1.4	-73.7%
Gains (losses) due to modifications in contractual cash flows without derecognition	(1.5)	(2.5)	1.0	n.s.	(1.5)	(5.9)	4.4	-74.6%
Impairmet loss on loans measured at amortised cost	**(164.2)**	**(137.1)**	**(27.1)**	**19.8%**	**(164.2)**	**(267.0)**	**102.8**	**-38.5%**
Financial assets measured at fair value through comprehensive income	(0.1)	(0.8)	0.7	-87.5%	(0.1)	10.5	(10.6)	n.s.
Total adjustments due to credit risk	**(164.3)**	**(137.9)**	**(26.4)**	**19.1%**	**(164.3)**	**(256.5)**	**92.2**	**-35.9%**

The Group's **Net Operating Income** was **positive for approximately EUR 69 mln**, compared to roughly EUR 166 mln in the same period of the previous year.

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

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

- **Net provisions for risks and charges** of **EUR -17 mln**, mainly attributable to provisions for legal disputes and commitments assumed by the bank against the compensation relating to transactions in diamonds. There was a positive balance of EUR 53 mln in 1Q18, mainly due to the revaluation of the commitment undertaken to cover the hedging costs of the vehicle as part of the sale of bad loans.

- **Gains on investments** of approx. **EUR 1 mln**, mainly due to the change in value of some equity investments, in particular on Fondo Etrusco, against a loss of EUR 4 mln recorded in 1Q18 for write-downs of the associate Trixia. The result for 1Q19 showed an improvement compared to the previous quarter.

- **Restructuring costs/One-off charges**, amounting to **EUR +2 mln**, include, in particular, INPS benefits on early retirement incentives, partly offset by the adjustment of the price linked to the sale of BMP Belgio S.A. Instead, 4Q18 included allocations of EUR 150 mln relating to the personnel redundancy plan.

- **Risks and charges associated with SRF, DGS and similar schemes**, with a balance of **EUR -61 mln**, consisting of the entire contribution from the Group to the Single Resolution Fund (SRF), and the loss recognised on IDPF "Interbank Deposit Protecion Fund" (for the Carige intervention) **DTA Fee**, amounting to **EUR -18 mln**. This amount, determined according to the criteria set forth in Law Decree 59/2016, converted into Law no. 119 of 30 June 2016, represents the fee as at 31 March 2019 on DTAs (Deferred Tax Assets) that can be converted into a tax credit.

- **Gains (losses) on disposal of investments** of **EUR 1 mln** related to the sale of property. In 1Q18, the aggregate was positive for EUR 0.3 mln.

Due to the trends discussed above, the Group's **Loss before tax from continuing operations** stood at **EUR -23 mln**, down compared to the levels in 1Q18, which had recorded a result of EUR +111 mln.

Tax expense (recovery) on income recorded a positive contribution of **EUR +57 mln**, essentially due to the partial reassessment of DTAs from tax losses, accrued and not recorded in previous years.

Considering the net effects of the PPA (EUR -5 mln), the **Group's consolidated profit amounted to EUR 28 mln**, compared to a profit of EUR 188 mln in the same period of 2018.

Reclassified balance sheet

Reclassified Balance Sheet				
ASSETS	31 03 2019	31 12 2018*	Chg	
			abs.	%
Cash and cash equivalents	609.1	950.6	(341.5)	-35.9%
Financial assets measured at amortised cost :				
a) Loans to customers	89,375.7	86,855.5	2,520.2	2.9%
b) Loans to banks	11,097.1	12,504.2	(1,407.1)	-11.3%
Financial assets measured at fair value	20,568.7	20,296.2	272.5	1.3%
Equity investments	901.7	922.8	(21.1)	-2.3%
Property, plant and equipment / Intangible assets	2,977.7	2,727.3	250.4	9.2%
of which:				
a) goodwill	*7.9*	*7.9*	-	
Other assets	6,592.3	6,224.4	367.9	5.9%
Total assets	**132,122.3**	**130,481.0**	**1,641.3**	**1.3%**

LIABILITIES	31 03 2019	31 12 2018*	Chg	
			abs.	%
Payables				
a) Deposits from customers and securities issued	92,686.1	90,471.7	2,214.4	2.4%
b) Deposits from banks	22,170.2	21,986.3	183.9	0.8%
Financial liabilities held for trading	2,502.1	3,175.7	(673.6)	-21.2%
Provisions for specific use	-	-	-	
a) Provisions for staff severance indemnities	182.1	192.1	(10.0)	-5.2%
b) Provisione related to guarantees and other commitments given	220.6	242.4	(21.8)	-9.0%
c) Pensions and other post retirement benefit obligations	37.2	37.9	(0.7)	-1.8%
d) Other provisions	1,073.7	1,199.9	(126.2)	-10.5%
Other liabilities	4,159.3	4,180.8	(21.5)	-0.5%
Group net equity	9,088.6	8,992.0	96.6	1.1%
a) Valuation reserves	(123.7)	(176.7)	53.0	-30.0%
c) Equity instruments carried at equity	-	-	-	
d) Reserves	(830.5)	(1,124.8)	294.3	-26.2%
e) Share premium	-	-	-	-
f) Share capital	10,328.6	10,328.6	-	-
g) Treasury shares (-)	(313.7)	(313.7)	-	-
h) Net profit (loss) for the period	27.9	278.6	(250.7)	-90.0%
Non-controlling interests	2.4	2.2	0.2	9.1%
Total Liabilities and Shareholders' Equity	**132,122.3**	**130,481.0**	**1,641.3**	**1.3%**

** The Group has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 16, thus the figures for 2018 are not fully comparable.*

Reclassified Balance Sheet - Quarterly Trend					
ASSETS	**31/03/19**	**31 12 18***	**30 09 18***	**30 06 18***	**31 03 18***
Cash and cash equivalents	609.1	950.6	714.1	721.2	896.9
Financial assets measured at amortised cost :					
a) Loans to customers	89,375.7	86,855.5	87,464.9	87,010.1	89,320.4
b) Loans to banks	11,097.1	12,504.2	8,724.2	8,636.3	6,374.5
Financial assets measured at fair value	20,568.7	20,296.2	25,430.0	29,257.2	25,652.3
Equity investments	901.7	922.8	905.1	896.8	1,075.8
Property, plant and equipment / Intangible assets	2,977.7	2,727.3	2,746.9	2,789.9	2,831.2
of which:					
a) goodwill	7.9	*7.9*	*7.9*	*7.9*	*7.9*
Other assets	6,592.3	*6,224.4*	6,199.8	6,411.4	10,620.6
Total assets	**132,122.3**	**130,481.0**	**132,185.0**	**135,722.8**	**136,771.8**

LIABILITIES	31/03/19	31 12 18*	30 09 18*	30 06 18*	31 03 18*
Payables					
a) Deposits from customers and securities issued	92,686.1	90,471.7	93,906.0	96,833.9	97,856.8
b) Deposits from banks	22,170.2	21,986.3	20,838.9	20,794.8	20,483.1
Financial liabilities held for trading	2,502.1	3,175.7	3,000.6	3,173.6	3,625.4
Provisions for specific use					
a) Provisions for staff severance indemnities	182.1	192.1	194.6	196.3	197.3
b) Provisione related to guarantees and other commitments given	220.6	242.4	219.2	209.7	223.4
c) Pensions and other post retirement benefit obligations	37.2	37.9	40.5	43.8	49.4
d) Other provisions	1,073.7	1,199.9	1,067.4	1,112.5	1,086.6
Other liabilities	4,159.3	4,180.8	3,946.7	4,361.5	3,949.2
Group net equity	9,088.6	8,992.0	8,968.9	8,994.5	9,298.3
a) Valuation reserves	(123.7)	(176.7)	(305.0)	(194.0)	196.7
c) Equity instruments carried at equity	-	-	-	-	-
d) Reserves	(830.5)	(1,124.8)	(1,120.3)	(1,114.9)	(1,100.8)
e) Share premium	-	-	-	-	-
f) Share capital	10,328.6	10,328.6	10,328.6	10,328.6	10,328.6
g) Treasury shares (-)	(313.7)	(313.7)	(313.7)	(313.7)	(313.7)
h) Net profit (loss) for the period	27.9	278.6	379.3	288.5	187.5
Non-controlling interests	2.4	2.2	2.2	2.2	2.3
Total Liabilities and Shareholders' Equity	**132,122.3**	**130,481.0**	**132,185.0**	**135,722.8**	**136,771.8**

** The Group has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 16, thus the figures for 2018 are not fully comparable.*

Customer funding

The Group's **total funding** as at 31 March 2019 amounted to **EUR 192.3 bn**, essentially stable with respect to 31 March 2018 and up EUR 5.4 bn compared to 31 December 2018 for both direct and indirect funding.

Background

In January 2019, direct funding recorded a decrease of 0.7% YoY, compared to substantial stability recorded in 2018 (+0.1% average annual growth). An analysis of the various components continues to show the net gap between short-term and medium/long-term sources. Deposits from resident consumer clients (net of repurchase agreements with central counterparties and deposits connected with the assignment of receivables) recorded a year-on-year change of +1.4% in January 2019, while the annual change in bonds was -13.2% (EUR -29 bn).

In the next two years, bank bonds of roughly EUR 100 bn will reach their maturity and the imminent revision of European regulations on the MREL requirement, binding for the majority of significant Italian banking groups, could make further new issues necessary, particularly of subordinated securities.

The recent ECB announcement of a new series of quarterly targeted long-term refinancing operations (TLTRO-III), starting from September 2019 until March 2021, should maintain the current conditions of access to wholesale funding sources by financial intermediaries, while preserving the current favourable credit conditions.

As regards interest rates, at the beginning of 2019, the average rate on deposits of non-financial companies and households was 0.36%, unchanged with respect to December 2018. The average rate on bonds, equal to 2.40% in January 2019, was also essentially stable compared to the end of 2018. The weighted average cost of direct funding for the ABI sample, which includes larger banks, is also substantially stable compared to the level in December 2018, reaching 0.53% in January 2019 but markedly lower than the previous year (0.65% in January 2018).

With respect to assets under management, after an extremely negative 2018, concluded with net funding from mutual funds that amounted to just EUR 671 mln compared to more than EUR 77 bn in 2017, the first two months of 2019 showed a fluctuating trend; after the positive flow in January, there was an abrupt reversal in the trend in February, which brought the figure for the beginning of 2019 to negative levels (EUR -1,068 mln), due to redemptions from bond and flexible funds. Funding on individual retail portfolio management, after a decidedly negative 2018 with flows of EUR -4,807 mln, recorded a moderate recovery in the first two months of 2019, with positive flows of EUR 1,293 mln. In February 2019, assets under management from open-ended funds grew 4.6% over the levels of December 2018, with the stock relating to individual portfolio management positive (+2.7%).

Customer Funding				Chg Q/Q		Chg Y/Y	
	31/03/19	31/12/18	31/03/18	Abs.	%	Abs.	%
Direct funding	92,686.1	90,471.7	97,856.8	2,214.4	2.4%	(5,170.7)	-5.3%
Indirect funding	99,638.0	96,488.6	95,329.2	3,149.4	3.3%	4,308.8	4.5%
Total funding	**192,324.1**	**186,960.3**	**193,186.0**	**5,363.8**	**2.9%**	**(861.9)**	**-0.4%**

Volumes of **Direct funding**, standing at **EUR 92.7 bn**, were down EUR 5.2 bn compared to the end of March 2018 (mainly in the bond segment and repurchase agreements). By contrast, the aggregate was up by EUR 2.2 bn compared to the end of December 2018, despite the EUR 2.2 bn decrease in repurchase agreements with institutional counterparties, which was more than offset by growth in Current Accounts and Time Deposits (EUR +2.1 bn), Bonds (EUR +0.9 bn) and other forms of funding.

The Group's market share[5] of Direct Funding stood at 3.72% (updated in January 2019), up slightly from the end of 2018.

[5] Deposits and repurchase agreements (excluding repurchase agreements with central counterparties) from resident consumer clients and bonds net of repurchases placed with ordinary resident customers as first-instance borrowers.

Direct funding from customers							
				Change Q/Q		Change Y/Y	
Type of transaction	31/03/19	31 12 18	31 03 18	Abs.	%	Abs.	%
Current accounts	54,652.0	53,156.0	54,922.6	1,496.0	2.8%	(270.6)	-0.5%
Time deposits	9,441.4	8,871.4	10,045.0	570.0	6.4%	(603.6)	-6.0%
Reverse repurchase agreements	7,943.4	10,137.0	10,824.6	(2,193.6)	-21.6%	(2,881.2)	-26.6%
Bonds	11,958.0	11,052.4	14,557.5	905.6	8.2%	(2,599.5)	-17.9%
Other types of direct funding	8,691.3	7,254.9	7,507.1	1,436.4	19.8%	1,184.2	15.8%
Total	**92,686.1**	**90,471.7**	**97,856.8**	**2,214.4**	**2.4%**	**(5,170.7)**	**-5.3%**

Indirect funding stood at **EUR 99.6 bn**, up compared to 31 March 2018 (EUR +4.3 bn), mainly on assets under custody, which, compared to 31 December 2018 (EUR +3.1 bn), benefited in both the Assets under management and Assets under custody components from a significant positive market effect.

In detail, **Assets under management**, amounting to **EUR 57.6 bn**, were in line with March 2018, up EUR 1.8 bn from December 2018, mainly in funds and bancassurance.

Indirect Funding							
				Change Q/Q		Change Y/Y	
	31/03/19	31/12/18	31/03/18	Abs.	%	Abs.	%
Assets under management	57,642.3	55,887.7	58,309.7	1,754.6	3.1%	(667.4)	-1.1%
Mutual Funds/Sicav	*27,117.5*	*26,308.4*	*28,315.1*	809.1	*3.1%*	(1,197.6)	*-4.2%*
Individual Portfolio under Management	*5,151.4*	*5,015.9*	*5,768.4*	135.5	*2.7%*	(617.0)	*-10.7%*
Insurance Products	*25,373.4*	*24,563.4*	*24,226.3*	810.0	*3.3%*	1,147.1	*4.7%*
Assets under custody	41,995.7	40,600.8	37,019.5	1,394.8	3.4%	4,976.2	13.4%
Total funding	**99,638.0**	**96,488.6**	**95,329.2**	3,149.4	**3.3%**	4,308.8	**4.5%**

Loans to customers

As at 31 March 2019, the Group's **Loans to customers** amounted to **EUR 89.4 bn**, stable overall compared to the end of March 2018, but with growth in Securities lending (EUR +6.3 bn, following the recognition of senior notes deriving from the securitisation and the purchase of government bonds in 4Q18) and Mortgages (EUR +1.3 bn), offset by the decline in non-performing loans (EUR -1.3 bn), repurchase agreements (EUR -3.7 bn), Current accounts and Other loans (totalling EUR -2.6 bn).

Compared to 31 December 2018, the aggregate was up in all components with the exception of Non-performing loans, which decreased by around 2%.

The Group's market share[6] stood at 5.09% (last available figure from January 2019), up 5 basis points from the end of 2018.

Background

Lending dynamics continue to be influenced by the weak performance of investments and the economic cycle. Beginning in October 2018, the annual change in bank loans to the private sector slowed to a rate of 0.96% annually in January 2019, compared to an average growth rate of 2.4% in 2018. The gap between trends in loans to households (+2.6% YoY in January 2019) and to non-financial companies (-0.7% YoY) continued to be ample. The trend in loans to households remained solid both for the mortgage component for the purchase of homes, as well as for consumer credit, while loans to businesses were negatively affected by the gradual and generalised tightening of conditions, albeit in the context of a relatively expansive situation.

As regards interest rates, in January 2019 the interest rate on the total stock of loans to households and non-financial companies was 2.58%, up 3 basis points compared to December 2018, but in any event down 17 basis points compared to December 2017. In August, interest rates on new disbursements rose slightly, affected by the increase in the yield spread on sovereign bonds, but their average in 2018 remained lower than that of 2017. The rate referring to loans to households for the purchase of homes in January 2019 was 1.95%, against an average in 2018 of 1.86% (2.06% in 2017) and that of non-financial companies was 1.47% in January 2019, against an average of 1.49% in 2018 (1.54% in 2017). The rate on new loans of less than EUR 1 mln to non-financial companies was 2.03% in January 2019 compared to the average of 1.96% in 2018 (average of 2.12% in 2017).

Similar to that which occurred in 2018, the significant reduction in the stock of bad loans continued in January 2019. The stock levels in October were 39.9% lower than January 2018. After more than EUR 61 bn derecognised from the banks' financial statements in 2018, in January 2019 the flow of securitisations and other transfers of bad loans of Italian residents was negative by EUR 172 mln. Net of the disposal transactions, the change in the stock of bad loans YoY as at January 2019 was positive in any event, and stood at 4.04% (it was 7.19% in January 2018). Net of allowances for impairment, bad loans represented approximately 1.85% of bank loans, down compared to the average of 2.5% in 2018.

Loans to customers

Type of transaction	31/03/19	31/12/18	31/03/18	Change Q/Q		Change Y/Y	
				Abs.	%	Abs.	%
Current accounts	4,997.0	4,941.0	5,768.0	56.0	1.1%	(771.0)	-13.4%
Mortgages	48,878.2	48,217.0	47,536.4	661.2	1.4%	1,341.8	2.8%
Other forms of lending	16,309.8	15,614.7	18,115.8	695.1	4.5%	(1,806.0)	-10.0%
Repurchase agreements	4,033.4	3,394.9	7,746.6	638.5	18.8%	(3,713.2)	-47.9%
Securities lending	8,025.3	7,386.0	1,735.8	639.3	8.7%	6,289.5	n.s.
Non performing loans	7,132.0	7,301.9	8,417.9	(169.9)	-2.3%	(1,285.9)	-15.3%
Total	**89,375.7**	**86,855.5**	**89,320.5**	**2,520.2**	**2.9%**	**55.2**	**0.1%**
Stage 1	*69,770.8*	*66,899.8*	*64,262.9*	*2,871.0*	*4.3%*	*5,507.9*	*8.6%*
Stage 2	*12,472.8*	*12,653.8*	*16,609.7*	*(181.0)*	*-1.4%*	*(4,136.9)*	*-24.9%*
Stage 3	*7,132.1*	*7,301.9*	*8,417.9*	*(169.8)*	*-2.3%*	*(1,285.8)*	*-15.3%*

The medium/long-term segment recorded new disbursements in 1Q19 of EUR 1.9 bn, down compared to both 4Q18 (EUR -0.3 bn) and 1Q18 (EUR -0.5 bn).

[6] Loans to ordinary resident customers, including bad loans and net of repo transactions with central counterparties.

Non-performing loans

As at 31 March 2019, the Group's **exposure to gross non-performing loans** totalled **EUR 16.2 bn**, down compared to both the end of March 2018 (EUR -26.4 bn, essentially due to the deconsolidation of bad loans subject to disposal, which took place in 2Q18) and compared to 31 December 2018 (EUR -0.6 bn). In particular, the gross exposure of the bad loans component fell by EUR 22.8 bn compared to 31 March 2018, mainly due to the deconsolidation cited above and down EUR 0.2 bn compared to 31 December 2018. The exposure of unlikely to pay also fell by EUR 3.3 bn over March 2018 and EUR 0.4 bn over December 2018. Non-performing past due exposures were down EUR 0.3 bn compared to March 2018 and essentially stable with respect to 31 December 2018.

As at 31 March 2019, the Group's **net exposure in terms of non-performing loans** totalled **EUR 7.6 bn**, down compared to 31 March 2018 (EUR -5.7 bn), primarily due to the above-mentioned deconsolidation, as well as 31 December 2018 (EUR -0.3 bn). The net exposure of the bad loans component fell by roughly EUR 3.8 bn compared to 31 March 2018, and was stable compared to 31 December 2018. The net exposure of unlikely to pay also fell by EUR 1.8 bn over March 2018 and EUR 0.3 bn compared to 31 December 2018. Non-performing past due exposures were down EUR 0.1 bn over 31 March 2018 and essentially in line with December 2018.

An improvement in the ratio of net non-performing loans to net loans to customers was recorded in the quarter, which dropped from 9.0% in December 2018 to 8.4% in March 2019. Within the aggregate, the incidence of net bad loans and past due exposures remained essentially stable in the quarter with respect to December 2018, while the incidence of unlikely to pay fell from 5.2% in December 2018 to 4.7% in March 2019.

In the tables below, non-performing financial assets include all cash exposures regardless of the accounting portfolio they belong to, with the exception of equity securities, UCITS, assets held for trading and hedging derivatives. Moreover, the gross value and the adjusting provisions of non-performing financial assets are shown net of arrears interest and of the relative adjustments. Performing customer loan exposures are represented by loans at amortised cost and loans measured at fair value as per mandatory requirements.

Loans to customers		Bad loans	Unlikely to pay	Non-performing Past due	**Non-performing exposures**	Perfoming exposures	**Total**	*- of which forbone impaired*	*- of which forborne not impaired*
31 03 2019	Gross exposure	8,384.5	7,645.1	199.4	**16,229.0**	83,115.5	**99,344.5**	*6,374.4*	*2,188.6*
	Provisions	5,150.2	3,438.8	34.8	**8,623.8**	650.1	**9,273.9**	*2,836.9*	*176.6*
	Net exposure	3,234.3	4,206.3	164.6	**7,605.2**	82,465.4	**90,070.6**	*3,537.5*	*2,012.0*
	Coverage ratio	*61.4%*	*45.0%*	*17.5%*	***53.1%***	*0.8%*	***9.3%***	*44.5%*	*8.1%*
	% on Loans to customers	*3.6%*	*4.7%*	*0.2%*	***8.4%***	*91.6%*	***100.0%***		
31 12 2018	Gross exposure	8,584.1	8,065.7	177.5	**16,827.3**	80,423.2	**97,250.5**	*6,522.1*	*2,195.3*
	Provisions	5,360.0	3,550.5	32.5	**8,943.0**	658.8	**9,601.8**	*2,887.7*	*174.0*
	Net exposure	3,224.1	4,515.2	145.0	**7,884.3**	79,764.4	**87,648.7**	*3,634.4*	*2,021.3*
	Coverage ratio	*62.4%*	*44.0%*	*18.3%*	***53.1%***	*0.8%*	***9.9%***	*44.3%*	*7.9%*
	% on Loans to customers	*3.7%*	*5.2%*	*0.2%*	***9.0%***	*91.0%*	***100.0%***		
31 03 18	Gross exposure	31,151.0	10,985.2	450.0	**42,586.2**	81,800.4	**124,386.6**	*9,183.8*	*2,493.8*
	Provisions	24,163.0	4,988.1	142.4	**29,293.5**	844.1	**30,137.6**	*4,397.4*	*203.0*
	Net exposure	6,988.0	5,997.1	307.6	**13,292.7**	80,956.3	**94,249.0**	*4,786.4*	*2,290.8*
	Coverage ratio	*77.6%*	*45.4%*	*31.6%*	***68.8%***	*1.0%*	***24.2%***	*47.9%*	*8.1%*
	% on Loans to customers	*7.4%*	*6.4%*	*0.3%*	***14.1%***	*85.9%*	***100.0%***		

As at 31 March 2019, the **percentage coverage** of non-performing loans stood at 53.1%, a reduction compared to 31 March 2018 (68.8%), mainly as a result of the deconsolidation of the loans transferred, as mentioned above, and stable with respect to 31 December 2018.

Change in gross exposures

	abs/%	Bad loans	Unlikely to pay	Non performing past due	**Non performing exposures**	Performing exposures	**Total**	*- of which forbone impaired*	*- of which forborne not impaired*
Q/Q	abs.	(199.6)	(420.6)	21.9	**(598.3)**	2,692.3	**2,094.0**	*(147.7)*	*(6.7)*
	%	-2.3%	-5.2%	12.3%	**-3.6%**	3.3%	**2.2%**	*-2.3%*	*-0.3%*
Y/Y	abs.	(22,766.5)	(3,340.1)	(250.6)	**(26,357.2)**	1,315.1	**(25,042.1)**	*(2,809.4)*	*(305.2)*
	%	-73.1%	-30.4%	-55.7%	**-61.9%**	1.6%	**-20.1%**	*-30.6%*	*-12.2%*

Changes in coverage ratios

	Bad loans	Ulikely to pay	Non performing past due	**Non performing exposures**	Performing exposures	**Total**
Q/Q	*-1.02%*	*0.96%*	*-0.86%*	***-0.01%***	*-0.04%*	***-0.54%***
Y/Y	*-16.14%*	*-0.43%*	*-14.19%*	***-15.65%***	*-0.25%*	***-14.89%***

	1°Q 2019		31 12 2018		4°Q 2018		31 03 2018		Chg. 1°Q 2019/4°Q2018 Non-performing exposures		Chg. Y/Y Non-performing exposures	
	Non-performing exposures	*of which Bad loans*	Non-performing exposures	*of which Bad loans*	Non-performing exposures	*of which Bad loans*	Non-performing exposures	*of which Bad loans*	Abs.	%	Abs.	%
Gross exposure, opening balance	**16,827.3**	**8,584.1**	**42,908.3**	**31,045.3**	**19,517.0**	**9,686.0**	**42,908.3**	**31,045.3**	**(2,689.7)**	**(0.1)**	**(26,081.0)**	**(0.6)**
Increases from performing loans	282.7	21.1	1,670.2	263.5	596.8	126.8	291.2	22.3	(314.1)	-52.6%	(8.5)	-2.9%
Transfers to performing loans	(154.8)	(0.8)	(565.1)	(8.7)	(133.1)	(2.1)	(218.2)	(6.3)	(21.7)	16.3%	63.4	-29.1%
Collections	(322.6)	(63.7)	(6,758.5)	(5,023.3)	(864.5)	(191.0)	(660.8)	(182.9)	541.9	-62.7%	338.2	-51.2%
Write-offs and loss on disposal	(92.9)	(46.0)	(419.3)	(78.6)	230.0	(6.5)	(140.9)	(79.2)	(322.9)	n.s.	48.0	-34.1%
+/- Other changes	(310.7)	(110.2)	(20,008.3)	(17,614.1)	(2,518.9)	(1,029.1)	406.6	351.8	2,208.2	-87.7%	(717.3)	n.s.
Gross exposure, closing balance	**16,229.0**	**8,384.5**	**16,827.3**	**8,584.1**	**16,827.3**	**8,584.1**	**42,586.2**	**31,151.0**	**(598.3)**	**-3.6%**	**(26,357.2)**	**-61.9%**
Opening balance of overall adjustments	**(8,943.0)**	**(5,360.0)**	**(28,110.2)**	**(23,513.7)**	**(11,005.8)**	**(6,645.9)**	**(28,110.2)**	**(23,513.7)**	**2,062.8**	**-18.7%**	**19,167.2**	**-68.2%**
Adjustments / write-backs*	(171.9)	(45.6)	(813.2)	(430.4)	(383.9)	(112.1)	(89.4)	(161.3)	212.0	-55.2%	(82.5)	92.3%
+/- Other changes	491.1	255.4	19,980.4	18,584.1	2,446.7	1,398.0	(1,093.9)	(488.0)	(1,955.6)	-79.9%	1,585.0	n.s.
Closing balance of overall adjustments	**(8,623.8)**	**(5,150.2)**	**(8,943.0)**	**(5,360.0)**	**(8,943.0)**	**(5,360.0)**	**(29,293.5)**	**(24,163.0)**	**319.2**	**-3.6%**	**20,669.7**	**-70.6%**
Net exposure closing balance	**7,605.2**	**3,234.3**	**7,884.3**	**3,224.1**	**7,884.3**	**3,224.1**	**13,292.7**	**6,988.0**	**(279.1)**	**-3.5%**	**(5,687.5)**	**-42.8%**

** Net impairment (losses)/reversals for credit risk of assets measured at amortised cost/loans to customers - of which item 130 a) and Gains/losses on financial assets measured at fair value through profit and loss as per mandatory requirements.*

Financial assets/liabilities

As at 31 March 2019, the Group's **Financial assets measured at fair value** totalled **EUR 20.6 bn**, down by EUR 5.1 bn compared to 31 March 2018, mainly on Financial assets measured at fair value through other comprehensive income, and substantially in line with 31 December 2018, as a result of the growth in the trading component attributable to the subsidiary MPS Capital Services, offset by the reduction in Financial assets measured at fair value through other comprehensive income. Financial liabilities held for trading declined compared to the end of March 2018 by EUR 1.1 bn and by EUR 0.7 bn compared to 31 December 2018.

Items	31 03 2019	31 12 2018	31 03 2018	Chg. Q/Q		Chg. Y/Y	
				Abs.	%	Abs.	%
Tradable financial assets	20,568.7	20,296.2	25,652.3	272.5	1.3%	(5,083.6)	-19.8%
Financial assets held for trading	*10,478.4*	*8,560.0*	*9,877.7*	*1,918.4*	*22.4%*	*600.7*	*6.1%*
Financial assets measured at fair value mandatory	*702.1*	*705.8*	*1,192.9*	*(3.7)*	*-0.5%*	*(490.8)*	*-41.1%*
Financial assets measured at fair value through other comprehensive income	*9,388.2*	*11,030.4*	*14,581.7*	*(1,642.2)*	*-14.9%*	*(5,193.5)*	*-35.6%*
Financial liabilities held for trading	2,502.1	3,175.7	3,625.4	(673.6)	-21.2%	(1,123.3)	-31.0%

Items	31 03 2019		31 12 2018		31 03 2018	
	Tradable financial assets	Financial liabilities held for tradig	Tradable financial assets	Financial liabilities held for tradig	Tradable financial assets	Financial liabilities held for tradig
Debt securities	16,468.9	-	16,299.6	-	21,440.1	-
Equity instruments and Units of UCITS	501.6	-	454.7	-	502.7	-
Loans	418.7	1,040.8	413.5	1,873.9	565.3	2,372.1
Derivatives	3,179.5	1,461.3	3,128.4	1,301.8	3,144.2	1,253.3
Total	20,568.7	2,502.1	20,296.2	3,175.7	25,652.3	3,625.4

Interbank position

At the end of March 2019, the Group's **net interbank position** stood at **EUR 11.1 bn** in funding, EUR 3.0 bn higher than the balance at 31 March 2018 due to the increase in the compulsory reserve, only partly offset by the increase in funding from banks (repurchase agreements). The aggregate was down by EUR 1.6 bn compared to December 2018, mainly as a result of the decrease in the compulsory reserve.

Interbank balances							
				Change Q/Q		Change Y/Y	
	31/03/19	31/12/18	31/03/18	Abs.	%	Abs.	%
Loans to banks measured at amortised cost	11,097.1	12,504.2	6,374.5	(1,407.1)	-11.3%	4,722.6	74.1%
Deposits from banks measured at amortised cost	22,170.2	21,986.3	20,483.1	183.9	0.8%	1,687.1	8.2%
Net position	**(11,073.1)**	**(9,482.1)**	**(14,108.6)**	**(1,591.0)**	**16.8%**	**3,035.5**	**-21.5%**

As at 31 March 2019, the operational liquidity position showed an **unencumbered Counterbalancing Capacity of approx. EUR 22.7 bn**, up by EUR 1.5 bn compared to 31 December 2018, due to higher direct corporate funding and the issue of covered bonds in January.

Shareholders' equity

As at 31 March 2019, the **Group's shareholders' equity and non-controlling interests** amounted to around **EUR 9.1 bn**, down compared to 31 March 2018, mainly as a result of the reduction in valuation reserves. Instead, it grew with respect to the levels at the end of December 2018 (+1.1%), thanks to the positive trend of reserves as result for the period.

Reclassified Consolidated Balance Sheet							
	31/03/19	31/12/18	31/03/18	Chg Q/Q		Chg Y/Y	
Equity				Abs.	%	Abs.	%
Group net equity	9,088.6	8,992.0	9,298.3	96.6	1.1%	(209.7)	-2.3%
a) Valuation reserves	(123.7)	(176.7)	196.7	53.0	-30.0%	(320.4)	n.s.
d) Reserves	(830.5)	(1,124.8)	(1,100.8)	294.3	-26.2%	270.3	-24.6%
f) Share capital	10,328.6	10,328.6	10,328.6	-	-	-	-
g) Treasury shares (-)	(313.7)	(313.7)	(313.7)	-	-	-	n.s.
h) Net profit (loss) for the period	27.9	278.6	187.5	(250.7)	-90.0%	(159.6)	-85.1%
Non-controlling interests	2.4	2.2	2.3	0.2	9.1%	0.1	4.3%
Total Group Shareholder's Equity and Non-controlling interests	**9,091.0**	**8,994.2**	**9,300.6**	**96.8**	**1.1%**	**(209.6)**	**-2.3%**

Capital adequacy

Regulatory capital and statutory requirements

As a result of the conclusion of the 2018 SREP conducted with reference to the figures as at 31 December 2017 and taking into account the information received after that date, with the submission of the 2018 SREP Decision, the ECB asked BMPS to maintain, effective 1 March 2019, a TSCR level of 11%, which includes 8% as a minimum requirement for Capital pursuantto art. 92 of the CRR and 3% as Pillar II capital requirement, fully comprised of CET1. The Pillar II capital requirement therefore remained unchanged with respect to 2018.

With regard to Pillar II Capital Guidance, the ECB expects BMPS to adjust, on a consolidated basis, to a requirement of 1.3% (1.5% in 2018), to be fully met with Common Equity Tier 1 capital in addition to the minimum regulatory requirement of CET1, the additional Pillar II requirement and the Combined Capital Reserve Requirement. Failing to comply with this capital guidance is not the same as failure to comply with capital requirements.

It should also be noted that from 1 January 2019 the Capital Conservation Buffer is 2.5% (1.875% until 31 December 2018) due to the planned phase-in, and that the Group is no longer required to comply with the O-SII Buffer (0.06% until the end of 2018*)* since, for 2019, it was not identified by the Bank of Italy as a systemically important institution authorised in Italy.

Accordingly, the MPS Group must meet the following requirements at the consolidated level as at 31 March 2019:

- CET1 Ratio of 10.00% on a transitional basis,
- Total Capital Ratio of 13.50% on an overall transitional basis including, in addition to P2R, 2.5% for the *Capital Conservation Buffer*.

As at **31 March 2019**, the Group's level of capital on a transitional basis was as shown in the following table:

Categories / Values	31 03 2019	31 12 2018	Chg. 31 12 2018	
			Abs.	%
OWN FUNDS				
Common Equity Tier 1 (CET1)	7,953.6	8,020.5	(66.9)	-0.83%
Tier 1 (T1)	7,953.6	8,020.5	(66.9)	-0.83%
Tier 2 (T2)	859.7	857.5	2.2	0.26%
Total capital (TC)	**8,813.3**	**8,878.0**	**(64.7)**	**-0.73%**
RISK ASSETS				
Credit and Counterparty Risk	46,617.1	45,925.4	691.7	1.51%
Credit valuation adjustment risk	452.8	457.7	(4.9)	-1.07%
Settlement risk	-	-	-	
Market risks	2,863.0	2,426.0	437.0	18.01%
Operational risk	9,947.3	9,562.5	384.8	4.02%
Other prudential requirements	-	-	-	
Other calculation elements	-	-	-	
Risk-weighted assets	**59,880.2**	**58,371.6**	**1,508.6**	**2.58%**
CAPITAL RATIOS	**-**			
CET1 capital ratio	**13.28%**	**13.74%**	**-0.46%**	
Tier1 capital ratio	**13.28%**	**13.74%**	**-0.46%**	
Total capital ratio	**14.72%**	**15.21%**	**-0.49%**	

Compared to 31 December 2018, CET1 recorded a total decrease of EUR 67 mln, essentially attributable to the reduction in the sterilisation of the IFRS 9 impact connected to the first-time adoption of the accounting standard, as envisaged by EU Regulation 2017/2935 (inclusive of the positive effect of the related DTAs), totalling EUR 150 mln and the effects of the transitional regime of EUR 14 mln, partly offset by the improvement in the balance of the OCI reserve for EUR 53 mln and other reserves for EUR 17 mln, as well as reductions associated with intangible assets, prudent valuation, DTAs and qualified financial investments (totalling EUR 27 mln). It should be noted that CET1 does not include the portion of the result for 1Q2019. Conversely, in respect of the regulatory provisions, the higher deductions for DTAs and qualified investments, whose values are updated at the date of the report, contribute, inter alia, to the calculation of the CET1.

Tier 2 remained substantially unchanged compared to the end of 2018.

The Total Capital Ratio therefore shows an overall decrease in own funds of EUR 65 mln.

RWAs recorded an overall increase of EUR 1,509 mln, due to higher RWAs relating to credit and counterparty risk (EUR 692mln), partly due to the introduction of the new IFRS 16, and higher RWAs relating to market risks (EUR 437 mln) and operational risk (EUR 385 mln).

Disclosure on risks

Exposure to sovereign debt risk

Below are the net sovereign credit risk exposures in government bonds, loans and credit derivatives held by the Group as at 31 March 2019.

The exposures are broken down by accounting categories

COUNTRY	DEBT SECURITIES					LOANS	CREDIT DERIVATIVES
	Financial assets measured at fair value through profit and loss		Financial assets measured at fair value through other comprehensive income		Financial assets measured at amortised cost	Financial assets measured at amortised cost	Financial assets held for trading
	Nominal	Fair value=book value	Nominal	Fair value=book value	Book value	Book value	Nominal
Argentine	0.3	-	-	-	-	-	-
Austria	0.1	0.1	-	-	-	-	-
Azerbaijan	-	-	-	-	0.8	-	-
Belgium	-	-	38.4	39.2	-	9.4	-
France	-	-	194.5	196.5	-	-	2.7
Germany	-	-	100.0	102.3	-	-	-
Italy	5,324.6	5,378.9	7,790.4	7,765.6	4,903.6	2,155.3	2,584.0
Portugal	-	-	15.0	17.8	-	-	-
Spain	12.9	13.7	479.5	482.3	222.3	-	(2.8)
United States	-	-	50.0	44.4	-	-	-
Other Countries	0.1	0.1	-	-	-	-	-
Total 31 03 2019	**5,338.0**	**5,392.7**	**8,667.7**	**8,648.1**	**5,126.7**	**2,164.7**	**2,583.8**
Total 31 12 2018	**2,764.9**	**2,753.4**	**10,337.7**	**10,305.7**	**4,317.7**	**2,136.4**	**2,200.3**

Operational risks

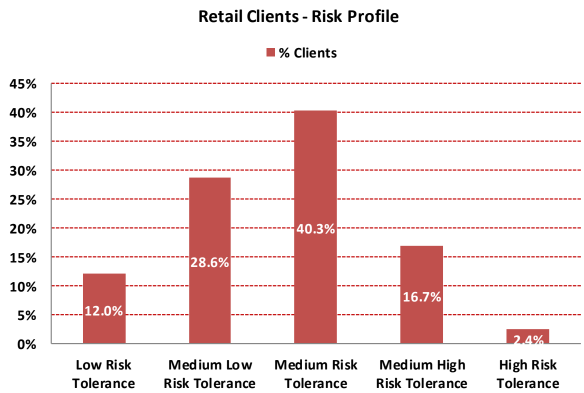
As at 31 March 2019, operating losses and the number of operational risk events recorded in the first three months increased compared to that observed in 2018. The Regulatory Requirements as at 31 March 2019 also rose slightly (+4%) compared to December 2018.

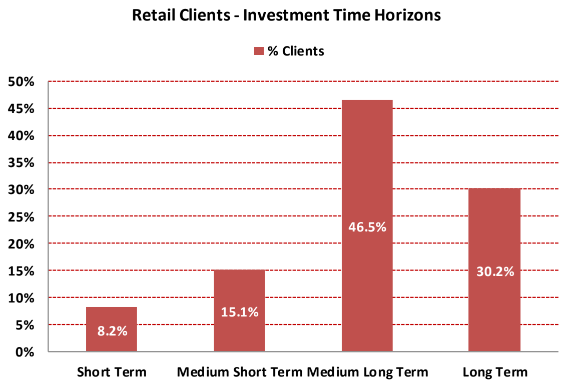
Financial risks of investment services

From 3 January 2018, the new MiFID II directive (2014/65/EU) came into force in the entire European Union. Together with MiFIR or Markets in financial instruments regulation (EU Regulation 600/2014), this has changed the reference framework of European legislation.

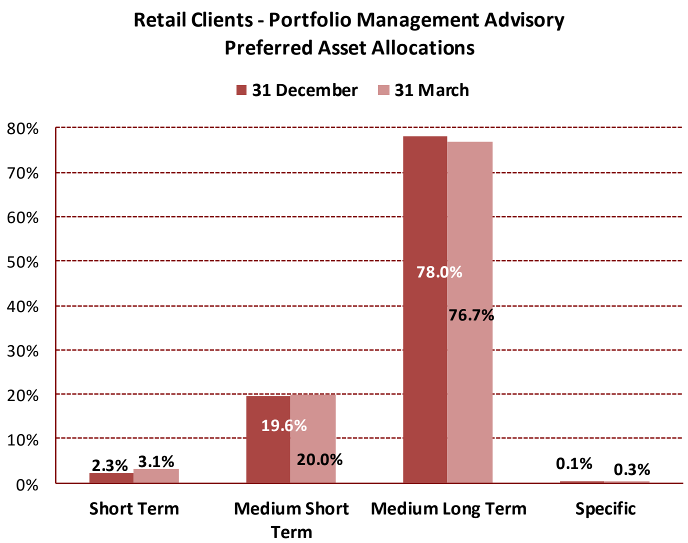
Banca MPS and Banca Widiba have revised the methods of customer profiling and the rules for determining the indicators underlying a customer's risk profile, adopting a new MiFID questionnaire introduced on 2 January 2018.

The graphs below show the distribution as at 31 March 2019 of the new Investment Objective and Time Horizon indicators based on the customers that completed the MiFID questionnaire.





At the end of March 2019, the portfolios held by Consumer/Retail customers on the basis of formalised "advanced" advisory proposals to obtain optimum asset allocation, were mainly distributed into the recommended long-term Asset Allocation (AA) macro-classes.



Legal risks

The most significant events in the first quarter of 2019 are shown below. For further details on legal disputes, please refer to the financial statements for the previous year.

Dispute with purchasers of subordinated bonds issued by Group companies

The number of these disputes currently stands at 77 for a total amount of relief sought of around EUR 28 mln, up compared to 60 disputes for EUR 23 mln of relief sought as at 31 December 2018.

The focus of the opposing claims is concentrated on the lack of disclosure and/or in any case violations of specific regulations on financial intermediation.

As at 31 March, provisions were allocated for approximately EUR 23 mln.

Disputes and out-of-court claims related to financial information distributed in the 2008-2015 period

As at 31 March 2019, the total relief sought for this type of dispute amounted to approximately EUR 1.6 bn, subdivided as follows (data in EUR mln).

Type of dispute	**31/03/19**
Civil dispute	895
Civil Part Constitutions cp 29634/14	42
Civil Part Constitutions cp 955/16	76
Out-of-court claims	609
	1,622

The increase in the relief sought of approx. EUR 133 mln is mainly due to the summons in court for York Funds, partially offset by settlement agreements reached with some counterparties.

Dispute between York Funds and York Luxembourg / BMPS Spa, Alessandro Profumo, Fabrizio Viola, Paolo Salvadori and Nomura International PLC

On 11 March 2019, York Funds and York Luxembourg served a writ of summons to the Parent Company's registered office, bringing an action before the Court of Milan (Section specialised in corporate matters) against BMPS Spa, Messrs. Alessandro Profumo, Fabrizio Viola, and Paolo Salvadori as well as Nomura International PLC, ordering the defendants, jointly and severally, to pay damages amounting to a total of EUR 186.7 mln and - subject to an incidental finding that the offence of false corporate communications has been committed - to compensation for non-monetary damages to be paid on an equitable basis, pursuant to art. 1226 of the Italian Civil Code, plus interest, revaluation, interest pursuant to art. 1284, para. IV of the Italian Civil Code, and interest compound pursuant to art. 1283 of the Italian Civil Code.

The plaintiffs' claim is based on alleged losses incurred as part of its investment transactions in MPS totalling EUR 520.30 mln, carried out through the purchase of shares (investment of EUR 41.4 mln by York Luxembourg) and derivative instruments (investment of EUR 478.9 mln by York Funds). The plaintiffs' quantified their comprehensive losses at EUR 186.7 mln.

The investment transactions challenged began in March 2014, when Messrs. Fabrizio Viola and Alessandro Profumo held the offices of CEO and Chairman, respectively, of BMPS Spa. The plaintiffs charge alleged unlawful behaviour by top management of the Parent Company in falsifying the financial representation in financial statements, substantially modifying the assumptions used in measurements of financial instruments issued by the Parent Company.

The first hearing is scheduled for 29 January 2020; the Parent Company will appear before the Court in the manner and time limits provided by law.

Settlement agreements for civil disputes

Between January and March 2019, settlement agreements were reached, involving the closure of 11 disputes against a total relief sought of approx. EUR 56 mln. The outlays made following the above transactions did not have a negative impact on the income statement for the quarter.

Out-of-court claims

In April, the Parent Company received claims for damages allegedly suffered as a result of the 2014-2015 share capital increase transactions for approx. EUR 171 mln, in addition to non-financial damages that were not quantified at that time.

As this is an event that occurred after the reporting quarter, the relative relief sought is not included in the table above.

Criminal proceeding no. 29634/14

At present, as part of the aforesaid proceeding, the closing of arguments was declared and, starting from 11 April 2019, the public prosecutor's indictment will begin that will continue at the next hearings on 2 and 16 May 2019.

Criminal proceeding no. 955/16

The preliminary hearing was opened on 18 March 2019 and some texts were enforced. The proceeding will continue in various hearings from 29 April to 16 July 2019.

* * *

Diamond offer

As at 31 March 2019, the Parent Company allocated provisions for risks and charges in relation to the damages claimed amounting to EUR 150 mln and taking into account provisions for EUR 47 mln made in the first quarter of the year. Transactions with customers were carried out during this period for an amount of EUR 31 mln.

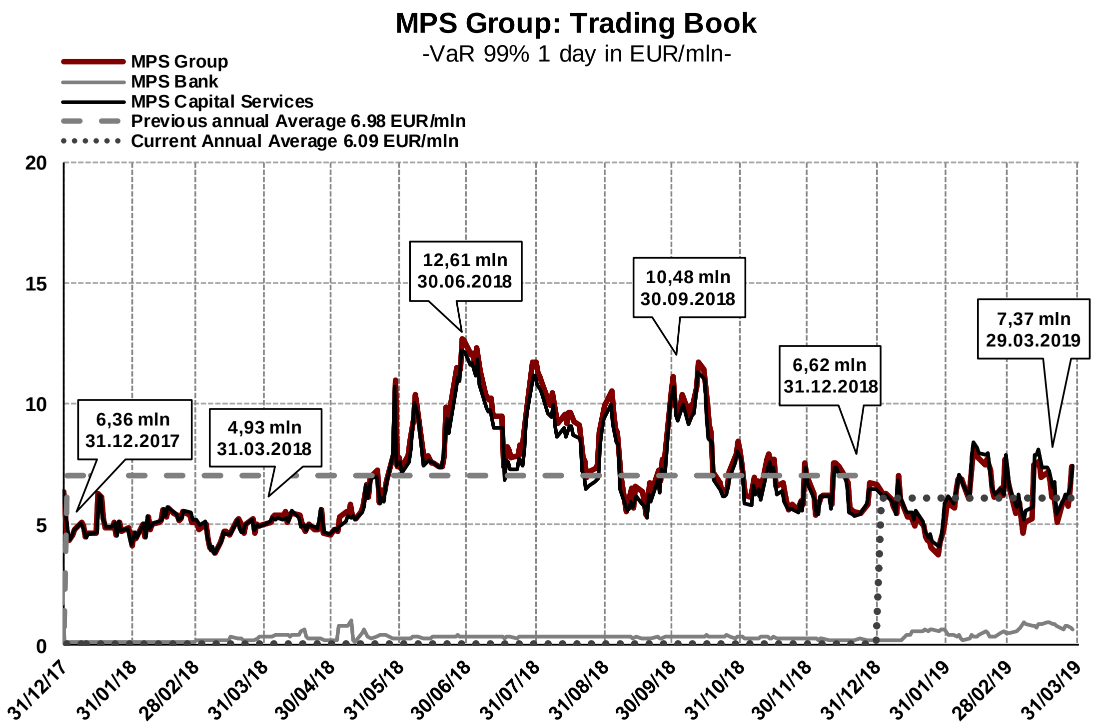
Market risks

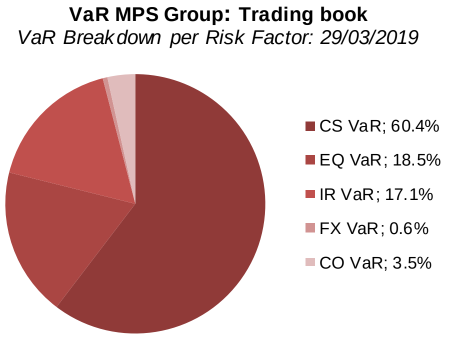
At the end of the first quarter of 2019, the market risks of the Group's Regulatory Trading Book, measured as VaR, were down compared to the end of December 2018, amounting to EUR 7.37 mln as at 29 March 2019.

During the year, the market risks of the Group's Regulatory Trading Book showed, in terms of VaR, a performance influenced by the subsidiary MPS Capital Services, mainly for own trading activities in the Credit Spread – Interest Rate segment (auction transactions in Italian Government bonds and long futures) and, to a lesser extent, Client-Driven activities in the Equity segment (options and equity futures on the main market indices).

The volatility of the VaR recorded in the first quarter of 2019 is mainly due to trading activities of the subsidiary MPS Capital Services, the latter mainly focused on participation in auctions for short-term Italian government bonds, and partly to changes in market parameters. The increasing trend in the Italian credit spread registered since the end of May 2018 caused a significant increase in the VaR measurement, through the succession of spikes coinciding with the increase in the market parameters and corresponding to new tail scenarios on the historical simulation model. The trend was partly offset by hedging through short positions on medium/long-term BTP futures.

Today, the VaR is effectively sensitive to changes in the short-term exposure on the Italian credit spread given that it incorporates, in the tail scenarios recorded between May and June 2018, a marked widening of the yields on Italian Government bonds, more significant on the short-term than the long-term component (i.e. increase in yields with flattening of the curve). The above trend faded away starting in the last quarter of 2018, along with the reduction in average exposure to Italian government bonds.





MPS Group

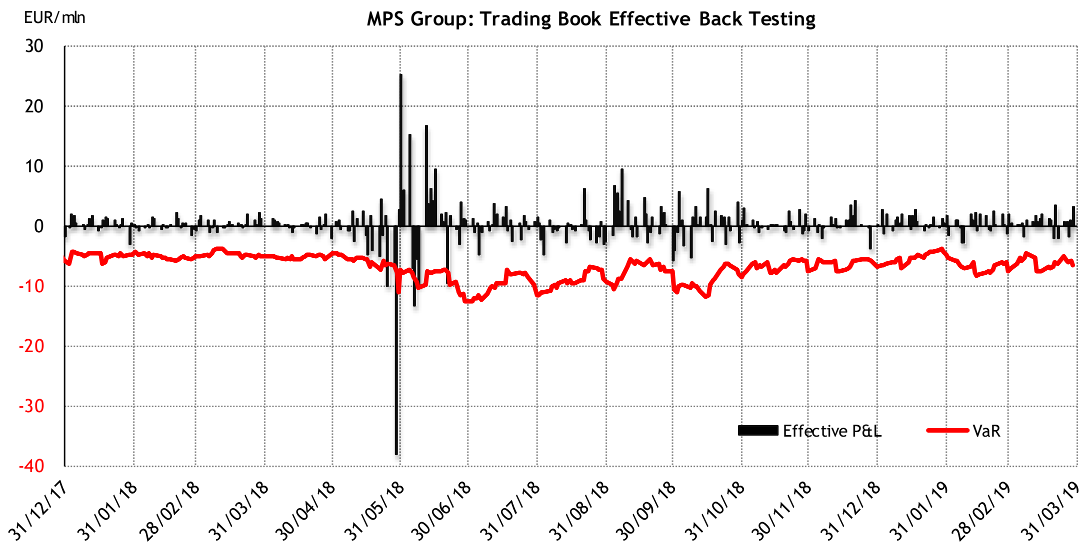
VaR PNV 99% 1 day in EUR/mln

	VaR	Data
End Period	7.37	29/03/2019
Min	3.72	28/01/2019
Max	8.21	13/02/2019
Average	6.09	

The breakdown of the VaR shows that the Credit Spread is the main risk factor, accounting for 60.4% of the TB Gross VaR of the Group, while the EQ accounts for 18.5%, IR for 17.1%, FX for 0.6% and CO for 3.5%.

VaR model backtesting

The chart below shows the actual backtesting results of the internal Market Risks model in relation to the Group's Regulatory Trading Book for 2018 and the first three months of 2019:



Five exceptions were recorded in 2018, shaped almost entirely by the risk exposure of the subsidiary MPSCS. These exceptions are concentrated between the end of May and June 2018, as a consequence of the increase in volatility in the Italian credit spread, due to a climate of political uncertainty generated in the period following the elections to form a new government.

No exceptions were recorded in the first quarter of 2019.

Results by operating segment

Identification of operating segments

For the purpose of identifying the Operating Segments provided for by IFRS 8, the Group has adopted the business approach. Consolidated income statement and balance sheet data are broken down and re-aggregated based on criteria including: business area concerned, operating structure of reference, relevance and strategic importance of activities carried out, and customer clusters served.

The Parent Group structure envisages the implementation of a specialised commercial organisational model with three Departments (Retail, Wealth Management and Corporate), each of which is responsible for the pertinent markets, segments and products.

Based on the Group's current organisational structures and the reporting criteria at the highest decision-making level, the following operating segments were identified:

- **Retail Banking**, which includes the sales activities of Retail customers (Value, Premium and Small Business segments);
- **Corporate Banking**, which includes the sales activities of Corporate customers (SME, Entities and Top Corporate segments), Large Corporate Area, Foreign Branches and the subsidiaries MPS Capital Services, MPS Leasing & Factoring and the foreign banks BMP Belgio and MP Banque;
- **Wealth Management**, which includes the sales activities of Private Banking customers (Private Banking and Family Office segments) and the subsidiary MPS Fiduciaria;
- **Banca Widiba SpA**, which includes the financial advisor network and the self-service channel;
- **Corporate Centre**, which in addition to cancellations of intragroup entries, incorporates the results of the following business centres:
  - service operations supporting the Group's business, dedicated in particular to the management and development of IT systems (MPS Group Operational Consortium);
  - companies consolidated at equity and held for sale;
  - operating units, such as proprietary finance, ALM, Treasury and Capital Management which, individually, fall below the disclosure requirements for primary reporting.

The income statement results for each identified operating segment are shown in the following paragraphs. Note that:

- in order to allow continued disclosure and understanding of the performance results, the income statement and the reclassified balance sheet of the Group maintain the results relating to the subsidiary BMP Belgio S.A. in the original items, rather than the item "Profit (loss) after tax from assets held for sale and discontinued operations" for the income statement section and items 120 "Non-current assets held for sale and discontinued operations" and 70 "Liabilities associated with individual assets held for sale", for the balance sheet section. Similar to the approach adopted for the Income statement and the Balance Sheet of the Group, the results relating to the subsidiary BMP Belgio S.A. were maintained in the Corporate Banking operating segment;
- as from 2019, the cost allocation model for the identified operating segments was updated, thus, in order to make the comparison meaningful, the 2018 values were drafted on a pro-forma basis.

Results in brief

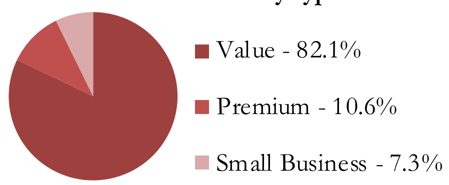
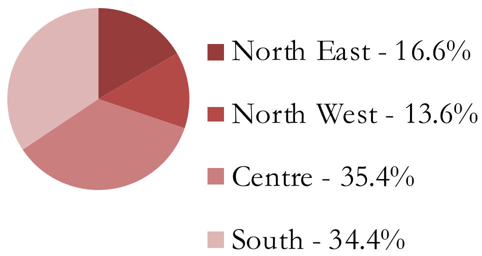
The following table reports the main income statement and balance sheet items that characterised the Group's Operating Segments as at 31 March 2019:

SEGMENT REPORTING	Business Segments											
Primary segment	Retail banking		Wealth Management		Corporate banking		Widiba		Corporate Center		Total MPS Group	
(EUR mln)	31/03/19	Chg % Y/Y	31/03/19	Chg % Y/Y	31/03/19	Chg % Y/Y	31/03/19	Chg % Y/Y	31/03/19	Chg % Y/Y	31/03/19	Chg % Y/Y
PROFIT AND LOSS AGGREGATES												
Total Income	570.3	-1.4%	34.5	9.4%	217.7	1.5%	16.7	3.1%	(36.7)	n.s.	802.5	-8.5%
Operating expenses	(414.5)	-1.4%	-25.1	-1.2%	-117.3	-1.4%	-15.9	2.1%	3.7	-50.9%	(569.1)	-0.6%
Pre Provision Profit	155.8	-1.5%	9.3	53.5%	100.5	5.2%	0.8	27.1%	(32.9)	n.s.	233.4	-23.2%
Net impairment losses (reversals) on loans and financial assets	(84.6)	43.4%	-0.3	-49.9%	-71.5	-5.9%	-0.4	n.s.	(7.5)	n.s.	(164.3)	19.1%
Net Operating Income	71.2	-28.2%	9.0	65.0%	29.0	48.4%	0.4	-42.2%	(40.4)	n.s.	69.1	-58.4%
BALANCE SHEET AGGREGATES												
Interest-bearing loans to customers	39,736	-1.4%	526.8	0.3%	34,111.5	-8.8%	535.3	82.9%	11,449	41.1%	86,359	-0.3%
Deposits from customers and debt securities issued(*)	40,338	-3.1%	3,098.8	-7.9%	18,595.5	-11.9%	2,847.6	19.2%	27,807	-5.4%	92,686	-5.3%
Indirect funding	47,201	0.2%	15,434.3	-7.0%	16,349.1	41.7%	5,013.3	-5.2%	15,640	5.6%	99,638	4.5%
Assets under management	*37,976*	*1.1%*	*11,133.6*	*-3.9%*	*1,476.4*	*-12.4%*	*4,418.6*	*-6.8%*	*2,638*	*-3.8%*	*57,642*	*-1.1%*
Assets under custody	*9,225*	*-3.4%*	*4,300.7*	*-14.1%*	*14,872.7*	*51.0%*	*594.7*	*9.6%*	*13,002*	*7.7%*	*41,996*	*13.4%*

(*) The values stated in the Sales & Distribution segments are gross interest-bearing loans and therefore do not include the allowance for impairment.

N.B.: The Group has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 16, thus the figures for 2018 are not fully comparable. Moreover, as from 2019, the cost allocation model for the identified operating segments was updated, thus, in order to make the comparison meaningful, the 2018 values were drafted on a pro-forma basis.

Retail Banking

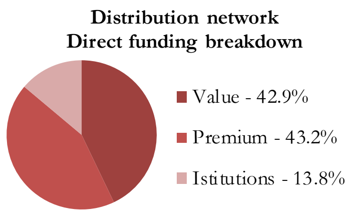
<table>
<tr><th>Business areas</th><th>Customers</th></tr>
<tr><td rowspan="3">• Funding and provision of insurance products.
• Lending.
• Financial advisory services.
• Electronic payment services.</td><td>Retail customers number approximately 4.5 mln.</td></tr>
<tr><td>Breakdown by type
</td></tr>
<tr><td>Breakdown by geography
</td></tr>
</table>

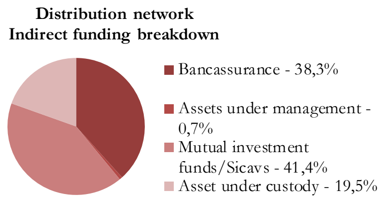
Income statement and balance sheet results

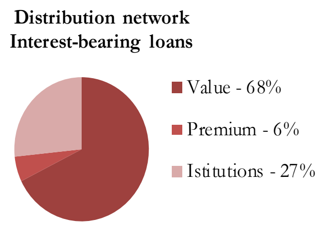
As at 31 March 2019, **Total Funding** for Retail Banking amounted to approximately **EUR 87.5 bn**, up by roughly EUR 2.0 bn from the end of 2018 and down EUR 1.2 bn compared to the levels at March 2018. More specifically:

- **Direct Funding** was **EUR 40.3 bn**, up by EUR 0.6 bn compared to 31 December 2018, due mainly to the demand components (EUR +0.3 bn) and medium/long-term components (EUR +0.3 bn). The aggregate decreased by EUR 1.2 bn compared to 31 March 2018, in particular in short-term (EUR -1.5 bn) and medium/long-term (EUR -0.9 bn) forms, partially offset by recovery in demand deposits (EUR 1.2 bn).
- **Indirect Funding**, amounting to approx. **EUR 47.2 bn**, up by EUR 1.3 bn compared to 31 December 2018 due to assets under management. Compared to the March 2018 levels, the aggregate remained stable, with an increase in assets under management (EUR +0.4 bn) and a decrease in assets under custody (EUR -0.3 bn).
- **interest-bearing loans to Retail Banking customers** were **EUR 39.7 bn** as at 31 March 2019, down compared to both December 2018 (EUR -0.2 bn) and March 2018 (EUR -0.6 bn).

RETAIL BANKING - BALANCE SHEET AGGREGATES							
(Eur mln)	31/03/19	31/12/18	31/03/18	Chg Abs Q/Q	Chg % Q/Q	Chg Abs Y/Y	Chg % Y/Y
Deposits from customers and debt securities issued	**40,338**	**39,703**	**41,621**	**634**	**1.6%**	**-1,284**	**-3.1%**
Assets under management	*37,976*	*36,696*	*37,550*	*1,279*	*3.5%*	*426*	*1.1%*
Assets under custody	*9,225*	*9,161*	*9,552*	*64*	*0.7%*	*-327*	*-3.4%*
Indirect Funding	**47,201**	**45,857**	**47,102**	**1,344**	**2.9%**	**99**	**0.2%**
Total Funding	**87,538**	**85,560**	**88,723**	**1,978**	**2.3%**	**-1,185**	**-1.3%**
Interest-Bearing Loans to Customers	**39,736**	**39,915**	**40,291**	**-179**	**-0.4%**	**-555**	**-1.4%**







With regard to profit and loss for 1Q19, Retail Banking achieved total **Revenues** of approx. **EUR 570 mln**, down 1.4% compared to the same period of last year. A breakdown of the aggregate shows:

- Net Interest Income was approximately EUR 259 mln, up 8.6% annually due both to the higher contribution from funding with respect to the decrease in returns on commercial assets (volumes and rates);
- Net Fee and Commission Income totalled approximately EUR 293 mln, down from the previous year's level by 11.9%, due to the reduction in income from product placement and loan usage fees.

Considering the impact of Operating Expenses, which decreased by 1.4% YoY, Retail Banking generated **Gross Operating Income** of about **EUR 156 mln** in 1Q2019 (-1.5% YoY). Net impairment (losses)/reversals on loans and financial assets totalled **EUR -85 mln** (EUR -59 mln in 1Q18).

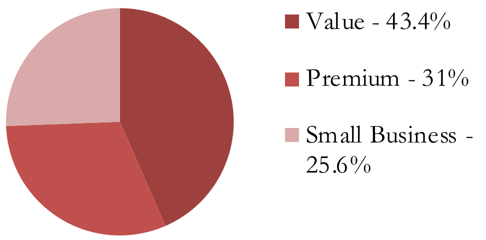
The **Net Operating Income** recorded since the beginning of the year is **positive, amounting to around EUR 71 mln.**

The **cost-income ratio** of the Operating Segment is **72.7%** (stable with respect to 1Q18).

RETAIL BANKING - PROFIT AND LOSS AGGREGATES				
			Chg. Y/Y	
(EUR mln)	31/03/19	31/03/18	Abs.	%
Net interest income	*259.4*	*238.9*	*20.5*	*8.6%*
Net fee and commission income	*293.4*	*333.1*	*-39.7*	*-11.9%*
Other income	*12.7*	*9.7*	*3.0*	*30.9%*
Other operating expenses/income	*4.8*	*(3.1)*	*7.9*	*n.s.*
Total Income	**570.3**	**578.6**	**-8.3**	**-1.4%**
Operating expenses	*(414.5)*	*(420.5)*	*5.9*	*-1.4%*
Pre Provision Profit	**155.8**	**158.1**	**-2.4**	**-1.5%**
Net impairment losses (reversals) on loans and financial assets	(84.6)	(59.0)	-25.6	43.4%
Net Operating Income	**71.2**	**99.2**	**-28.0**	**-28.2%**

N.B.: The Group has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 16, thus the figures for 2018 are not fully comparable. Moreover, as from 2019, the cost allocation model for the identified operating segments was updated, thus, in order to make the comparison meaningful, the 2018 values were drafted on a pro-forma basis

Consumer banking - Distribution network
Breakdown of revenues



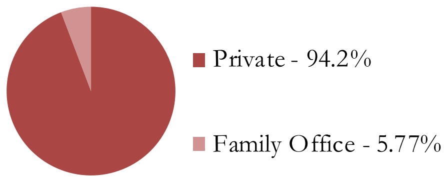
Wealth Management

<table>
<tr><th>Business areas</th><th>Customers</th></tr>
<tr><td rowspan="3">

Funding, lending, provision of insurance products, financial and non-financial services to private banking customers.
Services and products for high-standing customers in the areas of wealth management, financial planning, consultancy on non-strictly financial services (tax planning, real estate, art & legal advisory).
Fiduciary and trust services (through the subsidiary MPS Fiduciaria).

</td><td>There are around 36 thousand private customers.</td></tr>
<tr><td>

Breakdown by type



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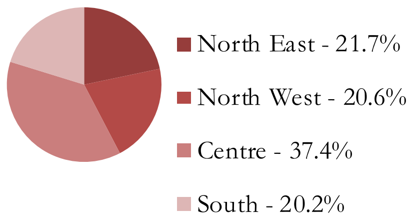
Breakdown by geography



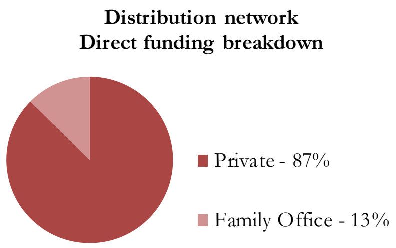
</td></tr>
</table>

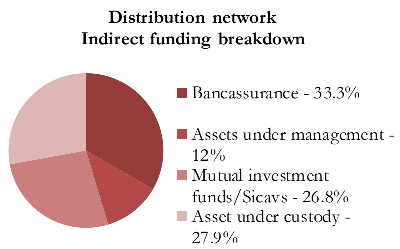
Income statement and balance sheet results

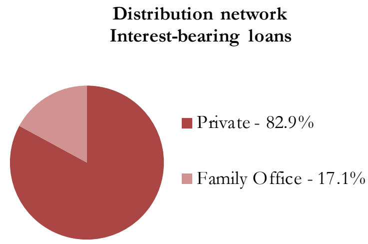
As at 31 March 2019, **Total Funding** for Wealth Management amounted to approximately **EUR 18.5 bn**, up compared to the end of the year (EUR +0.4 bn) and down by around EUR 1.4 bn against 31 March 2018. More specifically:

- **Direct Funding** amounted to **EUR 3.1 bn** in the first quarter of 2019, stable with respect to 31 December 2018 and down from March 2018 levels (EUR -0.3 bn);
- **Indirect Funding**, amounting to about **EUR 15.4 bn**, was up by EUR 0.5 bn compared to the end of the year and down by EUR 1.2 bn compared to 31 March 2018, mainly regarding assets under custody;
- **Interest-bearing loans to Wealth Management customers** were essentially in line with both December 2018 and 31 March 2018, reaching roughly **EUR 0.5 bn**.

WEALTH MANAGEMENT - BALANCE SHEET AGGREGATES							
(EUR mln)	31/03/19	31/12/18	31/03/18	Chg Abs Q/Q	Chg % Q/Q	Chg Abs Y/Y	Chg % Y/Y
Deposits from customers and debt securitie	**3,099**	**3,178**	**3,363**	**-79**	**-2.5%**	**-265**	**-7.9%**
Assets under management	*11,134*	*10,826*	*11,588*	*308*	*2.8%*	*-455*	*-3.9%*
Assets under custody	*4,301*	*4,151*	*5,009*	*150*	*3.6%*	*-708*	*-14.1%*
Indirect Funding	**15,434**	**14,976**	**16,597**	**458**	**3.1%**	**-1,163**	**-7.0%**
Total Funding	**18,533**	**18,154**	**19,961**	**379**	**2.1%**	**-1,427**	**-7.2%**
Interest-Bearing Loans to Customers	**527**	**535**	**525**	**-8**	**-1.6%**	**2**	**0.3%**







With regard to profit and loss in 1Q19, Wealth Management achieved total **Revenues** of approx. **EUR 34 mln**, up 9.4% compared to the same period of last year. A breakdown of the aggregate shows:

- Net Interest Income amounted to approx. EUR 3 mln, up by EUR 2 mln compared to 1Q18, impacted by the recovery in direct funding;
- Net Fee and Commission income totalled approximately EUR 27 mln, down compared to 1Q18 (-9.0%) as a result of the decline in the product segment, for the continuing operations and placement components.

Considering the impact of Operating Expenses, which decreased by 1.2% YoY, Wealth Management generated **Gross Operating Income** of about **EUR 9 mln** (+53.5% YoY). Including net impairments (losses)/reversals on loans and financial assets equal to about EUR -0.3 mln, the **Net Operating Income** totalled roughly **EUR 9 mln**.

The **cost-income ratio** of the Operating Segment is **73.0%** (80.7% in 1Q18).

WEALTH MANAGEMENT - PROFIT AND LOSS AGGREGATES				
			Chg. Y/Y	
(EUR mln)	31/03/19	31/03/18	Abs.	%
Net interest income	*3.4*	*1.2*	*2.2*	*n.s.*
Net fee and commission income	*27.4*	*30.1*	*-2.7*	*-9.0%*
Other income	*3.7*	*0.2*	*3.5*	*n.s.*
Other operating expenses/income	*0.0*	*0.0*	*0.0*	*n.s.*
Total Income	**34.5**	**31.5**	**2.9**	**9.4%**
Operating expenses	*(25.1)*	*(25.4)*	*0.3*	*-1.2%*
Pre Provision Profit	**9.3**	**6.1**	**3.2**	**53.5%**
Net impairment losses (reversals) on loans and financial assets	(0.3)	(0.6)	0.3	-49.9%
Net Operating Income	**9.0**	**5.5**	**3.5**	**65.0%**

N.B.: The Group has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 16, thus the figures for 2018 are not fully comparable. Moreover, as from 2019, the cost allocation model for the identified operating segments was updated, thus, in order to make the comparison meaningful, the 2018 values were drafted on a pro-forma basis.
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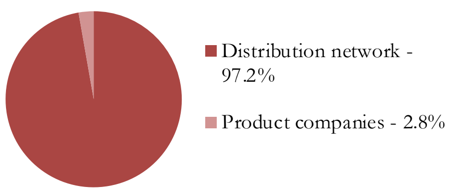
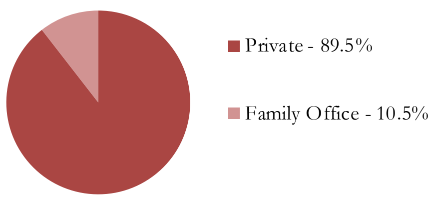
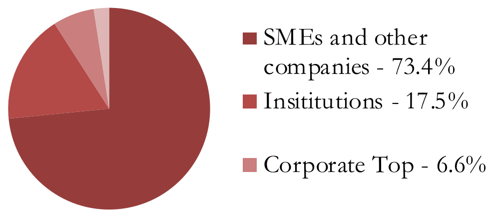
Breakdown of revenues

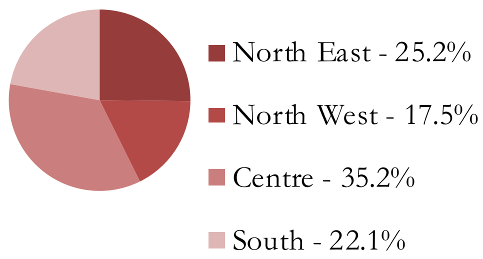


**Distribution network
Breakdown of revenues**



Corporate Banking

<table>
<tr><th>Business areas</th><th>Customers</th></tr>
<tr><td rowspan="3">
• Lending and offering financial products and services to businesses, including through strategic partnerships with trade associations and Confidi (credit guarantee consortia), with Guarantee Institutions (including public) and Institutional Entities, through which funding is acquired at favourable terms.
• Offer of integrated leasing and factoring packages for businesses, artisans and professionals (through the subsidiary MPS Leasing & Factoring).
• Corporate finance - medium-long term credit facilities, corporate finance, capital markets and structured finance also through the subsidiary MPS Capital Services.
• Custody and deposit services for dairy products on behalf of third parties (through the subsidiary Magazzini Generali Fiduciari di Mantova S.p.A., which is also authorised to issue documents of title to the merchandise, providing for easier access to bank lending).
</td><td>About 48,800 Corporate and large group customers of the Parent Company, directly followed by Corporate Banking.</td></tr>
<tr><td>
Breakdown by type


</td></tr>
<tr><td>
Breakdown by geography


</td></tr>
</table>

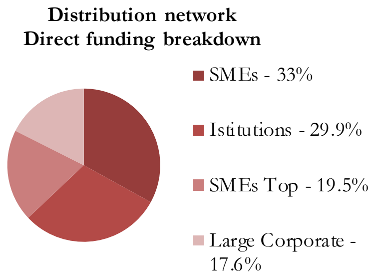
Income statement and balance sheet results

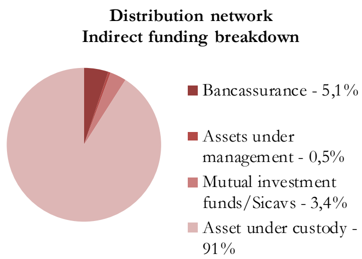
Similar to the approach adopted for the Income statement and the Balance Sheet of the Group, the results relating to the subsidiary MP Belgio were maintained in the original items of the Corporate Banking operating segment.

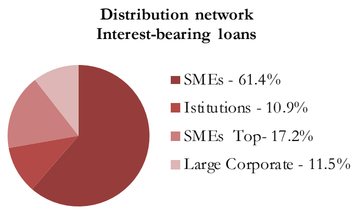
Corporate Banking **Total Funding** recorded growth of approx. EUR 1.2 bn, from EUR 33.7 bn in December 2018 to **EUR 34.9 bn** as at 31 March 2019. Compared to 1Q18, the aggregate recorded an increase of EUR 2.3 bn, mainly due to indirect funding, particularly under assets under custody, while direct funding decreased.

With regard to lending, as at 31 March 2019, **interest-bearing loans to Corporate Banking customers** stood at approximately **EUR 34.1 bn** (EUR +1.1 bn on 31 December 2018 and down EUR 3.3 bn compared to 1Q18).

CORPORATE BANKING - BALANCE SHEET AGGREGATES							
(EUR mln)	31/03/19	31/12/18	31/03/18	Chg Abs Q/Q	Chg % Q/Q	Chg Abs Y/Y	Chg % Y/Y
Deposits from customers and debt securitie	**18,595**	**18,399**	**21,102**	**197**	**1.1%**	**-2,507**	**-11.9%**
Assets under management	*1,476*	*1,472*	*1,685*	*4*	*0.3%*	*-209*	*-12.4%*
Assets under custody	*14,873*	*13,872*	*9,849*	*1,000*	*7.2%*	*5,024*	*51.0%*
Indirect Funding	**16,349**	**15,345**	**11,534**	**1,005**	**6.5%**	**4,815**	**41.7%**
Total Funding	**34,945**	**33,743**	**32,636**	**1,201**	**3.6%**	**2,308**	**7.1%**
Interest-Bearing Loans to Customers	**34,111**	**32,963**	**37,403**	**1,148**	**3.5%**	**-3,291**	**-8.8%**







For profit and loss aggregates, Corporate Banking **Revenues** came to approx. **EUR 218 mln** in 1Q19 (+1.5% YoY). A breakdown of the aggregate shows:

- Net Interest Income was approximately EUR 130 mln, down 2.4% annually due to the decrease in returns on commercial assets;
- Net Fee and Commission Income decreased by 10.0% YoY, amounting to approximately EUR 72 mln, mainly penalised by the downward trend in proceeds from the use and disposal of loans;
- Other revenue from banking and insurance business amounted to approx. EUR 18 mln (EUR +12 mln in 1Q18), growth attributable to trading activities.

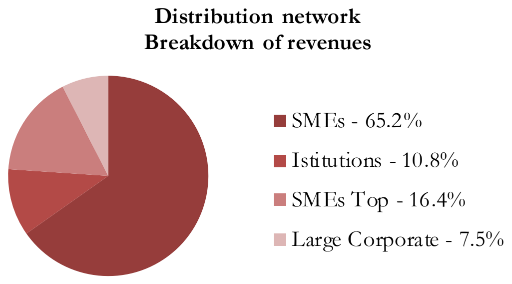
Considering the impact of Operating Expenses, down by 1.4% compared to 1Q18, the **Gross Operating Income** came to about **EUR 100 mln** (+5.2% YoY).

Net Operating Income amounted to approx. **EUR 29 mln** (EUR 20 mln in 1Q18), which also benefitted from the improvement in impairments (losses)/reversals on loans and financial assets, which stood at EUR -71 mln.

The Corporate Banking **cost-income ratio** stands at **53.9%** (55.5% in 1Q18).

CORPORATE BANKING - PROFIT AND LOSS AGGREGATES				
			Chg. Y/Y	
(EUR mln)	31/03/19	31/03/18	Abs.	%
Net interest income	*130.4*	*133.6*	*-3.2*	*-2.4%*
Net fee and commission income	*72.3*	*80.3*	*-8.0*	*-10.0%*
Other income	*18.1*	*6.1*	*12.0*	*n.s.*
Other operating expenses/income	*(3.1)*	*(5.6)*	*2.5*	*n.s.*
Total Income	**217.7**	**214.4**	**3.3**	**1.5%**
Operating expenses	*(117.3)*	*(118.9)*	*1.6*	*-1.4%*
Pre Provision Profit	**100.5**	**95.5**	**4.9**	**5.2%**
Net impairment losses (reversals) on loans and financial assets	(71.5)	(76.0)	4.5	-5.9%
Net Operating Income	**29.0**	**19.5**	**9.4**	**48.4%**

N.B.: The Group has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 16, thus the figures for 2018 are not fully comparable. Moreover, as from 2019, the cost allocation model for the identified operating segments was updated, thus, in order to make the comparison meaningful, the 2018 values were drafted on a pro-forma basis

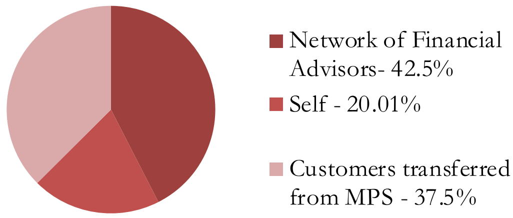
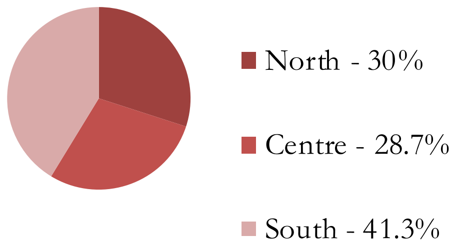


Results of the main subsidiaries

- **MPS Capital Services**: profit before taxes of EUR 39 mln and profit for the period of EUR 34 mln, up by EUR 46 mln compared to 1Q18, mainly due to the growth in Other revenues from financial management and Net interest income.
- **MPS Leasing & Factoring**: profit before tax of EUR 6 mln and net profit for the period of EUR 6 mln (EUR -7 mln in 1Q18).
- **Foreign banks**[7]: **MP Banque** recorded a profit of EUR 0.5 mln compared to a profit of EUR 0.7 mln in 1Q18; as regards **BMP Belgio S.A.**, the net loss for the period was EUR 3 mln, compared to a profit of EUR 0.8 mln recorded in 1Q18.

[7] The profit reported for foreign subsidiaries is that determined on an operational basis. The Parent Company resolved in 2018 the run-off of MP Banque, while for BMP Belgio S.A., the completion of its sale is expected in the first half of 2019.

Banca Widiba

Business areas	Customers
• Banking products and services, deposit account, cards and advanced payment systems; customer self-service through the bank's digital channels or in assisted mode with the support of a Financial Advisor. • Fully customisable online platform that relies on a network of 561 Financial Advisors present throughout the country. • Funding and Global advisory services and financial planning through the advanced WISE platform and the skills of the Financial Advisor Network. • Mortgages, credit facilities and personal loans. • Innovative interaction through computers, smartphones, tablets, watches and TV.	There were roughly 348,700 customers as at 31 March 2019, of which around 148,200 in the Financial Advisor Network channel, around 69,800 in the self-service channel, and around 130,800 customers migrated from the MPS branch network. There were approx. 304,629 customers managed exclusively by Banca Widiba. **Breakdown by type**  **Breakdown by geography** 

Income statement and balance sheet results

As at 31 March 2019, Total Funding for Widiba amounted to around **EUR 7.9 bn,** up by EUR 226 mln from the start of the year and EUR 185 mln compared to 31 March of the previous year. As at 31 March, the customer base was substantially confirmed at the levels at the start of the year, while there was growth in commercial volumes brokered in all segments during the quarter, both with reference to Funding (Direct and Indirect), as well as in Loans (mortgages). More specifically:

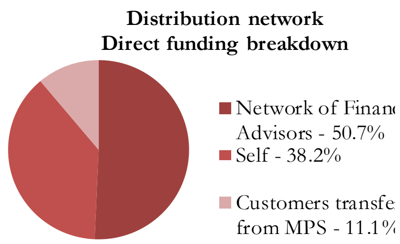
- **Direct Funding**, totalling EUR **2.8 bn**, increased from the values of 4Q18, highlighting in particular an increase in the restricted credit lines and a substantial stability in volumes of demand deposits (current accounts). Overall, growth in the quarter amounted to EUR +99 mln (equal to +3.6%), due to net positive net funding flows from both the self-customer channel and the Financial Advisor Network. Also in the first quarter, volumes growth is accompanied by careful monitoring of the cost of funding, which has increased only slightly since the beginning of the year due to the greater weight of restricted funding compared to demand, as well as higher overall volumes of stocks. In continuity with last year, sales initiatives in the first quarter were focused on the acquisition of new customers to exploit the usual seasonality in customer turnover in the market, usually concentrated in the first part of the year. Campaigns were also made to increase the share of wallet and to stabilise existing customers, also with offers dedicated to the development of the customer segment migrated from the MPS branches. The use of increasingly sophisticated business intelligence tools has enabled to direct and diversify initiatives across different client clusters. The consolidation of assistance processes supporting the business and customers through the Widiba Media Centre structure made it possible to act on conversion rates and the effectiveness of outbound campaigns, as well as improve inbound customer service levels, continuing with the trend of achieving significant economies of scale as well as with ever increasing cross-selling rates;

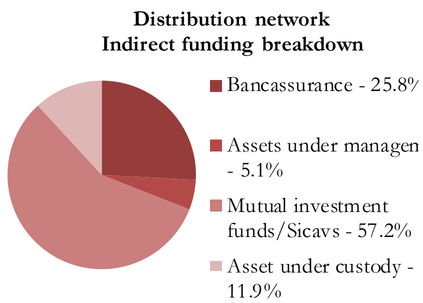
- **Indirect Funding**, amounting to approx. **EUR 5.0 bn**, is up compared to the figure in 4Q18 (EUR +127 mln, or +2.6%), also due to the favourable performance of financial markets, while the stock declined compared to 31 March 2018 (EUR -273 mln or -5.2%). In fact, in the first quarter, a partial recovery (equal to approx. EUR 290 mln) was recorded in the negative market effect of the previous year (approx. EUR 400 mln). In the first quarter, during which 3 new Financial Advisors were hired, there was a contraction in net flows of Indirect Funding on the Financial Advisor Network.

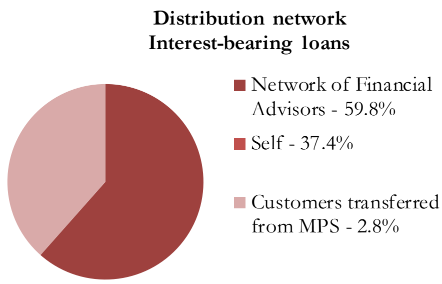
Interest-bearing loans to Widiba customers rose from roughly EUR 472 mln as at 31 December 2018 to **EUR 535 mln** as at 31 March 2019. The segment's net overall growth mainly refers to the consolidation of the range of mortgage loans offered by Widiba, with new disbursements of EUR 67 mln from the start of the year.

WIDIBA BANK - BALANCE SHEET AGGREGATES

(EUR mln)	31/03/19	31/12/18	31/03/18	Chg Abs Q/Q	Chg % Q/Q	Chg Abs Y/Y	Chg % Y/Y
Deposits from customers and debt securitie	**2,848**	**2,749**	**2,389**	**99**	**3.6%**	**458**	**19.2%**
Assets under management	*4,419*	*4,325*	*4,743*	*94*	*2.2%*	*-325*	*-6.8%*
Assets under custody	*595*	*562*	*543*	*33*	*5.8%*	*52*	*9.6%*
Indirect Funding	**5,013**	**4,887**	**5,286**	**127**	**2.6%**	**-273**	**-5.2%**
Total Funding	**7,861**	**7,635**	**7,675**	**226**	**3.0%**	**185**	**2.4%**
Interest-Bearing Loans to Customers	**535**	**472**	**293**	**64**	**13.5%**	**243**	**82.9%**







With regard to profit and loss, as at 31 March 2019 Widiba achieved total Revenues of approx. EUR 16.7 mln, up (EUR +0.5 mln; +3.1%) compared to the first quarter of the previous year. It should be noted that the Revenues from 1Q18 were influenced by a positive non-recurring extraordinary component of EUR 0.6 mln referring to a financial transaction with the Parent Company and, therefore, the increase in pro-forma Revenues compared to the previous year would be EUR +1.1 mln (equal to +7.1%). The performance in 1Q19 showed considerable further growth in Net Interest Income, while Net Fee and Commission Income declined by EUR 1.4 mln compared to 1Q18. In particular, a breakdown of the aggregate shows:

- **Net Interest Income** amounted to **EUR 14.5 mln**, marking a significant increase (+27.0%) compared to the previous year. With regard to the components of net interest income, a positive contribution was made by both financial assets (due to higher average volumes of +22% YoY) and by commercial assets (due to higher average volumes corresponding to around EUR 240 mln), together with a lower cost of funding for the quarter (-17 bps on average). These trends led to a net improvement in performance in the first quarter (+12.3%) also with respect to the quarterly average in 2018 (corresponding to EUR 12.9 mln);
- **Net Fee and Commission Income**, amounting to **EUR 2.5 mln**, was down compared to 1Q18 (EUR -1.4 mln; -36.3%) mainly due to the delay accumulated in the Indirect Funding segment and by higher expenses relating to the loyalty programme for the Financial Advisor Network. In detail, in terms of Gross Revenues, the decline was more moderate and stood at approx. EUR -0.7 mln (-4%), noting in particular, on one hand, a decrease in revenues of assets under management (EUR -1.9 mln), also resulting from the negative market effect of the last quarter of 2018, not yet recovered, and on the other, a marked increase in commissions from services relating to the banking and e-money segment (EUR +1 mln, +278%). Lastly, net fee and commission income for the quarter was affected by lower ordinary commission charges for approx. EUR 1.5 mln, confirming the flexibility of the model of the Financial Advisor Network with respect to lower commission income generated and higher charges relating to the loyalty programme for the Network of approx. EUR 2.3 mln.

Operating Expenses were slightly higher than the previous year (up by a total amount of EUR 0.3 mln, equal to 2.1%), mainly due to higher expenses on personnel costs (EUR +0.2 mln due to growth in the workforce), while costs for other administrative expenses and amortisation and depreciation were substantially equivalent to the levels in 1Q18, despite increased operations in terms of customers (approximately +100 thousand customers compared to 1Q18), transactions, and products.

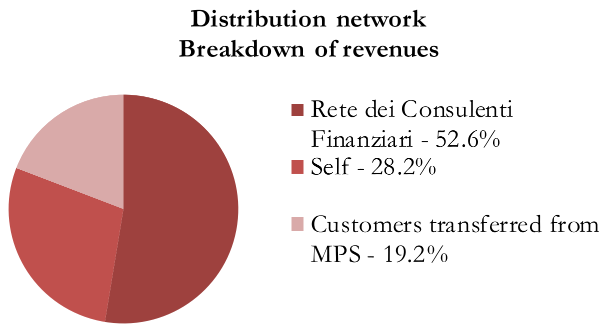
The **Gross Operating Income** therefore amounted to **EUR 0.8 mln**, up by EUR 0.2 mln compared to the previous year.

The trend in **Net Operating Income** was positive (EUR +0.4 mln), down by EUR -0.3 mln compared to 1Q18, also due to adjustments to loans of EUR -0.4 mln. Lastly, in consideration of the above-mentioned non-recurring component of Revenues in 1Q18, the Net Operating Income would have increased compared to the previous year.

WIDIBA BANK - PROFIT AND LOSS AGGREGATES

			Chg. Y/Y	
(EUR mln)	31/03/19	31/03/18	Abs.	%
Net interest income	*14.5*	*11.4*	*3.1*	*27.0%*
Net fee and commission income	*2.5*	*4.0*	*-1.4*	*-36.3%*
Other income	*(0.0)*	*0.9*	*-0.9*	*n.s.*
Other operating expenses/income	*(0.3)*	*(0.1)*	*-0.2*	*n.s.*
Total Income	**16.7**	**16.2**	**0.5**	**3.1%**
Operating expenses	*(15.9)*	*(15.6)*	*-0.3*	*2.1%*
Pre Provision Profit	**0.8**	**0.6**	**0.2**	**27.1%**
Net impairment losses (reversals) on loans and financial assets	(0.4)	(0.0)	-0.4	n.s.
Net Operating Income	**0.4**	**0.6**	**-0.3**	**-42.2%**

N.B.: The Group has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 16, thus the figures for 2018 are not fully comparable.



Corporate Centre

The Corporate Centre includes:

- head office units, particularly with regard to governance and support functions, proprietary finance, the 'asset centre' of divisionalised entities, which comprises in particular: asset and liability management, treasury and capital management;
- business service and support units, particularly with regard to the development and management of information systems of the Consorzio Operativo di Gruppo (Group Operational Consortium) and the management of bad debt collection.

In addition to cancellation of intragroup entries, the Corporate Centre also collects the results of companies consolidated by the equity method and those in the process of being disposed, as well as the results of operational branches that are individually below the minimum parameters for external disclosure requirements.

Prospects and outlook on operations

Based on the information available to date, regarding the outlook for operations, during the next few months of 2019, the following is expected:

- the departure of an additional 100 resources in the first half of the year, through the activation of the Solidarity Fund (in addition to the 650 departures as at 31 March 2019);

- the closing of the sale of Banca Monte Paschi Belgio S.A.;

- the closure of around 100 branches of the Italian network;

- the implementation of the merger by incorporation of Perimetro S.p.A. into Banca Monte dei Paschi di Siena S.p.A.;

- the closing of the disposal of leasing bad loans for approx. EUR 0.5 bn (which will be added to the first tranche of approx. EUR 0.4 bn concluded in the first quarter) and the continuation of the plan for the assignment of loans classified as unlikely to pay, in line with the schedule.

DECLARATION OF THE FINANCIAL REPORTING OFFICER

Pursuant to para. 2, article 154-bis of the Consolidated Law on Finance, the Financial Reporting Officer, Mr. Nicola Massimo Clarelli, declares that the accounting information contained in this Interim Report on Operations as at 31 March 2019 corresponds to the underlying documentary evidence and accounting records.

Siena, 9 May 2019

Signed by the

The Financial Reporting Officer

Nicola Massimo Clarelli