MONTE DEI PASCHI DI SIENA BANK

Consolidated Interim Report as at 31 March 2018

MONTE DEI PASCHI DI SIENA
BANK SINCE 1472

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

Interim Report on Operations
Monte dei Paschi di Siena Group
31 March 2018

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

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

Registered with the 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

The Interim Report on Operations as at 31 March 2018, 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 2018, both as a whole and in the various business lines into which consolidated operations are carried out.

In particular, economic and financial indicators, based on accounting data, are those used in internal performance management and management reporting systems, and are consistent with the most commonly used metrics within the banking industry, thereby ensuring the comparability of presented figures.

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obligation for listed companies to publish interim reports on operations (as at 31 March and as at 30 September) was repealed, allowing issuers to decide on a voluntary basis whether to disclose periodic financial information in addition to the annual and half-yearly reports.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.

Results in brief

Economic and financial indicators, based on accounting data, are those used in internal performance management and management reporting systems, and are consistent with the most commonly used metrics within the banking industry, thereby ensuring the comparability of presented 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 contains the definitions and calculation methods of alternative performance measures.

CONSOLIDATED REPORT ON OPERATIONS
Highlights at 31/03/2018

INCOME STATEMENT AND BALANCE SHEET FIGURES

MPS GROUP

INCOME STATEMENT FIGURES	31/03/18	31/03/17 *	Chg.
Net interest income	421.5	457.4	-7.9%
Net fee and commission income	406.5	426.3	-4.6%
Other operating income	48.8	49.5	-1.4%
Total Revenues	876.8	933.2	-6.0%
Net impairment losses (reversals) on loans at amortised cost and financial assets	(137.9)	(309.1)	-55.4%
Net operating income	166.1	(3.5)	n.s.
Net profit (loss) for the period	187.6	(169.2)	n.s.
EARNING PER SHARE (EUR)	**31/03/18**	**31/03/17 ***	**Chg.**
Basic earnings per share	0.170	(5.770)	n.s.
Diluted earnings per share	0.170	(5.770)	n.s.
BALANCE SHEET FIGURES AND INDICATORS	**31/03/18**	**31/12/17 ***	**Chg.**
Total assets	136,771.8	139,154.2	-1.7%
Loans to customers	89,320.4	86,456.3	3.3%
Direct funding	97,856.8	97,801.8	0.1%
Indirect funding	95,329.2	95,845.7	-0.5%
of which: assets under management	58,309.7	58,599.4	-0.5%
of which: assets under custody	37,019.5	37,246.3	-0.6%
Group net equity	9,298.3	10,429.1	-10.8%
OPERATING STRUCTURE	**31/03/18**	**31/12/17 ***	**Chg.**
Total headcount - end of period	23,423	23,463	-40
Number of branches in Italy	1,597	1,745	-148

* *The Group has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9. Therefore, 2017 Fiscal Year values, determined in accordance with IAS 39, are not fully comparable.*

CONSOLIDATED REPORT ON OPERATIONS
Highlights at 31/03/2018

ALTERNATIVE PERFORMANCE MEASURES

MPS GROUP

PROFITABILITY RATIOS (%)	31/03/18	31/12/17 *	Chg.
Cost/Income ratio	65.3	63.2	2.1
R.O.E. (on average equity)	7.6	-41.6	49.2
Return on Assets (RoA) ratio	0.5	-2.5	3.00
ROTE (Return on tangible equity)	7.6	-41.6	49.2

* *The Group has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9. Therefore, 2017 Fiscal Year values, determined in accordance with IAS 39, are not fully comparable.*

The following creditt quality ratios include the share of portfolio classified as assets held for sale (both in Non-performing loans and in Loans to Customers), mainly relating to the transfer, by means of securitisation, of a set of credit exposures classified as bad loans, yet to be derecognised. Said transaction is part of the activities defined in the Restructuring Plan approved by the European Commission on 4 July 2017.

KEY CREDIT QUALITY RATIOS (%)	31/03/18	31/12/17 *	Chg.
Net non-performing loans / Loans to Customers	14,1	16,3	-2,2
Coverage non-performing loans	68,8	65,5	3,3
Net doubtful loans / Loans to Customers	7,4	8,3	-0,9
Stage 2 loans to customers at amortised cost/Performing loans to customers at amortised cost	20,5	n.d.	
Coverage doubtful loans	77,6	75,7	1,9
Net impairment losses on loans at amortised cost/ Loans to Customers at amortised cost (Provisioning)	0,6	5,8	-5,2
Texas Ratio	111,1	112,2	-1,1

* *The Group has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9. Therefore, 2017 Fiscal Year values, determined in accordance with IAS 39, are not fully comparable.*

The following asset quality ratios do not include the share of portfolio classified as assets held for sale:

KEY CREDIT QUALITY RATIOS (%)	31/03/18	31/12/17 *	Chg.
Net non-performing loans / Loans to Customers	9.9	12.0	-2.1
Coverage non-performing loans	55.5	48.5	7.0
Net doubtful loans / Loans to Customers	3.0	3.6	-0.6
Stage 2 loans to customers at amortised cost/Performing loans to customers at amortised cost	20.5	n.d.	
Coverage doubtful loans	69.3	62.5	6.8
Net impairment losses on loans at amortised cost/ Loans to Customers at amortised cost (Provisioning)	0.6	1.7	-1.1
Texas Ratio	99.4	101.0	-1.6

* *The Group has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9. Therefore, 2017 Fiscal Year values, determined in accordance with IAS 39, are not fully comparable.*

Cost/Income ratio: ratio between Operating Expenses (Administrative Expenses and Net adjustments on 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.

Net impairment losses on loans to customers at amortised cost/Loans to customers at amortised cost (Provisioning): ratio between annualised Net impairment losses on loans to customers at amortised cost and loans to customers at amortised cost.

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

CONSOLIDATED REPORT ON OPERATIONS
Highlights at 31/03/2018

REGULATORY MEASURES

MPS GROUP

CAPITAL RATIOS (%)	31/03/18	31/12/17 *	Chg.
Common Equity Tier 1 (CET1) ratio	14.4	14.8	-0.4
Total Capital ratio	15.8	15.0	0.8
FINANCIAL LEVERAGE INDEX (5)	**31/03/18**	**31/12/17 ***	**Chg.**
Leverage ratio - Transitional Phase	5.7	6.0	-0.3
LIQUIDITY RATIO (%)	**31/03/18**	**31/12/17 ***	**Chg.**
LCR	195.7	199.5	-3.8
NSFR	106.0	110.0	-4.0
Encumbered asset ratio [1]	33.4	33.5	-0.1
Counterbalancing capacity	19.6	21.1	-1.5

* *The Group has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9. Therefore, 2017 Fiscal Year values, determined in accordance with IAS 39, are not fully comparable.*

[1] Ratio between carrying amount of encumbered assets and collateral and total assets and collateral (Annex XVII, section 1.6, point 9, of Regulation (EU) 2015/79).

Executive summary

Changes in the key items of the Group's main aggregates recorded at 31 March 2018 are summarised below:

- The Group recorded **Total revenues** of **EUR 877 mln**, down by 6.0% compared to the same period of the previous year, due to the downturn in Net interest income and Net fee and commission income, only partially offset by the increase in the Net profit (loss) from trading and financial assets/liabilities measured at fair value through profit and loss. **Net interest income**, which amounted to approximately **EUR 421 mln** (-7.9% Y/Y), suffered above all from the negative performance of interest-bearing assets, particularly commercial lending (decrease in average volumes and decline in the relative returns), the trend of which was only partially attenuated by the lower negative interests resulting from the decreased cost of commercial funding and the reimbursement of more expensive bonds (some of which subject to burden-sharing measures). **Net fees and commissions**, totalling approximately **EUR 407 mln** as at 31 March 2018, recorded a 4.6% decline compared to the previous year, mainly impacted by lower income from payment services following the disposal of the merchant acquiring business on 30 June 2017. Within other revenues, the **Net profit (loss) from trading and financial assets/liabilities measured at fair value through profit and loss** for the period totalled around **EUR 37 mln**, up from the same period of the previous year (EUR 25 mln), due to higher profits from disposals/repurchases of securities.

- **Operating Expenses** amounted to **EUR 573 mln** (-8.7% Y/Y). **Personnel Expenses**, which totalled **EUR 368 mln**, declined year on year by 9.0%, mainly as a result of the headcount reduction brought about by the Solidarity Fund exits of roughly 600 individuals on 1 May 2017 and of 1,200 individuals on 1 November 2017. **Other Administrative Expenses** in 2018 amounted to about **EUR 148 mln**, down by 11.2% compared to the same period of the previous year thanks to continuous structural cost control measures. **Net adjustments to (recoveries on) property, plant and equipment / Net adjustments to (recoveries on) intangible assets** amounted to **EUR 57 mln,** stable compared to the same period of the previous year, despite the higher write-downs made on property, plant and equipment (impairment of land and buildings for EUR 6 mln, +EUR 3 mln from the same period of the previous year).

- **Net impairment (losses)/reversals on financial assets measured at amortised cost and at fair value with an impact on comprehensive income** amounted to approximately **EUR 138 mln**, down EUR 171 mln from the same period of the previous year (-55.4%). The ratio of net impairment losses on loans to total Loans to Customers as at 31 March 2018 shows a **Provisioning Rate** of **61 bps**. With regard to **Net provisions for risks and charges relating to commitments and guarantees given**, an overall recovery of **EUR 45 mln** was recorded, against EUR 6 mln recorded in the same period of 2017, mainly due to the revaluation of the commitment made to cover the hedging costs met by the SPV for the disposal of bad loans in accordance with the binding agreement signed on 26 June 2017 with Quaestio, to be borne by the transferor.
- As a result of the trend of the above-mentioned economic aggregates and also considering the partial reassessment of DTAs from tax losses (EUR +77 mln), accrued but not recognised in previous years, the Group recorded a **profit of EUR 188 mln** at 31 March 2018, against a loss of EUR 169 mln recorded in March 2017.

- **Total Funding** at the end of March 2018 amounted to approximately **EUR 193.2 bn**, with a decline in volumes of about EUR 13.2 bn from 31 March 2017, owing mainly to the decrease in the direct component, which was impacted by the effects of the burden-sharing measures on bonds and the decrease in repurchase agreements with institutional counterparties. Down by EUR 0.5 bn compared to 31 December 2017.

- As at 31 March 2018, **Loans to Customers** amounted to **EUR 89.3 bn**, down EUR 13.1 bn compared to 31 March 2017. The yearly decline in the aggregate was concentrated on non-performing exposures, due to both higher impairments recognised in 2017 on the loans to be transferred following an adjustment to their recoverable value and to the reclassification of transferred loans to balance sheet item "Other assets" (item 120 "Non-current assets held for sale and discontinued operations"). Up from 31 December 2017 by around EUR 2.9 bn, mainly on the repurchase agreement components. Non-performing exposures decreased during the quarter (EUR -1.9 bn).

- **The Group's net exposure to non-performing exposures**, which includes all cash exposures regardless of which accounting portfolio they belong to, with the exception of UCITS, financial assets held for trading and hedging derivatives, stood at **EUR 8.9 bn** at the end of March 2018 (EUR -1.4 bn since the beginning of the year). Including the transferred portfolio, the value stood at EUR 13.3 bn (EUR -1.5 bn since the beginning of the year), with a decline in the share of net bad loans (from 8.3% in December 2017 to 7.4% as at 31 March 2018) and unlikely-to-pay loans (from 7.6% in December 2017 to 6.4% as at 31 March 2018), and substantially stable Past Due Exposures. Coverage of non-performing exposures, including the transferred portfolio, was 68.8%, up by more than 320 bps compared to 31 December 2017 (net of this portfolio, the percentage would have been 55.5%). Coverage of Doubtful loans rose from 75.7% in December 2017 to 77.6% in March 2018 (69.3% net of the transferred portfolio).
- With regard to capital ratios, as at 31 March 2018 the **Common Equity Tier 1 Ratio** stood at **14.4%** (14.8% at the end of 2017) and the **Total Capital Ratio** at **15.8%**, compared to 15.0% recorded at the end of December 2017.
- As at 31 March 2018, the operational liquidity position showed an **unencumbered Counterbalancing Capacity** of **EUR 19.6 bn**, down (approximately EUR -1.5 bn) from 31 December 2017. This performance is mainly due to the maturity of a tranche of Government-guaranteed bond issues.

Shareholders

As at 31 March 2018, 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 communications received pursuant to the applicable legislation and to other available information, including data available on the CONSOB institutional website, entities that, as at 31 March 2018, directly and/or indirectly hold ordinary shares representing a shareholding exceeding 3% of the share capital of the Issuer, and that are not exempted under art. 119-bis of the Issuers' Regulation, are the following:

Shareholder	% of Outstanding Ordinary Shares
Ministry of Economy and Finance	68.247%
Assicurazioni Generali*	4.319%
BMPS S.p.A.**	3.181%

*Shares held directly and through subsidiary companies

** Treasury shares held by the MPS Group following the capital strengthening measures pursuant to Law Decree no. 237/2016 (as subsequently amended and converted into law) and to the Ministerial decree of 27/07/2017

Information on the BMPS share

Share price and trends

In the first quarter of 2018, the main global share indices reported negative performance. After a positive start to January, from February, the share markets underwent a correction phase which increased volatility. The increase in global economic activity continued to be lively and widespread, although the international scenario was characterised by fears linked to a revision of monetary policies, with the gradually less expansive policies, towards a normalisation of interest rates, and to risks that the development of international trade, which is sustaining this growth phase, could be exposed to, due to the recent introduction of customs duties on imports of raw material by the US Government. Furthermore, there are still some risks associated with political uncertainty, such as the Brexit negotiation process, as well as the recent results of the Italian elections and geopolitical tensions in the Middle East.

The first quarter of 2018 therefore closed with the main share indices reporting negative figures, the S&P 500 and the Nikkei at -1.2% and -5.8% respectively; the European share indices also reported negative performance (Frankfurt -6.4%, Paris -2.7%, Madrid -4.4%, and London -8.2%). The best performance was recorded by the Milan stock exchange, which closed at +2.6%, a trend which should also been considered with relation to the performance of Italian banks (FTSE IT Banks +7.1%).

The BMPS share was readmitted to Stock market trading in the fourth quarter of 2017 (Consob resolution no. 20167, with readmission of the share to the Stock market from 25 October 2017), however, it is still excluded from the indices insofar as any readmission to the same may be reconsidered only after a period of 12 months following its exclusion, therefore for the BPMS share, this reconsideration can only take place after the month of March 2018.

In the first quarter of 2018, the share posted a negative performance of -34.3% (closing the quarter at EUR 2.57), with an average daily trading volume of approximately 1.8 million shares.

BMPS SHARE PRICE: STATISTICAL SUMMARY (from 31/12/2017 to 31/12/2018)	
Average	3.44
Lowest	2.48
Highest	4.02

Ratings

The ratings assigned by the rating agencies as at 31 March 2018 are provided below:

Rating Agencies	Short-term debt	Outlook	Long-term debt	Outlook	Last update
DBRS	R-4	Stable	B (High)	Stable	23/08/17
Fitch Ratings	B	-	B	Stable	11/08/17
Moody's Investors Service	NP	-	B3	Negative	12/07/17

- On 23 August 2017, the rating agency DBRS raised the long-term rating to "B (high)" from "B (low)" and the short-term rating to "R-4" from "R-5", changing the outlook from 'Under Review Developing' to 'Stable'.
- On 11 August 2017, the Fitch rating agency reduced to "f" and then raised to "b" the Bank's viability rating, increased the long-term rating to "B" with a "Stable" outlook from "Rating Watch Evolving" and confirmed the short-term rating as a "B", removing the "Rating Watch Negative" designation.
- On 12 July 2017, the Moody's rating agency increased the BCA (Baseline Credit Assessment) rating to "caa1" from "ca" and confirmed the long-term rating at "B3". The long-term rating outlook was shifted to "Negative" from "Under Review with Direction Uncertain".

Reference context

The expansion of the global economy continued in 2017, with a rise of global GDP of 3.7% and with growth rates higher than their potential in various areas. In the eurozone, GDP rose by 2.5%, the highest growth rate in ten years, while the US economy reported 2.3%; growth was lower in Japan and the United Kingdom (1.7% for both). The figures available to date for the first quarter of this year, which can be inferred by business and confidence indicators, show a certain slowdown in all advanced economies. In the eurozone, the SME indices, although still high in absolute terms, fell in February and March with respect to the record levels recorded in the previous months. As regards inflation, the first few months of 2018 saw a continuation of a climate of low price pressure, which characterised last year. The main element of concern that emerged during the quarter was and continues to be the new commercial policy of the USA which, during the quarter, launched a series of tariffs on imports of aluminium and steel and on a series of products imported from China, worth a total of $50 bn.

Italy grew at a faster pace than the post-crisis period, with a rise in GDP of 1.5%, higher than its potential, but decidedly lower than that recorded in the main other advanced economies. Also in Italy, expectations for the first quarter suggest a slight slowdown on the growth rate, with the next quarters conditioned by the global macroeconomic climate and by the possible repercussions of the uncertainty caused by the ambiguous result of the political elections held at the beginning of March. In terms of public finances, the latest figures released by ISTAT, which take the data of Eurostat on the contribution of banking industry interventions into account, show a net indebtedness to GDP ratio of 2.3% in 2017, down against 2.5% in 2016 and a debt/GDP ratio of 131.8%, slightly down against last year.

As regards the financial markets, the year began with continuing excellent performance of the share markets. Nevertheless, towards the end of January, and for the first ten days of February, a corrective episode was recorded accompanied by a market increase in volatility. The decline brought the S&P 500 into correction territory, with a fall from the previous peak exceeding 10%, and caused a decided deterioration of market sentiment. The quarter closed with a fall of 1.2% for the S&P 500 and 3% for Eurostoxx. The FTSEMIB closed on a positive note, with a rise of 2.6%. Bond yields reflected the performance of the share markets, increasing initially and then falling again, bringing the yield on ten-year bonds to just under 0.50% for the bund and just under 1.80% for the BTP at the end of the quarter.

During the quarter, the most important monetary policy measures of the main Central Banks were the rise of official interest rates by the FED, which brought the rate on FED Funds to 1.50-1.75% and the elimination of the so-called easing bias regarding the ECB securities purchase programme by the ECB. More specifically, the ECB eliminated the reference in its press release to the possibility that the programme may be increased from the current Euro 30 bn of purchases per month or extended beyond the expiry of September 2018 if the macroeconomic scenario should deteriorate.

Significant events in the first three months of 2018

On **11 January 2018**, the Parent Company successfully concluded the issue of a fixed-rate Tier 2 subordinated bond with 10-year maturity (redeemable in advance starting from the fifth year at the issuer's option, subject to regulatory approval), for EUR 750 million. The bond, issued at par, envisages a coupon payment at a fixed rate of 5.375%, equivalent to a spread of 500.5 basis points above the 5-year swap rate. As confirmation of the return of market interest in Montepaschi Group with this subordinated issue, the transaction saw demand for more than EUR 2.7 billion - 3.6 times higher than the offer - from approximately 250 institutional investors. The geographic distribution of the bond allocation was as follows: United Kingdom (52%), Italy (25%), Germany, Austria and Switzerland (9%), Nordic countries (3%), France (2%), BeneLux (2%), Spain and Portugal (1%), Asia (1%), and others (5%). The allocation by investor type was instead as follows: fund managers (52%), hedge funds (29%), banks and private banks (15%), insurance companies (3%), and others (1%). The bond, which is reserved for institutional investors, is listed on the Luxembourg stock exchange. The ratings of the bond are CCC+ (Fitch) and Caa2 (Moody's). Goldman Sachs International and Mediobanca acted as Global coordinator and Joint bookrunner; Bank of America Merrill Lynch, Barclays, JP Morgan, MPS Capital Services and UBS as Joint bookrunners.

On **16 February 2018**, Cerved Credit Management, indirectly controlled by Cerved, signed special servicing agreements with Credito Fondiario, by virtue of its role as master servicer, of around Eur 14.5 bn of doubtful loans originated by the Monte dei Paschi di Siena Group and securitised by the SPE Siena NPL 2018. The special servicing activities envisaged by the agreement will be initially assigned to Cerved Credit Management and will then be managed by Juliet, a company that will be transferred from Banca Monte Paschi di Siena to the industrial partnership established by Quaestio Holding and Cerved Group, as already anticipated by the company at the beginning of August and in mid-October, as soon as it has been acquired and is operational. In any event, the acquisition needs the approval of the supervisory authority.

Significant events after the 1st quarter of 2018

On **17 April 2018**, the Parent Company launched a new organisational structure, making some changes to the management team with a view to a gradual generational renewal and the enhancement of internal resources. The aim of new structure is to support the overall relaunch of the Bank, which will have a strong focus on the local areas and on innovation, seeking to enhance management and boost business development. More specifically, a new Network Division has been created to directly support the CCO, which will oversee the sales network of MPS through 5 regional areas, concentrating on sales coordination with a strong focus on customer needs. Adopting an approach that seeks to focus increasingly on the technological innovation and the digitalisation of the Group's product range, Widiba, the Group's online network bank, and the Consorzio Operativo di Gruppo (Group Operational Consortium) now report directly to the Chief Executive Officer of Banca MPS, focusing on the Bank's digitalisation process, to bring it to the highest market standards.

On **4 May 2018**, the Parent Company, Cerved Group SpA ("Cerved") and Quaestio Holding SA ("Quaestio") announced that the conditions precedent for the conclusion of the transaction to purchase the doubtful loans recovery platform ("Juliet") of the Parent Company by a company established ad hoc by Cerved and Quaestio, had been fulfilled. As indicated in a joint press release on 2 August 2017, the closing of the transaction was subject to several conditions, including the approval of the supervisory authority, as well as the completion of the precautionary recapitalisation procedure set forth in the restructuring plan and the securitisation of the doubtful loans of BMPS, with the subscription of mezzanine notes by funds managed by Quaestio. Given that these conditions have been fulfilled, the Parent Company, Cerved and Quaestio embarked on the process to finalise the transaction by the end of May 2018.

On **4 May**, the Parent Company announced that it had received the resignation of Giuseppina Capaldo from the position of Director, for professional reasons. On **10 May**, the Parent Company completed the securitisation process for the disposal of a portfolio of EUR 24.1 bn of doubtful loans and obtained an investment grade rating for the senior tranche.

This transaction highlights progress towards achieving the objectives of the Parent Company's Restructuring Plan announced on 5 July 2017; in fact, the doubtful loan disposal process is proceeding in line with the envisaged timing.

The securitisation vehicle pursuant to Italian law 130/99, which purchased the Parent Company's portfolio of doubtful loans, issued the following securities (ABS - Asset Backed Securities):

- Senior notes amounting to EUR 2,918 mln, assigned a rating of A3/BBB+/BBB by Moodys, Scope Rating and DBRS respectively; the notes, which will be assisted by GACS, will be initially held by BMPS, which will then assess the disposal of a share on the market. The tranching of the senior "investment grade" notes was above the expectations of the Restructuring Plan, which had envisaged a class of "non-investment grade" notes of around EUR 500 mln, which will therefore not be issued.
- Mezzanine notes amounting to EUR 847.6 mln, without any rating and already sold to the Italian Recovery Fund (former Atlante II) managed by Quaestio Capital SGR on 22 December 2017.
- Junior notes amounting to around EUR 565 mln, without any rating, which will be sold to the Italian Recovery Fund once the GACS guarantees have been obtained for the senior notes.

The GACS guarantees on the senior notes are expected to be obtained in the next few weeks, while the deconsolidation of the doubtful loans portfolio is envisaged by 30 June 2018, following the disposal of the junior notes to the Italian Recovery Fund. The economic impact of the securitisation was fully recognised in the interim report as at 30 June 2017.

The senior notes will have a coupon of 3ME + 1.5%, incorporating the premium due to the MEF for the guarantee awarded to these notes in the structure of the same.

The transaction was structured by the team of Deutsche Bank, MPS Capital Services, Mediobanca Banca di Credito Finanziario and JPMorgan as Lead Arrangers; by the team of HSBC and Credit Suisse as co-Arrangers. Deutsche Bank, MPS Capital Services, Mediobanca, JPMorgan, HSBC and Credit Suisse will act as Placement Agents.

The Parent Company has appointed Credito Fondiario as the Master Servicer of the securitised portfolio, while Cerved/Juliet, Italfondiario, Prelios and again Credito Fondiario have been appointed Special Servicers of the securitised portfolio, with the task of recovering the receivables over the entire duration of the transaction.

The press releases on the ratings assigned by DBRS Ratings Limited, Moody's Investor Services and Scope Rating Ratings GmbH are available on the websites of these agencies.

Strategy

For further details of the Restructuring Plan approved on 4 July 2017 by the European Commission, please refer to the “Strategy” section of the 2017 Consolidated Financial Statements.

The Restructuring Plan is subject to formal monitoring by the European Commission, through a Monitoring Trustee (the Bank confirmed Degroof Petercam Finance, with the favourable opinion of DG Comp). It should be noted that the second monitoring has been carried out with reference to the data as at 31 December 2017, specifying that, as regards to the verification of compliance with commitments, this assumes formal relevance only when specific deadlines are agreed upon with the European Commission.

With reference to the Restructuring Plan, the Bank has continued with the process of relaunching its commercial business and implementing the various operational policies.

As regards the Retail area, efforts continue to simplify the service model and maximise the value proposition, with a view, above all, to meet the credit requirements of Mass customers and the intercept the investment needs of Affluent customers, where the banking relationship is characterised by a high level of digitalisation, with regard to which the migration of cash transactions to remote channels and ATMs and the release of new dedicated services is being implemented rapidly. With regard to Small Business customers, the new service model is based on a simplification of the offer and continuous attention focused on the granting of loans and the associated risks.

An increasing focus is being directed towards Private customers, where we expect new relationships to be formed and existing ones to be recovered by:

- focusing on an advisory approach, by setting up dedicated advisory centres, to identify high value investment solutions, by virtue of a wide and diversified range of solutions and services in an open architecture;
- developing synergies with other segments (i.e. Private-Corporate cross selling) to extend the customer base and increase assets;
- developing the service model by means of a plan to revise the regional footprint, seeking to attract customers to recover the Bank’s multitouch relationship with the Customer and to technologically update sales processes.

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; the transfer of a part of customers from BPMS is part of this plan. At present, the transaction has regarded around 46,000 retail customers, the behavioural profile of whom indicates an interest in self banking, and who are compatible with the products included in the Bank’s current and future range.

Efforts are underway to revise the business model in the Corporate Segment, which envisage, in particular, a review of the sales coverage model, with a view to: i) improving the level of service provided to customers, ii) rationalising the structures overseeing the relationship and iii) increasing the profitability and consolidating projects with a high impact on digitalisation, which regard above all front-end and internet banking platforms.

With regard to the new operating model and the greater efficiency expected:

- the migration of cash transactions to cash-in ATMs is underway, at the same time increasing the number of cash-light branches (cash desks closed in the afternoon), which enables «sales time to be recovered». At the moment there are 316 cash-light branches and the programme envisages extending this to additional branches through the «Banca Più» programme. Administrative activities are being transferred (operating support being activated) from the branches to specialist centres, at the same time freeing up resources for a training programme. The Bank has 2,756 ATMs, of which around 1,000 feature the cash-in function. Since 2017, we have sought to intensify the installation of evolved ATMs (around 400 new installations), to enable customers to operate autonomously not just for inquiry and withdrawal transactions, but also for paying in and order transactions (paying bills, bank transfers, topping up mobile phones and prepaid cards etc.);

- the new Network Governance model was implemented at the end of February 2018. This manoeuvre envisages reducing the sales governance structures (Regional Areas) from 6 to 5, centralising the middle office to General Management, eliminating an intermediate organisational level with a view to simplification, and creating specialist Regional Divisions for individual markets. The distribution network had been further rationalised through the closure of a further 148 branches (in the first quarter);
- as regards digitalisation, the Bank currently has 1.5 million internet banking customers, of which around 900 thousand customers already use the renewed Digital Banking platform. In the coming months, these customers will also be able to use 'online' options to open a current account, request a debit card and obtain a mortgage loan (simulation, proposal and digital document exchange).

In accordance with the provisions of the Restructuring Plan, initiatives that seek to improve the credit risk profile have continued, which have included:

- establishing new credit policy guidelines for 2018 (Italy and Abroad) and studying, designing and rolling out new credit standards, namely the rules to comply with during the origination stage of the credit portfolio;
- updating the "credit algorithms" (so-called Score Engines) to support decision-making mechanisms for the disbursement of small scale loans to the sphere of Private and Small Business customers, in line with the best practices of the system and the new credit standards of Banca MPS;
- continuing with the programmes to dispose of/reduce the portfolio of Unlikely To Pay exposures by means of a set programme of transactions for a total residual amount in the two-year period 2018-2019 of EUR 3.5 bn (EUR 1.5 bn in 2018 and EUR 2.0 bn in 2019);
- launching the divestment and deconsolidation transactions, with a specific disposal plan to be finalised by the end of 2018, for doubtful loans totalling around EUR 2.5 bn, represented by receivables resulting from lease agreements and by receivables for contained single amounts (under EUR 0.15 mln).

The doubtful loan disposal transaction

For further details on the doubtful loan disposal transaction, refer to the 2017 Consolidated Financial Statements.

With respect to 31 December 2017, note that also as regards the third sub-portfolio, whose disposal was subject to a condition precedent, said condition was not fulfilled and therefore the same was not sold to the securitisation vehicle.

Furthermore, following the investment grade rating received from the rating agencies, which was better than expected, a re-tranching of the Senior A1 and A2 notes was performed, uniting them in a single Senior A tranche, whose notional amount was EUR 2,918 mln, corresponding to the sum of the original notional amounts of the A1 and A2 tranches, net or the amortisation of the amounts collected as at 30 April 2018. The tranche of senior notes, on which GACS will be obtained, has been assigned an investment grade rating from the three rating agencies; the senior notes will be initially held by the Bank, which will then assess their disposal of a share on the market. The deconsolidation of the portfolio will be made by June 2018, following the sale of the junior notes to the Italian Recovery Fund.

Explanatory Notes

The Montepaschi Group Consolidated Interim Report on Operations as at 31 March 2018 was prepared in accordance with the IAS/IFRS international accounting principles issued by the International Accounting Standards Board (IASB) including 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.

The international accounting principles were applied following the indications set forth in the "Framework for the preparation and presentation of financial statements" (the Framework), a new version of which is being endorsed.

The accounting standards adopted for the preparation of this interim consolidated report on operations as at 31 March 2018 are unchanged with respect to the consolidated financial statements as at 31 December 2017, to which reference should be made for greater detail, with the exception of the entry into force of IFRS 9 (endorsed by the European Commission on 22 November 2016 with Regulation no. 2016/2067), to replace IAS 39 and IFRS 15 (endorsed by the European Commission on 9 November 2017 with Regulation 2017/1987), to replace IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31.

IFRS 9 "Financial Instruments" changes the classification and the measurement of financial assets and liabilities, envisages a single impairment model and introduces new rules for head accounting.

With regard to IFRS 9, in the 2017 Financial Statements, the Group already exercised the option to separately apply the rules relating to the accounting treatment of profits/losses relating to its credit rating of liabilities under the Fair Value Option (FVO) and, as regards the recognition of hedging transactions, it exercised the option envisaged by the standard (IFRS 9 7.2.21), to continue to apply the provisions set forth in IAS 39.

The Group also relied on the right not to restate like-for-like comparative data. The balance sheet and income statement balances relating to 2017 were conventionally restated on the basis of the new items of IFRS 9 of the 5th update of Circular no. 262 of the Bank of Italy. The comparative data for several items are not comparable by virtue of the conventional assumptions and the different measurement criteria.

Standard IFRS 15 "Revenue from contracts with customers" introduces a new model for the recognition of these revenues. For first-time application, the Group opted for the "Cumulative Effect Method", which envisages:

- the recognition of the cumulative effect in reserves of profit on the date of first-time application, without making any restatement for the comparative periods presented;
- the retrospective application of only contracts that have not yet been completed (brought to term) on the date of first-time application;
- the availability of certain practical expedients to simplify first-time application.

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

On 12 September 2016, the IASB published the amendment to IFRS 4 entitled "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts", later endorsed by the European Commission with Regulation no. 2017/1988 on 9 November 2018, the amendments to which took effect on 1 January 2018. On this matter, note that the Group's insurance associates will apply the "deferral approach", an exemption from the application of IFRS 9 until 2021.

Furthermore, the following apply as of 1 January 2018, without any significant impact on the Group:

- IFRIC 22 "Foreign currency transaction and advance consideration", which clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency;
- IFRS 2 "Classification and Measurement of Share-based Payment Transactions", which provides guidance with particular reference to:
    - the effects of vesting conditions on the measurement of a share-based payment settled in cash;
    - the classification of share-based payment transactions characterised by net settlement for tax purposes;
    - the recognition of a change to the terms and conditions of a share-based payment, which changes the classification of the transactions from cash-settled to equity-settled;
- the Amendments set forth in the "Annual Improvements to IFRS Standards 2014-2016 Cycle", which regard:
    - IAS 28 "Investments in associates and joint ventures",
    - IFRS 1 "First-time adoption of International Financial Reporting Standards",
    - IFRS 12 "Disclosure of interests in other entities".

First Time Adoption of IFRS 9

On 1 January 2018, the new accounting standard IFRS 9 "Financial Instruments", which replaces IAS 39, came into effect. The aspect of macro hedging has not yet been addressed, as the IASB has decided to undertake an autonomous project on this matter.

The key innovations are briefly described below:

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

Classification and measurement of financial liabilities
It maintained the requirement for separate accounting of derivatives embedded in a financial host. For instruments other than derivatives, measurement of all fair value changes through profit or loss only applies to financial liabilities held for trading. For financial liabilities designated under the fair value option, the amount of change in the fair value that is attributable to changes in the credit risk of the liability, shall be presented directly in other comprehensive income, unless it creates or increases an accounting mismatch, in which case the entire change in fair value shall be presented within profit and loss. The amount that is recognised in other comprehensive income is not transferred from OCI to P&L ("recycled") when the liability is settled or extinguished. The standard allows for the rules governing the treatment of own credit quality on financial liabilities under the fair value option included in IFRS 9 to be applied in isolation. The Group has exercised this option, applying said rules in advance in 2017.

Impairment

The standard sets forth a single impairment model for all debt financial instruments not measured at FVTPL: financial assets measured at amortised cost, those measured at fair value through other comprehensive income, lease receivables and trade receivables. The prospective model requires the recognition of expected losses (ECL) on the financial instrument beginning from initial recognition in the financial statements. For purposes of impairment, IFRS 9 requires classification in three stages in increasing order of deterioration of credit quality. The first category includes financial instruments whose credit risk has not significantly increased with respect to their initial recognition in the financial statements. On exposures included in the first category, expected losses should be recognised on the basis of a 12-month time horizon. On the exposures included in the other two categories, lifetime expected losses should be recognised on the financial instrument.

Hedge accounting
Excluding macro hedges, for which IAS 39 remains in force, the standard tends to align the accounting presentation with risk management activities.

Overall, on first-time application of the standard, negative impacts totalling EUR 1,367 mln after tax were recognised under equity as at 1 January 2018.

The main effects are mostly due to the following cases:

- EUR -1,537 mln before tax for the application of the new impairment model, of which:
    - EUR -294 mln for performing cash exposures due mainly to the inclusion of lifetime expected losses on performing assets classified as stage 2 as a result of the significant increase of the borrower's credit risk with respect to that existing at the moment of initial recognition of the receivable in the financial statements;
    - EUR -1,201 mln for non-performing cash exposures, due mainly to the inclusion of the scenario of the sale of those portfolios whose disposal is envisaged;
    - EUR -42 mln for off-balance sheet exposures relating to commitments to disburse funds and guarantees given;
- EUR +23 mln as the effect of the measurement at fair value resulting from the reclassification of securities and receivables from "financial assets measured at amortised cost" to "financial assets designated at fair value through profit and loss, due to the fact that these financial instruments did not pass the SPPI test;
- EUR +154 mln as the effect of the measurement at amortised cost resulting from the reclassification of securities from "financial assets available for sale" (formerly IAS 39) to "financial assets measured at amortised cost" in line with the Group's business model, namely held to collect;
- EUR -2 mln resulting from taxes, of which EUR -50 mln relating to the effects recognised on valuation reserves and EUR +48 mln relating to the effects recognised on profit reserves, the latter mainly related to the probability test.

Also note that the Group opted i) to maintain the rules for the recognition of hedge accounting envisaged by IAS 39 and (ii) not to restate the comparative figures on a like-for-like basis in the year of first-time application of IFRS 9.

In addition, the deferral approach was applied to the Group's insurance associates which allows entities whose business is constituted to a predominant extent by insurance activities to rely on a temporary exemption from the application of IFRS 9 until 2021, the year in which IFRS 17 comes into force.

Going concern

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

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

Income statement and balance sheet reclassification principles

Reclassified income statement

a) Item "**Net interest income**" was cleared of the negative contribution (equal to EUR -4 mln) of the Purchase Price Allocation (PPA), which was reclassified to a specific item.

b) Item "**Dividends, similar income and gains (losses) on investments**" incorporates item 70 "Dividends and similar income" and a portion of item 250 "Gains (losses) on investments" (EUR 18 mln, corresponding to the contribution to profit and loss of profits from investments in the associate AXA, consolidated at equity). The aggregate was also cleared of dividends earned on equity securities other than equity investments (EUR 0.1 mln), reclassified to item "Net profit (loss) from trading and financial assets/liabilities".

c) Item "**Net profit (loss) from trading and financial assets/liabilities measured 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 and at fair value through other comprehensive income and ii) financial liabilities" and 110 "Net profit (loss) from financial assets and liabilities measured at fair value through profit and loss". In addition, the item incorporates dividends earned on equity securities other than equity investments (EUR 0.1 mln).

d) Item "**Other operating income (expense)**" includes the balance of income statement item 230 "Other operating expenses (income)" net of the recovery of stamp duties and client expenses, which are stated under the reclassified item "Other administrative expenses" (EUR 73 mln).

e) Income statement item "**Personnel expenses**" was increased due to the reclassification of EUR 14 mln to "Restructuring charges/One-off charges", essentially related to higher INPS recoveries with respect to the amount allocated to provisions for early retirement/solidarity fund manoeuvres set forth in prior agreements with trade union organisations.

f) 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 69 mln, resulting from EU DGSD and BRRD directives for the resolution of bank crises (posted under the reclassified item "Risks and charges associated with SRF, DGS and similar schemes");
   - DTA fees, convertible into tax credit, for an amount of EUR 18 mln (posted to the reclassified item "DTA fees");
   - extraordinary charges, relating to project initiatives partly aimed at complying with the commitments undertaken with DG Comp (among which the closing of domestic branches), for EUR 1.5 mln (stated under reclassified item "Restructuring costs/One-off charges").

   This item also incorporates stamp duty and client expenses recoveries (EUR 73 mln) posted in the balance sheet under item 220 "Other operating expenses/income".

g) Item "**Net value adjustments to tangible and intangible assets**" was cleared of the negative contribution (equal to EUR -6 mln) of the Purchase Price Allocation (PPA), which was reclassified to a specific item.

h) Item "**Net impairment losses (reversals) on financial assets measured at amortised cost**" includes balance sheet items 130a "Financial assets measured at amortised cost" and 140 "Modification gains (losses)".

i) Item "**Net provisions for risks and charges**" was cleared of extraordinary provisions, for EUR 30 mln, relating to corporate reorganisation initiatives stemming from commitments undertaken with DG Comp, which were allocated to the reclassified item "Restructuring costs/One-off charges".

j) Item "**Restructuring costs/One-off charges**" mainly encompasses the recoveries recognised by INPS for previous early retirement/solidarity fund manoeuvres (EUR 14 mln) and the charges relating to project initiatives partly aimed at complying with the commitments undertaken with DG Comp (for a total net amount of EUR 31 mln).

k) Item "**Risks and charges related to the SRF, DGS and similar schemes**" includes expenses deriving from the EU Deposit Guarantee Schemes Directive (DGSD) and the Bank Recovery and Resolution Directive (BRRD), posted in the financial statements under item 190b "Other administrative expenses". As at 31 March 2018, expenses related to the SRF (EUR 69 mln) were recognised.

l) 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.

m) Item "**Profits (losses) on equity investments**" includes the balance of balance sheet item 250 "Profits (losses) on equity investments", cleared of the amount contributed to profit and loss by investments in AXA, consolidated at equity and posted under the reclassified item "Dividends, similar income and gains (losses) on investments" (EUR 18 mln).

n) Item "**Tax expense (recovery) on income from continuing operations**" was 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.

o) 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 -4 mln and "**Net value adjustment to tangible and intangible assets**" for EUR -6 mln, net of a theoretical tax burden of EUR +3 mln which was added the item).

A conventional and simplified reclassification was carried out, exclusively for income statement figures referring to FY 2017, on the basis of the new IFRS9 items. In particular, amounts relating to former item 130d "**Net impairment losses (reversals) on other financial transactions**" were reclassified to item 200a "**Net provisions for risks and charges: commitments and guarantees issued**" (see annexes).

Reclassified balance sheet

a) 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".

b) Asset item "**Other assets**", includes balance sheet items 50 "Hedging derivatives", 60 "Value adjustments to financial assets subject to macro-hedging", 110 "Tax assets", 120 "Non-current assets held for sale and discontinued operations" and 130 "Other assets".

c) Liability item "**Deposits from customers and debt securities issued**", includes balance sheet items 10b "Financial liabilities measured at amortised cost - deposits from customers", 10c "Financial liabilities measured at amortised cost - Debt securities issued" and 30 "Financial liabilities measured at fair value".

d) Liability item "**Other liabilities**" includes balance sheet items 40 "Hedging derivatives", 50 "Value adjustments to financial assets subject to macro-hedging", 60 "Tax liabilities", 70 "Liabilities associated with discontinued operations" and 80 "Other liabilities".

A conventional and simplified reclassification was carried out, exclusively for balance sheet figures referring to FY 2017, on the basis of the new IFRS9 items. In particular, guarantees and commitments previously booked in item "**Other liabilities**" were reclassified to item 100a "**Provisions for risks and charges: commitments and guarantees given**" (see annexes).

Reclassified income statement

Reclassified Consolidated Income Statement				
	31/03/18	31 03 2017*	Change	
MPS GROUP			Abs.	%
Net interest income	421.5	457.4	(35.9)	-7.9%
Net fee and commission income	406.5	426.3	(19.8)	-4.6%
Income from banking activities	**828.0**	**883.7**	**(55.7)**	**-6.3%**
Dividends, similar income and gains (losses) on equity investments	18.1	20.5	(2.4)	-11.7%
Net profit (loss) from trading and financial assets/liabilities measured at fair value through profit and loss	37.4	24.5	12.8	52.3%
Net profit (loss) from hedging	1.1	0.2	0.9	n.s.
Other operating income (expenses)	(7.8)	4.3	(12.0)	n.s.
Total Revenues	**876.8**	**933.2**	**(56.4)**	**-6.0%**
Administrative expenses:	(515.7)	(570.9)	55.2	-9.7%
a) personnel expenses	(367.8)	(404.4)	36.6	-9.0%
b) other administrative expenses	(147.9)	(166.5)	18.6	-11.2%
Net adjustments to (recoveries on) property, plant and equipment / Net adjustments to (recoveries on) intangible assets	(57.1)	(56.6)	(0.4)	0.8%
Operating expenses	**(572.8)**	**(627.5)**	**54.8**	**-8.7%**
Pre Provision Profit	**304.0**	**305.6**	**(1.7)**	**-0.5%**
Net impairment losses (reversals) on:	**(137.9)**	**(309.1)**	**171.2**	**-55.4%**
a) financial assets measured at amortised cost	(137.1)	(308.2)	171.1	-55.5%
b) Financial assets measured at fair value through other comprehensive income	*(0.8)*	*(0.9)*	0.1	-11.1%
Net operating income	**166.1**	**(3.5)**	**169.5**	**n.s.**
Net provisions for risks and charges	52.6	(39.6)	92.2	n.s.
*of which commitments and guarantees issued***	*44.9*	*6.0*	*38.9*	*n.s.*
Gains (losses) on investments	(4.0)	(4.0)	(0.0)	0.8%
Restructuring costs / One-off costs	(17.0)	-	(17.0)	
Risks and charges related to the SRF, DGS and similar schemes	(69.0)	(63.4)	(5.6)	8.9%
DTA Fees	(17.7)	(18.0)	0.2	-1.3%
Gains (losses) on disposal of investments	0.3	(0.3)	0.6	n.s.
Profit (loss) before tax from continuing operations	**111.3**	**(128.6)**	**239.8**	**n.s.**
Tax expense (recovery) on income from continuing operations	83.3	(33.5)	116.9	n.s.
Profit (loss) after tax from continuing operations	**194.6**	**(162.1)**	**356.7**	**n.s.**
Net profit (loss) for the period including non-controlling interests	**194.6**	**(162.1)**	**356.7**	**n.s.**
Net profit (loss) attributable to non-controlling interests	-	-	-	n.s.
Profit (loss) for the period before PPA , impairment on goodwill and intangibles	**194.6**	**(162.1)**	**356.7**	**n.s.**
PPA (Purchase Price Allocation)	(7.0)	(7.1)	0.1	-1.5%
Net profit (loss) for the period	**187.6**	**(169.2)**	**356.8**	**n.s.**

** The Group has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9. Therefore, 2017 Fiscal Year values, determined in accordance with IAS 39, are not fully comparable.*

*** Item "Net provisions for risks and charges" encompasses, for the comparative figures, what was previously booked under "Net impairment losses (reversals): other transactions".*

Quarterly trend in reclassified consolidated income statement					
	2018	2017			
MPS GROUP	1°Q 2018	4°Q 2017*	3°Q 2017*	2°Q 2017*	1°Q 2017*
Net interest income	421.5	414.6	470.4	445.9	457.4
Net fee and commission income	406.5	363.3	355.7	431.2	426.3
Income from banking activities	**828.0**	**777.9**	**826.1**	**877.1**	**883.7**
Dividends, similar income and gains (losses) on equity investments	18.1	32.3	22.4	25.7	20.5
Net profit (loss) from trading and financial assets/liabilities measured at fair value through profit and loss	37.4	3.4	528.5	18.3	24.5
Net profit (loss) from hedging	1.1	0.8	(2.7)	(2.0)	0.2
Other operating income (expenses)	(7.8)	(12.0)	(3.9)	0.3	4.3
Total Revenues	**876.8**	**802.4**	**1,370.5**	**919.5**	**933.2**
Administrative expenses:	(515.7)	(579.4)	(561.1)	(568.2)	(570.9)
a) personnel expenses	(367.8)	(387.1)	(388.8)	(395.1)	(404.4)
b) other administrative expenses	(147.9)	(192.3)	(172.3)	(173.1)	(166.5)
Net adjustments to (recoveries on) property, plant and equipment / Net adjustments to (recoveries on) intangible assets	(57.1)	(71.1)	(64.7)	(70.9)	(56.6)
Operating expenses	**(572.8)**	**(650.5)**	**(625.8)**	**(639.1)**	**(627.5)**
Pre Provision Profit	**304.0**	**151.9**	**744.7**	**280.4**	**305.6**
Net impairment losses (reversals) on:	**(137.9)**	**(581.6)**	**(204.7)**	**(4,321.4)**	**(309.1)**
a) financial assets measured at amortised cost	*(137.1)*	*(551.7)*	*(175.0)*	*(4,288.8)*	*(308.2)*
b) Financial assets measured at fair value through other comprehensive income	*(0.8)*	*(29.9)*	*(29.7)*	*(32.6)*	*(0.9)*
Net operating income	**166.1**	**(429.7)**	**540.0**	**(4,041.0)**	**(3.5)**
Net provisions for risks and charges	52.6	(142.1)	(27.6)	(66.8)	(39.6)
*of which commitments and guarantees issued***	*44.9*	*24.0*	*(19.8)*	*(53.4)*	*6.0*
Gains (losses) on investments	(4.0)	8.9	(19.1)	0.2	(4.0)
Restructuring costs / One-off costs	(17.0)	(34.5)	(278.0)	(17.7)	-
Risks and charges related to the SRF, DGS and similar schemes	(69.0)	2.3	(31.2)	0.4	(63.4)
DTA Fees	(17.7)	(17.7)	(17.7)	(17.5)	(18.0)
Gains (losses) on disposal of investments	0.3	(2.3)	1.8	532.0	(0.3)
Profit (loss) before tax from continuing operations	**111.3**	**(615.2)**	**168.2**	**(3,610.6)**	**(128.6)**
Tax expense (recovery) on income from continuing operations	83.3	119.7	79.9	543.5	(33.5)
Profit (loss) after tax from continuing operations	**194.6**	**(495.5)**	**248.1**	**(3,067.1)**	**(162.1)**
Net profit (loss) for the period including non-controlling interests	**194.6**	**(495.5)**	**248.1**	**(3,067.1)**	**(162.1)**
Net profit (loss) attributable to non-controlling interests	-	(0.1)	0.1	(0.1)	-
Profit (loss) for the period before PPA , impairment on goodwill and intangibles	**194.6**	**(495.6)**	**248.0**	**(3,067.0)**	**(162.1)**
PPA (Purchase Price Allocation)	(7.0)	(6.0)	(6.1)	(6.4)	(7.1)
Net profit (loss) for the period	**187.6**	**(501.6)**	**241.9**	**(3,073.4)**	**(169.2)**

* *The Group has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9. Therefore, 2017 Fiscal Year values, determined in accordance with IAS 39, are not fully comparable.*

** *"Net provisions for risks and charges" encompasses, for the comparative figures, what was previously booked under "Net impairment losses (reversals): other transactions".*

Revenue trends

As at 31 March 2018, the Group recorded total **Revenues** of **EUR 877 mln**, down by 6.0% compared to the same period of the previous year, due to the downturn in Net interest income and Net fee and commission income, only partially offset by the increase in the Net profit (loss) from trading and financial assets/liabilities designated at fair value with offsetting entry in profit and loss. In the first quarter of 2018, Revenues rose by EUR 74 mln against the previous quarter, due above all to the recovery of Fee and commission income and the Net profit (loss) from trading and from financial assets/liabilities designated at fair value with an offsetting entry in the income statement.

Net interest income as at 31 March 2018 amounted to **EUR 421 mln**, down by 7.9% compared to 2017, mainly related to the negative trend of interest-bearing assets, in particular commercial loans and the securities portfolio (reduction in average volumes and decline in the related returns). This trend was partially mitigated by the decrease in interest expenses following the reduction in the cost of commercial funding and the maturity of bonds with more costly conditions (including those relating to burden sharing). The result for the first quarter of 2018 shows a slight increase on the previous quarter due above all to the positive impact of a lower cost of funding.

Items	31 03 2018	31 03 2017 *	Chg. Y/Y		1°Q 2018	4°Q 2017*	Chg. Q/Q	
			Abs.	%			Abs.	%
Customers relations measured at amortised cost	451.3	588.5	(137.2)	-23.3%	451.3	454.6	(3.3)	-0.7%
Securiries issued	(77.7)	(152.3)	74.6	-49.0%	(77.7)	(73.7)	(4.0)	5.4%
Net Differentials on hedging derivatives	0.6	(4.4)	5.0	n.s.	0.6	2.1	(1.5)	-71.4%
Bank's relations measured at amortised cost	(3.4)	(9.8)	6.4	-65.4%	(3.4)	(4.9)	1.5	-30.8%
Trading portfolios	5.0	12.2	(7.2)	-59.0%	5.0	6.5	(1.5)	-23.1%
Portfolios designated at fair value	11.4	(17.8)	29.2	n.s.	11.4	(4.8)	16.2	n.s.
Financial assets measured at fair value through other comprehensive income	33.8	41.4	(7.6)	-18.4%	33.8	36.4	(2.6)	-7.1%
Other net interest income	0.5	(0.4)	0.9	n.s.	0.5	(1.6)	2.0	n.s.
Net interest income	**421.5**	**457.4**	**(35.9)**	**-7.9%**	**421.5**	**414.6**	**6.8**	**1.6%**
*of which: interest income on impaired financial assets***	80.7	127.2	(46.5)	-36.6%	80.7	91.0	(10.3)	-11.3%

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*** Interest income on impaired financial assets is shown as a gross figure.*

Net fee and commission income totalled **EUR 407 mln**, declining by 4.6% compared to the same period of 2017, primarily as a result of the lower income on payment services following the disposal of the merchant acquiring business unit on 30 June 2017. This item showed an increase of 11.9% from the previous quarter, due above all to the contribution of fees and commissions from loans, positive effected by on-off income of around EUR 23 mln.

Services / Values	31 03 2018	31 03 2017 *	Chg. Y/Y		1°Q 2018	4°Q 2017*	Chg. Q/Q	
			Abs.	%			Abs.	%
Guarantees given / received	(11.2)	(5.4)	(5.8)	n.s.	(11.2)	(15.6)	4.4	-28.2%
Collection and payment services	38.0	20.1	17.8	88.4%	38.0	26.9	11.1	41.1%
Current account keeping	114.8	123.0	(8.2)	-6.7%	114.8	117.0	(2.2)	-1.9%
Credit and debit cards	31.0	54.7	(23.7)	-43.4%	31.0	35.7	(4.7)	-13.1%
Commercial banking activities	**172.6**	**192.5**	**(19.9)**	**-10.4%**	**172.6**	**164.0**	**8.6**	**5.2%**
Receipts and trasmission of orders	7.3	8.3	(1.0)	-12.0%	7.3	7.9	(0.6)	-7.6%
Trading activities on financial instruments and currencies	3.0	5.1	(2.1)	-41.2%	3.0	1.7	1.3	76.5%
Distribution of third party services	156.8	120.2	36.6	30.5%	156.8	106.6	50.2	47.1%
Insurance services	50.1	45.5	4.6	10.1%	50.1	50.2	(0.1)	-0.2%
Placement/ offering of financial instruments and services	(11.9)	(6.0)	(5.9)	98.3%	(11.9)	(14.2)	2.3	-16.2%
Asset management	12.1	13.6	(1.5)	-11.0%	12.1	11.9	0.2	1.7%
Management, brokerage and advisory services	**217.4**	**186.7**	**30.7**	**16.5%**	**217.4**	**164.1**	**53.3**	**32.5%**
Other advisory services	**16.5**	**47.1**	**(30.6)**	**-64.9%**	**16.5**	**35.2**	**(18.7)**	**-53.1%**
Net fee and commission income	**406.5**	**426.3**	**(19.8)**	**-4.6%**	**406.5**	**363.3**	**43.2**	**11.9%**

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Dividends, similar income and gains (losses) on equity investments, lower than those at 31 March 2017, totalled **EUR 18 mln**, mainly due to the AXA-MPS contribution[1].

Net profit (loss) from trading and financial assets/liabilities as at 31 March 2018 stood at **EUR 37 mln**, (broken down as above), an increase with respect to the same period of last year (equal to EUR 25 mln), due to higher profits from securities disposals/repurchases. An analysis of the main aggregates shows the following:

- **Profits from trading were EUR 14 mln**, up compared to both 31 March 2017 and the previous quarter;
- **FV losses of EUR 16 mln** (as at 31 March 2017, the loss was EUR -1 mln);
- **Gains on disposals/repurchases of EUR 39 mln**, up against the same period last year (EUR +27 mln Y/Y), due to higher gains from securities disposals/repurchases. Also higher than the 4th quarter of 2017.

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

Items	31 03 2018	31 03 2017*	Chg. Y/Y		1°Q 2018	4°Q 2017*	Chg. Q/Q	
			Abs.	%			Abs.	%
Financial assets held for trading	(1.2)	(34.1)	32.9	-96.5%	(1.2)	(5.4)	4.2	-77.8%
Financial trading liabilities	9.0	31.6	(22.6)	-71.5%	9.0	(17.1)	26.1	n.s.
Exchange rate effects	3.8	4.5	(0.7)	-15.6%	3.8	3.5	0.3	8.6%
Derivatives	2.7	10.8	(8.1)	-75.2%	2.7	(1.8)	4.5	n.s.
Trading results	**14.3**	**12.8**	**1.4**	**11.2%**	**14.3**	**(20.8)**	**35.1**	**n.s.**
Net profit (loss) from financial assets and liabilities measured at fair value through profit and loss	(16.3)	(0.5)	(15.8)	n.s.	(16.3)	(2.0)	(14.3)	n.s.
Disposal / repurchase	39.4	12.2	27.2	n.s.	39.4	26.2	13.2	50.4%
Net profit (loss) from trading and financial assets and liabilities measured at fair value through profit and loss	**37.4**	**24.5**	**12.8**	**52.3%**	**37.4**	**3.4**	**34.0**	**n.s.**

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The following items also make up Revenues:

- **Net profit from hedging amounting to EUR 1 mln** (in line with both the 1st and 4th quarters of 2017)
- **Other operating expense of EUR -8 mln compared to** (EUR +4 mln recorded in the 1st quarter of 2017 and EUR -12 mln recorded in the 4th quarter of 2017.

Operating expenses

As at 31 March 2018, **Operating Expenses** totalled **EUR 573 mln**, down 8.7% on the previous year. The 1st quarter of 2018 recorded a fall of 11.9% against the 4th quarter of 2017, due to the downtrend of Personnel expenses and of Other Administrative Expenses. A closer look at the individual aggregates reveals the following:

- **Administrative Expenses** were **EUR 516 mln** (-9.7% Y/Y), down by EUR 64 mln against the 4th quarter of 2017. A breakdown of the aggregate shows:
  - **Personnel Expenses,** which totalled **EUR 368 mln**, declined year on year by 9.0% (EUR -37 mln) mainly as a result of workforce downsizing, also due to the Solidarity Fund initiatives of 1 May and 1 November 2017. This trend is down against the previous quarter, also due to the full benefit of the above-cited manoeuvre.
  - **Other Administrative Expenses** stood at **EUR 148 mln**, down by 11.2% against the same period of 2017, attributable to structural cost control measures which involved, in particular, the management of the real estate segment, and of legal expenses connected to the debt collection, as well as the ICT segment (also following the disposal of the acquiring division in June 2017). The expenses recorded in the 1st quarter of 2018 were lower than those of the previous quarter, particularly legal expenses relating to debt collection.
- **Net adjustments to (recoveries on) property, plant and equipment / Net adjustments to (recoveries on) intangible assets** as at 31 March 2018 amounted to **EUR 57 mln,** stable compared to the same period of the previous year, despite the higher write-downs made on property, plant and equipment (impairment of land and buildings of EUR 6 mln, +EUR +3 mln Y/Y). They were also down compared to the previous quarter (-19.7% Q/Q), as a result of the higher write-downs on property, plant and equipment, following the refurbishment and expansion of the ATM machines.

Type of transaction	31 03 2018	31 03 2017*	Chg Y/Y		1°Q 2018	4°Q 2017*	Chg Q/Q	
			Abs.	%			Abs.	%
Wages and salaries	(263.3)	(291.5)	28.2	-9.7%	(263.3)	(280.6)	17.3	-6.2%
Social-welfare charges	(72.4)	(79.6)	7.2	-9.0%	(72.4)	(75.8)	3.4	-4.5%
Other personnel expenses	(32.1)	(33.3)	1.2	-3.5%	(32.1)	(30.7)	(1.4)	4.6%
Personnel expenses	**(367.8)**	**(404.4)**	**36.6**	**-9.0%**	**(367.8)**	**(387.1)**	**19.3**	**-5.0%**
Taxes	(63.0)	(70.1)	7.1	-10.1%	(63.0)	(50.0)	(13.0)	26.0%
Furnishing, real estate and security expenses	(38.9)	(45.8)	6.9	-15.1%	(38.9)	(39.0)	0.1	-0.3%
General operating expenses	(51.1)	(53.6)	2.5	-4.7%	(51.1)	(51.8)	0.7	-1.4%
Information technology expenses	(33.6)	(43.3)	9.7	-22.4%	(33.6)	(41.8)	8.2	-19.6%
Legal and professional expenses	(19.0)	(26.4)	7.4	-28.0%	(19.0)	(72.0)	53.0	-73.6%
Indirect personnel costs	(1.5)	(2.5)	1.0	-40.0%	(1.5)	(3.9)	2.4	-61.5%
Insurance	(8.8)	(7.4)	(1.4)	18.9%	(8.8)	(7.5)	(1.3)	17.3%
Advertising, sponsorship and promotions	(2.3)	(1.9)	(0.4)	21.1%	(2.3)	(6.5)	4.2	-64.6%
Other	(2.8)	(4.1)	1.3	-31.2%	(2.8)	14.6	(17.4)	n.s.
Expenses recovery	73.2	88.6	(15.5)	-17.5%	73.2	65.6	7.6	11.5%
Other administrative expenses	**(147.9)**	**(166.5)**	**18.6**	**-11.2%**	**(147.9)**	**(192.3)**	**44.4**	**-23.1%**
Tangible assets	(33.9)	(30.8)	(3.1)	10.1%	(33.9)	(37.5)	3.6	-9.6%
Intangible assets	(23.2)	(25.8)	2.7	-10.3%	(23.2)	(33.6)	10.4	-31.0%
Amortization and impairment losses	**(57.1)**	**(56.6)**	**(0.4)**	**0.8%**	**(57.1)**	**(71.1)**	**14.0**	**-19.7%**
Operating costs	**(572.8)**	**(627.5)**	**54.8**	**-8.7%**	**(572.8)**	**(650.5)**	**77.7**	**-11.9%**

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As a result of the above-illustrated trends, the Group's **Gross Operating Income** totalled **EUR 304 mln** (EUR 306 mln as at 31 March 2017), with a greater contribution of EUR 152 mln with respect to the 4th quarter of 2017, due to the increase of Revenues of EUR 74 mln and the fall in Operating Expenses of EUR 78 mln.

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

As at 31 March 2018, the Group recorded **Net impairment (losses)/reversals on financial assets measured at amortised cost and at fair value through comprehensive income** amounting to **EUR 138 mln**, down EUR 171 mln from the figures recorded in the same period of the previous year. They were also down compared to the 4th quarter of 2017, in which debt collection costs connected to the long-term servicing agreement entered into with the Cerved/Quaestio JV for the outsourced management of part of the MPS Group's doubtful loans were recorded (EUR -170 mln). Note that the comparisons with the figure for 2017 are purely indicative, as the results are not harmonised following the introduction of the new valuation models of IFRS 9, for the purposes of the impairment of all financial debt instruments not designated at FVTPL.

The ratio of Net impairment losses on loans as at 31 March 2018 annualised, to total Loans to Customers, net of the balance sheet effects of the transferred doubtful loans, shows a **Provisioning Rate** of 61 bps.

	31 03 2018	31 03 2017*	Chg. Y/Y		1°Q 2018	4°Q 2017*	Chg. Q/Q	
			Abs.	%			Abs.	%
Loans to banks measured at amortised cost	1.7	(1.6)	3.3	n.s.	1.7	(0.4)	2.1	n.s.
- Loans	1.8	(1.9)	3.7	n.s.	1.8	(0.4)	2.2	n.s.
- Debt securities	(0.1)	0.3	(0.4)	n.s.	(0.1)	-	(0.1)	
Loans to customers measured at amortised cost	(136.3)	(306.6)	170.3	-55.5%	(136.3)	(551.3)	415.0	-75.3%
- Loans	(136.4)	(306.6)	170.2	-55.5%	(136.4)	(551.4)	415.0	-75.3%
- Debt securities	0.1	-	0.1		0.1	0.1	-	0.0%
Gains (losses) due to modifications in contractual cash flows without derecognition	(2.5)	-	(2.5)		(2.5)	-	(2.5)	
impairmet loss on loans measured at amortised cost	**(137.1)**	**(308.2)**	**171.1**	**-55.5%**	**(137.1)**	**(551.7)**	**414.6**	**-75.1%**
Financial assets measured at fair value through comprehensive income	(0.8)	(0.9)	0.1	-11.1%	(0.8)	(29.9)	29.1	-97.3%
Total adjustments due to credit risk	**(137.9)**	**(309.1)**	**171.2**	**-55.4%**	**(137.9)**	**(581.6)**	**443.7**	**-76.3%**

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The Group's **Net Operating Income** in the first quarter of 2018 was approximately **EUR +166 mln**, compared to roughly EUR -3 mln in the same period of the previous year.

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

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

- **Allocations to provisions for risks and charges of EUR +53 mln**, net positive impact due to the release of allocations relating to legal proceedings and to the revaluation of the commitment made to cover the hedging costs of the vehicle with regard to the disposal of doubtful loans as per the binding agreement signed on 26 June 2017 with Quaestio, charged to the transferor. As at 31 March 2017 there was a negative balance of EUR 40 mln, mainly due to allocations to cover legal risks.
- **Losses on equity investments** of around **EUR -4 mln** due to write-downs made on the associated company Trixia. As at 31 March 2017, the aggregate was a negative EUR -4 mln, due mainly to the write-downs made on the associated companies Trixia and Interporto Toscano.
- **Restructuring charges/One-off charges** of **EUR -17 mln**, mainly encompass the recovered recognised by INPS for previous early retirement/solidarity fund manoeuvres (EUR +14 mln) and the charges relating to projects also seeking to implement the commitments made with DGComp (for a total net amount of EUR -31 mln).
- **Risks and charges associated with SRF, DGS and similar schemes**, standing at approx. **EUR -69 mln**, concerning the entire contribution due by the Group to the Single Resolution Fund, recognised in the 1st quarter of the year.
- **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 2018 on DTA (Deferred Tax Assets) that can be converted into a tax credit.
- **Gains (losses) on disposal of investments**, for an amount of **EUR 0.3 mln**.

Due to the changes discussed above, the Group's **Profit before tax from continuing operations** stood at **EUR +111 mln**, up with respect to the levels as at 31 March 2017, which recorded a loss of EUR -129 mln.

Tax expense (recovery) on income from continuing operations amounted to income of **EUR +83 mln**. This result can essentially be attributed to the partial reassessment - equal to EUR 77 mln - of DTAs from tax losses accrued but not recognised in previous years. The item also includes the ACE accrued for EUR 11 mln.

Considering the net effects of the PPA (EUR -7 mln), the **Group consolidated profit as at 31 March 2018 amounted to EUR 188 mln**, compared to a loss of EUR 169 mln in the same period of 2017.

Reclassified balance sheet

Reclassified Consolidated Balance Sheet

ASSETS	31/03/18	31 12 2017*	Chg abs.	Chg %
Cash and cash equivalents	896.9	4,092.3	(3,195.4)	-78.1%
Financial assets measured at amortised cost :				
a) Loans to customers	89,320.4	86,456.3	2,864.1	3.3%
b) Loans to banks	6,374.5	9,966.2	(3,591.7)	-36.0%
Financial assets measured at fair value	25,652.3	24,168.4	1,483.9	6.1%
Equity investments	1,075.8	1,034.6	41.2	4.0%
Property, plant and equipment / Intangible assets	2,831.2	2,854.2	(23.0)	-0.8%
of which:				
a) goodwill	*7.9*	*7.9*	-	
Other assets	10,620.6	10,582.2	38.4	0.4%
Total assets	**136,771.8**	**139,154.2**	**(2,382.4)**	**-1.7%**

LIABILITIES	31/03/18	31 12 2017*	Chg abs.	Chg %
Payables				
a) Deposits from customers and securities issued	97,856.8	97,801.8	55.0	0.1%
b) Deposits from banks	20,483.1	21,084.9	(601.8)	-2.9%
Financial liabilities held for trading	3,625.4	4,476.9	(851.5)	-19.0%
Provisions for specific use				
a) Provisions for staff severance indemnities	197.3	199.5	(2.2)	-1.1%
b) Provisione related to guarantees and other commitments given	223.4	226.4	(3.0)	-1.3%
c) Pensions and other post retirement benefit obligations	49.4	50.1	(0.7)	-1.4%
d) Other provisions	1,086.6	1,088.4	(1.8)	-0.2%
Other liabilities	3,949.2	3,794.8	154.4	4.1%
Group net equity	9,298.3	10,429.1	(1,130.8)	-10.8%
a) Valuation reserves	196.7	51.7	145.0	n.s.
c) Equity instruments carried at equity	-	-	-	
d) Reserves	(1,100.8)	3,864.8	(4,965.6)	n.s.
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	187.5	(3,502.3)	3,689.8	n.s.
Non-controlling interests	2.3	2.3	-	
Total Liabilities and Shareholders' Equity	**136,771.8**	**139,154.2**	**(2,382.4)**	**-1.7%**

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Reclassified Consolidated Balance Sheet - Quarterly Trend

ASSETS	31/03/18	31 12 2017*	30 09 2017*	30 06 2017*	31 03 2017*
Cash and cash equivalents	896.9	4,092.3	821.9	843.1	879.1
Financial assets measured at amortised cost :					
a) Loans to customers	89,320.4	86,456.3	91,041.1	89,713.1	102,406.9
b) Loans to banks	6,374.5	9,966.2	12,897.0	13,116.4	8,451.4
Financial assets measured at fair value	25,652.3	24,168.4	25,403.0	24,089.8	26,511.8
Equity investments	1,075.8	1,034.6	1,001.2	1,023.6	1,013.0
Property, plant and equipment / Intangible assets	2,831.2	2,854.2	2,833.7	2,844.7	2,894.2
of which:					
a) goodwill	7.9	*7.9*	*7.9*	*7.9*	*7.9*
Other assets	10,620.6	*10,582.2*	11,101.2	11,958.8	6,648.2
Total assets	136,771.8	**139,154.2**	**145,099.1**	**143,589.5**	**148,804.6**

LIABILITIES	31/03/18	31 12 2017*	30 09 2017*	30 06 2017*	31 03 2017*
Payables					
a) Deposits from customers and securities issued	97,856.8	97,801.8	102,968.4	106,543.9	109,390.0
b) Deposits from banks	20,483.1	21,084.9	21,566.1	22,802.8	22,837.5
Financial liabilities held for trading	3,625.4	4,476.9	4,201.1	4,449.9	4,412.4
Provisions for specific use					
a) Provisions for staff severance indemnities	197.3	199.5	234.7	233.7	252.5
b) Provisione related to guarantees and other commitments given	223.4	226.4	249.3	230.6	177.2
c) Pensions and other post retirement benefit obligations	49.4	50.1	45.9	47.3	52.5
d) Other provisions	1,086.6	1,088.4	959.8	958.8	954.2
Other liabilities	3,949.2	3,794.8	3,927.1	5,272.6	4,684.0
Group net equity	9,298.3	10,429.1	10,944.5	3,047.7	6,041.9
a) Valuation reserves	196.7	51.7	60.5	102.0	7.4
c) Equity instruments carried at equity	-	-	-	-	-
d) Reserves	(1,100.8)	3,864.8	(1,494.4)	(1,177.4)	(1,162.0)
e) Share premium	-	-	-	-	-
f) Share capital	10,328.6	10,328.6	15,692.8	7,365.7	7,365.7
g) Treasury shares (-)	(313.7)	(313.7)	(313.7)	-	-
h) Net profit (loss) for the period	187.5	(3,502.3)	(3,000.7)	(3,242.6)	(169.2)
Non-controlling interests	2.3	2.3	2.2	2.2	2.4
Total Liabilities and Shareholders' Equity	**136,771.8**	**139,154.2**	**145,099.1**	**143,589.5**	**148,804.6**

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Customer funding

The Group's **total funding** as at 31 March 2018 amounted to **EUR 193.2 bn** (-6.4% versus 31 March 2017) slightly down compared to 31 December 2017 due to the downtrend of indirect funding.

Background

In 2017, direct funding was steady (-0.7% against the previous year), reflecting the diametrically opposite performance of its components; a positive trend in deposits from resident consumer clients, up 3.3% in the period (net of repo transactions with central counterparties and deposits connected with loan transfers) and the negative trend in bonds (-18.3%).
Customers therefore continue to show high preference for liquid, risk-free instruments, also as a result of the low opportunity cost of holding such instruments. Bank bonds are instead penalised by the higher cost for the issuer with respect to the liquidity offered by the ECB and low demand resulting especially from the content of the regulation on banking crises ("bail-in").

With reference to interest rates, the average rate on deposits of non-financial companies and households fell by several basis points over the year, standing at 0.38% in December and 0.39% in January 2018. The bond interest rate continues to fall (to 2.59% in January, - 15 basis points against the levels at the end of 2016. The average weighted cost of direct funding for the ABI sample, which includes larger banks, continued to decline throughout 2017, reaching 0.66% in December (0.87% in December 2016). Initial data for 2018 does not show signs of discontinuity, with levels substantially in line with the end of December 2017.

After an extremely positive 2017 in terms of asset management, with net funding from mutual funds which more than doubled compared to the figure recorded in 2016 (around EUR 77,300 mln against EUR 34,400 mln), the first two months of 2018 recorded a significant decrease compared to the same period of the previous year, due essentially to redemptions from monetary funds and bonds. Funding on individual retail portfolio management, after a positive 2017 with flows of EUR 4,093 mln, also recorded an inversion of the trend in 2018, with net flows which basically broke even in the first two months. In February 2018, assets under management from open-end funds were substantially stable compared to the levels of December 2017, while the stock relating to individual portfolio management fell by around 2.6%.

Customer Funding				Chg Q/Q		Chg Y/Y	
	31/03/18	31/12/17	31/03/17	Abs.	%	Abs.	%
Direct funding	97,856.8	97,801.8	109,390.0	55.0	0.1%	(11,533.2)	-10.5%
Indirect funding	95,329.2	95,845.7	96,966.3	(516.5)	-0.5%	(1,637.1)	-1.7%
Total funding	**193,186.0**	**193,647.5**	**206,356.3**	**(461.5)**	**-0.2%**	**(13,170.3)**	**-6.4%**

Volumes of **Direct Funding**, which stood at **EUR 97.9 bn**, recorded a decrease of EUR 11.5 bn compared to the end of March 2017, primarily due to the drop in repurchase agreements with institutional counterparties and the bond component (impacted by the effect of burden sharing on institutional subordinated loans and maturities during the period), only partially offset by growth in Current Accounts. Compared to 31 December 2017, the aggregate was in line, with Current accounts and Repurchase agreements with institutional counterparties up, offset by the fall in the bond segment, following the redemption of several issues maturing in the 1st quarter of 2018 (including one State-guaranteed tranche issue).

The Group's market share[2] of Direct Funding stood at 3.71% (updated in January 2018), stable with respect to the end of 2017.

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

Direct funding							
				Change Q/Q		Change Y/Y	
Type of transaction	31/03/18	31/12/17	31/03/17	Abs.	%	Abs.	%
Current accounts	54,834.0	51,465.5	46,112.0	3,368.5	6.5%	8,722.0	18.9%
Time deposits	10,045.0	10,469.0	10,542.1	(424.0)	-4.1%	(497.1)	-4.7%
Reverse repurchase agreements	10,824.6	8,572.3	20,398.5	2,252.3	26.3%	(9,573.9)	-46.9%
Bonds	14,557.5	18,521.7	24,864.9	(3,964.2)	-21.4%	(10,307.4)	-41.5%
Other types of direct funding	7,595.7	8,773.3	7,472.5	(1,177.6)	-13.4%	123.2	1.6%
Total	**97,856.8**	**97,801.8**	**109,390.0**	**55.0**	**0.1%**	**(11,533.2)**	**-10.5%**

Indirect funding came to **EUR 95.3 bn**, a decline from 31 March 2017 (EUR -1.6 bn), due to the reduction in assets under custody (EUR -2.7 bn), which was influenced by the movement in a large Corporate position. Instead, asset management was up (EUR +1.1 bn). The comparison with 31 December 2017 shows a slight downtrend (EUR -0.5 bn) in both segments.

As regards **Assets under management**, which amounted to **EUR 58.3 bn**, this aggregate was up compared to March 2017 and slightly lower than the levels of 31 December 2017. This Y/Y increase was seen across all segments with the exception of Wealth Management.

Indirect Funding							
				Change Q/Q		Change Y/Y	
	31/03/18	31/12/17	31/03/17	Abs.	%	Abs.	%
Assets under management	58,309.7	58,599.4	57,256.4	(289.6)	-0.5%	1,053.3	1.8%
Mutual Funds/Sicav	*28,315.1*	*28,477.9*	*27,330.2*	(162.8)	*-0.6%*	984.9	*3.6%*
Individual Portfolio under Management	*5,768.4*	*5,933.0*	*6,469.9*	(164.6)	*-2.8%*	(701.5)	*-10.8%*
Insurance Products	*24,226.3*	*24,188.5*	*23,456.3*	37.8	*0.2%*	770.0	*3.3%*
Assets under custody	37,019.5	37,246.3	39,709.9	(226.9)	-0.6%	(2,690.4)	-6.8%
Total funding	**95,329.2**	**95,845.7**	**96,966.3**	**(516.5)**	**-0.5%**	**(1,637.1)**	**-1.7%**

Loans to customers

The book value of Loans to Customers as at 31 March 2018 reflects the impact of the reclassification made due to the introduction of IFRS 9, which led to a total net reduction of EUR 0.1 bn, due to decreases following reclassifications to other financial assets that must be designated at fair value (EUR -1.1 bn) partially offset by increases following reclassifications of bond securities from financial assets available for sale, formerly AFS (EUR +1 bn).

As at 31 March 2018, the Group's **Loans to Customers** amounted to **EUR 89.3 bn**, down EUR 13.1 bn compared to the end of March 2017, but up by EUR 2.9 bn against 31 December 2017. The trend in the aggregate during the quarter reflects the aspects mentioned in the introduction as well as the growth of the segment of Repurchase agreements institutional counterparties (EUR +3.2 bn).

Background

During 2017, the growth in private sector bank loans maintained its modest pace, despite more dynamic growth in the economy and improvement in supply conditions. The annual increase of the aggregate was just under 1.1% between January and December, compared to the corresponding period of 2016, and can be compared with a slightly lower growth rate (around 0.7%) in 2016. The gap between the trend in lending to households (up 2.5% during the period) and non-financial companies, which instead shows a flat trend, is growing. The former was impacted by ever more encouraging signs of a recovery in disposable income and the real estate market, while loans to non-financial companies remain weak mainly due to low credit demand, despite the recovery in GDP growth, the renewal of tax measures supporting investments in operating assets and digital technologies, as well as the legislative initiatives supporting company capitalisation. The first figures for 2018 suggest an acceleration of activity levels in January (2.7% Y/Y for total loans).

With regard to interest rates, in January 2018, the interest rate on the total stock of loans was 2.69%, identical to that recorded in December 2017 and 16 basis points down on the figures for the end of 2016. On new transactions, the rate for loans to households for home purchases is around 1.9%, while the rate for non-financial companies remains just under 1.5%. In particular, rates on new loans of less than EUR 1 mln to non-financial companies (1.9% in January) were down 37 basis points compared to December 2016.

Efforts continued to reduce stock levels and the flows of doubtful loans for the whole of 2017. As at December 2017, the stock of loans was 15.8% lower compared to the average for 2016 (and the fall continued into the first month of 2018). Loan transfers had an impact of EUR 38,705 mln (in 2016 transfers reached EUR 18,000 mln for the entire year). Net of these transactions, the change in the stock of doubtful loans Y/Y as at January 2018 was positive in any event, and corresponded to 7.2% (it was 11.7% in the same period of last year). Net of allowances for impairment, doubtful loans represented approximately 3.2% of bank loans, down compared to the average of 4.5% in the second half of 2016.

The Group's market share[3] stood at 6.51% (last available figure from January 2018), stable compared to the end of 2017.

Loans to customers

Type of transaction	31/03/18	31 12 2017*	31 03 2017*	Change Q/Q		Change Y/Y	
				Abs.	%	Abs.	%
Current accounts	5,768.0	5,757.5	6,808.4	10.5	0.2%	(1,040.4)	-15.3%
Mortgages	47,536.4	46,868.4	48,757.5	668.0	1.4%	(1,221.1)	-2.5%
Other forms of lending	18,115.8	17,903.5	20,107.9	212.3	1.2%	(1,992.1)	-9.9%
Repurchase agreements	7,746.6	4,524.8	5,429.1	3,221.8	71.2%	2,317.5	42.7%
Securities lending	1,735.8	1,050.1	1,130.7	685.7	65.3%	605.1	53.5%
Non performing loans	8,417.9	10,352.0	20,173.3	(1,934.1)	-18.7%	(11,755.4)	-58.3%
Total	**89,320.5**	**86,456.3**	**102,406.9**	**2,864.2**	**3.3%**	**(13,086.4)**	**-12.8%**
Stage 1	*64,292.9*						
Stage 2	*16,609.7*						
Stage 3	*8,417.9*						

* *The Group has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9. Therefore, 2017 Fiscal Year values, determined in accordance with IAS 39, are not fully comparable.*

In the 1st quarter of 2018, the medium/long-term component recorded new disbursements of EUR 2.3 bn, up EUR 1.0 bn Y/Y.

[3] Loans to resident consumer clients, including NPLs and net of repo transactions with central counterparties.

Please note that, also considering the transferred portfolio of doubtful loans, non-performing loans measured at amortised cost totalled EUR 12.8 bn as at 31 March 2018.

Non-performing loans

As at 31 March 2018, the Group's **exposure to gross non-performing loans** totalled **EUR 42.6 bn**, down compared to the end of March 2017 (EUR -1.5 bn) as well as compared to 31 December 2017 (EUR -0.3 bn). As concerns the quarterly trend of the non-performing loan segment, Doubtful Loans were substantially stable (EUR +0.1 bn) as were Non-Performing Past Due Exposures, and a slight reduction of Unlikely to Pay Exposures (EUR -0.4 bn). Net of Gross non-performing loans "held for sale", the gross exposure would decline from EUR 42.6 bn to EUR 20.0 bn.

As at 31 March 2018, the Group's **net exposure to non-performing loans** stood at EUR 13.3 bn recording a decline of EUR 6.9 bn against 31 March 2017, mainly attributable to net adjustments made in 2017 on the transferred loans following the adjustment of their recoverable value and a decrease of EUR 1.5 bn compared to 31 December 2017. This net exposure includes EUR 4.4 bn relating to the non-performing loans held for sale, net of which the value would have been EUR 8.9 bn. A significant improvement in the ratio of net non-performing loans to net loans to customers was recorded, which dropped from 16.3% in December to 14.1% in March 2018. Within the aggregate, the percentage of Past due exposures remained substantially stable in the first quarter of 2017, while Unlikely to Pay and net doubtful loans fell.

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 by assets held for sale.

Loans to customers		Doubtful loans	Unlikely to pay	Non-performing Past due	**Non-performing exposures**	Perfoming exposures	**Total**	*- of which forbone impaired*	*- of which forborne not impaired*
31 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%***		
31 12 17*	Gross exposure	31,045.3	11,374.2	488.8	**42,908.3**	76,794.6	**119,702.8**	*9,465.1*	*2,465.8*
	Provisions	23,513.7	4,494.4	102.1	**28,110.2**	551.2	**28,661.3**	*4,328.6*	*95.3*
	Net exposure	7,531.6	6,879.8	386.7	**14,798.1**	76,243.4	**91,041.5**	*5,136.5*	*2,370.5*
	Coverage ratio	*75.7%*	*39.5%*	*20.9%*	***65.5%***	*0.7%*	***23.9%***	*45.7%*	*3.9%*
	% on Loans to customers	*8.3%*	*7.6%*	*0.4%*	***16.3%***	*83.7%*	***100.0%***		
31 03 17*	Gross exposure	28,914.0	14,260.8	944.8	**44,119.6**	82,854.1	**126,973.6**	*9,885.4*	*2,769.1*
	Provisions	18,112.6	5,631.7	202.0	**23,946.3**	620.5	**24,566.7**	*3,819.5*	*117.1*
	Net exposure	10,801.4	8,629.1	742.8	**20,173.3**	82,233.6	**102,406.9**	*6,065.9*	*2,652.0*
	Coverage ratio	*62.6%*	*39.5%*	*21.4%*	***54.3%***	*0.7%*	***19.3%***	*38.6%*	*4.2%*
	% on Loans to customers	*10.5%*	*8.4%*	*0.7%*	***19.7%***	*80.3%*	***100.0%***		

* *The Group has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9. Therefore, 2017 Fiscal Year values, determined in accordance with IAS 39, are not fully comparable.*

Change in gross exposures

		Doubtufl 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.	105.7	(389.0)	(38.8)	**(322.1)**	5,005.8	**4,683.8**	*(281.4)*	*28.0*
	%	0.3%	-3.4%	-7.9%	**-0.8%**	6.5%	**3.9%**	*-3.0%*	*1.1%*
Y/Y	abs.	2,237.0	(3,275.6)	(494.8)	**(1,533.4)**	(1,053.7)	**(2,587.0)**	*(701.7)*	*(275.3)*
	%	7.7%	-23.0%	-52.4%	**-3.5%**	-1.3%	**-2.0%**	*-7.1%*	*-9.9%*

The Group has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9. Therefore, 2017 Fiscal Year values, determined in accordance with IAS 39, are not fully comparable.

As at 31 March 2018, the **coverage of non-performing loans** stood at 68.8%, an increase compared to 31 March 2017 (54.3%) and 31 December 2017 (65.5%).

Changes in coverage ratios

	Doubtful loans	Ulikely to pay	Non performing past due	**Non performing exposures**	Performing exposures	**Total**
Q/Q	*1.83%*	*5.89%*	*10.76%*	***3.27%***	*0.31%*	***0.29%***
Y/Y	*14.92%*	*5.92%*	*10.26%*	***14.51%***	*0.28%*	***4.88%***

The Group has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9. Therefore, 2017 Fiscal Year values, determined in accordance with IAS 39, are not fully comparable.

Financial assets/liabilities

The book value of financial assets designated at fair value as at 31 March 2018 reflects the reclassifications made according to IFRS 9 to financial assets measured at amortised cost of EUR 1 bn and of those to other financial assets that must be designated at fair value of EUR 1.2 bn. As at 31 March 2018, the Group's financial assets designated at fair value totalled EUR 25.7 bn, down 3.2% against the previous year and up 6.1% against 31 December 2017, principally in the trading component relating to the subsidiary MPS Capital Services (which rose during the quarter, in particular on Italian government debt securities, for which the company acts as primary dealer). Financial liabilities held for trading declined compared to the end of March 2017 by EUR 0.8 bn and by EUR 0.9 bn compared to 31 December 2017.

Items	31 03 2018	31 12 2017*	31 03 2017*	Chg. Q/Q		Chg. Y/Y	
				Abs.	%	Abs.	%
Financial assets measured at fair value	25,652.3	24,168.4	26,511.8	1,483.9	6.1%	(859.5)	-3.2%
Financial assets held for trading	*9,877.7*	*8,718.0*	*10,707.4*	*1,159.7*	*13.3%*	*(829.7)*	*-7.7%*
Financial assets measured at fair value mandatory	*1,192.9*	*0.0*	*0.0*	*1,192.9*	*n.s.*	*1,192.9*	*n.s.*
Financial assets measured at fair value through other comprehensive income	*14,581.7*	*15,450.4*	*15,804.4*	*(868.7)*	*-5.6%*	*(1,222.7)*	*-7.7%*
Financial liabilities held for trading	*3,625.4*	*4,476.9*	*4,412.4*	*(851.5)*	*-19.0%*	*(787.0)*	*-17.8%*

* *The Group has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9. Therefore, 2017 Fiscal Year values, determined in accordance with IAS 39, are not fully comparable.*

Items	31 03 2018		31 12 2017*		31 03 2017*	
	Financial assets measured at fair value	Financial liabilities held for tradig	Financial assets measured at fair value	Financial liabilities held for tradig	Financial assets measured at fair value	Financial liabilities held for tradig
Debt securities	21,440.1	-	20,331.5	-	22,192.6	-
Equity instruments and Units of UCITS	502.7	-	505.1	-	547.2	-
Loans	565.3	2,372.1	-	2,903.3	50.5	2,481.1
Derivatives	3,144.2	1,253.3	3,331.8	1,573.6	3,721.5	1,931.3
Total	25,652.3	3,625.4	24,168.4	4,476.9	26,511.8	4,412.4

* *The Group has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9. Therefore, 2017 Fiscal Year values, determined in accordance with IAS 39, are not fully comparable.*

Interbank position

At the end of March 2018, the **net interbank position** of the Group stood at **EUR 14.1 bn** in funding, substantially stable compared with the balance recorded as at 31 March 2017, and up compared to December 2017, above all due to the fall in loans to banks relating to the fall in the balance of the mandatory reserve.

Interbank balances				Change Q/Q		Change Y/Y	
	31/03/18	31 12 2017*	31 03 2017*	Abs.	%	Abs.	%
Loans to banks measured at amortised cost	6,374.5	9,966.2	8,451.4	(3,591.7)	-36.0%	(2,076.9)	n.s.
Deposits from banks measured at amortised cost	20,483.1	21,084.9	22,837.5	(601.8)	-2.9%	(2,354.4)	n.s.
Net position	**(14,108.6)**	**(11,118.7)**	**(14,386.1)**	**(2,989.9)**	**26.9%**	**277.5**	**n.s.**

* *The Group has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9. Therefore, 2017 Fiscal Year values, determined in accordance with IAS 39, are not fully comparable.*

As at 31 March 2018, the operational liquidity position showed an **unencumbered Counterbalancing Capacity of approx. EUR 19.6 bn**, down by EUR 1.5 bn compared with the figures as at 31 December 2017, mainly due to the maturity of a tranche of government issues.

Shareholders’ equity

As at 31 March 2018, the **Group Shareholders’ equity and non-controlling interests** amounted to around **EUR 9.3 bn**, down by approx. EUR 1.1 bn compared to the end of December 2017, due to the impacts recorded for first-time application of IFRS 9, partially offset by the result for the period and by the increase of valuation reserves. The increase of EUR 3.3 bn compared to 31 March 2017 is due, in addition to the above, also to the effects of the precautionary recapitalisation and of the burden sharing finalised in the second half of 2017.

Reclassified Consolidated Balance Sheet

Equity	31/03/18	31 12 2017*	31 03 2017*	Chg Q/Q Abs.	Chg Q/Q %	Chg Y/Y Abs.	Chg Y/Y %
Group net equity	9,298.3	10,429.1	6,041.9	(1,130.8)	-10.8%	3,256.4	53.9%
a) Valuation reserves	196.7	51.7	7.4	145.0	n.s.	189.3	n.s.
d) Reserves	(1,100.8)	3,864.8	(1,162.0)	(4,965.6)	n.s.	61.2	-5.3%
f) Share capital	10,328.6	10,328.6	7,365.7	-		2,962.9	40.2%
g) Treasury shares (-)	(313.7)	(313.7)	-	-		(313.7)	n.s.
h) Net profit (loss) for the period	187.5	(3,502.3)	(169.2)	3,689.8	n.s.	356.7	n.s.
Non-controlling interests	2.3	2.3	2.4	-		(0.1)	-4.2%
Total Group Shareholder's Equity and Non-controlling interests	**9,300.6**	**10,431.4**	**6,044.3**	**(1,130.8)**	**-10.8%**	**3,256.3**	**53.9%**

* *The Group has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9. Therefore, 2017 Fiscal Year values, determined in accordance with IAS 39, are not fully comparable.*

Capital adequacy

Regulatory capital and requirements

On **19 June 2017** the ECB informed the Parent Company of the results of the Supervisory Review and Evaluation Process (SREP). In this document, the ECB ordered the Bank to maintain a Total SREP Capital Requirement ratio of 11% at consolidated level as of **1 January 2018,** which includes:

• a minimum Pillar 1 requirement of 8% and

• an additional Pillar 2 requirement of 3% (P2R), entirely in terms of Common Equity Tier 1 capital.

As a result, BMPS must meet the following requirements at consolidated level as of **1 January 2018**:

• CET1 Ratio of 9.44% on a transitional basis,

• Total Capital Ratio of 12.94% on a transitional basis including, aside from the P2R, 1.875% for the Capital Conservation Buffer and 0.06% for the O-SII Buffer (Other Systemically Important Institutions Buffer).

The Capital Conservation Buffer and the O-SII Buffer will be fully implemented in 2019 with 2.5% and in 2021 with 0.25%.

As at **31 March 2018,** the Group's level of capital on a transitional basis was as shown in the following table:

Categories / Values	Risk Weighted Assets		Chg. 31 12 2017	
	31 03 2018	31 12 2017	Abs.	%
OWN FUNDS				
Common Equity Tier 1 (CET1)	8,876.2	8,951.2	(75.0)	-0.84%
Tier 1 (T1)	8,876.2	8,951.2	-	-0.84%
Tier 2 (T2)	851.2	112.5	738.7	656.62%
Total capital (TC)	**9,727.4**	**9,063.7**	**663.7**	**7.32%**
RISK ASSETS				
Credit and Counterparty Risk	47,962.5	47,712.7	249.8	0.52%
Credit valuation adjustment risk	374.6	345.6	29.0	8.39%
Market risks	3,628.4	2,492.6	1,135.8	45.57%
Operational risk	9,815.9	10,011.5	(195.6)	-1.95%
Risk-weighted assets	**61,781.4**	**60,562.4**	**1,219.0**	**2.01%**
CAPITAL RATIOS				
CET1 capital ratio	**14.37%**	**14.78%**	**-0.41%**	
Tier1 capital ratio	**14.37%**	**14.78%**	**-0.41%**	
Total capital ratio	**15.75%**	**14.97%**	**0.78%**	

Compared to 31 December 2017, CET1 recorded an overall reduction of EUR 75 mln, essentially due to higher deductions for DTAs and significant investments, partially related to the application of the phasing-in in 2018, which more than offset the increase resulting from the profit for the period and from the first-time application of IFRS 9. Tier 2 showed a rise of EUR 738.7 mln, mainly due to the issue of a subordinated Tier 2 bond, finalised in January 2018, for the amount of EUR 750 mln. The Total Capital Ratio therefore shows an overall increase of EUR 664 mln.

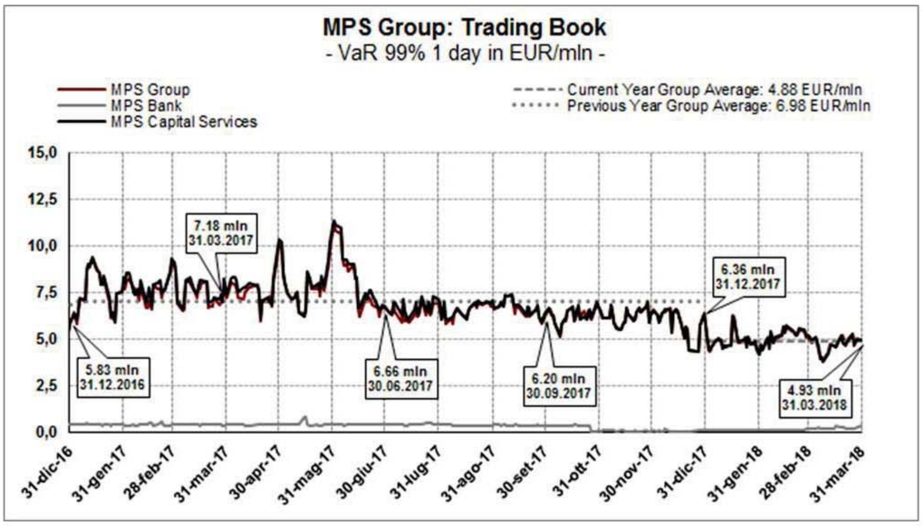
RWA recorded an overall rise of EUR 1,219 mln, mainly represented by the increase of market risk (EUR +1,136 mln) and credit risk (EUR +250 mln) resulting from the increase due to new credit disbursements, partially offset by the lower contribution of RWA from capital. These effects were partially offset by the fall in operational risk (EUR -196 mln).

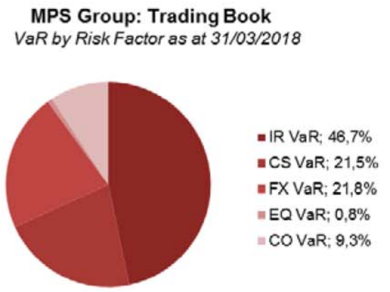
Disclosure on risks

Market risks

At the end of the first quarter of 2018, the market risks of the Group's Regulatory Trading Book, measured as VaR, were down compared to the end of December 2017, amounting to EUR 4.93 mln as at 31 March 2018.

In the first quarter of the year, the market risks of the Group's Regulatory Trading Book showed, in terms of VaR, performance influenced by the subsidiary MPS Capital Services, mainly for own trading activities in the CS-IR segment in the first part of the quarter (Long Futures and auction transactions in Italian Government bonds) and Client-Driven activities in the EQ segment (Equity Futures and Equity Options) in the latter part of the quarter. The impact of market parameters made a smaller contribution to the reduction of the VaR (scrolling of the time window of historical simulation scenarios underlying the model).



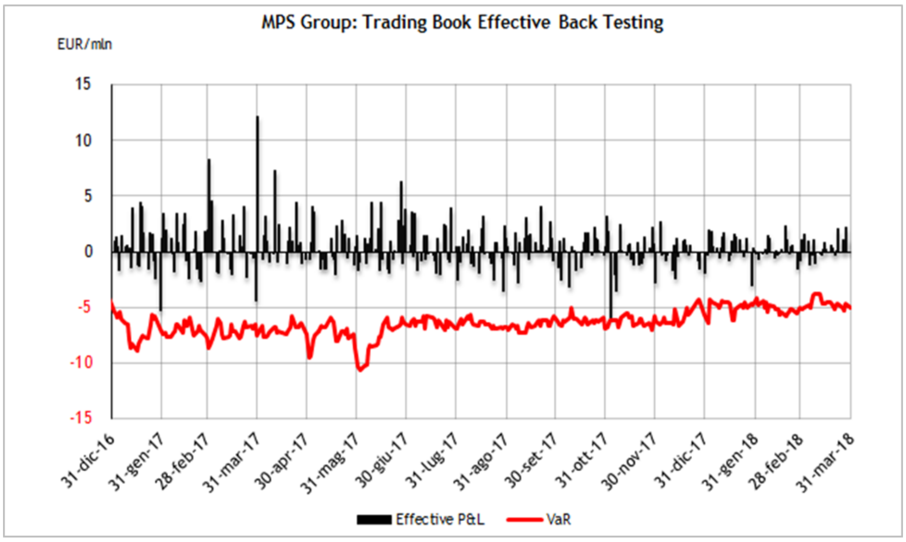


MPS Group: Trading Book
VaR 99% 1 day in EUR/mln

	VaR	Date
End of Period	4.93	31/03/2018
Min	3,82	09/03/2018
Max	6.24	16/01/2018
Average	4.88	

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 2017 and for the first three months of 2018:



The backtesting shows no exceptions in the first quarter of 2018.

Operational risks

As regards the criminal proceeding relating to the so-called "Alexandria" matter, following the preliminary hearing, the Preliminary Hearing Judge found that the requirements for a pronouncement of acquittal to be inexistent and ordered a committal for trial of the defendants, natural persons and Banca MPS (as the defendant entity pursuant to Italian Legislative Decree 231/01).

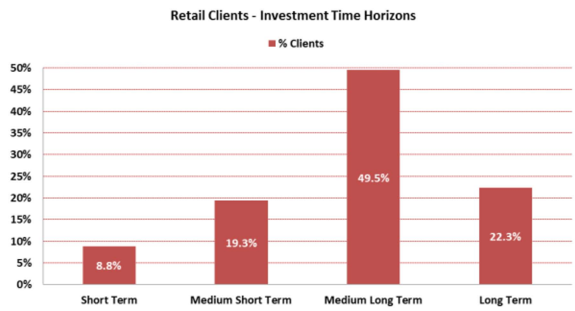
The trial will take place before the Court of Milan, with a panel of judges on 17 July 2018.

On 7 May 2018, one of the lawyers of the civil parties, which has already appeared before the court, obtained, following a petition to the Court for such, the deposit of bank documentation relating to over 2000 shareholders, in the interests of which, as part of the cited discussion hearing, the same intends to join the criminal proceedings as a civil party seeking damages.

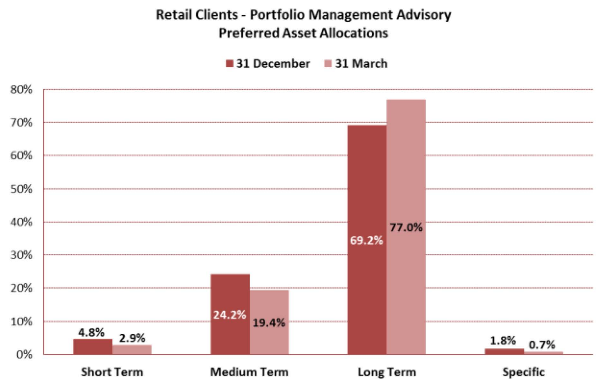
Financial risks of investment services

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 adopted a New Questionnaire and Profiling for customers, introduced from 2 January 2018, which has envisaged the revision of the rules to determine the indicators underlying a customer's risk profile.

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



At the end of March 2018, 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.



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. In particular, in terms of elements, note the creation of the Wealth Management Department, focusing on monitoring and developing customers of high standing, and Banca Widiba SpA.

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 MP 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 Operating 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.

With regard exclusively to the income statement data for FY 2017, note that a conventional and simplified restatement on the basis of the new items of IFRS 9 has been made; in particular, the balances relating to the former item 130d "**Net impairment losses (reversals) on other financial transactions**" have been reclassified to item "**Net allocations to provisions for risks and charges: commitments and guarantees given**", therefore the commercial segments have been restated based on this approach.

Results in brief

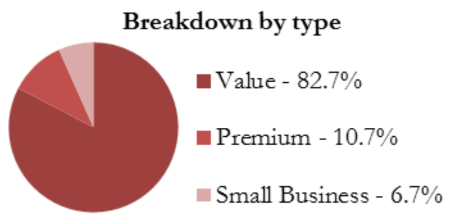
The following table reports the main income statement and balance sheet items that characterised the Group's Operating Segments as at 31 March 2018.

SEGMENT REPORTING	Business Segments											
Primary segment	Retail banking		Wealth Management		Corporate banking		Widiba		Corporate Center		Total MPS Group	
(EUR mln)	31/03/18	Chg % Y/Y	31/03/18	Chg % Y/Y	31/03/18	Chg % Y/Y	31/03/18	Chg % Y/Y	31/03/18	Chg % Y/Y	31/03/18	Chg % Y/Y
PROFIT AND LOSS AGGREGATES												
Total Income	578.6	-13.2%	31.5	-27.8%	214.4	-30.3%	16.2	38.3%	36.0	n.s.	876.8	-6.0%
Operating expenses	(410.7)	-9.0%	-15.3	-8.7%	-142.8	-7.4%	-15.6	8.2%	11.6	30.0%	(572.8)	-8.7%
Pre Provision Profit	167.9	-22.2%	16.2	-39.8%	71.6	-53.3%	0.6	n.s.	47.6	n.s.	304.0	-0.5%
Net impairment losses (reversals) on loans and financial assets	(59.0)	-62.7%	-0.6	n.s.	-76.0	-41.3%	0.0	-90.4%	(2.3)	-89.0%	(137.9)	-55.4%
Net Operating Income	109.0	89.4%	15.6	-41.6%	-4.4	n.s.	0.6	n.s.	45.3	n.s.	166.1	n.s.
BALANCE SHEET AGGREGATES												
Interest-bearing loans to customers	40,291.3	-7.1%	525.0	-12.3%	37,402.9	-10.0%	292.7	n.s.	8,115.2	34.9%	86,627.1	-5.4%
Deposits from customers and debt securities issued(*)	41,621.3	-1.8%	3,363.4	18.1%	21,102.4	50.9%	2,389.2	46.7%	29,380.5	-39.5%	97,856.8	-10.5%
Indirect funding	47,102.1	1.5%	16,597.1	-6.7%	11,534.1	-15.6%	5,286.2	0.3%	14,809.7	7.0%	95,329.2	-1.7%
Assets under management	*37,550.1*	*5.4%*	*11,588.4*	*-5.8%*	*1,685.4*	*-1.5%*	*4,743.5*	*-0.1%*	*2,742.4*	*-4.2%*	*58,309.7*	*1.8%*
Assets under custody	*9,552.1*	*-11.3%*	*5,008.7*	*-8.7%*	*9,848.7*	*-17.6%*	*542.8*	*4.3%*	*12,067.3*	*9.9%*	*37,019.5*	*-6.8%*

N.B. *The Group has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9. Therefore, 2017 Fiscal Year values, determined in accordance with IAS 39, are not fully comparable.*

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

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 4.6 mln.</td></tr>
<tr><td>
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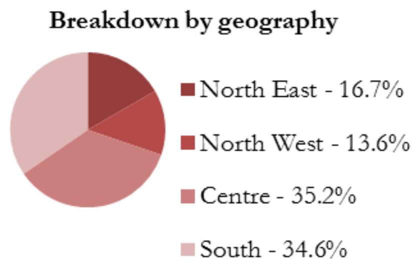
<tr><td>
</td></tr>
</table>

Income statement and balance sheet results

As at 31 March 2018, **Total Funding** for Retail Banking amounted to approximately **EUR 88.7 bn**, down by roughly EUR 0.9 bn from the end of 2017 and substantially in line with the figures as at March 2017. More specifically:

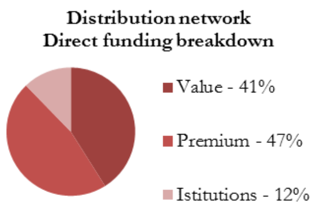
- **Direct Funding** came to **EUR 41.6 bn**, marking a decline of EUR -0.8 bn compared to 31 December 2017, with a recovery in demand forms (EUR +0.5 bn) and a decline in short-term forms (EUR -1.2 bn) and medium/long-term forms (EUR -0.2 bn). Compared to 31 March 2017, the aggregate decreased (EUR -0.8 bn) due to the short-term (EUR -1.4 bn) and medium/long-term components (EUR -2.8 bn), only partly offset by the rise of demand funding (EUR +3.3 bn).

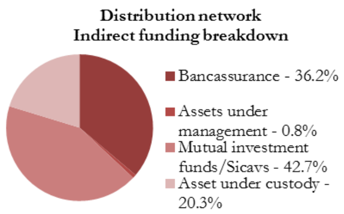
- **Indirect Funding**, amounting to approx. **EUR 47.1 bn**, substantially stable compared to the end of December 2017 (EUR -0.1 bn), with a slight increase of asset management (EUR +0.1 bn), and a reduction of assets under custody (EUR -0.2 bn). Compared to 31 March 2017, the aggregate increased (EUR +0.7 bn) thanks to the upward trend in asset management (EUR +1.9 bn), which offset the decrease in assets under custody (EUR -1.2 bn).

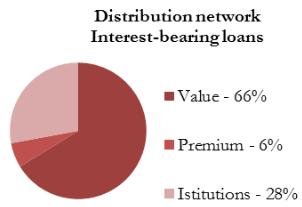
- **Interest-bearing loans** to Retail Banking **customers** were **EUR 40.3 bn** as at 31 March 2018, stable compared to 31 December 2017. Compared to 31 March 2018, the aggregate recorded a decline in volumes of EUR 3.1 bn across all types of loans, in particular in the medium/long-term component (EUR -2.0 bn).

RETAIL BANKING - BALANCE SHEET AGGREGATES							
(Eur mln)	31/03/18	31/12/17	31/03/17	Chg Abs Q/Q	Chg % Q/Q	Chg Abs Y/Y	Chg % Y/Y
Deposits from customers and debt securities issued	**41,621**	**42,430**	**42,395**	**-809**	**-1.9%**	**-774**	**-1.8%**
Assets under management	*37,550*	*37,447*	*35,627*	*103*	*0.3%*	*1,923*	*5.4%*
Assets under custody	*9,552*	*9,772*	*10,769*	*-219*	*-2.2%*	*-1,217*	*-11.3%*
Indirect Funding	**47,102**	**47,219**	**46,396**	**-117**	**-0.2%**	**706**	**1.5%**
Total Funding	**88,723**	**89,649**	**88,791**	**-925**	**-1.0%**	**-68**	**-0.1%**
Interest-Bearing Loans to Customers	**40,291**	**40,237**	**43,378**	**54**	**0.1%**	**-3,087**	**-7.1%**

N.B. The Group has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9. Therefore, 2017 Fiscal Year values, determined in accordance with IAS 39, are not fully comparable.







With regard to profit and loss, Retail Banking achieved total **Revenues** of approx. **EUR 579 mln** as at 31 March 2018, down 13.2% compared to the same period of last year. A breakdown of the aggregate shows:

- Net Interest Income was approximately EUR 239 mln, down 25.9% annually due both to the decrease in returns on commercial assets (volumes and rates), and the reduction in the contribution of funding.
- Net Fee and Commission Income was around EUR 333 mln, slightly up against last year's levels, up above all in the loans segment, impacted by non-recurring components of around EUR 23 mln, partially offset by the decline in payment services, relating to the disposal of the acquiring business.

Considering the impact of Operating Expenses, which decreased by 9.0% Y/Y, Retail Banking generated **Gross Operating Income** of about **EUR 168 mln** in the first quarter of 2018 (-22.2% Y/Y). Net impairment losses (reversals) on loans and financial assets totalled **EUR -59 bn** (EUR -158 bn as at 31 March 2017).

The **Net Operating Income** recorded since the beginning of the year is **positive**, amounting to around **EUR 109 bn**.

The ***cost-income*** ratio of the Operating Segment is **71.0%** (67.6% at the end of March 2017).

RETAIL BANKING - PROFIT AND LOSS AGGREGATES				
			Chg. Y/Y	
(EUR mln)	31/03/18	31/03/17	Abs.	%
Net interest income	*238.9*	*322.2*	*-83.3*	*-25.9%*
Net fee and commission income	*333.1*	*328.4*	*4.7*	*1.4%*
Other income	*9.7*	*10.0*	*-0.3*	*-2.5%*
Other operating expenses/income	*(3.1)*	*6.4*	*-9.5*	*n.s.*
Total Income	**578.6**	**666.9**	**-88.3**	**-13.2%**
Operating expenses	*(410.7)*	*(451.1)*	*40.5*	*-9.0%*
Pre Provision Profit	**167.9**	**215.8**	**-47.8**	**-22.2%**
Net impairment losses (reversals) on loans and financial assets	(59.0)	(158.2)	99.3	-62.7%
Net Operating Income	**109.0**	**57.5**	**51.4**	**89.4%**

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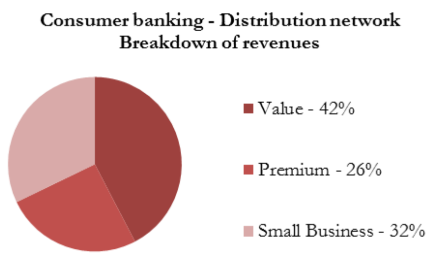
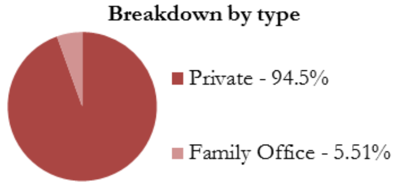
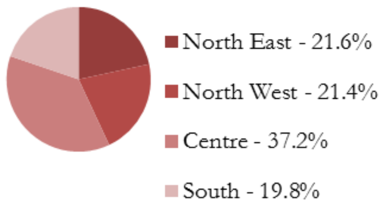


Wealth Management

Business areas	Customers
• 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).	There are around 37 thousand private customers. **Breakdown by type**  **Breakdown by geography** 

Income statement and balance sheet results

As at 31 March 2018, **Total Funding** for Wealth Management amounted to approximately **EUR 20.0 bn**, down by roughly EUR 0.5 bn from the end of December 2017 and by around EUR 0.7 bn against the levels recorded as at 31 March 2017. More specifically:

- **Direct Funding** as at 31 March 2018 is stable compared to the end of 2017, reaching **EUR 3.4 bn**, with a shift towards demand and medium/long-term components, which offset the downturn in short-term components. Compared to 31 March 2017, the aggregate increased (EUR +0.5 bn) due to growth in demand components (EUR +0.5 bn).
- **Indirect Funding**, amounting to about **EUR 16.6 bn**, was down by EUR 0.4 bn compared to 31 December 2017 (EUR -0.2 bn in asset management and EUR -0.2 bn in assets under custody) and down EUR 1.2 bn from March 2017 (EUR -0.7 bn in asset management and EUR -0.5 bn in assets under custody)
- **Interest-bearing loans** to Wealth Management **customers** were substantially in line with both 31 December 2017 and March 2017, reaching roughly **EUR 0.5 bn**.

WEALTH MANAGEMENT - BALANCE SHEET AGGREGATES							
(EUR mln)	31/03/18	31/12/17	31/03/17	Chg Abs Q/Q	Chg % Q/Q	Chg Abs Y/Y	Chg % Y/Y
Deposits from customers and debt securities issued	**3,363**	**3,436**	**2,848**	**-72**	**-2.1%**	**516**	**18.1%**
Assets under management	*11,588*	*11,828*	*12,308*	*-240*	*-2.0%*	*-719*	*-5.8%*
Assets under custody	*5,009*	*5,173*	*5,487*	*-165*	*-3.2%*	*-478*	*-8.7%*
Indirect Funding	**16,597**	**17,002**	**17,795**	**-405**	**-2.4%**	**-1,198**	**-6.7%**
Total Funding	**19,961**	**20,437**	**20,642**	**-477**	**-2.3%**	**-682**	**-3.3%**
Interest-Bearing Loans to Customers	**525**	**547**	**598**	**-22**	**-4.0%**	**-73**	**-12.3%**

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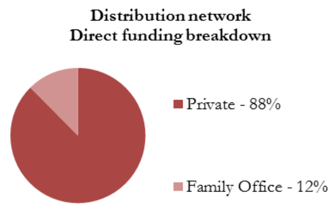

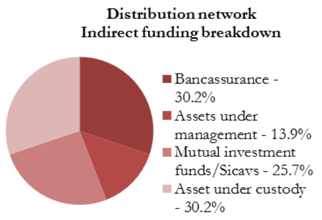

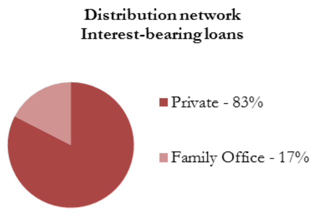

With regard to profit and loss, in the first quarter of 2018, Wealth Management achieved total **Revenues** of approx. **EUR 32 mln**, down 27.8% compared to the same period of last year. A breakdown of the aggregate shows:

- as at 31 March 2018, Net Interest Income was approximately EUR 1 mln, down 87.3% annually, impacted to a large extent by the drop in the contribution of direct funding;
- in the first three months of 2018, Net Fee and Commission income totalled approximately EUR 30 mln, also down compared to the levels of the previous year (-11.9%) mainly due to the decline in the product placement segment.

Considering the impact of Operating Expenses, which decreased by 8.7% Y/Y, Wealth Management generated **Gross Operating Income** of about **EUR 16 mln** in the first quarter of 2018 (-39.8% Y/Y). Including net impairments losses (reversals) on loans and financial assets equal to about EUR -1 million, the **Net Operating Income** since the start of the year totalled roughly **EUR 16 mln**.

The ***cost-income*** ratio of the Operating Segment is **48.6%** (38.4% at the end of March 2017).

WEALTH MANAGEMENT - PROFIT AND LOSS AGGREGATES				
			Chg. Y/Y	
(EUR mln)	**31/03/18**	**31/03/17**	**Abs.**	**%**
Net interest income	*1.2*	*9.2*	*-8.0*	*-87.3%*
Net fee and commission income	*30.1*	*34.2*	*-4.1*	*-11.9%*
Other income	*0.2*	*0.2*	*0.0*	*-7.4%*
Other operating expenses/income	*0.0*	*0.0*	*0.0*	*n.s.*
Total Income	**31.5**	**43.7**	**-12.2**	**-27.8%**
Operating expenses	*(15.3)*	*(16.8)*	*1.5*	*-8.7%*
Pre Provision Profit	**16.2**	**26.9**	**-10.7**	**-39.8%**
Net impairment losses (reversals) on loans and financial assets	(0.6)	(0.2)	-0.4	n.s.
Net Operating Income	**15.6**	**26.7**	**-11.1**	**-41.6%**

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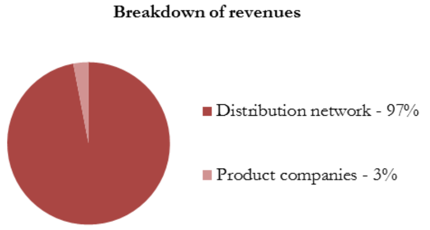
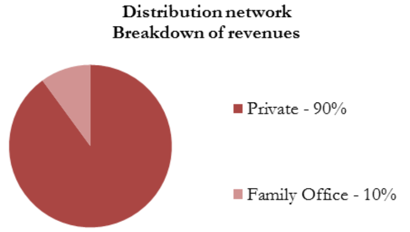




Corporate Banking

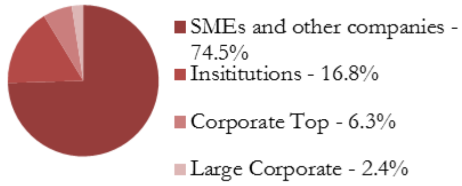
Business areas

- 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.
- Products and services issued by the Parent Company's foreign branches to support business expansion and investments by Italian companies abroad. Activities abroad are also supported by the operations of foreign subsidiaries MP Banque and MP Belgio.
- 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).

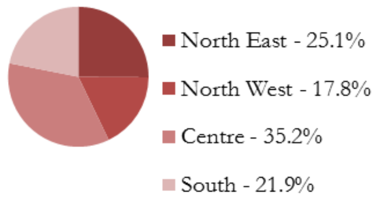
Customers

About 51,000 Corporate and large group customers of the Parent Company, directly followed by Corporate Banking.

Breakdown by type



Breakdown by geography



Income statement and balance sheet results

Corporate Banking **Total Funding** recorded growth of approx. EUR 1.5 bn, from EUR 31.2 bn at the end of December 2017 to **EUR 32.6 bn** as at 31 March 2018. The quarterly trend of this aggregate was principally due to the increase in direct funding (EUR +1.6 bn), recorded for demand and medium/long-term components, while the short-term component was down. Compared to 31 March 2017, volumes recorded a rise of around EUR 5.0 bn due to the rise in direct funding (EUR +7.1 bn) for all components, particularly demand funding (EUR 5.8 bn), while indirect funding recorded a decrease (EUR -2.1 bn) mostly in assets under custody.

With regard to lending, as at 31 March 2018, Corporate Banking **interest-bearing loans to customers** stood at approximately **EUR 37.4 bn** (EUR +1.2 bn on 31 December 2017 and EUR -4.2 bn on 31 March 2017), mainly consisting of medium/long-term loans.

CORPORATE BANKING - BALANCE SHEET AGGREGATES

(EUR mln)	31/03/18	31/12/17	31/03/17	Chg Abs Q/Q	Chg % Q/Q	Chg Abs Y/Y	Chg % Y/Y
Deposits from customers and debt securities issued	**21,102**	**19,481**	**13,980**	**1,621**	**8.3%**	**7,122**	**50.9%**
Assets under management	*1,685*	*1,591*	*1,710*	*94*	*5.9%*	*-25*	*-1.5%*
Assets under custody	*9,849*	*10,089*	*11,954*	*-241*	*-2.4%*	*-2,105*	*-17.6%*
Indirect Funding	**11,534**	**11,680**	**13,664**	**-146**	**-1.3%**	**-2,130**	**-15.6%**
Total Funding	**32,636**	**31,162**	**27,644**	**1,475**	**4.7%**	**4,993**	**18.1%**
Interest-Bearing Loans to Customers	**37,403**	**36,152**	**41,554**	**1,250**	**3.5%**	**-4,152**	**-10.0%**

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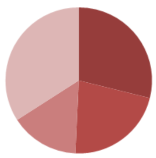
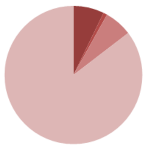
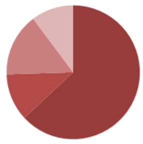






For profit and loss aggregates, in the third quarter of 2018 Corporate Banking **Revenues** came to approx. **EUR 214 mln** (-30.3% Y/Y). A breakdown of the aggregate shows:

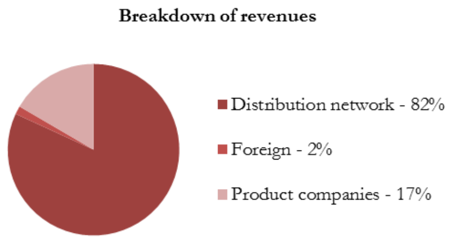
- Net Interest Income was approximately EUR 134 mln, down 25.4% annually due to the decrease in returns on commercial assets and of the contribution of funding;
- Net Fee and Commission Income decreased by 19.5% Y/Y, amounting to approximately EUR 80 mln, mainly penalised by the downward trend in proceeds from traditional services;
- Other Revenue from Banking and Insurance Business amounted to approximately EUR 6 mln (-80.1% Y/Y), with the drop attributable to the operations of the subsidiary MPS Capital Services.

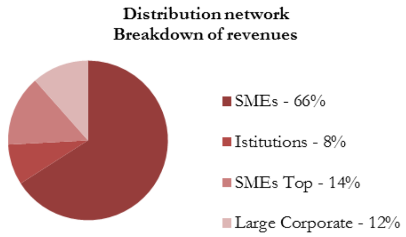
Considering the impact of Operating Expenses, down by 7.4% compared to 31 March 2017, **Gross Operating Income** came to about **EUR 72 mln** (-53.3% Y/Y). The **Net Operating Income** for this Segment was equal to approx. **EUR -4 mln** (the result as at 31 March 2017 was EUR +24 mln), as a result of the deterioration of impairment losses (reversals) on loans and financial assets (EUR -76 mln).

The Corporate Banking **cost-income** ratio stands at **66.6%** (50.1% as at 31 March 2017).

CORPORATE BANKING - PROFIT AND LOSS AGGREGATES				
			Chg. Y/Y	
(EUR mln)	31/03/18	31/03/17	Abs.	%
Net interest income	*133.6*	*179.0*	*-45.4*	*-25.4%*
Net fee and commission income	*80.3*	*99.8*	*-19.5*	*-19.5%*
Other income	*6.1*	*30.9*	*-24.7*	*-80.1%*
Other operating expenses/income	*(5.6)*	*(2.2)*	*-3.4*	*n.s.*
Total Income	**214.4**	**307.5**	**-93.1**	**-30.3%**
Operating expenses	*(142.8)*	*(154.2)*	*11.3*	*-7.4%*
Pre Provision Profit	**71.6**	**153.4**	**-81.8**	**-53.3%**
Net impairment losses (reversals) on loans and financial assets	(76.0)	(129.6)	53.6	-41.3%
Net Operating Income	**(4.4)**	**23.8**	**-28.2**	**n.s.**

N.B. The Group has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9. Therefore, 2017 Fiscal Year values, determined in accordance with IAS 39, are not fully comparable.





Results of the main subsidiaries

- **MPS Capital Services**: profit before tax of EUR +7 mln and loss for the period of around EUR -11 mln, the latter impacted by the results of the probability test on tax assets, down by around EUR 26 mln compared to the result recorded in the 1st quarter of 2017, due to lower revenues and other components only partially offset by net impairment gains.
- **MPS Leasing & Factoring**: profit for the year of EUR +2 mln, while the net loss for the period was approx. EUR -7 mln (EUR -12.1 mln as at 31 March 2017), the latter impacted by the results of the probability test on tax assets.
- **Foreign banks**[4]: in the first quarter of 2018, **MP Banque** recorded a profit of approx. EUR 1 mln compared to a loss of EUR -0.1 mln recorded in the corresponding period last year; with regard to **MP Belgio**, the profit for the period amounted to roughly EUR 0.8 mln, compared to a profit of EUR 0.5 mln as at 31 March 2017.

[4] The profit reported for foreign subsidiaries is the income determined in accordance to the *local gaap*.

Banca Widiba

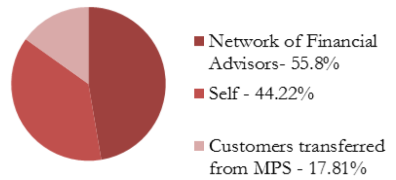
Business areas

- 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 606 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.

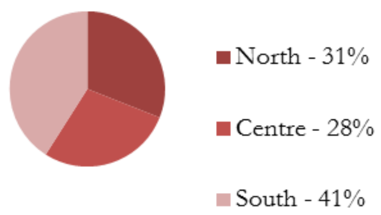
Customers

There were roughly 242,350 customers as at 31 March 2018, of which 135,200 in the Financial Advisor Network channel, 64,000 in the self-service channel, and 43,200 customers migrated from the MPS branch network. There were approx. 210,309 customers managed exclusively by Banca Widiba SpA.

Breakdown by type



Breakdown by geography



Income statement and balance sheet results

As at 31 March 2018, **Total Funding** for Widiba amounted to approximately **EUR 7.7 bn**, up approx. EUR 0.1 bn from the end of December 2017 and by EUR 0.8 bn compared to the 1st quarter of the previous year, both due to constant organic growth and to new assets contributed to the migration to Widiba of customers from the network of MPS branches. In the first quarter, an increase of around 7,300 units of the customer base was recorded, which generated a marked rise of the Direct Funding component, while Asset Management suffered a substantial slowdown caused by a particularly negative market effect. More specifically:

- **Direct Funding** of **EUR 2.4 bn**, reconfirmed and improved on the constant growth trend of 2017 both for current accounts and for restricted credit lines (EUR +241 mln corresponding to +11.2% since the beginning of the year and EUR +761, corresponding to +46.7% compared to 31 March 2017), generating particularly positive net funding flows both for the self customer channel and for that of the Network of Financial Advisors. Given the positive results of 2017, the commercial initiatives in the first quarter of 2018 were directed not only to acquiring new customers, but also to increasing the share of wallet of existing customers, with offers dedicated to developing the segment of customers that had migrated from MPS branches. The consolidation of assistance processes supporting the business and customers through the Widiba Media Centre structure made it possible to improve customer service levels while also continuing with the trend of achieving significant economies of scale;
- **Indirect Funding**, amounting to about **EUR 5.3 bn**, was in line with the figure for 31 March 2017, but slightly down from the beginning of the year by EUR 0.1 bn. The fall is mainly due to the unfavourable performance of the financial markets. In fact, a negative market impact on

the Asset Management segment of around EUR 130 mln (-2.6%) is estimated, accompanied by a temporary reduction of the net flows of funding from the Network of Financial Advisors to said segment, due to the first operating adjustments for the application of MiFID II legislation, which came into force on 3 January 2018. The decrease of Asset Management figures was mitigated, in terms of Indirect Funding, by the rise in Assets under Custody (EUR +70 mln since the beginning of the year, corresponding to +14.8%). 12 new Financial Advisors were hired in the first quarter.

Interest-bearing loans to Widiba **customers** rose from roughly EUR 238 mln at the end of December 2017 to **EUR 293 mln** as at 31 March 2018. The net overall increase of EUR 55 mln mainly refers to the consolidation of the range of mortgage loans offered by Widiba, with volumes disbursed in the first quarter of EUR 59 million (EUR 256 mln since the launch of the product).

WIDIBA BANK - BALANCE SHEET AGGREGATES

(EUR mln)	31/03/18	31/12/17	31/03/17	Chg Abs Q/Q	Chg % Q/Q	Chg Abs Y/Y	Chg % Y/Y
Deposits from customers and debt securities issued	**2,389**	**2,148**	**1,628**	**241**	**11.2%**	**761**	**46.7%**
Assets under management	*4,743*	*4,928*	*4,749*	*-184*	*-3.7%*	*-6*	*-0.1%*
Assets under custody	*543*	*473*	*521*	*70*	*14.8%*	*22*	*4.3%*
Indirect Funding	**5,286**	**5,401**	**5,270**	**-114**	**-2.1%**	**16**	**0.3%**
Total Funding	**7,675**	**7,548**	**6,898**	**127**	**1.7%**	**777**	**11.3%**
Interest-Bearing Loans to Customers	**293**	**238**	**57**	**55**	**23.2%**	**236**	**416.1%**

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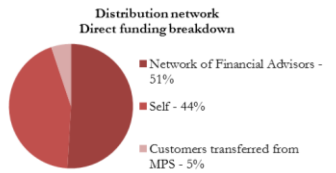

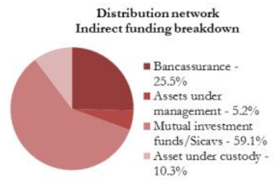

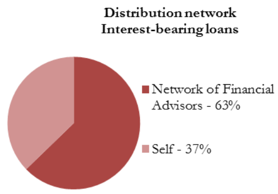

With regard to profit and loss, as at 31 March 2018 Widiba achieved total **Revenues** of approx. **EUR 16 mln**, up (EUR +4.5 mln; +38.3%) compared to the previous year. The contribution of the 1st quarter of 2018 was also up compared to the previous quarter due to the higher Net Interest Income and Net Fee and Commission Income. A breakdown of the aggregate shows:

- **Net Interest Income** as at 31 March 2018 amounting to EUR 11.4 mln, marking a significant increase (+62.5%) against the 1st quarter of 2017. With regard to the components of net interest income, a particularly positive contribution was made by both financial assets (due to higher average volumes of +35% Y/Y and a rising average yield of +27 bps), and by commercial assets (due to higher average volumes corresponding to around EUR 220 mln), together with a lower cost of funding (-15 bps on average). These trends led to a net improvement in performance in the first quarter with respect to the quarterly average in 2017 (corresponding to EUR 7.8 mln);

- **Net Fee and Commission Income** as at 31 March 2018, equal to EUR 4.0 mln, recorded a decrease compared to the 1st quarter of 2017 (EUR -1.0 mln; -19.6%). In terms of Gross Revenues, the fall, although contained and corresponding to -8% was mainly due to lower income from the placement of Asset management products, reflecting the above-cited trend regarding the funding flows of the Network and due to the first operating adjustments following the application of MiFID II legislation. On the other hand, commission from continuing Asset Management (due to higher average assets) and commissions from services rose. In the quarter, compared to the 1st quarter of 2017, higher extraordinary expenses relating to the recruiting of Financial Advisors (+5 FA hired with senior profiles compared to the previous year) and higher expenses relating to the loyalty system were recorded.

Operating Expenses rose by 8.2% compared to the 1st quarter of 2017, due to higher amortisation (EUR 0.6 mln) relating to the continuous development of the technological platform (necessary on one hand, to adapt to new legislation that came into force in January and, on the other hand, in order to improve the efficiency of internal and Network operations) and to higher personnel expenses (EUR +0.4 mln due to the increase of the workforce). Other administrative expenses only rose slightly (EUR 0.2 mln) due to a constant policy of optimising spending with a view to becoming an operating machine with an increasing number of customers, transactions and products.

Gross Operating Income therefore came to **EUR +0.6 mln**, an improvement of EUR +3.3 mln compared to the 1st quarter of 2017, recording a better quarterly performance also with respect to the whole of last year.

Net Operating Income performance was similar, recording a rise of EUR +3.4 mln against the 1st quarter of 2017, due to an impact of insignificant write-downs on loans.

WIDIBA BANK - PROFIT AND LOSS AGGREGATES				
			Chg. Y/Y	
(EUR mln)	31/03/18	31/03/17	Abs.	%
Net interest income	*11.4*	*7.0*	*4.4*	*62.5%*
Net fee and commission income	*4.0*	*5.0*	*-1.0*	*-19.6%*
Other income	*0.9*	*0.0*	*0.9*	*n.s.*
Other operating expenses/income	*(0.1)*	*(0.3)*	*0.2*	*n.s.*
Total Income	**16.2**	**11.7**	**4.5**	**38.3%**
Operating expenses	*(15.6)*	*(14.4)*	*-1.2*	*8.2%*
Pre Provision Profit	**0.6**	**(2.7)**	**3.3**	**n.s.**
Net impairment losses (reversals) on loans and financial assets	(0.0)	(0.1)	0.1	-90.4%
Net Operating Income	**0.6**	**(2.7)**	**3.4**	**n.s.**

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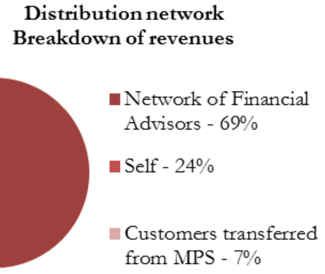

Corporate Centre

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 doubtful 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

With regard to international economic activity, the strengthening of global growth has boosted world trade performance, even though, on one hand, the risks of commercial restrictions on a greater scale following the introduction of tariffs on the imports of certain products by the US Administration and, on the other hand, uncertainties as to growth or on the development of monetary policy in several advanced economies with possible severe corrections on the financial markets.

In the Eurozone, economic growth continues, even though a stable trend towards inflation levels close to 2 percent has not yet emerged. Therefore, the Governing Council of the ECB decided it was necessary to continue to provide a high level of quantitative easing, both through net purchases of securities (at least until September 2018) and by re-investing in the stock of maturing assets in the portfolios of central banks, as well as through future interventions on interest rates.

The financial markets reflect the greater robustness of the economic outlook for the Eurozone as well as global trends. Italy's sovereign risk premiums continue to be low, as they have not reflected international tensions and do not indicate the greater uncertainty as to the prospects of the domestic economy. Compared to the end of 2017, the spread of the ten-year bond has fallen 30 basis points, to 129 points. The improvement in economic prospects and the lessening of tension on the banking system have contributed to attenuating the impact of global tensions on Italy and to encouraging the containment of risk premiums. Continuing favourable conditions set the foundations for the credible adjustment of public finances and for reforms able to boost the long-term growth potential of the Italian economy.

Corporate lending is showing signs of a more decisive increase. In the quarter ending in February, the increase of 2.1% Y/Y and of 1.2% over 12 months, also due to a greater demand for bank loans, reflecting the rise in investments above all in the manufacturing and service sectors. In 2017, the quality of bank credit improved, with the percentage represented by non-performing loans on total loans disbursed by banks classified as significant falling at year end to 14.5% before impairment losses and to 7.3% net of the same, against 17.6% and 9.4% in 2016, also due to the disposal of non-performing loans and to internal debt collection efforts.

As regards the MPS Group, following the approval of the 2017-2021 Restructuring Plan by the European Commission on 4 July 2017, activities began for the implementation of the main initiatives set forth in the Plan.

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

In accordance with the provisions of the Restructuring Plan, initiatives that seek to improve the credit risk profile have continued, which have included continuing with the programmes to dispose of/reduce the portfolio of Unlikely To Pay exposures by means of a set programme of transactions for a total residual amount in the two-year period 2018-2019 of EUR 3.5 bn (EUR 1.5 bn in 2018 and EUR 2.0 bn in 2019).

As regards the purchase of the doubtful loans recovery platform, the Parent Company, Cerved Group SpA ("Cerved") and Quaestio Holding SA ("Quaestio") announced that the conditions precedent for the conclusion of the transaction to purchase the doubtful loans recovery platform ("Juliet") of the Parent Company by a company established ad hoc by Cerved and Quaestio, had been fulfilled. As indicated in a joint press release on 2 August 2017, the closing of the transaction was subject to several conditions, including the approval of the supervisory authority, as well as the completion of the precautionary recapitalisation procedure set forth in the restructuring plan and the securitisation of the doubtful loans of BMPS, with the subscription of mezzanine notes by funds managed by Quaestio. Given that these conditions have been fulfilled, the Parent Company, Cerved and Quaestio embarked on the process to finalise the transaction by the end of May 2018.

The Parent Company obtained an investment grade rating for the senior tranche of the securitisation transaction for the disposal of a portfolio of EUR 24 bn of doubtful loans on the Italian market. This transaction highlights progress towards achieving the objectives of the Restructuring Plan: the amount of the senior tranche is better than the provisions of the Plan and the doubtful loan disposal process is proceeding in line with the original envisaged timing.

Annex

Procedure for restating the comparative figures of the reclassified financial statements, to take the new categories of IFRS 9 into account

Reclassified Consolidated Balance Sheet

ASSETS	31 12 2017	Reclassifications	31 12 2017	ASSETS
Cash and cash equivalents	4,092.3		4,092.3	Cash and cash equivalents
Receivables :				Financial assets measured at amortised cost
a) Loans to customers	86,456.3		86,456.3	a) Loans to customers
b) Loans to banks	9,966.2		9,966.2	b) Loans to banks
Marketable assets	24,168.4		24,168.4	Financial assets measured at fair value
Equity investments	1,034.6		1,034.6	Equity investments
Property, plant and equipment / Intangible assets	2,854.2		2,854.2	Property, plant and equipment / Intangible assets
of which:				*of which:*
a) goodwill	*7.9*		*7.9*	*a) goodwill*
Other assets	10,582.2		10,582.2	Other assets
Total assets	**139,154.2**		**139,154.2**	**Total assets**

LIABILITIES	31 12 2017	Reclassifications	31 12 2017	LIABILITIES
Payables				Payables
a) Deposits from customers and securities issued	97,801.8		97,801.8	a) Deposits from customers and securities issued
b) Deposits from banks	21,084.9		21,084.9	b) Deposits from banks
Financial liabilities held for trading	4,476.9		4,476.9	Financial liabilities held for trading
Provisions for specific use				Provisions for specific use
a) Provisions for staff severance indemnities	199.5		199.5	a) Provisions for staff severance indemnities
		226.4	226.4	b) Provisions for commitments and guarantees issued
b) Pensions and other post retirement benefit	50.1		50.1	c) Pensions and other post retirement benefit obligations
c) Other provisions	1,088.4		1,088.4	d) Other provisions
Other liabilities	4,021.2	(226.4)	3,794.8	Other liabilities
Group net equity	10,429.1		10,429.1	Group net equity
a) Valuation reserves	51.7		51.7	a) Valuation reserves
c) Equity instruments carried at equity	-		-	c) Equity instruments carried at equity
d) Reserves	3,864.8		3,864.8	d) Reserves
e) Share premium	-		-	e) Share premium
f) Share capital	10,328.6		10,328.6	f) Share capital
g) Treasury shares (-)	(313.7)		(313.7)	g) Treasury shares (-)
h) Net profit (loss) for the year	(3,502.3)		(3,502.3)	h) Net profit (loss) for the year
Non-controlling interests	2.3		2.3	Non-controlling interests
Total Liabilities and Shareholders' Equity	**139,154.2**		**139,154.2**	**Total Liabilities and Shareholders' Equity**

Reclassified Consolidated Income Statement				
MONTEPASCHI GROUP	**31 03 2017**	**Reclassifications**	**31 03 2017**	**MONTEPASCHI GROUP**
Net interest income	457.4	-	457.4	Net interest income
Net fee and commission income	426.3	-	426.3	Net fee and commission income
Income from banking activities	**883.7**	**-**	**883.7**	**Income from banking activities**
Dividends, similar income and gains (losses) on equity investments	20.5	-	20.5	Dividends, similar income and gains (losses) on equity investments
Net profit (loss) from trading and financial assets/liabilities	24.5	-	24.5	Net profit (loss) from trading and financial assets/liabilities measured at fair value through profit and loss
Net profit (loss) from hedging	0.2	-	0.2	Net profit (loss) from hedging
Other operating income (expenses)	4.3	-	4.3	Other operating income (expenses)
Total Revenues	**933.2**	**-**	**933.2**	**Total Revenues**
Administrative expenses:	(570.9)	-	(570.9)	Administrative expenses:
a) personnel expenses	(404.4)	-	(404.4)	a) personnel expenses
b) other administrative expenses	(166.5)	-	(166.5)	b) other administrative expenses
Net adjustments to (recoveries on) property, plant and equipment / Net adjustments to (recoveries on) intangible assets	(56.6)	-	(56.6)	Net adjustments to (recoveries on) property, plant and equipment / Net adjustments to (recoveries on) intangible assets
Operating expenses	**(627.5)**	**-**	**(627.5)**	**Operating expenses**
Pre Provision Profit	**305.6**	**-**	**305.6**	**Pre Provision Profit**
Net impairment losses (reversals) on:	**(303.1)**	**(6.0)**	**(309.1)**	Net impairment losses (reversals) on:
a) loans	(308.2)	-	(308.2)	*a) financial assets measured at amortised cost*
b) financial assets	*5.1*	*(6.0)*	*(0.9)*	*b) financial assets measured at fair value through other comprehensive income*
Net operating income	**2.5**	**(6.0)**	**(3.5)**	**Net operating income**
Net provisions for risks and charges	(45.6)	6.0	(39.6)	Net provisions for risks and charges
	-	*6.0*	*6.0*	*of which commitments and guarantees issued***
Gains (losses) on investments	(4.0)	-	(4.0)	Gains (losses) on investments
Restructuring costs / One-off costs	-	-	-	Restructuring costs / One-off costs
Risks and charges related to the SRF, DGS and similar schemes	(63.4)	-	(63.4)	Risks and charges related to the SRF, DGS and similar schemes
DTA Fee	(18.0)	-	(18.0)	DTA Fee
Gains (losses) on disposal of investments	(0.3)	-	(0.3)	Gains (losses) on disposal of investments
Profit (loss) before tax from continuing operations	**(128.6)**	**-**	**(128.6)**	**Profit (loss) before tax from continuing operations**
Tax expense (recovery) on income from continuing operations	(33.5)	-	(33.5)	Tax expense (recovery) on income from continuing operations
Profit (loss) after tax from continuing operations	**(162.1)**	**-**	**(162.1)**	**Profit (loss) after tax from continuing operations**
Net profit (loss) for the period including non-controlling interests	**(162.1)**	**-**	**(162.1)**	**Net profit (loss) for the period including non-controlling interests**
Net profit (loss) attributable to non-controlling interests	-	-	-	Net profit (loss) attributable to non-controlling interests
Profit (loss) for the period before PPA , impairment on goodwill and intangibles	**(162.1)**	**-**	**(162.1)**	**Profit (loss) for the period before PPA , impairment on goodwill and intangibles**
PPA (Purchase Price Allocation)	(7.1)	-	(7.1)	PPA (Purchase Price Allocation)
Net profit (loss) for the period	**(169.2)**	**-**	**(169.2)**	**Net profit (loss) for the period**

The comparative balances of 2017 of the reclassified consolidated balance sheet and income statement have been restated on the basis of the new items of IFRS 9 with the following conventions:

<u>balance sheet</u>

- the item “Loans:” broken down into customers and banks, has been restated under “Financial assets measured at amortised cost:”;

- the entire former IAS 39 portfolio of Financial assets available for sale (the former item “Financial assets held for trading”) has been restated in the IFRS 9 portfolio of Financial assets measured at fair value through comprehensive income (under “Financial assets measured at fair value”);
- the new item “b) Provisions for commitments and guarantees given” under Liabilities, not present in IAS 39, encompasses the reclassified balances relating to said cases from “Other liabilities”.

<u>income statement</u>

- the former item “Net profit (loss) from trading and from financial assets/liabilities” has been renamed “Net profit (loss) from trading and from financial assets/liabilities measured at fair value throught profit and loss”, indicating the same value published;
- the subitems of item “Net impairment (losses)/reversals on:” have been renamed “a) loans” as “a) financial assets measured at amortised cost” and “b) financial assets and other transactions” as “b) financial assets measured at fair value through other comprehensive income”. Subitem “b)” assimilates the reclassification of the impairment losses of other financial transactions, which are no longer present under the write-downs of IFRS 9 - former items 130d IAS 39-, under the item “Net provisions for risks and charges”.

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 2018 corresponds to the underlying documentary evidence and accounting records.

Siena, 10 May 2018

Signed by the

Financial Reporting Officer

Nicola Massimo Clarelli