MONTE DEI PASCHI DI SIENA BANK

Consolidated Interim Report as at 30 September 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
30 September 2018

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

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

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 30 September 2018, not subject to audit requirements, provides a description of the activities and results which largely characterised Montepaschi Group's operations in the first nine months 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obligation for listed companies to publish interim reports on operations (as at 31 March and as at 30 September) was repealed, allowing issuers to decide on a voluntary basis whether to disclose periodic financial information in addition to the annual and half-yearly reports.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.

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

CONSOLIDATED REPORT ON OPERATIONS
Highlights at 30/09/2018

INCOME STATEMENT AND BALANCE SHEET FIGURES

MPS GROUP

INCOME STATEMENT FIGURES	30/09/18	30/09/17*	Chg.
Net interest income	1,312.0	1,373.7	-4.5%
Net fee and commission income	1,162.9	1,213.2	-4.1%
Other operating income	43.5	636.3	-93.2%
Total Revenues	2,518.4	3,223.2	-21.9%
Net impairment losses (reversals) on financial assets mesured at amortised cost and finanaicl assets measured at fair value through other comprehensive income	(368.1)	(4,835.2)	-92.4%
Net operating income	435.0	(3,504.5)	n.s.
Net profit (loss) for the period	379.3	(3,000.7)	n.s.
EARNING PER SHARE (EUR)	**30/09/18**	**30/09/17***	**Var.**
Basic earnings per share	0.344	(11.136)	n.s.
Diluted earnings per share	0.344	(11.136)	n.s.
BALANCE SHEET FIGURES AND INDICATORS	**30/09/18**	**31/12/17 ***	**Var.**
Total assets	132,185.0	139,154.2	-5.0%
Loans to customers	87,464.9	86,456.3	1.2%
Direct funding	93,906.0	97,801.8	-4.0%
Indirect funding	99,352.3	95,845.7	3.7%
of which: assets under management	58,454.5	58,599.4	-0.2%
of which: assets under custody	40,897.8	37,246.3	9.8%
Group net equity	8,968.9	10,429.1	-14.0%
OPERATING STRUCTURE	**30/09/18**	**31/12/17 ***	**Var.**
Total head count - end of period	23,189	23,463	-274
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.*

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ALTERNATIVE PERFORMANCE MEASURES

MPS GROUP

PROFITABILITY RATIOS (%)	30/09/18	31/12/17 *	Chg.
Cost/Income ratio	68.1	63.2	4.9
R.O.E.	5.2	-41.6	46.8
Return on Assets (RoA) ratio	0.4	-2.5	2.90
ROTE (Return on tangible equity)	5.2	-41.6	46.8

** 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.*

KEY CREDIT QUALITY RATIOS (%)	30/09/18	31/12/17 *	Chg.
Net non-performing loans / Loans to Customers	9.6	16.3	-6.7
Gross NPL ratio	19.4	35.8	-16.4
Coverage non-performing loans	56.4	65.5	-9.1
Bad loans / Loans to Customers	3.4	8.3	-4.9
Loans to Customers measured at amortised cost - Stage 2/Performing exposures measured at amortised cost	20.2	n.d.	
Coverage bad loans	68.6	75.7	-7.1
Net impairment losses on loans measured at amortised cost/ Loans to Customers measured at amortised cost (Provisioning)	0.5	5.8	-5.3
Texas Ratio	98.9	112.2	-13.3

** 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 December 2017, the following credit quality ratios include the share of portfolio (both in Non-performing loans and in Loans to Customers), relating to the transfer, by means of securitisation, of a set of credit exposures classified as bad loans, whose derecognition was completed on 22 June 2018.

Cost/Income ratio: ratio between Operating Expenses (Administrative Expenses and Net value adjustments to tangible 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 loans and the sum of tangible shareholders' equity and loan loss provisions.

CONSOLIDATED REPORT ON OPERATIONS
Highlights at 30/09/2018

REGULATORY MEASURES

MPS GROUP

CAPITAL RATIOS (%)	30/09/18	31/12/17 *	Chg.
Common Equity Tier 1 (CET1) ratio	12.5	14.8	-2.3
Total Capital ratio	13.9	15.0	-1.1
FINANCIAL LEVERAGE INDEX (5)	**30/09/18**	**31/12/17 ***	**Chg.**
Leverage ratio - Transitional Phase	5.5	6.0	-0.5
LIQUIDITY RATIO (%)	**30/09/18**	**31/12/17 ***	**Chg.**
LCR	185.9	199.5	-13.6
NSFR	110.6	110.0	0.6
Encumbered asset ratio	35.0	33.5	1.5
Loan to deposit ratio	93.1	88.4	4.7
Counterbalancing capacity	18.5	21.1	-2.6

** 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.*

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

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

Executive summary

Changes in the key items of the Group's main aggregates recorded at 30 September 2018 are summarised below:

- The Group recorded **Total revenues** of **EUR 2,518 mln**, down by 21.9% compared to the same period of the previous year, due to the downturn in Net profit (loss) from trading and financial assets/liabilities measured at amortised cost and fair value through profit and loss, which had benefitted in 2017 from the effects of burden-sharing. **Net interest income**, which amounted to **EUR 1,312 mln** (-4.5% 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 **EUR 1,163 mln** as at 30 September 2018, recorded a 4.1% decline compared to the same period of the previous year, mainly impacted by lower income from payment services (Bancomat and cards), following the disposal of the merchant acquiring business on 30 June 2017, and on services connected with asset management. Within other revenues, the **Net profit (loss) from trading and financial assets/liabilities measured at amortised cost and at fair value through profit and loss for the period** totalled around **EUR 6 mln**, down from the same period of the previous year (EUR 571 mln), which included the effects relating to the burden-sharing operation.

- **Operating Expenses** amounted to **EUR 1,715 mln** (-9.4% Y/Y). **Personnel Expenses**, which totalled **EUR 1,098 mln**, declined year on year by 7.6%, in particular as a result of the headcount reduction brought about, firstly, by the Solidarity Fund exits of 600 individuals on 1 May 2017 and of 1,200 individuals on 1 November 2017. **Other Administrative Expenses** as at 30 September 2018 amounted to **EUR 448 mln**, down by 12.4% compared to the same period of the previous year, thanks to continuous structural cost control measures. **Net value adjustments to tangible and intangible assets** amounted to **EUR 169 mln**, lower than the values in the corresponding period of the previous year, which was impacted by higher write-downs on intangible assets (software licences).

- **Net impairment (losses)/reversals on financial assets measured at amortised cost and at fair value through comprehensive income** amounted to **EUR 368 mln**, down EUR 4.5 bn from the same period of the previous year, which included adjustments to loans recorded on the perimeter of bad loans transferred following the adjustment to their recovery value. The ratio of net impairment losses on loans to total Loans to Customers as at 30 September 2018 shows a **Provisioning Rate** of **55 bps.** With regard to **Net provisions for risks and charges relating to commitments and guarantees given**, an overall recovery of **EUR 37 mln** was recorded, against EUR -67 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 profit from the sale of the Juliet platform (EUR 50 mln) recorded in the first half of 2018, the costs connected to the National Resolution Fund (NRF) and DGS, amounting to EUR 124 mln and the partial reassessment of DTAs from tax losses (EUR +163 mln), accrued but not recognised in previous years, the Group recorded a profit of **EUR 379 mln as** at 30 September 2018, against a loss of EUR 3,001 mln recorded in September 2017.

- **Total Funding** at the end of September 2018 amounted to approximately **EUR 193.3 bn**, essentially stable with respect to the levels of 31 December 2017, within which Direct Funding fell (especially regarding bonds), offset by the growth in assets under custody of the indirect component, impacted by the changes in a significant corporate position in 2Q18. Down compared to 30 June 2018 on the direct funding component.

- **Loans to customers** stood at around **EUR 87.5 bn** as at 30 September 2018, up EUR +1.0 bn compared to 31 December 2017, within which an increase was registered by securities lending as a result of the recognition of senior notes deriving from the securitisation transaction, partially offset by the decrease in non-performing loans (EUR -2.4 bn, mainly due to FTA/IFRS9) and repurchase agreements (EUR -1.1 bn). The increase in the aggregate (EUR +0.5 bn) compared to 30 June 2018 is concentrated in the repurchase agreement component (EUR +1.1 bn) and mortgages (EUR +0.5 bn), only partially offset by the fall in non-performing loans (EUR -0.2 bn) and current accounts (EUR -0.2 bn).

- **The net exposure to non-performing loans**, which includes all cash exposures regardless of which accounting portfolio they belong to, with the exception of equities, UCITS, financial assets held for trading and hedging derivatives, stood at **EUR 8.5 bn** at the end of September 2018, a reduction of EUR 6.3 bn since the beginning of the year, due mainly to the deconsolidation of bad loans transferred and the impacts connected with FTA/IFRS9, with a decrease in the incidence of net bad loans (from 8.3% in December 2017 to 3.4% as at 30 September 2018), unlikely to pay (from 7.6% in December 2017 to 5.9% as at 30 September 2018) and substantial stability of Non-performing past-due exposures. The percentage of coverage of non-performing loans stood at 56.4%, a decrease compared to 31 December 2017 (65.5%) due to the above-mentioned deconsolidation. The coverage of bad loans fell from 75.7% in December 2017 to 68.6% in September 2018.

- With regard to capital ratios, as at 30 September 2018 the **Common Equity Tier 1 Ratio** stood at **12.5%** (14.8% at the end of 2017) and the **Total Capital Ratio** at **13.9%**, compared to 15.0% recorded at the end of December 2017.

- As at 30 September 2018, the operational liquidity position showed an **unencumbered Counterbalancing Capacity** of **EUR 18.5 bn**, down (approximately EUR -2.6 bn) from 31 December 2017. This performance is mainly due to the maturity of a tranche of Government-guaranteed bond issues in 1Q18.

Shareholders

As at 30 September 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 30 September 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 S.p.A.*	4.319%
BMPS S.p.A.**	3.181%

* Share held directly and through subsidiary companies.

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

Information on the BMPS share

Share price and trends

The third quarter of the year was characterised by a contrasting trend in the share markets; after the month of July where the markets showed general signs of a recovery, also with the stabilisation of the dollar and an increase on yields on Government bonds, the US share market continued to grow in August, while Europe and the emerging countries recorded negative performances; in September, European shares recorded better results than US ones.
Another factor that influenced the market was political risk, with the intensification of some crises on emerging markets (Argentina, Venezuela and Turkey) and growing anxiety regarding the situation in Italy. Nonetheless, the reference macroeconomic framework continued to be positive, albeit with less sustained growth figures, especially in Europe, while the real economy figures continue to show a positive trend.
On the international markets, from the start of the year, the S&P500 has recorded an increase of 9% while the Nikkei has risen by 6%. From the start of 2018, the European stock markets have registered high volatility, with Madrid (-6.5%) bringing up the rear, followed by Milan and Frankfurt (-5.2%), while London (-2.3%) showed greater staying power; by contrast, Paris recorded a positive performance (+3.4%).

The balance in the first nine months of the year was particularly negative for the Italian banking sector (FTSE IT Banks -15.2%). BMPS share closed the third quarter of 2018 with a negative performance of 42.7% from the start of the year (-9% compared to the close of the previous quarter), with average daily volumes of around 2.3 million trades.

SHARE PRICE SUMMARY STATISTICS (from 31/12/2017 to 30/09/2018)	
Average	2.84
Minimum	2.07
Maximum	4.02

Ratings

The ratings assigned by the rating agencies as at 30 September 2018 are provided below:

Rating Agencies	Short-term debt	Outlook	Long-term debt	Outlook	Latest 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

Reference context

The expansionary cycle that has been ongoing since the middle of 2016 is continuing, with expected global growth of 3.7% in the 2018-2019 two-year period, the same level as 2017[1]. At the same time, the expansion has become less balanced with spikes recorded in some advanced economies; while downside risks on growth have increased.

The US economy remained solid (+4.2% annualised Q/Q for GDP in the second quarter), supported by the ongoing tax stimulus measures, but the 2019 growth forecasts have been revised downwards, also in light of the protectionist measures recently announced by the US Administration, including the imposition of tariffs of USD 200 bn on Chinese imports. In addition, the speed of the withdrawal of monetary stimulus measures in the US could represent a risk; with the market that, for the moment, expects a gentler incline in monetary rate hikes than planned by the Fed, an unexpected acceleration in US inflation (core inflation at 2.2% YoY - net of the most volatile components - in August) with a response from the Monetary Authorities, could cause extreme portfolio adjustments, limit investment flows and impact exchange rates.

The cooling of global trade and disappointing production figures in the first part of 2018 impacted the economic prospects of the United Kingdom and the Euro Area (-0.1% YoY for industrial production of the Eurozone in July). Some emerging economies (Argentina, Brazil, Iran and Turkey) have seen their growth prospects slashed, reflecting growing macroeconomic imbalances and heightened geopolitical tensions with subsequent capital outflows, also suffering from the effects of the rise in oil prices on their imports.

In this global context, Italian growth registered a quarterly increase of 0.2% in the second quarter, in line with the expectations, but the approval of the new Economy and Finance Document represents a potential risk factor: the deviation from the agreed path of adjustment of public finances in support of Italian growth could entail a loss of control of the budget accounts and subsequent loss of saver and investor confidence.

As regards the markets, US listed prices benefitted considerably from the US Administration policies, with the S&P500 index recording a rise of 12.8% in the first nine months of 2018. The Nikkei also rose significantly (+8.9%), while the listed prices in Europe were more volatile (Euro Stoxx -3.0%), and in particular, those in Italy were impacted by the clash with the EU over the approval of the new financial measure (FTSEMIB -5.2%)

From mid-May, yields on Italian Government Bonds increased progressively, even on shorter maturities, reaching 3.43% on 10-year maturities at the end of October, while the BTP-Bund spread, after broad fluctuations, returned to growth at the end of October, around 300 basis points. The 10-year US yield exceeded 3% in October 2018, while the 10-year bund, after reaching 0.57%, closed the month of October down 0.39%

On the monetary policy front, the Fed continued with its restrictive phase, raising interest rates further in September by 25 basis points. Consequently, the rates on Fed Funds rose to 2% - 2.25%. A fourth rise could materialise by the end of the year, at the final monetary policy meeting, planned for December. In addition, on the back of the latest meeting of the Fed, there will be a further three increases in 2019. At the meeting in September, the ECB confirmed the end of the bond-buying programme in December 2018 and decided to leave its monetary policy unchanged until after the summer of 2019.

[1] source: International Monetary Fund - October 2018

Significant events in the first nine 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 bad 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.

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 bad 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 bad 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 **10 May**, the Parent Company completed the securitisation process for the disposal of a portfolio of EUR 24.1 bn of bad loans (data relating to the end of December 2017) 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.

On **14 May 2018**, the Parent Company, Cerved Group SpA ("Cerved") and Quaestio Holding SA ("Quaestio") announced the conclusion of the purchase of the bad loans recovery platform ("Juliet") of Banca Monte Paschi di Siena by Quaestio Cerved Credit Management SpA, a company established ad hoc by Cerved and Quaestio. The Juliet platform will carry out special servicing activities on portfolios of bad loans, and will manage at least 80% of bad loans generated by BMPS for a ten-year period (with an initial value of around EUR 4.5 bn), plus other bad loans deriving from the securitisation transaction of Banca Monte Paschi di Siena and from other securitisations promoted by Quaestio (amounting to around EUR 17.6 bn as of today).

The consideration for the transfer was EUR 52.6 mln, in line with the consideration of EUR 52.5 mln communicated on 2 August 2017 and corrected for some adjustments relating to working capital items, which could be augmented by an earn-out for a maximum total amount of EUR 33.8 mln, payable in two possible tranches, upon the occurrence of given economic results, following the approval of Juliet's financial statements as at 31 December 2020 and as at 31 December 2025.

On **22 June 2018**, the transfer of 95% of the junior notes for a nominal EUR 565 mln was completed with Quaestio Capital SGR S.p.A., on behalf of the Italian Recovery Fund (former Atlante II Fund), relating to the securitisation of the MPS Group bad loan portfolio. This transaction, following the transfer of 95% of the mezzanine notes for a nominal EUR 847.6 mln, which took place on 9 January 2018, again to the Italian Recovery Fund, marked the full achievement of the objectives set out in the agreements signed with Quaestio Capital SGR S.p.A. on 26 June 2017, which made provision for the acquisition, by the latter, of the mezzanine and junior tranches of the securitisation of the MPS Group bad loan portfolio by 30 June 2018. The remaining 5% of the junior and mezzanine notes was retained by the MPS Group for the purposes of observance of the "retention rule". The overall transaction represents the biggest securitisation ever completed at European level and marks an important step in the process, envisaged in the 2017-2021 Restructuring Plan, approved on 4 July 2017 by the European Commission, of disposal of the prevailing portion of its bad loans by the MPS Group. The transfer of the junior notes, in addition to the transfer of the mezzanine notes and the full outsourcing of portfolio recovery activities, actually involved, on the same date, the deconsolidation of the securitised portfolio at the end of December 2017 for a gross value of around Euro 24.1 bn (net value of Euro 4.3 bn). With regard to the economic impacts related to the valuation of the portfolio sold through the securitisation transaction, it should be noted that these were already accounted for in 2017, based on the realizable values deriving from the agreements signed.

On **12 July 2018**, the Board of Directors deemed that, at the current state of play, the conditions were not in place for joining the proceedings 955/2016 as a civil party claiming damages, in whose context the former Chairman of the Board of Directors Alessandro Profumo and the former Chief Executive Officer Fabrizio Viola were charged with alleged market manipulation and false corporate communications, while the then Chairman of the Board of Statutory Auditors and current Standing Auditor Paolo Salvadori was charged with alleged false corporate communications. In formulating its judgments, the Board of Directors considered all the available decision-related elements as a whole, with exclusive regard to the pursuit of the Bank's interests and protection of the integrity of its assets.

On **16 July 2018**, the Parent Company received communication from the Ministry of Economy and Finance (MEF), of the granting - by means of its decree of 28 June 2018, registered by the Court of Auditors on 10 July 2018 and the Central Budget Office of the MEF on 13 July 2018 - of the Government guarantee (GACS) on the senior tranche of the securitisation of NPLs, whose nominal amount is Euro 2,918 million (the bonds were initially issued in December 2017 for a higher amount, equal to Euro 3,095.6 mln, reduced after the first payment date of 30 April 2018).

On **27 September 2018**, the Parent Company announced that it had taken the decision to promote an all-inclusive voluntary public tender offer, regarding all classes of asset-backed securities indicated hereunder, issued on 22 December 2010 by Casaforte and outstanding as at 27 September 2018, net of the securities already held by the Bidder and announced that it had filed, on **28 September 2018**, at CONSOB, the offer document relating to the all-inclusive voluntary public tender offer, regarding class A asset-backed securities ("Class A Securities" validly tendered to the offer for which participants will be paid an amount of EUR 622.06 for every EUR 608.70 of current nominal value, corresponding to an original nominal value of EUR 1,000.00) and Class B asset-backed securities ("Class B Securities" validly tendered to the offer for which participants will be paid an amount of EUR 1,525.14 for every EUR 1,245.60 of current nominal value, corresponding to an original nominal value of EUR 1,000.00) issued by Casaforte S.r.l.. The offer document, published on **26 October 2018**, envisages an offer subscription period from 29 October 2018 to 16 November 2018, except in the case of extensions. (For more details, please refer to the full versions of the press releases on www.mps.it)

Significant events after 30 September 2018

On **5 October 2018**, the Parent Company reached an agreement with an investee of the funds managed by Warburg Pincus for the sale of Banca Monte Paschi Belgio (BMPB), the Belgian subsidiary with total assets of EUR 1.5 bn, customer loans of EUR 0.8 bn, direct funding of EUR 1 bn and shareholders' equity of EUR 110 mln as at 31 December 2017. The agreement falls under the commitments undertaken with the European Commission as part of the 2017/2021 Restructuring Plan and marks another important step in the relaunch process of the Monte Paschi Group. The sale price was set at EUR 42 mln, subject to a price adjustment mechanism. The impact on the MPS CET1 is insignificant and has already been included in the projections of the Restructuring Plan.

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 fourth monitoring is in progress with reference to the data as at 30 June 2018, 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 to 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 (which took place in the first quarter), 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; incorporated in this context is both the transfer, in 2017, of around 46 thousand retail customers from BPMS, characterised by a behavioural profile marked by a strong liking for self-banking and compatibility of the scope of products already held with the Bank's current and future offering, and the additional transfer of around 100 thousand customers in October. This second tranche presents, with respect to the first one, a more detailed structure, in terms of products and accounts held by the customers, with particular reference to the credit and investments segments.

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 258 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 2,806 ATMs, of which 1,138 feature the advanced cash-in function; these 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.). Adding to approximately 600 installations of advanced ATMs which took place between 2017 and the first nine months of 2018, roughly another 100 installations are planned by the end of 2018;

- the new Network Governance model was implemented at the end of February 2018. This manoeuvre led to the reduction of the sales governance structures (Regional Areas) from 6 to 5, centralising the products 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 is in the process of being rationalised through the closure of 148 branches, which took place in the first quarter, and a further 63 branches, expected to close by the end of the year;
- as regards digitalisation, the Bank currently has around 2 million internet banking contracts, with around 1 million customers already using the renewed Digital Banking platform, through which customers can not only perform the main on-line transactions, but can request a debit card and exchange digitally signed documents with their branch. Digital Banking will be further enriched over the coming months with new information and order functions relating to loans, cards and protection;
- as regards the rationalisation of the number of staff, the Bank is evaluating the potential implementation, by the end of the year or in 2019, of the planned exits through use of the Solidarity Fund, owing to the current uncertainties regarding the pension reform proposed by the Government's legislative framework, essentially concerning the contribution requirements, those of seniority and the amounts of benefits to be received.

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

- the monitoring of the new 2018 credit policy guidelines for Italy and Overseas, the latter defined through a new framework;
- the completion of the roll-out of new "credit standards", namely the rules to comply with during the origination stage of the credit portfolio;
- advanced maintenance of 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;
- the monitoring and review of default detection mechanisms, in order to ensure their development as regards regulatory and business compliance; special attention has been focused, in this regard, on the management of overdrafts, positions registered as high risk and those intended for large-scale recovery;
- the effective continuation of programmes involving the sale/reduction of the portfolio of unlikely to pay positions, with a reduction of around EUR 1.3 bn in the first nine months of 2018;
- the continuation of the divestment and deconsolidation transactions, with a specific bad loan disposal plan, represented by receivables resulting from lease agreements and by receivables for contained single amounts, totalling approximately EUR 3.3 bn;
- the roll-out of the outsourcing of management of the flow of bad loans (activation of "Juliet" platform) and launch of ordinary interaction operations according to defined and shared processes.

Lastly, with reference to some of the main commitments of the Restructuring Plan, note should be taken of the following:

- Transfer of NPLs: transfer of the portfolio of NPLs concluded successfully on 22 June 2018, with the relevant deconsolidation for a value of roughly EUR 24 bn of gross exposure.[2]
- Transfer of foreign banks:
  - for Banca Monte Paschi Belgio S.A., the Parent Company reached a sale agreement with an investee of funds managed by Warburg Pincus, at a price of EUR 42 mln, subject to a price adjustment mechanism. The sale is subject to approval by the National Bank of Belgium and the European Central Bank;
  - for Monte Paschi Banque S.A., given the unsuccessful attempts at the transfer, the Parent Company, as set out in the Plan, resolved the run-off of the subsidiary, which consists of limiting the bank's activities strictly to those targeted at the deleveraging of loans, excluding the development of new business; during said period, the Bank will retain the banking licence.
- Closure of foreign branches: the process to close the foreign branches in New York, London and Hong Kong was launched and is in progress.
- Sale of property assets: for the purposes of compliance with said commitment, which ultimately makes provision for the disposal, over the term of the Plan, of owned properties with a total value of around EUR 500 mln, the Bank launched the restructuring of the Chianti Classico transaction; this transaction includes the Casaforte securitisation and the transfer of property assets relating to it to the Consorzio Perimetro. Through the consolidation of the processes and activities on specific Bank functions and the reduction of the number of companies involved, property assets relating to the securitisation (currently held by Perimetro) may be managed with greater flexibility and the administrative and decision-making processes may be governed more effectively.
- Strengthening of the capital position: after the issuing of the first tranche of the subordinated Tier 2 loan in January 2018 for an amount of EUR 750 mln, the Bank constantly monitors the market conditions, currently dominated by uncertainty, with the objective of performing a second issue of the same type.

[2] Corresponding originally, in the Restructuring Plan, to EUR 26.1 bn as at 31 December 2016, restated as at 31 December 2017 to EUR 24.6 bn due to the exclusions subsequently effected on the reference perimeter as at 31 December 2016 and, finally, certified at a value of approximately EUR 24 bn, which also includes recoveries made in the meantime on the reference perimeter as at 31 December 2017.

Explanatory Notes

The Montepaschi Group Consolidated Interim Report on Operations as at 30 September 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 30 September 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, to replace IAS 39 and IFRS 15, to replace IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31. In this regard, note that the Group elected i) to continue to apply the rules for the recognition of hedge accounting requirements of 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 and IFRS 15 and iii) to apply IFRS 9 early, limited to the treatment of the creditworthiness of fair value option financial liabilities.

IFRS 9 "Financial instruments" replaces IAS 39 "Financial instruments: recognition and measurement". IFRS 9 was published by the IASB on 24 July 2014, and was approved at EU level, through the publication in the Official Journal of the European Union, of Regulation (EU) no. 2016/2067 of 22 November 2016.

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 2017, the amendments to which took effect on 1 January 2018. On this matter, note that the Group's insurance associates apply the "deferral approach", which constitutes an exemption from the application of IFRS 9 until 2021.

IFRS 15 "Revenue from contracts with customers" replaces standards IAS 18 "Revenue" and IAS 11 "Construction contracts", as well as interpretations IFRIC 13 "Customer loyalty programmes", IFRIC 15 "Agreements for the construction of real estate", IFRIC 18 "Transfers of assets from customers" and SIC 31 "Revenue - barter transactions involving advertising services". IFRS 15 was published by the IASB on 28 May 2014, and was approved at EU level, through the publication in the Official Journal of the European Union, of Regulation (EU) no. 2016/1905 of 22 September 2016.

Furthermore, the following also 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".

The standards endorsed by the European Commission but to be applied in the future, include the new standard IFRS 16 "Leases", published on 13 January 2016 by the IASB and applicable from 1 January 2019. The standard replaces IAS 17 - Leases, as well as the interpretations IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The new standard provides a new definition of lease and introduces an approach based on control (right of use) of an asset to distinguish lease agreements from service agreements, identifying as discriminating factors: the identification of the asset, the right to replace it, the right to substantially obtain all economic benefits originating from the use of the asset and the right to direct the use of the asset underlying the agreement. The initial analyses of the provisions under this standard did not highlight any significant impacts to be recognised to equity upon first-time application.

Transition to the accounting standards IFRS 9 and IFRS 15

The transition to accounting standards IFRS 9 and IFRS 15 had a negative effect on the shareholders' equity of the Group amounting to –EUR 1,390.4 mln, of which –EUR 1,536.8 mln as the overall impact of the new IFRS 9 impairment model.

For further insights on the first-time adoption of accounting standards IFRS 9 and IFRS 15, please refer to the 2018 Half-year Report.

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

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

- Item "**Net interest income**" was cleared of the negative contribution (equal to EUR -9 mln) of the Purchase Price Allocation (PPA), which was reclassified to a specific item, and supplemented by the amount relating to the subsidiary MP Belgio for EUR +13 mln.
- Item "**Net fee and commission income**" was supplemented by the amount relating to the subsidiary MP Belgio for EUR +2 mln.
- Item "**Dividends, similar income and profit/loss on equity investments**" incorporates item 70 "Dividends and similar income" and a portion of item 250 "Profit/loss on equity investments" (EUR 46 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 1 mln), reclassified to item "Net profit (loss) from trading and financial assets/liabilities".
- The item "**Net profit (loss) from trading and financial assets/liabilities measured at amortised cost and at fair value through profit and loss" includes item 80 "Net profit (loss) from trading**", item 100 "Gains (losses) on disposal/repurchase of: i) financial assets measured at amortised cost 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". The item also incorporates dividends earned on equity securities other than equity investments (EUR 1 mln), and the amount relating to the subsidiary MP Belgio for EUR +6 mln.
- The 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 224 mln) and the amount relating to the subsidiary MP Belgio for EUR +0.6 mln.
- The income statement item "**Personnel expenses**" was increased by a net amount of EUR 25 mln (EUR +29 mln for recoveries obtained from Inps on the amounts allocated due to early retirement/solidarity fund initiatives in 2017 and EUR -4 mln for extraordinary expenses relating to the closure of foreign branches), due to the reclassification of these amounts to the item "Restructuring costs/one-off charges". The item also includes the amount of the cost relating to MP Belgio for EUR 7 mln.
- The item "**Other administrative expenses**" includes the balance of income statement item 190b "Other administrative expenses", reduced by the following cost items:
    - expenses, amounting to EUR 124 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 53 mln (posted to the reclassified item "DTA fees");
    - extraordinary charges, relating to project initiatives also aimed at complying with the commitments undertaken with DG Comp (also including the closure of domestic and foreign branches), for EUR 16 mln (stated under reclassified item "Restructuring costs/One-off charges").

This item also incorporates the recovery of stamp duty and client expenses recoveries (EUR 224 mln) posted in the balance sheet under item 220 “Other operating expenses/income” and the amount of the cost relating to subsidiary MP Belgio for EUR 7 mln.

- Item “**Net value adjustments to tangible and intangible assets**” was cleared of the negative contribution (equal to EUR -18 mln) of the Purchase Price Allocation (PPA), which was reclassified to a specific item. The item also includes the amount relating to the subsidiary MP Belgio for EUR -1 mln.
- 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)”. The item was supplemented by the amount relating to the subsidiary MP Belgio for EUR -3 mln.
- The item “**Net provisions for risks and charges**” was cleared of the allocation for expenses relating to commitment initiatives for EUR 8 mln, re-allocated to the reclassified item “Restructuring costs/One-off charges”. The item was supplemented by the amount relating to the subsidiary MP Belgio for EUR -0.4 mln.
- The item “**Restructuring costs/One-off charges**” mainly includes the charges relating to project initiatives, also aimed at complying with the commitments undertaken with DG Comp (for a total amount of EUR -90 mln, including the expected loss from the sale relating to the subsidiary MP Belgio for an amount of EUR -61 mln) and the aforementioned recoveries from INPS for previous early retirement/solidarity fund initiatives (EUR +29 mln).
- Item “**Risks and charges associated with 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 30 September, expenses of EUR 124 mln were recorded, of which EUR 95 mln related to the ordinary contribution to the Single Resolution Fund (SRF) and the additional amount to the National Resolution Fund, and EUR 29 mln as an estimate of the contribution to be recognised to DGS.
- 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 53 mln.
- Item “**Profit/loss on equity investments**” includes the balance of balance sheet item 250 “Profit/loss 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 profit/loss on equity investments” (EUR 46 mln).
- 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 9 mln.
- The item “**Gains (losses) from assets held for sale**” was cleared of the effects of the expected loss of the sale of the subsidiary MP Belgio (EUR -61 mln), reclassified to “Restructuring costs/One-off charges”.
- The overall negative effects of the Purchase Price Allocation (PPA) were reclassified to a specific item, excluding them from affected income statement items (in particular “**Net interest income**” for EUR -9 mln and “**Net value adjustments to tangible and intangible assets**” for EUR -18 mln, net of a theoretical tax burden of EUR +9 mln which was added to 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

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

a) The asset item "**Cash and cash equivalents**" includes the amount relating to the subsidiary MP Belgio for EUR 5 mln.

b) 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". The portion relating to the subsidiary MP Belgio amounts to EUR 347 mln.

c) The asset item "**Loans to banks**" was increased by the amount relating to the subsidiary MP Belgio for EUR 29 mln.

d) The asset item "**Loans to customers**" was increased by the amount relating to the subsidiary MP Belgio for EUR 821 mln.

e) The asset item "**Tangible and intangible assets**" was increased by the amount relating to the subsidiary MP Belgio for EUR 7 mln.

f) 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" (excluding an amount of EUR 1,218 mln relating to the total assets of the subsidiary MP Belgio, net of the intercompany amount) and 130 "Other assets". The item also includes the portion relating to subsidiary MP Belgio for EUR 9 mln.

g) 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". The portion relating to the subsidiary MP Belgio amounts to EUR 944 mln.

h) The liability item "**Deposits from banks**" was increased by the amount relating to the subsidiary MP Belgio for EUR 148 mln.

i) The liability item "**Financial liabilities held for trading**" was increased by the amount relating to the subsidiary MP Belgio for EUR 2 mln.

j) The item "**Pension provisions and similar obligations**" was increased by the amount relating to the subsidiary MP Belgio for EUR 1 mln and "**Other provisions for risks and charges**" was increased by the amount relating to the subsidiary MP Belgio for EUR 1 mln.

k) Liability item "**Other liabilities**" includes balance sheet items 40 "Hedging derivatives", 50 "Value adjustments to financial liabilities subject to macro-hedging", 60 "Tax liabilities", 70 "Liabilities associated with discontinued operations" (excluding an amount of EUR 1,104 mln relating to the total liabilities of the subsidiary MP Belgio, net of the intercompany amount) and 80 "Other liabilities" (including the amount relating to the subsidiary MP Belgio for EUR 8 mln).

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				
	30/09/18	30 09 2017*	Change	
MONTEPASCHI GROUP			Abs.	%
Net interest income	1,312.0	1,373.7	(61.7)	-4.5%
Net fee and commission income	1,162.9	1,213.2	(50.3)	-4.1%
Income from banking activities	**2,474.9**	**2,586.9**	**(112.0)**	**-4.3%**
Dividends, similar income and gains (losses) on equity investments	55.0	68.7	(13.7)	-19.9%
Net profit (loss) from trading and financial assets/liabilities measured at amortised cost and maesured at fair value through profit and loss	5.8	571.4	(565.6)	-99.0%
Net profit (loss) from hedging	(1.0)	(4.5)	3.5	-77.8%
Other operating income (expenses)	(16.3)	0.7	(17.0)	n.s.
Total Revenues	**2,518.4**	**3,223.2**	**(704.7)**	**-21.9%**
Administrative expenses:	(1,546.3)	(1,700.2)	153.9	-9.1%
a) personnel expenses	(1,098.0)	(1,188.3)	90.3	-7.6%
b) other administrative expenses	(448.3)	(511.9)	63.7	-12.4%
Net adjustments to (recoveries on) property, plant and equipment / Net adjustments to (recoveries on) intangible assets	(169.1)	(192.3)	23.2	-12.1%
Operating expenses	**(1,715.4)**	**(1,892.5)**	**177.2**	**-9.4%**
Pre Provision Profit	**803.1**	**1,330.7**	**(527.6)**	**-39.6%**
Net impairment losses (reversals) on:	**(368.1)**	**(4,835.2)**	**4,467.1**	**-92.4%**
a) financial assets measured at amortised cost	(361.1)	(4,772.0)	4,410.9	-92.4%
b) Financial assets measured at fair value through other comprehensive income	*(7.0)*	*(63.2)*	56.2	-88.9%
Net operating income	**435.0**	**(3,504.5)**	**3,939.5**	**n.s.**
Net provisions for risks and charges	(15.3)	(134.0)	118.7	-88.6%
*of which commitments and guarantees issued***	*37.2*	*(67.2)*	*104.4*	*n.s.*
Gains (losses) on investments	1.0	(22.9)	23.9	n.s.
Restructuring costs / One-off costs	(61.1)	(295.7)	234.6	-79.3%
Risks and charges related to the SRF, DGS and similar schemes	(123.5)	(94.2)	(29.3)	31.1%
DTA Fee	(53.1)	(53.2)	0.1	-0.1%
Gains (losses) on disposal of investments	50.1	533.5	(483.4)	-90.6%
Profit (loss) before tax from continuing operations	**233.0**	**(3,571.0)**	**3,804.0**	**n.s.**
Tax expense (recovery) on income from continuing operations	164.5	589.9	(425.5)	-72.1%
Net profit (loss) for the period including non-controlling interests	**397.5**	**(2,981.1)**	**3,378.6**	**n.s.**
Net profit (loss) attributable to non-controlling interests	0.1	-	0.1	n.s.
Profit (loss) for the period before PPA	**397.4**	**(2,981.1)**	**3,378.5**	**n.s.**
PPA (Purchase Price Allocation)	(18.1)	(19.6)	1.5	-7.7%
Net profit (loss) for the period	**379.3**	**(3,000.7)**	**3,380.0**	**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.*

*** The 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

Montepaschi Group	2018			2017			
	3°Q 2018	2°Q 2018	1°Q 2018	4°Q 2017*	3°Q 2017*	2°Q 2017*	1°Q 2017*
Net interest income	442.1	448.5	421.5	414.6	470.4	445.9	457.4
Net fee and commission income	353.4	403.0	406.5	363.3	355.7	431.2	426.3
Income from banking activities	**795.5**	**851.5**	**828.0**	**777.9**	**826.1**	**877.1**	**883.7**
Dividends, similar income and gains (losses) on equity investments	20.7	16.2	18.1	32.3	22.4	25.7	20.5
Net profit (loss) from trading and financial assets/liabilities measured at amortised cost and maesured at fair value through profit and loss	(2.0)	(29.5)	37.4	3.4	528.5	18.3	24.5
Net profit (loss) from hedging	(1.2)	(0.9)	1.1	0.8	(2.7)	(2.0)	0.2
Other operating income (expenses)	(3.4)	(5.1)	(7.8)	(12.0)	(3.9)	0.3	4.3
Total Revenues	**809.5**	**832.2**	**876.8**	**802.4**	**1,370.5**	**919.5**	**933.2**
Administrative expenses:	(504.2)	(526.4)	(515.7)	(579.4)	(561.1)	(568.2)	(570.9)
a) personnel expenses	(364.0)	(366.2)	(367.8)	(387.1)	(388.8)	(395.1)	(404.4)
b) other administrative expenses	(140.2)	(160.1)	(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	(56.9)	(55.1)	(57.1)	(71.1)	(64.7)	(70.9)	(56.6)
Operating expenses	**(561.1)**	**(581.4)**	**(572.8)**	**(650.5)**	**(625.8)**	**(639.1)**	**(627.5)**
Pre Provision Profit	**248.3**	**250.8**	**304.0**	**151.9**	**744.7**	**280.4**	**305.6**
Net impairment losses (reversals) on:	**(121.4)**	**(108.8)**	**(137.9)**	**(581.6)**	**(204.7)**	**(4,321.4)**	**(309.1)**
a) financial assets measured at amortised cost	*(115.9)*	*(108.1)*	*(137.1)*	*(551.7)*	*(175.0)*	*(4,288.8)*	*(308.2)*
b) Financial assets measured at fair value through other comprehensive income	*(5.5)*	*(0.7)*	*(0.8)*	*(29.9)*	*(29.7)*	*(32.6)*	*(0.9)*
Net operating income	**126.9**	**142.0**	**166.1**	**(429.7)**	**540.0**	**(4,041.0)**	**(3.5)**
Net provisions for risks and charges	(16.6)	(51.3)	52.6	(142.1)	(27.6)	(66.8)	(39.6)
*of which commitments and guarantees issued***	*(9.5)*	*1.8*	*44.9*	*24.0*	*(19.8)*	*(53.4)*	*6.0*
Gains (losses) on investments	5.0	0.0	(4.0)	8.9	(19.1)	0.2	(4.0)
Restructuring costs / One-off costs	(27.8)	(16.3)	(17.0)	(34.5)	(278.0)	(17.7)	-
Risks and charges related to the SRF, DGS and similar schemes	(28.6)	(25.9)	(69.0)	2.3	(31.2)	0.4	(63.4)
DTA Fee	(17.7)	(17.7)	(17.7)	(17.7)	(17.7)	(17.5)	(18.0)
Gains (losses) on disposal of investments	0.2	49.6	0.3	(2.3)	1.8	532.0	(0.3)
Profit (loss) before tax from continuing operations	**41.4**	**80.4**	**111.3**	**(615.2)**	**168.2**	**(3,610.6)**	**(128.6)**
Tax expense (recovery) on income from continuing operations	55.0	26.1	83.3	119.7	79.9	543.5	(33.5)
Net profit (loss) for the period including non-controlling interests	**96.4**	**106.5**	**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	(0.1)	-
Profit (loss) for the period before PPA	**96.3**	**106.5**	**194.6**	**(495.6)**	**248.0**	**(3,067.0)**	**(162.1)**
PPA (Purchase Price Allocation)	(5.5)	(5.6)	(7.0)	(6.0)	(6.1)	(6.4)	(7.1)
Net profit (loss) for the period	**90.8**	**100.9**	**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.*
*** The item "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 30 September 2018, the Group recorded Total **revenues** of **EUR 2,518 mln**, down by 21.9% compared to the same period of the previous year, in particular due to the downturn in Net profit (loss) from trading and financial assets/liabilities measured at amortised cost and fair value through profit and loss, which had benefitted in 2017 from the effects of burden-sharing. In 3Q18, Revenues fell by EUR 23 mln against the previous quarter. More specifically, both Net interest income (EUR -6 mln) and Net fee and commission income (EUR -50 mln) decreased, while Net profit (loss) from trading and financial assets/liabilities registered a recovery.

Net interest income as at 30 September 2018 amounted to **EUR 1,312 mln**, down by 4.5% compared to the same period in 2017, mainly related to the negative trend of interest-bearing assets, in particular commercial loans (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 3Q18 result decreased compared to the previous quarter (-1.4%), essentially owing to the trends in commercial loans.

Items	30 09 2018	30 09 2017*	Chg. Y/Y		3°Q 2018	2°Q 2018	Chg. Q/Q	
			Abs.	%			Abs.	%
Loans to customers measured at amortised cost	1,355.0	1,629.3	(274.3)	-16.8%	444.6	459.2	(14.6)	-3.2%
Securiries issued	(210.4)	(322.6)	112.2	-34.8%	(61.8)	(70.9)	9.1	-12.8%
Net Differentials on hedging derivatives	(3.4)	(8.3)	4.9	-59.0%	(2.8)	(1.2)	(1.6)	n.s.
Loans to Banks measured at amortised cost	2.0	(28.7)	30.7	n.s.	0.6	4.8	(4.2)	-87.5%
Trading portfolios	26.9	38.8	(11.9)	-30.7%	10.3	11.6	(1.3)	-11.2%
Portfolios measured at fair value	34.0	(51.8)	85.8	n.s.	16.5	6.1	10.4	n.s.
Financial assets measured at fair value through other comprehensive income	105.5	116.5	(11.0)	-9.4%	35.1	36.6	(1.5)	-4.1%
Other net interest income	2.4	0.5	1.9	n.s.	(0.4)	2.3	(2.7)	n.s.
Net interest income	**1,312.0**	**1,373.7**	**(61.7)**	**-4.5%**	**442.1**	**448.5**	**(6.5)**	**-1.4%**
*of which: interest income on impaired financial assets***	210.3	356.8	(146.5)	-41.1%	63.3	66.2	(2.9)	-4.4%

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

Net fee and commission income totalled **EUR 1,163 mln;** the decrease of 4.1% compared to the same period of 2017 is primarily due to lower income on payment services (Bancomat and cards) following the disposal of the merchant acquiring business unit on 30 June 2017 and services connected with asset management. The trend is down by 12.3% from the previous quarter, due in particular to the lower income from asset and credit management.

Services / Values	30 09 2018	30 09 2017	Chg. Y/Y		3°Q 2018	2°Q 2018	Chg. Q/Q	
			Abs.	%			Abs.	%
Guarantees given / received	(31.9)	(35.0)	3.1	-8.9%	(10.7)	(10.0)	(0.7)	7.0%
Collection and payment services	137.2	77.8	59.4	76.4%	61.5	37.8	23.8	62.9%
Current account keeping	336.4	362.8	(26.4)	-7.3%	109.6	112.0	(2.4)	-2.1%
Credit and debit cards	93.1	140.8	(47.7)	-33.9%	28.8	33.3	(4.6)	-13.7%
Commercial banking activities	**534.8**	**546.4**	**(11.6)**	**-2.1%**	**189.2**	**173.1**	**16.1**	**9.3%**
Receipts and trasmission of orders	20.0	21.0	(1.0)	-4.8%	4.9	7.8	(2.9)	-37.2%
Trading activities on financial instruments and currencies	10.9	9.6	1.3	13.5%	3.5	4.4	(0.9)	-20.5%
Distribution of third party services	391.3	375.1	16.2	4.3%	89.3	145.1	(55.8)	-38.5%
Insurance services	155.0	141.5	13.5	9.5%	50.7	54.2	(3.5)	-6.5%
Placement/ offering of financial instruments and services	(29.2)	(30.7)	1.5	-4.9%	(8.9)	(8.4)	(0.5)	6.0%
Asset management	34.7	38.8	(4.1)	-10.6%	11.0	11.6	(0.6)	-5.2%
Management, brokerage and advisory services	**582.7**	**555.3**	**27.4**	**4.9%**	**150.5**	**214.7**	**(64.2)**	**-29.9%**
Other advisory services	**45.4**	**111.5**	**(66.1)**	**-59.3%**	**13.7**	**15.2**	**(1.5)**	**-9.7%**
Net fee and commission income	**1,162.9**	**1,213.2**	**(50.3)**	**-4.1%**	**353.4**	**403.0**	**(49.6)**	**-12.3%**

Dividends, similar income and profit/loss on equity investments, lower than those at 30 September 2017, totalled **EUR 55 mln**, mainly represented by the AXA-MPS contribution[3]. In 3Q18, this component recorded growth compared to the previous quarter (EUR +4 mln), thanks to the higher contribution of AXA-MPS.

Net profit (loss) from trading and financial assets/liabilities measured at amortised cost and at fair value through profit and loss as at 30 September 2018 totalled **EUR 6 mln** (detailed below), down from the same period of the previous year (EUR 571 mln), which included the effects relating to the burden-sharing operation. An analysis of the main aggregates shows the following:

- **Net profit (loss) from trading** amounting to EUR +10 mln, a decrease over 30 September 2017 and up compared to the previous quarter, despite the effects connected with the trend in the BTP-Bund spread;
- **Net profit (loss) from financial assets/liabilities measured at fair value through profit and loss was a negative EUR 64 mln** (as at 30 September 2017, the loss was EUR -1 mln), attributable to the negative net results of assets/liabilities measured at fair value as per mandatory requirements;
- **Gains on disposals/repurchases for a positive EUR 60 mln**, down against the same period last year (EUR -492 mln Y/Y), which had been impacted by the effects of the burden-sharing operation. Up compared to 2Q18 due to the capital gain from the sale of securities.

Items	30 09 2018	30 09 2017*	Chg. Y/Y		3°Q 2018	2°Q 2018	Chg. Q/Q	
			Abs.	%			Abs.	%
Financial assets held for trading	(147.4)	(45.8)	(101.6)	n.s.	(57.7)	(88.5)	30.7	-34.8%
Financial trading liabilities	154.3	51.0	103.3	n.s.	54.4	90.9	(36.5)	-40.2%
Exchange rate effects	18.8	7.0	11.8	n.s.	4.4	10.6	(6.2)	-58.5%
Derivatives	(15.5)	8.8	(24.3)	n.s.	5.3	(23.5)	28.8	n.s.
Trading results	**10.2**	**21.0**	**(10.8)**	**-51.4%**	**6.4**	**(10.4)**	**16.8**	**n.s.**
Net profit (loss) from financial assets and liabilities measured at fair value through profit and loss	(64.3)	(1.4)	(62.9)	n.s.	(15.5)	(32.5)	17.0	-52.3%
Disposal / repurchase	59.9	551.8	(491.9)	-89.1%	7.1	13.4	(6.3)	-47.0%
Net profit (loss) from trading and financial assets and liabilities measured amortised cost and measuerd at fair value through profit and loss	**5.8**	**571.4**	**(565.6)**	**-99.0%**	**(2.0)**	**(29.5)**	**27.5**	**-93.1%**

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The following items also make up Revenues:

- **Net profit (loss) from hedging amounting to EUR -1 mln,** an improvement compared to 30 September 2017 and down compared to 2Q18;
- **Other operating income/expense** was **negative for EUR 16 mln,** down compared to the result registered in the first nine months of 2017 (EUR +1 mln) and up compared to the previous quarter.

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

Operating expenses

Operating expenses totalled **EUR 1,715 mln** as at 30 September 2018, down 9.4% on the previous year. 3Q18 recorded a decrease of 3.5% over 2Q18 (EUR -20 mln), due mainly to the trend in Other administrative expenses. A closer look at the individual aggregates reveals the following:

- **Administrative expenses** were **EUR 1,546 mln**, down by EUR 154 mln over the previous year (-9.1 Y/Y) and by EUR 22 mln over 2Q18. A breakdown of the aggregate shows:
  - **Personnel Expenses**, which totalled **EUR 1,098 mln**, declined year on year by 7.6% (EUR -90 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 also down against the previous quarter, essentially due to headcount changes;
  - **Other Administrative Expenses** stood at **EUR 448 mln**, down by 12.4% 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 posted in 3Q18 fell compared to those of the previous quarter.
- **Net value adjustments to tangible and intangible assets** as at 30 September 2018 amounted to **EUR 169 mln**, lower than the values in the corresponding period of the previous year, which was impacted in particular by higher write-downs on intangible assets (software licences). Growth compared to the previous quarter (+3.4% Q/Q).

Type of transaction	30 09 2018	30 09 2017	Chg Y/Y		3°Q 2018	2°Q 2018	Chg Q/Q	
			Abs.	%			Abs.	%
Wages and salaries	(792.7)	(856.9)	64.2	-7.5%	(263.7)	(265.6)	1.9	-0.7%
Social-welfare charges	(216.2)	(232.4)	16.2	-7.0%	(71.6)	(72.2)	0.6	-0.8%
Other personnel expenses	(89.1)	(99.0)	9.9	-10.0%	(28.7)	(28.4)	(0.2)	0.8%
Personnel expenses	**(1,098.0)**	**(1,188.3)**	**90.3**	**-7.6%**	**(364.0)**	**(366.2)**	**2.3**	**-0.6%**
Taxes	(184.3)	(213.5)	29.2	-13.7%	(53.0)	(68.3)	15.3	-22.4%
Furnishing, real estate and security expenses	(115.4)	(132.4)	17.0	-12.8%	(38.3)	(38.2)	(0.1)	0.3%
General operating expenses	(142.9)	(149.7)	6.8	-4.5%	(45.0)	(46.8)	1.8	-3.8%
Information technology expenses	(109.3)	(124.9)	15.6	-12.5%	(37.3)	(38.4)	1.1	-2.9%
Legal and professional expenses	(75.4)	(100.8)	25.4	-25.2%	(30.0)	(26.4)	(3.6)	13.6%
Indirect personnel costs	(4.3)	(7.5)	3.2	-42.7%	(1.1)	(1.7)	0.6	-35.3%
Insurance	(32.0)	(21.7)	(10.3)	47.5%	(12.5)	(10.7)	(1.8)	16.8%
Advertising, sponsorship and promotions	(4.5)	(6.0)	1.5	-25.0%	(1.0)	(1.2)	0.2	-16.7%
Other	(4.2)	(13.0)	8.9	-68.1%	1.5	(2.8)	4.2	n.s.
Expenses recovery	224.0	257.6	(33.6)	-13.0%	76.5	74.3	2.2	2.9%
Other administrative expenses	**(448.3)**	**(511.9)**	**63.7**	**-12.4%**	**(140.2)**	**(160.1)**	**19.9**	**-12.4%**
Tangible assets	(95.9)	(95.6)	(0.3)	0.3%	(31.2)	(30.8)	(0.4)	1.3%
Intangible assets	(73.2)	(96.7)	23.5	-24.3%	(25.7)	(24.3)	(1.5)	6.1%
Amortization and impairment losses	**(169.1)**	**(192.3)**	**23.2**	**-12.1%**	**(56.9)**	**(55.1)**	**(1.9)**	**3.4%**
Operating costs	**(1,715.4)**	**(1,892.5)**	**177.2**	**-9.4%**	**(561.1)**	**(581.4)**	**20.3**	**-3.5%**

As a result of these trends, the Group's **Gross Operating Income** totalled **EUR 803 mln** (EUR 1,331 mln as at 30 September 2017), with a positive contribution of EUR 248 mln in the quarter, essentially stable compared to the previous quarter.

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

As at 30 September 2018, the Group accounted **Net impairment (losses)/reversals on financial assets measured at amortised cost and at fair value through comprehensive income** for **EUR 368 mln**, down EUR 4.5 bn from the same period of the previous year, which included adjustments to loans recorded on the perimeter of bad loans transferred following the adjustment to their realisable value. Up compared to 2Q18.

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 to total Loans to Customers as at 30 September 2018 (annualised) shows a **Provisioning Rate of 55 bps.**

	30 09 2018	30 09 2017*	Chg. Y/Y		3°Q 2018	2°Q 2018	Chg. Q/Q	
			Abs.	%			Abs.	%
Loans to banks measured at amortised cost	0.8	(1.3)	2.1	n.s.	3.0	(3.9)	6.9	n.s.
- Loans	0.8	(1.8)	2.6	n.s.	1.7	(2.7)	4.4	n.s.
- Debt securities	-	0.5	(0.5)	-100.0%	1.3	(1.2)	2.5	n.s.
Loans to customers measured at amortised cost	(355.0)	(4,770.7)	4,415.7	-92.6%	(117.3)	(101.4)	(15.9)	15.7%
- Loans	(353.1)	(4,770.8)	4,417.7	-92.6%	(115.7)	(101.0)	(14.7)	14.6%
- Debt securities	(1.9)	0.1	(2.0)	n.s.	(1.6)	(0.4)	(1.2)	n.s.
Gains (losses) due to modifications in contractual cash flows without derecognition	(6.8)	-	(6.8)	n.s.	(1.5)	(2.8)	1.3	-46.4%
Impairmet loss on loans measured at amortised cost	**(361.0)**	**(4,772.0)**	**4,411.0**	**-92.4%**	**(115.8)**	**(108.1)**	**(7.7)**	**7.1%**
Financial assets measured at fair value through comprehensive income	(7.0)	(63.2)	56.2	-88.9%	(5.5)	(0.7)	(4.8)	n.s.
Total adjustments due to credit risk	**(368.0)**	**(4,835.2)**	**4,467.2**	**-92.4%**	**(121.3)**	**(108.8)**	**(12.5)**	**11.5%**

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The Group's **Net Operating Income** in the first nine months of 2018 was approximately **EUR +435 mln**, compared to roughly EUR -3,505 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 -15 mln**, net negative impact attributable primarily to the provisions for the commitments assumed by the bank in relation to transactions with customers, partly offset by the revaluation of the commitment assumed to cover the hedging costs of the vehicle with regard to the disposal of bad loans as per the binding agreement signed on 26 June 2017 with Quaestio, charged to the transferor. As at 30 September 2017, a negative balance of EUR 134 mln was registered, adversely impacted by the higher provisions for legal actions and the negative valuation of the commitment undertaken vis-à-vis the above vehicle.
- **Gains on investments** of around **EUR 1 mln** compared to a loss of EUR 23 mln registered on 30 September 2017, the result of 3Q18 increased compared to the previous quarter due to the increase in the value of the investment in Fondo Etrusco.
- **Restructuring costs/One-off charges** of **EUR -61 mln**, mainly include the charges relating to initiatives also connected with the compliance with the commitments assumed with DGComp, including the expected loss from the sale of the subsidiary MP Belgio (EUR -61 mln) and other project initiatives, partially offset by the recoveries recognised by INPS for previous early retirement/solidarity fund initiatives (EUR +29 mln).
- **Risks and charges associated with SRF, DGS and similar schemes**, amounting to **EUR -124 mln**, comprised of the ordinary contribution to the Single Resolution Fund accounted for in the first quarter of 2018, the additional amount to the National Resolution Fund accounted for in the second quarter of 2018 and the estimated amount to be recognised to FITD (DGS) accounted for in 3Q18 (EUR 29 mln).
- **DTA Fee,** amounting to **EUR -53 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 30 September 2018 on DTA (Deferred Tax Assets) that can be converted into a tax credit.
- **Gains on disposal of investments**, for an amount of **EUR 50 mln**, attributable essentially to income on the sale of Juliet, completed in 2Q18. As at 30 September 2017, the aggregate was a positive EUR 534 mln, attributable primarily to the gain from the disposal of the merchant acquiring business unit.

Due to the trends discussed above, the Group's **Profit before tax from continuing operations** stood at **EUR +233 mln**, up compared to the levels as at 30 September 2017, which had recorded a loss of EUR -3,571 mln.

Tax expense (recovery) on income from continuing operations amounted to income of **EUR +164 mln.** This result can essentially be attributed to the partial reassessment - equal to EUR 163 mln - of DTAs from tax losses accrued but not recognised in previous years. The item also includes the ACE (aid for economic growth) accrued for EUR 31 mln.

Considering the net effects of the PPA (EUR -18 mln), the **Group consolidated profit as at 30 September 2018 amounted to EUR 379 mln**, compared to a loss of EUR 3,001 mln in the same period of 2017.

Reclassified balance sheet

Reclassified Balance Sheet				
ASSETS	30 09 2018	31 12 2017*	Chg	
			abs.	%
Cash and cash equivalents	714.1	4,092.3	(3,378.2)	-82.6%
Financial assets measured at amortised cost :				
a) Loans to customers	87,464.9	86,456.3	1,008.6	1.2%
b) Loans to banks	8,724.2	9,966.2	(1,242.0)	-12.5%
Financial assets measured at fair value	25,430.0	24,168.4	1,261.6	5.2%
Equity investments	905.1	1,034.6	(129.5)	-12.5%
Property, plant and equipment / Intangible assets	2,746.9	2,854.2	(107.3)	-3.8%
of which:				
a) goodwill	*7.9*	*7.9*	-	
Other assets	6,199.8	10,582.2	(4,382.4)	-41.4%
Total assets	**132,185.0**	**139,154.2**	**(6,969.2)**	**-5.0%**

LIABILITIES	30 09 2018	31 12 2017*	Chg	
			abs.	%
Payables				
a) Deposits from customers and securities issued	93,906.0	97,801.8	(3,895.8)	-4.0%
b) Deposits from banks	20,838.9	21,084.9	(246.0)	-1.2%
Financial liabilities held for trading	3,000.6	4,476.9	(1,476.3)	-33.0%
Provisions for specific use				
a) Provisions for staff severance indemnities	194.6	199.5	(4.9)	-2.5%
b) Provisione related to guarantees and other commitments given	219.2	226.4	(7.2)	-3.2%
c) Pensions and other post retirement benefit obligations	40.5	50.1	(9.6)	-19.2%
d) Other provisions	1,067.4	1,088.4	(21.0)	-1.9%
Other liabilities	3,946.7	3,794.8	151.9	4.0%
Group net equity	8,968.9	10,429.1	(1,460.2)	-14.0%
a) Valuation reserves	(305.0)	51.7	(356.7)	n.s.
c) Equity instruments carried at equity	-	-	-	
d) Reserves	(1,120.3)	3,864.8	(4,985.1)	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	379.3	(3,502.3)	3,881.6	n.s.
Non-controlling interests	2.2	2.3	(0.1)	-4.3%
Total Liabilities and Shareholders' Equity	**132,185.0**	**139,154.2**	**(6,969.2)**	**-5.0%**

** 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.*

Reclassified Balance Sheet - Quarterly Trend

ASSETS	30/09/18	30/06/18	31/03/18	31 12 2017*	30 09 2017*	30 06 2017*	31 03 2017*
Cash and cash equivalents	714.1	721.2	896.9	4,092.3	821.9	843.1	879.1
Financial assets measured at amortised cost :							
a) Loans to customers	87,464.9	87,010.1	89,320.4	86,456.3	91,041.1	89,713.1	102,406.9
b) Loans to banks	8,724.2	8,636.3	6,374.5	9,966.2	12,897.0	13,116.4	8,451.4
Financial assets measured at fair value	25,430.0	29,257.2	25,652.3	24,168.4	25,403.0	24,089.8	26,511.8
Equity investments	905.1	896.8	1,075.8	1,034.6	1,001.2	1,023.6	1,013.0
Property, plant and equipment / Intangible assets	2,746.9	2,789.9	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*	*7.9*	*7.9*
Other assets	6,199.8	6,411.4	10,620.6	*10,582.2*	11,101.2	11,958.8	6,648.2
Total assets	**132,185.0**	**135,722.8**	**136,771.8**	**139,154.2**	**145,099.1**	**143,589.5**	**148,804.6**

LIABILITIES	30/09/18	30/06/18	31/03/18	31 12 2017*	30 09 2017*	30 06 2017*	31 03 2017*
Payables							
a) Deposits from customers and securities issued	93,906.0	96,833.9	97,856.8	97,801.8	102,968.4	106,543.9	109,390.0
b) Deposits from banks	20,838.9	20,794.8	20,483.1	21,084.9	21,566.1	22,802.8	22,837.5
Financial liabilities held for trading	3,000.6	3,173.6	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	194.6	196.3	197.3	199.5	234.7	233.7	252.5
b) Provisione related to guarantees and other commitments given	219.2	209.7	223.4	226.4	249.3	230.6	177.2
c) Pensions and other post retirement benefit obligations	40.5	43.8	49.4	50.1	45.9	47.3	52.5
d) Other provisions	1,067.4	1,112.5	1,086.6	1,088.4	959.8	958.8	954.2
Other liabilities	3,946.7	4,361.5	3,949.2	3,794.8	3,927.1	5,272.6	4,684.0
Group net equity	8,968.9	8,994.5	9,298.3	10,429.1	10,944.5	3,047.7	6,041.9
a) Valuation reserves	(305.0)	(194.0)	196.7	51.7	60.5	102.0	7.4
c) Equity instruments carried at equity	-	-	-	-	-	-	-
d) Reserves	(1,120.3)	(1,114.9)	(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	10,328.6	10,328.6	15,692.8	7,365.7	7,365.7
g) Treasury shares (-)	(313.7)	(313.7)	(313.7)	(313.7)	(313.7)	-	-
h) Net profit (loss) for the period	379.3	288.5	187.5	(3,502.3)	(3,000.7)	(3,242.6)	(169.2)
Non-controlling interests	2.2	2.2	2.3	2.3	2.2	2.2	2.4
Total Liabilities and Shareholders' Equity	**132,185.0**	**135,722.8**	**136,771.8**	**139,154.2**	**145,099.1**	**143,589.5**	**148,804.6**

** 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.*

Customer funding

The Group's **total funding** as at 30 September 2018 amounted to **EUR 193.3 bn** (stable with respect to 31 December 2017), down by EUR 2.6 bn compared to 30 June 2018 due to the decrease in direct funding.

Background

In the first eight months of 2018, direct funding registered good staying power with respect to the same period of the previous year, falling 1% in August. The two components of the aggregate continue to record a diametrically opposite performance: growth in deposits from ordinary resident customers (net of repo transactions with central counterparties and deposits connected with loan transfers) and growth in August of 2.4% per annum, and a reduction in bonds (-17.5%); therefore, this trend confirms that observed over the last two years in this regard.
Banks are actually continuing with their policy of reducing the supply of funds and the remuneration paid on bank-issued bonds. This approach is related to the liquidity provided to banks by the ECB as part of the expansionary monetary policy measures, also through the most recent longer-term refinancing operations.

With reference to interest rates, the average rate on deposits of non-financial companies and households rose by two basis points in the first eight months of the year, standing at 0.40% in August, while the rate on bonds, standing at 2.50% in August, is by contrast 11 basis points below the level in December 2017. The average weighted cost of direct funding for the ABI sample, which includes larger banks, continued to decline, reaching 0.57% in August (0.66% in December 2017).

In terms of asset under management, after an extremely positive 2017, 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 nine months of 2018 recorded a significant downturn (just over EUR 8 bn in net funding), due essentially to redemptions from bond funds. Funding on individual retail portfolio management, after a positive 2017 with flows of EUR 4,093 mln, also recorded a clear downturn in 2018, with net flows in the first nine months in negative territory, amounting to EUR -1,714 mln. In September 2018, assets under management from open-ended funds were 1.4% lower than the levels of December 2017, with the stock relating to individual portfolio management down by 3.3%.

Customer Funding					Chg Q/Q		Chg 31/12		Chg Y/Y	
	30/09/18	30/06/18	31/12/17	30/09/17	Abs.	%	Abs.	%	Abs.	%
Direct funding	93,906.0	96,833.9	97,801.8	102,968.4	(2,927.9)	-3.0%	(3,895.8)	-4.0%	(9,062.4)	-8.8%
Indirect funding	99,352.3	99,020.5	95,845.7	98,242.9	331.8	0.3%	3,506.6	3.7%	1,109.4	1.1%
Total funding	**193,258.3**	**195,854.4**	**193,647.5**	**201,211.3**	**(2,596.1)**	**-1.3%**	**-389.2**	**-0.2%**	**(7,953.0)**	**-4.0%**

Volumes of **Direct Funding**, which stood at **EUR 93.9 bn**, recorded a decrease of EUR 3.9 bn compared to the end of December 2017 (primarily due to the bond component), and a drop of EUR 2.9 bn compared to the end of June 2018, due mainly to the decrease in current accounts (EUR -1.4 bn) and Bonds (EUR -0.8 bn).

The Group's market share[4] on Direct Funding was 3.84% (figure updated in July 2018), up by 12 bps compared to the end of 2017.

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

Direct funding										
					Change Q/Q		Change 31.12		Change Y/Y	
Type of transaction	30/09/18	30/06/18	31/12/17	30/09/17	Abs.	%	Abs.	%	Abs.	%
Current accounts	55,738.7	57,122.0	51,465.5	50,561.2	(1,383.3)	-2.4%	4,273.2	8.3%	5,177.5	10.2%
Time deposits	8,528.0	8,926.8	10,469.0	11,556.9	(398.8)	-4.5%	(1,941.0)	-18.5%	(3,028.9)	-26.2%
Reverse repurchase agreements	10,595.4	10,955.7	8,572.3	12,874.7	(360.3)	-3.3%	2,023.1	23.6%	(2,279.3)	-17.7%
Bonds	11,615.8	12,390.0	18,521.7	18,468.6	(774.2)	-6.2%	(6,905.9)	-37.3%	(6,852.8)	-37.1%
Other types of direct funding	7,428.1	7,439.4	8,773.3	9,507.0	(11.3)	-0.2%	(1,345.2)	-15.3%	(2,078.9)	-21.9%
Total	**93,906.0**	**96,833.9**	**97,801.8**	**102,968.4**	**(2,927.9)**	**-3.0%**	**(3,895.8)**	**-4.0%**	**(9,062.4)**	**-8.8%**

Indirect funding came to **EUR 99.4 bn**, an increase from 31 December 2017 (EUR +3.5 bn), due mainly to assets under custody, which was influenced by the movement in a large corporate position. The comparison with 30 June 2018 shows indirect funding up by EUR +0.3 bn, in particular the assets under custody component.
As regards **Assets under management**, which amounted to **EUR 58.5 bn**, this aggregate was stable compared to December 2017 and up over June 2018, mainly on the funds and bancassurance segments.

Indirect Funding										
					Change Q/Q		Change 31/12		Change Y/Y	
	30/09/18	30/06/18	31/12/17	30/09/17	Abs.	%	Abs.	%	Abs.	%
Assets under management	58,454.5	58,134.8	58,599.4	57,812.7	319.7	0.6%	(144.8)	-0.2%	641.8	1.1%
Mutual Funds/Sicav	*28,175.8*	*28,021.5*	*28,477.9*	*27,891.6*	154.3	*0.6%*	(302.1)	*-1.1%*	284.2	*1.0%*
Individual Portfolio under Management	*5,415.6*	*5,613.6*	*5,933.0*	*6,149.0*	(198.0)	*-3.5%*	(517.3)	*-8.7%*	(733.4)	*-11.9%*
Insurance Products	*24,863.1*	*24,499.6*	*24,188.5*	*23,772.1*	363.5	*1.5%*	674.6	*2.8%*	1,091.0	*4.6%*
Assets under custody	40,897.8	40,885.7	37,246.3	40,430.2	12.1	0.0%	3,651.5	9.8%	467.6	1.2%
Total funding	**99,352.3**	**99,020.5**	**95,845.7**	**98,242.9**	331.8	**0.3%**	3,506.6	**3.7%**	1,109.4	**1.1%**

Loans to customers

The book value of Loans to Customers as at 30 September 2018, 30 June and 31 March 2018 was impacted by both:

- the effects of the reclassification attributable 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 measured at fair value as per mandatory requirements (EUR -1.1 bn) partially offset by increases following reclassifications of bond securities from financial assets available for sale, formerly AFS (EUR +1 bn);
- and the negative impact stemming from the transition from IAS 39 to IFRS 9, connected to the new provisions regarding impairment (higher Expected Credit Losses – ECL) of cash exposures (in addition to endorsement credit exposures), amounting to EUR 1.5 bn, before the tax effect, booked to equity.

Background

The first eight months of 2018 recorded modest growth in private sector bank loans, nonetheless more sustained than 2017, due to a slight increase in demand and persistently relaxed supply conditions, despite a slight deterioration in the summer. In August, the annual increase of the aggregate was 2.6%, compared to the growth rate in 2017 of 1.1%. The gap is decreasing between the trend in lending to households (up 2.8% during the period) and to non-financial companies, which showed a recovery of 1.3% in August, after a substantially stagnant 2017. The former were impacted by increasingly more encouraging signs of recovery of disposable income and the favourable prospects of the real estate market, while the increase in the demand for loans from companies was sustained primarily by the still contained cost of credit and the requirements for loans for stocks and working capital.

With regard to interest rates, in August 2018, the interest rate on the total stock of loans to households and non-financial companies was 2.59%, 10 basis points lower than that recorded in December 2017 and 19 basis points down on the figures for August 2017. On new transactions, the rate for loans to households for home purchases is almost stable at 1.85% (down 5 basis points compared to the end of 2017), while the rate for non-financial companies rose to 1.55% (around 10 basis points higher than May 2018). The rates on new loans of less than EUR 1 mln to non-financial companies (1.98% in August) were essentially unchanged, but nonetheless were down 18 basis points compared to the same period of the previous year.

Efforts to reduce stock levels and the flows of bad loans also continued in the first eight months of 2018, similar to the activities carried out in 2017. The stock levels in August were 26.9% lower than August 2017. After EUR 38,705 mln were eliminated from banks' financial statements in 2017, the first eight months of 2018 registered new disposals of EUR 39,836 mln, in line with the reduction plans presented by the banks. Net of the disposal transactions, the change in the stock of bad loans Y/Y as at August 2018 was positive in any event, and stood at 6.4% (it was 9.4% in August 2017). Net of allowances for impairment, bad loans represented approximately 2.25% of bank loans, down compared to the average of 3.8% in 2017.

As at 30 September 2018, the Group's **Loans to Customers** amounted to **EUR 87.5 bn**, growth compared to both the end of December 2017, mainly regarding mortgages and securities lending (due to the recognition of senior notes deriving from the securitisation transaction), and to 30 June 2018, in particular on the repurchase agreements with institutional counterparties segment (EUR +1.1 bn), and mortgages (EUR +0.5 bn), while other forms of loans fell.

The Group's market share[5] stood at 5.25% (last available figure from July 2018), a decrease, due to transfers, of 125 basis points compared to the end of 2017.

Loans to customers										
					Change Q/Q		Change 31.12		Change Y/Y	
Type of transaction	30/09/18	30/06/18	31 12 2017*	30 09 2017*	Abs.	%	Abs.	%	Abs.	%
Current accounts	5,239.0	5,473.4	5,757.5	6,032.6	(234.4)	-4.3%	(518.5)	-9.0%	(793.6)	-13.2%
Mortgages	48,880.7	48,347.2	46,868.4	47,682.2	533.5	1.1%	2,012.3	4.3%	1,198.5	2.5%
Other forms of lending	17,341.4	18,116.8	17,903.5	18,906.8	(775.4)	-4.3%	(562.1)	-3.1%	(1,565.4)	-8.3%
Repurchase agreements	3,380.8	2,243.8	4,524.8	7,064.1	1,137.0	50.7%	(1,144.0)	-25.3%	(3,683.3)	-52.1%
Securities lending	4,636.0	4,635.6	1,050.1	1,072.3	0.4	0.0%	3,585.9	341.5%	3,563.7	n.s.
Non performing loans	7,987.0	8,193.3	10,352.0	10,283.1	(206.3)	-2.5%	(2,365.0)	-22.8%	(2,296.1)	-22.3%
Total	**87,464.9**	**87,010.1**	**86,456.3**	**91,041.1**	**454.8**	**0.5%**	**1,008.6**	**1.2%**	**(3,576.2)**	**-3.9%**
Stage 1	*63,417.2*	*62,741.9*			*675.3*	*1.1%*				
Stage 2	*16,060.7*	*16,074.9*			*(14.2)*	*-0.1%*				
Stage 3	*7,987.0*	*8,193.3*			*(206.3)*	*-2.5%*				

** 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.*

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

In 3Q18, the medium/long-term component recorded new disbursements of EUR 2.9 bn, up compared to 2Q18 (EUR +0.2 bn) and Y/Y (EUR +3.7 bn).

Non-performing loans

As at 30 September 2018, the Group's **exposure to gross non-performing loans** totalled **EUR 19.5 bn**, down compared to both the end of December 2017 (EUR -23.4 bn), essentially due to the deconsolidation of bad loans subject to disposal and to 30 June 2018 and (EUR -0.3 bn). The gross exposure of the bad loans component fell by EUR 21.4 bn compared to 31 December 2017, mainly due to the deconsolidation cited above and up compared to 30 June 2018 (EUR +0.5 bn). The exposure of unlikely to pay also fell by EUR 1.9 bn over December 2017 and EUR 0.7 bn over June 2018, which was also impacted by the transfers performed in the quarter. Non-performing Past Due Exposures were down EUR 0.1 bn over the end of 2017 and essentially stable with respect to 30 June 2018.

As at 30 September 2018, the Group's **net exposure in terms of non-performing loans** totalled **EUR 8.5 bn**, down compared to the end of December 2017 (EUR -6.3 bn), also in this case essentially due to the above-mentioned deconsolidation, and essentially stable with respect to 30 June 2018 (EUR -0.2 bn). The net exposure of the bad loans component fell by roughly EUR 4.5 bn compared to 31 December 2017, and was up slightly compared to 30 June 2018 (EUR +0.2 bn). The net exposure of unlikely to pay also fell by EUR 1.7 bn over December 2017 and EUR 0.4 bn over June 2018. Non-performing Past Due Exposures were down EUR 0.1 bn over 31 December 2017 and essentially stable with respect to June 2018.

An improvement in the ratio of net non-performing loans to net loans to customers was recorded in the quarter, which dropped from 9.9% in June 2018 to 9.6% in September 2018. Within the aggregate, the incidence of Past due exposures remained essentially stable in the quarter with respect to June 2018, while the incidence of and Unlikely to pay fell from 6.4% in June 2018 to 5.9% in September 2018. By contrast, the incidence of bad loans rose from 3.2% in June 2018 to 3.4% in September 2018.

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

	Loans to customers	Bad loans	Unlikely to pay	Non-performing Past due	**Non-performing exposures**	Perfoming exposures	**Total**	*- of which forbone impaired*	*- of which forborne not impaired*
30 09 18	Gross exposure	9,686.0	9,458.6	372.4	**19,517.0**	80,832.4	**100,349.4**	*7,197.6*	*2,323.0*
	Provisions	6,645.9	4,247.2	112.7	**11,005.8**	780.5	**11,786.3**	*3,179.0*	*164.5*
	Net exposure	3,040.1	5,211.4	259.7	**8,511.2**	80,051.9	**88,563.1**	*4,018.6*	*2,158.5*
	Coverage ratio	*68.6%*	*44.9%*	*30.3%*	***56.4%***	*1.0%*	***11.7%***	*44.2%*	*7.1%*
	% on Loans to customers	*3.4%*	*5.9%*	*0.3%*	***9.6%***	*90.4%*	***100.0%***		
30 06 18	Gross exposure	9,210.9	10,194.2	384.2	**19,789.3**	80,240.3	**100,029.6**	*7,270.2*	*2,368.6*
	Provisions	6,360.4	4,589.2	125.9	**11,075.5**	795.5	**11,871.0**	*3,230.3*	*180.7*
	Net exposure	2,850.5	5,605.0	258.3	**8,713.8**	79,444.8	**88,158.6**	*4,039.9*	*2,187.9*
	Coverage ratio	*69.1%*	*45.0%*	*32.8%*	***56.0%***	*1.0%*	***11.9%***	*44.4%*	*7.6%*
	% on Loans to customers	*3.2%*	*6.4%*	*0.3%*	***9.9%***	*90.1%*	***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%***		
30 09 17*	Gross exposure	30,072.7	12,125.1	755.0	**42,952.8**	81,309.9	**124,262.7**	*9,553.5*	*2,590.7*
	Provisions	22,800.9	4,844.0	166.1	**27,811.0**	551.9	**28,362.9**	*4,250.5*	*92.6*
	Net exposure	7,271.8	7,281.1	588.9	**15,141.8**	80,758.0	**95,899.8**	*5,303.0*	*2,498.1*
	Coverage ratio	*75.8%*	*40.0%*	*22.0%*	***64.7%***	*0.7%*	***22.8%***	*44.5%*	*3.6%*
	% on Loans to customers	*7.6%*	*7.6%*	*0.6%*	***15.8%***	*84.2%*	***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 *

	abs/%	Bad loans	Unlikely to pay	Non performing past due	**Non performing exposures**	Performing exposures	**Total**	*- of which forbone impaired*	*- of which forborne not impaired*
Q/Q	abs.	475.1	(735.6)	(11.8)	**(272.3)**	592.1	**319.8**	*(72.6)*	*(45.6)*
	%	5.2%	-7.2%	-3.1%	**-1.4%**	0.7%	**0.3%**	*-1.0%*	*-1.9%*
31.12	abs.	(21,359.3)	(1,915.6)	(116.4)	**(23,391.3)**	4,037.8	**(19,353.4)**	*(2,267.5)*	*(142.8)*
	%	-68.8%	-16.8%	-23.8%	**-54.5%**	5.3%	**-16.2%**	*-24.0%*	*-5.8%*
Y/Y	abs.	(20,386.7)	(2,666.5)	(382.6)	**(23,435.8)**	(477.5)	**(23,913.3)**	*(2,355.9)*	*(267.7)*
	%	-67.8%	-22.0%	-50.7%	**-54.6%**	-0.6%	**-19.2%**	*-24.7%*	*-10.3%*

** 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 30 September 2018, the **percentage coverage** of non-performing loans stood at 56.4%, a reduction compared to 31 December 2017 (65.5%), as a result of the deconsolidation of the loans transferred, and rose when compared to 30 June 2018 (56.0%).

Changes in coverage ratios *

	Bad loans	Ulikely to pay	Non performing past due	**Non performing exposures**	Performing exposures	**Total**
Q/Q	*-0.44%*	*-0.11%*	*-2.51%*	***0.42%***	*-0.03%*	***-0.12%***
31.12	*-7.13%*	*5.39%*	*9.38%*	***-9.12%***	*0.25%*	***-12.20%***
Y/Y	*-7.21%*	*4.95%*	*8.26%*	***-8.36%***	*0.29%*	***-11.08%***

** 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.*

	30 09 2018		3°Q 2018		1°Q 2018		30 09 2017*		Chg. 2°Q 2018/1°Q2018 Non-performing		Chg. Y/Y Non-performing exposures	
	Non-performing exposures	*of which Bad loans*	Non-performing exposures	*of which Bad loans*	Non-performing exposures	*of which Bad loans*	Non-performing exposures	*of which Bad loans*	Abs.	%	Abs.	%
Gross exposure, opening balance	**42,908.3**	**31,045.3**	**19,789.3**	**9,210.9**	**42,586.2**	**31,151.0**	**44,021.9**	**27,949.6**	**(22,796.9)**	**-53.5%**	**(1,113.6)**	**-2.5%**
Increases from performing loans	1,073.4	136.7	415.8	58.9	366.4	55.5	1,443.0	237.0	49.4	13.5%	(369.6)	-25.6%
Transfers to performing loans	(565.1)	(6.6)	(155.9)	(0.2)	(191.0)	(0.1)	(530.3)	(6.9)	35.1	-18.4%	(34.8)	6.6%
Collections	(5,894.0)	(4,832.3)	(324.3)	(13.1)	(4,908.9)	(4,636.3)	(1,793.3)	(660.4)	4,584.6	-93.4%	(4,100.7)	n.s.
Write-offs and loss on disposal	(18,568.6)	(17,991.4)	(83.2)	138.4	(18,344.5)	(18,050.6)	(782.4)	(350.1)	18,261.3	-99.5%	(17,786.2)	n.s.
+/- Other changes	563.0	1,334.3	(124.7)	291.1	281.1	691.4	593.9	2,903.5	(405.8)	n.s.	(30.9)	-5.2%
Gross exposure, closing balance	**19,517.0**	**9,686.0**	**19,517.0**	**9,686.0**	**19,789.3**	**9,210.9**	**42,952.8**	**30,072.7**	**(272.3)**	**-1.4%**	**(23,435.8)**	**-54.6%**
Opening balance of overall adjustments	**(28,110.2)**	**(23,513.7)**	**(11,075.5)**	**(6,360.4)**	**(29,293.5)**	**(24,163.0)**	**(23,701.9)**	**(17,584.7)**	**18,218.0**	**-62.2%**	**(4,408.3)**	**18.6%**
Adjustments / write-backs*	(390.6)	(321.0)	(128.7)	(138.4)	(181.7)	(17.4)	(4,810.9)	(4,441.1)	53.0	-29.2%	4,420.3	-91.9%
+/- Other changes	17,495.0	17,188.8	198.4	(147.1)	18,399.7	17,820.0	701.8	(775.1)	(18,201.3)	-98.9%	16,793.2	n.s.
Closing balance of overall adjustments	**(11,005.8)**	**(6,645.9)**	**(11,005.8)**	**(6,645.9)**	**(11,075.5)**	**(6,360.4)**	**(27,811.0)**	**(22,800.9)**	**69.7**	**-0.6%**	**16,805.2**	**-60.4%**
Net exposure closing balance	**8,511.2**	**3,040.1**	**8,511.2**	**3,040.1**	**8,713.8**	**2,850.5**	**15,141.8**	**7,271.8**	**(202.6)**	**-2.3%**	**(6,630.6)**	**-43.8%**

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

It should be noted that the amounts relating to both 30 September 2018 and 3°Q18 and to 2°Q18, of the rows "Collections (including profits from disposal)" and "Write-offs (including losses from disposal)", are influenced by the effects of derecognition, completed on 22 June 2018, of a set of credit exposures classified as bad loans.

Financial assets/liabilities

The book value of financial assets measured at fair value shown in the tables below was impacted, both as at 30 September 2018 and 30 June 2018, by the effects of the reclassification, attributable to the introduction of IFRS 9, of bond securities to financial assets measured at amortised cost, for a total of EUR 1 bn, and the recognition of loans/securities totalling EUR 1.2 bn in the new category "financial assets measured at fair value as per mandatory requirements".

As at 30 September 2018, the Group's financial assets measured at fair value totalled EUR 25.4 bn, growth of EUR 1.3 bn compared to 31 December 2017 and down EUR 3.8 bn over 30 June 2018, principally in the trading component relating to the subsidiary MPS Capital Services (which fell 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 December 2017 by EUR 1.5 bn and by EUR 0.2 bn compared to 30 June 2018.

Items	30 09 2018	30 06 2018	31 12 2017*	30 09 2017*	Chg. Q/Q		Chg. 31.12		Chg. Y/Y	
					Abs.	%	Abs.	%	Abs.	%
Tradable financial assets	25,430.0	29,257.2	24,168.4	25,403.0	(3,827.2)	-13.1%	1,261.6	5.2%	27.0	0.1%
Financial assets held for trading	*10,427.0*	*13,270.3*	*8,718.0*	*10,101.7*	*(2,843.3)*	*-21.4%*	*1,709.0*	*19.6%*	*325.3*	*3.2%*
Financial assets measured at fair value mandatory	*1,108.3*	*1,217.1*	*0.0*	*0.0*	*(108.8)*	*-8.9%*	*1,108.3*	*n.s.*	*1,108.3*	*n.s.*
Financial assets measured at fair value through other comprehensive income	*13,894.7*	*14,769.8*	*15,450.4*	*15,301.3*	*(875.1)*	*-5.9%*	*(1,555.7)*	*-10.1%*	*(1,406.6)*	*-9.2%*
Financial liabilities held for trading	3,000.6	3,173.6	4,476.9	4,201.1	(173.0)	-5.5%	(1,476.3)	-33.0%	(1,200.5)	-28.6%

** 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.*

Items	30 09 2018		30 06 2018		31 12 2017*		30 09 2017*	
	Tradable financial assets	Financial liabilities held for tradig	Tradable financial assets	Financial liabilities held for tradig	Tradable financial assets	Financial liabilities held for tradig	Tradable financial assets	Financial liabilities held for tradig
Debt securities	21,292.1	-	24,965.5	-	20,331.5	-	21,510.5	-
Equity instruments and Units of UCITS	507.6	-	556.7	-	505.1	-	476.8	-
Loans	465.7	1,696.9	515.6	1,807.1	-	2,903.3	-	2,506.4
Derivatives	3,164.6	1,303.7	3,219.4	1,366.5	3,331.8	1,573.6	3,415.7	1,694.7
Total	25,430.0	3,000.6	29,257.2	3,173.6	24,168.4	4,476.9	25,403.0	4,201.1

** 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.*

Interbank position

At the end of September 2018, the **net interbank position** of the Group stood at **EUR 12.1 bn** in funding, up by EUR 1 bn compared to the balance as at 31 December 2017 and stable with respect to June 2018.

Interbank balances										
					Change Q/Q		Change 31.12		Change Y/Y	
	30/09/18	30/06/18	31 12 2017*	30 09 2017*	Abs.	%	Abs.	%	Abs.	%
Loans to banks measured at amortised cost	8,724.2	8,636.3	9,966.2	12,897.0	87.9	1.0%	(1,242.0)	-12.5%	(4,172.8)	-32.4%
Deposits from banks measured at amortised cost	20,838.9	20,794.8	21,084.9	21,566.1	44.1	0.2%	(246.0)	-1.2%	(727.2)	-3.4%
Net position	**(12,114.7)**	**(12,158.5)**	**(11,118.7)**	**(8,669.1)**	**43.8**	**-0.4%**	**(996.0)**	**9.0%**	**(3,445.6)**	**39.7%**

** 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 30 September 2018, the operational liquidity position showed an **unencumbered Counterbalancing Capacity of approx. EUR 18.5 bn**, down by EUR 2.6 bn compared with the figures as at 31 December 2017, mainly due to the maturity of a tranche of government issues in 1Q18 and down EUR 0.9 bn compared to 30 June 2018.

Shareholders' equity

As at 30 September 2018, the **Group Shareholders' equity and non-controlling interests** amounted to around **EUR 9.0 bn**, down by approx. EUR 1.5 bn compared to the end of December 2017, due to the negative impacts recorded for first-time application of IFRS 9 to the item "Reserves" and the negative variations in value of the financial assets measured at fair value through other comprehensive income, partially offset by the result for the period. Stable with respect to 30 June 2018, with a decrease in valuation reserves, essentially offset by profit for the period.

Reclassified Consolidated Balance Sheet

	30/09/18	30/06/18	31 12 2017*	30/09/17	Chg Q/Q		Chg 31/12		Chg Y/Y	
Equity					Abs.	%	Abs.	%	Abs.	%
Group net equity	8,968.9	8,994.5	10,429.1	10,944.5	(25.6)	-0.3%	(1,460.2)	-14.0%	(1,975.6)	-18.1%
a) Valuation reserves	(305.0)	(194.0)	51.7	60.5	(111.0)	57.2%	(356.7)	n.s.	(365.5)	n.s.
d) Reserves	(1,120.3)	(1,114.9)	3,864.8	(1,494.4)	(5.4)	0.5%	(4,985.1)	n.s.	374.1	-25.0%
f) Share capital	10,328.6	10,328.6	10,328.6	15,692.8	-		-		(5,364.2)	-34.2%
g) Treasury shares (-)	(313.7)	(313.7)	(313.7)	(313.7)	-		-		-	n.s.
h) Net profit (loss) for the period	379.3	288.5	(3,502.3)	(3,000.7)	90.8	31.5%	3,881.6	n.s.	3,380.0	n.s.
Non-controlling interests	2.2	2.2	2.3	2.2	-		(0.1)	-4.3%	-	
Total Group Shareholder's Equity and Non-controlling interests	**8,971.1**	**8,996.7**	**10,431.4**	**10,946.7**	**(25.6)**	**-0.3%**	**(1,460.3)**	**-14.0%**	**(1,975.6)**	**-18.0%**

** 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.*

Capital adequacy

Regulatory capital and statutory 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%.

Furthermore, on **14 June 2018**, the ECB communicated the additional requirements to be applied to non-performing loans to obtain the authorisation from the same ECB for the implementation of the specific models for the calculation of the LGD and ELBE with reference to the non-performing exposures.

As at **30 September 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	
	30 09 2018	31 12 2017	Abs.	%
OWN FUNDS				
Common Equity Tier 1 (CET1)	7,900.0	8,951.2	(1,051.2)	-11.74%
Tier 1 (T1)	7,900.0	8,951.2	(1,051.2)	-11.74%
Tier 2 (T2)	876.2	112.5	763.7	678.86%
Total capital (TC)	**8,776.2**	**9,063.7**	**(287.5)**	**-3.17%**
RISK ASSETS				
Credit and Counterparty Risk	50,205.8	47,712.7	2,493.1	5.23%
Credit valuation adjustment risk	420.6	345.6	75.0	21.71%
Settlement risk	-	-	-	
Market risks	2,879.6	2,492.6	387.0	15.52%
Operational risk	9,720.7	10,011.5	(290.8)	-2.91%
Other prudential requirements	-	-	-	
Other calculation elements	-	-	-	
Risk-weighted assets	**63,226.7**	**60,562.4**	**2,664.3**	**4.40%**
CAPITAL RATIOS				
CET1 capital ratio	**12.49%**	**14.78%**	**-2.29%**	
Tier1 capital ratio	**12.49%**	**14.78%**	**-2.29%**	
Total capital ratio	**13.88%**	**14.97%**	**-1.09%**	

Compared to 31 December 2017, CET1 recorded an overall reduction of EUR 1,051 mln, essentially due to the deterioration of the OCI Reserve for EUR 357 mln, higher deductions for DTAs and significant investments, (totalling EUR 466 mln), partially offset by the increase deriving from the transitory effect of the first-time application of IFRS 9 and the share of profit for the period calculated in CET1. In particular, the share of the result for the period included in the CET1 as at 30 September 2018 corresponds to the profit accrued in the first quarter of 2018, while the profits accrued in the second and third quarters were not included. Conversely, in respect of the regulatory provisions, the higher deductions for DTAs and qualified investments, whose values are updated at the date of the report, contribute, inter alia, to the calculation of the CET1.

Tier 2 showed a rise of EUR 764 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 decrease in own funds of EUR 288 mln.

The RWAs record an overall increase of EUR 2,664 mln, essentially attributable to the increase in the RWAs relating to the "credit and counterpart risk" (EUR 2,493 mln), mainly due to the application of the specific requirements on non-performing exposures (EUR 4,061 mln, of which EUR 1,384 mln relating to bad loans), as well as the effect of the new disbursements, partly offset by the reduction in the RWAs from capital due to the effect of the reduction in the CET1 deductibles and the transformation of "convertible DTAs" into tax receivables. An increase in the RWAs relative to the "market risk" of around EUR 387 mln was also recorded.

With reference to the prudential aspects, it should be noted that the ECB authorized the recognition of the Significant Risk Transfer to the Parent Company. This recognition allowed the Group to also deconsolidate the portfolio of securitised bad loans for prudential purposes. In this context, the Parent Company also received the LGD waiver, which forms the basis of the projections of capital adequacy of the Restructuring Plan and which makes it possible not to include in the LGD estimate process the effects of the derecognition of the securitised portfolio.

Disclosure on risks

Exposure to sovereign debt risk

Below is a breakdown of the Group's exposure to sovereign debt risk in government bonds, loans and credit derivatives as at 30 September 2018.

The exposures are broken down by accounting categories.

COUNTRY	DEBT SECURITIES					LOANS	CREDIT DERIVATIVES
	Financial assets measured at fair value through profit and loss		Financial assets measured at fair value through other comprehensive income		Financial assets measured at amortised cost	Financial assets measured at amortised cost	Financial assets held for trading
	Nominal	Fair value=book value	Nominal	Fair value=book value	Book value	Book value	Nominal
Argentine	0.3	0.2	-	-	-	-	-
Austria	0.1	0.1	-	-	-	-	-
Azerbaijan	-	-	-	-	0.8	-	-
Belgium	-	-	41.2	42.1	-	6.3	-
Brazil	0.1	0.2	-	-	-	-	-
Philippines	0.1	0.1	-	-	-	-	-
France	-	-	194.5	196.9	-	-	3.0
Germany	0.1	0.2	-	-	-	-	-
Hong kong	-	-	26.7	27.6	-	-	-
Italy	4,677.6	4,657.1	12,575.5	12,359.6	1,528.6	2,249.7	2,189.0
Poland	0.3	0.3	-	-	-	-	-
Portugal	-	-	10.0	11.7	-	-	-
Romania	0.1	0.1	-	-	-	-	-
Russia	0.1	0.1	-	-	-	-	-
Spain	1.4	1.6	179.5	180.5	-	-	(3.2)
United States	-	-	40.3	42.9	-	-	-
Total 30 09 2018	**4,680.2**	**4,660.0**	**13,067.7**	**12,861.3**	**1,529.4**	**2,256.0**	**2,188.8**
Total 31 12 2017*	**1,380.8**	**1,383.4**	**13,572.2**	**14,139.9**	**490.1**	**2,394.4**	**1,759.3**

** 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.*

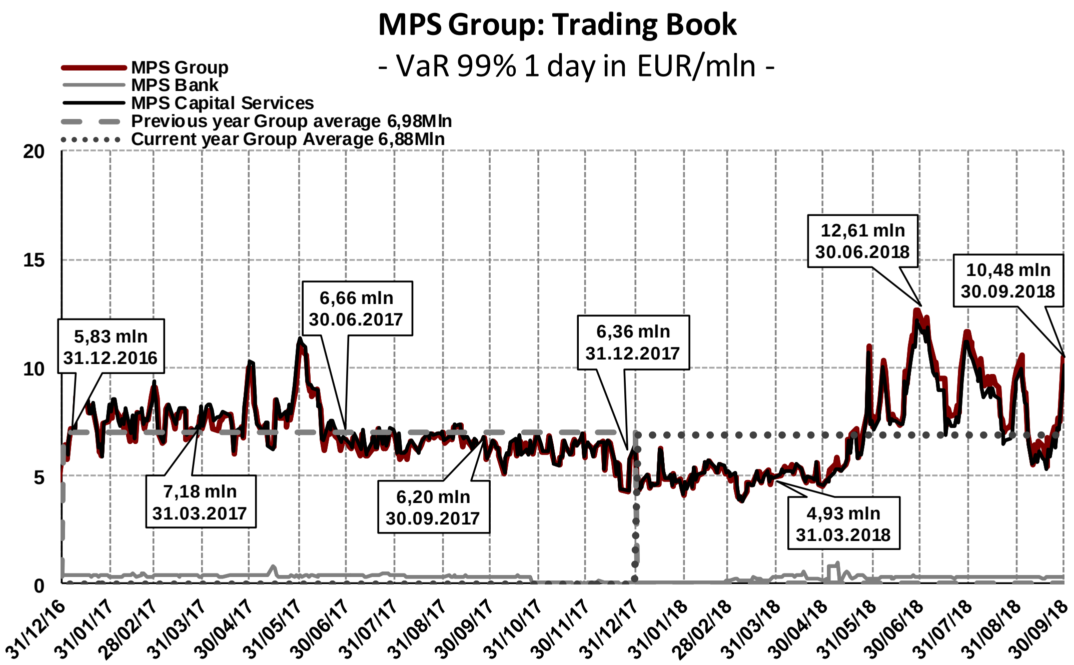
Market risks

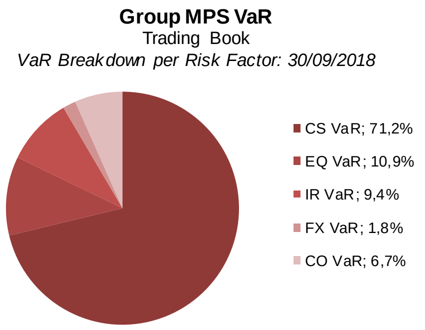
At the end of the third quarter of 2018, the market risks of the Group's Regulatory Trading Book, measured as VaR, have increased compared to the end of December 2017, amounting to EUR 10.48 mln as at 30 September 2018.

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

The volatility of the VaR registered from the end of the second quarter is due to both changes in the market parameters and the trading activities of the subsidiary MPS Capital Services, the latter focused primarily on short-term Italian Government Bonds. The increasing trend in the Italian Credit Spread registered at the end of May caused a significant increase in the VaR measurement, through the succession of spikes coinciding with the increase in the market parameters and corresponding to new tail scenarios on the historical simulation model. The trend was partly offset by hedging through short positions on medium/long-term BTP futures.

Today, the VaR is actually extremely sensitive to changes in the short-term exposure on the Italian credit spread given that it incorporates, in the tail scenarios recorded between May and June, a marked widening of the yields on Italian Government bonds, more significant on the short-term than the long-term component (i.e. increase in yields with flattening of the curve).





MPS Group

MPS Group

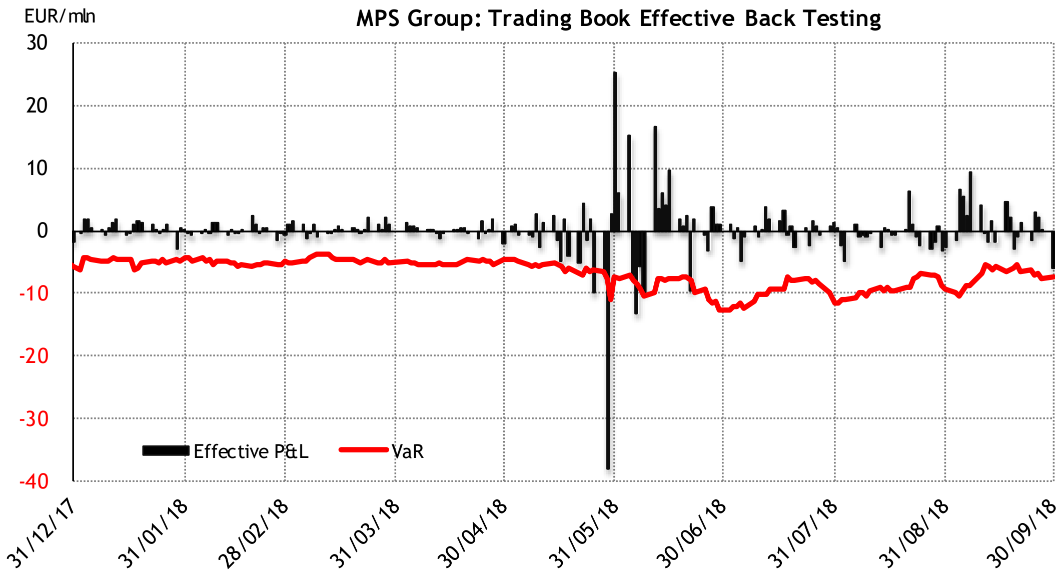
VaR TB 99% 1 day in EUR/mln

	VaR	Data
End Period	10.48	30/09/2018
Minimum	3.82	09/03/2018
Maximum	12.64	28/06/2018
Average	6.88	

The breakdown of the VaR shows that the Credit Spread is the main risk factor, accounting for 71.2% of the TB Gross VaR of the Group, while the EQ accounts for 10.9%, IR for 9.4%, FX for 1.8% and CO for 6.7%.

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 nine months of 2018:



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

Operational risks

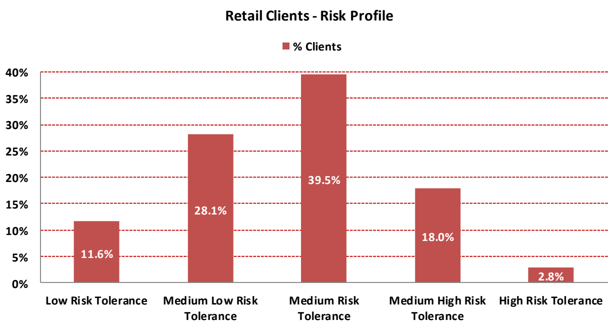
As at 30 September 2018, operating losses and the number of operational risk events in the first nine months confirm the downward trend as compared to the trend observed in 2017. The Regulatory Requirements as at 30 September 2018 were essentially stable compared to December 2017.

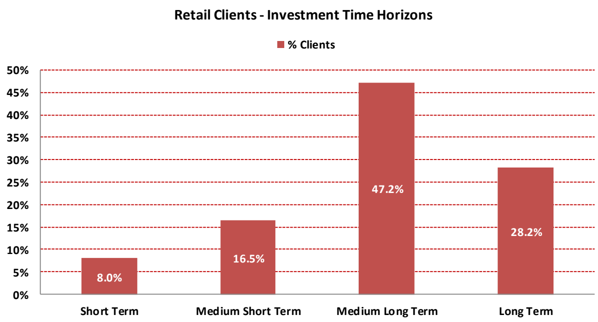
Financial risks of investment services

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

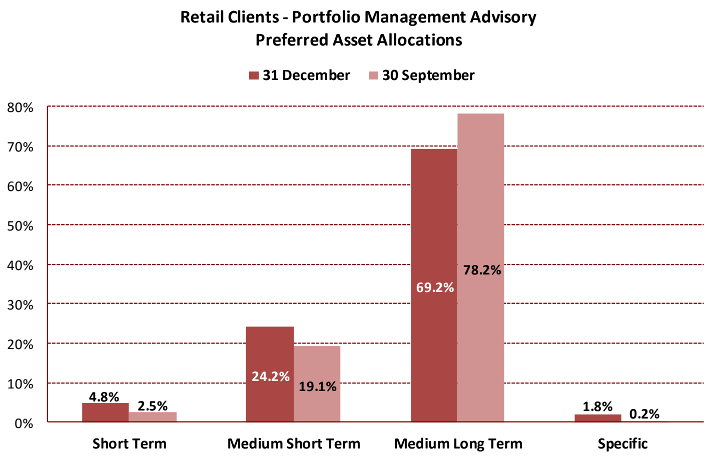
Banca MPS and Banca Widiba have revised the methods of customer profiling and the rules for determining the indicators underlying a customer's risk profile, adopting a new MiFID questionnaire introduced on 2 January 2018.

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





At the end of September 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 Asset Allocation macro-classes, with regard to long-term investments.



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 order to allow continued disclosure and understanding of the performance results, the income statement and the reclassified balance sheet of the Group maintain the results relating to the subsidiary MP Belgio in the original items, rather than the item "Profit (loss) after tax from assets held for sale and discontinued operations" for the income statement section and items 120 "Non-current assets held for sale and discontinued operations" and 70 "Liabilities associated with individual assets held for sale", for the balance sheet section.

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

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 30 September 2018.

SEGMENT REPORTING	Business Segments											
Primary segment	Retail banking		Wealth Management		Corporate banking		Widiba		Corporate Center		Total MPS Group	
(EUR mln)	30/09/18	Chg % Y/Y	30/09/18	Chg % Y/Y	30/09/18	Chg % Y/Y	30/09/18	Chg % Y/Y	30/09/18	Chg % Y/Y	30/09/18	Chg % Y/Y
PROFIT AND LOSS AGGREGATES												
Total Income	1,695.1	-12.5%	93.5	-24.5%	632.1	-24.5%	48.6	38.5%	49.2	-83.1%	2,518.4	-21.9%
Operating expenses	(1,227.1)	-9.3%	-45.9	-8.3%	-427.8	-8.7%	-44.9	0.6%	30.3	28.3%	(1,715.4)	-9.4%
Pre Provision Profit	468.1	-19.9%	47.6	-35.5%	204.2	-44.5%	3.7	n.s.	79.5	-74.7%	803.1	-39.6%
Net impairment losses (reversals) on loans and financial assets	(213.8)	-89.6%	-2.6	-33.3%	-155.5	-94.1%	-0.6	n.s.	4.4	n.s.	(368.1)	-92.4%
Net Operating Income	254.2	n.s.	45.0	-35.6%	48.7	n.s.	3.1	n.s.	83.9	-55.1%	435.0	n.s.
BALANCE SHEET AGGREGATES												
Interest-bearing loans to customers (*)	40,188.6	-1.9%	552.2	-1.6%	36,581.6	-4.5%	384.3	n.s.	6,821	-21.1%	84,527	-4.6%
Deposits from customers and debt securities issued	40,504.9	-3.4%	3,300.5	9.9%	19,448.8	0.0%	2,444.8	34.3%	28,207	-23.2%	93,906	-8.8%
Indirect funding	47,041.2	-0.7%	15,762.0	-9.0%	15,905.9	16.3%	5,241.0	-1.1%	15,402	5.6%	99,352	1.1%
Assets under management	*38,046.9*	*3.9%*	*11,472.9*	*-3.3%*	*1,509.6*	*-9.3%*	*4,714.3*	*-2.4%*	*2,711*	*-4.5%*	*58,455*	*1.1%*
Assets under custody	*8,994.3*	*-16.2%*	*4,289.1*	*-21.5%*	*14,396.3*	*19.9%*	*526.7*	*12.5%*	*12,691*	*8.0%*	*40,898*	*1.2%*

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>
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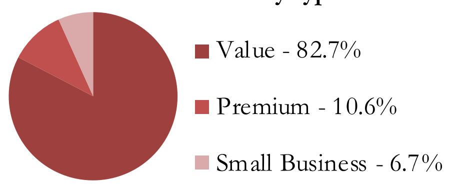
Breakdown by type



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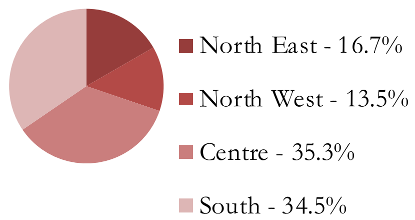
Breakdown by geography



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

Income statement and balance sheet results

As at 30 September 2018, **Total Funding** for Retail Banking amounted to approximately **EUR 87.5 bn**, down by roughly EUR 2.1 bn from the end of 2017 and EUR 0.4 bn compared to June 2018. More specifically:

- **Direct Funding** was **EUR 40.5 bn**, down by around EUR 1.9 bn compared to 31 December 2017, due to the short-term (EUR -2.5 bn) and medium/long-term components (EUR -1.5 bn), only partly offset by the rise of demand funding (EUR +2.0 bn). The aggregate decreased by EUR 0.6 bn compared to 30 June 2018, in particular short-term (EUR -0.6 bn) and medium/long-term (EUR -0.2 bn) forms, while demand deposits rose by EUR 0.2 bn.
- **Indirect Funding**, amounting to approx. **EUR 47.0 bn**, decreased compared to 31 December 2017 by EUR 0.2 bn, due to the downward trend in assets under custody (EUR -0.8 bn), partially offset by increase in assets under management (EUR +0.6 bn). Compared to the June 2018 levels, the aggregate recorded an increase (EUR +0.2 bn), with a slight increase in assets under management (EUR +0.4 bn) and a decrease in assets under custody (EUR -0.2 bn).
- **Interest-bearing loans** to Retail Banking **customers** were **EUR 40.2 bn** as at 30 September 2018, in line with December 2017 and up over 30 June 2018 (EUR +0.3 bn).

RETAIL BANKING - BALANCE SHEET AGGREGATES										
(Eur mln)	30/09/18	30/06/18	31/12/17	30/09/17	Chg Abs Q/Q	Chg % Q/Q	Chg Abs 31/12	Chg % 31/12	Chg Abs Y/Y	Chg % Y/Y
Deposits from customers and debt securities issued	**40,505**	**41,095**	**42,430**	**41,945**	**-590**	**-1.4%**	**-1,925**	**-4.5%**	**-1,440**	**-3.4%**
Assets under management	*38,047*	*37,620*	*37,447*	*36,619*	*427*	*1.1%*	*600*	*1.6%*	*1,428*	*3.9%*
Assets under custody	*8,994*	*9,242*	*9,772*	*10,739*	*-247*	*-2.7%*	*-777*	*-8.0%*	*-1,745*	*-16.2%*
Indirect Funding	**47,041**	**46,861**	**47,219**	**47,358**	**180**	**0.4%**	**-177**	**-0.4%**	**-316**	**-0.7%**
Total Funding	**87,546**	**87,957**	**89,649**	**89,303**	**-410**	**-0.5%**	**-2,103**	**-2.3%**	**-1,757**	**-2.0%**
Interest-Bearing Loans to Customers	**40,189**	**39,904**	**40,237**	**40,970**	**285**	**0.7%**	**-49**	**-0.1%**	**-781**	**-1.9%**

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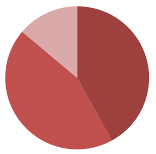
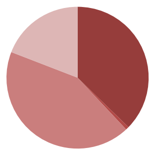
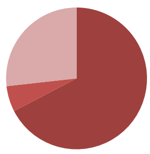
Distribution network
Direct funding breakdown



Distribution network
Indirect funding breakdown



Distribution network
Interest-bearing loans



With regard to profit and loss, as at 30 September 2018, Retail Banking achieved total **Revenues** of approx. **EUR 1,695 mln**, down 12.5% compared to the same period of last year. A breakdown of the aggregate shows:

- Net Interest Income was approximately EUR 727 mln, down 21.1% 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 945 mln, down 3.6% against last year's levels, due to the effect of the decline in payment services, relating to the disposal of the acquiring business, and income from asset management.

Considering the impact of operating expenses, which decreased by 9.3% Y/Y, Retail Banking generated a **Gross Operating Income** of about **EUR 468 mln** in the first nine months of 2018 (-19.9% Y/Y). Net impairment losses (reversals) on loans and financial assets totalled **EUR -214 mln** (EUR -2.1 bn as at 30 September 2017, penalised by the adjustment of provisions on "transferred" bad loans to their recoverable value).

The **Net Operating Income** recorded since the beginning of the year is **positive, amounting to around EUR 254 mln**.

The **cost-income ratio** of the Operating Segment is **72.4%** (69.8% at the end of September 2017).

RETAIL BANKING - PROFIT AND LOSS AGGREGATES				
			Chg. Y/Y	
(EUR mln)	**30/09/18**	**30/09/17**	**Abs.**	**%**
Net interest income	*727.5*	*922.0*	*-194.6*	*-21.1%*
Net fee and commission income	*945.0*	*980.0*	*-35.0*	*-3.6%*
Other income	*4.4*	*30.5*	*-26.0*	*-85.5%*
Other operating expenses/income	*18.2*	*4.5*	*13.7*	*n.s.*
Total Income	**1,695.1**	**1,937.0**	**-241.9**	**-12.5%**
Operating expenses	*(1,227.1)*	*(1,352.7)*	*125.6*	*-9.3%*
Pre Provision Profit	**468.1**	**584.3**	**-116.3**	**-19.9%**
Net impairment losses (reversals) on loans and financial assets	(213.8)	(2,060.5)	1,846.6	-89.6%
Net Operating Income	**254.2**	**(1,476.1)**	**1,730.4**	**n.s.**

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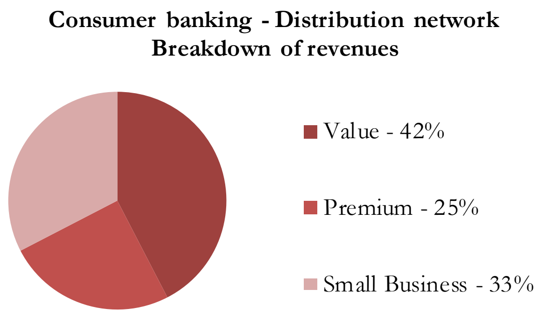


Wealth Management

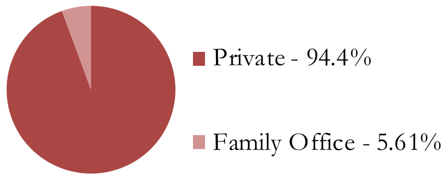
Business areas

- 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).

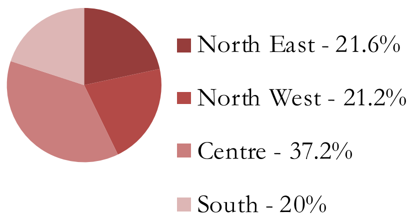
Customers

There are around 37 thousand private customers.

Breakdown by type



Breakdown by geography



Income statement and balance sheet results

As at 30 September 2018, **Total Funding** for Wealth Management amounted to approximately **EUR 19.1 bn**, down compared to the end of the year (EUR -1.3 bn) and up by around EUR 1.0 bn against 30 June 2018. More specifically:

- **Direct Funding** amounted to **EUR 3.3 bn** as at 30 September 2018, down by EUR 0.1 bn as compared to 31 December 2017 and stable compared to June 2018;
- **Indirect Funding**, amounting to about **EUR 15.8 bn**, was down by EUR 1.2 bn compared to the end of the year and roughly EUR 1.0 bn compared to 30 June 2018, mainly regarding assets under custody;
- **Interest-bearing loans** to Wealth Management **customers** were essentially in line with both December 2017 and 30 June 2018, reaching roughly **EUR 0.6 bn.**

WEALTH MANAGEMENT - BALANCE SHEET AGGREGATES

(EUR mln)	30/09/18	30/06/18	31/12/17	30/09/17	Chg Abs Q/Q	Chg % Q/Q	Chg Abs 31/12	Chg % 31/12	Chg Abs Y/Y	Chg % Y/Y
Deposits from customers and debt securities issued	**3,300**	**3,304**	**3,436**	**3,003**	**-3**	**-0.1%**	**-135**	**-3.9%**	**298**	**9.9%**
Assets under management	*11,473*	*11,617*	*11,828*	*11,863*	*-144*	*-1.2%*	*-355*	*-3.0%*	*-390*	*-3.3%*
Assets under custody	*4,289*	*5,152*	*5,173*	*5,467*	*-863*	*-16.7%*	*-884*	*-17.1%*	*-1,178*	*-21.5%*
Indirect Funding	**15,762**	**16,769**	**17,002**	**17,330**	**-1,007**	**-6.0%**	**-1,240**	**-7.3%**	**-1,568**	**-9.0%**
Total Funding	**19,062**	**20,073**	**20,437**	**20,332**	**-1,010**	**-5.0%**	**-1,375**	**-6.7%**	**-1,270**	**-6.2%**
Interest-Bearing Loans to Customers	**552**	**548**	**547**	**561**	**5**	**0.8%**	**5**	**1.0%**	**-9**	**-1.6%**

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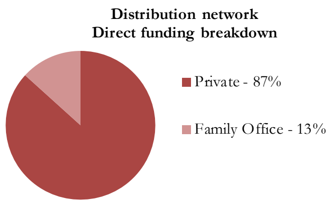

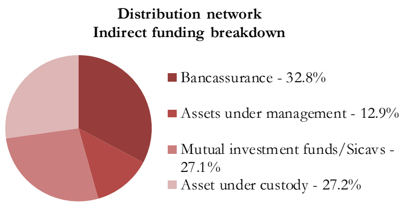

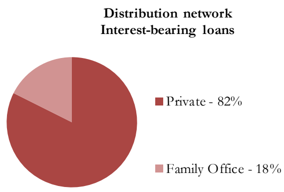

With regard to profit and loss, in the first nine months of 2018 Wealth Management achieved total Revenues of approx. **EUR 93 mln**, down 24.5% compared to the same period of last year. A breakdown of the aggregate shows:

- as at 30 September 2018, Net Interest Income was approximately EUR 4 mln, down 81.4% annually, impacted to a large extent by the drop in the contribution of direct funding;
- in the first nine months of 2018, Net Fee and Commission income totalled approximately EUR 88 mln, also down compared to the levels of the previous year (-10.7%) as a result of the decline in the product segment, for the continuing operations and placement components.

Considering the impact of Operating Expenses, which decreased by 8.3% Y/Y, Wealth Management generated **Gross Operating Income** of about **EUR 48 mln** (-35.5% Y/Y). Including net impairments losses (reversals) on loans and financial assets equal to about EUR -3 mln, the **Net Operating Income** since the start of the year totalled roughly **EUR 45 mln**.

The **cost-income ratio** of the Operating Segment is **49.1%** (40.4% at the end of September 2017).

WEALTH MANAGEMENT - PROFIT AND LOSS AGGREGATES

			Chg. Y/Y	
(EUR mln)	30/09/18	30/09/17	Abs.	%
Net interest income	*4.5*	*24.2*	*-19.7*	*-81.4%*
Net fee and commission income	*88.4*	*98.9*	*-10.6*	*-10.7%*
Other income	*0.3*	*0.6*	*-0.3*	*-54.3%*
Other operating expenses/income	*0.3*	*0.1*	*0.3*	*n.s.*
Total Income	**93.5**	**123.8**	**-30.3**	**-24.5%**
Operating expenses	*(45.9)*	*(50.1)*	*4.2*	*-8.3%*
Pre Provision Profit	**47.6**	**73.8**	**-26.2**	**-35.5%**
Net impairment losses (reversals) on loans and financial assets	(2.6)	(3.9)	1.3	-33.3%
Net Operating Income	**45.0**	**69.9**	**-24.9**	**-35.6%**

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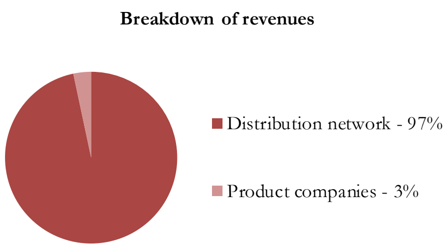
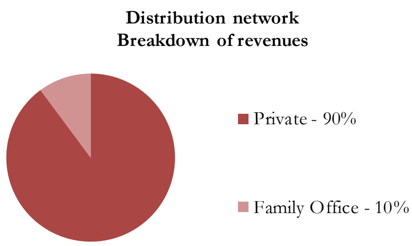




Corporate Banking

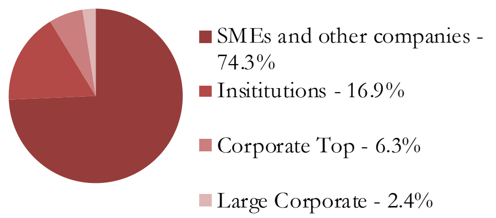
Business areas

- 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).

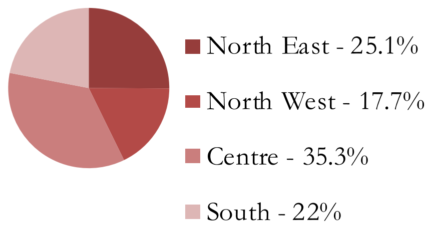
Customers

About 50,500 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

In order to allow continued disclosure and understanding of the performance results, the income statement and the reclassified balance sheet of the Group maintain the results relating to the subsidiary MP Belgio in the original items, rather than the item "Profit (loss) after tax from assets held for sale and discontinued operations" for the income statement section and items 120 "Non-current assets held for sale and discontinued operations" and 70 "Liabilities associated with individual assets held for sale", for the balance sheet section.

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

Corporate Banking **Total Funding** recorded growth of approx. EUR 4.2 bn, from EUR 31.2 bn in December 2017 to **EUR 35.4 bn** as at 30 September 2018. Compared to 30 June 2018, the aggregate decreased by EUR 0.2 bn, mainly due to drop in direct funding, only partially offset by the growth in indirect funding. Direct funding shows a drop of EUR 1.2 bn compared to the end of June 2018.

With regard to lending, as at 30 September 2018, **interest-bearing loans** to Corporate Banking **customers** stood at approximately **EUR 36.6 bn** (EUR +0.4 bn on 31 December 2017 and in line with the previous quarter).

CORPORATE BANKING - BALANCE SHEET AGGREGATES

(EUR mln)	30/09/18	30/06/18	31/12/17	30/09/17	Chg Abs Q/Q	Chg % Q/Q	Chg Abs 31/12	Chg % 31/12	Chg Abs Y/Y	Chg % Y/Y
Deposits from customers and debt securities issued	**19,449**	**20,690**	**19,481**	**19,458**	**-1,241**	**-6.0%**	**-32**	**-0.2%**	**-9**	**0.0%**
Assets under management	*1,510*	*1,439*	*1,591*	*1,664*	*70*	*4.9%*	*-82*	*-5.1%*	*-154*	*-9.3%*
Assets under custody	*14,396*	*13,456*	*10,089*	*12,010*	*941*	*7.0%*	*4,307*	*42.7%*	*2,386*	*19.9%*
Indirect Funding	**15,906**	**14,895**	**11,680**	**13,674**	**1,011**	**6.8%**	**4,226**	**36.2%**	**2,232**	**16.3%**
Total Funding	**35,355**	**35,585**	**31,162**	**33,131**	**-230**	**-0.6%**	**4,193**	**13.5%**	**2,223**	**6.7%**
Interest-Bearing Loans to Customers	**36,582**	**36,603**	**36,152**	**38,294**	**-21**	**-0.1%**	**429**	**1.2%**	**-1,713**	**-4.5%**

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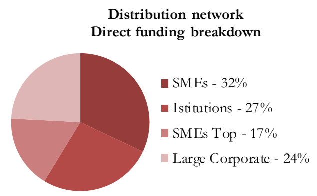

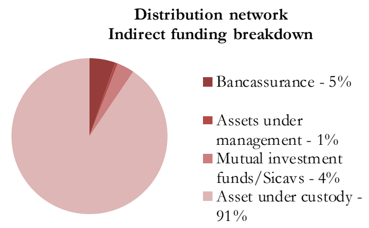

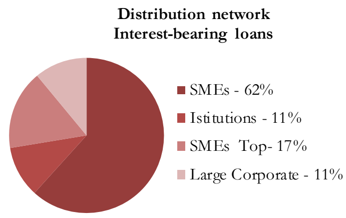

For profit and loss aggregates, in the first nine months of 2018, Corporate Banking R**evenues** came to approximately **EUR 632 mln** (-24.5% YoY). A breakdown of the aggregate shows:

- Net Interest Income was approximately EUR 425 mln, down 15.9% annually due to the decrease in returns on commercial assets and of the contribution of funding;
- Net Fee and Commission Income decreased by 11.0% Y/Y, amounting to approximately EUR 234 mln, mainly penalised by the downward trend in proceeds from traditional services and the use and disposal of loans;
- Other Income from Banking and Insurance Business amounted to approximately EUR -16 mln (EUR +70 mln in the first nine months of 2017), with the drop attributable to the operations of the subsidiary MPS Capital Services.

Considering the impact of Operating Expenses, down by 8.7% compared to 30 September 2017, the **Gross Operating Income** came to about **EUR 204 mln** (-44.5% Y/Y). The **Net Operating Income** for this Segment was equal to approx. **EUR 49 mln** (the result as at 30 September 2017 was EUR -2,276 mln penalised by the adjustment of provisions on "transferred" bad loans to their recoverable value), with the contribution of the improvement in value adjustments for impairment of loans and financial assets at EUR -156 mln.

The Corporate Banking **cost-income ratio** stands at **67.7%** (56.0% as at 30 September 2017).

CORPORATE BANKING - PROFIT AND LOSS AGGREGATES				
			Chg. Y/Y	
(EUR mln)	30/09/18	30/09/17	Abs.	%
Net interest income	*424.9*	*505.3*	*-80.4*	*-15.9%*
Net fee and commission income	*234.0*	*262.9*	*-28.9*	*-11.0%*
Other income	*(16.0)*	*70.1*	*-86.1*	*n.s.*
Other operating expenses/income	*(10.8)*	*(1.4)*	*-9.4*	*n.s.*
Total Income	**632.1**	**836.9**	**-204.9**	**-24.5%**
Operating expenses	*(427.8)*	*(468.7)*	*40.9*	*-8.7%*
Pre Provision Profit	**204.2**	**368.2**	**-163.9**	**-44.5%**
Net impairment losses (reversals) on loans and financial assets	(155.5)	(2,644.6)	2,489.0	-94.1%
Net Operating Income	**48.7**	**(2,276.4)**	**2,325.1**	**n.s.**

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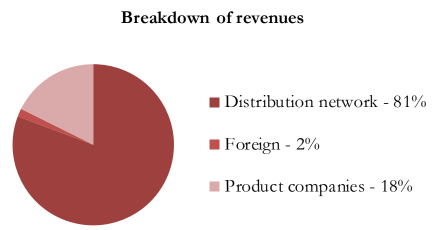
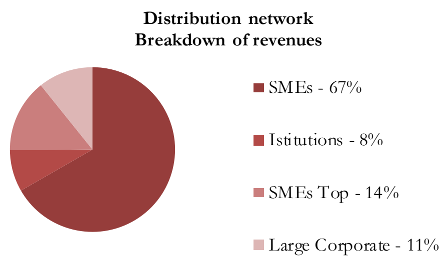




Results of the main subsidiaries

- **MPS Capital Services**: profit before taxes of roughly EUR 41 mln and profit for the period of EUR 47 mln, up by EUR 656 mln compared to 30 September 2017 due, in particular, to the lower write-downs on loans penalised the previous year by the adjustment of provisions on "transferred" bad loans to their recoverable value while revenues decreased.

- **MPS Leasing & Factoring**: profit before taxes of EUR 9 mln and net result for the period of EUR -2 mln (EUR -64 mln compared to 30 September 2017), due in particular to the lower write-downs on loans, which were penalised in the previous year by the adjustment of provisions on "transferred" bad loans to their recoverable value while revenues decreased.

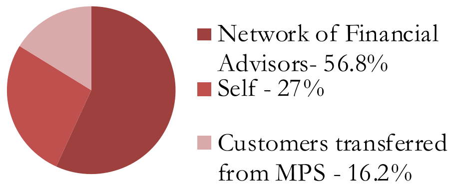
- **Foreign banks**[6]: in the first nine months of 2018, **MP Banque** recorded a profit of EUR 3 mln compared to a profit of EUR 5 mln recorded in the corresponding period last year; with regard to **MP Belgio**, the profit for the period amounted to roughly EUR 1 mln, compared to a profit of EUR 13 mln recorded as at 30 September 2017.

[6] The profit reported for foreign subsidiaries is that determined on an operational basis.

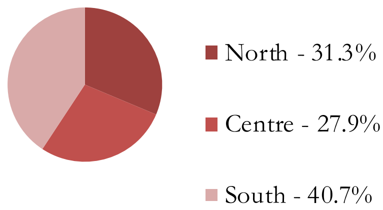
Banca Widiba

Business areas	Customers
• Banking products and services, deposit account, cards and advanced payment systems; customer self-service through the bank's digital channels or in assisted mode with the support of a Financial Advisor. • Fully customisable online platform that relies on a network of 584 Financial Advisors present throughout the country. • Funding and Global advisory services and financial planning through the advanced WISE platform and the skills of the Financial Advisor Network. • Mortgages, credit facilities and personal loans. • Innovative interaction through computers, smartphones, tablets, watches and TV.	There were roughly 244,913 customers as at 30 September 2018, of which 140,400 in the Financial Advisor Network channel, 66,900 in the self-service channel, and around 37,600 customers migrated from the MPS branch network. There were approx. 212,707 customers managed exclusively by Banca Widiba SpA.

Breakdown by type



Breakdown by geography



Income statement and balance sheet results

As at 30 September 2018, Total Funding for Widiba amounted to approximately EUR 7.7 bn, in line with levels recorded at the end of June 2018 and up by EUR 0.6 bn compared to 30 September of the previous year. In the first nine months, an increase of around 9.8 thousand units of the customer base was recorded, which generated a marked rise of the Direct Funding component, while Assets under Management were stable compared to the values of 2Q18 and down slightly compared to 30 September of the previous year, mainly due to the negative market effect. More specifically:

- **Direct Funding totalled EUR 2.4 bn**, stable with respect to 2Q18. The quarterly trend in the aggregate reflects less commercial investments, highlighting, in any case, a significant growth trend from the start of the year regarding both current accounts and restricted credit lines (EUR +297 mln corresponding to +13.8%), due to the positive net funding flows both for the self customer channel and for that of the Network of Financial Advisors. The growth trend in volumes is accompanied by the continuation of the process to reduce the cost of funding due to the reduction in rates and balanced mix of demand deposits and time deposits. Continuing with the commercial initiatives of the first six months, also in 3Q18, policies were directed not only at acquiring new customers, but also increasing the share of wallet of existing customers, with offers dedicated to developing the segment of customers that had migrated from MPS branches and with the use of increasingly more sophisticated intelligence instruments. 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 as well as with ever increasing cross selling rates;

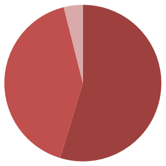
- **Indirect Funding**, of around **EUR 5.2 bn**, is in line with 2Q18 (+7 mln) but down compared to 31 December 2017 by 160 mln (-3%), mainly because of the unfavourable performance of the financial markets. In fact, a markedly negative market impact on the Asset Management segment of around EUR 150 mln (around -3%) was estimated in the first nine months, not offset by the net funding flows from the Network of Financial Advisors. In the first nine months, 22 new Financial Advisors were hired.

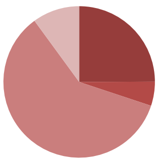
Interest-bearing loans to Widiba **customers** rose from roughly EUR 336 mln in 2Q18 to **EUR 384 mln** as at 30 September 2018. The segment's net overall growth mainly refers to the consolidation of the range of mortgage loans offered by Widiba, with an increase of EUR 147 mln from the start of the year. Volumes disbursed in the first nine months amounted to around EUR 161 mln (of which EUR 51 mln in the third quarter) while disbursements from the launch of the product amounted to EUR 358 mln.

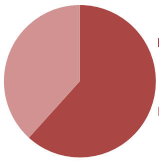
WIDIBA BANK - BALANCE SHEET AGGREGATES

(EUR mln)	30/09/18	30/06/18	31/12/17	30/09/17	Chg Abs Q/Q	Chg % Q/Q	Chg Abs 31/12	Chg % 31/12	Chg Abs Y/Y	Chg % Y/Y
Deposits from customers and debt securities issued	**2,445**	**2,450**	**2,148**	**1,821**	**-5**	**-0.2%**	**297**	**13.8%**	**624**	**34.3%**
Assets under management	*4,714*	*4,734*	*4,928*	*4,830*	*-20*	*-0.4%*	*-213*	*-4.3%*	*-116*	*-2.4%*
Assets under custody	*527*	*500*	*473*	*468*	*27*	*5.3%*	*54*	*11.4%*	*58*	*12.5%*
Indirect Funding	**5,241**	**5,234**	**5,401**	**5,298**	**7**	**0.1%**	**-160**	**-3.0%**	**-57**	**-1.1%**
Total Funding	**7,686**	**7,684**	**7,548**	**7,119**	**2**	**0.0%**	**137**	**1.8%**	**567**	**8.0%**
Interest-Bearing Loans to Customers	**384**	**336**	**238**	**154**	**48**	**14.2%**	**147**	**61.7%**	**230**	**149.7%**

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, as at 30 September 2018, Widiba achieved total **Revenues** of approx. **EUR 48.6 mln**, up (EUR +13.5 mln; +38.5%) compared to the previous year. The trend in the third quarter shows further growth in Net Interest Income and Net Fee and Commission Income compared to previous quarters. In particular, a breakdown of the aggregate shows:

- **Net Interest Income** as at 30 September 2018 amounted to **EUR 36.5 mln**, marking a significant increase (+63.5%) compared to the previous year. 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 +38% Y/Y) and by commercial assets (due to higher average volumes corresponding to around EUR 232 mln), together with a lower cost of funding (-17 bps on average). These trends led to a net improvement in average performance (+56%) in the quarter with respect to the one in 2017 (corresponding to EUR 7.8 mln);
- **Net Fee and Commission Income** as at 30 September 2018, equal to **EUR 12.2 mln**, recorded a decrease compared to the first nine months of 2017 (EUR -0.8 mln; -5.8%). Gross Revenue fell mainly due to the lower contribution of revenues from placement of Assets under Management products (the activity was penalised in the first few months of the year following the operational

adjustments pursuant to the application of the Mifid II regulations). Commission from continuing Management Asset operations fell slightly, while commissions from services increased due to the effect of the growth of revenues in the banking and e-money segment. In the first nine months, extraordinary expenses relating to the loyalty and recruiting system remained essentially stable, on the whole, with respect to the levels of the previous year.

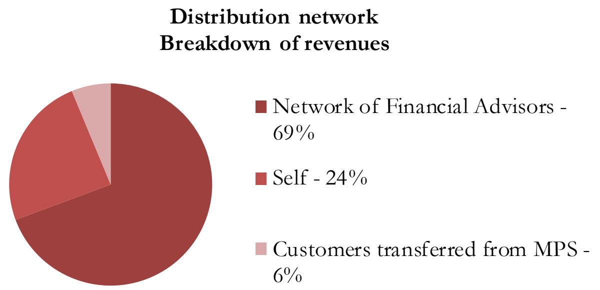
Overall, **Operating Expenses** are in line with the previous year (up by a total of just EUR 0.3 mln) due to lower administrative expenses (EUR -2.4 mln, -8%), deriving from a constant policy of optimising spending with a view to becoming an operational mechanism with an increasing number of customers, transactions and products. By contrast, higher amortisation (EUR +1.6 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 2018 and, on the other hand, in order to improve the efficiency of internal and Network operations) and higher personnel expenses (EUR +1.1 mln due to the increase of the workforce) were recorded.

The **Gross Operating Income** therefore came to **EUR +3.7 mln**, an improvement of EUR +13.2 mln compared to the first nine months of the previous year, also showing a positive performance in the third quarter (EUR +2.6 mln).

The **Net Operating Income** performance was also similar, recording a rise of EUR +11.8 mln against 2017, due to an impact of insignificant write-downs on loans.

WIDIBA BANK - PROFIT AND LOSS AGGREGATES				
			Chg. Y/Y	
(EUR mln)	30/09/18	30/09/17	Abs.	%
Net interest income	*36.5*	*22.3*	*14.2*	*63.5%*
Net fee and commission income	*12.2*	*12.9*	*-0.8*	*-5.8%*
Other income	*0.0*	*0.0*	*0.0*	*-32.5%*
Other operating expenses/income	*(0.1)*	*(0.2)*	*0.1*	*n.s.*
Total Income	**48.6**	**35.1**	**13.5**	**38.5%**
Operating expenses	*(44.9)*	*(44.6)*	*-0.3*	*0.6%*
Pre Provision Profit	**3.7**	**(9.6)**	**13.2**	**n.s.**
Net impairment losses (reversals) on loans and financial assets	(0.6)	0.8	-1.4	n.s.
Net Operating Income	**3.1**	**(8.7)**	**11.8**	**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.



Corporate Centre

The Corporate Centre includes:

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

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

Prospects and outlook on operations

The expansionary trend in the global economy which, in the first half of 2018, recorded a constant rate of growth, should decrease in the context of growing risks and uncertainties related to the emergence of protectionist policies, the vulnerability of the emerging markets and the volatility of the financial markets. Advanced economies continue to benefit from accommodating monetary policies and the stimulus of US fiscal policies, even if the growth in global trade has gradually slowed and uncertainties have come to light over the future of commercial relations.

In the Eurozone even though uncertainty has not completely dissipated, significant progress has been made towards a sustainable adjustment in the level of inflation towards levels around 2 per cent in the middle-term. Consequently, the Governing Council of the ECB decided to leave the ECB's reference interest rate unchanged and expects the current rates to remain unchanged until at least the summer of 2019. Secondly, the Governing Council will continue to make net purchases as part of the programme to purchase available instruments (so-called APP) at the current monthly rate of EUR 30 bn until the end of September 2018. From October, the monthly rate of net asset purchases will be reduced to EUR 15 bn until the end of December 2018.

In Italy, the growth has continued in spite of signs of a slowdown experienced in the previous months. Volatility of financial markets has increased in the second half of the year in connection with the uncertainty of the formation of the new government: yields in Italian state bonds moved upwards, also for shorter-term maturities, while equity market values have decreased, in particular in the banking sector. Tensions, that had been partly reduced from the second week of June, started to intensify further, with premiums for the Italian sovereign risk on the ten-year bond reaching 343 basis points at the end October.

Expectations over profits for listed companies of the Eurozone continue to sustain investments, while favourable lending conditions are reflected in the increase in loans to non-financial companies. Investments are also increasing in those sectors affected by capacity constraints. In fact, the manufacturers of machinery and equipment, for example in the transport sector, are expanding their productive capacity to meet growing demand.

As regards the MPS Group, following the approval of the Restructuring Plan by the European Commission, activities continue for the implementation of the main initiatives set forth in the Plan.

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

- the monitoring of the new 2018 credit policy guidelines for Italy and Overseas, the latter defined through a new framework;
- the completion of the roll-out of new "credit standards", namely the rules to comply with during the origination stage of the credit portfolio;
- advanced maintenance of 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;
- the monitoring and review of default detection mechanisms, in order to ensure their development as regards regulatory and business compliance; special attention has been focused, in this regard, on the management of overdrafts, positions registered as high risk and those intended for large-scale recovery;
- the effective continuation of programmes involving the sale/reduction of the portfolio of unlikely to pay positions, with a reduction of around EUR 1.3 bn in the first nine months of 2018;
- the continuation of the divestment and deconsolidation transactions, with a specific bad loan disposal plan, represented by receivables resulting from lease agreements and by receivables for contained single amounts, totalling approximately EUR 3.3 bn;

- the roll-out of the outsourcing of management of the flow of bad loans (activation of “Juliet” platform) and launch of ordinary interaction operations according to defined and shared processes.

With reference to the main commitments of the Restructuring Plan, note should be taken of the following:

- Transfer of foreign banks:
  - for Banca Monte Paschi Belgio S.A., the Parent Company reached a sale agreement with an investee of funds managed by Warburg Pincus, at a price of EUR 42 mln, subject to a price adjustment mechanism. The sale is subject to approval by the National Bank of Belgium and the European Central Bank;
  - for Monte Paschi Banque S.A., given the unsuccessful attempts at the transfer, the Parent Company, as set out in the Plan, resolved the run-off of the subsidiary, which consists of limiting the bank’s activities strictly to those targeted at the deleveraging of loans, excluding the development of new business; during said period, the Bank will retain the banking licence.
- Closure of foreign branches: the process to close the foreign branches in New York, London and Hong Kong was launched and is in progress.
- Sale of property assets: for the purposes of compliance with said commitment, which ultimately makes provision for the disposal, over the term of the Plan, of owned properties with a total value of around EUR 500 mln, the Bank launched the restructuring of the Chianti Classico transaction; this transaction includes the Casaforte securitisation and the transfer of property assets relating to it to the Consorzio Perimetro. Through the consolidation of the processes and activities on specific Bank functions and the reduction of the number of companies involved, property assets relating to the securitisation (currently held by Perimetro) may be managed with greater flexibility and the administrative and decision-making processes may be governed more effectively.
- Strengthening of the capital position: after the issuing of the first tranche of the subordinated Tier 2 loan in January 2018 for an amount of EUR 750 mln, the Bank constantly monitors the market conditions, currently dominated by uncertainty, with the objective of performing a second issue of the same type.

Finally, as regards the rationalisation of the number of staff, the Bank is evaluating the potential implementation, by the end of the year or in 2019, of the planned exits through use of the Solidarity Fund, owing to the current uncertainties regarding the pension reform proposed by the Government’s legislative framework, essentially concerning the contribution requirements, those of seniority and the amounts of benefits to be received.

Annex

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

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:

balance sheet

- 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".

income statement

- the former item "Net profit (loss) from trading and financial assets/liabilities" has been renamed "Net profit (loss) from trading and financial assets/liabilities measured at fair value through 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".

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 obligations	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**

* *Comparative 2017 figures for balance-sheet items that were reclassified under the new IFRS 9 items*

Reclassified Consolidated Income Statement				
	30 09 2017	Reclassifications	30 09 2017*	
MONTEPASCHI GROUP				MONTEPASCHI GROUP
Net interest income	1,373.7		1,373.7	Net interest income
Net fee and commission income	1,213.2		1,213.2	Net fee and commission income
Income from banking activities	**2,586.9**		**2,586.9**	**Income from banking activities**
Dividends, similar income and gains (losses) on equity investments	68.7		68.7	Dividends, similar income and gains (losses) on equity investments
Net profit (loss) from trading and financial assets/liabilities	571.4		571.4	Net profit (loss) from trading and financial assets/liabilities measured at fair value through profit and loss
Net profit (loss) from hedging	(4.5)		(4.5)	Net profit (loss) from hedging
Other operating income (expenses)	0.7		0.7	Other operating income (expenses)
Total Revenues	**3,223.2**		**3,223.2**	**Total Revenues**
Administrative expenses:	(1,700.2)		(1,700.2)	Administrative expenses:
a) personnel expenses	*(1,188.3)*		*(1,188.3)*	*a) personnel expenses*
b) other administrative expenses	*(511.9)*		*(511.9)*	*b) other administrative expenses*
Net adjustments to (recoveries on) property, plant and equipment / Net adjustments to (recoveries on) intangible assets	(192.3)		(192.3)	Net adjustments to (recoveries on) property, plant and equipment / Net adjustments to (recoveries on) intangible assets
Operating expenses	**(1,892.5)**		**(1,892.5)**	**Operating expenses**
Pre Provision Profit	**1,330.7**		**1,330.7**	**Pre Provision Profit**
Net impairment losses (reversals) on:	**(4,902.4)**	**67.2**	**(4,835.2)**	Net impairment losses (reversals) on:
a) loans	*(4,772.0)*		*(4,772.0)*	*a) financial assets measured at amortised cost*
b) financial assets	*(130.4)*	*67.2*	*(63.2)*	*b) financial assets measured at fair value through other comprehensive income*
Net operating income	**(3,571.7)**	**67.2**	**(3,504.5)**	**Net operating income**
Net provisions for risks and charges	(66.8)	(67.2)	(134.0)	Net provisions for risks and charges
of which commitments and guarantees issued	-	*(67.2)*	*(67.2)*	*of which commitments and guarantees issued*
Gains (losses) on investments	(22.9)		(22.9)	Gains (losses) on investments
Restructuring costs / One-off costs	(295.7)		(295.7)	Restructuring costs / One-off costs
Risks and charges related to the SRF, DGS and similar schemes	(94.2)		(94.2)	Risks and charges related to the SRF, DGS and similar schemes
DTA Fee	(53.2)		(53.2)	DTA Fee
Gains (losses) on disposal of investments	533.5		533.5	Gains (losses) on disposal of investments
Profit (loss) before tax from continuing operations	**(3,571.0)**		**(3,571.0)**	**Profit (loss) before tax from continuing operations**
Tax expense (recovery) on income from continuing operations	589.9		589.9	Tax expense (recovery) on income from continuing operations
Profit (loss) after tax from continuing operations	**(2,981.1)**		**(2,981.1)**	**Profit (loss) after tax from continuing operations**
Net profit (loss) for the period including non-controlling interests	**(2,981.1)**		**(2,981.1)**	**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	**(2,981.1)**		**(2,981.1)**	**Profit (loss) for the period before PPA , impairment on goodwill and intangibles**
PPA (Purchase Price Allocation)	(19.6)		(19.6)	PPA (Purchase Price Allocation)
Net profit (loss) for the period	**(3,000.7)**		**(3,000.7)**	**Net profit (loss) for the period**

** Comparative 2017 figures for income statement items that were reclassified under the new IFRS 9 items*

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 30 September 2018 corresponds to the underlying documentary evidence and accounting records.

Siena, 9 November 2018

Nicola Massimo Clarelli

Signed by the Financial Reporting Officer