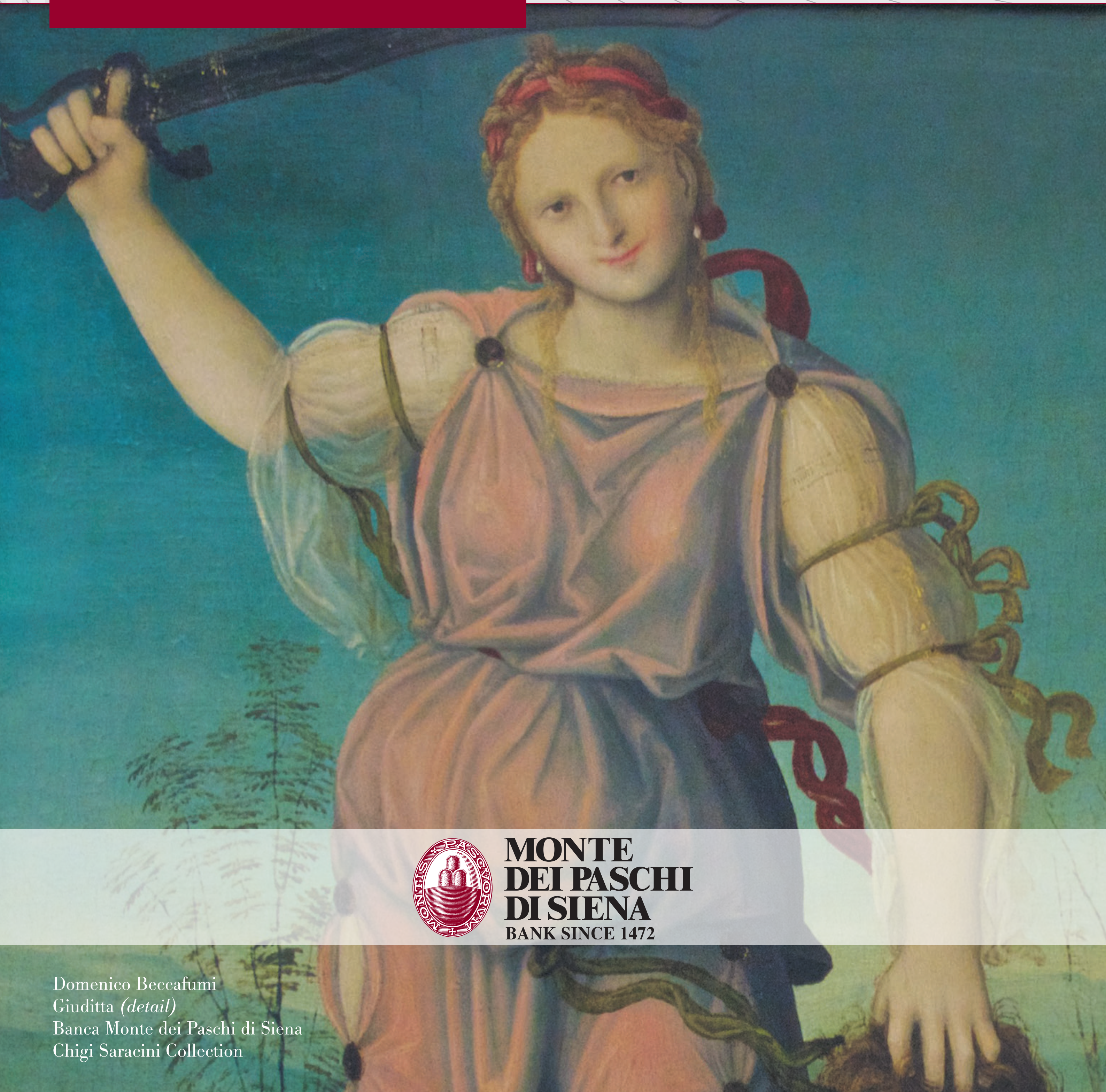
MONTE DEI PASCHI DI SIENA BANK

Consolidated Half-Year Report as at 30 June 2017



MONTE DEI PASCHI DI SIENA
BANK SINCE 1472

Domenico Beccafumi
Giuditta *(detail)*
Banca Monte dei Paschi di Siena
Chigi Saracini Collection

Consolidated Half-Year Report
Monte dei Paschi di Siena Group
30 June 2017

Banca Monte dei Paschi di Siena S.p.a.
Share Capital: € 15,692,799,350.97 fully paid in
Siena Companies' Register no. and tax code 00884060526
Member of the Italian Interbank Deposit Protection Fund. Banks Register no. 5274.
Monte dei Paschi di Siena Banking Group, registered with the Banking Groups Register

CONSOLIDATED HALF-YEAR REPORT ON OPERATIONS

Results in brief

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

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

The Group's results as at 30 June 2017 include the effects connected to the planned transfer of a set of credit exposures classified as doubtful (allocated to balance sheet item 150 "Non-current assets held for sale and discontinued operations"), a transaction defined in the Restructuring Plan approved by the European Commission on 4 July 2017.

CONSOLIDATED REPORT ON OPERATIONS
Highlights at 30/06/2017

INCOME STATEMENT AND BALANCE SHEET FIGURES

MPS GROUP

INCOME STATEMENT FIGURES	**30/06/17**	**30/06/16**	**Chg.**
Net interest income	903.3	1,035.2	-12.7%
Net fee and commission income	857.5	940.7	-8.8%
Other operating income	91.9	368.6	-75.1%
Total Revenues	1,852.7	2,344.5	-21.0%
Net impairment losses (reversals) on loans and financial assets	(4,677.9)	(717.2)	n.s.
Net operating income	(4,091.9)	348.5	n.s.
Net profit (loss) for the period	(3,242.6)	302.0	n.s.
EARNING PER SHARE (EUR)	**30/06/17**	**30/06/16**	**Chg.**
Basic earnings per share	(110.597)	10.298	n.s.
Diluted earnings per share	(110.597)	10.297	n.s.
BALANCE SHEET FIGURES AND INDICATORS	**30/06/17**	**31/12/16**	**Chg.**
Total assets	143,589.5	153,178.5	-6.3%
Loans to customers	89,713.1	106,692.7	-15.9%
Direct funding	106,543.9	104,573.5	1.9%
Indirect funding	96,629.4	98,151.8	-1.6%
of which: assets under management	57,603.0	57,180.9	0.7%
of which: assets under custody	39,026.4	40,971.0	-4.7%
Group net equity	3,047.7	6,425.4	-52.6%
OPERATING STRUCTURE	**30/06/17**	**31/12/16**	**Chg.**
Total head count - end of period	24,781	25,566	-785
Number of branches in Italy	1,860	2,032	-172

The item Loans to Customers does not include the transferred portfolio classified under assets held for sale as at 30 June 2017.

CONSOLIDATED REPORT ON OPERATIONS
Highlights at 30/06/2017

ALTERNATIVE PERFORMANCE MEASURES

MPS GROUP

PROFITABILITY RATIOS (%)	30/06/17	31/12/16	Chg.
Cost/Income ratio	68.4	61.2	7.2
R.O.E.	-136.9	-40.5	-96.5
Return on Assets (RoA) ratio	-4.5	-2.1	-2.4
ROTE (Return on tangible equity)	-137.1	-40.5	-96.6

The credit quality ratios are shown below, including the share of the portfolio allocated to assets held for sale (and to the items Non-performing loans and Loans to Customers):

KEY CREDIT QUALITY RATIOS (%)	30/06/17	31/12/16	Chg.
Net non-performing loans / Loans to Customers	16.4	19.0	-2.6
Coverage non-performing loans	65.7	55.6	10.1
Net doubtful loans / Loans to Customers	7.4	9.7	-2.3
Coverage doubtful loans	77.5	64.8	12.7
Net impairment losses on loans / Loans to Customers (Provisioning)	5.5	4.2	1.3
Texas Ratio	139.3	145.0	-5.7

The credit quality ratios are shown below, which do not consider the share of the portfolio allocated to assets held for sale:

KEY CREDIT QUALITY RATIOS (%)	30/06/17	31/12/16	Chg.
Net non-performing loans / Loans to Customers	11.7	19.0	-7.4
Coverage non-performing loans	46.7	55.6	-8.9
Net doubtful loans / Loans to Customers	2.3	9.7	-7.4
Coverage doubtful loans	64.2	64.8	-0.6
Net impairment losses on loans / Loans to Customers (Provisioning)	1.5	4.2	-2.7
Texas Ratio	97.5	145.0	-47.5

The Texas Ratio presented in the table includes the overall capital strengthening in shareholders' equity, net of the subordinated bonds held by the Group and converted into treasury shares.

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

Return On Equity (ROE): ratio of the annualised Net profit (loss) for the period to 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 Asset (ROA): ratio of the annualised Net profit (loss) for the period to the Total assets at the end of the period.

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

Net impairment losses on loans/Loans to Customers (Provisioning): ratio between annualised net impairment losses on loans and loans to customers. In the calculation of the ratio in the first table, the non-recurring items linked to the portfolio allocated to assets held for sale were excluded from the "annualisation".

Texas Ratio: ratio between Gross non-performing loans and the sum, in the denominator, of Tangible shareholders' equity and the Allowance for impairment on non-performing loans.

CONSOLIDATED REPORT ON OPERATIONS Highlights at 30/06/2017 REGULATORY MEASURES			
MPS GROUP			
CAPITAL RATIOS (%)	30/06/17	31/12/16	Chg.
Common Equity Tier 1 (CET1) ratio	1.5	8.2	-6.7
Total Capital ratio	2.8	10.4	-7.6
FINANCIAL LEVERAGE INDEX (5)	30/06/17	31/12/16	Chg.
Leverage ratio - Transitional Phase	0.6	3.2	-2.6
LIQUIDITY RATIO (%)	30/06/17	31/12/16	Chg.
LCR	226.0	107.7	118.3
NSFR	98.1	87.6	10.5
Encumbered asset ratio *	39.0	49.4	-10.4
Counterbalancing capacity	19.8	6.9	12.9

* 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 main aggregates of the Group for the first half of 2017 are summarised below:

- The Group recorded **Total revenues** of **EUR 1,853 mln**, down by 21.0% compared to the same period of the previous year, mainly due to the downturn in net interest income, net fee and commission income and the net profit (loss) from trading. This revenue trend is affected by the performance of **Net interest income**, which amounted to approximately **EUR 903 mln** (-12.7% Y/Y), due especially to the negative performance of interest-bearing assets, particularly lending to commercial counterparties (decrease in average volumes and decline in the relative returns), the trend of which was only partially attenuated by the decrease in interest expenses. **Net fee and commission income**, totalling approximately **EUR 858 mln** in the first half of 2017, recorded a decline of 8.8% compared to the same period of the previous year, also penalised by the recognition of the cost of the guarantee on government issues. Within other revenues, the **Net profit (loss) from trading and financial assets/liabilities** for the half totalled roughly **EUR 43 mln**, a significant drop on the previous year, which was characterised by higher trading profit, disposals/repurchases of securities and capital gains on liabilities issued and measured at fair value. Please note that the FVO result as at 30 June 2017 is substantially null due to the early adoption permitted by IFRS 9 of the method of accounting for profit/losses connected to own creditworthiness of liabilities measured at fair value.

- **Operating expenses** amounted to approximately **EUR 1,267 mln** (-0.9% Y/Y). **Personnel expenses**, which totalled about **EUR 800 mln**, declined year on year by 2.6% as a result of workforce downsizing (due in the first place to the roughly 600 Solidarity Fund exits on 1 May 2017), as well as lower provisions on the variable component in 2017 with respect to the same period of the previous year. **Other administrative expenses** ended the first half of 2017 at about **EUR 340 mln**, down by 4.6% from the same period of the previous year thanks to structural cost control measures taken during the half. **Net adjustments to (recoveries on) property, plant and equipment and intangible assets**, amounting to approximately **EUR 128 mln**, were higher than the values from the corresponding period of the previous year in relation to property, plant and equipment (impairment on land and buildings of roughly EUR 8 mln) and intangible assets (write-down of the residual value of a software licence agreement by roughly EUR 10 mln).

- **Net impairment (losses)/reversals on loans, financial assets and other transactions** amounted to approximately **EUR 4,678 mln**, up by 3,961 from those recorded in the same period of the previous year, primarily as a result of net impairment losses since the start of the year on the scope subject to transfer following the adjustment to their recoverable value (roughly EUR -4 bn) and the write-down of the equity investment in Atlante (around EUR -30 mln). The ratio of net impairment losses on loans annualised as at 30 June 2017 to total Loans to Customers reflects a **Provisioning Rate of 554 bps**, which declines to around 147 bps net of the effects of the transferred doubtful loans.

- As a result of the trend of the above-mentioned economic aggregates and also considering the capital gain realised from the sale of the merchant acquiring business to CartaSi (EUR +523 mln) and the partial reassessment of DTAs from tax losses (EUR +530 mln) accrued but not recognised in previous years, induced by the recent regulatory measure which ordered the reduction in the ACE benefit (cf. article 7 of Law Decree no. 50 of 24 April 2017), the Group recorded a **loss of roughly EUR 3,243 mln** in the first half of the year, against a positive result of around EUR 302 mln in the same period of 2016.

- **Total Funding** at the end of June 2017 amounted to approximately **EUR 203 bn** with growth in volumes of about EUR 0.4 bn recorded compared to 31 December 2016, owing to the increase in the direct component, only partly offset by the decline in the indirect component.

- At 30 June 2017, **Loans to Customers** amounted to about **EUR 90 bn**, down by EUR 17.0 bn as compared to 31 December 2016. The decline in the aggregate seen during the half was concentrated in repo transactions with institutional counterparties and in the segment of non-performing loans as a result of higher impairment losses on loans recognised during the half and the reclassification of transferred loans to balance sheet item 150 “Non-current assets held for sale and discontinued operations”.

- The Group’s **net exposure to non-performing loans**, included in item 70 “Loans to Customers” stood at **EUR 10.5 bn** at the end of June 2017 (a EUR -9.8 bn decline from the beginning of the year as a result of the trends described above). Including the transferred portfolio, the value stood at EUR 15.6 bn (EUR -4.7 bn since the beginning of the year), with a decline in the share of net doubtful loans (from 9.7% in December 2016 to 7.4% as at 30 June 2017) against significant stability in the share of Unlikely to Pay and Past Due Exposures. The percentage of coverage of non-performing loans, including the transferred portfolio, came to 65.7%, up compared to 31 December 2016 by more than 1,000 bps (the same percentage net of this portfolio would have been 46.7%, a decline of 890 bps compared to December 2016). The increase in coverage is linked primarily to impairment losses on loans within the transferred portfolio of roughly EUR -4 bn. The coverage of Doubtful loans rose from 64.8% in December 2016 to 77.5% in June 2017 (64.2% net of that portfolio).

- With regard to capital ratios, as at 30 June 2017 the **Common Equity Tier 1 Ratio** stood at **1.5%** (8.2% at the end of 2016) and the **Total Capital Ratio** at **2.8%**, compared to 10.4% recorded at the end of December 2016. Including the share capital increase, the CET 1 and the Total Capital Ratio would reach **15.4%** and **15.6%**, respectively.

- As at 30 June 2017 the operational liquidity position showed an **unencumbered Counterbalancing Capacity** of **EUR 19.8 bn**, up significantly (approximately EUR +13 bn) compared with the same figures as at 31 December 2016. This trend can be attributed to the improvement in commercial liquidity (increase in direct funding and simultaneous reduction in loans) and government issues carried out in the first quarter of 2017, which made it possible to reduce exposure to the ECB.

Shareholders

As at 30 June 2017, the Parent Company Banca Monte dei Paschi di Siena's share capital amounted to EUR 7,365,674,050.07, broken down into 29,320,798 ordinary shares.

According to the communications received pursuant to the applicable legislation and based on other information available, the entities that, as at 30 June 2017, directly and/or indirectly hold ordinary shares representing a shareholding exceeding 3% of the share capital of the Issuer and which do not fall under the cases of exemption set forth in art. 119-bis of the Issuers' Regulation, as well as on the basis of what is set forth on the Consob institutional website, are as follows:

Shareholder	% of Outstanding Ordinary Share
Ministry of Economy and Finance	4.024%
AXA SA*	3.170%

** Share held directly and through 12 subsidiary companies*

On 28 July 2017, as part of the procedure for the capital strengthening of the Bank, the decrees of the Ministry of Economy and Finance (MEF) were published in the Official Gazette of the Italian Republic ordering the application of the Burden Sharing measure, pursuant to art. 22, paragraphs 2 and 4 of Decree 237, and the share capital increase of the Bank servicing the subscription of shares by the MEF (the "Precautionary Recapitalisation"):

- as part of the Burden Sharing, in compliance with what is set forth in art. 23, paragraph 3 of Decree 237, as well as art. 2 of the Burden Sharing Decree, on 1 August 2017 the AT1 and T2 financial instruments were converted into newly issued ordinary shares of the Bank at the unit price of EUR 8.65; as a result, no. 517,099,404 were issued for a total value of EUR 4,472,909,844.60;
- as part of the Precautionary Recapitalisation, no. 593,869,870 shares reserved to the MEF were issued at the unit price of EUR 6.49, for a total value of EUR 3,854,215,456.30.

Following the completion of the Burden Sharing and the Precautionary Recapitalisation, on 11 August the share capital of BMPS is equal to EUR 15,692,799,350.97 and is broken down into no. 1,140,290,072 ordinary shares, of which no. 36,280,748 treasury shares; the equity investment of MEF in the Bank's share capital is therefore estimated at around 54% before the settlement to be carried out on the "Upper Tier II 2008 - 2018" (IT0004352586) subordinated bond loan.

Information on the BMPS share

Share price and trends

The first half of the year marked a positive trend for the European stock exchanges; the best performance was seen in Madrid (+11.7%), followed by Frankfurt (+7.4%), Milan (+7.0%) and Paris (+5.3%). London closed at +2.4%. The markets reacted positively to political events such as the elections in the Netherlands and France and the launch of Brexit negotiations. Performance in the second quarter, on the other hand, was basically stable: FTSE MIB +0.4%, DAX +0.1%, FTSE 100 -0.1%, IBEX 35 -0.2% and CAC 40 basically breaking even.
The half-yearly performance of the FTSE MIB was especially influenced by the performance of the FTSE IT Banks index, which since the start of the year rose 17.0% (+9.4% in the second quarter).

Following the Consob resolutions of 22 and 23 December 2016 (no. 19833 and no. 19840, respectively), the trading of securities issued and guaranteed by BMPS and the financial instruments with securities issued by the Bank as underlying assets was temporarily suspended on the regulated markets, the Italian multilateral trading facilities and the systematic internalisers. Consob ordered this suspension until the restoration of a proper set of information on the securities issued or guaranteed by the bank and on the financial instruments with securities issued by the Bank as the underlying assets.
Furthermore, after the close of trading on Friday 17 March 2017, the BMPS security was excluded from the FTSE MIB basket following the revision of the index launched by the company FTSE Russell. Indeed, on 1 March 2017 the latter had announced that, if no information was provided on the timing for the restoration of trading, it would proceed with the exclusion of the security from the FTSE MIB index during the March revision.

Ratings

The ratings given by the rating agencies as at 30 June 2017 are provided below:

Rating agencies	Short-term debt	Outlook	Long-term debt	Outlook	Last update
Moody's Investors Service	NP	-	B3	Under Review Uncertain	27/12/16
DBRS	R-5	Under Review Developing	B (low)	Under Review Developing	24/03/17
Fitch Ratings	B	Rating Watch Negative	B-	Rating Watch Evolving	18/05/17

- On 27 December 2016, Moody’s placed the BCA (Baseline Credit Assessment) rating under observation in view of a possible increase. The long-term rating at “B3” and the short-term rating at “NP” (Not Prime) remained unchanged. The long-term outlook is “Under Review with Direction Uncertain”.
- On 24 March 2017, the rating agency DBRS confirmed the long-term rating at “B (low)” and the short-term rating at “R-5”, maintaining the outlook of “Under Review with Developing Implications”.
- On 18 May 2017, the Fitch rating agency confirmed the long-term rating as a “B-”, the short-term rating as a “B” and the Viability Rating as “c”. The long-term outlook is confirmed at “Rating Watch Evolving” and the short-term outlook at “Rating Watch Negative”.

After the reporting period:

- on 11 July, DBRS announced that it expects to complete its assessments on the BMPS ratings within a few weeks, after the issue of the ministerial decrees containing the implementing measures regarding burden sharing and the precautionary recapitalisation. Therefore, DBRS’s rating is unchanged: short-term rating of “R-5” with the outlook “Under Review with Developing Implications” and a long-term rating of “B (low)” with the outlook “Under Review with Developing Implications”;

- on 12 July, the Moody's rating agency increased the BCA (Baseline Credit Assessment) rating to "caa1" from "ca" and confirmed the long-term rating at "B3". The long-term rating outlook was shifted to "Negative" from "Under Review with Direction Uncertain".

Reference context

In the first part of the year, the global economy continued to expand at a moderate pace, with the IMF forecasting an acceleration of global growth to 3.5% in 2017 and 3.6% in 2018, from 3.1% 2016. In the second half of 2016 and the initial months of 2017, the positive economic phase was associated with a recovery of inflation as a result of the increase in commodity prices. However, net of the more volatile components, core inflation trends remained visibly more moderate.

In the Eurozone, first quarter growth was relatively robust, with quarterly GDP growth of 0.6% compared to the final quarter of 2016, resulting in annual growth of 1.9%. Leading indicators point to a similar growth rate in the second quarter of the year as well, and the consensus expects growth of 1.9% and 1.6% for 2017 and 2018, respectively. The first half of the year featured a number of political events, including the Dutch and French elections which warded off the danger of the advancement of political forces favourable to the breaking up of the European project. In the United Kingdom, the early elections called by Prime Minister May were held in June. The result weakened the position of Prime Minister May and her conservative government, complicating negotiations for the UK's exit from the European Union, which began on 19 June.

In Italy, first quarter GDP growth turned out to be more lively than in the recent past, with a rise of 1.2% year on year, although it remains considerably below that recorded in other advanced countries. For the year under way and for 2018, the consensus expects growth of around 1%. Improvements on the job market front remain moderate; the average unemployment rate in the first five months of the year was 11.5%, compared to an average of 11.7% in 2016.

In the financial markets, the first half of the year recorded considerable performance for all of the main equity indexes, with rises of around 6-7% for the Euro Stoxx and the FTSE MIB. After the significant improvement in the second half of 2016, ten-year bond yields have remained within a relatively limited range. The ten-year BTP yield fluctuated for the majority of the time within a range between 2% and 2.4%, closing the half at 2.15%, up by roughly 35 basis points with respect to the end of 2016. The range for the spread with German bonds of the same maturity was 160 to 210 basis points, with values close to the lower part of the range at the end of the half. The rise in yields caused losses during the half of around 1% for the Eurozone government bond indexes.

Within this context of appreciable growth and timid signs of an inflation's increase, the largest central banks have signalled their propensity towards modifying several aspects of the expansionary monetary policies deployed in the wake of the great financial crisis. At its June meeting, the European Central Bank eliminated the reference to the possibility of having lower interest rates in the future from its announcement. In addition, in the second half of the year, it will need to provide details about the future of the Asset Purchase Program (APP) which calls for the acquisition of EUR 60 bn in securities per month until the end of the year. In the US, the Federal Reserve raised rates at its March and June meetings, bringing the Fed Funds rate to 1%-1.25%. The members of the Fed expect another rate hike by the end of the year and three rises in 2018.

Significant events in the first half

On **20 January 2017**, the Parent Company announced that it had received a decree from the Ministry of Economy and Finance granting the government guarantee to back its access to liquidity pursuant to Law Decree no. 237/2016 and that it had promptly initiated activities in preparation for the issue of government backed securities.

On **25 January 2017**, the Parent Company completed two issues of government backed securities pursuant to Law Decree no. 237/2016, for a total of EUR 7 bn: the first issue matures on 20/1/2018, with a 0.5% coupon and a nominal amount of EUR 3 bn, whereas the second matures on 25/1/2020, with a 0.75% coupon and a nominal amount of EUR 4 bn. The securities, backed by the government guarantee pursuant to Law Decree no. 237/2016, were subscribed in full by the issuer and in part sold on the market and in part used as collateral in funding transactions or collateral swaps. On 31 January 2017 the rating agency DBRS rated the two government backed securities issued on 25 January 2017 pursuant to Law Decree no. 237/2016. With regard to the "Banca Monte dei Paschi di Siena S.p.A. 360 giorni 0,50% 20.01.2018 con garanzia dello Stato - ISIN IT0005240491" issue, DBRS assigned a short-term rating of R-1 (low). With regard to the "Banca Monte dei Paschi di Siena S.p.A. 0,75% 25.01.2020 con garanzia dello Stato - ISIN IT0005240509" issue, DBRS assigned a long-term rating of BBB (high). The trend for both issues was assessed as "Stable". Considering the unconditional and irrevocable guarantee of the Italian government, the ratings and trend are aligned with those of the Italian Republic.

On **3 February 2017**, the Parent Company announced that it reached a binding agreement with Istituto Centrale delle Banche Popolari Italiane S.p.A ("ICBPI"), a national and international leader in the management of payment services, for the sale of assets relating to the "Merchant Acquiring" business on the basis of an enterprise value of EUR 520 million. As part of this transaction, BMPS and ICBPI, through its subsidiary CartaSi S.p.A., will enter into a ten-year partnership for the development and placement, through the MPS Group's distribution network, of payment products and services for current and future customers of the MPS Group. The closing of the transaction is subject to the satisfaction of certain standard conditions precedent for transactions of this type, including the obligatory completion of the trade union procedure established by law and the contract and obtaining authorisation from the Bank of Italy and the antitrust authority.

On **6 February 2017** Fitch Ratings rated the two government backed securities issued by the Bank on 25 January 2017 pursuant to Law Decree no. 237/2016. In particular, with regard to the "Banca Monte dei Paschi di Siena S.p.A. 360 giorni 0,50% 20.01.2018 con garanzia dello Stato - ISIN IT0005240491" issue, Fitch assigned a short-term rating of F2. With regard to the "Banca Monte dei Paschi di Siena S.p.A. 0,75% 25.01.2020 con garanzia dello Stato - ISIN IT0005240509" issue, Fitch assigned a long-term rating of BBB+. Considering the unconditional and irrevocable guarantee of the Italian government, the ratings are aligned with those of the Italian Republic. In February, the above-mentioned securities were used in full in sales transactions in the market and as collateral to back funding transactions.

On **17 February 2017**, Law Decree no. 237 of 23 December 2016 was converted into law, with the main changes regarding the rules on deferred tax assets (DTAs), the amendment of conditions concerning the recovery of the subordinated Upper Tier II 2008-2018 security and the value of shares necessary to calculate the shares' price to be attributed to the holders of the instruments and loans.

On **28 February 2017**, with reference to the planned transaction for the acquisition of Banca Monte dei Paschi di Siena S.p.A.'s doubtful loans platform (the "Juliet Project"), pursuant to the binding offer submitted by *Cerved Group S.p.A.* on 13 November 2016 and already subject to the previous communication of 14 November 2016, *Cerved Information Solutions S.p.A.* (MTA: CERV) the holding company heading up the Cerved Group and a leader in Italy in credit risk analysis and credit management, and Banca Monte dei Paschi di Siena S.p.A. announce that (i.) the conditions precedent set forth in the agreement for the completion of the Juliet Project were not fulfilled by the established deadline of 28 February 2017 and, therefore, the agreement relating to that project should be considered void, and (ii.) *Cerved Information Solutions* S.p.A. expressed its willingness to extend the above-mentioned deadline to 30 June 2017. In this context, *Cerved Information Solutions* S.p.A. and Banca Monte dei Paschi di Siena S.p.A. note, in any case, that discussions are ongoing between the parties to explore alternative business partnership forms within the doubtful loan management sector.

On **9 March 2017** the Board approved a preliminary proposal for the Restructuring Plan, which was sent to the competent Authority to start the comparison for the finalization of the plan itself and its approval by the Authority.

On **15 March 2017** the Parent Company issued a government backed security pursuant to Law Decree no. 237/2016, as amended by conversion law no. 15/2017, with the following characteristics: nominal amount of EUR 4 bn, maturity on 15/3/2020, 0.75% coupon (ISIN IT0005246423). The security, backed by the government guarantee pursuant to Law Decree no. 237/2016, as subsequently amended by conversion law no. 15/2017, was subscribed in full by the issuer and was subsequently in part sold on the market and in part used as collateral in funding transactions or collateral swaps. The issue joins the two already carried out on 25 January for a total amount of EUR 7 billion. On the same date of **15 March**, Fitch Ratings rated the government backed security issued by the Bank. In particular, with regard to the "Banca Monte dei Paschi di Siena S.p.A. 0,75% 15.03.2020 con garanzia dello Stato - ISIN IT0005246423" issue, Fitch assigned a long-term rating of BBB+. Subsequently, on **17 March 2017** DBRS assigned the same security a rating of BBB (high). Considering the unconditional and irrevocable guarantee of the Italian government, the rating is aligned with that of the Italian Republic.

On **12 April 2017**, the Board of Directors of Banca Monte dei Paschi di Siena S.p.A. appointed Independent Director Massimo Egidi as the new member of the Risk Committee. The Risk Committee therefore consists of the following members: Roberto Isolani (Chairman), Stefania Bariatti, Daniele Bonvicini, Antonino Turicchi and Massimo Egidi.

On **24 April 2017**, Law Decree no. 50 was approved (published in Official Gazette no. 95 of 24 April 2017 - O.S. no. 20), which as of 2017 amended the regulation underlying the ACE (Support to Economic Growth) deduction.
Article 7 of the final version of Law Decree no. 50, after the amendments to the original text made during the process of conversion into Law (cf. Law no. 96 of 24/06/2017), establishes - effective as of the 2017 tax period - a reduction in the rate (notional return) to be applied to increases in own capital relevant for the purposes of the ACE benefit (substantially those realised from 2011 and thereafter).
Concretely, the ACE benefit rate for 2017 declines from 2.3% to 1.6% and, when fully implemented, for the subsequent years, from 2.7% to 1.5%; therefore, with respect to the regulations previously in force, the rate reduction will decrease the amount of deductions from taxable income for 2017 and subsequent years, downsizing the effect of the fiscal benefit in question.
Aside from this effect, for the MPS Group the regulatory amendment in question also had significant impacts on the probability test and therefore on the ability to recognise DTAs. Indeed, on a forward-looking basis, the lower ACE deductions will reduce the absorption of future taxable income which may be allocated to a greater extent to offsetting previous tax losses.

On **26 June 2017**, a binding agreement was entered into with the Atlante II Fund (managed by Quaestio Capital Management SGR S.p.A.) for the acquisition of 95% of the junior and mezzanine notes as part of the assignment of doubtful loans (for further details, please refer to the "The doubtful loan disposal transaction" section).

On **30 June 2017**, the sale to CartaSi S.p.A. ("CartaSi"), a subsidiary of Istituto Centrale delle Banche Popolari Italiane S.p.A ("ICBPI"), a national and international leader in the management of payment services, of the BMPS assets relating to the merchant acquiring business was completed for consideration of EUR 536 mln. This transaction, announced on 3 February, also envisages a ten-year commercial partnership between the Group and CartaSi for the development and placement, through the Group's distribution network, of payment products and services for current and future customers of the Group.

Significant events after the first half

The sale to ICBPI of the stakes of 11.74% in Bassilichi S.p.A. and 10.13% in Consorzio Triveneto S.p.A. held by BMPS was completed on **3 July**.

On **4 July 2017**, the European Commission announced that it had approved the Group's 2017-2021 Restructuring Plan (the "Restructuring Plan") to allow for the precautionary recapitalisation pursuant to Law Decree no. 237/2016, as converted and subsequently amended (the "Precautionary Recapitalisation" and "Decree 237"), of the Bank in line with the regulations of the European Union ("EU").

On **12 July 2017** the Moody's rating agency increased the individual rating of the Parent Company (Baseline Credit Assessment – BCA) to "caa1" from "ca" and confirmed the long-term rating at "B3".

On **28 July 2017**, as part of the procedure for the capital strengthening of the Parent Company, the decrees of the Ministry of Economy and Finance were published in the Official Gazette of the Italian Republic pursuant to Law Decree no. 237/2016, as converted and subsequently amended ("Decree 237"), ordering the application of the Burden Sharing measure, pursuant to art. 22, paragraphs 2 and 4 of Decree 237 (the "Burden Sharing Decree") and the share capital increase of the Bank servicing the subscription of shares by the MEF (the "Precautionary Recapitalisation", the "Recapitalisation Decree" and the "BMPS Shares reserved to the MEF", respectively).
As part of the Burden Sharing, in compliance with what is set forth in art. 23, paragraph 3 of Decree 237, as well as art. 2 of the Burden Sharing Decree, on 1 August 2017 the financial instruments specified below were converted into ordinary shares of the Bank newly issued at the unit price of EUR 8.65 (the "Burden Sharing Shares"):

- IT0004352586
- XS0122238115
- XS0131739236
- XS0121342827
- XS0180906439
- XS0236480322
- XS0238916620
- XS0391999801
- XS0415922730
- XS0503326083
- XS0540544912

With the exception of what is specified below in relation to the "Upper Tier II 2008 – 2018" (IT0004352586) subordinated bond loan, the Burden Sharing Shares grant their holders the same administrative and ownership rights as the BMPS shares outstanding and will have the provisional ISIN IT0005276768 until the prospectus is published for their admission to listing on the Electronic Stock Market organised and managed by Borsa Italiana S.p.A. (the "Listing Prospectus"). Following the Bank's publication of the Listing Prospectus - which, after it is authorised by Consob, is expected to take place next autumn - the Burden Sharing Shares will have the ISIN of the BMPS shares currently outstanding, i.e., IT0005218752.
The Burden Sharing Shares deriving from the conversion of the "Upper Tier II 2008 – 2018" subordinated bond loan will instead have the provisional ISIN IT0005276776 in order to allow for smoother management of the settlement that will be proposed by BMPS, pursuant to art. 19, paragraph 2 of Decree 237 (the "Settlement"), the terms of which will be disclosed in the autumn after approval is obtained from the competent Authorities.
If transferred by their respective holders outside the Settlement (with the exception of transfers *mortis causa*), the Burden Sharing Shares deriving from the conversion of the "Upper Tier II 2008 – 2018" subordinated bond loan will automatically acquire the following ISINs:

- IT0005276768, if the transfer takes place before the publication of the Listing Prospectus;
- IT0005218752, if the transfer takes place after the publication of the Listing Prospectus.

In any event, when the Settlement acceptance period is complete, the ISIN of the Burden Sharing Shares deriving from the conversion of the Upper Tier II Security will become that of the BMPS shares currently outstanding (IT0005218752).
Those entitled will receive the Burden Sharing Shares based on the technical timing required by the central clearing systems.
The BMPS Shares reserved to the MEF were issued at the unit price of EUR 6.49, against subscription in cash by the MEF pursuant to the Recapitalisation Decree on 2 August 2017, and with the provisional ISIN IT0005276768 until the publication of the Listing Prospectus, after which time they will have the ISIN of the BMPS shares currently outstanding (IT0005218752).
The Burden Sharing Shares and the BMPS Shares reserved to the MEF will be admitted to trading on the Electronic Stock Market organised and managed by Borsa Italiana S.p.A. following the publication of the Listing Prospectus.
With the completion of the Burden Sharing and the Precautionary Recapitalisation, on 11 August 2017 the share capital of BMPS is equal to EUR 15,692,799,350.97 and is broken down into 1,140,290,072 ordinary shares, of which 36,280,748 treasury shares.
The Precautionary Recapitalisation resulted in an overall capital strengthening, net of the subordinated bonds held by the Group and converted into treasury shares, exceeding EUR 8 bn.

On **2 August 2017**, the Parent Company announced that it had reached a binding agreement with Cerved Group S.p.A. ("Cerved") and Quaestio Holding SA ("Quaestio") concerning the sale of its doubtful loans platform. The transaction envisages the disposal to a company established ad hoc by Cerved and Quaestio of the platform for the collection of doubtful loans of BMPS and the subscription of a long-term servicing agreement for the outsourced management of future flows of doubtful loans of all of the Group's Italian banks. The servicing agreement does not include loans classified as doubtful as at 31 December 2016 and subject to the disposal plan for a total of EUR 28.6 bn. The platform disposal transaction represents one of the actions included within the recently approved BMPS Restructuring Plan and is intended to improve debt collection performance by virtue of an industrial partnership with an important operator specialised in the management of doubtful loans, which is capable of guaranteeing high quality standards aligned with best market practices. The consideration of the disposal is EUR 52.5 mln, in addition to a possible earn out of up to EUR 33.8 mln, based on the achievement of economic results in the timespan until 2025. The closing of the transaction, expected to take place by the end of the first quarter of 2018, is subject to the approval of the supervisory authority as well as the completion of the precautionary recapitalisation procedure set forth in the Restructuring Plan and the securitisation of the doubtful loans of BMPS, with the subscription of mezzanine notes by funds managed by Quaestio.

On **3 August 2017**, an agreement was signed between the Group and the trade unions with regard to the "Solidarity Fund for professional retraining and requalification, for the support of employment and the income of credit personnel", which envisages the exit of a further 1,200 resources in 2017 in addition to the 600 exits already completed as at 1 May 2017, in line with the targets of the Restructuring Plan, which requires, *inter alia*, a headcount reduction across all of the Group's organisational structures by around 5,500 resources, to be carried out primarily through exit support measures (roughly 4,800 through the activation of the "Solidarity Fund"). The agreement provides that the period for joining the "Solidarity Fund" on a voluntary basis will roughly begin at the end of August.

Strategy

The Restructuring Plan approved by the European Commission on 4 July aims for the Bank's return to an adequate level of profitability, with a target ROE of >10% at 2021, and is based on the following 4 pillars:

1. full leveraging of Retail and Small Business customers thanks to a simplified and highly digitalised business model;
2. renewed operating model, with a continuous focus on efficiency, which will result in a cost/income ratio of below 51% in 2021 and the reallocation to commercial activities of resources employed in the administrative area;
3. radically improved credit risk management, with a new Chief Lending Officer ("CLO") organisational structure that will make it possible to strengthen the Bank's early detection processes and improve the recovery rate, and which will bring the cost of risk to below 60 bps and the gross NPE ratio to below 13% in 2021;
4. strengthened capital and liquidity position, with targets at 2021 that include a CET1 of >14%, a Loan to Deposit Ratio of <90% and a Liquidity Coverage Ratio (LCR) of >150%, with at the same time a significant decrease in the cost of funding.

The Restructuring Plan includes the transfer of almost the entire doubtful loan portfolio as at 31 December 2016 for a gross amount of EUR 28.6 bn.

In particular, the Restructuring Plan is consistent with and reflects the commitments undertaken with respect to the DG Comp (the "Commitments") and is aligned with the parameters of the 2017 SREP decision. In this document, received on 19 June 2017, the ECB ordered the Bank to maintain a Total SREP Capital Requirement ratio of 11% at consolidated level as of 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 0.0625% 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% (the latter on a transitional basis will have a coefficient of 0.125% in 2019 and of 0.1875% in 2020). The Restructuring Plan incorporates in full the results of the inspection on loans carried out by the ECB and completed in May 2017. The inspection, conducted on the loan portfolio with reference to 31 December 2015, brought to light the need to recognise additional provisions with respect to the levels of coverage as at the reference date. These additional adjustments substantially overlap with those already recognised from 31 December 2015 to date, the effects of the disposal of the doubtful loans portfolio and further reductions in non-performing loans laid out in the Restructuring Plan.

The Restructuring Plan includes the preliminary estimate of the effects of the entry into force of IFRS 9 for around EUR 1.2 bn upon First Time Adoption ("FTA"), determined on the basis of the status of implementation of the project activated by the Bank to adopt this new accounting standard.

The re-launch of the commercial business will be concentrated on Retail and Small Business customers, making recourse to a more simplified service model characterised by a high level of digitalisation with the launch of dedicated services (e.g., purchasing a home, coverage from risks, business requirements) and leveraging the distinctive elements of Widiba to attract new customers and optimise the management of existing customers. There will be a new Small Business customer service model based on a simplification of the offer and continuous attention focused on the granting of loans and the associated risks. Greater attention will be reserved to the Affluent and Private Banking segments, by leveraging the offer of insurance and wealth management products, as well as advisory services, with the aim of obtaining significant growth in assets under management (through the bancassurance agreement with AXA in the Life and Non-Life segments and the continuation of the collaboration with Anima in the investment funds segment).

The contribution of Widiba will be further leveraged as a vehicle for digitalisation and innovation, through the extension to the Group of technological and automation solutions for certain processes, enabling the Group to benefit from an overall reduction in the cost-to-serve.

Corporate segment activities will be streamlined, as a result of the revision of the business model and the optimisation of capital absorption.

The new operating model will focus on greater efficiency, continuing on the path outlined since 2012, through:

- the launch of a Group digital programme which, thanks to technological infrastructural investments and the leveraging of the capacities developed by Widiba, will make it possible to reduce the absorption of resources (on "manual" processes, from 34% in 2016 to less than 20% in 2021);
- the complete overhaul of the distribution network, with a downsizing of branches (from 2,000 in 2016 to around 1,400 in 2021) and the relative commercial governance structures (Regional Areas and Local Market Units) and with growth in the percentage of resources dedicated to commercial activities from around 62% in 2016 to around 70% in 2021;
- a revision of the size of all of the Group's organisational structures which, without impairing service quality, will result in a reduction of roughly 5,500 resources by the end of 2021 (of which 4,800 exits through the activation of the Solidarity Fund, 450 exits linked to the termination/closure of business activities, 750 exits deriving from natural turnover and roughly 500 new hires); the exit plan will result in extraordinary costs of around EUR 1.15 bn overall in the course of the plan;
- the further optimisation of other administrative expenses, which will drop by 26% (from around EUR 0.8 bn in 2016 to less than EUR 0.6 bn in 2021) and will rank the Bank as one of the best sector operators in terms of cost management and optimisation.

In line with what was already implemented in recent years to improve credit quality and the credit risk management process, the Restructuring Plan envisages:

- the full reorganisation of the CLO, with the centralisation of lending decision-making mechanisms and the creation of direct links with the Regional Area governance structures, a strong push towards the automation of the lending process for smaller amounts for Retail and Small Business which in 2021 will result in an increase in the automated disbursement process to 70% for Retail and to 50% for the Small Business segment;
- the strengthening of systems for early detection and the monitoring of at-risk positions, which will allow for a reduction of the default rate and growth in the recovery rate of past due exposures;
- the creation of a business unit within the CLO dedicated to the management of the non-performing loan portfolio, which will handle early remedial actions/restructuring, the control of the activities and performance of the debt collection platform, as well as recovery activities relating to new streams of doubtful loans not conveyed to the platform;
- a specific programme for the transfer/reduction of the portfolio of unlikely to pay and doubtful loans, the economic effects of which are included in the Restructuring Plan, so as to allow for the achievement of the targets linked to the percentage of gross non-performing loans out of total loans (NPE ratio).

The Restructuring Plan envisages an overall capital strengthening exceeding EUR 8 bn.

The share capital increase and the deconsolidation of the doubtful loans portfolio will have positive impacts on the main regulatory liquidity ratios, with the Liquidity Coverage Ratio and the Net Stable Funding Ratio considerably above the target level of 100% over the entire term of the plan.

On the commercial level, the Loan to Deposit ratio is expected to improve by roughly 16 percentage points (from 103% in 2016 to 87% in 2021), as a result of the growth in the level of funding coming from the network and the expected reduction in gross trade receivables. As a result of the share capital increase and the transfer of doubtful loans, a reduction in the cost of funding is also expected in the course of the plan, with a realignment to average market parameters.

The Group is expected to reach a CET1 ratio of >14% and an ROE of >10% in 2021.

The Restructuring Plan is consistent with the Commitments undertaken with respect to the DG Comp, laid out pursuant to European regulations, which regard various plan aspects, including:

- cost reduction measures: annual restrictions in terms of the number of branches, employees, cost/income ratio and total operating expenses, reduction of additional costs up to a maximum of EUR 100 mln in the case of a deviation from the net operating margin targets (gross of provisions on loans);
- sale of non-strategic assets: sale of foreign banks, disposal of a list of equity investments in the course of the plan, without prejudice to the capital position of the Bank, and part of the real estate assets;
- risk containment: commitment to deconsolidate a portfolio of doubtful loans of EUR 26.1 bn, strengthening of risk control oversight, restrictions on proprietary finance activities in terms of VaR and the nature of instruments traded;
- prohibition against making acquisitions;
- the establishment of a remuneration ceiling corresponding to 10 times the average salary of BMPS employees.

Compliance with the Commitments will be verified through a Monitoring Trustee selected by the Bank with the approval of the DG Comp.

The doubtful loan disposal transaction

The doubtful loan disposal transaction envisages the transfer of a portfolio with a gross book value (GBV) as at 31 December 2016 of roughly EUR 26 bn through a Securitisation transaction and through the intervention of the Atlante II Fund (managed by Quaestio Capital Management SGR S.p.A.), with which, on 26 June 2017, a binding agreement was signed for the acquisition of 95% of the junior and mezzanine notes.

The scope of the Securitisation includes MPS Group loans that were classified as doubtful as at 31 December 2016 (EUR 28.6 bn excluding positions which due to certain characteristics could not be transferred, for roughly EUR 0.8 bn), net of a portfolio of EUR 2.5 bn consisting of unsecured loans with a gross unit value of less than EUR 150 thousand and lease receivables.

The expected transfer price is around EUR 5.5 bn, equal to 21.0% of the GBV at the cut-off date of 31 December 2016, against a net book value as at 31 December 2016 of around EUR 9.4 bn; the difference between the transfer price and the net book value, equal to approx. EUR 4 bn, was accounted for in the first half of 2017 and the securitised portfolio is expected to be deconsolidated by the end of June 2018.

The portfolio will be transferred to a vehicle company established for this purpose and will be funded through the issue of the following securities[1]:

(i) Senior A1 for EUR 3,256 mln (12.5% of the GBV);

(ii) Senior A2 for EUR 500 mln (1.9% of the GBV);

(iii) Mezzanine for EUR 1,029 mln (4.0% of the GBV);

(iv) Junior for EUR 686 mln (2.6% of the GBV).

During the period between the transfer of the securitised portfolio and its deconsolidation, the Senior A1, Senior A2 and Junior notes will be held by BMPS.

For the Senior A1 notes, there will be a request to attribute the benefit of the "GACS" guarantee scheme, to be obtained by the end of June 2018, after the assignment of an investment grade rating by at least two rating agencies; after which time, they may be placed in the market with institutional investors.

The Securitisation envisages the following phases:

(i) by the end of December 2017, the transfer of the portfolio to the vehicle company, the issue by it of all securities that will be initially subscribed by the Originators and the transfer to Atlante II of 95% of the mezzanine notes;

(ii) by the end of June 2018, with the assignment of the investment grade rating to the Senior A1 notes and after obtaining the GACS, the placement on the market of such notes along with the Senior A2 notes and the transfer to Atlante II of 95% of the Junior notes, with the simultaneous deconsolidation of the portfolio.

An earn out is established in favour of BMPS equal to 50% of the excess profit if the profit realised on the Junior notes exceeds 12% per annum.

For the entire duration of the Securitisation, BMPS will in any event maintain a net economic interest of 5% of the nominal amount of each class of notes so as to remain in compliance with the retention rule, in keeping with regulations in force.

As concerns the disposal of the platform of doubtful loans, please note that a binding agreement was reached with Cerved Group S.p.A. ("Cerved") and Quaestio Holding SA ("Quaestio"). The transaction envisages the disposal to a company established ad hoc by Cerved and Quaestio of the platform for the collection of doubtful loans of BMPS and the subscription of a long-term servicing agreement for the outsourced management of future flows of doubtful loans of all of the Group's Italian banks.

[1] The nominal amounts specified will vary as a result of loan portfolio trends until the transfer date.

Please also note that the evolution of RWAs of the Restructuring Plan is based on the fundamental assumption that the waiver will be confirmed for the LGD models.

HALF-YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Consolidated balance sheet

	Assets	30 06 2017	31 12 2016
10	Cash and cash equivalents	843.1	1,084.5
20	Financial assets held for trading	9,711.2	9,266.2
40	Financial assets available for sale	14,378.6	16,663.1
60	Loans to banks	13,116.4	8,936.2
70	Loans to customers	89,713.1	106,692.7
80	Hedging derivatives	151.8	327.3
90	Change in value of macro-hedged financial assets (+/-)	35.0	113.3
100	Equity investments	1,023.6	1,031.7
120	Property, plant and equipment	2,552.3	2,597.4
130	Intangible assets	292.4	345.5
	of which: goodwill	*7.9*	*7.9*
140	Tax assets	4,184.4	4,147.5
	a) current	*1,333.4*	*850.7*
	b) deferred	*2,851.0*	*3,296.8*
	under Law 214/2011	*1,377.8*	*2,367.2*
150	Non-current assets and groups of assets held for sale and discontinued operations	5,144.8	60.7
160	Other assets	2,442.8	1,912.4
	Total Assets	**143,589.5**	**153,178.5**

continued: Consolidated balance sheet

	Liabilities and Shareholders' Equity	30 06 2017	31 12 2016
10	Deposits from banks	22,802.8	31,469.1
20	Deposits from customers	80,299.9	80,702.8
30	Debt securities issued	24,659.8	22,347.5
40	Financial liabilities held for trading	4,449.9	4,971.8
50	Financial liabilities designated at fair value	1,584.2	1,523.2
60	Hedging derivatives	678.3	1,018.3
70	Change in value of macro-hedging financial liabilities (+/-)	(3.4)	-
80	Tax liabilities	82.9	75.3
	a) current	*5.3*	*5.3*
	b) deferred	*77.6*	*70.0*
90	Liabilities associated with non-current assets held for sale and discontinued operations	-	10.4
100	Other liabilities	4,745.4	3,238.7
110	Provision for employee severance pay	233.7	252.9
120	Provisions for risks and charges:	1,006.1	1,108.1
	a) post-employment benefits	*47.3*	*53.6*
	b) other provisions	*958.8*	*1,054.5*
140	Valuation reserves	102.0	47.3
170	Reserves	(1,177.4)	2,253.6
190	Share capital	7,365.7	7,365.7
210	Non-controlling interests (+/-)	2.2	34.9
220	Profit (loss) (+/-)	(3,242.6)	(3,241.1)
	Total Liabilities and Shareholders' Equity	**143,589.5**	**153,178.5**

Consolidated Income statement

Items		30 06 2017	30 06 2016
10	Interest income and similar revenues	1,422.4	1,748.4
20	Interest expense and similar charges	(526.1)	(723.6)
30	**Net interest income**	**896.3**	**1,024.8**
40	Fee and commission income	1,035.2	1,091.3
50	Fee and commission expense	(177.7)	(150.6)
60	**Net fee and commission income**	**857.5**	**940.7**
70	Dividends and similar income	10.3	11.9
80	Net profit (loss) from trading	23.4	117.5
90	Net profit (loss) from hedging	(1.8)	(1.3)
100	Gains/(losses) on disposal/repurchase of:	18.8	128.6
	a) loans	*(0.4)*	*(6.8)*
	b) financial assets available for sale	*22.1*	*89.3*
	d) financial liabilities	*(2.9)*	*46.1*
110	Net profit (loss) from financial assets and liabilities designated at fair value	(0.6)	68.4
120	**Net interest and other banking income**	**1,803.9**	**2,290.6**
130	Net impairment (losses)/reversals on	(4,677.9)	(717.2)
	a) loans	*(4,597.0)*	*(718.3)*
	b) financial assets available for sale	*(33.5)*	*(16.1)*
	d) other financial transactions	*(47.4)*	*17.2*
140	**Net income from banking activities**	**(2,874.0)**	**1,573.4**
180	Administrative expenses:	(1,428.1)	(1,550.6)
	a) personnel expenses	*(799.5)*	*(821.0)*
	b) other administrative expenses	*(628.6)*	*(729.6)*
190	Net provisions for risks and charges	(59.0)	23.9
200	Net adjustments to/recoveries on property, plant and equipment	(63.1)	(53.0)
210	Net adjustments to/recoveries on intangible assets	(77.7)	(62.8)
220	Other operating expenses/income	177.4	203.9
230	**Operating expenses**	**(1,450.5)**	**(1,438.6)**
240	Gains (losses) on investments	33.4	41.5
270	Gains (losses) on disposal of investments	531.7	-
280	**Profit (loss) before tax from continuing operations**	**(3,759.4)**	**176.3**
290	Tax (expense)/recovery on income from continuing operations	516.7	126.5
300	**Profit (loss) after tax from continuing operations**	**(3,242.7)**	**302.8**
310	Profit (loss) after tax from groups of assets held for sale and discontinued operations	-	-
320	**Profit (loss)**	**(3,242.7)**	**302.8**
330	Profit (loss) attributable to non-controlling interests	(0.1)	0.8
340	**Parent company's net profit (loss)**	**(3,242.6)**	**302.0**

	30 06 2017	30 06 2016
Basic Earnings per Share (Basic EPS)	**(110.597)**	**10.298**
of continuing operations	(110.597)	10.298
Diluted Earnings per Share (Diluted EPS)	**(110.597)**	**10.297**
of continuing operations	(110.597)	10.297

Consolidated statement of comprehensive income

	Items	30 06 2017	30 06 2016
10	**Profit (loss)**	**(3,242.7)**	**302.8**
	Other comprehensive income after tax not recycled to profit and loss	**(52.8)**	**(4.2)**
40	Actuarial gains (losses) on defined benefit plans	4.7	(4.0)
50	Non current assets held for sale	0.1	-
60	Share of valuation reserves of equity-accounted investments	-	(0.2)
*	Financial liabilities measured at fair value with impact to profit and loss	(57.6)	-
	Other comprehensive income after tax recycled to profit and loss	**(52.5)**	**33.7**
80	Exchange differences	(3.7)	(2.3)
90	Cash flow hedges	26.0	26.6
100	Financial assets available for sale	(24.2)	(31.4)
110	Non current assets held for sale	0.3	(19.6)
120	Share of valuation reserves of equity-accounted investments	(50.9)	60.4
130	**Total other comprehensive income after tax**	**(105.3)**	**29.5**
140	**Total comprehensive income (Item 10+130)**	**(3,348.0)**	**332.3**
150	Consolidated comprehensive income attributable to non-controlling interests	(0.1)	0.8
160	**Consolidated comprehensive income attributable to Parent Company**	**(3,347.9)**	**331.5**

** item added to the table following the partial early application of IFRS 9 limited to the recognition of changes in own creditworthiness on fair value option liabilities.*

Consolidated Statement of changes in equity – 30 June 2017

	Balance as at 31 12 2016	Changes in opening balances	Balance as at 01 01 2017	Allocation of profit from prior year		Change during the period									Total Equity as at 30 06 2017	Group equity as at 30 06 2017	Non-controlling interest as at 30 06 2017
							Shareolder's equity transactions										
				Reserves	Dividends and other payout	Changes in reserves	Issue of new share	Purchase of treasury share	Extraordinary distribution of dividends	Change in equity instruments	Treasury shares derivatives	Stock options	Change in equity investments	Total Comprehensive income for 30 06 2017			
Share capital	7.379,1	-	7.379,1	-	-	(12,4)	-	-	-	-	-	-	-	-	7.366,7	7.365,7	1,0
a) ordinary shares	7.379,1	-	7.379,1	-	-	(12,4)	-	-	-	-	-	-	-	-	7.366,7	7.365,7	1,0
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium	0,2	-	0,2	-	-	(0,2)	-	-	-	-	-	-	-	-	-	-	-
Reserves:	2.263,9	(162,5)	2.101,4	(3.231,5)	-	(47,3)	-	-	-	-	-	-	-	-	(1.177,4)	(1.177,4)	-
a) from profits	984,8	(162,5)	822,3	(1.832,8)	-	(47,6)	-	-	-	-	-	-	-	-	(1.058,1)	(1.058,1)	-
b) other	1.279,1	-	1.279,1	(1.398,7)	-	0,3	-	-	-	-	-	-	-	-	(119,3)	(119,3)	-
Valuation reserves	48,5	162,5	211,0	-	-	(2,5)	-	-	-	-	-	-	-	(105,3)	103,2	102,0	1,2
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net profit (loss)	(3.231,4)	-	(3.231,4)	3.231,5	(0,1)	-	-	-	-	-	-	-	-	(3.242,7)	(3.242,7)	(3.242,6)	(0,1)
Total equity	6.460,3	-	6.460,3	-	(0,1)	(62,4)	-	-	-	-	-	-	-	(3.348,0)	3.049,8	3.047,7	2,2
Group equity	6.425,4	-	6.425,4	-	-	(29,8)	-	-	-	-	-	-	-	(3.347,9)	3.047,7	3.047,7	X
Non-controlling interests	34,9	-	34,9	-	(0,1)	(32,5)	-	-	-	-	-	-	-	(0,1)	2,2	X	2,2

As at 30 June 2017 the Group's net equity, including non-controlling interests and result for the period, amounts to EUR 3,049.8 mln, as compared to EUR 6,460.3 mln as at 31 December 2016, with a total decrease of EUR 3,410.5 mln.

Please note that the column "Changes in opening balances" includes the impact deriving from the early application of IFRS 9, limited to the treatment of the creditworthiness of fair value option financial liabilities (for additional information, please refer to the "Accounting policies" section).

The most significant phenomena impacting the net equity, in addition to the EUR 3,242.7 mln loss for the period, were:

1. The "Changes in reserve" column conventionally includes the total decrease of EUR 32.5 mln in non-controlling interests (EUR -12.4 mln, in the row "Share capital - a) ordinary shares" and EUR -20.1 mln in the row "Reserves - a) from profits") due to the loss of control during the period over the company CO.E.M. Costruzioni Ecologiche Moderne S.p.a., which became an associated company;

2. "Valuation reserves" show overall a negative change amounting to EUR 105.3 mln, the details of which are available in the Consolidated statement of comprehensive income;

3. Non-controlling interests is down by EUR 32.7 mln, as a result of what was discussed at point 2.

Consolidated Statement of changes in equity – 30 June 2016

	Balance as at 31 12 2015	Changes in opening balances	Balance as at 01 01 2016	Allocation of profit from prior year: Reserves	Allocation of profit from prior year: Dividends and other payout	Change during the period: Changes in reserves	Shareolder's equity transactions: Issue of new share	Shareolder's equity transactions: Purchase of treasury share	Shareolder's equity transactions: Extraordinary distribution of dividends	Shareolder's equity transactions: Change in equity instruments	Shareolder's equity transactions: Treasury shares derivatives	Shareolder's equity transactions: Stock options	Shareolder's equity transactions: Change in equity investments	Total Comprehensive income for 30 06 2016	Total Equity as at 30 06 2016	Group equity as at 30 06 2016	Non-controlling interest as at 30 06 2016
Share capital	9.015,2	-	9.015,2	-	-	-	(0,0)	-	-	-	-	-	-	-	9.015,2	9.001,8	13,4
a) ordinary shares	9.015,2	-	9.015,2	-	-	-	(0,0)	-	-	-	-	-	-	-	9.015,2	9.001,8	13,4
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium	6,5	-	6,5	(6,3)	-	-	-	-	-	-	-	-	-	-	0,2	-	0,2
Reserves:	231,7	-	231,7	396,1	-	(0,3)	-	-	-	-	-	-	-	-	627,5	617,1	10,4
a) from profits	440,1	-	440,1	307,3	-	-	-	-	-	-	-	-	-	-	747,4	737,0	10,4
b) other	(208,4)	-	(208,4)	88,8	-	(0,3)	-	-	-	-	-	-	-	-	(119,9)	(119,9)	-
Valuation reserves	(20,6)	-	(20,6)	-	-	-	-	-	-	-	-	-	-	29,5	8,9	7,7	1,2
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net profit (loss)	389,9	-	389,9	(389,8)	(0,1)	-	-	-	-	-	-	-	-	302,8	302,8	302,0	0,8
Total equity	9.622,7	-	9.622,7	-	(0,1)	(0,3)	(0,0)	-	-	-	-	-	-	332,3	9.954,6	9.928,6	26,0
Group equity	9.596,4	-	9.596,4	-	-	(0,3)	-	-	-	-	-	-	1,0	331,5	9.928,6	9.928,6	X
Non-controlling interests	26,3	-	26,3	-	(0,1)	-	-	-	-	-	-	-	(1,0)	0,8	26,0	X	26,0

As at 30 June 2016 the Group's net equity, including non-controlling interests and result for the period, amounts to EUR 9,954.6 mln, as compared to EUR 9,622.7 mln as at 31 December 2015, with a total increase of EUR 331.9 mln.

The most significant phenomena impacting net equity, in addition to the profit for the period of EUR 302.8 mln were:

1. The profit of 2015, amounting to EUR 389.9 mln, for the portion attributed to the Parent Company was used to cover negative reserves, in compliance with the resolution issued by the Shareholders' Meeting on 14 April 2016;
2. The column "Changes in equity investments" includes the decrease in non-controlling interests referring to the upward change of the investment held by the Parent Company in the subsidiary MPS Capital Services S.p.A., in execution of its share capital increase finalised in February 2016;
3. The column "Changes in reserve" corresponding to the row "Reserves - Other" includes primarily the decrease in a shareholding investment in a subsidiary;
4. Valuation reserves show overall a positive change amounting to EUR 29.5 mln, the details of which are available in the Consolidated statement of comprehensive income;
5. Non-controlling interests is down by EUR 0.3 mln, largely as a result of the combination of what was discussed at point 2 and the comprehensive income for the period.

Consolidated cash flow statement - indirect method

A. OPERATING ACTIVITIES	30 06 2017	30 06 2016
1. Cash flow from operations	**981.8**	**717.3**
profit (loss) (+/-)	(3,242.7)	302.8
capital gains/losses on financial assets held for trading and on assets/liabilities designated at fair value (+/-)	123.5	(124.7)
net profit (loss) from hedging	1.8	1.3
net impairment losses/reversals	4,473.8	556.5
net losses/reversal on impairment on property, plant and equipment and on intangible assets (+/-)	140.8	115.8
net provisions for risks and charges and other costs/revenues (+/-)	66.1	(16.5)
tax espense (recovery) on income from continuing operations	(516.7)	(126.5)
other adjustments	(64.8)	8.6
2. Cash flow from (used in) financial assets	**4,957.4**	**4,364.6**
financial assets held for trading	(610.4)	(518.1)
financial assets available for sale	2,274.5	187.2
loans to banks: on demand	(4,177.6)	288.5
loans to customers	7,483.4	3,262.9
other assets	(12.5)	1,144.1
3. Cash flow from (used in) financial liabilities	**(6,694.3)**	**(5,487.8)**
deposits from banks: on demand	(8,666.2)	1,972.7
deposits from customers	(402.8)	(4,687.8)
debt securities issued	2,360.8	(2,121.2)
financial liabilities held for trading	(493.6)	(85.0)
financial liabilities designated at fair value	74.5	(338.6)
other liabilities	433.0	(227.9)
Net cash flow from (used in) operating activities	**(755.1)**	**(405.9)**

continued: Consolidated cash flow statement - indirect method

B. INVESTMENT ACTIVITIES	30 06 2017	30 06 2016
1. Cash flow from	**556.5**	**69.2**
sales of equity investments	-	13.4
dividends collected on equity investments	17.5	54.7
sales of property, plant and equipment	2.9	0.7
sales of intangible assets	-	0.4
sales of subsidiaries and undertakings	536.1	-
2. Cash flow used in	**(42.7)**	**(57.4)**
purchase of property, plant and equipment	(18.3)	(23.2)
purchase of intangible assets	(24.4)	(34.2)
Net cash flow from (used in) investment activities	**513.8**	**11.8**

C. FUNDING ACTIVITIES		
dividend distribution and other	(0.1)	(0.1)
Net cash flow from (used in) funding activities	**(0.1)**	**(0.1)**

NET CASH FLOW FROM (USED IN) OPERATING, INVESTMENT AND FUNDING ACTIVITIES DURING THE PERIOD	**(241.4)**	**(394.2)**

Reconciliation

Accounts	30 06 2017	30 06 2016
Cash and cash equivalent at beginning of period	1,084.5	1,188.8
Net increase (decrease) in cash and cash equivalents	(241.4)	(394.2)
Cash and cash equivalents at end of period	843.1	794.6

EXPLANATORY NOTES

Accounting Policies

General accounting standards

Pursuant to financial disclosure requirements set forth in art. 154-ter paragraph 3 of the Consolidated Law on Finance, the Condensed consolidated half-year Financial Statements as at 30 June 2017 of the Monte dei Paschi di Siena Group are 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 (IFRIC), as endorsed by the European Commission and effective at the time this half-year 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).

The Condensed consolidated half-year Financial Statements, prepared using the Euro as the reporting currency, drawn up succinctly and in compliance with the IAS 34 standard "Interim financial reporting" comprises the Consolidated Balance Sheet, the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement and the Explanatory Notes; the tables of the Condensed consolidated half-year Financial Statements and the Explanatory Notes, unless otherwise noted, are prepared in millions of Euro.

The "Reconciliation between the reclassified income statement and balance sheet and the related statutory accounts" are also annexed.

The Condensed consolidated half-year Financial Statements provide information concerning the first half-year of 2017, which represents the interim period for financial reporting, pursuant to IAS 34; the data, provided on a quarterly basis, represents additional information of an operational nature.

The accounting standards used for the preparation of these Condensed consolidated half-year Financial Statements, with reference to the classification, recognition, valuation and derecognition of the various asset, liability and equity entries, as well as the methods for recognising revenue and costs, are the same as those used for the preparation of the Consolidated financial statements as at 31 December 2016, to which the reader is referred for more detail, with the exception of the partial early adoption, as of 1 January 2017, of IFRS 9, limited to the part regarding the accounting treatment of the profit/loss connected to own creditworthiness of fair value option liabilities.

Indeed, the IFRS 9 standard allows for the early application before 1 January 2018 of only the provisions on the presentation of profits and losses on fair value option financial liabilities attributable to changes in own creditworthiness, without applying the other parts of the standard early. The Group has decided to take advantage of this early application option.

These provisions establish that the amount of the change in the fair value that is attributable to changes in the credit risk of the liability shall be presented directly in other comprehensive income, unless this creates or increases an accounting mismatch in the profit (loss) for the year, in which case the entire change in fair value of the liability must be presented within profit and loss.

In this regard, the standard establishes that an accounting mismatch is created or expanded when the presentation of the effects of changes in the credit risk of the liability in other comprehensive income results in a more significant mismatch in profit and loss than that which would arise by recognising the entire change in the fair value of the liability in profit and loss.

The standard also establishes that the amount that is recognised in other comprehensive income is not transferred subsequently to P&L when the liability is settled or extinguished. At the moment of settlement or extinguishment, the cumulative profit (loss) may be reclassified to other components of shareholders' equity.

On the basis of the facts and circumstances existing at the date of initial application, the effects of changes in the credit risk of the liabilities of the Group are not offset in profit and loss by a change in the fair value of another financial instrument measured at fair value through profit and loss for the year; as a result, the presentation of changes in own creditworthiness in the Group's statement of comprehensive income does not create an accounting mismatch.

The Group also relied on the right not to restate comparative data.

The impacts connected to changes in own creditworthiness which were attributed to profit and loss at 30 June 2016 and at 31 December 2016 were positive and totalled EUR 65 mln and EUR 91 mln, respectively.

The early adoption of IFRS 9 as at 1 January 2017 with reference to the presentation of changes in own creditworthiness of the fair value option liabilities entails:

- in terms of determining the retrospective impacts, the formation as at 1 January 2017 of a positive valuation reserve in the amount of EUR 162.5 mln as a balancing entry to retained earnings, net of the relative tax effect;
- the attribution as at 30 June 2017 of a gross negative effect of EUR 79.4 mln to shareholders' equity rather than to profit and loss.

With reference to the transition from IAS 39 to IFRS 9 (Financial Instruments), endorsed by the European Commission on 22 September 2016 with Regulation no. 2016/2067 and which must be applied as of 1 January 2018, in 2015 the Bank launched a dedicated project and provided detailed information in the 2016 financial statements, to which reference is made, concerning the expected new elements and the relative areas of greatest impact.

Please note that in 2016 the IASB published several amendments to some international accounting standards, which must be applied as of 2017. The amendments, which are still awaiting approval from the European Commission, are not relevant for the Group.

The preparation of the Condensed consolidated half-year Financial Statements requires recourse to estimates and assumptions in the determination of certain cost and revenue elements and for the assessment of assets and liabilities. Please refer to the 2016 Financial Statements for a description. In addition, certain valuation processes, in particular those which are more complex such as the determination of any impairment of assets, are generally carried out in full when the yearly financial statements are prepared, except in cases in which there are relevant indicators of impairment which require immediate impairment testing.

The Condensed consolidated half-year Financial Statement show, in addition to the amounts pertaining to the relevant period, also the corresponding comparison data of the first half-year of 2016 for the Income Statement and those as at 31 December 2016 for the Balance Sheet.

The Condensed consolidated half-year Financial Statements as at 30 June 2017 are accompanied by the certification of the Financial Reporting Officer, pursuant to art. 154 bis of the Consolidated Law on Finance, and are subject to a limited audit.

Going concern

The Condensed consolidated half-year Financial Statements were 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 Condensed consolidated half-year Financial Statements based on the going concern assumption.

To that end, the Management have performed a detailed analysis of the elements on which the assessment of the ability of the Parent Company and of the Group to continue to operate as a going concern in the foreseeable future is based, and the consequent use of the going concern assumption for the preparation of the financial statements. As part of the assessment in question, particular significance is placed on the European Commission's approval of the Restructuring Plan and the fact that at the date of approval of the half-year Report, as a result of the application of the burden sharing and precautionary recapitalisation measures, the capital ratios were restored to above the SREP thresholds currently in force.

Indeed, as a result of the commitments undertaken with the Restructuring Plan and the binding agreements entered into with Quaestio Capital Management SGR for the disposal of a doubtful loan portfolio, the Bank accounted for additional impairment losses on loans in the Condensed consolidated half-year Financial Statements totalling approximately EUR 4 bn, adjusting the net book value of the doubtful loans to the expected transfer values. The considerable loss for the half brought the capital ratios to below the minimum levels set forth in art. 92 of Reg. 575/2013 (CRR). This breach was overcome as a result of the completion of the precautionary recapitalisation, which involved the following main steps:

- on 4 July 2017, the European Commission announced that it had approved the 2017-2021 Restructuring Plan after obtaining confirmation of the Bank's solvency from the ECB, to allow for its precautionary recapitalisation;
- subsequent to this approval, on 28 July 2017, pursuant to Decree 237/2016 converted into Law 15/2017, the ministerial decrees were published relating to burden sharing and the subscription of capital by the Ministry of Economy and Finance which entailed, respectively, share capital increases for a value of EUR 4,472,909,844.60 and EUR 3,854,215,456.30, respectively, for an overall capital strengthening, net of the subordinated bonds held by the Group and converted into treasury shares, exceeding EUR 8 bn.
- the share capital increase was completed on 11 August 2017 and the authorisations for its calculation in regulatory capital were received on 10 August. Therefore, at the date of approval of the half-year report, the pro forma capital ratios are higher than the minimum thresholds laid out in art. 92 of the CRR and the SREP threshold in force. Indeed, the pro forma CET 1 and TC ratios as at 30 June 2017, after the share capital increase, are estimated at 15.4% and 15.6%, respectively, while the SREP threshold for the CET 1 ratio in force as of 31 December 2016 (2015 SREP) is 10.75%.

The pro forma ratios are also higher than those established for 2018 with the SREP decision of 19 June 2017; indeed, the capital ratios to be respected in 2018 are 9.4% for the CET 1 ratio and 12.9% for the TC ratio (excluding only the P2 Guidance component).

As regards the liquidity position, after the significant deterioration in 2016, the Bank requested and obtained the State guarantee on financial liabilities to be issued for a total of EUR 15 bn (for a maximum duration of three years). To date, the Parent Company has carried out three issues of government backed securities for a total of EUR 11 bn, which were used in full in sales transactions in the market and as collateral to back funding transactions. As a result of these transactions and the recovery of commercial funding, liquidity indicators returned to ordinary levels, in line with the values of the first half of 2016.

It should be noted that since 03 August 2017, following the breach of the minimum ratios under Article 92 CRR, the ECB's Executive Board - for prudential purposes - took the decision to restrict the Bank's access to any temporary cash injection transactions by the Eurosystem; in turn, following intervention by the ECB, the Bank of Italy decided not to allow access to Target 2 intraday credit or Target 2-Securities. The Authorities subsequently communicated that these restrictions were lifted due to the fact that the Bank had restored its solvency ratios on 11 August 2017.

In addition, the uncertainties deriving from the effects of the on-site inspection on the Bank's solvency, highlighted in previous reports, have been overcome in the process of approving the Restructuring Plan as described above.

Therefore, in light of what is noted above, as it is deemed reasonable that the Bank will continue operating in the foreseeable future, the Condensed consolidated half-year Financial Statements have been prepared on a going concern basis.

Other matters

The Restructuring Plan approved by the European Commission on 4 July 2017 includes a doubtful loan disposal transaction which envisages the transfer of a portfolio of doubtful loans with a gross book value as at 31 December 2016 of roughly EUR 26.1 bn through a securitisation transaction. The transaction contemplates the intervention of the Atlante II Fund (managed by Quaestio Capital Management SGR S.p.A.), with which, on 26 June 2017, a binding agreement was signed for the acquisition of 95% of the junior and mezzanine notes.

The doubtful loans included in the transferred portfolio were therefore classified in Asset item 150 "Non-current assets held for sale and discontinued operations" as the transfer transaction satisfies the requirements laid out in IFRS 5 (non-current assets which are highly likely to be sold within the year). Furthermore, the impairment losses on the scope of transferred positions were adjusted so that the net book value of such doubtful loans would reflect the conditions set forth in the term sheet signed with Quaestio. Indeed, the Plan commitments and the agreement with Quaestio feature an amendment of the management strategy for such assets, the recovery of which depends no longer on ordinary activities (enforcement of guarantees, participation in bankruptcy proceedings, etc.) but rather on assignment to third parties. In this respect, as the agreement entered into with Quaestio is binding and not subject to further conditions precedent in addition to those already satisfied at the date of approval of this Condensed consolidated half-year Financial Statements and, therefore, is substantially enforceable, it was deemed suitable for the purposes of the above-mentioned accounting representation. The net book value of the doubtful loans was therefore reduced to reflect the cash flows expected from this transaction, as set forth in par. 63 of IAS 39. The resulting additional adjustments, equal to EUR 4 bn, were included in the profit and loss statement under Item 130 a) "Net impairment losses/reversals on loans".

The binding agreement also envisages that the Bank will need to bear some additional charges; of these, the profit and loss statement item 130 d) "Net impairment losses/reversals on other financial transactions" includes EUR 65 mln connected to the commitment undertaken to cover the vehicle hedging costs to be borne by the transferor.

Please also note that on 7 June 2017 the Bank received the final results of the on-site inspection conducted by the supervisory authority from May 2016 to February 2017. The inspection concerned the classification of loans, the levels of coverage and the valuation of collateral for non-performing loans, as at the date of 31 December 2015. The Bank, also as a result of the discussions with the inspection team, made assessments and analyses in 2016 which led to changes in the methodologies and parameters used for the valuation of non-performing loans, in accordance with the rationale and with the impacts described in Part A - Information about changes in accounting estimates in the 2016 financial statements.

Following the assessments conducted, in the 2016 financial statements the Bank recognised higher impairment losses on some positions subject to analytical assessment by the ECB inspectors (credit file review) on the basis of the position deterioration events that took place in 2016 and in compliance with the Group's accounting policies.

The ECB recognised that the additional valuation differences, also caused by the use of statistical methods for the projection of the results obtained, overlap in large part with the impairment losses recognised by the Bank in the past year, as well as with the losses deriving from the disposal of the doubtful loan portfolio, with the estimated effects of the transition to IFRS 9 and with the operations for the reduction of non-performing loans set forth in the Restructuring Plan.

Although the supervisory authority acknowledged this overlap, it expects the residual difference from the credit file review, equal to EUR 250 mln, net, that is, of the above-mentioned overlaps, to be reflected in the accounting by the end of 2017 and the residual difference deriving from the use of statistical projections, equal to EUR 185 mln, again net of the above-mentioned overlaps, to be adequately evaluated.

The Bank classified and evaluated the loans in accordance with the reference accounting regulations and therefore the above-mentioned provisioning differences will be reflected in the accounting to the extent to which they will be confirmed in credit events that will entail the reduction of expected cash flows for the exposures and/or portfolios subject to the inspection.

Risks and uncertainties relating to the use of estimates and significant accounting choices

In accordance with the IFRSs, management is required to formulate assessments, estimates and forecasts which may have an influence on the application of the accounting principles as well as on the amounts of assets/liabilities and costs/revenues recognised in the financial statements. Estimates and related forecasts are based on past experience or other factors deemed reasonable in the specific circumstances and were made to estimate the carrying value of assets and liabilities that cannot be easily inferred from other sources. In particular, estimates were used in support of the carrying amounts for the most significant items posted in the Condensed consolidated half-year Financial Statements as at 30 June 2017, in accordance with the aforementioned accounting principles and regulatory provisions. Production of these estimates involves the use of available information and adoption of subjective assessments. By their nature, the estimates and assumptions utilised may vary from one period to another and, therefore, it cannot be ruled out that in subsequent periods the actual amounts stated in the accounts may differ, even to a significant extent, as a result of changes in subjective assessments made. These estimates and valuations are thus difficult and bring about inevitable elements of uncertainty, even in stable macroeconomic conditions.

For details about risks and uncertainties related to the use of estimates, see the Financial Statements 2016.

Scope and methods of consolidation

Investments in subsidiaries

	Name	Headquarters	Registered Office	Type of relationship (*)	Ownership Relationship		Available votes % (**)
					Held by	areHolding	
A	**Companies**						
A.0	BANCA MONTE DEI PASCHI DI SIENA S.p.A.	Siena	Siena				
	A.1 Companies consolidated on a line-by-line basis						
A.1	MPS CAPITAL SERVICES BANCA PER LE IMPRESE S.p.a.	Florence	Florence	1	A.0	99.979	
A.2	MPS LEASING E FACTORING BANCA PER I SERVIZI FINANZIARI ALLE IMPRESE S.p.a.	Siena	Siena	1	A.0	100.000	
A.3	MONTE PASCHI FIDUCIARIA S.p.a.	Siena	Siena	1	A.0	100.000	
A.4	WISE DIALOG BANK S.p.a. - WIDIBA	Milan	Milan	1	A.0	100.000	
A.5	MPS TENIMENTI POGGIO BONELLI E CHIGI SARACINI SOCIETA' AGRICOLA S.p.a.	Castelnuovo Berardenga (SI)	Castelnuovo Berardenga (SI)	1	A.0	100.000	
A.6	G.IMM ASTOR S.r.l.	Lecce	Lecce	1	A.0	52.000	
A.7	AIACE REOCO S.r.l.	Siena	Siena	1	A.0	100.000	
A.8	ENEA REOCO S.r.l.	Siena	Siena	1	A.0	100.000	
A.9	CONSORZIO OPERATIVO GRUPPO MONTEPASCHI	Siena	Siena	1	A.0	99.790	
					A.1	0.060	
					A.2	0.030	
					A.4	0.030	
						99,910	
A.10	PERIMETRO GESTIONI PROPRIETA' IMMOBILIARI S.c.p.a.	Siena	Siena	1	A.0	98.914	98.716
					A.1	0.120	0.142
					A.2	0.049	0.057
					A.3	0.012	0.014
					A.9	0.905	1.072
						100.000	
A.11	MAGAZZINI GENERALI FIDUCIARI DI MANTOVA S.p.a.	Mantua	Mantua	1	A.0	100.000	
A.12	BANCA MONTE PASCHI BELGIO S.A.	Brussels	Brussels	1	A.0	99.900	
					A.1	0.100	
						100.000	
A.13	MPS PREFERRED CAPITAL I LLC	New York	Delaware	1	A.0	100.000	
A.14	MPS PREFERRED CAPITAL II LLC	New York	Delaware	1	A.0	100.000	
A.15	MPS CAPITAL TRUST I	New York	Delaware	4			
A.16	MPS CAPITAL TRUST II	New York	Delaware	4			
A.17	MONTE PASCHI BANQUE S.A.	Paris	Paris	1	A.0	100.000	
17.1	MONTE PASCHI CONSEIL FRANCE SOCIETE PAR ACTIONS SEMPLIFIEE	Paris	Paris		A.18	100.000	
17.2	IMMOBILIERE VICTOR HUGO S.C.I.	Paris	Paris		A.18	100.000	
A.18	MONTEPASCHI LUXEMBOURG S.A.	Luxembourg	Luxembourg	1	A.0	99.200	
					A.17	0.800	
						100.000	
A.19	ANTONVENETA CAPITAL L.L.C. I	New York	Delaware	1	A.0	100.00	
A.20	ANTONVENETA CAPITAL L.L.C. II	New York	Delaware	1	A.0	100.000	
A.21	ANTONVENETA CAPITAL TRUST I	New York	Delaware	1	A.0	100.000	
A.22	ANTONVENETA CAPITAL TRUST II	New York	Delaware	1	A.0	100.000	
A.23	MPS COVERED BOND S.r.l.	Conegliano	Conegliano	1	A.0	90.000	
A.24	MPS COVERED BOND 2 S.r.l.	Conegliano	Conegliano	1	A.0	90.000	
A.25	CIRENE FINANCE S.r.l.	Conegliano	Conegliano	1	A.0	60.000	
A.26	CONSUM.IT SECURITISATION S.r.l.	Conegliano	Conegliano	1	A.0	100.000	
A.27	SIENA MORTGAGES 07-5 S.p.a.	Conegliano	Conegliano	4	A.0	7.000	
A.28	SIENA MORTGAGES 09-6 S.r.l.	Conegliano	Conegliano	4	A.0	7.000	
A.29	SIENA MORTGAGES 10-7 S.r.l.	Conegliano	Conegliano	4	A.0	7.000	
A.30	SIENA CONSUMER S.r.l.	Conegliano	Conegliano	4	A.0	10.000	
A.31	SIENA CONSUMER 2015 S.r.l.	Conegliano	Conegliano	4	A.0	10.000	
A.32	SIENA PMI 2015 S.r.l.	Milan	Milan	4	A.0	10.000	
A.33	SIENA LEASE 2016 2 S.r.l.	Conegliano	Conegliano	4	A.0	10.000	
A.34	SIENA PMI 2016 S.r.l.	Conegliano	Conegliano	4	A.0	10.000	
A.35	CASAFORTE S.r.l.	Rome	Rome	4	A.0	-	

(*) Type of relationship:

1. = majority of voting rights at ordinary shareholders' meetings
2. = dominant influence at ordinary shareholders' meetings
3. = agreements with other shareholders
4. = other forms of control
5. = unified management under art. 26 paragraph 1 of Leg. Decree 87/92
6. = unified management under art. 26.2. of Leg. Decree 87/92

(**) Votes available in the ordinary shareholders' meeting, distinguishing between actual and potential

The Condensed consolidated half-year Financial Statements includes the balance sheet and income statement data of the Parent Company and its direct and indirect subsidiaries. In particular, the scope of consolidation, as specifically set out in the IAS/IFRS, includes all subsidiaries, irrespective of their legal status, of business activity pursued in sectors other than the Parent Company's core business, of their being going concerns or wound-up companies, or of whether the equity investment consists of a merchant banking transaction. The scope of consolidation includes all types of entities, regardless of nature, for which the concept of control introduced by IFRS 10 applies. Structured entities are also consolidated when the requirement of actual control recurs, even if there is no stake in the entity.
For further information on the methods of consolidation, reference should be made to the Notes to the 2016 Consolidated Financial Statements, Part A "Accounting Policies".

With respect to the situation as at 31 December 2016, please note that there was a change in the status of the investee Costruzioni Ecologiche Moderne S.p.A. as a result of the loss of control and the simultaneous assumption of the status of associated company.

Income statement and balance sheet reclassification principles

Reclassified income statement

a) The item "**Net interest income**" was cleared of the negative contribution (equal to around EUR -7 mln) of the Purchase Price Allocation (PPA) arising from the acquisition of former Banca Antonveneta, which was included in its own specific item.

b) The item "**Dividends, similar income and gains (losses) on equity investments**" incorporates the item 70 "Dividends and similar income" and a portion of item 240 "Gains (losses) on investments" (around EUR 37 mln, corresponding to the share of profit and loss for the period contributed by investments in the associate AXA, consolidated at equity). Dividends earned on securities other than equity investments have also been eliminated from the aggregate (roughly EUR 1 mln).

c) The item "**Net profit (loss) from trading and financial assets/liabilities**" includes item 80 "Net profit (loss) from trading", item 100 "Gains (losses) on disposal/repurchase of loans, financial assets available for sale or held to maturity and financial liabilities" and item 110 "Net profit (loss) from financial assets and liabilities measured at fair value". The item incorporates dividends earned on securities other than equity investments (approx. EUR 1 mln).

d) The item "**Other operating expenses (income)**" includes the balance of financial statements item 220 "Other operating expenses (income)" net of the recovery of stamp duty and customer expenses, which are stated under the reclassified item "Other administrative expenses" (EUR 173 mln).

e) The item "**Other administrative expenses**" includes the balance of item 180b of the financial statements "Other administrative expenses", reduced by the following cost items:

- expenses, amounting to EUR 63 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 fee, convertible into tax credit, for an approximate amount of EUR 36 mln (posted to the reclassified item "DTA fee");
- restructuring charges (approx. EUR 18 mln), allocated against the branch closures set forth in the restructuring plan.

This item includes also the portion of stamp duty and client expenses recovery (approx. EUR 173 mln) posted under item 220 "Other operating expenses/income".

f) The item "**Net adjustments to (recoveries on) property, plant and equipment and intangible assets**" was cleared of the negative contribution (equal to around EUR -13 mln) of the Purchase Price Allocation (PPA) arising from the acquisition of former Banca Antonveneta, which was included in its own specific item.

g) The item "**Net impairment losses (reversals) on financial assets and other transactions**" includes items 130b "Financial assets available for sale" and 130d "Other financial transactions".

h) "**Restructuring charges/One-off charges**" includes the restructuring costs allocated against the branch closures set forth in the restructuring plan (approx. EUR 18 mln).

i) The item "**Risks and charges associated with SRF, DGS and similar schemes**" includes the expenses deriving from the EU directives DGSD for deposit guarantee and BRRD for the resolution of bank crises, posted in the financial statements under item 180b "Other administrative expenses". The expenses related to the SRF are recognised in the first half of 2017 (EUR 63 mln).

j) The item "**DTA fee**" includes the expenses related to the fees paid on DTA 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 item 180b "Other administrative expenses".

k) The item "**Gains (losses) on disposal of investments**" includes the balance of item 240 "Gains (losses) on investments" after deducting the portion of profit for the period contributed by investments in AXA, consolidated at equity and posted under the reclassified item "Dividends, similar income and gains (losses) on investments" (EUR 37 mln).

l) The item "**Tax expense (recovery) on income from continuing operations**" was cleared of the theoretical tax component relating to the Purchase Price Allocation (PPA) arising from the acquisition of former Banca Antonveneta, included in a specific item in the amount of around EUR 7 mln.

m) The overall negative effects of the Purchase Price Allocation (PPA) arising from the acquisition of former Banca Antonveneta, posted to this specific account were reclassified out of other items (in particular "**Net Interest income**" for roughly EUR -7 mln and "**Net adjustments to (recoveries on) property, plant and equipment/Net adjustment to (recoveries on) intangible assets**" for approx. EUR -13 mln, net of a theoretical tax burden of EUR +7 mln which integrates the item).

Reclassified balance sheet

n) The item "**Tradable financial assets**", under Assets, includes the financial statements item 20 "Financial assets held for trading" and item 40 "Financial assets available for sale".

o) The item "**Other assets**", under Assets, includes the financial statements item 80 "Hedging derivatives", item 90 "Change in value of macro-hedged financial assets", item 140 "Tax assets", item 150 "Non-current assets held for sale and discontinued operations" and item 160 "Other assets".

p) The item "**Deposits from customers and debt securities issued**" under Liabilities, includes the financial statements item 20 "Deposits from customers", item 30 "Debt securities issued" and item 50 "Financial liabilities measured at fair value".

q) The item "**Other liabilities**", under Liabilities, includes the financial statements item 60 "Hedging derivatives", item 70 "Change in value of macro-hedged financial liabilities", item 80 "Tax liabilities", item 90 "Liabilities associated with non-current assets available for sale and discontinued operations" and item 100 "Other liabilities".

Reclassified consolidated income statement

Reclassified Consolidated Income Statement				
	30/06/17	30/06/16	Change	
Montepaschi Group			Abs.	%
Net interest income	903,3	1.035,2	(131,9)	-12,7%
Net fee and commission income	857,5	940,7	(83,2)	-8,8%
Income from banking activities	**1.760,8**	**1.975,9**	**(215,1)**	**-10,9%**
Dividends, similar income and gains (losses) on equity investments	46,2	43,2	3,1	7,1%
Net profit (loss) from trading and financial assets/liabilities	42,9	317,0	(274,2)	-86,5%
Net profit (loss) from hedging	(1,8)	(1,3)	(0,5)	38,5%
Other operating income (expenses)	4,6	9,7	(5,1)	-52,6%
Total Revenues	**1.852,7**	**2.344,5**	**(491,8)**	**-21,0%**
Administrative expenses:	(1.139,1)	(1.176,8)	37,7	-3,2%
a) personnel expenses	(799,5)	(821,0)	21,5	-2,6%
b) other administrative expenses	(339,6)	(355,8)	16,2	-4,6%
Net adjustments to (recoveries on) property, plant and equipment / Net adjustments to (recoveries on) intangible assets	(127,6)	(102,0)	(25,6)	25,1%
Operating expenses	**(1.266,7)**	**(1.278,8)**	**12,1**	**-0,9%**
Pre Provision Profit	**586,0**	**1.065,7**	**(479,7)**	**-45,0%**
Net impairment losses (reversals) on:	**(4.677,9)**	**(717,2)**	**(3.960,7)**	**n.s.**
a) loans	(4.597,0)	(718,3)	(3.878,7)	n.s.
b) financial assets	(80,9)	1,1	(82,0)	n.s.
Net operating income	**(4.091,9)**	**348,5**	**(4.440,4)**	**n.s.**
Net provisions for risks and charges	(59,0)	23,9	(82,9)	n.s.
Gains (losses) on investments	(3,8)	7,7	(11,5)	n.s.
Restructuring costs / One-off costs	(17,7)	-	(17,7)	
Risks and charges related to the SRF, DGS and similar schemes	(63,0)	(70,8)	7,8	-11,0%
DTA Fee	(35,5)	(108,8)	73,3	-67,4%
Gains (losses) on disposal of investments	531,7	-	531,7	
Profit (loss) before tax from continuing operations	**(3.739,2)**	**200,5**	**(3.939,7)**	**n.s.**
Tax expense (recovery) on income from continuing operations	510,0	118,5	391,5	n.s.
Profit (loss) after tax from continuing operations	**(3.229,2)**	**319,0**	**(3.548,2)**	**n.s.**
Net profit (loss) for the period including non-controlling interests	**(3.229,2)**	**319,0**	**(3.548,2)**	**n.s.**
Net profit (loss) attributable to non-controlling interests	(0,1)	0,8	(0,9)	n.s.
Profit (loss) for the period before PPA , impairment on goodwill and intangibles	**(3.229,1)**	**318,2**	**(3.547,3)**	**n.s.**
PPA (Purchase Price Allocation)	(13,5)	(16,2)	2,7	-16,5%
Net profit (loss) for the period	**(3.242,6)**	**302,0**	**(3.544,6)**	**n.s.**

Quarterly trend in reclassified consolidated income statement						
	2017		2016			
Montepaschi Group	2°Q 2017	1°Q 2017	4°Q 2016	3°Q 2016	2°Q 2016	1°Q 2016
Net interest income	445,9	457,4	502,6	483,5	486,9	548,3
Net fee and commission income	431,2	426,3	437,0	461,7	483,8	456,9
Income from banking activities	**877,1**	**883,7**	**939,6**	**945,2**	**970,7**	**1.005,2**
Dividends, similar income and gains (losses) on equity investments	25,7	20,5	11,3	23,3	23,9	19,3
Net profit (loss) from trading and financial assets/liabilities	18,3	24,5	21,5	102,7	151,3	165,7
Net profit (loss) from hedging	(2,0)	0,2	(80,3)	(0,4)	(1,4)	0,1
Other operating income (expenses)	0,3	4,3	(27,6)	2,2	14,7	(5,0)
Total Revenues	**919,5**	**933,2**	**864,5**	**1.073,0**	**1.159,1**	**1.185,4**
Administrative expenses:	(568,2)	(570,9)	(630,6)	(595,1)	(582,1)	(594,7)
a) personnel expenses	(395,1)	(404,4)	(371,1)	(418,4)	(403,4)	(417,6)
b) other administrative expenses	(173,1)	(166,5)	(259,5)	(176,7)	(178,7)	(177,1)
Net adjustments to (recoveries on) property, plant and equipment / Net adjustments to (recoveries on) intangible assets	(70,9)	(56,6)	(61,6)	(55,2)	(51,7)	(50,3)
Operating expenses	**(639,1)**	**(627,5)**	**(692,2)**	**(650,3)**	**(633,8)**	**(645,0)**
Pre Provision Profit	**280,4**	**305,6**	**172,3**	**422,7**	**525,4**	**540,3**
Net impairment losses (reversals) on:	**(4.374,8)**	**(303,1)**	**(2.482,1)**	**(1.301,6)**	**(368,0)**	**(349,2)**
a) loans	(4.288,8)	(308,2)	(2.445,4)	(1.303,3)	(372,4)	(345,9)
b) financial assets	(86,0)	5,1	(36,7)	1,7	4,4	(3,3)
Net operating income	**(4.094,4)**	**2,5**	**(2.309,8)**	**(878,9)**	**157,4**	**191,1**
Net provisions for risks and charges	(13,4)	(45,6)	48,0	(27,5)	29,2	(5,3)
Gains (losses) on investments	0,2	(4,0)	2,5	1,6	0,2	7,5
Restructuring costs / One-off costs	(17,7)	-	(117,0)	-	-	-
Risks and charges related to the SRF, DGS and similar schemes	0,4	(63,4)	(139,1)	(31,2)	0,3	(71,1)
DTA Fee	(17,5)	(18,0)	53,9	(15,5)	(108,8)	-
Gains (losses) on disposal of investments	532,0	(0,3)	20,4	12,8	-	-
Profit (loss) before tax from continuing operations	**(3.610,6)**	**(128,6)**	**(2.441,1)**	**(938,7)**	**78,3**	**122,2**
Tax expense (recovery) on income from continuing operations	543,5	(33,5)	64,7	(203,9)	139,2	(20,7)
Profit (loss) after tax from continuing operations	**(3.067,2)**	**(162,0)**	**(2.376,4)**	**(1.142,6)**	**217,5**	**101,5**
Net profit (loss) for the period including non-controlling interests	**(3.067,2)**	**(162,0)**	**(2.376,4)**	**(1.142,6)**	**217,5**	**101,5**
Net profit (loss) attributable to non-controlling interests	(0,1)	-	(8,3)	0,6	0,3	0,5
Profit (loss) for the period before PPA , impairment on goodwill and intangibles	**(3.067,1)**	**(162,0)**	**(2.384,7)**	**(1.143,2)**	**217,2**	**101,0**
PPA (Purchase Price Allocation)	(6,4)	(7,1)	(7,7)	(7,5)	(8,3)	(7,9)
Net profit (loss) for the period	**(3.073,4)**	**(169,2)**	**(2.392,4)**	**(1.150,7)**	**208,9**	**93,1**

Trends in revenues

In the first half of 2017, the Group recorded total **Revenues** of approx. **EUR 1,853 mln**, down by 21.0% compared to the same period of the previous year, mainly due to the downturn in Net interest income, Net fee and commission income and the Net profit (loss) from trading of financial assets/liabilities. In the comparison with the previous quarter, 2Q17 Revenues, which totalled around EUR 920 mln, decreased by approx. EUR 14 mln, particularly Net interest income and the Net profit (loss) from trading of financial assets/liabilities, partially offset by the positive trend in Net fee and commission income and Dividends, similar income and gains (losses) on investments.

In the first half of 2017, **Net interest income** amounted to approx. **EUR 903 mln**, down by 12.7% compared to the same period of 2016 due especially to the negative trend of interest-bearing assets, in particular lending to businesses (reduction in average volumes and decline in the related returns). This trend is partially attenuated by the decrease in interest expenses following the reduction in the cost of commercial funding and the maturity of bonds issued with more costly conditions. The 2Q17 profit of EUR 446 mln was down on the previous quarter by approx. EUR 11 mln (-2.5% Q/Q). The trend was particularly impacted by the drop in returns/volumes relating to lending to businesses, which was partially offset by the decline in the cost of bonds (securities outstanding).

Items	30 06 2017	30 06 2016	Chg. Y/Y		2°Q 2017	1°Q 2017	Chg. Q/Q	
			Abs.	%			Abs.	%
Relations with customers	1.139,9	1.369,5	(229,6)	-16,8%	551,4	588,5	(37,0)	-6,3%
of which interest income on non-performing assets	*252,0*	*347,1*	*(95,1)*	*-27,4%*	*124,8*	*127,2*	*(2,4)*	*-1,9%*
Securities issued	(278,5)	(427,5)	149,0	-34,9%	(126,2)	(152,3)	26,1	-17,1%
Net Differentials on hedging derivatives	(7,8)	(1,0)	(6,8)	n.s.	(3,4)	(4,4)	1,0	-22,7%
Relations with banks	(19,6)	(32,4)	12,8	-39,5%	(9,8)	(9,8)	-	0,0%
Trading portfolios	28,4	44,0	(15,6)	-35,5%	16,2	12,2	4,0	32,8%
Portfolios designated at fair value	(39,5)	(22,9)	(16,6)	72,5%	(21,7)	(17,8)	(3,9)	21,9%
Financial assets available for sale	80,5	103,1	(22,6)	-21,9%	39,1	41,4	(2,3)	-5,6%
Other net interest income	(0,1)	2,4	(2,5)	n.s.	0,3	(0,4)	0,7	n.s.
Net interest income	**903,3**	**1.035,2**	**(131,9)**	**-12,7%**	**445,9**	**457,4**	**(11,4)**	**-2,5%**

Net fee and commission income totalled approximately **EUR 858 mln**, declining by 8.8% compared to 2016, primarily as a result of the cost of the guarantee on government issues in the first quarter and lower income from the credit segment (against lower volumes than last year). There was an upward trend compared to the previous quarter of 1.1%, owing mainly to commissions from products and assets under management, which accelerated considerably compared to 1Q17.

Services / Values	30 06 2017	30 06 2016	Chg. Y/Y Abs.	Chg. Y/Y %	2°Q 2017	1°Q 2017	Chg. Q/Q Abs.	Chg. Q/Q %
Guarantees given / received	(19.5)	22.0	(41.5)	n.s.	(14.1)	(5.4)	(8.7)	n.s.
Collection and payment services	52.4	41.2	11.2	27.2%	32.2	20.2	12.0	59.4%
Current account keeping	244.5	262.1	(17.6)	-6.7%	121.5	123.0	(1.5)	-1.2%
Credit and debit cards	108.7	115.0	(6.3)	-5.5%	54.0	54.7	(0.7)	-1.3%
Commercial banking activities	**386.1**	**440.3**	**(54.2)**	**-12.3%**	**193.6**	**192.5**	**1.1**	**0.6%**
Receipts and trasmission of orders	15.4	22.6	(7.2)	-31.9%	7.1	8.3	(1.2)	-14.5%
Trading activities on financial instruments and currencies	6.5	13.5	(7.0)	-51.9%	1.4	5.1	(3.7)	-72.5%
Distribution of third party services	267.6	240.7	26.9	11.2%	147.4	120.2	27.2	22.6%
Insurance services	95.4	88.5	6.9	7.8%	49.9	45.5	4.4	9.7%
Placement/ offering of financial instruments and services	(20.2)	(12.3)	(7.9)	64.2%	(14.2)	(6.0)	(8.2)	n.s.
Asset management	26.6	31.0	(4.4)	-14.2%	13.0	13.6	(0.6)	-4.4%
Management, brokerage and advisory services	**391.3**	**384.0**	**7.3**	**1.9%**	**204.6**	**186.7**	**17.9**	**9.6%**
Other advisory services	**80.1**	**116.4**	**(36.3)**	**-31.2%**	**33.0**	**47.1**	**(14.1)**	**-29.9%**
Net fee and commission income	**857.5**	**940.7**	**(83.2)**	**-8.8%**	**431.2**	**426.3**	**4.9**	**1.1%**

Dividends, similar income and gains (losses) on investments amounted to approx. **EUR 46 mln**, marking growth compared to 30 June 2016 thanks to the contribution of AXA-MPS (consolidated using the equity method). 2Q2017 also includes the recognition of the dividend from the equity investment held in the Bank of Italy (EUR 9 mln).

The **Net profit (loss) from trading/valuation of financial assets/liabilities** for the first half of the year totalled roughly **EUR 43 mln**, a significant drop on the previous year, which was characterised by higher trading profit, disposals/repurchases of securities and capital gains on liabilities issued and measured at fair value. It was also down compared to 1Q17 (roughly EUR -6 mln, -25.3%). More specifically:

- Trading profit of around EUR 25 mln, a significant decline compared to the profit earned as at 30 June 2016 due to the decrease in the contribution made by the subsidiary MPS Capital Services. There was also a slight downturn on the previous quarter (approx. EUR -1 mln).
- The FVO result as at 30 June 2017 is substantially null due to the early adoption permitted by IFRS 9 of the method of accounting for profit/losses connected to own creditworthiness of fair value option liabilities; as at 30 June 2016, determined in accordance with IAS 39, it was positive at roughly EUR 68 mln.
- Gains on disposal/repurchase totalled approx. EUR 19 mln (essentially relating to capital gains realised on disposals of AFS securities), down compared to the same period of the previous year (-85.4% Y/Y), the latter inclusive of higher AFS capital gains and other extraordinary income (disposal of the equity investment held by the Parent Company in VISA Europe and repurchase of financial liabilities). With respect to 1Q17, it was down by roughly EUR 6 mln due to the decrease in disposals of AFS securities.

Items	30 06 2017	30 06 2016	Chg. Y/Y		2°Q 2017	1°Q 2017	Chg. Q/Q	
			Abs.	%			Abs.	%
Financial assets held for trading	(45,6)	26,2	(71,9)	n.s.	(11,6)	(34,1)	22,5	-66,0%
Financial trading liabilities	47,8	(17,6)	65,4	n.s.	16,2	31,6	(15,4)	-48,7%
Exchange rate effects	4,9	22,8	(17,9)	-78,5%	0,4	4,5	(4,1)	-91,1%
Derivatives	17,6	88,6	(71,0)	-80,1%	6,8	10,8	(4,0)	-37,0%
Trading results	**24,7**	**120,0**	**(95,4)**	**-79,5%**	**11,8**	**12,8**	**(1,0)**	**-7,8%**
FVO Results	(0,6)	68,4	(69,0)	n.s.	(0,1)	(0,5)	0,4	-80,0%
Disposal / repurchase	18,8	128,6	(109,8)	-85,4%	6,6	12,2	(5,6)	-45,9%
Net profit (loss) from trading	**42,9**	**317,0**	**(274,2)**	**-86,5%**	**18,3**	**24,5**	**(6,2)**	**-25,3%**

The following items also make up Revenues:

- **Net profit (loss) from hedging amounting to EUR -2 mln**, in line with 30 June 2016, equal to EUR 1 mln, and down slightly on the previous quarter;
- **Other operating income/expenses** in the positive amount of **EUR 5 mln** (EUR +10 mln as at 30 June 2016, referring especially to the VISA Europe transaction).

Operating expenses

In the first half of 2017, **Operating expenses** totalled approximately **EUR 1,267 mln**, down on the same period of last year (-0.9% Y/Y) but up compared to 1Q17 (+1.8% Q/Q) due to non-recurring components in Adjustments to property, plant and equipment and intangible assets. In particular:

- **Administrative expenses** were **EUR 1,139 mln**, down on a yearly basis (-3.2% Y/Y) as well as quarterly (-0.5% Q/Q). A breakdown of the aggregate shows:
  - **Personnel expenses**, which totalled about **EUR 800 mln**, declined year on year by 2.6% (approx. EUR -22 mln) as a result of workforce downsizing (thanks to the Solidarity Fund initiative of 1 May 2017), as well as lower provisions on the variable component. There was a decline compared to 1Q17 (-2.3% Q/Q) thanks to the exits linked to the above-mentioned personnel Fund initiative (roughly 600 resources).
  - **Other administrative expenses** stood at about **EUR 340 mln**, down by 4.6% from June 2016, attributable to structural cost improvements which involved, in particular, the management of the real estate segment, ICT and legal expenses linked to debt collection. Expenses in 2Q2017 were up compared to 1Q17 (roughly EUR +7 mln), due to the seasonal acceleration in the expense cycle.
  - **Net adjustments to (recoveries on) property, plant and equipment and intangible assets**, amounting to approximately **EUR 128 mln** (+25.1% Y/Y), were higher than the values from the corresponding period of the previous year due to write-downs in the first half on property, plant and equipment (impairment on land and buildings of roughly EUR 8 mln) and intangible assets (write-down of the residual value of a software licence agreement by roughly EUR 10 mln). They were also up compared to the previous quarter (+25.2% Q/Q), primarily as a result of the above-mentioned write-down on intangible assets.

Type of transaction	30 06 2017	30 06 2016	Chg Y/Y		2°Q 2017	1°Q 2017	Chg Q/Q	
			Abs.	%			Abs.	%
Wages and salaries	(576.7)	(588.1)	11.4	-1.9%	(285.2)	(291.5)	6.3	-2.2%
Social-welfare charges	(156.1)	(162.9)	6.8	-4.2%	(76.5)	(79.6)	3.1	-3.9%
Other personnel expenses	(66.7)	(70.0)	3.3	-4.7%	(33.4)	(33.3)	(0.1)	0.3%
Personnel expenses	**(799.5)**	**(821.0)**	**21.5**	**-2.6%**	**(395.1)**	**(404.4)**	**9.3**	**-2.3%**
Taxes	(143.5)	(150.2)	6.7	-4.5%	(73.4)	(70.1)	(3.3)	4.7%
Furnishing, real estate and security expenses	(87.5)	(95.1)	7.6	-8.0%	(41.7)	(45.8)	4.1	-9.0%
General operating expenses	(99.8)	(101.0)	1.2	-1.2%	(46.2)	(53.6)	7.4	-13.8%
Information technology expenses	(84.7)	(91.0)	6.3	-6.9%	(41.4)	(43.3)	1.9	-4.4%
Legal and professional expenses	(63.8)	(74.2)	10.4	-14.0%	(37.4)	(26.4)	(11.0)	41.7%
Indirect personnel costs	(5.6)	(6.5)	0.9	-13.8%	(3.1)	(2.5)	(0.6)	24.0%
Insurance	(14.5)	(15.1)	0.6	-4.0%	(7.1)	(7.4)	0.3	-4.1%
Advertising, sponsorship and promotions	(4.0)	(7.1)	3.1	-43.7%	(2.1)	(1.9)	(0.2)	10.5%
Other	(9.0)	(9.8)	0.8	-8.2%	(4.9)	(4.1)	(0.7)	17.5%
Expenses recovery	172.8	194.2	(21.4)	-11.0%	84.2	88.6	(4.5)	-5.0%
Other administrative expenses	**(339.6)**	**(355.8)**	**16.2**	**-4.6%**	**(173.1)**	**(166.5)**	**(6.6)**	**4.0%**
Tangible assets	(63.1)	(53.0)	(10.1)	19.1%	(32.3)	(30.8)	(1.5)	4.9%
Intangible assets	(64.5)	(49.0)	(15.5)	31.6%	(38.6)	(25.8)	(12.8)	49.5%
Amortization and impairment losses	**(127.6)**	**(102.0)**	**(25.6)**	**25.1%**	**(70.9)**	**(56.6)**	**(14.3)**	**25.2%**
Operating costs	**(1,266.7)**	**(1,278.8)**	**12.1**	**-0.9%**	**(639.1)**	**(627.5)**	**(11.6)**	**1.8%**

As at 30 June 2017, a monitoring exercise was conducted on the main qualitative and quantitative impairment indicators, based on both internal and external factors, in order to check for any signs of goodwill impairment. The tests carried out, which took account of the developing scenario of reference, the discounting rate and the values contained in the Restructuring Plan, did not reveal any signs of potential losses on goodwill.

As a result of these factors, the Group's **Gross Operating Income** totalled approximately **EUR 586 mln** (approx. EUR 1,066 mln as at 30 June 2016), down EUR 25 mln on the previous quarter.

Net impairment losses (reversals) on loans and financial assets

In the first half of 2017, the Group booked **Net impairment (losses)/reversals on loans, financial assets and other transactions** amounting to approximately **EUR 4,678 mln**, up by EUR 3,961 mln from those recorded in the same period of the previous year, primarily as a result of i) net impairment losses since the start of the year on the scope subject to transfer following the adjustment to their recoverable value and the recognition of other additional charges set forth in the agreement with Quaestio (overall, roughly EUR -4 bn) and ii) the write-down of the equity investment in Atlante (around EUR -30 mln). Despite the significant reduction in transfers from performing to non-performing status (-42.7%), the quarterly trend is influenced, *inter alia*, by a rise in coverage on both Unlikely to Pay and Non-performing past due loans.

The ratio of Net impairment losses on loans in the first half of 2017 (annualised) to Loans to Customers reflects a **Provisioning Rate of 554 bps**, which declines to 147 bps net of the effects of the transferred doubtful loans.

Reversals	30 06 2017	30 06 2016	Chg. Y/Y		2°Q 2017	1°Q 2017	Chg. Q/Q	
			Abs.	%			Abs.	%
Loans to banks	(6.4)	(0.4)	(6.0)	n.s.	(4.8)	(1.6)	(3.2)	n.s.
- Loans	(6.7)	(0.5)	(6.2)	n.s.	(4.8)	(1.9)	(2.9)	n.s.
- Debt securities	0.3	0.1	0.2	n.s.	-	0.3	(0.3)	-100.0%
Loans to customers	(4,590.6)	(717.9)	(3,872.7)	n.s.	(4,284.0)	(306.6)	(3,977.4)	n.s.
- Loans	(4,590.6)	(718.0)	(3,872.6)	n.s.	(4,284.0)	(306.6)	(3,977.4)	n.s.
- Debt securities	-	0.1	(0.1)	-100.0%	-	-	-	
Impairment losses on loans	**(4,597.0)**	**(718.3)**	**(3,878.7)**	**n.s.**	**(4,288.8)**	**(308.2)**	**(3,980.6)**	**n.s.**
Financial assets available for sale (AFS)	(33.5)	(16.1)	(17.4)	n.s.	(32.6)	(0.9)	(31.7)	n.s.
Guarantees and commitments	(47.4)	17.2	(64.6)	n.s.	(53.4)	6.0	(59.4)	n.s.
Total financial activities and other operations	**(80.9)**	**1.1**	**(82.0)**	**n.s.**	**(86.0)**	**5.1**	**(91.1)**	**n.s.**
Total	**(4,677.9)**	**(717.2)**	**(3,960.7)**	**n.s.**	**(4,374.8)**	**(303.1)**	**(4,071.7)**	**n.s.**

Consequently, the Group's **Net operating income** in the first half of 2017 totalled approximately **EUR -4,092 mln**, compared to roughly EUR 349 mln in the same period of the previous year.

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

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

- **Net provisions for risks and charges** equal to **EUR -59 mln** compared to a positive balance of EUR 24 mln accounted for as at 30 June 2016, which benefitted from the release of provisions recognised against tax and legal risks which did not emerge or were attenuated. The aggregate improved compared to the previous quarter which, instead, was penalised by provisions for reasons relating to the previous share capital increases as well as the risk of a possible sanction following the procedure initiated by the Italian Antitrust Authority relating to the transfer to the new SEDA service (formerly RID).
- **Losses on investments** of **EUR -4 mln** due to write-downs recognised in 1Q17 on the associates Trixia and Interporto Toscano, against a positive EUR 8 mln recorded as at 30 June 2016, which benefitted from the capital gain realised for the disposal of Fabrica Immobiliare SGR.
- **Restructuring charges/One-off charges** includes the restructuring costs allocated against the branch closures set forth in the restructuring plan for approx. **EUR -18 mln** accounted for in 2Q17.
- **Risks and charges associated with SRF, DGS and similar schemes**, standing at approx. **EUR -63 mln**, concerning the entire contribution due by the Group to the Single Resolution Fund, recognised in Q1 of the year.
- **DTA Fee**, amounting to approx. **EUR -36 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 on DTA (Deferred Tax Assets) that can be converted into a tax credit, attributable to 30 June 2017.
- **Gains (losses) on disposal of investments** for an amount of **EUR 532 mln** compared to a null result in the previous year. In the quarter, there was a capital gain from the disposal of the merchant acquiring business to CartaSi (EUR 523 mln) and the disposal of a property of MPS Belgio (EUR 9 mln).

Due to the changes discussed above, the Group's **Loss before tax from continuing operations** stood at approx. **EUR -3,739 mln**, down with respect to 2016 levels, which recorded a profit of EUR 201 mln.

Tax expense (recovery) on income from continuing operations amounted to income of roughly **EUR 510 mln**. This result can essentially be attributed to the partial reassessment - equal to roughly EUR 530 mln - of DTAs from tax losses accrued but not recognised in previous years, induced by the recent regulatory measure which ordered the reduction in the ACE benefit (cf. article 7 of Law Decree no. 50 of 24 April 2017).

Indeed, on a forward-looking basis, the lower ACE deductions planned as of 2017 and thereafter will reduce, with respect to what was expected with the regulations previously in force, the absorption of future taxable income, which therefore may be allocated to a greater extent to offsetting previous tax losses.

Considering the net effects of the PPA (approximately EUR -14 mln), **the Group consolidated loss for the first half of 2017 amounted to approx. EUR -3,243 mln**, compared to a profit of approx. EUR 302 mln in the same period of 2016.

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In compliance with Consob instructions, following is a statement of the reconciliation of the Shareholders' equity and Net profit and loss for the period of the Parent Company with the consolidated items:

Reconciliation between Parent Company and Consolidated Net Equity and Profit (Loss) for the period

	Shareholders' equity	Net profit (loss)
Balance as per Parent Company's Accounts	1,933.1	(2,767.0)
including Parent Company's valuation reserves	*(29.9)*	-
Impact of line-by-line consolidation of subsidiaries	(1,498.0)	(650.7)
Impact of associates	*193.7*	41.5
Reversal of dividends collected during the period	-	(18.3)
Effect of write off of depreciation/revaluation of equity investments	*2,519.4*	86.8
Other adjustments	(232.4)	65.1
Subsidiaries' valuation reserves	*131.9*	-
Consolidated balance	**3,047.7**	**(3,242.6)**
including valuation reserves	*102.1*	

Reclassified consolidated balance sheet

Reclassified Consolidated Balance Sheet				
ASSETS	**30/06/17**	**31/12/16**	**Chg**	
			abs.	**%**
Cash and cash equivalents	843,1	1.084,5	(241,4)	-22,3%
Receivables :				
a) Loans to customers	89.713,1	106.692,7	(16.979,6)	-15,9%
b) Loans to banks	13.116,4	8.936,2	4.180,2	46,8%
Marketable assets	24.089,8	25.929,3	(1.839,5)	-7,1%
Financial assets held to maturity	-	-	-	
Equity investments	1.023,6	1.031,7	(8,1)	-0,8%
Property, plant and equipment / Intangible assets	2.844,7	2.942,9	(98,2)	-3,3%
of which:				
a) goodwill	*7,9*	*7,9*	-	
Other assets	11.958,8	6.561,2	5.397,6	82,3%
Total assets	**143.589,5**	**153.178,5**	**(9.589,0)**	**-6,3%**

LIABILITIES	**30/06/17**	**31/12/16**	**Chg**	
			abs.	**%**
Payables				
a) Deposits from customers and securities issued	106.543,9	104.573,5	1.970,4	1,9%
b) Deposits from banks	22.802,8	31.469,1	(8.666,3)	-27,5%
Financial liabilities held for trading	4.449,9	4.971,8	(521,9)	-10,5%
Provisions for specific use:				
a) Provisions for staff severance indemnities	233,7	252,9	(19,2)	-7,6%
b) Pensions and other post retirement benefit obligations	47,3	53,6	(6,3)	-11,8%
c) Other provisions	958,8	1.054,5	(95,7)	-9,1%
Other liabilities	5.503,1	4.342,7	1.160,4	26,7%
Group net equity	3.047,7	6.425,4	(3.377,7)	-52,6%
a) Valuation reserves	102,0	47,3	54,7	n.s.
c) Equity instruments carried at equity	-	-	-	
d) Reserves	(1.177,4)	2.253,6	(3.431,0)	n.s.
e) Share premium	-	-	-	
f) Share capital	7.365,7	7.365,7	-	
g) Treasury shares (-)	-	-	-	
h) Net profit (loss) for the period	(3.242,6)	(3.241,1)	(1,5)	0,0%
Non-controlling interests	2,2	34,9	(32,7)	-93,7%
Total Liabilities and Shareholders' Equity	**143.589,5**	**153.178,5**	**(9.589,0)**	**-6,3%**

Reclassified Consolidated Balance Sheet - Quarterly Trend						
ASSETS	**30/06/17**	**31/03/17**	**31/12/16**	**30/09/16**	**30/06/16**	**31/03/16**
Cash and cash equivalents	843,1	879,1	1.084,5	941,4	794,6	913,4
Receivables :						
a) Loans to customers	89.713,1	102.406,9	106.692,7	104.612,4	107.547,8	113.544,3
b) Loans to banks	13.116,4	8.451,4	8.936,2	7.669,4	7.953,1	6.856,1
Marketable assets	24.089,8	26.511,8	25.929,3	35.748,3	36.022,6	39.999,9
Financial assets held to maturity	-	-	-	-	-	-
Equity investments	1.023,6	1.013,0	1.031,7	910,7	948,0	934,3
Property, plant and equipment / Intangible assets	2.844,7	2.894,2	2.942,9	3.016,9	3.059,8	3.112,4
of which:						
a) goodwill	*7,9*	*7,9*	*7,9*	*7,9*	*7,9*	*7,9*
Other assets	11.958,8	6.648,2	6.561,2	7.230,0	8.059,6	8.285,2
Total assets	**143.589,5**	**148.804,6**	**153.178,5**	**160.129,1**	**164.385,5**	**173.645,6**
LIABILITIES	**30/06/17**	**31/03/17**	**31/12/16**	**30/09/16**	**30/06/16**	**31/03/16**
Payables						
a) Deposits from customers and securities issued	106.543,9	109.390,0	104.573,5	105.461,4	112.045,2	119.507,9
b) Deposits from banks	22.802,8	22.837,5	31.469,1	25.282,4	19.465,8	17.524,7
Financial liabilities held for trading	4.449,9	4.412,4	4.971,8	13.802,7	15.854,7	20.051,0
Provisions for specific use:						
a) Provisions for staff severance indemnities	233,7	252,5	252,9	251,3	249,9	247,7
b) Pensions and other post retirement benefit obligations	47,3	52,5	53,6	51,2	52,3	51,4
c) Other provisions	958,8	954,2	1.054,5	1.018,8	1.012,5	1.050,0
Other liabilities	5.503,1	4.861,3	4.342,7	5.489,2	5.750,4	5.511,9
Group net equity	3.047,7	6.041,9	6.425,4	8.745,6	9.928,7	9.675,3
a) Valuation reserves	102,0	7,4	47,3	(24,7)	7,7	(36,5)
c) Equity instruments carried at equity	-	-	-	-	-	-
d) Reserves	(1.177,4)	(1.162,0)	2.253,6	617,2	617,2	610,5
e) Share premium	-	-	-	-	-	6,3
f) Share capital	7.365,7	7.365,7	7.365,7	9.001,8	9.001,8	9.001,8
g) Treasury shares (-)	-	-	-	-	-	-
h) Net profit (loss) for the period	(3.242,6)	(169,2)	(3.241,1)	(848,7)	302,0	93,2
Non-controlling interests	2,2	2,4	34,9	26,5	26,0	25,7
Total Liabilities and Shareholders' Equity	**143.589,5**	**148.804,6**	**153.178,5**	**160.129,1**	**164.385,5**	**173.645,6**

Customer funding

The Group's **Total Funding** as at 30 June 2017 amounted to approximately **EUR 203 bn** (+0.2% versus 31 December 2016) with a decline in volumes of EUR -3.2 bn recorded at the end of March 2017, mainly due to the drop in the direct component.

Background

In the first four months of the year, direct funding continued on its modest decline (roughly -1.3% per year), reflecting the positive trend in deposits from resident consumer clients, up by around 2.7% (net of repo transactions with central counterparties and deposits connected with loan transfers) and the significant drop in bonds (approx. -17%). Customers therefore continue to show high preference for liquid, risk-free instruments, also as a result of the low opportunity cost of holding such instruments. Bank bonds are instead penalised by the higher cost for the issuer with respect to the liquidity offered by the ECB and low demand resulting especially from the content of the regulation on banking crises ("bail-in").

In the first four months of 2017, the average interest rate on deposits of non-financial companies and households was around 0.41%, a slight change compared to the end of 2016, while the downturn in the bond rate continues (at 2.72%, -2 bps compared to December 2016); the weighted average cost of direct funding remains well below 1%.

New flows of assets under management recorded significant progress. In the first five months of the year, the net funding from mutual funds already exceeded that recorded in the entire year in 2016 (roughly EUR 35,600 mln compared to approx. EUR 34,400), around half of which referring, as in 2016, to bond products. In January-May 2017, funding on retail individual portfolio management, of EUR 3,343 mln, was positive, after net flows which basically broke even in 2016. Assets under management from open-end funds were up by roughly 6.4% in May compared to last December, while the stock relating to individual portfolio management grew by just over 1%.

Customer Funding					Chg Q/Q		Chg 31/12		Chg Y/Y	
	30/06/17	31/03/17	31/12/16	30/06/16	Abs.	%	Abs.	%	Abs.	%
Direct funding	106,543.9	109,390.0	104,573.5	112,045.2	-2,846.1	-2.6%	1,970.4	1.9%	-5,501.3	-4.9%
Indirect funding	96,629.4	96,966.3	98,151.8	97,708.6	-336.9	-0.3%	-1,522.4	-1.6%	-1,079.2	-1.1%
Total funding	**203,173.3**	**206,356.3**	**202,725.3**	**209,753.8**	**-3,183.0**	**-1.5%**	**448.0**	**0.2%**	**-6,580.5**	**-3.1%**

Volumes of **Direct Funding**, which as at 30 June 2017 stood at approx. **EUR 106.5 bn**, recorded growth of EUR 2.0 bn compared to the end of December 2016 thanks to the commercial component. With respect to 31 March 2017, they were down by EUR 2.8 bn primarily in the component of repo transactions with institutional counterparties (EUR -5.6 bn) and bonds (EUR -1.2 bn, influenced by maturities during the quarter), whereas Current Accounts and Time Deposits were up significantly, substantially as a result of activities with business customers (for a total of EUR +3.8 bn).

The Group's market share[2] on Direct Funding was 3.83% (figure updated in April 2017), up by 28 bps compared to the end of 2016.

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

Direct funding										
					Change Q/Q		Change 31.12		Change Y/Y	
Type of transaction	30/06/17	31/03/17	31/12/16	30/06/16	Abs.	%	Abs.	%	Abs.	%
Current accounts	49,605.8	46,112.0	40,972.6	52,923.5	3,493.8	7.6%	8,633.2	21.1%	(3,317.7)	-6.3%
Time deposits	10,889.3	10,542.1	10,133.5	13,233.4	347.2	3.3%	755.8	7.5%	(2,344.1)	-17.7%
Reverse repurchase agreements	14,847.9	20,398.5	25,295.8	9,957.5	(5,550.6)	-27.2%	(10,447.9)	-41.3%	4,890.4	49.1%
Bonds	23,676.5	24,864.9	23,676.3	28,726.0	(1,188.4)	-4.8%	0.2	0.0%	(5,049.5)	-17.6%
Other types of direct funding	7,524.4	7,472.5	4,495.3	7,204.8	51.9	0.7%	3,029.1	67.4%	319.6	4.4%
Total	**106,543.9**	**109,390.0**	**104,573.5**	**112,045.2**	**(2,846.1)**	**-2.6%**	**1,970.4**	**1.9%**	**(5,501.3)**	**-4.9%**

At the end of June, **Indirect Funding** came to roughly **EUR 96.6 bn**, down compared to 31 December 2016 (EUR -1.5 bn) as a result of the drop in assets under custody (EUR -1.9 bn), the trend of which was also impacted by negative net flows for around EUR 1.3 bn (also taking into consideration customer preference for assets under management or time deposits). Asset management was up (EUR +0.4 bn). The comparison with 31 March 2017 shows indirect funding down by roughly EUR -0.3 bn, incorporating both growth in assets under management (EUR +0.3 bn) and the decline in assets under custody (EUR -0.7 bn).

As regards **Assets under management**, standing at approx. **EUR 57.6 bn**, this aggregate was up compared to December 2016 as well as 31 March 2017. This growth was seen across all segments with the exception of Wealth Management.

Indirect Funding										
					Change Q/Q		Change 31/12		Change Y/Y	
	30/06/17	31/03/17	31/12/16	30/06/16	Abs.	%	Abs.	%	Abs.	%
Assets under management	57,603.0	57,256.4	57,180.9	55,517.3	346.6	0.6%	422.1	0.7%	2,085.7	3.8%
Mutual Funds/Sicav	*27,650.0*	*27,330.2*	*27,020.5*	*25,359.1*	*319.8*	*1.2%*	*629.5*	*2.3%*	*2,290.9*	*9.0%*
Individual Portfolio under Management	*6,285.3*	*6,469.9*	*6,619.7*	*6,466.3*	*(184.6)*	*-2.9%*	*(334.4)*	*-5.1%*	*(181.0)*	*-2.8%*
Insurance Products	*23,667.7*	*23,456.3*	*23,540.6*	*23,691.8*	*211.4*	*0.9%*	*127.1*	*0.5%*	*(24.1)*	*-0.1%*
Assets under custody	39,026.4	39,709.9	40,971.0	42,191.4	(683.5)	-1.7%	(1,944.6)	-4.7%	(3,165.0)	-7.5%
Total funding	**96,629.4**	**96,966.3**	**98,151.8**	**97,708.6**	**(336.9)**	**-0.3%**	**(1,522.4)**	**-1.6%**	**(1,079.2)**	**-1.1%**

Loans to Customers

As at 30 June 2017, the Group's **Loans to Customers** amounted to about **EUR 89.7 bn**, down by EUR 17.0 bn as compared to the end of December 2016 and EUR 12.7 bn over 31 March 2017. The decline in this aggregate during the quarter was concentrated primarily in the non-performing loan segment (EUR -9.7 mln), which takes into consideration also the allocation to assets held for sale of the transferred loans. There was also an additional decline in repo transactions with institutional counterparties (EUR -1.3 bn) and commercial assets, particularly in the Mortgages segment (EUR -0.9 bn, in which past due loans were not completely replaced by new loans disbursed) and Other Loans.

The Group's market share[3] stood at 6.60% (last available figure from April 2017), stable compared to the end of 2016.

Background

In 2017, the growth in bank loans continued although the recovery remains limited, in line with real economic performance. Higher credit demand and the improvement in supply conditions are contributing to the recovery. The annual increase in this aggregate reached 0.8% in April, whereas last December it exceeded 1% net of transferred loans. The gap between the trend in lending to households (above 2.3% on an annual basis in April) and non-financial companies (at roughly 0.2%) is consolidating. The former were impacted by the weak signs of a recovery in disposable income and the real estate market, while loans to non-financial companies may also be supported by tax measures supporting investments in operating assets and digital technologies, as well as the legislative initiatives supporting company capitalisation.

In April, the interest rate on the total stock of loans was down by 4 bps compared to 2.85% recorded in December 2016, while for new transactions trends diverged slightly between the lending rate to households for the purchase of homes, which bounced back to above 2.1%, also due to the increase in the share of fixed rate loans out of all new loans, and that for non-financial companies, which remains around 1.5%. In particular, rates on new loans of less than EUR 1 mln to non-financial companies were down 9 basis points compared to December 2016.

The stock of doubtful loans continues to grow in the initial months of the year (+2.5% compared to April 2016) despite loan transfers for around EUR 4,000 mln, of which EUR 3,604 mln in January alone (in 2016 transfers reached EUR 18,000 mln for the entire year). Net of these transactions, the annual trend stood at +10.6% in April. Net of allowances for impairment, doubtful loans represented 4.13% of loans, down compared to the average of 4.51% in the second half of 2016.

Loans to customers

Type of transaction	30/06/17	31/03/17	31/12/16	30/06/16	Change Q/Q Abs.	Change Q/Q %	Change 31.12 Abs.	Change 31.12 %	Change Y/Y Abs.	Change Y/Y %
Current accounts	6.684,3	6.808,4	6.313,2	7.627,3	(124,1)	-1,8%	371,1	5,9%	(943,0)	-12,4%
Mortgages	47.867,3	48.757,5	49.532,6	51.510,8	(890,2)	-1,8%	(1.665,3)	-3,4%	(3.643,5)	-7,1%
Other forms of lending	19.411,5	20.107,9	20.542,0	22.382,5	(696,4)	-3,5%	(1.130,5)	-5,5%	(2.971,0)	-13,3%
Repurchase agreements	4.145,0	5.429,1	8.854,6	1.419,2	(1.284,1)	-23,7%	(4.709,6)	-53,2%	2.725,8	n.s
Securities lending	1.130,1	1.130,7	1.130,3	1.043,2	(0,6)	-0,1%	(0,2)	0,0%	86,9	8,3%
Non performing loans	10.474,8	20.173,3	20.320,0	23.564,8	(9.698,5)	-48,1%	(9.845,2)	-48,5%	(13.090,0)	-55,5%
Total	**89.713,1**	**102.406,9**	**106.692,7**	**107.547,8**	**(12.693,8)**	**-12,4%**	**(16.979,6)**	**-15,9%**	**(17.834,7)**	**-16,6%**

The aggregate for the medium/long-term component recorded new disbursements of roughly EUR 2.7 bn in the first half of 2017, for both households and businesses, down by 34.5% Y/Y.

Please note that, also considering the transferred portfolio of doubtful loans, non-performing loans stood at EUR 15.6 bn as at 30 June 2017.

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

Non-performing loans[4]

As at 30 June 2017, the Group's **exposure to gross non-performing loans** totalled **EUR 45.5 bn**, down compared to the end of December 2016 (EUR -0.3 bn) as well as compared to 31 March 2017 (EUR -0.5 bn). The positive quarterly trend was caused by the reduction in transfers from performing to default (-42.7%), the growth in collections particularly for doubtful loans and the increase in write-offs. As concerns the various aggregates of the gross non-performing segment, in the quarter there was a rise of around EUR 0.7 bn in Doubtful loans and a reduction in Unlikely to Pay (EUR -1.1 bn) and Non-performing past-due exposures (EUR -0.2 bn). Net of Gross non-performing loans "held for sale", the gross exposure would decline from EUR 45.5 bn to EUR 19.7 bn.

As at 30 June 2017, the Group's **net exposure to non-performing loans** stood at EUR 15.6 bn recording a roughly EUR 4.7 bn decrease since the beginning of the year (EUR -4.6 bn compared with 31 March 2017, mainly attributable to net adjustments on the scope subject to the transfer following the adjustment of their recoverable value). This net exposure includes EUR 5.1 bn relating to the non-performing loans held for sale, net of which the value would be EUR 10.5 bn, marking a significant improvement in the ratio between net non-performing loans and net loans to customers (falling from 16.4% to 11.7%). Within the aggregate, in Q2, the percentage of net doubtful loans decreased (from 10.5% in March to 7.4% in June), while Unlikely to pay and Non-performing past-due exposures remained basically stable.

Loans to customers		Doubtful loans	Unlikely to pay	Non performing Past due	**Non-performing exposures (4)**	Perfoming exposures	**Total (4)**	*- of which forbone impaired*	*- of which forborne not impaired*
30 06 17	Gross exposure	31.237,9	13.472,3	761,9	**45.472,1**	79.835,9	**125.308,0**	*9.941,4*	*2.669,7*
	Provisions	24.208,8	5.492,9	189,3	**29.891,0**	596,0	**30.487,0**	*4.380,5*	*112,9*
	Net exposure	7.029,1	7.979,4	572,6	**15.581,1**	79.239,9	**94.821,0**	*5.560,9*	*2.556,8*
	Coverage ratio	*77,5%*	*40,8%*	*24,8%*	***65,7%***	*0,7%*	***24,3%***	*44,1%*	*4,2%*
	% on Loans to customers	*7,4%*	*8,4%*	*0,6%*	***16,4%***	*83,6%*	***100,0%***		
31 03 17	Gross exposure	30.490,0	14.522,8	970,6	**45.983,4**	82.858,2	**128.841,6**	*9.885,3*	*2.769,1*
	Provisions	19.688,6	5.893,7	227,8	**25.810,1**	624,6	**26.434,7**	*3.819,5*	*117,1*
	Net exposure	10.801,4	8.629,1	742,8	**20.173,3**	82.233,6	**102.406,9**	*6.065,8*	*2.652,0*
	Coverage ratio	*64,6%*	*40,6%*	*23,5%*	***56,1%***	*0,8%*	***20,5%***	*38,6%*	*4,2%*
	% on Loans to customers	*10,5%*	*8,4%*	*0,7%*	***19,7%***	*80,3%*	***100,0%***		
31 12 16	Gross exposure	29.424,4	15.246,6	1.114,4	**45.785,4**	87.060,9	**132.846,3**	*9.907,6*	*2.747,5*
	Provisions	19.059,5	6.145,8	260,1	**25.465,4**	688,1	**26.153,5**	*3.784,3*	*122,5*
	Net exposure	10.364,9	9.100,8	854,3	**20.320,0**	86.372,8	**106.692,8**	*6.123,3*	*2.625,0*
	Coverage ratio	*64,8%*	*40,3%*	*23,3%*	***55,6%***	*0,8%*	***19,7%***	*38,2%*	*4,5%*
	% on Loans to customers	*9,7%*	*8,5%*	*0,8%*	***19,0%***	*81,0%*	***100,0%***		
30 06 16	Gross exposure	27.261,6	15.963,3	2.096,8	**45.321,7**	84.621,2	**129.942,9**	*9.601,3*	*2.907,1*
	Provisions	16.689,9	4.615,0	452,0	**21.756,9**	638,2	**22.395,1**	*2.486,0*	*87,4*
	Net exposure	10.571,7	11.348,3	1.644,8	**23.564,8**	83.983,0	**107.547,8**	*7.115,3*	*2.819,7*
	Coverage ratio	*61,2%*	*28,9%*	*21,6%*	***48,0%***	*0,8%*	***17,2%***	*25,9%*	*3,0%*
	% on Loans to customers	*9,8%*	*10,6%*	*1,5%*	***21,9%***	*78,1%*	***100,0%***		

[4] *Also includes the component of non-performing loans included in item 70 "Loans to Customers", and also part of item 150 "Assets held for sale" for the portion relating to the transferred doubtful loans.*

As at 30 June 2017, the non-performing loan **coverage ratio** was 65.7%, up by roughly 961 bps compared to 31 March 2017. The increase in coverage during the quarter was due primarily to higher adjustments on doubtful loans included in the transferred portfolio (the coverage of total doubtful loans went from 64.6% in March to 77.5% in June 2017). The coverage of Unlikely to Pay and Past-Due Exposures was up as well.

Changes in gross exposure

	abs/%	Doubtufl loans	Unlikely to pay	Non performing past due	**Non performing exposures**	Performing exposures	**Total**	*- of which forbone impaired*	*- of which forborne not impaired*
Q/Q	abs.	747,9	(1.050,5)	(208,7)	**(511,3)**	(3.022,3)	**(3.533,6)**	*56,1*	*(99,4)*
	%	2,5%	-7,2%	-21,5%	**-1,1%**	-3,6%	**-2,7%**	*0,6%*	*-3,6%*
31.12	abs.	1.813,5	(1.774,3)	(352,5)	**(313,3)**	(7.225,0)	**(7.538,3)**	*33,8*	*(77,8)*
	%	6,2%	-11,6%	-31,6%	**-0,7%**	-8,3%	**-5,7%**	*0,3%*	*-2,8%*
Y/Y	abs.	3.976,3	(2.491,0)	(1.334,9)	**150,4**	(4.785,3)	**(4.634,9)**	*340,1*	*(237,4)*
	%	14,6%	-15,6%	-63,7%	**0,3%**	-5,7%	**-3,6%**	*3,5%*	*-8,2%*

Changes in coverage ratio

	Doubtful loans	Ulikely to pay	Non performing past due	**Non performing exposures**	Performing exposures	**Total**
Q/Q	*12.92%*	*0.19%*	*1.38%*	***9.61%***	*-0.01%*	***3.81%***
31.12	*12.72%*	*0.46%*	*1.51%*	***10.12%***	*-0.04%*	***4.64%***
Y/Y	*16.28%*	*11.86%*	*3.29%*	***17.73%***	*-0.01%*	***7.10%***

	30 06 2017		2°Q 2017		1°Q 2017		30 06 2016		Chg. 2°Q 2017/1°Q 2017 Non-performing exposures		Chg. Y/Y Non-performing exposures	
	Non-performing exposures	*of which Doubtful loans*	Non-performing exposures	*of which Doubtful loans*	Non-performing exposures	*of which Doubtful loans*	Non-performing exposures	*of which Doubtful loans*	Abs.	%	Abs.	%
Gross exposure, opening balance	**45,785.4**	***29,424.4***	**45,983.4**	***30,490.0***	**45,785.4**	***29,424.4***	**46,861.7**	***26,627.0***	**198.0**	**0.4%**	**(1,076.3)**	**-2.3%**
Increases from performing loans	1,065.0	*145.5*	387.8	*75.0*	677.2	*70.5*	1,316.2	*115.3*	(289.4)	-42.7%	(251.2)	-19.1%
Transfers to performing loans	(445.4)	*(3.6)*	(197.4)	*(1.3)*	(248.0)	*(2.3)*	(675.1)	*(1.0)*	50.6	-20.4%	229.7	-34.0%
Collections	(1,155.5)	*(497.1)*	(595.2)	*(307.0)*	(560.3)	*(190.1)*	(1,064.0)	*(309.9)*	(34.9)	6.2%	(91.5)	8.6%
Write-offs and loss on disposal	(430.5)	*(207.4)*	(341.0)	*(157.5)*	(89.5)	*(49.9)*	(2,002.4)	*(1,626.5)*	(251.5)	n.s.	1,571.9	-78.5%
+/- Other changes	653.1	*2,376.1*	234.5	*1,138.7*	418.6	*1,237.4*	885.3	*2,456.7*	(184.1)	-44.0%	(232.2)	-26.2%
Gross exposure, closing balance	**45,472.1**	***31,237.9***	**45,472.1**	***31,237.9***	**45,983.4**	***30,490.0***	**45,321.7**	***27,261.6***	**(511.3)**	**-1.1%**	**150.4**	**0.3%**
Opening balance of overall adjustments	**(25,465.4)**	***(19,059.5)***	**(25,810.1)**	***(19,688.6)***	**(25,465.4)**	***(19,059.5)***	**(22,707.9)**	***(16,894.2)***	**(344.7)**	**1.4%**	**(2,757.5)**	**12.1%**
Adjustments / write-backs*	(4,608.8)	*(4,342.7)*	(4,306.3)	*(4,179.1)*	(302.5)	*(163.6)*	(750.8)	*(668.3)*	(4,003.8)	n.s.	(3,858.0)	n.s.
+/- Other changes	183.2	*(806.6)*	225.4	*(341.1)*	(42.2)	*(465.5)*	1,701.8	*872.6*	267.6	n.s.	(1,518.6)	-89.2%
Closing balance of overall adjustments	**(29,891.0)**	***(24,208.8)***	**(29,891.0)**	***(24,208.8)***	**(25,810.1)**	***(19,688.6)***	**(21,756.9)**	***(16,689.9)***	**(4,080.9)**	**15.8%**	**(8,134.1)**	**37.4%**
Net exposure closing balance	**15,581.1**	***7,029.1***	**15,581.1**	***7,029.1***	**20,173.3**	***10,801.4***	**23,564.8**	***10,571.7***	**(4,592.2)**	**-22.8%**	**(7,983.7)**	**-33.9%**

** Net impairment losses (reversals) on loans - item 130 a) of Income Statement*

Financial assets/liabilities

As at 30 June 2017, the Group's tradeable financial assets totalled roughly EUR 24.1 bn, down compared to 31 December 2016 (EUR -1.8 bn) as well as 31 March 2017 (EUR -2.4 bn), due to the downturn in financial assets available for sale, impacted by sales in the first quarter, and the trading component relating to the subsidiary MPS *Capital Services* (which grew in 1Q17, 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 2016 by around EUR -0.5 bn and were stable compared to 31 March.

Items	30/06/17	31/03/17	31/12/16	30/06/16	Chg. Q/Q		Chg. 31.12		Chg. Y/Y	
					Abs.	%			Abs.	%
Tradable financial assets	24,089.8	26,511.8	25,929.3	36,022.6	(2,422.0)	-9.1%	(1,839.5)	-7.1%	(11,932.8)	-33.1%
Financial assets held for trading	*9,711.2*	*10,707.4*	*9,266.2*	*18,596.2*	*(996.2)*	*-9.3%*	*445.0*	*4.8%*	*(8,885.0)*	*-47.8%*
Financial assets available for sale	*14,378.6*	*15,804.4*	*16,663.1*	*17,426.4*	*(1,425.8)*	*-9.0%*	*(2,284.5)*	*-13.7%*	*(3,047.8)*	*-17.5%*
Financial liabilities held for trading	4,449.9	4,412.4	4,971.8	15,854.7	37.5	0.8%	(521.9)	-10.5%	(11,404.8)	-71.9%

Items	30 06 2017		31 03 2017		31 12 2016		30 06 2016	
	Tradable financial assets	Financial liabilities held for trading	Tradable financial assets	Financial liabilities held for trading	Tradable financial assets	Financial liabilities held for trading	Tradable financial assets	Financial liabilities held for trading
Debt securities	20.018,1	-	22.192,5	-	20.979,4	-	23.709,0	-
Equity instruments and Units of UCITS	514,2	-	547,3	-	527,7	-	550,1	-
Loans	-	2.625,6	50,5	2.481,1	265,2	2.665,6	6.695,9	12.711,1
Derivatives	3.557,5	1.824,3	3.721,4	1.931,3	4.157,0	2.306,2	5.067,6	3.143,6
Total	24.089,8	4.449,9	26.511,7	4.412,4	25.929,3	4.971,8	36.022,6	15.854,7

Information on portfolio transfers

Type of financial instrument	Portfolio prior to transfer	Portfolio after transfer	Book value as at 30 06 2017	Fair value as at 30 06 2017	Income components in the absence of transfers (before tax)		Income components reported for the period (before tax)	
					Value-relevance	Other	Value-relevance	Other
UCITS	Financial assets held for trading	Financial assets available for sale	-	-	-	(0.4)	-	(0.2)
Debt securities	Financial assets held for trading	Loans to bank	42.7	41.0	(1.8)	0.6	-	0.6
Debt securities	Financial assets held for trading	Loans to customers	120.2	98.7	(40.2)	1.6	(0.3)	1.5
Debt securities	Financial assets available for sale	Loans to bank	657.3	534.8	(2.0)	(22.2)	(0.4)	(22.0)
Debt securities	Financial assets available for sale	Loans to customers	198.1	174.8	(2.5)	2.8	(0.3)	2.7
Total			**1,018.3**	**849.3**	**(46.5)**	**(17.6)**	**(1.0)**	**(17.4)**

Interbank position

At the end of June 2017, the **net interbank position** of the Group stood at **EUR 9.7 bn** in funding, down by approx. EUR 12.8 bn compared to the balance as at 31 December 2016. This trend can be attributed to the improvement in commercial liquidity (increase in direct funding and simultaneous reduction in loans) and government backed issues carried out in the first quarter of 2017, which made it possible to reduce exposure to the ECB. Loans to banks decreased compared to 31 March 2017 as a result of the excess liquidity held at the Bank of Italy.

Interbank balances										
					Change Q/Q		Change 31.12		Change Y/Y	
	30/06/17	31/03/17	31/12/16	30/06/16	Abs.	%	Abs.	%	Abs.	%
Loans to banks	13,116.4	8,451.4	8,936.2	7,953.1	4,665.0	55.2%	4,180.2	46.8%	5,163.3	64.9%
Deposits from banks	22,802.8	22,837.5	31,469.1	19,465.8	(34.7)	-0.2%	(8,666.3)	-27.5%	3,337.0	17.1%
Net position	**(9,686.4)**	**(14,386.1)**	**(22,532.9)**	**(11,512.7)**	**4,699.7**	**-32.7%**	**12,846.5**	**-57.0%**	**1,826.3**	**-15.9%**

As at 30 June 2017 the operational liquidity position showed an **unencumbered Counterbalancing Capacity of roughly EUR 19.8 bn**, up significantly (approximately EUR +13 bn) compared with the same figures as at 31 December 2016, essentially due to the phenomena described above; it was also up compared to 31 March 2017 (EUR +3.8 bn) thanks to the recovery in commercial funding and the further drop in loans, linked to maturities on 30 June.

Information on fair value

Assets and liabilities measured at fair value on a recurring basis: breakdown by fair value level

Asset and liabilities measured at fair value	30 06 2017				31 12 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets held for trading	5,815.8	3,895.4	-	9,711.2	4,525.2	4,741.0	-	9,266.2
Financial assets available for sale	13,775.6	286.0	317.0	14,378.6	15,981.6	359.5	322.0	16,663.1
Hedging derivative	-	151.8	-	151.8	-	327.3	-	327.3
Total assets	**19,591.4**	**4,333.2**	**317.0**	**24,241.6**	**20,506.8**	**5,427.8**	**322.0**	**26,256.6**
Financial liabilities held for trading	2,624.0	1,825.9	-	4,449.9	2,573.6	2,398.2	-	4,971.8
Financial liabilities designated at fair value	-	1,420.5	163.7	1,584.2	-	1,368.7	154.5	1,523.2
Hedging derivative	-	678.3	-	678.3	-	1,018.3	-	1,018.3
Total liabilities	**2,624.0**	**3,924.7**	**163.7**	**6,712.4**	**2,573.6**	**4,785.2**	**154.5**	**7,513.3**

The financial instruments measured at fair value and classified in level 3 of the hierarchy consist of instruments not listed in active markets, valued using the mark-to-model approach, for which input data include, inter alia, non-observable market data significant for measurement purposes or observable market data that require significant adjustment based on non-observable data, or that require internal assumptions and estimations of future cash flows.

During the first six months of 2017, some bonds in the trading book registered a shift from fair value level 1 to fair value level 2 due to the deterioration in the liquidity conditions (measured in terms of the bid-ask spread of the listed price), in the total amount of approx. EUR 17.4 mln. The changed liquidity conditions allowed this level transfer in accordance with the Group's policy on the valuation of financial instruments.

With respect to the financial instruments that improved from fair value level 2 to level 1, this trend involved several bonds in the trading book for a total of approx. EUR 75.8 mln. The improvement in the liquidity conditions (measured in terms of bid-ask spread of the listed price) was such so as to allow for this level transfer in accordance with the Group's policy on the valuation of financial instruments.

During the half, approx. EUR 1.2 mln in equity securities were also reclassified from level 2 to level 3.

As for OTC derivatives, in compliance with IFRS 13 the MPS Group calculates adjustments to values, obtained through valuation models using risk-free interest rates, to take account of the creditworthiness of the individual counterparties. This adjustment, known as Credit Value Adjustment (CVA), is estimated for all positions in OTC derivatives with non-collateralized institutional and commercial counterparties and with counterparties having a Credit Support Annex (CSA) not in line with market standards.

The methodology is based on the calculation of expected operational loss linked to counterparty rating and estimated on a position's duration. The exposure includes future credit variations represented by add-ons.

Market-consistent probability measurements are employed in the calculation of CVA in order to gauge market expectations resulting from CDS, also taking into consideration the historical information available within the Group. As at 30 June 2017 the CVA had a negative balance of approx. EUR 59.2 mln.

The Group calculates the value adjustment of OTC derivatives in a mirror image fashion and on the same perimeter to take into account its creditworthiness, Debit Value Adjustment (DVA). At 30 June 2017 the DVA is positive and amounts to a total of EUR 18.5 mln.

Half-year changes of financial assets measured at fair value on a recurring basis (level 3)

30 06 2017

	Financial assets held for trading	Financial assets designated at fair value	Financial assets available for sale
1. Opening balance	**-**	**-**	**322.0**
2. Increases	**-**	**-**	**29.5**
2.1 Purchase	-	-	16.7
2.2 Profit posted to:	-	-	0.3
2.2.1 Profit and Loss	-	-	-
- of which capital gains	-	-	-
2.2.2 Equity	X	X	0.3
2.3 Transfers from other levels	-	-	1.2
2.4 Other increases	-	-	11.3
3. Decreases	**-**	**-**	**34.5**
3.1 Sales	-	-	1.0
3.2 Redemptions	-	-	0.4
3.3 Losses posted to:	-	-	33.1
3.3.1 Profit and Loss	-	-	31.4
- of which capital losses	-	-	31.4
3.3.2 Equity	X	X	1.7
3.4 Transfers to other levels	-	-	-
3.5 Other decreases	-	-	-
4. Closing balance	**-**	**-**	**317.0**

During the half, the sub-item “Transfers from other levels” also includes a reclassification of approx. EUR 1.2 mln in equity securities from level 2 to level 3, which were valued using valuation techniques that are not market oriented, but are based on other non-market values (cost, equity, etc.), according to what is set forth on the matter in the internal policy.

Half-year changes in financial liabilities measured at fair value on a recurring basis (level 3)

30 06 2017

	Financial liabilities held for trading	Financial liabilities designated at fair value	Hedging derivatives
1. Opening balance	**-**	**154.5**	**-**
2.Increases	**-**	**9.2**	**-**
2.1 Issues	-	-	-
2.2 Losses posted to	-	9.2	-
2.2.1 Profit and Loss	-	-	-
- of which capital losses	-	-	-
2.2.2 Equity	X	9.2	X
2.3 Transfers from other levels	-	-	-
2.4 Other increases	-	-	-
3. Decreases	**-**	**-**	**-**
4. Closing balance	**-**	**163.7**	**-**

The Group did not generate day one profit/loss from financial instruments pursuant to paragraph 28 of IFRS 7 and other related IAS/IFRS paragraphs.

Fair value level 2: measurement techniques and inputs used

Items	Fair value 30 06 2017						Type	Valuation technique(s)	Inputs used
	Financial assets held for trading	Financial assets available for sale	Hedging deivatives	Financial liabilities held for trading	Financial liabilities designated at fair value	Hedging deivatives			
Debt securities	425,7	141,9	X	-	1.420,5	X	Bonds	Discounted Cash Flow	Interest rate curve, CDS curve, Basi(yield), Inflation Curves
							Structured bonds	Discounted Cash Flow	Interest rate curve, CDS curve, Basi(yield), Inflation Curves + inputs necessary to measure optional component
							Bonds	Market price*	Market price*
Equity instruments	-	11,4	X	X	X	X	Share/Equity Instruments	Market price*	Market price*, recent transactions, appraisals, manager reports
							Equity Instruments	Discount cash flow	Share price, beta sector, free risk rate
							Equity Instruments	Net asset adjusted	Carring Amount Asset/Liabilities
Units of UCITS	-	132,7	X	X	X	X	Funds/PE	Market price*	Market price*; recent transactions, appraisals, manager reports
Deposits	X	X	X	5,6	-	X	from banks		
				-	-		from customers		
Financial Derivatives	3.457,7	-	151,8	1.786,7	X	678,3	IR/Asset/Currency Swaps	Discounted Cash Flow	Interest rate curve, CDS Curve, Basi(yield), Inflation Curve, Foreign exchange rates and correlation
							Total return swaps	Discounted Cash Flow	Bond price, Interest rate curve, Foreign exchange rates
							Equity swaps	Discounted Cash Flow	Share price, Interest rate curve, Foreing exchange rates
							Forex Singlename Plain	Option Pricing Model	Interest rate curve, Foreing exchange rates, Forex volatility
							Forex Singlename Exotic	Option Pricing Model	Interest rate curve, Foreing exchange rates, Forex volatility
							Forex Multiname	Option Pricing Model	Interest rate curve, Foreing exchange rates, Forex volatility,
							Equity Singlename Plain	Option Pricing Model	Interest rate curve, share price, foreign exchange rates, Equity
							Equity Singlename Exotic	Option Pricing Model	Interest rate curve, share price, foreign exchange rates, Equity volatility (surface), Model inputs
							Equity Multiname Plain	Option Pricing Model	Interest rate curve, share price, foreign exchange rates, Equity volatility, Quanto Correlation, Equity/Equity correlation
							Equity Multiname Exotic	Option Pricing Model	Interest rate curve, share price, foreign exchange rates, Equity volatility (surface),Model inputs,Quanto correlation,
							Plain Rate	Option Pricing Model	Interest rate curve, inflation curves,bond prices,foreign exchange rates, Rate volatility, rate correlations
							Spot-Forward	Market price*	Market price*, Swap Point
Derivatives	11,9	X	-	33,6	X	-	Default swaps	Discounted Cash Flow	CDS curves, Interest rate curve
Total assets	3.895,3	286,0	151,8	X	X	X			
Total liabilities	X	X	X	1.825,9	1.420,5	678,3			

*prices for identical financial instruments listed in non-active markets (IFRS 13 par. 82 lett. b)

Fair value level 3: measurement techniques and inputs used

Items	Fair value 30 06 2017		Type	Valuation techinque(s)	Unobservable inputs	Range (weighted average)
	Financial assets available for sale	Financial liabilities designed at fair value				
Debt securities	-	163.7	Group bonds	Economic value ex DL n 237 2312/2016	Post-money Value Share	7.83
	8.4	-	Financial Instrument	Credit Model	Future cash flows	5.5 €/mln
Equity instruments	291.7	X	Investments	Discounted Cash Flow	Liquidity base/ Equity Risk Premium/Beta	20%/8%/0.4
			Investments	Discounted Cash Flow	Equity Risk Premium/Growth Rate	10.5%/1.10%
			Investments	Cost/Net equity	Fair value asset	0-13.5 €/mln
			Convertible bonds	Credit Model	Fair value asset	22.1 €/mln
Units of UCITS	16.9	X	Side Pocket	External Pricing	NAV	0-5.5 eur/mln
			Closed-end Fund	Cost	Fair value asset	29.7 €/mln
Total Assets	317.0	X				
Total liabilities	X	163.7				

A description of Level 3 instruments that show significant sensitivity to changes in unobservable inputs is provided below.

Within "Financial assets available for sale", the category "Debt securities" includes equity instruments distributed to creditors as part of loan restructuring operations. In the valuation of securities, assumptions were made regarding the future cash flows generated by the issuer; this parameter was considered not observable and has an impact on the sensitivity of roughly EUR 5.5 mln.

Within "Financial liabilities measured at fair value", the category "Debt securities" includes the subordinated bonds issued by the Group and subject to the measures set forth in law decree no. 237 of 23/12/2016. They were valued using the conversion factors set forth in the decree, which assigned a real economic value equal to 75% of the nominal amount for Additional Tier I securities. These values were subject to a correction percentage to consider the 25% discount on the price of the newly issued shares reserved under the same regulatory measure to the MEF. The economic value determined by the independent expert was also taken into account. Therefore, the valuation did not use an actual valuation technique based on unobservable inputs, but rather it relied on information present in the recently issued implementing decrees.

Equity securities valued according to the Credit Model method include essentially the convertible bond issued by Sorgenia S.p.A. following the restructuring of its original debit position toward the Group. The bond is valued according to the credit models and the value obtained is not verifiable through market results and for this reason the sensitivity of this position is considered to be equal to the entire book value (approx. EUR 22 mln).

Equity securities measured using the Discounted Cash Flow model mainly include the Bank of Italy shareholding (EUR 187.5 mln). This equity investment was measured with the methodology identified by the Committee of Experts in the document "Revaluation of shareholdings in the Bank of Italy". This document not only details the valuation techniques adopted to reach the end result, but identified in the market beta, in the equity risk premium and in the cash flow base to be used for cash flow discounting, the parameters on which to make entity specific assumptions. During valuation, the intervals of the possible values that can be assigned to these parameters cause the following changes in value: roughly EUR -23 mln for every 100 bps increase in the equity risk premium, around EUR -37 mln for every 10 percentage point increase in the market beta and roughly EUR -26 mln for every 10 percentage point increase in the cash flow base.

The same category also includes the position in the Cassa di Risparmio di Cesena "Voluntary Scheme" in the amount of approx. EUR 14.7 mln. Sensitivity to the unobservable parameters in the valuation of the Voluntary Scheme, i.e., the equity risk premium and the growth rate, comes to EUR -0.7 mln per percentage point and EUR -0.06 mln per percentage point, respectively.

Equity securities valued at cost/equity include all investments measured at fair value that could not be measured according to a market-based model. These positions amount to approx. EUR 76 mln.

The units of UCITS measured with External Pricing are Hedge Fund side pockets, whose price quotes by the asset management companies are deemed non-verifiable. For this reason, the sensitivity of these positions is considered to be equal to their entire book value (approx. EUR 8 mln). This category also includes the shares held in the Atlante Fund for a net book value of roughly EUR 3.9 mln, the valuation of which reflects what was disclosed by Quaestio Capital Management on 20 July, and is inclusive of the effects connected to the write-off of the two main equity investments in the fund's assets (BPVI and Veneto Banca).

Please take note of the entry of a position of roughly EUR 5 mln in the "Rainbow" reserved closed-end real estate investment fund by way of "*datio in solutum*" as part of a loan restructuring operation.

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis

Financial asset/liabilities not measured at fair value or measured at fair value on a non - recurring basis	30 06 2017		31 12 2016	
	Book value	Total Fair value	Book value	Total Fair value
Financial assets held to maturity	-	-	-	-
Loans to banks	13,116.4	12,992.8	8,936.2	8,809.9
Loans to customers	89,713.1	92,694.4	106,692.7	110,424.3
Property, plant and equipment held for investment	337.7	373.7	327.7	362.2
Non-current assets and groups of assets held for sale	5,144.8	5,146.9	60.7	19.0
Total assets	**108,312.0**	**111,207.8**	**116,017.3**	**119,615.4**
Deposits from banks	22,802.8	22,802.8	31,469.1	31,469.1
Deposits from customers	80,299.9	80,299.9	80,702.8	80,707.0
Debt securities issued	24,659.8	24,192.2	22,347.5	21,184.2
Total liabilities	**127,762.5**	**127,294.9**	**134,529.8**	**133,360.3**

For non-performing loans classified in fair value hierarchy level 3, it is assumed that the book value represents a reasonable approximation of fair value. This assumption is based on the circumstance that the fair value calculation is predominantly influenced by recovery strategies, as well as the subjective assessments of the managers.

Likewise, the fair value of non-performing loans, also mostly classified in level 3, is based on models that use predominantly non-observable inputs (e.g., internal risk parameters).

Therefore, and also due to the absence of a secondary market, the fair value recognised in the financial statements for disclosure purposes only could vary significantly from sale prices, without prejudice to the case in which such sales were already defined at the reporting date.

With reference to par. 93 lett. (i) of IFRS 13, the Group does not hold any non-financial assets measured at fair value on a recurring and non-recurring basis.

With reference to par. 96 of IFRS 13, the Group does not apply the portfolio exception provided for in par. 48 of IFRS 13.

Shareholders' equity

As at 30 June 2017, the **Group shareholders' equity and non-controlling interests** amounts to around **EUR 3.0 bn**, down by approx. EUR 3.4 bn compared to the end of December 2016 and by approx. EUR 3.0 bn compared to 31 March 2017. The quarterly trend is associated mainly with the loss for the year and the improvement in the valuation reserve.

Reclassified Consolidated Balance Sheet										
	30/06/17	31/03/17	31/12/16	30/06/16	Chg Q/Q		Chg 31/12		Chg Y/Y	
Equity					Abs.	%	Abs.	%	Abs.	%
Group net equity	3,047.7	6,041.9	6,425.5	9,928.7	(2,994.2)	-49.6%	(3,377.8)	-52.6%	(6,881.0)	-69.3%
a) Valuation reserves	102.0	7.4	47.3	7.7	94.6	n.s.	54.7	n.s.	94.3	n.s.
c) Equity instruments carried at equity	-	-	-	-	-		-		-	
d) Reserves	(1,177.4)	(1,162.0)	2,253.6	617.2	(15.4)	1.3%	(3,431.0)	n.s.	(1,794.6)	n.s.
e) Share premium	-	-	-	-	-		-		-	
f) Share capital	7,365.7	7,365.7	7,365.7	9,001.8	-		-		(1,636.1)	-18.2%
g) Treasury shares (-)	-	-	-	-	-		-		-	
h) Net profit (loss) for the period	(3,242.6)	(169.2)	(3,241.1)	302.0	(3,073.4)	n.s.	(1.5)	0.0%	(3,544.6)	n.s.
Non-controlling interests	2.2	2.4	34.9	26.0	(0.2)	-8.3%	(32.7)	-93.7%	(23.8)	-91.5%
Total Group Shareholder's Equity and Non-controlling interests	**3,049.9**	**6,044.3**	**6,460.4**	**9,954.7**	**(2,994.4)**	**-49.5%**	**(3,410.5)**	**-52.8%**	**(6,904.8)**	**-69.4%**

Capital adequacy

Regulatory capital and requirements

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

- a minimum Pillar 1 requirement of 8% and
- an additional Pillar 2 requirement of 3% (P2R), entirely in terms of Common Equity Tier 1 capital.

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

- CET1 Ratio of 9.44% on a transitional basis,
- Total Capital Ratio of 12.94% on a transitional basis including, aside from the P2R, 1.875% for the Capital Conservation Buffer and 0.0625% 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%.

Until **31 December 2017**, the CET1 threshold to be observed remains 10.75%, announced on 25 November 2015 with the previous SREP letter.

As at **30 June 2017** 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	
	30 06 2017	31 12 2016	Abs.	%
OWN FUNDS				
Common Equity Tier 1 (CET1)	918.4	5,353.4	(4,435.0)	-82.85%
Tier 1 (T1)	918.4	5,353.4	(4,435.0)	-82.85%
Tier 2 (T2)	766.1	1,463.9	(697.8)	-47.67%
Total capital (TC)	**1,684.4**	**6,817.3**	**(5,132.9)**	**-75.29%**
RISK ASSETS				
Credit and Counterparty Risk	48,656.5	53,520.8	(4,864.3)	-9.09%
Credit valuation adjustment risk	365.4	479.5	(114.1)	-23.80%
Market risks	2,846.3	3,045.6	(199.3)	-6.54%
Operational risk	9,169.7	8,475.8	693.9	8.19%
Risk-weighted assets	**61,037.9**	**65,521.7**	**(4,483.8)**	**-6.84%**
CAPITAL RATIOS				
CET1 capital ratio	**1.50%**	**8.17%**	**-6.67%**	
Tier1 capital ratio	**1.50%**	**8.17%**	**-6.67%**	
Total capital ratio	**2.76%**	**10.40%**	**-7.64%**	

Compared to **31 December 2016**, all levels of capital declined significantly as a result of the loss for the period (roughly EUR -3,243 mln), primarily deriving from impairment losses.

In addition, the levels of capital reduced primarily due to:

- the application of the transitional rules valid for 2017, which are less favourable than those for 2016;
- the increase in DTAs which do not depend on future profitability and which are not related to temporary differences;
- the higher regulatory deductions due to the reduction in CET 1 exemptions.

The overall reduction of Total Capital was also due to the negative effect of regulatory amortisation on Tier 2 subordinated securities.

There was an overall reduction in RWAs (EUR -4,484 mln) mainly as a result of the decline in "credit and counterparty risk" due to the performance of the customer loan portfolio, the lower contribution of RWAs from capital due to the decrease in CET1 exemptions and the transformation of transformable DTAs into tax credits. Operational risks were up.

The considerable loss for the half brought the capital ratios to below the minimum levels set forth in art. 92 of Reg. 575/2013 (CRR). This breach was overcome as a result of the completion of the precautionary recapitalisation on **11 August 2017** as already described in the "Going concern" section of this Report.

On 10 August 2017 the Bank was authorised to calculate the share capital increase completed on 2 August within its regulatory capital. Therefore, at the date of approval of the half-year report, the consolidated capital ratios are higher than the minimum thresholds laid out in art. 92 of the CRR and the SREP threshold currently in force. Indeed, the CET 1 and Total Capital ratios as at 30 June 2017, after the share capital increase, are estimated at 15.4% and 15.6%, respectively.

Lastly, please note that the reduction in capital entailed a significant increase in Large Exposures, as defined by regulations, which as at 30 June 2017 were represented by 77 positions totalling EUR 79,379.2 mln. In this regard, please note that 16 positions, amounting to a total exposure of EUR 17,050.6 mln, exceeded the regulatory limit of 25% of eligible capital at the reporting date. As a result of the subsequent increase in capital due to the precautionary recapitalisation and the burden sharing, the Large Exposures reduced significantly and there were no cases of exceeding the regulatory limit; considering the increase in regulatory capital as already realised as at 30 June 2017, the number of Large Exposures would be equal to 11, for a total of EUR 58,738.6 mln.

Disclosure on risks

Risk Governance

Risk governance strategies are defined in line with the Group business model, medium-term Restructuring Plan objectives and external regulatory and legal requirements.

Policies relating to the assumption, management, coverage, monitoring and control of risks are defined by the Board of Directors of the Parent Company. Specifically, the Board of Directors periodically defines and approves strategic risk management guidelines and quantitatively expresses the Group's overall risk appetite, in line with the annual budget and multi-year projections.

For the year 2017, the Board of Directors of Banca Monte Paschi di Siena S.p.A. approved the "Group Risk Appetite Statement 2017" (RAS 2017) for the Montepaschi Group and its breakdown by Legal Entity/Business Unit. The Risk Control Department is specifically assigned the task of conducting the quarterly monitoring of indicators, drawing up a periodic report for the Board of Directors and implementing the escalation/authorisation processes in the event of overdrawn amounts. The first monitoring of the RAS 2017 began in March 2017.

The Risk Appetite Process is structured so as to ensure consistency with the ICAAP and ILAAP as well as with Planning, Budget and Recovery processes, in terms of governance, roles, responsibilities, metrics, stress testing methods and monitoring of key risk indicators.

The first half of 2017 was characterised mainly by analyses conducted to support the definition of the Restructuring Plan to be submitted to the Authorities. In the first half of 2017, internal initiatives also continued to guarantee compliance with national and international regulatory provisions. The reference internal regulations were updated for the management of Banking Book Interest Rate Risk, Credit Risk, Market Risk, the ICAAP and for Internal Validation. As part of the annual reviews of operating limits, during the first half of the year new Credit Risk management limits were also introduced in line with the 2017 Risk Appetite Statement.

In addition, the ICAAP and ILAAP packages were sent to the Regulator in accordance with the ECB's regulatory prescriptions regarding the "Technical implementation of the EBA Guidelines on ICAAP/ILAAP information for SREP Purposes".

The Montepaschi Group is one of the Italian banks subject to the ECB's Single Supervisory Mechanism. In the first half of 2017, the Group has continued to actively support interaction with the ECB-Bank of Italy Joint Supervisory Team (JST).

For additional information, see the Consolidated Report on Operations as at 31 December 2016, available in the Investors & Research section at www.mps.it.

Internal Capital

Risk assessment models

The Internal Capital is the minimum amount of capital resources required to cover economic losses resulting from unforeseen events caused by exposure to different types of risk.

With regard to the methods used to estimate Internal Capital, with respect to what was highlighted in the 2016 Notes to the Consolidated Financial Statements, there are some methodological changes in the internal models used to estimate Internal Capital with regard to Interest Rate Risk of the Banking Book and Operational Risk, described below. The approach used to quantify risks-to-capital with regard to which the Group is exposed is known in the literature as Pillar 1 Plus. This approach envisages that the Pillar 1 requirements for Credit and Counterparty Risk, which already include those relating to Issuer Risk on the Banking Book, Equity Investment Risk, Real Estate Risk and Operational Risk, be increased by the requirements from internal models relating to Market Risks, both Trading Book and Banking Book, Banking Book Interest Rate Risk (Financial Risks), Concentration Risk and Business/Strategic Risk.

Overall Internal Capital is calculated without considering inter-risk diversification, therefore by directly adding together the internal capital contributions of the individual risks (Building Block). This approach aims to incorporate the indications in the SREP (Supervisory Review and Evaluation Process) Guidelines published by the EBA in December 2014.

Risk exposure

The Group also manages and quantifies liquidity risk on an ongoing basis (risk-to-liquidity, as defined in the SREP Guidelines) through internal organisational methodologies and policies.

Credit risks

Risk assessment model

With regard to the Credit Risk measurement method, there are no significant methodological changes to report compared to what was already outlined in the 2016 Notes to the Consolidated Financial Statements. Credit risk is analysed in-house for management purposes using the Credit Portfolio Model, which was developed internally by the Parent Company and produces detailed outputs in the form of traditional risk measures such as Expected Loss, Unexpected Loss, both management (intra-risk diversified with a representative period of one year and a confidence interval calibrated to the target rating assigned to the Group) and regulatory. Several inputs are considered: probability of default (PD), obtained through validated and non-validated models, LGD rates (management and regulatory), number and types of guarantees supporting the individual credit facilities, regulatory and management CCF on the basis of which the regulatory and management EAD are estimated respectively.

The Group is currently authorised to use the Advanced Internal Rating Based (AIRB) models to determine capital requirements against credit risk on the portfolios of “exposures to businesses” and “retail exposures” of the Parent Company, MPS Capital Services and MPS Leasing & Factoring, and is awaiting validation of the EAD parameter and roll-out of the domestic NBFI portfolio for these counterparties.

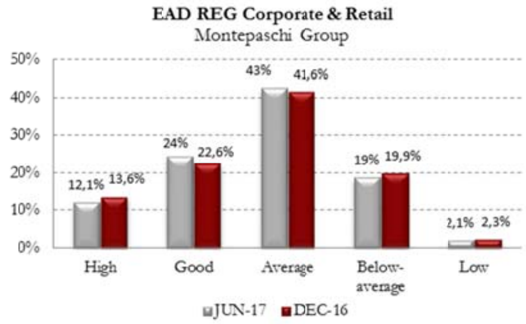
The Group has used PD, LGD and EAD parameters, estimated for regulatory purposes to calculate Risk Weighted Assets, also for other operational and internal management purposes. These provide the basis of calculation for different systems of measurement and monitoring, and specifically for the:

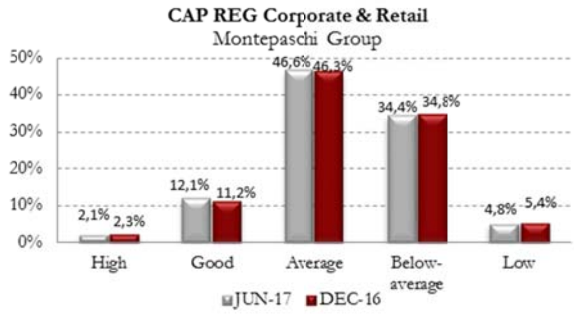
- measurement of economic and regulatory capital for credit risk;
- calculation of risk-adjusted performance and measurement of value creation;
- risk-adjusted pricing processes;
- credit direction processes;

- across all credit processes (disbursement, review, management and follow-up) which are fully "engineered" in the Electronic Loan File application (it. Pratica Elettronica di Fido or PEF), under which the borrower's rating is the result of a process which evaluates - in a transparent, structured and consistent manner - all the economic-financial, behavioural and qualitative information regarding customers with whom the bank has credit risk exposures.

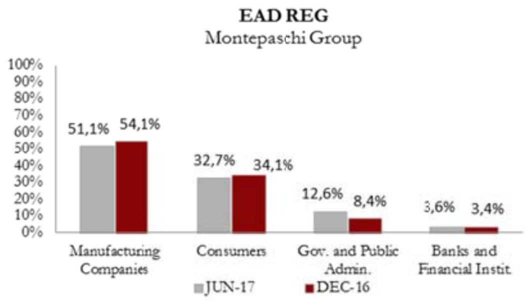
Risk exposure

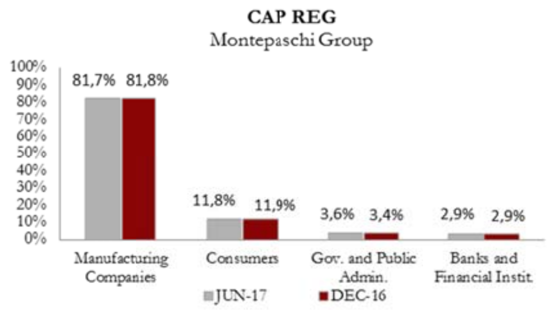
The charts below provide a credit quality breakdown of the MPS Group's portfolio (BMPS, MPS Capital Services, MPS L&F and Widiba) as at 30 June 2017 compared to the end of 2016 for Regulatory Exposure at Default (REG EAD) and Regulatory Capital (REG CAP) of the performing Corporate and Retail portfolios.





The charts below show the distribution of the MPS Group's REG EAD and REG CAP by type of client as at 30 June 2017 compared to the end of 2016.





Counterparty risks

Risk assessment model

With regard to the Counterparty Risk measurement methods, there are no significant changes to report compared to 2016.

- As envisaged by the regulatory provisions, in measuring exposure to counterparty risk the MPS Group used the regulatory market value approach to determine Exposure at Default (EAD) for derivative transactions and LST (Long Settlement Transactions), and the equity approach to determine the EAD for SFTs (Securities Financing Transactions).
- The counterparty risk measurement perimeter comprises all Group banks and subsidiaries, with regard to positions held in the Banking Book and Trading Book.
- The capital requirement for Credit Value Adjustment (CVA) along with the insolvency requirement covers unforeseen losses recorded in the OTC Derivatives segment following a change in counterparty creditworthiness, excluding central counterparties and non-financial counterparties

below the EMIR clearing threshold. The MPS Group calculates the CVA requirement using the standardised method envisaged by the Basel/CRD IV regulatory framework.

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 June 2017.

The exposures are broken down by accounting categories. For securities classified as "Loans and Receivables (L&R)" and "Loans", the book value (amortised cost) is also reported.

COUNTRY	DEBT SECURITIES					LOANS	CREDIT DERIVATIVES
	Financial assets held for trading		Financial assets available for sale		L&R	L&R	Financial assets HFT
	Nominal	Fair value=book value	Nominal	Fair value=book value	Book value	Book value	Nominal
Argentine	0,9	0,8	-	-	-	-	-
Austria	0,1	0,1	-	-	-	-	-
Belgium	-	0,1	47,3	49,9	-	-	-
Brazil	0,1	0,2	-	-	-	-	-
Croatia	0,2	0,2	-	-	-	-	-
Philippines	0,1	0,1	-	-	-	-	-
France	0,2	0,2	259,5	265,6	-	-	18,0
Germany	19,9	21,4	20,0	20,4	-	-	-
Greece	4,2	-	-	-	-	-	-
Hong kong	-	-	28,1	28,1	-	-	-
Italy	2.832,0	2.865,1	12.152,3	12.681,3	505,1	2.695,5	1.763,2
Lithuania	0,2	0,2	9,0	9,4	-	-	-
Mexico	0,4	0,5	-	-	-	-	-
Holland	0,2	0,2	-	-	-	-	-
Poland	0,2	0,3	-	-	-	-	-
Portugal	0,4	0,4	16,0	18,3	-	-	-
United Kingdom	0,2	0,2	-	-	-	-	-
Romania	0,6	0,8	-	-	-	-	-
Spain	1,8	2,1	42,0	48,3	-	-	(3,2)
United States	1,8	2,0	-	-	-	-	-
Hungary	1,3	1,4	-	-	-	-	-
Total 30 06 2017	**2.864,8**	**2.896,3**	**12.574,2**	**13.121,3**	**505,1**	**2.695,5**	**1.778,0**
Total 31 12 2016	**1.672,3**	**1.553,8**	**14.020,9**	**15.416,0**	**534,0**	**2.747,1**	**2.063,0**

Market risks

Risk assessment model

With regard to the Market Risk measurement method for the Regulatory Trading Book, there are no significant changes in method to report compared to what was outlined in the 2016 Notes to the Consolidated Financial Statements. The analysis is performed using an internally developed management model, which has the following key characteristics:

- Model type: Value-at-Risk (VaR) Historical Simulation with full revaluation of all basic positions;
- Confidence level: 99%;
- Holding period: 1 business day;
- Historical series: window of 500 days with daily scrolling;
- Scope: Parent Company, MPS Capital Services;
- Risk measures: Diversified VaR, Conditional/Marginal VaR on individual risk factors, Mark-to-Market and Sensitivity Analysis, Stress Test & Scenario Analysis, and Theoretical and Actual Backtesting.

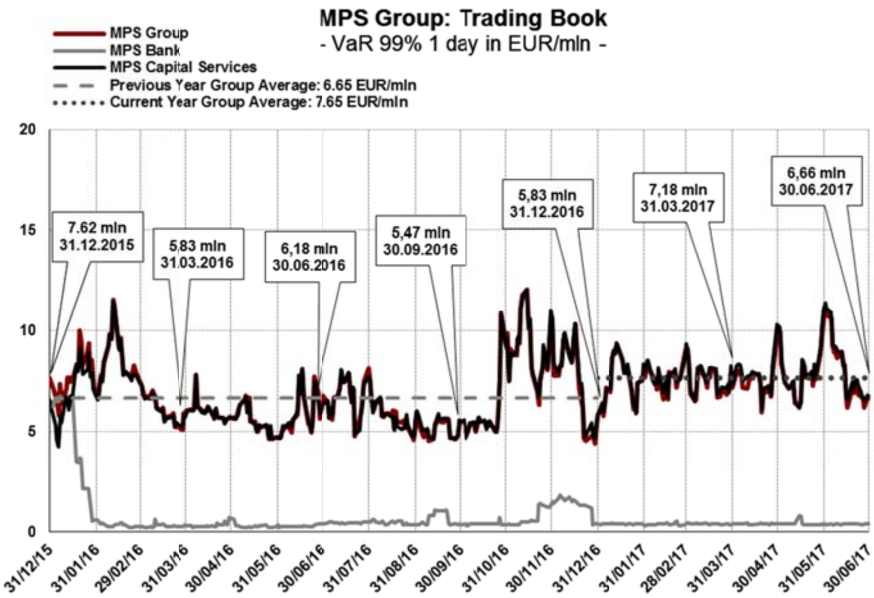
Internal Capital for Market Risk is also measured with regard to the Regulatory Trading Book and the Banking Book (positions classified as AFS and relative coverage through FVH, appropriately adjusted and streamlined in the risk integration phase).

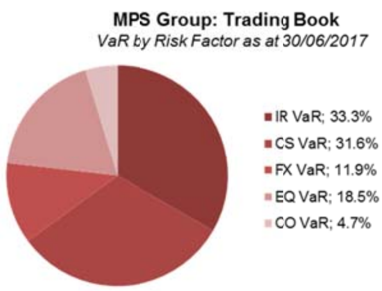
For Supervisory purposes, the Group uses the standard methodology.

Risk exposure

At the end of the first half of 2017, the market risks of the Group's Regulatory Trading Book, measured as VaR, trended slightly upward compared to the end of December 2016, amounting to EUR 6.66 mln.

In the first half of the year, the market risks of the Group's Regulatory Trading Book showed, in terms of VaR, performance influenced by the subsidiary MPSCS for trading activities in the IR-CS segment, in Italian government bonds as well as in derivatives, primarily Long Futures and Interest Rate Future Options, and to a less significant extent in the EQ segment (Equity Futures and Equity Options).



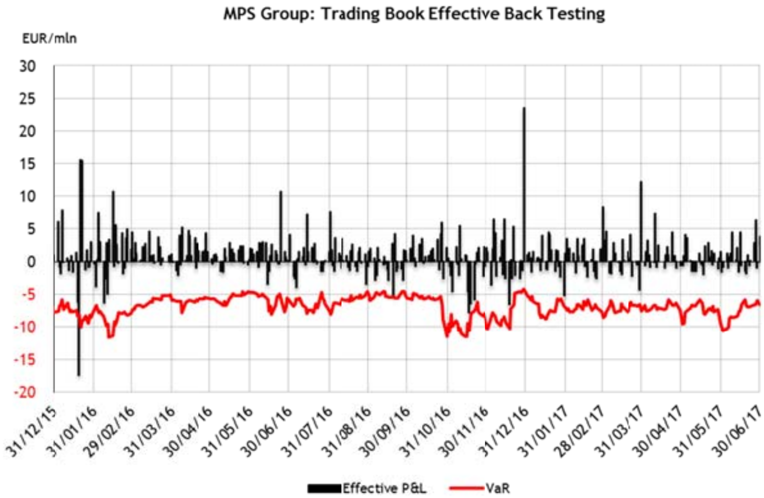


MPS Group: Trading Book
VaR 99% 1 day in EUR/mln

	VaR	Date
End of Period	6.66	30/06/2017
Min	5.79	04/01/2017
Max	11.06	01/06/2017
Average	7.65	

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 2016 and for the first six months of 2017:



The backtesting shows no exception in the first half of 2017.

Structured credit products

As at 30 June 2017, the securities positions on structured credit products of the MPS Group amounted to a nominal amount of EUR 128.8 mln (compared to a nominal EUR 97.6 mln as at 31 December 2016).

Interest rate risk in the Banking Book

Risk assessment model

With respect to the methodologies for measuring Interest Rate Risk, with respect to what was already highlighted in the 2016 Notes to the Consolidated Financial Statements, the Group extended the assessment of the risk profile also considering rate scenarios and negative interest rate levels so as to incorporate non-linear aspects deriving from the implicit options present in the banking book.

The main features of the model are summarised below:

- Model type: Internal management model based on the Economic Value approach.
- Risk measures: Interest Rate Sensitivity, Margin sensitivity, Stress Test.
- Behavioural models: handling of prepayment risk and modelling of demand items.
- Scope: BMPS, MPS Capital Services, MPS L&F, Widiba, and MP Belgio.

Risk exposure

The sensitivity of the Group, at the end of June 2017, features a profile of risk exposure due to a rate hike. The amount of economic value at risk in the event of a +100 bps parallel shift of the rate curve came to EUR -8.27 mln at the end of June 2017 (vs. EUR 35.91 mln for a shift of -100 bps), down compared to the end of 2016. However, if benchmarked against Own Funds, these values are below the level considered as the attention threshold by the regulatory provisions.

Strategic risk

Risk assessment model

With regard to the internal model used to estimate the business/strategic risk, defined as the current and/or prospective risk of incurring unforeseen losses generated by high business volatility (business risk), incorrect strategic decisions and/or low response to changes in the competitive environment (strategic risk), the MPS Group has introduced a Value-at-Risk type of measurement method for the internal capital requirement that combines an "earnings volatility" approach with an "expert-layer" assessment. The requirement is calculated on a current as well as prospective basis and in normal business conditions as well as stressed conditions.

This approach considers historic business margin volatility (earnings volatility approach), calculated for the Group and for the main legal entities, considering the following profit and loss items: net interest income, net fee and commission income, other administrative expenses, personnel expenses.

The Value-at-Risk approach used envisages the following methodological assumptions:

- normal distribution of business margin percentage variations;
- confidence interval of 99.9%;
- holding period: 1 year.

To estimate the internal capital requirement even under stressed conditions, the Group verifies the adequacy of the measurement obtained with the Value-at-Risk approach, measuring the profit and loss impacts of any failure of specific assumptions included in the Business Plan.

Risk exposure

As at 30 June 2017, the internal capital requirement for the MPS Group with regard to business/strategic risk was essentially unchanged compared to the same figure recorded as at 31 December 2016.

Concentration risk

Risk assessment model

The Group, in accordance with art. 81 of Directive 2013/36/EU (CRD IV), defines Concentration Risk as the risk of incurring significant losses from exposure to counterparties, groups of related counterparties and counterparties of the same business sector or conducting the same business or belonging to the same geographical area.

Concentration Risk may therefore arise in relation to two different components:

- concentration by individual borrower or groups of connected borrowers (single name concentration),
- geo-sectoral concentration (sector concentration).

As a method to calculate the internal capital requirement against single name concentration risk, the simplified algorithm recommended by the applicable Italian regulation is used (Bank of Italy circular no. 285/2013).

With regard to the geo-sectoral concentration risk estimate, reference is made to the method proposed by the ABI Concentration Risk Laboratory.

Risk exposure

As at 30 June 2017, although the internal capital requirement for the MPS Group with regard to concentration risk remained at around 1% of total internal capital, it decreased compared to 31

December 2016; the effect is connected mainly to the increase in deductions from capital of significant financial investments.

Liquidity risk

Risk assessment model

With regard to the Liquidity Risk measurement method, there are no significant methodological changes to report compared to what was outlined in the 2016 Notes to the Consolidated Financial Statements. The Group has used a **Liquidity Risk Framework** for many years now, intended as the set of tools, methodologies, organisational and governance setups which ensures both compliance with national and international regulations and adequate liquidity risk governance in the short (Operating Liquidity) and medium/long (Structural Liquidity) term, under business as usual and stress conditions.

Management of the Group's **Operating Liquidity** is intended to ensure the Group is in a position to meet cash payment obligations in the short term. The essential condition for a normal course of business in banking is the maintenance of a sustainable imbalance between cash inflows and outflows in the short term. The benchmark metric in this respect is the difference between net cumulative cash flows and Counterbalancing Capacity, i.e. reserve of liquidity in response to stress conditions over a short time horizon. From the extremely short-term perspective, the Group adopts a system for the analysis and monitoring of intraday liquidity, with the goal of ensuring normal development during the day of the bank's treasury and its capacity to meet its intraday payment commitments.

Management of the Group's **Structural Liquidity** is intended to ensure the structural financial balance by maturity buckets over a time horizon of more than one year, both at Group and individual company level. Maintenance of an adequate dynamic ratio between medium/long term assets and liabilities is aimed at preventing current and prospective short-term funding sources from being under pressure. The benchmark metrics, mitigated by specific internal operating limits, are gap ratios which measure both the ratio of total funding to loans with maturities differentiated by time buckets and the ratio of commercial funding to loans regardless of their maturities. The Group also defined and formalised the asset encumbrance management and monitoring framework with the goal of analysing:

- the overall degree of encumbrance of total assets;
- the existence of a sufficient quantity of assets that may be encumbered but which are free, with respect to what is defined in the liquidity risk tolerance;
- the Group's capacity to transform bank assets into eligible assets (or in an equivalent manner, to encumber non-eligible assets in bilateral transactions).

Risk exposure

The Group's Liquidity Reserves at the end of the half-year improved compared to the end of 2016, with the Liquidity Coverage Ratio (LCR) at 225.9%, and the Group's structural equilibrium was adequate with a Net Stable Funding Ratio (NSFR) of 98.1%.

The ratio of 1-month balance to the Group's consolidated assets is 12.35%, up compared to the end of 2016 (4.36%).

Operational risks

Risk assessment model

The Group has an advanced internal system for operational risk management, which has the following key characteristics:

- Model type: Advanced Measurement Approach (AMA) in combined use AMA/BIA (Basic Indicator Approach). Mixed LDA/Scenario approach with Loss Distribution Approach (LDA) on internal and external historical series and Scenario Analyses (management evaluations of contextual and control factors and on the main operational criticalities);
- Confidence level: 99.90%;
- Holding period: 1 year;
- Scope: all Group companies;
- Risk measures: operating losses and capital absorption.

The approach defines the standards, methods and instruments that make it possible to measure risk exposure and the effects of mitigation by business area.

Please note that as of 30 June 2017, the Advanced Measurement Model was changed to increase the historical depth of internal loss data from 5 to 10 years and to introduce the scaling of external data in order to discourage unexpected requirement fluctuations.

Risk exposure

As at 30 June 2017, operational losses recognised in the first half of the year remained basically stable as compared to December 2016, while operational risk events declined. The Regulatory Requirements as at 30 June 2017 rose slightly compared to December 2016 essentially due to evolutions in the model.

Main types of legal action

The risks associated with or connected to legal disputes - i.e. disputes brought before judicial authorities and arbitrators - are kept under specific and careful review by the Group.

In case of disputes for which the disbursement of financial resources to perform the underlying legal obligation is believed to be "likely" and the relevant amount can be reliably estimated, allocations are made to the Reserve for Risks and Charges using statistical or analytical criteria.

For the most significant disputes, see the disclosure in the 2016 financial statements for any cases not illustrated below.

Banca Monte dei Paschi di Siena S.p.A. vs. Extraordinary Administrators of SNIA S.p.A.
The action, brought by the Extraordinary Administrators of SNIA S.p.A. against the former Directors, Statutory Auditors and (direct and indirect) Shareholders of the same company (including the Parent Company Banca MPS), seeks the assessment of the defendants' liabilities for damages, originally not quantified, allegedly caused to the company. The action is grounded on intricate and complex corporate matters which saw the involvement of the company from 1999 to 2009 and which, as far as the Parent Company and other appearing parties are concerned, pivot around the company's demerger in 2003. The relief sought against the Parent Company and other defendants, which originally could not be determined, was (partially) specified during the claim quantification stage and amounts to EUR 572.0 mln plus additional alleged damages, still undetermined.

The Ministry of the Environment and for Protection of the Land and Sea and the Ministry of Economy and Finance intervened in the dispute, to support the claims of the plaintiff (regarding the alleged environmental damage).

With regard to the claims for compensation against the Parent Company, jointly and severally - among others - the direct shareholder and the other "indirect shareholders" of SNIA, the defence focused, apart from the expired statute of limitations, on the groundlessness of the factual and legal elements that could warrant compensation for the alleged damages, with regard to the alleged damage from the so-called distractive demerger (quantified at "*Euro 572,000,000.00 or Euro 388,000,000.00, or other amount to be quantified during the dispute also on an equitable basis pursuant to art. 1226 of the Italian Civil Code*") as well as to the alleged environmental damage (confirmed and reported by the Ministry of the Environment, against SNIA and its subsidiary Caffaro, for "*Euro 3,423,257,403.60*" and "*Euro 1,922,070.00*") regarding Caffaro's various production sites in Torviscosa (near the Grado and Marano lagoon), Brescia and Colleferro (within the Sacco River Valley).

With ruling no. 1795/2016 of 10 February 2016, the Court of Milan, having declared - among other things - the inadmissibility of the measures by the Ministries of the Environment and of the Economy, rejected the claims of the Extraordinary Administrators against the various parties, including the Parent Company, ordering the plaintiff to pay for the court costs.

With separate appeals, the Ministries on the one hand and the Extraordinary Administrators on the other filed an appeal against the first instance ruling, repeating the grounds for the appeal and the arguments already expressed before the Court.

During the hearing of 4 October 2016, the Court of Appeals of Milan ordered that the appeals be consolidated, reserving its decision on the petition to suspend execution of the judgment of first instance. On 21 October 2016, the Court lifted its reservation and suspended execution of the judgment appealed against. The proceedings were deferred to 20 June 2018 for the closing arguments.

Banca Monte dei Paschi di Siena S.p.A. vs. Extraordinary Administrators of Antonio Merloni S.p.A.

The extraordinary administration procedure of Antonio Merloni S.p.A. brought an action against the Directors and Statutory Auditors of the company, together with the pool of lenders and the companies that audited the financial statements, claiming that they are jointly responsible for causing the company's financial difficulties and requesting compensation for alleged damages of EUR 322.8 mln.

The Parent Company's defence aims to demonstrate the total groundlessness of the claim, the extraordinary administrators' lack of interest and legitimacy to bring the action, and the fact that the cause of action is past the statute of limitations.

The proceeding is still in the initial stage.

As at the reference date of this half-year report, a settlement agreement was defined, envisaging, among other things, abandonment of the ruling by the Procedure. No economic impacts are expected.

Banca Monte dei Paschi di Siena S.p.A. vs. Riscossione Sicilia S.p.A.

On 15 July 2016, Riscossione Sicilia S.p.A. served a complaint on the Parent Company before the Court of Palermo, asking the Court to order it to pay a total amount of EUR 106.8 mln.

The claim of Riscossione Sicilia S.p.A. falls within the realm of the complex dealings between the Parent Company and the plaintiff, originated from the transfer to Riscossione Sicilia S.p.A. (pursuant to Law Decree 203/05, converted into Law 248/05) of the stake held by BMPS in Monte Paschi Serit S.p.A. (later Serit Sicilia S.p.A.).

Specifically, Riscossione Sicilia, in relation to the contractual provisions involved in said disposal, now asks the Parent Company be ordered to pay, under its contractual liability, for alleged contingent liabilities of Monte Paschi Serit S.p.A./Serit Sicilia S.p.A.

The Parent Company duly appeared before the court with a cross-action against Riscossione Sicilia S.p.A. The proceeding is under preliminary investigation.

With an action filed on 30 November 2016, the Parent Company petitioned the Court of Palermo to order Riscossione Sicilia to immediately pay EUR 40.0 mln, plus interest and expenses, due to the non-repayment by the party subject to the order of several past-due instalments relating to two loan agreements. With a decree issued on 17 January 2017, the Court of Palermo ordered Riscossione Sicilia to pay the amount of EUR 40.7 mln to the plaintiff. The action was served on Riscossione Sicilia, along with the decree and the order for payment for the amount for which provisional enforceability had been granted, on 8 February 2017.

On 11 March 2017, Riscossione Sicilia objected to the above-mentioned order and requested that it be revoked and, by means of a cross-action, that the Bank be sentenced to pay an amount of approximately EUR 66 mln.

To justify its objection, Riscossione Sicilia alleged that the Bank owed it EUR 106.8 mln by virtue of certain representations and warranties set forth in two contracts for the sale of shares whereby the Parent Company had transferred the entire share capital of the company Serit – Sicilia S.p.A. to Riscossione Sicilia. Moreover, in the petition, Riscossione Sicilia acknowledged that its claims were already subject to other proceedings pending before the same Court.

The Parent Company duly appeared before the court requesting the dismissal of the opposing party's objection and the proceeding is in the initial stage.

Former Banca Antoniana Popolare Veneta S.p.A. (BAV) vs. Elipso Finance S.r.l.

The dispute was originated by 3 loan assignment transactions identifiable in bulk in accordance with Law no. 130 of 30/4/1999, carried out or mediated by former BAV, following which since 2008 the assignee Elipso Finance S.r.l. has submitted complaints, invoking the guarantees given by the assignors, mainly concerning the lack of documentary evidence supporting the credit. The claim amounts to EUR 100.0 mln.
Specifically, the 3 assignments were carried out by former BAV, Antenore Finance S.p.A. and Theano Finance S.p.A. (both of which are 98% owned by former BAV, originator of the relevant loans, and subsequently merged into BMPS).
As a settlement could not be reached, in compliance with the arbitration clause contained in the contracts Elipso initiated the arbitration procedure at the Arbitration Chamber of Milan.
The Parent Company's defence aims to demonstrate that, in accordance with contractual provisions, even if the claim should be accepted, damages can only be awarded for positions for which Elipso can actually prove that damage has been suffered.
The Arbitration Board ordered an expert appraisal in order to verify compliance by Elipso with the contractual provisions with regard to guarantee activation methods and times, and the final defence briefs were subsequently filed.
On 17 January 2017, the partial award rejecting the counterparty's claims was issued. After the expert appraisal was completed on a sample of contested transactions and the correlated partial award was issued, the Board was asked for its opinion on the methods for continuing with the expert appraisal and, in the meantime, invited the parties to verify whether the prerequisites are met for a reconciliation.

Banca Monte dei Paschi di Siena S.p.A. vs. CHI. DEM S.r.l. and the other companies of the De Masi Group

The action was brought by the company CHI. DEM S.r.l. and by the other companies of the De Masi Group.

Co-defendants with Parent Company are two other credit institutions (which, in the meantime, settled their position in a settlement) and Bank of Italy. The plaintiff seeks relief for alleged damage suffered by the De Masi Group as a result of the aforesaid banks having exceeded threshold rates (with the joint liability of Bank of Italy for failure to supervise) following decision no. 46669/2011 by the Criminal Division of the Court of Cassation, which has ascertained that in certain periods the threshold rate was actually exceeded. The claim amounts to EUR 100.0 mln.

BMPS's defence is essentially based on lack of evidence of the monetary and non-monetary damages claimed by the plaintiff, as well as lack of any link of causality.

Beyond the above-mentioned elements of proof, an element in favour of the Parent Company is the dismissal of a first request for a Court order, which the plaintiffs applied for as a precautionary measure under article 700 of the Italian Code of Civil Procedure (the dismissal was confirmed during the claim proceeding), as well as the dismissal, on 9 July 2014, of a second request for Court order which the plaintiffs again submitted. The proceeding is under preliminary investigation.

Banca Monte dei Paschi di Siena S.p.A. vs. receivership estate of Antonio Amato & C. Molini e Pastifici in Salerno S.p.A. in liquidazione

The receivership estate of 'Antonio Amato & C. Molini e Pastifici in Salerno S.p.A. in liquidazione' brought an action against the Parent Company, with the former Directors of the Company in bonis and other Creditor Banks as co-defendants, before the Court of Naples, requesting that the Court ascertain and recognise the joint liability of the defendants for their unlawful conduct. According to the plaintiff, they formed a pool that granted a loan to the company, thus worsening its state of financial distress and causing severe damage to its business and its equity and financial integrity; they therefore asked the Court to order the defendants to pay damages to the receivership estate in the amount of EUR 90 mln, i.e. the presumable difference between the estate's liabilities and assets, or a different amount that the Court should deem suitable to award upon completion of the investigative phase; as a secondary claim, the receivership estate asks that each of the defendants be found liable for the part attributable to them for the damage suffered by the company, amounting to EUR 90 mln, equal to the presumable difference between the estate's liabilities and assets.
The Parent Company rose preliminary objections and filed a motion to dismiss the case for lack of venue jurisdiction and of active legitimation; in the merits, the Bank asked the Court to dismiss the plaintiff's claims as inadmissible and/or groundless or, as a secondary request, to reduce the amount of compensation awarded in consideration of the different degree of guilt in causing the damage, in accordance with art. 2055, paragraph 2 of the Italian Civil Code.
The proceeding is under preliminary investigation and the accounting expert appraisal was admitted.

Banca Monte dei Paschi di Siena S.p.A. vs. Marangoni Arnaldo + 124 shareholders and investors

In July 2015, Arnaldo Marangoni sued the Parent Company before the Court of Milan, claiming to have purchased shares of BMPS between 2008 and 2013, during subscription of the capital increase in 2008 as well as on the Electronic Stock Market for approximately EUR 0.075 mln. As the basis for his claims, the plaintiff alleged that the Parent Company, during the time period 2008-2013, unlawfully provided a false representation of its capital, economic, financial, profit and management situation, with the effect of misleading the plaintiff.

On 29 March 2016, through voluntary intervention, another 124 individuals came forward. The interveners allege to have purchased shares of BMPS during the capital increases of 2008 and 2011, as well as on the Electronic Stock Market.

The case is aimed at obtaining compensation for all material and non-material damage, quantified at approximately EUR 97 mln (in the meantime reduced to roughly EUR 89 mln due to the waiver of one counterparty), claimed by the Interveners in relation to the investments made in BMPS shares based on allegedly incorrect information contained in the prospectuses, in the financial statements and in all price-sensitive communications issued by the Parent Company that resulted in misleading the interveners.

The proceedings were referred to the Board for a decision on the preliminary matters.

Banca Monte dei Paschi di Siena S.p.A. vs. Coop Centro Italia s.c.p.a

On 26 July 2016, Coop Centro Italia s.c.p.a. served a complaint on the Parent Company, together with Consob, before the Court of Florence, Section specialised in corporate matters, for the hearing of 20 January 2017.

The plaintiff, after describing its participation in the Bank's capital increases in 2008, 2011 and 2014, and the events of the Parent Company during the period 2008-2015, requests total damages of EUR 85.5 mln, essentially claiming the false nature of the prospectuses relating to the aforementioned capital increases. Specifically, the counterparty claims damages of EUR 20.3 mln for the capital increase of 2008 and EUR 9.2 mln for the capital increase of 2011, for contractual liability pursuant to art. 1218 of the Italian Civil Code, as well as art. 94, paragraph 8 of Legislative Decree no. 58/98 or art. 2049 of the Italian Civil Code in relation to the actions of its then representatives and employees, also pursuant to art. 1218 of the Italian Civil Code, as well as art. 94, paragraph 8 of Legislative Decree no. 58/98, for EUR 56.0 mln, jointly and severally - or alternatively each to the extent applicable - with Consob called upon to respond pursuant to articles 2043 and 2049 of the Italian Civil Code for the actions of the Authority and those of its commissioners and officials, with regard to the 2014 capital increase, regarding capital losses incurred as well as loss of profit to be determined during the course of the proceedings. The Parent Company duly appeared before the court with its defence pleadings.

The proceeding is under preliminary investigation.

Banca Monte dei Paschi di Siena S.p.A. vs. Coofin s.r.l.

On 26 July 2016, Coofin s.r.l. served a complaint on the Parent Company, together with Consob, before the Court of Florence, Section specialised in corporate matters, for the hearing of 20 January 2017.

The plaintiff, after describing its participation in the Bank's capital increases in 2008, 2011 and 2014, and the events of the Parent Company during the period 2008-2015, requests total damages of EUR 51.6 mln, essentially claiming the false nature of the prospectuses relating to the aforementioned capital increases. Specifically, the counterparty claims damages of approximately EUR 11.5 mln for the capital increase of 2008 and EUR 6.1 mln for the capital increase of 2011, for contractual liability pursuant to art. 1218 of the Italian Civil Code, as well as art. 94, paragraph 8 of Legislative Decree no. 58/98 or art. 2049 of the Italian Civil Code in relation to the actions of its then representatives and employees, also pursuant to art. 1218 of the Italian Civil Code, as well as art. 94, paragraph 8 of Legislative Decree no. 58/98, for EUR 34.0 mln, jointly and severally - or alternatively each to the extent applicable - with Consob called upon to respond pursuant to articles 2043 and 2049 of the Italian Civil Code for the actions of the Authority and those of its commissioners and officials, with regard to the 2014 capital increase, regarding the capital losses incurred as well as loss of profit to be determined during the course of the proceedings. The Parent Company duly appeared before the court with its defence pleadings.

The proceeding is under preliminary investigation.

Banca Monte dei Paschi di Siena S.p.A vs. Edilgarba s.r.l.

The company Edilgarba called the Parent Company before the Court of Milan, claiming the breach by the Parent Company of its obligations deriving from the mortgage loan agreement entered into on 13 September 2006 by Edilgarba and Banca Antonveneta (later BMPS). Edilgarba demanded compensation for the alleged damages suffered (quantified at roughly EUR 28.5 mln) as well as damages to its image and commercial reputation (quantified at no less than EUR 3 mln). The claim therefore amounts to EUR 31.5 mln.

The proceeding is under preliminary investigation and an expert appraisal was ordered during the proceedings.

Other disputes: Banca Monte dei Paschi di Siena S.p.A vs. (former) BMPS Shareholders and Investors

This disclosure is provided in consideration of the fact that an additional 14 lawsuits are currently pending, brought forward by shareholders and/or former shareholders for a total claim of approximately EUR 46 mln, in which the plaintiffs claim to have purchased shares during the capital increases of 2008, 2011, 2014 and 2015 and/or on the electronic market based on allegedly incorrect information contained in the prospectuses and/or financial statements and/or in the price sensitive information issued by the Parent Company during the period 2008/2015.

These legal proceedings originate within an extraordinary and exceptional context also connected to the criminal investigations launched by the courts and the legal issues involving the Parent Company during the years 2012 and 2013, which mainly refer to the financial transactions to acquire resources to purchase Banca Antonveneta and to a number of financial transactions carried out by the Parent Company, including the transactions connected to the restructuring of the "Santorini" transaction and the "Alexandria" notes, to the prior capital increases carried out by the Parent Company in 2008 and 2011 and to the FRESH 2008 transaction.

The lawsuits filed by investors could increase, even significantly, with regard to the number and amount of claims, compared to those already submitted as of the date of this half-year report, also as a result of the outcome of criminal proceeding 29634/14 r.g.n.r. (General Criminal Records Registry) pending at the Court of Milan and involving the Parent Company as the party with civil liability as well as with the establishment of the new criminal proceedings in Milan no. 955/16 in which the Parent Company is defendant pursuant to Legislative Decree 231/01.

Out-of-court claims for the repayment of sums and/or compensation for damages by Shareholders and Investors of Banca Monte dei Paschi di Siena S.p.A. in relation to the 2008 and/or 2011 share capital increases

For complete disclosure, note that, in relation to capital increases and the allegedly incorrect information contained in the prospectuses and/or in the financial statements and/or in the price sensitive information issued by the Parent Company since 2008, at the date of this half-year report the Parent Company has received 729 requests, for a total of approximately EUR 650 mln in quantified claims, aimed at obtaining reimbursement of the amounts invested and/or compensation for monetary and non-monetary damages following the alleged losses suffered. Of said claims, around 10% filed civil suits (the majority of which as part of the case filed by Marangoni Arnaldo + 124 as mentioned above).

These claims - brought individually or collectively, through professionals or consumer associations - although heterogeneous, are mostly justified by generic references to the Parent Company's alleged violation of the industry legislation governing disclosure, and were rejected in that they were considered generic, unfounded, not backed by suitable documentary evidence, and in some cases past the statute of limitations.

Banca Monte dei Paschi di Siena S.p.A. vs. Fruendo

Following the transfer of the back office business unit to Fruendo S.r.l. in January 2014, involving 1,069 resources, 634 workers (later reduced to 598 due to waivers and deaths) initiated legal proceedings before the Courts of Siena, Rome, Mantua and Lecce to demand, among other things, the continuation of the employment relationship with BMPS, upon the declaration of ineffectiveness of the transfer agreement entered into with Fruendo S.r.l.

At the reference date of this half-year report, for 5 plaintiffs proceedings are pending in the first instance with hearings scheduled on 4 October 2017 and 9 November 2017, while for the other 593 rulings in the first and/or second instance have already been handed down against the Parent Company, giving the workers concerned the right to be rehired.

Specifically, for 159 workers a ruling in the first instance was handed down (at the Courts of Lecce and Rome) against which the Parent Company has already appealed (for 94, before the Courts of Appeals of Lecce and Rome, with hearings scheduled from 26 February 2018 to 3 May 2019) and/or will appeal within the appropriate time limits; on the other hand, for 434 workers, a ruling in the second instance was also handed down (at the Courts of Appeals of Florence, Rome and Brescia), against which the Parent Company has already submitted an appeal before the Court of Cassation and/or reserves the right to submit an appeal within the appropriate time limits.

For the sake of full disclosure, note that both before the courts of second instance and before the Supreme Court of Cassation, the Parent Company and Fruendo S.r.l. have filed a petition for submission to the European Court of Justice of preliminary matters that are essential for the purposes of a decision. In particular, an assessment was requested regarding the conformity with EC Directive 2001/23 of art. 2112 of the Italian Civil Code, as interpreted by the decisions of the Supreme Court of Cassation, with which the appealed judgments comply, and it also asked whether:

- the transfer of an economic entity, functionally autonomous though not pre-existing, as it was identified by the transferor and the transferee at the time of the transfer, would not allow for the automatic transfer of employment relationships pursuant to art. 2112 of the Italian Civil Code and therefore would require the consent of the workers concerned; and
- the automatic transfer of the employment relationships pursuant to art. 2112 of the Italian Civil Code would not be permitted and therefore if the consent of the workers concerned would be required if, in the case of the transfer of an economic entity carrying out bank back office activities, the transferring Bank maintained ownership of the applications and IT infrastructure, only granting them to the transferee for use for valuable consideration.

At the date of this half-year report, of the 593 parties entitled to be rehired by the Parent Company, 72 workers submitted an order requesting to be re-entered in the Bank's Payroll Ledger and to restore their insurance and contribution position, which the Bank objected to by appealing before the Labour Section of the Court of Siena (the hearings will be held on 13 September 2017).

Even if the Bank's objection does not bring about the desired effects, to date no economic impacts are expected for the Issuer from the integration of back pay to the workers rehired, as all plaintiffs maintained their wages enjoyed at BMPS at the time of transfer of the business unit and indeed, they did not suffer the wage decreases applied to the employees of Banca MPS, on the basis of the Union Agreements of 19 December 2012 and 24 December 2015.

Given the above, the Parent Company, jointly with Fruendo S.r.l., is analysing the matters arising from the unfavourable outcome of the labour dispute.

Lastly, please note that a number of workers (32) filed a lawsuit for the offence of wilful non-performance of a judge's ruling (art. 388 of the Criminal Code). As part of criminal proceedings no. 567/17 before the Court of Siena initiated following the above-mentioned lawsuit, the Public Prosecutor submitted a request for dismissal with respect to the parties under investigation Tononi Massimo, Viola Fabrizio, Falciai Alessandro and Morelli Marco, which the complainants objected to. On 12 July 2017, the hearing was held in chambers to decide on the objection to the request for dismissal, postponed to 20 September 2017 due to lack of notification.

Banca Monte dei Paschi di Siena S.p.A./civil action and third-party action of the Bank as civilly liable party- criminal proceedings relating to the "Alexandria" case

After the early termination of the agreements in relation to the transaction known as "Alexandria", as agreed in the out-of-court settlement executed with Nomura on 23 September 2015 (see the annual report as of 31 December 2015), the damages caused to the Parent Company by the performance of these agreements are definitively fixed in time. In particular, the Parent Company reduced its claim for damages to an amount not lower than EUR 866.3 mln (compared to an initial civil claim of approx. EUR 1 billion).

With reference to the criminal proceedings in relation to "Alexandria", after the service of the order of closing of the preliminary investigations, the Office of the Public Prosecutor at the Court of Milan sought the committal for trial of the former Top Management of Banca MPS and two members of the Management of Nomura for false corporate disclosures and market manipulation.

As regards the offences allegedly committed by the above-mentioned individuals, the Public Prosecutor also sought the committal for trial of Banca MPS and Nomura for administrative offences pursuant to Legislative Decree 231/2001.

In March 2016 this proceeding was combined with the other legal action pending before the Court of Milan in relation to the investigations concerning the Santorini, FRESH 2008 and Chianti Classico transactions.

By an order of 13 May 2016, the Preliminary Hearing Judge (in Italian, the "GUP") authorized the lodging and admissibility of the claims for damages of the offended parties against the entities already involved in the proceedings as defendants pursuant to Legislative Decree 231/2001.

On 2 July 2016, with the approval of the Public Prosecutor, the Parent Company filed a request for plea bargain in the criminal proceedings, in relation to the objections made against the Bank in accordance with Legislative Decree 231/2001.

After the request for plea bargain, the Parent Company's position was closed. With the plea bargain, accepted by the Preliminary Hearing Judge on 14 October 2016, the Parent Company exits the proceedings as defendant in the administrative offence following crimes committed by its own former executives, limiting the consequences to an administrative financial penalty of EUR 600 thousand and a confiscation, for EUR 10 mln, without exposing itself to the risk of higher penalties.

Lastly, with regard to the above, on 1 October 2016 the Preliminary Hearing Judge ordered the committal for trial of the defendants other than the Parent Company. At the hearing on 15 December 2016, the civil parties, those already admitted in the previous "Alexandria" proceedings as well as the new civil parties, requested that Banca MPS, Nomura and Deutsche Bank be summoned as civilly liable parties in relation to the offences with which the former directors and executives committed for trial were charged.

Following an extensive closed session meeting, the Court summoned the banks as civilly liable parties, providing the notification deadline to the parties of 10 January 2017, allowing for the completion of notifications at the latest by 31 January 2017 and scheduling the hearing for 21 February 2017.

At the hearing on 21 February 2017, the Parent Company appeared before the court as a civilly liable party.

During the proceedings, by order of 06/04/2017 the Court of Milan decided on the requests for the exclusion of civil parties submitted by the defence teams of the defendants and the civilly liable parties, excluding several civil parties.

In addition, the claim of damages as a civil party by the Parent Company with respect to Giuseppe Mussari, Antonio Vigni, Daniele Pirondini and Gian Luca Baldassarri was also excluded on the assumption of its contributory liability with respect to the defendants.

At the reference date of this half-year report, a total of 1,243 civil parties have acted against the Parent Company.

As things stand within the above-mentioned proceedings, testimony is currently being taken by the Criminal Investigators.

In addition, also with reference to the Santorini and Alexandria transactions, on 12 May 2017 the committal for trial of the representatives Alessandro Profumo, Viola Fabrizio and Salvadori Paolo was requested within new criminal proceedings before the Court of Milan no. 955/16 RGNR (General

Criminal Records Registry), in which the former representatives were charged with false corporate disclosures (art. 2622 of the Italian Civil Code) and market manipulation (art. 185 of the Consolidated Law on Finance), with reference to the Bank's financial statements and half-year reports for the period from 31 December 2012 to 30 June 2015.

The Parent Company is also defendant pursuant to Legislative Decree 231/01 for the same acts with which the above-mentioned representatives were charged.

Within these proceedings, on 5 July 2017 the preliminary hearing was held, during which several hundred natural persons and a number of trade associations (roughly 300) asked to appear before the court as civil parties.

The Preliminary Hearing Judge postponed the proceedings to 29 September 2017 for the deliberation of the requests of the civil parties as well as the extension of the charge of the Parent Company pursuant to Legislative Decree 231/01.

Therefore, a situation similar to the first proceedings under way before the Court of Milan is likely, in which the Parent Company will almost certainly be held liable as a civilly liable party with reference to the claims for compensation of the shareholders/investors.

Risks from tax disputes

Among the cases associated with tax disputes which regard the Group, those in which the risk of losing is considered likely are limited in number and adequate provisions have been made to the Reserve for risks and charges.

Please note that on 23 May 2017, the Revenue Agency, Tuscany Regional Directorate, initiated an IRES, VAT and withholdings audit of the absorbed company Consum.it S.p.A. regarding the 2014 tax period. The audit is still ongoing and no significant disputes are expected.

Financial risks of investment services

The financial risks regarding investment services, for the Group, are a direct and indirect result of the risks incurred by customers in relation to the performance of services and investment activities. Consequently, governance of these risks is aimed at protecting customers and, simultaneously, preventing any potential negative impacts on the Group in terms of operational and reputational risk.

Risk assessment model

With regard to the Financial Risk measurement methods concerning Investment Services, there are no significant methodological changes to report compared to what was already outlined in the 2016 Notes to the Consolidated Financial Statements. "Wealth risk management" regards the overall set of operational and management processes as well as measurement and monitoring tools/methods used to ensure overall consistency between customers' risk profiles and the risk of investment products and portfolios offered to - or in any case held by - customers.

The investment products (of the Group and of third parties), whether or not included in the overall offering to the Group's customers, are mapped for risk on the basis of quantitative measurements of market and credit risk factors; liquidity and complexity assessments are also conducted on these products. Product mapping is one of the guiding criteria for carrying out investment adequacy checks as part of the consulting service offered.

The strategic choice of the Parent Company is to systematically combine the placement of financial products with advisory so as to ensure the highest level of protection for the investor and, at the same time, enhance the role played by relationship managers. Again, with a view to protecting customers, the obligation to verify appropriateness has also been extended to the trading activities on the secondary market of the certificates issued by the Group.

The advisory service is offered by the Parent Company on the basis of two different methods:

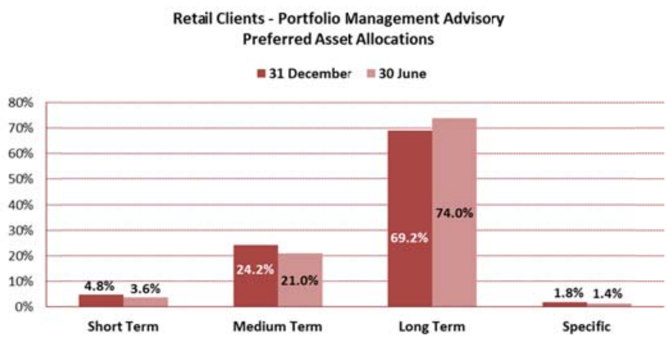
- ✓ “Basic” transactional advisory is aimed at verifying the suitability of the individual investments recommended in relation to the risk of the customer’s investment portfolio as a whole, by adopting a multi-variable control approach to the individual risk factors.
- ✓ “Advanced” advisory is instead aimed at verifying the suitability of the overall set of transactions, advising on them based on their impact on a suggested investment portfolio of the customer in order to obtain optimum asset allocation and maximised prospective returns over a certain time horizon, given the customer’s risk profile.

Wealth risk management activities cover the entire distribution perimeter of the network of Group branches, the investment services operated by Banca Widiba and by MPS Capital Services.

Risk exposure

The graphs below provide a percent comparison between December 2016 and June 2017 of the Indicators issued by customers in completing the MiFID questionnaire (Investment Objectives and Time Horizon).

At the end of June 2017, 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, especially long-term, asset allocation macro-classes.



Results by operating segment

Identification of operating segments

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

The new Parent Company structure was outlined at the end of 2016 within the scope of the broader objectives of the Plan and was fully implemented at the start of 2017. It envisages the implementation of a specialised commercial organisational model with three Departments (Retail, Wealth Management and Corporate), each of which is responsible for the pertinent markets, segments and products. In particular, in terms of innovative elements, please note: the creation of the Wealth Management Department, focusing on monitoring and developing customers of high standing and Banca WIDIBA SpA, which has taken on relevance as an autonomous business segment.

Based on the Group's organisational structures in place as at 30 June 2017 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);
- **Wealth Management**, which includes the sales activities of Private Banking customers (Private Banking and Family Office segments) and the subsidiary MPS Fiduciaria;
- **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;
- **Banca Widiba SpA**, which includes the Network of financial advisors 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.

The comparison periods were restated retrospectively to reflect the current segment reporting structure.

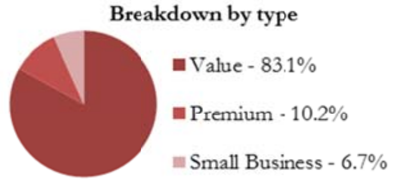
Results in brief

The following table reports the main income statement and balance sheet items that characterised the Group's Operating Segments as at 30 June 2017.

SEGMENT REPORTING	Business Segments											
Primary segment	Retail banking		Wealth Management		Corporate banking		Widiba		Corporate Center		Total MPS Group	
(EUR mln)	30/06/17	Chg % Y/Y	30/06/17	Chg % Y/Y	30/06/17	Chg % Y/Y	30/06/17	Chg % Y/Y	30/06/17	Chg % Y/Y	30/06/17	Chg % Y/Y
PROFIT AND LOSS AGGREGATES												
Total Revenues	1.347,6	-15,3%	87,3	-14,6%	597,7	-29,1%	22,0	5,3%	(201,9)	-5,2%	1.852,7	-21,0%
Operating expenses	(902,3)	-1,8%	-33,5	-1,7%	-314,1	0,0%	-30,8	1,8%	13,9	-23,1%	(1.266,7)	-0,9%
Pre Provision Profit	445,3	-33,8%	53,8	-21,1%	283,6	-46,4%	-8,8	-6,2%	(187,9)	-3,5%	586,0	-45,0%
Net impairment losses (reversals) on loans and financial assets	(1.991,0)	n.s.	-3,2	n.s.	-2.556,3	n.s.	-0,1	n.s.	(127,4)	n.s.	(4.677,9)	n.s.
Net Operating Income	(1.545,7)	n.s.	50,7	-24,3%	-2.272,7	n.s.	-8,9	28,1%	(315,3)	40,4%	(4.091,9)	n.s.
BALANCE SHEET AGGREGATES												
Interest-bearing loans to customers (*)	42.030,3	-9,0%	585,6	-4,1%	39.848,6	-15,0%	97,9	n.s.	5.119,2	59,3%	87.681,6	-9,6%
Deposits from customers and debt securities issued	42.085,1	-18,3%	2.806,7	-33,2%	15.804,8	-24,5%	1.738,3	5,9%	44.109,0	30,7%	106.543,9	-4,9%
Indirect funding	46.687,6	0,6%	17.387,1	-5,8%	13.198,8	2,2%	5.248,4	7,2%	14.107,4	-6,2%	96.629,4	-1,1%
Assets under management	*36.310,0*	*5,6%*	*12.031,8*	*-4,1%*	*1.665,9*	*11,4%*	*4.735,2*	*10,6%*	*2.860,2*	*1,9%*	57.603,0	*3,8%*
Assets under custody	*10.377,6*	*-13,6%*	*5.355,3*	*-9,4%*	*11.532,9*	*1,0%*	*513,2*	*-16,6%*	*11.247,2*	*-8,0%*	39.026,4	*-7,5%*

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

Retail Banking

Business areas	Customers
• Funding and provision of insurance products. • Lending. • Financial advisory services. • Electronic payment services.	Retail customers number approximately 4.8 mln.
	Breakdown by type 
	Breakdown by geography 

Income statement and balance sheet results

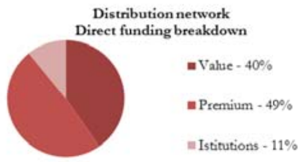
As at 30 June 2017, the **Total Funding** of Retail Banking totalled roughly **EUR 88.8 bn**, down by around EUR -0.9 bn compared to the end of 2016, but substantially unchanged with respect to the end of March 2017, with offsetting trends between the decrease in Direct Funding and the growth in Indirect Funding. More specifically:

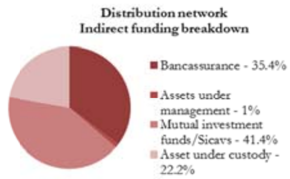
- **Direct Funding** came to **EUR 42.1 bn**, marking a decline of EUR -1.2 bn compared to the end of December, with a recovery in demand and short-term forms and a decline in medium/long-term forms, also influenced by bond maturities during the half. It was substantially in line with 31 March (EUR -0.3 bn Q/Q), with respect to which there was a continuation of growth in the demand and short-term component, offset by the drop in medium/long-term (EUR -1.3 bn).

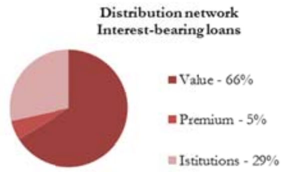
- **Indirect Funding**, amounting to approx. **EUR 46.7 bn**, increased compared to the end of December 2016 (EUR +0.3 bn), thanks to the upward trend in asset management (EUR +0.9 bn), offset by the decrease in assets under custody (EUR -0.7 bn). The quarterly trend was similar (EUR +0.3 bn of which EUR +0.7 bn under management and EUR -0.4 bn under custody).

Interest-bearing loans to customers of Retail Banking decreased from approx. EUR 44.1 bn at the end of December to **EUR 42.0 bn** as at 30 June 2017; they were down EUR 1.3 bn for the quarter (-3.1% Q/Q), primarily on medium/long-term forms, which were also impacted by the half-yearly maturities.

RETAIL BANKING - BALANCE SHEET AGGREGATES										
(Eur mln)	30/06/17	31/03/17	31/12/16	30/06/16	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	**42,085**	**42,395**	**43,254**	**51,513**	**-310**	**-0.7%**	**-1,169**	**-2.7%**	**-9,428**	**-18.3%**
Assets under management	*36,310*	*35,627*	*35,385*	*34,381*	*683*	*1.9%*	*925*	*2.6%*	*1,929*	*5.6%*
Assets under custody	*10,378*	*10,769*	*11,043*	*12,015*	*-391*	*-3.6%*	*-666*	*-6.0%*	*-1,637*	*-13.6%*
Indirect Funding	**46,688**	**46,396**	**46,428**	**46,396**	**292**	**0.6%**	**260**	**0.6%**	**292**	**0.6%**
Total Funding	**88,773**	**88,791**	**89,682**	**97,909**	**-18**	**0.0%**	**-910**	**-1.0%**	**-9,137**	**-9.3%**
Interest-Bearing Loans to Customers	**42,030**	**43,378**	**44,122**	**46,203**	**-1,348**	**-3.1%**	**-2,091**	**-4.7%**	**-4,172**	**-9.0%**







With regard to profit and loss, in the first half of 2017 Retail Banking achieved total **Revenues** of approx. **EUR 1,348 mln**, down 15.3% compared to the same period of last year. A breakdown of the aggregate shows:

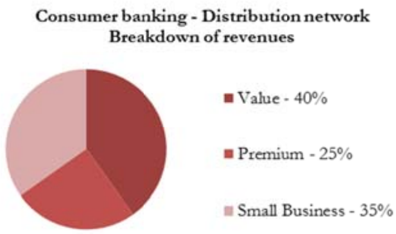
- Net Interest Income was approximately EUR 635 mln, down 26.4% annually due mainly to the decrease in returns on commercial assets (volumes and rates), and the reduction in the contribution of funding (essentially the effect of lower volumes of direct funding by EUR -9.4 bn).
- Net fee and commission income totalled roughly EUR 686 mln, down with respect to the previous year (-2.7%), within which there was growth in the component from products, while income from lending and to a lesser extent commissions from services declined.

Considering the impact of operating expenses, which decreased by 1.8% Y/Y, Retail Banking generated a **Gross Operating Income** of about **EUR 445 mln** in the first six months of 2017 (-33.8% Y/Y). Net impairment losses (reversals) on loans and financial assets totalled **EUR -2.0 bn** (EUR -0.3 bn as at 30 June 2016), penalised by the adjustment of provisions on “transferred” doubtful loans to their recoverable value (EUR -1,699 bn).

Year to date, the **Net Operating Income** is **negative by approximately EUR -1.5 bn**.

The **cost-income** ratio of the Operating Segment is **67.0%** (57.7% at the end of June 2016).

RETAIL BANKING - PROFIT AND LOSS AGGREGATES				
			Chg. Y/Y	
(EUR mln)	30/06/17	30/06/16	Abs.	%
Net interest income	*634.9*	*862.7*	*-227.8*	*-26.4%*
Net fee and commission income	*685.8*	*705.0*	*-19.1*	*-2.7%*
Other income	*20.2*	*20.3*	*-0.1*	*-0.7%*
Other operating expenses/income	*6.6*	*3.1*	*3.5*	*n.s.*
Total revenues	**1,347.6**	**1,591.1**	**-243.6**	**-15.3%**
Operating expenses	*(902.3)*	*(918.5)*	*16.3*	*-1.8%*
Pre Provision Profit	**445.3**	**672.6**	**-227.3**	**-33.8%**
Net impairment losses (reversals) on loans and financial assets	(1,991.0)	(340.8)	-1,650.2	n.s.
Net Operating Income	**(1,545.7)**	**331.8**	**-1,877.5**	**n.s.**



Wealth Management

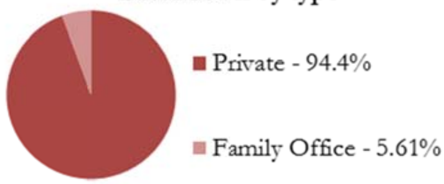
Business areas

- 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 38 thousand private customers.

Breakdown by type



Breakdown by geography

Income statement and balance sheet results

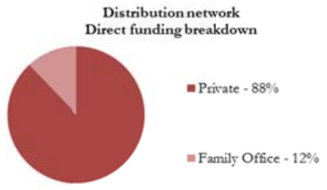
As at 30 June 2017, **Total Funding** for Wealth Management amounted to approximately **EUR 20.2 bn**, down by roughly EUR 0.8 bn from the levels recorded at the end of December (and approx. EUR -0.4 bn from 31 March 2017). The quarter was characterised by a reduction in the indirect component, while the direct component was stable. More specifically:

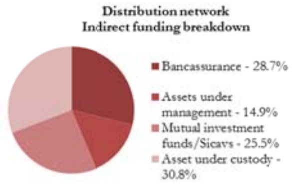
- **Direct Funding** as at 30 June remained at the same levels as the end of 2016 and March 2017, reaching **EUR 2.8 bn**, with a shift towards demand and short-term components, offsetting the downturn in medium/long-term components.
- **Indirect Funding**, amounting to about **EUR 17.4 bn**, was down by EUR 0.9 bn as compared to 31 December 2016 and EUR 0.4 bn over March 2017 for the components under management and under custody.

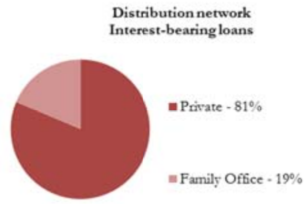
Interest-bearing loans to Wealth Management customers were basically stable with respect to 31 December 2016 and March 2017, reaching roughly **EUR 0.6 bn**.

WEALTH MANAGEMENT - BALANCE SHEET AGGREGATES

(EUR mln)	30/06/17	31/03/17	31/12/16	30/06/16	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	**2,807**	**2,848**	**2,785**	**4,200**	**-41**	**-1.4%**	**22**	**0.8%**	**-1,394**	**-33.2%**
Assets under management	*12,032*	*12,308*	*12,634*	*12,552*	*-276*	*-2.2%*	*-602*	*-4.8%*	*-520*	*-4.1%*
Assets under custody	*5,355*	*5,487*	*5,609*	*5,909*	*-132*	*-2.4%*	*-254*	*-4.5%*	*-554*	*-9.4%*
Indirect Funding	**17,387**	**17,795**	**18,242**	**18,461**	**-407**	**-2.3%**	**-855**	**-4.7%**	**-1,074**	**-5.8%**
Total Funding	**20,194**	**20,642**	**21,028**	**22,661**	**-448**	**-2.2%**	**-834**	**-4.0%**	**-2,468**	**-10.9%**
Interest-Bearing Loans to Customers	**586**	**598**	**590**	**611**	**-13**	**-2.1%**	**-4**	**-0.7%**	**-25**	**-4.1%**







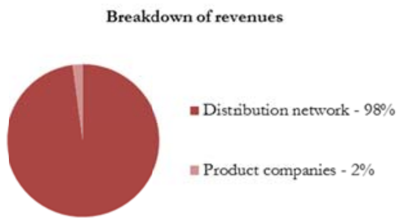
With regard to profit and loss, in the first half of 2017 Wealth Management achieved total **Revenues** of approx. **EUR 87 mln**, down 14.6% compared to the same period of last year. A breakdown of the aggregate shows:

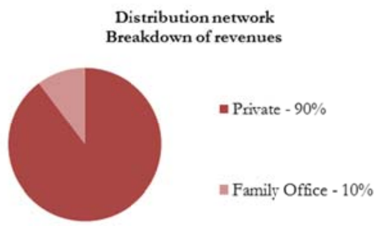
- As at 30 June 2017, Net Interest Income was approximately EUR 18 mln, down 22.1% annually, impacted to a large extent by the drop in the contribution of direct funding (primarily as a result of withdrawals, -33.2% Y/Y);
- in the first six months of 2017, Net Fee and Commission income totalled approximately EUR 69 mln, also down compared to the levels of the previous year (-12.2%) as a result of the decline in the product segment, for the continuing operations and placement components.

Considering the impact of operating expenses, which decreased by 1.7% Y/Y, Wealth Management generated **Gross Operating Income** of about **EUR 54 mln** in the first half of 2017 (-21.1% Y/Y). Including net impairments losses (reversals) on loans and financial assets equal to about EUR 3.2 million, the **Net Operating Income** since the start of the year totalled **roughly EUR 51 mln**.

The **cost-income** ratio of the Operating Segment is **38.3%** (33.3% at the end of June 2016).

WEALTH MANAGEMENT - PROFIT AND LOSS AGGREGATES				
			Chg. Y/Y	
(EUR mln)	**30/06/17**	**30/06/16**	**Abs.**	**%**
Net interest income	*18,1*	*23,2*	*-5,1*	*-22,1%*
Net fee and commission income	*68,7*	*78,3*	*-9,5*	*-12,2%*
Other income	*0,4*	*0,7*	*-0,3*	*-39,0%*
Other operating expenses/income	*0,1*	*0,1*	*0,0*	*n.s.*
Total Revenues	**87,3**	**102,2**	**-15,0**	**-14,6%**
Operating expenses	*(33,5)*	*(34,1)*	*0,6*	*-1,7%*
Pre Provision Profit	**53,8**	**68,2**	**-14,4**	**-21,1%**
Net impairment losses (reversals) on loans and financial assets	(3,2)	(1,3)	-1,8	n.s.
Net Operating Income	**50,7**	**66,9**	**-16,2**	**-24,3%**

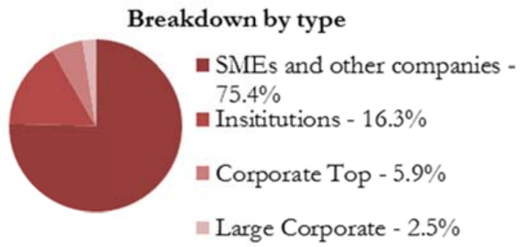
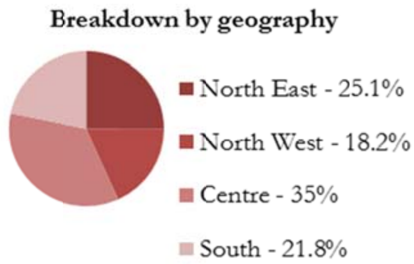




Results of the main subsidiaries

- **MPS Fiduciaria**: Profit for the period of approximately EUR 0.03 mln, down compared to the levels recorded as at June 2016 (-82.6% Y/Y).

Corporate Banking

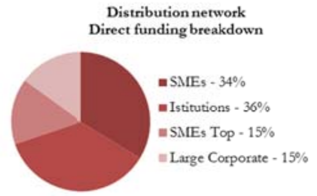
Business areas	Customers
• Lending and offering financial products and services to businesses, including through strategic partnerships with trade associations and Confidi (credit guarantee consortia), with Guarantee Institutions (including public) and Institutional Entities, through which funding is 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 Belgium. • 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).	About 52,900 Corporate and large group customers of the Parent Company, directly followed by Corporate Banking.  

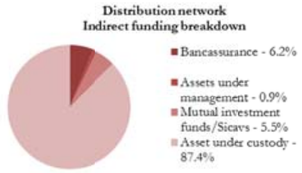
Income statement and balance sheet results

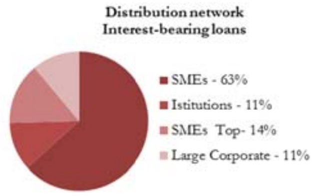
Volumes of Corporate Banking **Total Funding** recorded growth of approx. EUR 3.8 bn, from EUR 25.2 bn at the end of December to **EUR 29.0 bn** as at 30 June 2017. The quarterly trend in this aggregate (EUR +1.4 bn; +4.9%) was due to the increase in direct funding (EUR +1.8 bn Q/Q) on demand/short-term forms (EUR +1.9 mln), while the medium/long-term component was basically stable.

With regard to lending, as at 30 June 2017, Corporate Banking **interest-bearing loans to customers** stood at approximately **EUR 39.8 bn** (-5.0% on 31 December 2016 and -4.1% on 31 March 2017), mainly concentrated in medium-long-term loans.

CORPORATE BANKING - BALANCE SHEET AGGREGATES										
(EUR mln)	30/06/17	31/03/17	31/12/16	30/06/16	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	**15,805**	**13,980**	**11,567**	**20,940**	**1,825**	**13.1%**	**4,238**	**36.6%**	**-5,136**	**-24.5%**
Assets under management	*1,666*	*1,710*	*1,617*	*1,495*	*-44*	*-2.6%*	*48*	*3.0%*	*171*	*11.4%*
Assets under custody	*11,533*	*11,954*	*11,973*	*11,423*	*-421*	*-3.5%*	*-440*	*-3.7%*	*110*	*1.0%*
Indirect Funding	**13,199**	**13,664**	**13,590**	**12,918**	**-465**	**-3.4%**	**-392**	**-2.9%**	**281**	**2.2%**
Total Funding	**29,004**	**27,644**	**25,157**	**33,858**	**1,360**	**4.9%**	**3,847**	**15.3%**	**-4,855**	**-14.3%**
Interest-Bearing Loans to Customers	**39,849**	**41,554**	**41,943**	**46,902**	**-1,706**	**-4.1%**	**-2,094**	**-5.0%**	**-7,053**	**-15.0%**







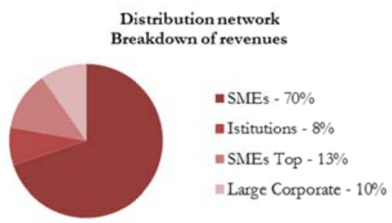
For profit and loss aggregates, in the second quarter of 2017 Corporate Banking **Revenues** came to approx. **EUR 598 mln** (-29.1% Y/Y). A breakdown of the aggregate shows:

- Net Interest Income was approximately EUR 352 mln, down 31.1% annually due to the decrease in returns on commercial assets (volumes and rates, the latter down by roughly 18% Y/Y);
- Net fee and commission income decreased by 15.1% Y/Y, amounting to approximately EUR 187 mln, mainly penalised by the downward trend in proceeds from Credit/Foreign services, also impacted by the reduction in operating volumes;
- Other Revenue from banking and insurance business amounted to approximately EUR 57 mln (-53.0% Y/Y), with the drop attributable to the operations of the subsidiary MPS Capital Services.

Considering the impact of operating expenses, in line Y/Y, the Gross Operating Income came to about **EUR 284 mln** (-46.4% Y/Y). The **Net Operating Income** for this Segment was equal to **approx. EUR -2,273 mln** (the result as at 30 June 2016 was EUR 181 mln), as a result of the deterioration of impairment losses (reversals) on loans and financial assets (EUR -2,556 mln), penalised by the adjustment of provisions on "transferred" doubtful loans to their recoverable value (EUR -2,218 mln).

The Corporate Banking **cost-income** ratio stands at **52.6%** (37.2% as at 30 June 2016).

CORPORATE BANKING - PROFIT AND LOSS AGGREGATES				
			Chg. Y/Y	
(EUR mln)	30/06/17	30/06/16	Abs.	%
Net interest income	*352,2*	*511,3*	*-159,1*	*-31,1%*
Net fee and commission income	*186,9*	*220,3*	*-33,3*	*-15,1%*
Other income	*56,9*	*121,1*	*-64,2*	*-53,0%*
Other operating expenses/income	*1,7*	*(9,6)*	*11,2*	*n.s.*
Total Revenues	**597,7**	**843,1**	**-245,5**	**-29,1%**
Operating expenses	*(314,1)*	*(314,1)*	*0,0*	*0,0%*
Pre Provision Profit	**283,6**	**529,1**	**-245,5**	**-46,4%**
Net impairment losses (reversals) on loans and financial assets	(2.556,3)	(347,8)	-2.208,5	n.s.
Net Operating Income	**(2.272,7)**	**181,3**	**-2.454,0**	**n.s.**



Results of the main subsidiaries

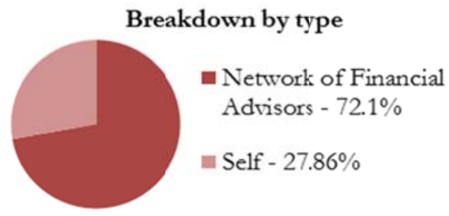
- **MPS *Capital Services***: loss for the period of roughly EUR -622.4 mln, a significant difference from the result as at 30 June 2016 (profit of approx. EUR 49.5 mln) due to the contraction in all components, but in particular growth of net impairment losses (EUR -698 mln Y/Y) penalised by the adjustment of provisions on "transferred" doubtful loans to their recoverable value (EUR -717 mln).

- **MPS *Leasing & Factoring***: loss before taxes of roughly EUR -56.9 mln (EUR -32.0 mln compared to the previous year) due to the growth of net impairment losses (penalised by the adjustment of provisions on "transferred" doubtful loans to their recoverable value for EUR -18 mln) and a slight increase in revenues. The net loss for the period came to EUR -58.2 mln, a deterioration of EUR 42.9 mln compared to the previous year.

- **Foreign banks**[5]: in the first six months of 2017, **MP Banque** recorded a profit of EUR 4.9 mln compared to a loss of EUR -1.3 mln recorded in the corresponding period last year; with regard to **MP Belgio**, the profit for the period amounted to roughly EUR 12.5 mln, compared to a profit of approx. EUR 3.2 mln as at 30 June 2016, up Y/Y thanks to the capital gain recorded from the sale of the office.

[5] *The profit reported for foreign subsidiaries is local.*

Banca Widiba

<table>
<tr><th>Business areas</th><th>Customers</th></tr>
<tr><td rowspan="3">- 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 619 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.</td><td>There were roughly 175,000 customers as at 30 June 2017, of which around 126,300 in the Network of Financial Advisors channel and around 48,700 in the self-service channel. There were approx. 148,400 customers managed exclusively by Banca Widiba SpA.</td></tr>
<tr><td>
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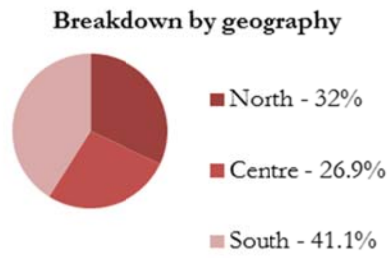
<tr><td>
</td></tr>
</table>

Income statement and balance sheet results

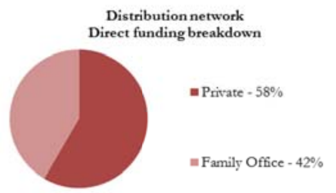
As at 30 June 2017, **Total Funding** for Widiba amounted to approximately **EUR 7.0 bn**, up by roughly EUR 0.3 bn from the levels recorded at the end of December 2016 (approx. EUR +0.5 bn from 30 June 2016), with a half-year trend characterised by growth in the direct component and in assets under management and net growth in the customer base during the half of roughly +13,800. More specifically:

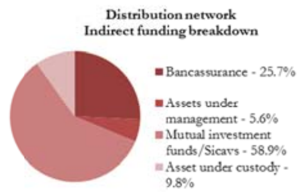
- **Direct Funding** of **EUR 1.7 bn**, after the difficult market environment in the final quarter of 2016 deriving from the negative outcome of the Parent Company's recapitalisation transaction, recorded a net recovery in volumes during the half (EUR +175 mln with respect to the end of December 2016, of which EUR +110 mln recorded in the second quarter, and EUR +98 mln compared to June 2016) for current accounts as well as restricted credit lines. The main commercial initiatives in the first half of the year were: promotional rates only for new customers and retention campaigns and Fresh Money development dedicated to existing customers; development of customers with a focus on high value-added actions; consolidation of assistance processes to support the business and customers through the Widiba Media Centre structure;
- **Indirect Funding**, amounting to approx. **EUR 5.2 bn**, increased by EUR 0.2 bn compared to the end of December 2016 (and by approx. EUR +0.4 bn from June 2016), thanks to the positive commercial performance of the Network of Financial Advisors, which recorded an upswing in net flows during the half. Please note in particular the extremely positive trend of Assets under management in the funds and UCITS component. Within the Network of Financial Advisors, training activities continue with an increasing focus on Advisory services based on the new WISE platform (the new global advisory model). During the half, new Financial Advisors were hired.

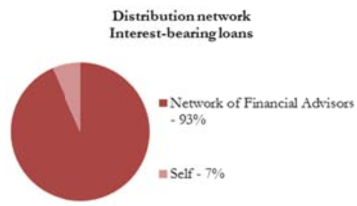
Interest-bearing loans to Widiba customers rose from roughly EUR 44 mln at the end of December 2016 to **EUR 98 mln** as at 30 June 2017. This growth refers primarily to the launch of the offer of Widiba mortgages with roughly EUR 53 mln in new loans during the half. The Widiba mortgage (first 100% paperless mortgage in Italy) won two important national awards in the first quarter of 2017 (ABI Innovation Award and AIFIN Cerchio d'Oro Award).

WIDIBA BANK - BALANCE SHEET AGGREGATES

(EUR mln)	30/06/17	31/03/17	31/12/16	30/06/16	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	**1,738**	**1,628**	**1,563**	**1,641**	**110**	**6.8%**	**175**	**11.2%**	**98**	**5.9%**
Assets under management	*4,735*	*4,749*	*4,557*	*4,281*	*-14*	*-0.3%*	*178*	*3.9%*	*454*	*10.6%*
Assets under custody	*513*	*521*	*538*	*616*	*-7*	*-1.4%*	*-25*	*-4.7%*	*-102*	*-16.6%*
Indirect Funding	**5,248**	**5,270**	**5,096**	**4,897**	**-22**	**-0.4%**	**153**	**3.0%**	**352**	**7.2%**
Total Funding	**6,987**	**6,898**	**6,659**	**6,537**	**88**	**1.3%**	**328**	**4.9%**	**449**	**6.9%**
Interest-Bearing Loans to Customers	**98**	**57**	**44**	**48**	**41**	**72.6%**	**54**	**121.8%**	**50**	**103.7%**







With regard to profit and loss, in the first half of 2017 Widiba achieved total **Revenues** of approx. **EUR 22 mln**, up (EUR +1.1 mln; +5.3%) compared to the same period of last year. The contribution of 2Q2017 was down slightly compared to the previous quarter (EUR -1.4 mln) due to the lower net fee and commission income, partially offset by growth in net interest income. A breakdown of the aggregate shows:

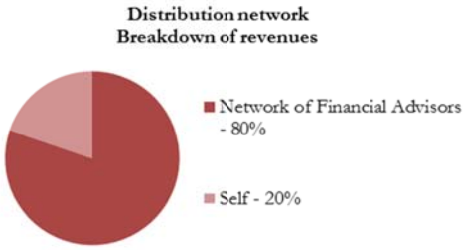
- as at 30 June 2017, **Net Interest Income** was approximately EUR 14 mln, down 2.5% with respect to the first half of 2016 due to the drop in securities lending transactions with customers (due mainly to regulatory changes). With reference to the other commercial components of net interest income, the values were substantially aligned, with a lower lending rate on financial loans offset almost entirely by a lower cost of Funding and higher volumes. There was a robust recovery in the 2Q2017 contribution (EUR +0.4 mln) compared to the levels of the previous quarter and those of 2Q2016 (EUR +0.2 mln);
- **Net fee and commission income** in the first half of 2017, totalling around EUR 8 mln, was up significantly compared to the first half of 2016 (EUR +1.8 mln; +31%) as well as the previous quarter (+30%), mainly due to higher income from placement (thanks to the positive sales performance of the Network of Financial Advisors) and the continuing operations of Asset management products (higher average volumes under management).

Operating Expenses rose by 1.8% compared to the first half of 2016, exclusively due to higher amortisation linked to Widiba banking platform and global advisory platform (WISE) investments. Indeed, both personnel expenses and other administrative expenses declined (-4% and -1%, respectively). In particular, for this last aggregate, commercial costs referring to the acquisition of new customers were confirmed as considerably lower, even against a significant rise in the number of requests to open accounts (+56% compared to the first half of 2016), therefore determining a unit cost of acquisition much lower than that of the first half of 2016.

The **Gross Operating Income** therefore came to **EUR -8.8 mln**, an improvement of EUR +0.6 mln (+6.2%) compared to the first half of 2016.

The **Net Operating Income** in the first half of 2017 totalled **EUR -8.9 mln**, a deterioration with respect to the same period of 2016 (EUR -1.9 mln), which benefitted from write-backs on receivables equal to EUR 2.4 mln.

WIDIBA BANK - PROFIT AND LOSS AGGREGATES				
			Chg. Y/Y	
(EUR mln)	30/06/17	30/06/16	Abs.	%
Net interest income	*14,4*	*14,8*	*-0,4*	*-2,5%*
Net fee and commission income	*7,8*	*5,9*	*1,8*	*30,9%*
Other income	*0,0*	*0,0*	*0,0*	*-41,9%*
Other operating expenses/income	*(0,1)*	*0,2*	*-0,4*	*n.s.*
Total Revenues	**22,0**	**20,9**	**1,1**	**5,3%**
Operating expenses	*(30,8)*	*(30,3)*	*-0,5*	*1,8%*
Pre Provision Profit	**(8,8)**	**(9,3)**	**0,6**	**-6,2%**
Net impairment losses (reversals) on loans and financial assets	(0,1)	2,4	-2,5	n.s.
Net Operating Income	**(8,9)**	**(6,9)**	**-1,9**	**28,1%**



Corporate Centre

The Corporate Centre includes:

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

In addition to cancellation of intragroup entries, the Corporate Centre also collects the results of companies consolidated with 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

Growth in global economic activity remained sustained in the initial months of the year, despite a temporary drop in global GDP growth during the first quarter of 2017. Global trade trends improved significantly, driven primarily by the increase in trade of emerging economies. In general, the financial markets showed signs of stability and low risk aversion. Financial conditions in emerging economies are also benefitting from improved outlooks for global growth, with a recovery of capital inflows.

Economic expansion continues to consolidate and extend to various sectors and countries in the Eurozone, where growth is supported mainly by domestic demand, although some positive external forces are contributing to an ever increasing extent to improving forecasts. Compared to March 2017, the macroeconomic projections formulated in June by Eurosystem experts were revised upwards and envisage real GDP growth of 1.9% in the Eurozone in 2017.

After the Governing Council's monetary policy meeting held in March 2017, yields on Eurozone government bonds decreased slightly, highlighting a certain degree of volatility during the period. Spreads on corporate bonds reduced slightly and remain at levels lower than the beginning of March 2016, when the corporate sector bond buying programme was announced (Corporate Sector Purchase Programme, CSPP).

The ECB's monetary policy measures continued to preserve very favourable lending conditions, which are necessary to ensure the long-lasting convergence of inflation rates towards levels lower than but close to 2 percent in the medium term. This is demonstrated by the continuation of very low bank interest rates. Likewise, the issue of monetary policy measures continues to provide significant support to loan conditions for businesses and households.

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

As concerns the disposal of the platform of doubtful loans, please note that a binding agreement was reached with Cerved Group S.p.A. ("Cerved") and Quaestio Holding SA ("Quaestio"). The transaction envisages the disposal to a company established ad hoc by Cerved and Quaestio of the platform for the collection of doubtful loans of BMPS and the subscription of a long-term servicing agreement for the outsourced management of future flows of doubtful loans of all of the Group's Italian banks. The consideration of the disposal is EUR 52.5 mln, in addition to a possible earn out of up to EUR 33.8 mln, based on the achievement of economic results in the timespan until 2025. The closing of the transaction, expected to take place by the end of the first quarter of 2018, is subject to the approval of the supervisory authority as well as the completion of the precautionary recapitalisation procedure set forth in the Restructuring Plan and the securitisation of the doubtful loans of BMPS, with the subscription of mezzanine notes by funds managed by Quaestio.

The Capital Plan approved by the Board of Directors on 2 August 2017 highlighted that the actions planned in the Restructuring Plan, in particular the transfer of the acquiring business, the precautionary recapitalisation, the generation of profit in the income statement and the issue of subordinated Tier 2 notes, will enable the Group to deal with the impacts of the securitisation transaction and the transfer of the doubtful loans portfolio and to bring the regulatory ratios back above the required thresholds after the deconsolidation of the above-mentioned doubtful loans subject to securitisation and transfer.

On 3 August 2017, an agreement was signed between the Group and the trade unions with regard to the "Solidarity Fund for professional retraining and requalification, for the support of employment and the income of credit personnel", which envisages the exit of a further 1,200 resources in 2017 in addition to the 600 exits already completed as at 1 May 2017, in line with the targets of the Restructuring Plan, which requires, *inter alia*, a headcount reduction across all of the Group's organisational structures by around 5,500 resources, to be carried out primarily through exit support measures (roughly 4,800 through the activation of the "Solidarity Fund"). The agreement provides that the period for joining the "Solidarity Fund" on a voluntary basis will roughly begin at the end of August.

Related-party transactions

Compensation of key management personnel

Items/Amounts	Total 30 06 2017	Total 30 06 2016
Short-term benefits	4.9	3.8
Post-retirement benefits	-	-
Other long-term benefits	-	-
Termination benefits	-	-
Share-based payments	-	-
Other compensation	-	-
Total	**4.9**	**3.8**

Considering the instructions provided by accounting standard IAS 24 and in light of the current organisational structure, the Group has opted for the disclosure scope to include not only Directors, Statutory Auditors, the General Manager and Deputy General Managers, but also other Key Management Personnel.

For detailed information regarding remuneration policies, please refer to the document "Remuneration Report pursuant to art. 123 ter of the Consolidated Law on Finance" which contains the data specified below and reported in the financial statements, including:

- a detailed breakdown of compensation paid to the Governing and Control bodies, General Managers and, in aggregate form, to Key Management Personnel;
- quantitative information on the remuneration of "Key employees";
- monetary incentive plans in favour of members of the Administration and Control Body, the General Managers, the Deputy General Managers and other Key Management Personnel;
- information on the equity investments of members of the Administration and Control Body, the General Managers and other Key Management Personnel.

The following tables summarise the relationships and economic effects of transactions carried out in the first half of 2017 with associates, key management personnel and other related parties as at 30 June 2017.

Related-party transactions: balance sheet items

	Value as at 30 06 2017					
	joint venture	Associated companies	Executives with strategic responsibility	Other related parties	Total	% on consolidated
Financial assets held for trading	-	19,8	-	-	19,8	0,20%
Financial assets available for sale	-	34,5	-	-	34,5	0,24%
Lonas to banks	-	-	-	-	-	0,00%
Loans to customers	98,9	610,6	3,4	2,9	715,8	0,80%
Other assets	-	0,2	-	-	0,2	0,01%
Total assets	98,9	665,1	3,4	2,9	770,3	
Deposits from banks	-	-	-	-	-	0,00%
Deposits from customers	2,2	557,6	2,2	46,8	608,8	0,76%
Debt securities issued	-	7,1	0,3	0,2	7,6	0,03%
Financial liabilities	-	85,7	-	-	85,7	1,42%
Other liabilities	0,4	1,3	-	-	1,7	0,03%
Total liabilities	2,6	651,7	2,5	47,0	703,8	
Guaranties issued and Commitments	23,2	86,9	-	-	110,1	n.a.

Related-party transactions: income statement items

	Value as at 30 06 2017					
	joint venture	Associated companies	Executives with strategic responsibility	Other related parties	Total	% on consolidated
Interest income and similar revenues	0,7	3,7	-	0,1	4,5	0,32%
Interest costs and similar charges	-	(0,1)	-	-	(0,1)	0,03%
Fee and commission income	0,1	91,2	-	-	91,3	8,83%
Fee and commission expense	-	(1,1)	-	-	(1,1)	0,63%
Net adjustments/impaiments	(8,1)	0,1	-	0,2	(7,8)	0,17%
Operating costs	-	(0,2)	(4,9)	(0,1)	(5,2)	0,36%

Related-party transactions

"*Regulations containing provisions relating to transactions with related parties*" was adopted by Consob with Resolution no. 17221 of 12 March 2010 and later amended by Resolution no. 17389 of 23 June 2010.

In its meeting of 10 November 2010, the Board of Directors established the "Committee of Independent Directors" which, as of 18 July 2013, was renamed "Committee on Related-Party Transactions"; the Committee is composed solely of independent directors pursuant to the principles and criteria of the Corporate Governance Code of listed companies, which Banca MPS adhered to, and the Consolidated Law on Finance.

In implementation of art. 53 of the Consolidated Law on Banking and in compliance with resolution no. 277 of the Interministerial Committee for Credit and Savings (ICRC) of 29 July 2008, the directives on regulations concerning risk assets and conflicts of interest in relation to the Associated Parties of the Group were adopted by the Bank of Italy with the 9th update of Circular no. 263/2006, as of 31 December 2012.

Through a resolution dated 12 November 2014, the Board of Directors approved - in accordance with regulatory provisions and having obtained the prior favourable opinions of the Committee on Related-Party Transactions and of the Board of Statutory Auditors - the "*Global Policy on transactions with related parties and associated parties, obligations of the Banking entities*" (hereinafter the "*Global Policy*"), which includes in a single document the Group's provisions on conflicts of interest in transactions with related parties in accordance with the above referenced Consob Regulation no. 17221/2010 and with Associated Parties in accordance with Bank of Italy Circular no. 263/2006, Title V - Section 5, as well as those on the obligations of banking representatives, in accordance with art. 136 of the Consolidated Law on Banking (TUB), and also contains rules for subsidiaries.

The Global Policy dictates the principles and rules to be adhered to in order to control the risk arising from situations of possible conflict of interest with certain entities close to the Bank's decision-making centres, and supersedes the "*Procedure for Related-Party Transactions*" - adopted on 25 November 2010 and updated on 24 June 2012 - and the "*Deliberative Procedures governing transactions with Associated Parties*" - adopted on 24 June 2012.

The Global Policy was published on the Bank's web site and is therefore available in full-text version at the following link:

https://www.mps.it/investors/corporate-governance/sistema-di-governance-e-policy/Sistema%20di%20governance%20e%20policy/Operazioni_con_parti_correlate_e_soggetti_%20collegati,_obbligazioni_degli_esponenti_bancari.pdf

Already starting in 2016, the Bank's Board of Directors formally resolved to approve inclusion of the Ministry of Economy and Finance (MEF) and of the relevant directly and indirectly controlled companies within the scope of related parties on a discretionary basis pursuant to the provisions of the Global Policy, excluding the prudential regulation.

With reference to the MEF scope, the Bank has availed itself of the exemption provided by paragraph 25 of IAS 24 on the disclosure of transactions and balances of existing transactions with government-related entities. Among the main transactions carried out with the MEF and with its subsidiaries, in addition to the completion of financing and funding transactions, mention also goes to the amount of Italian government securities recorded in the HFT and AFS portfolios for a nominal amount of EUR 2,832.0 mln and EUR 12,152.3 mln, respectively.

Information is provided below regarding transactions that are worth specifically mentioning and which were concluded on the basis of assessments of economic advantage and carried out by the Bank with Related Parties in the first half of 2017.

February 2017

- On 1 February 2017, the Loan Disbursement and Governance Division authorised - subject to the fulfilment of certain conditions by the shareholders and the company as well as the acceptance of what is authorised by the other bank in the pool - in favour of BONAFOUS S.P.A.: (i) the extension to 31/12/2020 of a pool mortgage loan of EUR 8.715 mln and (ii) the relative bullet repayment of the residual principal at the new maturity date; (iii) the suspension of the payment of interest - including some already past due - until the new maturity date; (iv) the granting of a fixed-term credit facility (31/12/2020) for the technical management of accrued and accruing interest. On 15 June 2017, the Board of Directors, with the favourable opinion of the Committee on Related-Party Transactions, resolved to approve participation in a Debt Restructuring Agreement (DRA) pursuant to art. 182 bis of the Bankruptcy Law, which for Banca MPS envisages: (i) when the DRA becomes effective, the write-off of EUR 4.715 mln in principal, against repayment in cash of EUR 4 mln, plus the waiver of ordinary interest accrued and accruing until the effective date of the DRA; (ii) when the DRA becomes effective, the waiver of interest on arrears accrued and accruing pursuant to the loan agreement until the effective date; (iii) when the amount of EUR 4 mln is collected, the waiver of all claims deriving from the loan and the commitment to release the collateral backing the pool mortgage loan. All of the foregoing is subject to the condition precedent of the acceptance of the proposal by the other bank participating in the pool loan and the definitive approval of the DRA by the competent Court. The transaction is governed by Consob Regulation no. 17221/2010 as BONAFOUS S.P.A. is 50% owned by CDP Immobiliare S.r.l., which in turn is a subsidiary of CASSA DEPOSITI E PRESTITI SPA, a direct subsidiary of the MEF, which holds 4.024% of the share capital of Banca MPS.

- On 14 February 2017, the Banca MPS Credit and Credit Policies Committee authorised in favour of SOGIN S.P.A.: (i) the extension of the EUR 18.9 mln mixed credit facility usable for the issue of sureties with underlying financial obligations against VAT refunds and for the issue of letters of credit relating to the import of goods with a maximum duration of individual commitments equal to 48 months and (ii) the replacement of the previous EUR 1 mln mixed credit facility with an analogous mixed credit facility in the same amount, which may be used in full for forward currency transactions (fixed-term and fixed and flexible/advanced) that may be used only for transactions with a commercial underlying asset. The transaction is governed by Consob Regulation no. 17221/2010 as SOGIN S.P.A. is wholly owned by the MEF, which in turn holds 4.024% of the share capital of Banca MPS.

March 2017

- On 9 March 2017, the Board of Directors resolved to authorise, with the prior favourable opinion of the Committee on Related-Party Transactions, the adoption of a Framework Resolution, of up to a cumulative amount of EUR 250 mln, valid from 9 March 2017 to 14 October 2017, concerning Banca MPS's acquisition of financial resources - for the disbursement of subsidised government backed loans to the beneficiaries specified in regulations in force - from funding made available by CASSA DEPOSITI E PRESTITI SPA (CDP) as part of the agreements "Plafond Eventi Calamitosi" of 17/11/2016 and "Plafond Sisma Centro Italia" of 18/11/2016 entered into by the CDP and the Italian Banking Association (ABI). This resolution is separate from the previous Framework Resolution approved by the Board of Directors on 14 October 2016 and commented on in Part H of the Financial Statements as at 31/12/2016, relating to the previous agreements entered into by the ABI and CDP. The transaction in question falls within the scope of application of Consob Regulation no. 17221/2010, as CASSA DEPOSITI E PRESTITI SPA is a direct subsidiary of the MEF, which, in turn, holds 4.024% of the share capital of Banca MPS.

- On 16 March 2017, the Large Loans Committee, with the prior favourable opinion of the Committee on Related-Party Transactions, approved the transfer of the administrative classification of EUROCITY SVILUPPO EDILIZIO S.R.L IN LIQUIDAZIONE from "unlikely to pay" to "doubtful". The exposure amounts to EUR 42.9 mln. The transaction in question falls within the scope of application of Consob Regulation no. 17221/2010, as EUROCITY SVILUPPO EDILIZIO S.R.L IN LIQUIDAZIONE is a subsidiary of Casalboccone Roma S.r.l., in which Banca MPS holds a direct equity investment equal to 21.8% of the share capital.

- On 23 March 2017, the Board of Directors authorised the rescheduling of the credit facilities provided to ENI S.p.A. and the return to within the prudential limits pursuant to art. 395 of Regulation (EU) 575/2013. In this context, the following were approved: the granting of (i) a new mixed credit facility of EUR 1,000 mln and (ii) a new mixed credit facility of EUR 500 mln - blocked in its entirety and usable after checking for compliance with regulatory limits - both usable for current account overdrafts, large financial transactions, the issue of sureties and letters of credit, loans in foreign currency, advances on receivables subject to collection, opening of documentary credit backed by documents not representative of goods; (iii) the confirmation of the ordinary and multi-user credit facility with a reduction to EUR 75 mln usable for exchange rate risk hedging transactions; (iv) the granting of a new temporary and multi-user credit facility for EUR 25 mln maturing on 31 December 2022 and usable for interest rate risk hedging transactions, with a maximum duration of 5 years. The facilities may also be used by the other companies of the ENI group after the issue of a credit facility mandate by the parent company ENI S.p.A., with the delegating party and beneficiary bearing joint and several liability. The transaction in question falls within the scope of application of Consob Regulation no. 17221/2010, as ENI S.p.A. is subject to the de facto control of the MEF, which holds a 4.34% direct shareholding in it and a 25.76% indirect shareholding in it through CASSA DEPOSITI E PRESTITI SPA, which is in turn a subsidiary of the MEF, which holds 4.024% of the share capital of Banca MPS. The transaction in question, which amounts to EUR 1,600.00 mln, is classified as a “transaction of greater relevance”, also pursuant to the Bank’s Global Policy.–It should be noted that, as far as the proceedings are concerned, the Related-Party Transactions Committee was involved and issued its approval prior to the resolution of the Board of Directors. Pending the definition and formalisation of the agreements with ENI S.p.A., on 2 August 2017 the Board of Directors, again with the prior approval of the Related-Party Transactions Committee, decided to (i) reduce the credit facilities granted to ENI S.p.A. from Euro 1,600 mln to Euro 350 mln in order to prevent the regulatory limits for the so-called “connected Bankit Parties” from being exceeded following the completion of the Bank’s precautionary recapitalisation by the MEF, with consequent application of the limits on risk assets required by prudential regulations, and (ii) extend the internal operational limit by 3%, which exceeds and implements the previous resolution adopted by the Board of Directors on 23 March 2017. Public disclosure on this has been issued in accordance with applicable regulations.

- **April 2017**
  - On 12 April 2017, with the prior favourable opinion of the Committee on Related-Party Transactions, the Board of Directors granted, with respect to the unsecured loans granted by Banca MPS, a moratorium of 6 months in favour of MARINELLA S.p.A. and TENUTA DI MARINELLA, as well as the right to use existing short-term credit lines granted to the latter within the authorised limit of EUR 200 thousand until the end of the moratorium, all subject to the resolution for dissolution and placement in liquidation of MARINELLA S.p.A. The transaction, which amounts to EUR 23 mln, falls within the scope of application of Consob Regulation no. 17221/2010 as MARINELLA SPA is subject to joint control by Banca MPS which holds a direct stake in it of 25%, and TENUTA DI MARINELLA is wholly owned by MARINELLA SPA.
  - On 18 April 2017, the Acting Deputy Manager of Banca MPS resolved to review and as a result renew with an increase the loan in favour of ANSALDO ENERGIA S.p.A. and in particular authorised granting: (i) a new credit facility of EUR 10 mln usable in full for the opening of documentary credit backed by documents not representative of goods and for the issue of financial and/or commercial sureties; (ii) a new credit facility of EUR 20 mln,

guaranteed by a pledge in cash of EUR 10 mln, usable up to the maximum amount for the issue of counter-guarantees, including with unspecified maturity, in the interest of ANSALDO ENERGIA S.p.A. and (iii) a new credit facility of EUR 3 mln usable for exchange rate risk hedging transactions with the exclusion of any speculative purposes. The transaction is governed by Consob Regulation no. 17221/2010, as ANSALDO ENERGIA S.p.A. is an indirect subsidiary of the MEF, which holds 4.024% of the share capital of Banca MPS. MEF holds indirect control as ANSALDO ENERGIA S.p.A. is subject to the joint control, as a result of current shareholders' agreements, of the shareholder CDP Equity S.p.A., 97.13% owned by CASSA DEPOSITI E PRESTITI SPA, whose majority shareholder is the MEF, which holds 4.024% of the share capital of Banca MPS.

June 2017

- On 27 June 2017 the Credit and Credit Policies Committee authorised in favour of FINCANTIERI S.p.A.: (i) the renewal with an increase of the credit facility from the original EUR 15 mln to EUR 65 mln usable in its entirety for the issue of sureties and limited to the amount of EUR 10 mln for current account overdrafts and (ii) the confirmation of the mixed use credit facility of EUR 30 mln for forward currency transactions and/or currency options, interest rate risk hedging transactions and commodity risk hedging transactions. The transaction in question falls within the scope of application of Consob Regulation no. 17221/2010, as FINCANTIERI S.p.A. is subject to the control of Fintecna S.p.A., a financial company in turn controlled through CASSA DEPOSITI E PRESTITI SPA by the MEF, which holds 4.024% of the share capital of Banca MPS.

- On 30 June 2017 the Board of Directors authorised with regard to SORGENIA GROUP - as part of the restructuring agreement under article 182-bis of the Bankruptcy Law, which became fully effective following the decree of approval by the Court of Milan dated 27 March 2015 - (i) the extension until 31 July 2017 of the Moratorium and standstill agreement - and (ii) participation in the New Restructuring Agreement (the “New RA”) negotiated by the parties, subject to reaching a quorum of 100% of the banks, the supervision of the contractual texts by the bank lawyers and, only for participation in the New RA, the issue of a certification of feasibility pursuant to article 182-bis of the Bankruptcy Law approved of by the banks. The total amount of the transaction with regard to the SORGENIA GROUP amounts to around EUR 560 mln. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, as it refers to the companies SORGENIA SPA, SORGENIA POWER SPA and SORGENIA PUGLIA SPA, subsidiaries of NUOVA SORGENIA HOLDING SPA (the SORGENIA GROUP’s holding company), subject to significant influence by Banca MPS, which holds a stake of 16.67% of the share capital of the aforesaid holding company. The transaction in question is classified as a “transaction of greater relevance”, also pursuant to the Bank’s Global Policy. Lastly, please note that in relation to the procedure, the Committee on Related-Party Transactions was involved and issued its preventive favourable opinion to the Board of Directors resolution. Public disclosure on this has been issued in accordance with applicable regulations.

Certification of the condensed consolidated half-year financial statements pursuant to article 81-ter of Consob Regulation no. 11971 of 14 May 1999, as subsequently amended and supplemented

1. The undersigned, Alessandro Falciai, as Chairman of the Board of Directors, and Nicola Massimo Clarelli, as Financial Reporting Officer, of Banca Monte dei Paschi di Siena S.p.A., having regard to article 154-bis, paragraphs 3 and 4 of Italian Legislative Decree no. 58 of 24 February 1998, do hereby certify the:
   - appropriateness with respect to the company's profile, and
   - factual application of administrative and accounting procedures for preparation of the condensed consolidated financial statements for the first half of 2017.

2. The verification of the adequacy and effective application of administrative and accounting procedures for the preparation of the condensed consolidated half-year financial statements as at 30 June 2017 was based on methods defined by the MPS Group in line with the COSO model, and for the IT component, COBIT, which constitute the reference framework for the internal control system generally accepted internationally.

3. It is also certified that:
   3.1 the condensed consolidated half-year financial statements as at 30 June 2017:
      - were prepared in accordance with the international accounting standards recognised by the European Union pursuant to European Parliament and Council Regulation No. 1606/2002/EC of 19 July 2002;
      - are consistent with the underlying documentary evidence and accounting records;
      - are suitable to provide a true and fair representation of the capital, economic and financial situation of the issuer and group of companies included within the scope of consolidation.

   3.2 the half-year report on operations includes a reliable analysis of the significant events in the first six months of the financial year and their impact on the condensed consolidated half-year financial statements, as well as a description of major risks and uncertainties for the remaining six months of the year. The half-year report on operations also includes a reliable analysis of information regarding related party transactions of major relevance.

Siena, 11 August 2017

On behalf of the Board of Directors	*The Financial Reporting*
Signed by The Chairman	*Signed by Officer*
Alessandro Falciai	*Nicola Massimo Clarelli*

AUDITORS' REVIEW REPORT

EY S.p.A.
Via Po, 32
00198 Roma

Tel: +39 06 324751
Fax: +39 06 32475504
ey.com

Review report on the interim condensed consolidated financial statements

(Translation from the original Italian text)

To the Shareholders of
Banca Monte dei Paschi di Siena S.p.A.

Introduction

We have reviewed the interim condensed consolidated financial statements, comprising the balance sheet as of June 30, 2017, the income statement, the statement of comprehensive income, the statement of changes in equity and cash flows for the period then ended and the related explanatory notes of Banca Monte dei Paschi di Siena S.p.A. (the "Bank") and its subsidiaries (the "Montepaschi Group"). The Directors of Banca Monte dei Paschi di Siena S.p.A. are responsible for the preparation of the interim condensed consolidated financial statements in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with review standards recommended by Consob (the Italian Stock Exchange Regulatory Agency) in its Resolution no. 10867 of July 31, 1997. A review of interim condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA Italia) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the interim condensed consolidated financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements of Montepaschi Group as of June 30, 2017 arenot prepared, in all material respects, in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union.

EY S.p.A.
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Emphasis Paragraph

Without modifying our conclusions, we draw attention to the disclosures included in the interim report on operations and in the explanatory notes with respect to:

- the subscription of a binding agreement with a private investor for the disposal of a portfolio of bad loans, by means of a securitization transaction to be concluded by June 2018 at the latest;
- the approval on July 4, 2017 by the European Commission of the Restructuring Plan 2017-2021;
- the conclusion of the precautionary recapitalization process, in accordance with Law Decree 237/2016 converted into Law 15/2017, which resulted in a capital increase, after June 30, 2017, of over Euro 8 billion in total and which allows to restore the capital requirements set by European Central Bank (ECB) as a part of the Supervisory Review and Evaluation Process (SREP).

The Directors, after evaluating the financial position of the Bank and of the Montepaschi Group, taking into consideration the above mentioned events and the implementation of the actions as provided in the Restructuring Plan 2017-2021, confirmed the going concern assumption for the preparation of the interim condensed consolidated financial statements as at June 30, 2017.

Rome, August 11, 2017

EY S.p.A.
Signed by: Francesco Chiulli, Partner

This report has been translated into the English language solely for the convenience of international readers.

ANNEXES

Reconciliation between the reclassified income statement and balance sheet and the related statutory accounts

Reconciliation between the reclassified income statement as at 30 June 2017 and related statutory accounts

Accounts in Reclassified Profit and Loss Statement - Montepaschi Gro	30/06/17	Accounts in the Profit and Loss Statement - Montepaschi Group		30/06/17	Operating Reclassifications		30/06/17
Net interest income	903,3	Interest income and similar revenues	Item 10	1.422,4	(+) Economic effects from allocation of BAV acquisition costs to BMPS (PPA)		7,0
		Interest expense and similar charges	Item 20	-526,1			
Net fee and commission income	857,5	Fee and commission income	Item 40	1.035,2			
		Fee and commission expense	Item 50	-177,7			
Income from banking activities	**1.760,8**			**1.753,8**			
Dividends, similar income and gains (losses) on equity investments	46,2	Dividends and similar income	Item 70	10,3	(-) Reclassification of dividends on treasury stock transactions	Item 70 - Partial	-1,3
					(+) Portion of profit from equity investments (Gruppo AXA)	Item 240 - Partia	37,2
Net profit (loss) from trading and financial assets/liabilities	42,9	Net profit (loss) from trading	Item 80	23,4	(+) Reclassification of dividends on treasury stock transactions	Item 70 - Partial	1,3
		Gains/losses on disposal/repurchase of:	Item 100	18,8			
		a) loans		-0,4			
		b) financial assets available for sale		22,1			
		c) held to maturity investments					
		d) financial liabilities		-2,9			
		Net profit (loss) from financial assets and liabilities	Item 110	-0,6			
Net profit (loss) from hedging	-1,8	Net profit (loss) from hedging	Item 90	-1,8			
Other operating income (expenses)	4,6	Other income/expenses (net) from insurance activities	Item 220	177,4	(-) Recovery of stamp duty and customers' expenses	Item 220 - Partia	-172,8
Total Revenues	**1.852,7**			**1.981,3**			**-128,6**
Administrative expenses:	-1.139,1	Administrative expenses		-1.428,1			
a) personnel expenses	-799,5	a) Personnel expenses	Item 180a	-799,5	(+) Restructuring charges	Item 180a - Parti	17,7
b) other administrative expenses	-339,6	b) Other administrative expenses	Item 180b	-628,6	(+) Reclassification provision to BRRD and DGSD funds	Item 180b - Parti	63,0
					(+) Recovery of stamp duty and customers' expenses	Item 220 - Partia	172,8
					(+) DTA fee	Item 220 - Partia	35,5
Net adjustments to (recoveries on) property, plant and equipment / Net adjustments to (recoveries on) intangible assets	-127,6	Net losses/reversal on impairment on property, plant a	Item 200	-63,1			
		Net adjustments to (recoveries on) intangible assets	Item 210	-77,7	(+) Economic effects from allocation of BAV acquisition costs to BMPS (PPA)		13,2
Operating expenses	**-1.266,7**			**-1.568,9**			**302,2**
Pre Provision Profit	**586,0**			**412,4**			**173,6**
Net impairment losses (reversals) on:	-4.677,9	Net impairment losses(reversals) on	Item 130	-4.677,9			
a) loans	-4.597,0	a) loans	Item 130a	-4.597,0			
b) financial assets	-80,9	b) financial assets available for sale	Item 130b	-33,5			
		c) held to maturity investments	Item 130c				
		d) other financial transactions	Item 130d	-47,4			
Net operating income	**-4.091,9**			**-4.265,5**			**173,6**
Net provisions for risks and charges	-59,0	Net provisions for risks and charges	Item 190	-59,0	(-) Reclassification provision to BRRD and DGSD funds	Item 190 - Partia	
Gains (losses) on investments	-3,8	Gains (losses) on investments	Item 240	33,4	(-) Portion of profit from equity investments (Gruppo AXA)	Item 240 - Partia	-37,2
Restructuring costs / One-off costs	-17,7				(-) Restructuring charges	Item 180a - Parti	-17,7
Risks and charges related to the SRF, DGS and similar schemes	-63,0				(-) Provision to BRRD and DGSD funds	Item 180b - Parti	-63,0
DTA fee	-35,5				(-) DTA fee	Item 180b - Parti	-35,5
Gains (losses) on disposal of investments	531,7	Gains (losses) on disposal of investments	Item 270	531,7			
Profit (loss) before tax from continuing operations	**-3.739,2**			**-3.759,4**			**20,2**
Tax expense (recovery) on income from continuing operations	510,0	Tax expense (recovery) on income from continuing	Item 290	516,7	(-) Economic effects from allocation of BAV acquisition costs to BMPS (PPA)		-6,7
Profit (loss) after tax from continuing operations	**-3.229,2**			**-3.242,7**			**13,5**
Profit (loss) after tax from groups of assets held for sale and discontinued operations		Profit (loss) after tax from groups of assets held for sal	Item 310				
Net profit (loss) for the period including non-controlling interests	**-3.229,2**			**-3.242,7**			**13,5**
Net profit (loss) attributable to non-controlling interests	-0,1	Net profit (loss) attributable to non-controlling interest	Item 330	-0,1			
Profit (loss) for the period before PPA , impairment on goodwill and intangibles	**-3.229,1**			**-3.242,6**			**13,5**
PPA (Purchase Price Allocation)	-13,5				(-) Economic effects from allocation of BAV acquisition costs to BMPS (PPA)		-13,5
Impairment on goodwill and intangibles		Impairment on goodwill and intangibles	Item 260				
Net profit (loss) for the period	**-3.242,6**	Net profit (loss) for the period		**-3.242,6**	Total		

Reconciliation between the reclassified income statement as at 30 June 2016 and related statutory accounts

Accounts in Reclassified Profit and Loss Statement - Montepaschi Group	30/06/16	Accounts in the Profit and Loss Statement - Montepaschi Group		30/06/16	Operating Reclassifications			30/06/16
Net interest income	1035,2	Interest income and similar revenues	Item 10	1748,4	(+)	Economic effects from allocation of BAV acquisition costs to BMPS (PPA)		10,4
		Interest expense and similar charges	Item 20	-723,6				
Net fee and commission income	940,7	Fee and commission income	Item 40	1091,3				
		Fee and commission expense	Item 50	-150,6				
Income from banking activities	**1975,9**			**1965,5**				**10,4**
Dividends, similar income and gains (losses) on equity investments	43,2	Dividends and similar income	Item 70	11,9	(-)	Reclassification of dividends on treasury stock transactions	Item 70 - Partial	-2,5
					(+)	Portion of profit from equity investments (Gruppo AXA)	Item 240 - Partial	33,8
Net profit (loss) from trading and financial assets/liabilities	317,0	Net profit (loss) from trading	Item 80	117,5	(+)	Reclassification of dividends on treasury stock transactions	Item 70 - Partial	2,5
		Gains/losses on disposal/repurchase of:	Item 100	128,6				
		a) loans		-6,8				
		b) financial assets available for sale		89,3				
		c) held to maturity investments						
		d) financial liabilities		46,1				
		Net profit (loss) from financial assets and liabilities designated at fair value	Item 110	68,4				
Net profit (loss) from hedging	-1,3	Net profit (loss) from hedging	Item 90	-1,3				
Other operating income (expenses)	9,7	Other income/expenses (net) from insurance activities	Item 220	203,9	(-)	Recovery of stamp duty and customers' expenses	Item 220 - Partial	-194,2
Total Revenues	**2344,5**			**2494,5**				**-150,0**
Administrative expenses:	-1176,8	Administrative expenses		-1550,6				
a) personnel expenses	-821,0	a) Personnel expenses	Item 180a	-821,0	(+)	Restructuring charges	Item 180a - Partial	
					(+)	Provision to BRRD and DGSD funds	Item 180b - Partial	70,8
					(+)	Recovery of stamp duty and customers' expenses	Voce 220 - Parziale	194,2
b) other administrative expenses	-355,8	b) Other administrative expenses	Item 180b	-729,6	(+)	DTA fee	Voce 220 - Parziale	108,8
	#RIF!							
Net adjustments to (recoveries on) property, plant and equipment / Net adjustments to (recoveries on) intangible assets	-102,0	Net losses/reversal on impairment on property, plant and equipment	Item 200	-53,0				
		Net adjustments to (recoveries on) intangible assets	Item 210	-62,8	(+)	Economic effects from allocation of BAV acquisition costs to BMPS (PPA)		13,8
Operating expenses	**-1278,8**			**-1666,4**				**387,6**
Pre Provision Profit	**1065,7**			**828,1**				**237,6**
Net impairment losses (reversals) on:	-717,2	Net impairment losses(reversals) on	Item 130	-717,2				
a) loans	-718,3	a) loans	Item 130a	-718,3				
b) financial assets	1,1	b) financial assets available for sale	Item 130b	-16,1				
		c) held to maturity investments	Item 130c					
		d) other financial transactions	Item 130d	17,2				
Net operating income	**348,5**			**110,9**				**237,6**
Net provisions for risks and charges	23,9	Net provisions for risks and charges	Item 190	23,9				
Gains (losses) on investments	7,7	Gains (losses) on investments	Item 240	41,5	(-)	Portion of profit from equity investments (Gruppo AXA)	Item 240 - Partial	-33,8
Restructuring costs / One-off costs					(-)	Restructuring charges	Item 180a - Partial	
Risks and charges related to the SRF, DGS and similar schemes	-70,8				(-)	Provision to BRRD and DGSD funds	Item 180b - Partial	-70,8
DTA fee	-108,8					DTA fee	Item 180b - Partial	-108,8
Gains (losses) on disposal of investments		Gains (losses) on disposal of investments	Item 270					
Profit (loss) before tax from continuing operations	**200,5**			**176,3**				**24,2**
Tax expense (recovery) on income from continuing operations	118,5	Tax expense (recovery) on income from continuing operations	Item 290	126,5	(-)	Economic effects from allocation of BAV acquisition costs to BMPS (PPA)		-8,0
Profit (loss) after tax from continuing operations	**319,0**			**302,8**				**16,2**
Profit (loss) after tax from groups of assets held for sale and discontinued operations		Profit (loss) after tax from groups of assets held for sale and discontinued operations	Item 310					
Net profit (loss) for the period including non-controlling interests	**319,0**			**302,8**				**16,2**
Net profit (loss) attributable to non-controlling interests	0,8	Net profit (loss) attributable to non-controlling interests	Item 330	0,8				
Profit (loss) for the period before PPA , impairment on goodwill and intangibles	**318,2**			**302,0**				**16,2**
PPA (Purchase Price Allocation)	-16,2				(-)	Economic effects from allocation of BAV acquisition costs to BMPS (PPA)		-16,2
Impairment on goodwill and intangibles		Impairment on goodwill and intangibles			(-)			
Net profit (loss) for the period	**302,0**	**Net profit (loss) for the period**		**302,0**		**Total**		

Reconciliation between the reclassified balance sheet and related statutory accounts

Balance-sheet Items - Assets	30/06/17	31/12/16	Reclassified balance-sheet items - Assets
	843.1	**1,084.5**	**Cash and cash equivalents**
Item 10 – Cash and cash equivalents	843.1	1,084.5	
			Receivables
	89,713.1	**106,692.7**	**a) Loans to customers**
Item 70 – Loans to customers	89,713.1	106,692.7	
	13,116.4	**8,936.2**	**b) Loans to banks**
Item 60 – Loans to banks	13,116.4	8,936.2	
	24,089.8	**25,929.3**	**Marketable assets**
Item 20 – Financial assets held for trading	9,711.2	9,266.2	
Item 40 – Financial assets available for sale	14,378.6	16,663.1	
	1,023.6	**1,031.7**	**Equity investments**
Item 100 – Equity investments	1,023.6	1,031.7	
	2,844.7	**2,942.9**	**Property, plant and equipment / Intangible assets**
Item 120 – Property, plant and equipment	2,552.3	2,597.4	
Item 130 – Intangible assets	292.4	345.5	
	11,958.8	**6,561.2**	**Other assets**
Item 80 – Hedging Derivatives	151.8	327.3	
Item 90 – Change in value of macro-hedged financial assets (+/-)	35.0	113.3	
Item 140 – Tax assets	4,184.4	4,147.5	
Item 150 – Non-current assets held for sale and discontinued operations	5,144.8	60.7	
Item 160 – Other assets	2,442.8	1,912.4	
Total Assets	**143,589.5**	**153,178.5**	**Total Assets**

Balance-sheet Items - Liabilities	30/06/17	31/12/16	Reclassified balance-sheet items - Liabilities
			Payables
	106,543.9	**104,573.5**	**a) Deposits from customers and securities issued**
Item 20 – Deposits from customers	80,299.9	80,702.8	
Item 30 – Debt securities issued	24,659.8	22,347.5	
Item 50 – Financial liabilities designated at fair value	1,584.2	1,523.2	
	22,802.8	**31,469.1**	**b) Deposits from banks**
Item 10 – Deposits from banks	22,802.8	31,469.1	
	4,449.9	**4,971.8**	**Financial liabilities held for trading**
Item 40 – Financial liabilities held for trading	4,449.9	4,971.8	
			Provisions for specific use
Item 110 – Provision for employee severance pay	233.7	252.9	a) Provision for employee severance pay
Item 120 - Provisions for risks and charges - a) pension and similar obligations	47.3	53.6	b) Provision for pension
Item 120 - Provisions for risks and charges - b) other provisions	958.8	1,054.5	c) Other provisions
	5,503.3	**4,342.7**	**Other liabilities**
Item 60 – Hedging Derivatives	678.3	1,018.3	
Item 70 – Change in value of macro-hedged financial liabilities (+/-)	(3.4)	-	
Item 80 – Tax liabilities	82.9	75.3	
Item 90 – Liabilities associated to disposal groups held for sale	-	10.4	
Item 100 – Other liabilities	4,745.5	3,238.7	
	3,047.7	**6,425.4**	**Group net equity**
Item 140 – Valuation reserves	102.0	47.3	a) Valuation reserves
Item 170 – Reserves	(1,177.4)	2,253.6	d) Reserves
Item 180 – Share premium reserve	-	-	e) Share premium reserves
Item 190 – Share Capital	7,365.7	7,365.7	f) Share capital
Item 220 – Profit (loss) for the period (+/-)	(3,242.6)	(3,241.1)	h) Profit (loss) for the period
	2.2	**34.9**	**Non-controlling interests**
Item 210 – Non-controlling interests (+/-)	2.2	34.9	
Total liabilities and shareholders' equity	**143,589.5**	**153,178.5**	**Total liabilities and shareholders' equity**

MONTE
DEI PASCHI
DI SIENA
BANK SINCE 1472