MONTE DEI PASCHI DI SIENA BANK

Consolidated Half-Year Report as at 30 06 2018

MONTE DEI PASCHI DI SIENA
BANK SINCE 1472

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

Half-Year Report

Monte dei Paschi di Siena Group

30 June 2018

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

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

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

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

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

HALF-YEAR REPORT ON OPERATIONS

Results in brief

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

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

CONSOLIDATED REPORT ON OPERATIONS
Highlights at 30/06/2018

INCOME STATEMENT AND BALANCE SHEET FIGURES

MPS GROUP

INCOME STATEMENT FIGURES	30/06/18	30/06/17 *	Chg.
Net interest income	870.0	903.3	-3.7%
Net fee and commission income	809.5	857.5	-5.6%
Other operating income	29.5	91.9	-67.9%
Total Revenues	1,709.0	1,852.7	-7.8%
Net impairment losses (reversals) on loans and financial assets	(246.7)	(4,630.5)	-94.7%
Net operating income	308.0	(4,044.5)	n.s.
Net profit (loss) for the period	288.5	(3,242.6)	n.s.
EARNING PER SHARE (EUR)	**30/06/18**	**30/06/17 ***	**Var.**
Basic earnings per share	0.261	(110.597)	n.s.
Diluted earnings per share	0.261	(110.597)	n.s.
BALANCE SHEET FIGURES AND INDICATORS	**30/06/18**	**31/12/17 ***	**Var.**
Total assets	135,722.8	139,154.2	-2.5%
Loans to customers	87,010.1	86,456.3	0.6%
Direct funding	96,833.9	97,801.8	-1.0%
Indirect funding	99,020.5	95,845.7	3.3%
of which: assets under management	58,134.8	58,599.4	-0.8%
of which: assets under custody	40,885.7	37,246.3	9.8%
Group net equity	8,994.5	10,429.1	-13.8%
OPERATING STRUCTURE	**30/06/18**	**31/12/17 ***	**Var.**
Total head count - end of period	23,267	23,463	-196
Number of branches in Italy	1,597	1,745	-148

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

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

CONSOLIDATED REPORT ON OPERATIONS
Highlights at 30/06/2018

ALTERNATIVE PERFORMANCE MEASURES

MPS GROUP

PROFITABILITY RATIOS (%)	30/06/18	31/12/17 *	Chg.
Cost/Income ratio	67.5	63.2	4.3
R.O.E.	5.9	-41.6	47.5
Return on Assets (RoA) ratio	0.4	-2.5	2.9
ROTE (Return on tangible equity)	5.9	-41.6	47.5

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

KEY CREDIT QUALITY RATIOS (%)	30/06/18	31/12/17 *	Chg.
Net non-performing loans / Loans to Customers	9.9	16.3	-6.4
Gross NPL ratio	19.8	35.8	-16.0
Coverage non-performing loans	56.0	65.5	-9.5
Bad loans / Loans to Customers	3.2	8.3	-5.1
Loans to Customers measured at amortised cost - Stage 2/Performing exposures measured at amortised cost	20.4	n.d.	
Coverage bad loans	69.1	75.7	-6.6
Net impairment losses on loans measured at amortised cost/ Loans to Customers measured at amortised cost (Provisioning)	0.6	5.8	-5.2
Texas Ratio	99.8	112.2	-12.4

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

As at 31/12/2017, the following credit quality ratios include the share of portfolio classified as assets held for sale (both in Non-performing loans and in Loans to Customers), mainly relating to the transfer, by means of securitisation, of a set of credit exposures classified as bad loans, whose derecognition was completed on 22 June 2018.

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

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

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

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

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

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

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

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

CONSOLIDATED REPORT ON OPERATIONS
Highlights at 30/06/2018

REGULATORY MEASURES

MPS GROUP

CAPITAL RATIOS (%)	30/06/18	31/12/17 *	Chg.
Common Equity Tier 1 (CET1) ratio	13.0	14.8	-1.8
Total Capital ratio	14.4	15.0	-0.6
FINANCIAL LEVERAGE INDEX (5)	**30/06/18**	**31/12/17 ***	**Chg.**
Leverage ratio - Transitional Phase	5.6	6.0	-0.4
LIQUIDITY RATIO (%)	**30/06/18**	**31/12/17 ***	**Chg.**
LCR	178.2	199.5	-21.3
NSFR	108.7	110.0	-1.3
Encumbered asset ratio [1]	37.2	33.5	3.7
Loan to deposit ratio	0.9	0.9	
Counterbalancing capacity	19.3	21.1	-1.8

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

Loan to deposit ratio: ratio between loans to customers and the sum of customer deposits including bonds issued (deposits from customers and debt securities issued).

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

Executive summary

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

- The Group recorded **Total revenues** of **EUR 1,709 mln**, down by 7.8% compared to the same period of the previous year, due to the downturn in Net interest income, Net fee and commission income and the Net profit (loss) from trading and financial assets/liabilities measured at amortised cost and fair value through profit and loss. **Net interest income**, which amounted to **EUR 870 mln** (-3.7% Y/Y), suffered above all from the negative performance of interest-bearing assets, particularly commercial lending (decrease in average volumes and decline in the relative returns), the trend of which was only partially attenuated by the lower negative interests resulting from the decreased cost of commercial funding and the reimbursement of more expensive bonds (some of which subject to burden-sharing measures). **Net fees and commissions**, totalling **EUR 810 mln** as at 30 June 2018, recorded a 5.6% decline compared to the previous year, mainly impacted by lower income from payment services (Bancomat and cards) following the disposal of the merchant acquiring business on 30 June 2017. Within other revenues, the **Net profit (loss) from trading and financial assets/liabilities measured at amortised cost and at fair value through profit and loss** for the period totalled around **EUR 8 mln**, down from the same period of the previous year (EUR 43 mln), also impacted by lower profits from trading activities.

- **Operating Expenses** amounted to **EUR 1,154 mln** (-8.9% Y/Y). **Personnel Expenses**, which totalled **EUR 734 mln**, declined year on year by 8.2%, in particular as a result of the headcount reduction brought about, firstly, by the Solidarity Fund exits of 600 individuals on 1 May 2017 and of 1,200 individuals on 1 November 2017. **Other Administrative Expenses** as at 30 June 2018 amounted to **EUR 308 mln**, down by 9.3% compared to the same period of the previous year, thanks to continuous structural cost control measures. **Net value adjustments to tangible and intangible assets** amounted to **EUR 112 mln**, lower than the values in the corresponding period of the previous year, which was impacted by higher write-downs on intangible assets (software licences).

- **Net impairment (losses)/reversals on financial assets measured at amortised cost and at fair value through comprehensive income** amounted to **EUR 247 mln**, down EUR 4.4 bn from the same period of the previous year, which included adjustments to loans recorded on the perimeter of bad loans transferred following the adjustment to their recovery value. The ratio of net impairment losses on loans to total Loans to Customers as at 30 June 2018 shows a **Provisioning Rate of 56 bps**. With regard to **Net provisions for risks and charges relating to commitments and guarantees given**, an overall recovery of **EUR 47 mln** was recorded, against EUR -47 mln recorded in the same period of 2017, mainly due to the revaluation of the commitment made to cover the hedging costs met by the SPV for the disposal of bad loans in accordance with the binding agreement signed on 26 June 2017 with Quaestio, to be borne by the transferor.

- As a result of the trend of the above-mentioned economic aggregates and also considering the profit from the sale of the Juliet platform (EUR 50 mln), partially offset by the payment of the additional portion to the National Resolution Fund (NRF), amounting to EUR 26 mln and the partial reassessment of DTAs from tax losses (EUR +106 mln), accrued but not recognised in previous years, the Group recorded a profit of **EUR 289 mln** at 30 June 2018, against a loss of EUR 3,243 mln recorded in June 2017.

- **Total Funding** at the end of June 2018 amounted to approximately **EUR 195.9 bn,** marking growth in volumes of EUR 2.2 bn compared to 31 December 2017, mainly regarding assets under custody of the indirect component, impacted by the changes in a significant corporate position in 2Q18. Direct funding fell compared to 31 March 2018, especially in the bond segment in relation to expiries in 2Q18.

- **Loans to customers** stood at around **EUR 87.0 bn** as at 30 June 2018, essentially in line (up EUR 0.6 bn) compared to 31 December 2017, within which a decrease was registered by non-performing loans (EUR -2.2 bn, mainly due to the FTA/IFRS9) and repurchase agreements (EUR -2.3 bn), partially offset by the increase in securities lending as a result of the registration of senior notes deriving from the securitisation transaction. The decrease in the aggregate compared to 31 March 2018 (EUR -2.3 bn) is concentrated in the repurchase agreement component (EUR -5.5 bn), only partially offset by the rise in securities lending (EUR +2.9 bn). Non-performing loans fell slightly during the quarter (EUR -0.2 bn).

- The **net exposure to non-performing loans**, which includes all cash exposures regardless of which accounting portfolio they belong to, with the exception of equities, UCITS, financial assets held for trading and hedging derivatives, stood at **EUR 8.7 bn** at the end of June 2018, a reduction of EUR 6.1 bn since the beginning of the year, due mainly to the deconsolidation of bad loans transferred and the impacts connected with FTA/IFRS9, with a decrease in the incidence of net bad loans (from 8.3% in December 2017 to 3.2% as at 30 June 2018), unlikely to pay (from 7.6% in December 2017 to 6.4% at 30 June 2018) and substantial stability of Non-performing past-due exposures. The percentage of coverage of non-performing loans stood at 56.0%, a decrease compared to 31 December 2017 (65.5%) due to the above-mentioned deconsolidation. The coverage of bad loans fell from 75.7% in December 2017 to 69.1% in June 2018.

- With regard to capital ratios, as at 30 June 2018, the **Common Equity Tier 1 Ratio** stood at **13.0%** (compared to 14.8% at the end of 2017) and the **Total Capital Ratio** at **14.4%**, compared to 15.0% recorded at the end of December 2017.

- As at 30 June 2018, the operational liquidity position showed an **unencumbered Counterbalancing Capacity** of **EUR 19.3 bn**, down (approximately EUR -1.8 bn) from 31 December 2017. This performance is mainly due to the maturity of a tranche of Government-guaranteed bond issues in 1Q18.

Shareholders

As at 30 June 2018, the Parent Company Banca Monte dei Paschi di Siena's share capital amounted to EUR 10,328,618,260.14, broken down into 1,140,290,072 ordinary shares, of which 36,280,748 treasury shares.

According to communications received pursuant to the applicable legislation and to other available information, including data available on the CONSOB institutional website, entities that, as at 30 June 2018, directly and/or indirectly hold ordinary shares representing a shareholding exceeding 3% of the share capital of the Issuer, and that are not exempted under art. 119-bis of the Issuers' Regulation, are the following:

BMPS main shareholders as at 30 June 2018

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

*Share held directly and through subsidiary companies.

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

Information on the BMPS share

Share price and trends

In the 1st half of 2018, the economic context was characterised by the continued global growth which, also for the current year, should sit at just under 4%. One of the main risk factors remains the possible impact of the new direction of US commercial policy and the gradual and continuous monetary restriction: the Fed continued its restrictive policy, with two rises in the Fed Funds Rate in March and June, while the ECB announced the end of bond purchase in December 2018.

The first half of 2018 was characterised by significant uncertainty and increased volatility in the main international equity markets. The half closed with negative performances for all the major equity indexes, with the exception of the S&P500 (+1.7%). In particular, the Nikkei dropped 2% and, as regards the European stock exchanges, only the Paris stock exchange closed the half with an essential break-even position (+0.2%), while all the others registered a negative trend (Frankfurt -4.7%; Madrid -4.2%; London -0.7%).

The Italian financial markets reported an excellent performance, in both absolute terms and with respect to the other European markets, until the start of May, with a phase of extreme volatility ensuing. The half saw the FTSEMIB fall by 1%, negatively impacted also by the performance of the Italian banking sector index (FTSE IT Banks, at -8.1%).

In the first half of 2018, the share posted a negative performance of -37% (closing the half at EUR 2.47), with an average daily trading volume of approximately 2.5 million shares. The BMPS share was included in the FTSE Italia Mid Cap index in June 2018.

SHARE PRICE SUMMARY STATISTICS (from 31/12/2017 to 30/06/2018)	
Average	3.09
Minimum	2.44
Maximum	4.02

Ratings

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

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

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

Reference context

The expansion in the global economy is expected to continue in the current year; following growth of 3.7% in 2017, growth rates are expected to sit at just under 4% in the 2018-2019 two-year period (source: OECD, 30 May 2018). All the major areas are expected to record growth above potential, with further acceleration in the US and a slowdown in the Euro area and in Japan. Inflation is expected to continue to rise gradually during the current year, with core inflation (excluding the most volatile components) moving towards the 2% target in the Euro area and sitting at just over this mark in the US. The flow of macroeconomic data in this first short period of the year has confirmed these forecasts. In particular, GDP rose by 0.4% in the Euro area in the first quarter, compared to the last quarter of the previous year, marking a deceleration with respect to 0.7% on a quarterly basis, witnessed in all quarters in 2017. Annual inflation rose in the Euro area, reaching 2%, but core inflation remained close to 1%. In the US, the inflation measure monitored by the Fed (deflator of core consumption) reached the 2% target in May. Domestic demand which remained robust, the increase in the price of oil and a more dynamic trend in salary growth were the main drivers of these developments. In respect of this, all things considered, benign scenario, the main risk factor remains the possible impact of the new direction of US commercial policy. The proportion of global trade subject to tariffs still remains very small, but its growth is indicated by all the major international institutions as the element capable of interrupting the current expansionary phase.

In this global context, Italy recorded a quarterly rate of growth (0.3%) in line with the prevailing one in 2017, despite a deterioration in the confidence indicators, which continued in the second quarter. The major international institutions revised the forecasts of changes in GDP in 2018 downwards slightly, and now expect growth of around 1.4%, 0.10% lower than 2017, with the economists' consensus at 1.3%.

As regards the financial markets, the severe corrective episode that took place between January and February shaped the first half of the year, which closed with negative performances for all the major equity indexes, with the exception of the S&P500 (+1.7%). In particular, the Euro Stoxx closed the half down by 2.2%, while the Nikkei fell by 2%. The Italian financial markets reported an excellent performance, in both absolute terms and with respect to the other European markets, until the start of May, when the process of forming the new Government caused a phase of extreme volatility. The half year saw the FTSEMIB fall by 1%. In terms of Government yields, the US 10-year return passed 3% in May, a level not scaled since the end of 2013, while the 10-year bund, after the rise to the 0.75% area in January, closed the half at around 0.3%. The phase of severe volatility which concerned the FTSEMIB also impacted Italian government bonds. The yield of the 10-year Btp (long-term government bond) stood at over 3% at the end of May, with a Btp-Bund spread that reached 290 basis points, which then stabilised at the close of the half at just under 250 basis points.

On the monetary policy front, the Fed continued its restrictive phase, with two rises in the Fed Funds Rate in March and June, which brought the range to 1.75%-2%, while the ECB announced the end of bond-buying in December 2018, with a decrease in the amount of monthly purchases from the current Euro 30,000 million to Euro 15,000 million. In addition, the Central Bank expects to leave the official interest rates unchanged until at least the summer of 2019.

Significant events in the first half

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

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

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

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

On **10 May**, the Parent Company completed the securitisation process for the disposal of a portfolio of EUR 24.1 bn of bad loans (data relating to the end of December 2017) and obtained an investment grade rating for the senior tranche.

This transaction highlights progress towards achieving the objectives of the Parent Company's Restructuring Plan announced on 5 July 2017.

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

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

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

Significant events after the first half

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

(i) the proceedings that follow the committal for trial represents the appropriate stage for cross-examination with the interested parties of the conduct of the company top managers in relation to an event (the accounting of the Alexandria and Santorini transactions) which concerns the Bank's past activities and that, in light of the transactions stipulated with Nomura and Deutsche Bank by the directors who are no longer in office, has no current effects on the Bank's financial statements;

(ii) however, the Bank is involved in the criminal proceedings in question as civilly liable party and liable party pursuant to Legislative Decree no. 231/2001. The latter concerns a legal position that, in the past, led said Court of Milan to exclude the possibility of also assuming the position of civil party. Therefore, the Bank will be able to monitor the progress of the proceedings, by receiving all necessary elements of the proceedings and, at the same time, present its arguments to protect its assets as a matter of priority;

(iii) any elements that should emerge from the preliminary hearings and/or autonomous checks already arranged under the Bank's own initiative and currently in progress, as such to lead to the acknowledgement of liability on the part of the defendants (in addition to damages that can actually be quantified for which the Bank is held liable), they may be used to propose to the shareholders' meeting the launch of any compensation action against the defendants at civil proceedings.

Nonetheless, the Bank reserves the right to carry out any actions to protect its assets and its interests. The resolution and the associated communication were adopted and unanimously approved by the Board of Directors. In order to ensure the integrity of the decision-making process, only the directors who had held, with non-executive roles, the position of Bank director at the time of approval of the 2015 half-year report, did not participate in the vote.

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

Strategy

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

The Restructuring Plan is subject to formal monitoring by the European Commission, through a Monitoring Trustee (the Bank confirmed Degroof Petercam Finance, with the favourable opinion of DG Comp). It should be noted that the third monitoring is in progress with reference to the data as at 31 March 2018, specifying that, as regards to the verification of compliance with commitments, this assumes formal relevance only when specific deadlines are agreed upon with the European Commission.

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

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

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

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

The process to leverage the contribution of Widiba as a vehicle for digitalisation and innovation continues, through the extension to the Group of technological and automation solutions for certain processes, which, when fully implemented, will enable the Group to benefit from an overall reduction in the cost-to-serve; the transfer of a part of customers from BPMS is part of this plan. At present, the transaction has regarded around 46 thousand retail customers, the behavioural profile of whom indicates an interest in self banking, and who are compatible with the products included in the Bank’s current and future range.

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

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

- the migration of cash transactions to cash-in ATMs is underway, at the same time increasing the number of cash-light branches (cash desks closed in the afternoon), which enables «sales time to be recovered». At the moment there are 258 cash-light branches and the programme envisages extending this to additional branches through the «Banca Più» programme. Administrative activities are being transferred (operating support being activated) from the branches to specialist centres, at the same time freeing up resources for a training programme. The Bank has 2,805 ATMs, of which 1,083 feature the cash-in function. Since 2017, we have

sought to intensify the installation of evolved ATMs (around 400 installations in 2017 and a further 300 by the end of 2018), to enable customers to operate autonomously not just for inquiry and withdrawal transactions, but also for paying in and order transactions (paying bills, bank transfers, topping up mobile phones and prepaid cards etc.);
- the new Network Governance model was implemented at the end of February 2018. This manoeuvre led to the reduction of the sales governance structures (Regional Areas) from 6 to 5, centralising the products middle office to General Management, eliminating an intermediate organisational level with a view to simplification, and creating specialist Regional Divisions for individual markets. The distribution network had been further rationalised through the closure of a further 148 branches (in the first quarter);
- as regards digitalisation, the Bank currently has around 2 million internet banking contracts, with around 1 million customers already using the renewed Digital Banking platform. In the coming months, these customers will also be able to use 'online' options to open a current account, request a debit card and obtain a mortgage loan (simulation, proposal and digital document exchange).

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

- establishing new credit policy guidelines for 2018 (Italy and Abroad) and studying, designing and rolling out new credit standards, namely the rules to comply with during the origination stage of the credit portfolio;
- updating the "credit algorithms" (so-called Score Engines) to support decision-making mechanisms for the disbursement of small scale loans to the sphere of Private and Small Business customers, in line with the best practices of the system and the new credit standards of Banca MPS;
- continuing with the programmes to dispose of/reduce the portfolio of Unlikely To Pay exposures by means of a set programme of transactions for a total amount in the two-year period 2018-2019 of EUR 3.5 bn (EUR 1.5 bn in 2018 and EUR 2.0 bn in 2019);
- launching the divestment and deconsolidation transactions, with a specific disposal plan to be finalised by the end of 2018, for bad loans up to around EUR 3.7 bn, represented by receivables resulting from lease agreements and by receivables for contained single amounts (under EUR 0.15 mln);
- the completion, on 14 May 2018, of the outsourcing of management of the flow of bad loans (activation of "Juliet" platform) and launch of ordinary interaction operations according to defined and shared processes.

Lastly, with reference to the commitment of the Restructuring Plan regarding the transfer of foreign banks, it should be noted that:

- for Monte Paschi Banque S.A., given the unsuccessful attempts at the transfer, the Parent Company, as set out in the Plan, resolved the run-off of the subsidiary, which consists of limiting the bank's activities strictly to those targeted at the deleveraging of loans, excluding the development of new business; during said period, the Bank will retain the banking licence;
- for Banca Monte Paschi Belgio S.A, negotiations are still in progress for the transfer which could materialise in the second half of the year; if the negotiations are unsuccessful, the run-off will be launched for the Belgian subsidiary too.

The bad loan disposal transaction

The process of securitisation and subsequent derecognition of the bad loan portfolio for a value of around Euro 24.1 bn was completed.

The main steps relating to the second quarter of 2018 are shown below.

On 10 May 2018, the rating agencies Moody's/Scope/DBRS attributed a rating of A3/BBB+/BBB respectively to the senior notes of the securitisation (for a total value of roughly EUR 2,918 mln). The tranching of the senior notes with an *"Investment Grade"* rating was higher than expected in the Restructuring Plan and, for said reason, it was therefore possible to proceed with a re-tranching through the issuing of a single senior tranche for an amount equal to the outstanding amount of the senior notes issued in December 2017.

On 22 June 2018, the transfer of 95% of the junior notes for a nominal EUR 565 mln was completed with Quaestio Capital SGR S.p.A., on behalf of the Italian Recovery Fund (former Atlante II Fund), relating to the securitisation of the bad loan portfolio.

This transaction, following the transfer of 95% of the mezzanine notes for a nominal EUR 847.6 mln, which took place on 9 January 2018, again to the Italian Recovery Fund, marked the full achievement of the objectives set out in the agreements signed with Quaestio Capital SGR S.p.A. on 26 June 2017, which made provision for the acquisition, by the latter by 30 June 2018, of 95% of the mezzanine and junior tranches of the securitisation of the MPS Group bad loan portfolio.

The transfer of the junior notes, in addition to the transfer of the mezzanine notes and the full outsourcing of portfolio recovery activities, also involved, on the same date, the deconsolidation of the securitised portfolio for a gross value of around EUR 24.1 bn (net value of EUR 4.3 bn).

Lastly, on 16 July, the Parent Company received communication from the Ministry of Economy and Finance (MEF), of the granting - by means of decree of 28 June 2018, registered by the Court of Auditors on 10 July 2018 and the Central Budget Office of the MEF on 13 July 2018 - of the Government guarantee (GACS) on the senior tranche of the securitisation. The Government guarantee on this tranche applies from the date of the decree (28 June 2018).

With regard to the economic impacts related to the valuation of the portfolio sold through the securitization transaction, it should be noted that these were already accounted for in 2017, based on the realizable values deriving from the agreements signed.

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

CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS

Consolidated balance sheet

	Assets	30 06 2018	31 12 2017*
10.	Cash and cash equivalents	721.2	4,092.3
20.	Financial assets measured at fair value through profit and loss	14,487.3	8,718.0
	a) financial assets held for trading	13,270.3	8,718.0
	c) other financial assets measured at fair value mandatory	1,217.1	-
30.	Financial assets measured at fair value through other comprehensive income	14,769.8	15,450.4
40.	Financial assets measured at amortised cost	95,646.4	96,422.5
	a) Loans to banks	8,636.3	9,966.2
	b) Loans to customers	87,010.1	86,456.3
50.	Hedging derivatives	121.0	156.5
60.	Change in value of macro-hedged financial assets (+/-)	92.4	57.3
70.	Equity investments	896.8	1,034.6
90.	Property, plant and equipment	2,542.5	2,571.0
100.	Intangible assets	247.4	283.2
	- of wich goodwill	*7.9*	*7.9*
110.	Tax assets	*3,749.7*	*3,815.3*
	a) current	911.1	878.5
	b) deferred	2,838.6	2,936.8
120.	Non-current assets and groups of assets held for sale and discontinued operations	95.4	4,595.1
130	Other assets	2,352.9	1,958.0
	Total Assets	**135,722.8**	**139,154.2**

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

continued: Consolidated balance sheet

Total Liabilities and Shareholders' Equity		30 06 2018	31 12 2017*
10.	Financial liabilities measured at amortised cost	117,345.2	118,560.4
	a) loans to banks	20,794.8	21,084.9
	b) loans to customers	82,803.2	77,014.2
	c) debts securities issued	13,747.2	20,461.3
20.	Financial liabilities held for trading	3,173.6	4,476.9
30.	Financial liabilities designated at fair value	283.5	326.3
40.	Hedging derivatives	723.0	691.4
50.	Fair value change of financial liabilities in hedged portfolio (+/-)	8.4	(0.8)
60.	Tax liabilities	*58.9*	*58.6*
	a) current	*2.7*	*1.3*
	b) deferred	56.2	57.4
80.	Other liabilities	3,571.2	3,045.6
90.	Provision for employees severance pay	196.3	199.5
100.	Provision for risks and charges:	*1,366.0*	*1,364.9*
	a) financial guarantees and other commitments	*209.7*	*226.4*
	b) post-employment benefits	43.8	50.1
	c) other provisions	1,112.5	1,088.4
120.	Valuation reserves	(194.0)	51.7
150.	Reserves	(1,114.9)	3,864.8
170.	Share capital	10,328.6	10,328.6
180.	Treasury shares (-)	(313.7)	(313.7)
190.	Non-controlling interests (+/-)	2.2	2.3
200.	Profit (loss) (+/-)	288.5	(3,502.3)
	Total Liabilities and Shareholders' Equity	**135,722.8**	**139,154.2**

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

Income statement

Items		30 06 2018	30 06 2017*
10.	Interest income and similar revenues	1,211.6	1,422.4
	of which interest income calculated applying the effective interest rate method	1,162.8	-
20.	Interest expense and similar charges	(348.2)	(526.1)
30.	**Net interest income**	**863.4**	**896.3**
40.	Fee and commission income	938.4	1,035.2
50.	Fee and commission expense	(128.9)	(177.7)
60.	**Net fee and commission income**	**809.5**	**857.5**
70.	Dividends and similar income	9.5	10.3
80.	Net profit (loss) from trading	3.2	23.4
90.	Net profit (loss) from hedging	0.2	(1.8)
100.	Gains/(losses) on disposal/repurchase of:	52.8	18.8
	a) financial assets measured at amortised cost	8.3	(0.4)
	b) Financial assets measured at fair value through other comprehensive income	34.1	22.1
	c) financial liabilities	10.4	(2.9)
110.	Net profit (loss) form financial assets and liabilities measured at fair value through other comprehensive income	(48.8)	(0.6)
	a) financial assets and liabilities measured at fair value	1.4	(0.6)
	b) other financial assets mandatorily at fair value through profit or loss	(50.2)	-
120.	**Net interest and other banking income**	**1,689.8**	**1,803.9**
130.	Net impairment (losses)/reversals on	(241.4)	(4,630.5)
	a) financial assets measured at amortised cost	(239.9)	(4,597.0)
	b) financial assets measured at fair value through other comprehensive income	(1.5)	(33.5)
140.	Modification gains/(losses)	(5.3)	-
150.	**Net income from banking activities**	**1,443.1**	**(2,826.6)**
190.	Administrative expenses:	(1,303.2)	(1,428.1)
	a) personnel expenses	(712.6)	(799.5)
	b) other administrative expenses	(590.6)	(628.6)
200.	Net provision for risks and charges:	(48.7)	(106.4)
	a) commitments and guarantees issued	46.7	(47.4)
	b) other net provisions	(95.4)	(59.0)
210.	Net adjustments to/recoveries on property, plant and equipment	(64.7)	(63.1)
220.	Net adjustments to/recoveries on intangible assets	(59.7)	(77.7)
230.	Other operating expenses/income	134.6	177.4
240.	**Operating expenses**	**(1,341.7)**	**(1,497.9)**
250.	Gains (losses) on investments	21.5	33.4
280.	Gains (losses) on disposal of investments	49.9	531.7
290.	**Profit (loss) before tax from continuing operations**	**172.8**	**(3,759.4)**
300.	Tax (expense)/recovery on income from continuing operations	115.7	516.7
310.	**Profit (loss) after tax from continuing operations**	**288.5**	**(3,242.7)**
320.	Profit (loss) after tax from groups of assets held for sale and disconti	-	-
330.	**Profit (loss)**	**288.5**	**(3,242.7)**
340.	Profit (loss) attributable to non-controlling interests	-	(0.1)
350.	**Parent company's net profit (loss)**	**288.5**	**(3,242.6)**

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

Consolidated statement of comprehensive income

	Items	30 06 2018	30 06 2017*
10.	**Profit (loss)**	**288.5**	**(3,242.7)**
	Other comprehensive income after tax not recycled to profit and loss	**9.4**	**(52.8)**
20.	Equity instruments measured at fair value through other comprehensive income	8.1	-
30.	Financial liabilities measured at fair value through other comprehensive income	(0.2)	(57.6)
70.	Actuarial gains (losses) on defined benefit plans	4.3	4.7
80.	Non current assets held for sale	-	0.1
90.	Share of valuation reserves of equity-accounted investments	(2.8)	-
	Other comprehensive income after tax recycled to profit and loss	**(322.9)**	**(52.5)**
110.	Exchange differences	1.4	(3.7)
120.	Cash flow hedges	0.3	26.0
140.	Fair value changes of debt instruments measured at fair value through other comprehensive income	(257.1)	(24.2)
150.	Non-current assets and disposal groups classified as held for sale	-	0.3
160.	Share of valuation reserves of equity-accounted investments	(67.5)	(50.9)
170.	**Total other comprehensive income after tax**	**(313.6)**	**(105.3)**
180.	**Total comprehensive income (Item 10+170)**	**(25.1)**	**(3,348.0)**
190.	Consolidated comprehensive income attributable to non-controlling interests	-	(0.1)
200.	**Consolidated comprehensive income attributable to Parent Company**	**(25.1)**	**(3,347.9)**

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

Consolidated Statement of changes in equity – 30 June 2018

	Balance as at 31 12 2017	Changes in opening balances*	Balance as at 01 01 2018	Allocation of profit from prior year		Change during the period									Total Equity as at 30 06 2018	Group equity as at 30 06 2018	Non-controlling interest as at 30 06 2018
							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 2018			
Share capital	10,329.6	-	10,329.6	-	-	-	-	-	-	-	-	-	-	-	10,329.6	10,328.6	1.0
a) ordinary shares	10,329.6	-	10,329.6	-	-	-	-	-	-	-	-	-	-	-	10,329.6	10,328.6	1.0
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reserves:	3,864.8	(1,458.2)	2,406.6	(3,502.3)	-	(19.1)	-	-	-	-	-	-	-	-	(1,114.8)	(1,114.8)	-
a) from profits	1,480.9	(1,458.2)	22.7	(996.3)	-	(15.9)	-	-	-	-	-	-	-	-	(989.5)	(989.5)	-
b) other	2,383.9	-	2,383.9	(2,506.0)	-	(3.2)	-	-	-	-	-	-	-	-	(125.3)	(125.3)	-
Valuation reserves	52.9	67.8	120.7	-	-	-	-	-	-	-	-	-	-	(313.6)	(192.9)	(194.1)	1.2
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	(313.7)	-	(313.7)	-	-	-	-	-	-	-	-	-	-	-	(313.7)	(313.7)	-
Net profit (loss)	(3,502.2)	-	(3,502.2)	3,502.3	(0.1)	-	-	-	-	-	-	-	-	288.5	288.5	288.5	-
Total equity	10,431.4	(1,390.4)	9,041.0	-	(0.1)	(19.1)	-	-	-	-	-	-	-	(25.1)	8,996.7	8,994.5	2.2
Group equity	10,429.1	(1,390.4)	9,038.7	-	-	(19.1)	-	-	-	-	-	-	-	(25.1)	8,994.5	8,994.5	X
Non-controlling interests	2.3	-	2.3	-	(0.1)	-	-	-	-	-	-	-	-	-	2.2	X	0.0

* *The column "Changes in opening balances" reflects the effects of the adoption of the new IFRS 9 "Financial instruments" and IFRS 15 "Revenue from contracts with customers", whose first-time application takes effect from 1 January 2018.*

As at 30 June 2018, the Group's net equity, including non-controlling interests and result for the period, amounts to EUR 8,996.7 mln, as compared to EUR 10,431.4 mln as at 31 December 2017, with a total decrease of EUR 1,434.7 mln.

It should be noted that the column "Changes in opening balances" indicates the impact of the transition from IAS 39 and IAS 18, whose provisions were applied up until 31 December 2017, to IFRS 9 and IFRS 15 (for more information, please refer to the section "Explanatory Notes".

The most significant phenomena impacting net equity, in addition to the profit for the period of EUR 288.5 mln were:

1. The "Changes in reserve" column includes in the item "Reserves - b) from profits", for an amount of EUR 7.8 mln, the reversal of the OCI reserve for the transfer of the Prelios security plus EUR 8.1 mln in tax adjustments, while in the item "Reserves - b) other" part of the costs incurred by the Parent Company for the share capital increase in 2017;
2. "Valuation reserves" show overall a negative change amounting to EUR 313.6 mln, the details of which are available in the Consolidated statement of comprehensive income.

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)	-	-	-	-	-	-	-	-	(0.0)	(0.0)	-
Reserves:	2,263.9	(150.5)	2,113.4	(3,231.5)	-	(47.3)	-	-	-	-	-	-	-	-	(1,165.4)	(1,165.4)	-
a) from profits	984.8	(150.5)	834.3	(1,832.8)	-	(47.6)	-	-	-	-	-	-	-	-	(1,046.1)	(1,046.1)	-
b) other	1,279.1	-	1,279.1	(1,398.7)	-	0.3	-	-	-	-	-	-	-	-	(119.3)	(119.3)	-
Valuation reserves	48.5	150.5	199.0	-	-	(2.5)	-	-	-	-	-	-	-	(105.3)	91.2	90.0	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

** The column "Changes in opening balances" reflects the impacts of the early adoption, on 1 January 2017, of IFRS 9 with reference to the presentation of profits and losses on fair value option financial liabilities attributable to changes in own creditworthiness.*

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 cash flow statement - indirect method

A. OPERATING ACTIVITIES	30 06 2018	31 12 2017*
1. Cash flow from operations	**304.1**	**1,092.4**
profit (loss) (+/-)	288.5	(3,502.2)
capital gains/losses on financial assets held for trading and on assets/liabilities measured at fair value through profit and loss (+/-)	24.9	60.0
net profit (loss) from hedging	(0.2)	3.7
net losses (recoveries) on impairment (+/-)	(54.5)	5,077.2
net losses/reversal on impairment on property, plant and equipment and on intangible assets (+/-)	124.4	289.3
net provisions for risks and charges and other costs/revenues (+/-)	54.8	245.3
tax espense (recovery) on income from continuing operations	(115.8)	(722.3)
other adjustments	(17.8)	(358.5)
2. Cash flow from (used in) financial assets	**(1,495.2)**	**12,298.9**
financial assets held for trading	(4,604.1)	425.0
other financial assets measured at fair value mandatory	(54.8)	-
Financial assets measured at fair value through other comprehensive income	(645.2)	963.4
Financial assets measured at amortised cost	3,868.2	10,059.3
other assets	(59.2)	851.2
3. Cash flow from (used in) financial liabilities	**(2,293.7)**	**(14,263.4)**
Financial liabilities measured at amortised cost	(1,210.7)	(11,683.2)
Financial liabilities held for trading	(1,224.0)	(462.2)
Financial liabilities desiganted at fair value	(41.7)	(1,012.0)
other liabilities	182.7	(1,106.1)
Net cash flow from (used in) operating activities	**(3,484.7)**	**(872.1)**

B. INVESTMENT ACTIVITIES		
1. Cash flow from	**146.6**	**575.6**
sales of equity investments	87.4	20.0
dividends collected on equity investments	6.6	20.0
sales of property, plant and equipment	-	9.3
sales of intagible assets	-	0.9
sales of subsidiaries and undertakings	52.6	525.4
2. Cash flow used in	**(29.7)**	**(185.7)**
purchase of equity investments	-	-
purchase of property, plant and equipment	(6.1)	(90.9)
purchase of intangible assets	(23.6)	(94.8)
Net cash flow from (used in) investment activities	**116.9**	**389.9**

C. FUNDING ACTIVITIES		
issue/purchase of treasury shares	(3.2)	3,850.3
dividend distribution and other	(0.1)	(360.2)
Net cash flow from (used in) funding activities	**(3.3)**	**3,490**

NET CASH FLOW FROM (USED IN) OPERATING, INVESTMENT AND FUNDING ACTIVITIES DURING THE YEAR	**(3,371.1)**	**3,007.8**

Reconciliation

Accounts	30 06 2018	31 12 2017*
Cash and cash equivalents at beginning of period	4,092.3	1,084.5
Net increase (decrease) in cash and cash equivalents	(3,371.1)	3,007.8
Cash and cash equivalents at end of period	721.2	4,092.3

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

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

Also note that the Group elected i) to continue to apply the hedge accounting requirements of IAS 39 and (ii) not to restate the comparative figures on a like-for-like basis in the year of first-time application of IFRS 9 and IFRS 15 and iii) to apply IFRS 9 early, limited to the treatment of the creditworthiness of fair value option financial liabilities.

IFRS 9 "Financial instruments" replaces IAS 39 "Financial instruments: recognition and measurement". The process of replacement of IAS 39 was promoted by the IASB, mainly in order to address worries that arose during the financial crisis regarding the promptness of the recognition of impairment of financial assets.

IFRS 9 was published by the IASB on 24 July 2014, and was approved at EU level, through the publication in the Official Journal of the European Union, of Regulation (EU) no. 2016/2067 of 22 November 2016.

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

IFRS 15 "Revenue from contracts with customers" replaces standards IAS 18 "Revenue" and IAS 11 "Construction contracts", as well as interpretations IFRIC 13 "Customer loyalty programmes", IFRIC 15 "Agreements for the construction of real estate", IFRIC 18 "Transfers of assets from customers" and SIC 31 "Revenue - barter transactions involving advertising services".

IFRS 15 was published by the IASB on 28 May 2014, and was approved at EU level, through the publication in the Official Journal of the European Union, of Regulation (EU) no. 2016/1905 of 22 September 2016.

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

- IFRIC 22 "*Foreign currency transaction and advance consideration*", which clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency;
- IFRS 2 "*Classification and Measurement of Share-based Payment Transactions*", which provides guidance with particular reference to:

- the effects of vesting conditions on the measurement of a share-based payment settled in cash;
- the classification of share-based payment transactions characterised by net settlement for tax purposes;
- the recognition of a change to the terms and conditions of a share-based payment, which changes the classification of the transactions from cash-settled to equity-settled;

- the Amendments set forth in the "Annual Improvements to IFRS Standards 2014-2016 Cycle", which regard:
  - IAS 28 "Investments in associates and joint ventures",
  - IFRS 1 "First-time adoption of International Financial Reporting Standards",
  - IFRS 12 "Disclosure of interests in other entities".

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

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 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 2017 for the Income Statement and those as at 31 December 2017 for the Balance Sheet[1], revised according to the new items of the 5th update to Circular 262 (see chapter "Transition to the accounting standards IFRS 9 and IFRS 15").

The Condensed consolidated half-year Financial Statements provide information concerning the first half-year of 2018, 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 condensed consolidated half-year financial statements as at 30 June 2018 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 review by the Independent Auditors EY S.p.A

[1] The comparative statement of comprehensive income and the cash flow statement are not re-stated as they do not provide significant information.

Transition to the accounting standards IFRS 9 and IFRS 15

This chapter illustrates the effects of the transition from IAS 39 “Financial instruments: recognition and measurement” and IAS 18 “Revenues”, whose provisions were applied up until 31 December 2017, to IFRS 9 “Financial instruments” and IFRS 15 “Revenue from contracts with customers”.

As set out in IAS 8 “Accounting policies, changes in accounting estimates and errors”, the effects of the transition to the new standards are accounted for under opening shareholders’ equity. In particular, both for IFRS 9 and IFRS 15, in accordance with the respective transition rules, the Group also relied on the right not to re-state like-for-like comparative data. The result is that the cumulated retrospective effects are booked to shareholders’ equity as at 1 January 2018.

In addition, the balance sheet and income statement balances relating to 2017 were conventionally restated on the basis of the new items of the 5th update to Circular no. 262 of the Bank of Italy. Therefore, the comparative data stated for several items are not fully comparable by virtue of the conventional assumptions used for their adjustment to the new balance sheet items and the different classification and measurement criteria used from 1 January 2018. For the conventions used in relation to the adjustment of the comparative data stated in the financial statements, please refer to subsequent paragraph “Methods of re-statement of the comparative data of the financial statements to take account of the 5th update to Circular no. 262 of the Bank of Italy”.

Furthermore, the Group, in relation to IFRS 9, already exercised the option, in the 2017 financial statements, to separately apply the rules relating to the accounting treatment of profits/losses relating to its credit rating of liabilities under the Fair Value Option (FVO); the result is that the effects of this accounting treatment do not represent adjustments for the transition to IFRS 9 as at 1 January 2018.

Again with regard to IFRS 9, it should be noted that, as regards the accounting of hedging operations, the Group exercised the option envisaged by the standard (IFRS 9 7.2.21), to continue to apply the provisions set forth in IAS 39.

Methods of re-statement of the comparative data of the financial statements to take account of the 5th update to Circular no. 262 of the Bank of Italy.

The comparative balances of 2017 of the consolidated balance sheet and income statement have been attributed on the basis of the new items of IFRS 9 introduced by the 5th update of the Bank of Itlay 262 Circular, with the following conventions:

balance sheet -assets

- The item 20 *Financial assets held for trading* has been restated under the item 20 *Financial assets mesasuer at fair value through profit and loss, a) Fiancial asset hel for trading*;
- Items 60 and 70 *Loans to banks* and *Loans to customers* has been restated under item 40 *Fiancial assets measured at amortised cost*, respectively in sub-items a) and b);
- Item 40 *Financial assets available for sale* has been restated under the item 30 *Financal assets measured at fair value through other comprehensive income*".

Balance sheet – liabilities:

- Item 10 *Deposits from banks*, 20 *Deposit from customers* and 30 *Debt securities issued*, has been restated under item 10 *Financial liabilities measured at amortised cost*, respectively in sub-items a), b) and c);
- in the new item "*b) Provisions for commitments and guarantees given*" under Liabilities, not present in IAS 39, the balances relating to said case were reclassified from the item "*Other liabilities*".

Income statement

- In the item 130 "*Net impairment (losses)/reversals for credit risk*:", the sub item "*a) loans*" have been renamend as "a) *financial assets measured at amortised cost*"; the sub item "*b) financial assets and other transactions"* have been renamend as "*b) financial assets measured at fair value through other comprehensive income*"
- The new subitem "*a) for credit risk relating to commitments and guarantees given*" of *Net allocations to provisions for risks and charges* acknowledges the reclassification of the impairment losses of the subitem "*d) other financial transactions*", which are no longer present under the write-downs of IFRS 9.

BALANCE SHEET - Assets

	Items according to the 4th update of Bank of Italy Circular No. 262/2005	31 12 2017	Reclassifications	31 12 2017 *		Items according to the 5th update of Bank of Italy Circular No. 262/2005
10	Cash and cash equivalents	4,092.3	-	4,092.3	10	Cash and cash equivalents
		-	-	8,718.0	20	Financial assets measured at fair value through profit and loss (IFRS 7 par. 8 lett. a))
20	Financial assets held for trading	8,718.0	-	8,718.0		*a) financial assets held for trading*
30	Financial assets designated at fair value	-	-	-		*b) financial assets designated at fair value*
		-	-	-		*c) other financial assets measured at fair value mandatory*
40	Fiancial assets available for sale	15,450.4	-	15,450.4	30	Financial assets measured at fair value through other comprehensive income (IFRS 7 par. 8 lett. h))
50	Financial assets held to maturity	-	-	96,422.5	40	Financial assets measured at amortised cost (IFRS 7 par. 8 lett. f))
60	Loans to banks	9,966.2	-	9,966.2		*a) Loans to banks*
70	Loans to customers	86,456.3	-	86,456.3		*b) Loans to customers*
80	Hedging derivatives	156.5	-	156.5	50	Hedging derivatives
90	Change in value of macro-hedged financial assets (+/-)	57.3	-	57.3	60	Change in value of macro-hedged financial assets (+/-)
100	Equity investments	1,034.6	-	1,034.6	70	Equity investments
110	Technical insurance reserves reassured with third parties	-	-	-	80	Technical insurance reserves reassured with third parties
120	Property, plant and equipment	2,571.0	-	2,571.0	90	Property, plant and equipment
130	Intangible assets	283.2	-	283.2	100	Intangible assets
	of which: goodwill	*7.9*	-	7.9		*- of wich goodwill*
140	Tax assets	3,815.3	-	3,815.3	110	Tax assets
	a) current	*878.5*	-	*878.5*		a) current
	b) deferred	*2,936.8*	-	*2,936.8*		b) deferred
	under Law. 214/2011	*1,313.1*	-	-		
150	Non-current assets and groups of assets held for sale and discontinued operations	4,595.1	-	4,595.1	120	Non-current assets and groups of assets held for sale and discontinued operations
160	Other assets	1,958.0	-	1,958.0	130	Other assets
	Total Assets	**139,154.2**	**-**	**139,154.2**		**Total Assets**

* *Comparative balances of 2017 restated on the basis of the new items of the 5th update to Circular no. 262 of the Bank of Italy*

BALANCE SHEET - Total Liabilities and Shareholders' Equity

	Items according to the 4th update of Bank of Italy Circular No. 262/2005	31 12 2017	Reclassifications	31 12 2017 *		Items according to the 5th update of Bank of Italy Circular No. 262/2005
		-	-	118,560.4	10	Financial liabilities measured at amortised cost
10	Loans to banks	21,084.9	-	*21,084.9*		a) loans to banks
20	Loans to customers	77,014.2	-	*77,014.2*		b) loans to customers
30	Debt securities issued	20,461.3	-	*20,461.3*		c) debts securities issued
40	Financial liabilities hel for trading	4,476.9	-	4,476.9	20	Financial liabilities held for trading
50	Financial liabilities designed at fair value	326.3	-	326.3	30	Financial liabilities designated at fair value
60	Hedging derivatives	691.4	-	691.4	40	Hedging derivatives
70	Fair value change of financial liabilities in hedged portfolio (+/-) (+/-)	(0.8)	-	(0.8)	50	Fair value change of financial liabilities in hedged portfolio (+/-)
80	Tax liabilities	58.6	-	58.7	60	Tax liabilities
	a) current	*1.3*	-	*1.3*		a) current
	b) deferred	*57.4*	-	*57.4*		b) deferred
90	Liabilities associated with non-current assets held for sale and discontinued operations	-	-	-	70	Liabilities associated with non-current assets held for sale and discontinued operations
100	Other liabilities	3,272.0	(226.4)	3,045.6	80	Other liabilities
110	Provision for employees severance pay	199.5	-	199.5	90	Provision for employees severance pay
120	Provision for risks and charges:	1,138.5	226.4	1,364.9	100	Provision for risks and charges:
		-	226.4	*226.4*		a) financial guarantees and other commitments
	a) post-employment benefits	*50.1*	-	*50.1*		b) post-employment benefits
	b) other provisions	*1,088.4*	-	*1,088.4*		c) other provisions
130	Technical reserves	-	-	-	110	Technical reserves
140	Valuation reserves	51.7	-	51.7	120	Valuation reserves
150	Redeemable shares	-	-	-	130	Redeemable shares
160	Equity instruments	-	-	-	140	Equity instruments
170	Reserves	3,864.8	-	3,864.8	150	Reserves
180	Share premium reserve	-	-	-	160	Share premium reserve
190	Share capital	10,328.6	-	10,328.6	170	Share capital
200	Treasury shares (-)	(313.7)	-	(313.7)	180	Treasury shares (-)
210	Non-controlling interests (+/-)	2.3	-	2.3	190	Non-controlling interests (+/-)
220	Profit (loss) (+/-)	(3,502.3)	-	(3,502.3)	200	Profit (loss) (+/-)
	Total liabilities and Shareholders' equity	**139,154.2**	**-**	**139,154.3**		**Total liabilities and Shareholders' equity**

* *Comparative balances of 2017 restated on the basis of the new items of the 5th update to Circular no. 262 of the Bank of Italy*

INCOME STATEMENT

Items according to the 4th update of Bank of Italy Circular No. 262/2005		30 06 2017	Reclassifications	30 06 2017 *	Items according to the 5th update of Bank of Italy Circular No. 262/2005	
10	Interest income and similar revenues	1,422.4		1,422.4	10	Interest income and similar revenues
		-		-		*of which interest income calculated applying the effective interest rate method*
20	Interest expense and similar charges	(526.1)		(526.1)	20	Interest expense and similar charges
30	**Net interest income**	**896.3**		**896.3**	**30**	**Net interest income**
40	Fee and commission income	1,035.2		1,035.2	40	Fee and commission income
50	Fee and commission expense	(177.7)		(177.7)	50	Fee and commission expense
60	**Net fee and commission income**	**857.5**		**857.5**	**60**	**Net fee and commission income**
70	Dividends and similar income	10.3		10.3	70	Dividends and similar income
80	Net profit (loss) from trading	23.4		23.4	80	Net profit (loss) from trading
90	Net profit (loss) from hedging	(1.8)		(1.8)	90	Net profit (loss) from hedging
100	Gains/(losses) on disposal/repurchase of:	18.8		18.8	100	Gains/(losses) on disposal/repurchase of:
	a) loans	*(0.4)*		*(0.4)*		*a) financial assets measured at amortised cost (IFRS 7 par. 20 lett a) vi))*
	b) financial assets available for sale	*22.1*		*22.1*		*b) Financial assets measured at fair value through other comprehensive income (IFRS 7 par 20 lett a) viii))*
	d) financial liabilities	*(2.9)*		*(2.9)*		*c) financial liabilities*
		-		(0.6)	110	Net profit (loss) form financial assets and liabilities measured at fair value through other comprehensive income (IFRS 7 par. 20 lett a) i))
110	Net profit (loss) from financial assets and liabilities designated at fair value	(0.6)		*(0.6)*		*a) financial assets and liabilities measured at fair value*
		-		-		*b) other financial assets mandatorily at fair value through profit or loss*
120	**Net interest and other banking income**	**1,803.9**		**1,803.9**	**120**	**Net interest and other banking income**
130	Net impairment (losses)/reversals on	(4,677.9)		(4,630.5)	130	Net impairment (losses)/reversals on
	a) loans	*(4,597.0)*		*(4,597.0)*		*a) financial assets measured at amortised cost*
	b) financial assets available for sale	*(33.5)*		*(33.5)*		*b) financial assets measured at fair value through other comprehensive income(IAS 1 par 82 lett ba))*
	d) other financial transactions	*(47.4)*	47.4	-		
		-		-	140	Modification gains/(losses)
140	**Net income from banking activities**	**(2,874.0)**		**(2,826.6)**	**150**	**Net income from banking activities**
150	Net insurance premiums	-		-	160	Net insurance premiums
160	Other net insurance income (expense)	-		-	170	Other net insurance income (expense)
170	**Net income from banking and insurance activities**	**(2,874.0)**		**-**	**180**	**Net income from banking and insurance activities**
180	Administrative expenses:	(1,428.1)		(1,428.1)	190	Administrative expenses:
	a) personnel expenses	*(799.5)*		*(799.5)*		*a) personnel expenses*
	b) other administrative expenses	*(628.6)*		*(628.6)*		*b) other administrative expenses*
		-		(106.4)	200	Net provision for risks and charges:
		-	(47.4)	*(47.4)*		*a) commitments and guarantees issued*
190	Net provision for risks and charges	(59.0)		*(59.0)*		*b) other net provisions*
200	Net adjustments to/recoveries on property, plant and equipment	(63.1)		(63.1)	210	Net adjustments to/recoveries on property, plant and equipment
210	Net adjustments to/recoveries on intangible assets	(77.7)		(77.7)	220	Net adjustments to/recoveries on intangible assets
220	Other operating expenses/income	177.4		177.4	230	Other operating expenses/income
230	**Operating expenses**	**(1,450.5)**		**(1,497.9)**	**240**	**Operating expenses**
240	Gains (losses) on investments	33.4		33.4	250	Gains (losses) on investments
250	Valuation differences on property, equipment and intangible assets	-		-	260	Valuation differences on property, equipment and intangible assets
260	Impairment on goodwill	-		-	270	Impairment on goodwill
270	Gains (losses) on disposal of investments	531.7		531.7	280	Gains (losses) on disposal of investments
280	**Profit (loss) before tax from continuing operations**	**(3,759.4)**		**(3,759.4)**	**290**	**Profit (loss) before tax from continuing operations**
290	Tax (expense)/recovery on income from continuing operations	516.7		516.7	300	Tax (expense)/recovery on income from continuing operations
300	**Profit (loss) after tax from continuing operations**	**(3,242.7)**		**(3,242.7)**	**310**	**Profit (loss) after tax from continuing operations**
310	Profit (loss) after tax from groups of assets held for sale and discontinued operations	-		-	320	Profit (loss) after tax from groups of assets held for sale and discontinued operations
320	**Profit (loss)**	**(3,242.7)**		**(3,242.7)**	**330**	**Profit (loss)**
330	Profit (loss) attributable to non-controlling interests	(0.1)		(0.1)	340	Profit (loss) attributable to non-controlling interests
340	**Parent company's net profit (loss)**	**(3,242.6)**	**-**	**(3,242.6)**	**350**	**Parent company's net profit (loss)**

* *Comparative balances of 2017 restated on the basis of the new items of the 5th update to Circular no. 262 of the Bank of Italy*

Impacts of the transition as at 1 January 2018 to the accounting standards IFRS 9 and IFRS 15

The tables of reconciliation between the items of balance sheet assets and liabilities, published in the consolidated financial statements as at 31 December 2017, and the items introduced by the 5th update to Circular 262 "Bank financial statements: compilation schemes and rules" of the Bank of Italy, are indicated below.

The tables include both the impacts of the transition to IFRS 9 and IFRS 15, and some reclassifications specifically required by the 5th update to Circular 262.

BALANCE SHEET – ASSETS

	Items according to the 4th update of Bank of Italy Circular No. 262/2005	31 12 2017 Total	Reclassification (IAS 2)	IFRS 9 Classification	IFRS 9 Measurment: other	IFRS 9 Measurment: impairment	IFRS 15	01 01 2018 Total		Items according to the 4th update of Bank of Italy Circular No. 262/2005	notes
10	Cash and cash equivalents	4,092.3	-	-	-	-	-	4,092.3	10	Cash and cash equivalents	
		-	-	1,161.9	22.8	-	-	9,902.7	20	Financial assets measured at fair value through profit and loss (IFRS 7 par. 8 lett. a))	
20	Financial assets held for trading	8,718.0	-	-	-	-	-	*8,718.0*		*a) financial assets held for trading*	
30	Financial assets designated at fair value	-	-	-	-	-	-	-		*b) financial assets designated at fair value*	
		-	-	*1,161.9*	*22.8*	-	-	*1,184.8*		*c) other financial assets measured at fair value mandatory*	a)
40	Fiancial assets available for sale	15,450.4	-	(1,038.2)	-	-	-	14,412.3	30	Financial assets measured at fair value through other comprehensive income (IFRS 7 par. 8 lett. h))	b)
50	Financial assets held to maturity	-	-	(123.7)	148.5	(1,494.6)	-	94,952.7	40	Financial assets measured at amortised cost (IFRS 7 par. 8 lett. f))	c)
60	Loans to banks	9,966.2	-	*14.7*	*(5.3)*	*2.8*	-	*9,978.4*		*a) Loans to banks*	
70	Loans to customers	86,456.4	-	*(138.4)*	*153.8*	*(1,497.4)*	-	*84,974.4*		*b) Loans to customers*	
80	Hedging derivatives	156.5	-	-	-	-	-	156.5	50	Hedging derivatives	
90	Change in value of macro-hedged financial assets (+/-)	57.3	-	-	-	-	-	57.3	60	Change in value of macro-hedged financial assets (+/-)	
100	Equity investments	1,034.6	-	-	-	-	-	1,034.6	70	Equity investments	
110	Technical insurance reserves reassured with third parties	-	-	-	-	-	-	-	80	Technical insurance reserves reassured with third parties	
120	Property, plant and equipment	2,571.0	33.5	-	-	-	-	2,604.5	90	Property, plant and equipment	d)
130	Intangible assets	283.2	-	-	-	-	-	283.2	100	Intangible assets	
	of which: goodwill	*7.9*	-	-	-	-	-	*7.9*		*of which: goodwill*	
140	Tas assets	3,815.3	-	(3.2)	(13.3)	15.6	8.4	3,822.9	110	Tas assets	e)
	a) current	*878.5*	-	-	0.6	5.2	-	*884.4*		*a) current*	
	b) deferred	*2,936.8*	-	(3.2)	(13.9)	10.4	8.4	*2,938.5*		*b) deferred*	
150	Non-current assets and groups of assets held for sale and discontinued operations	4,595.1	-	-	-	-	-	4,595.1	120	Non-current assets and groups of assets held for sale and discontinued operations	
160	Other assets	1,957.7	(33.5)	-	-	-	-	1,924.2	130	Other assets	d)
	Total Assets	**139,154.2**	**-**	**(3.2)**	**158.0**	**(1,479.0)**	**8.4**	**137,838.5**		**Total Assets**	

a) The impact of the classification to the item "20 c) other financial assets measured at fair value as per mandatory requirements", is EUR 1,161.9 mln and is attributable to securities and loans that failed the SPPI (Solely Payments of Principal and Interest) test.
The causes of failure of the SPPI test for loans are due mainly to non-recourse assets, the methods of repayment subject to liquidity events and/or "pay if you can" type clauses or "now instead of then" waivers. Other instruments that failed the SPPI test mainly include shares in UCITS, securities with clauses that allow the non-payment of interest and mandatory convertible bonds. The reclassifications also concerned the equity tranches of securitisations, participating financial instruments and other equities, other than shares, involving an insignificant amount.
The subsequent recognition at fair value, rather than at amortised cost, involved a total increase of EUR 22.8 mln (see measurement column - other) in the value of reclassified financial instruments.

b) The decrease of EUR 1,038.2 mln is due: i) to financial instruments such as UCITS that failed the SPPI test and non-share equities, for EUR 206.3 mln and ii) the classification of bonds, predominantly government, relating to the Held to Collect (HTC) business model, for EUR 831.9 mln.

c) The classification under "Financial assets measured at amortised cost", with a negative impact of EUR 123.7 mln, was impacted by: i) EUR +831.9 mln of former "Financial assets available

for sale" classified at amortised cost given relating to the perimeter of the HTC business model, ii) EUR -955.6 mln in bonds and loans that failed the SPPI test.
The positive impact of measurement, amounting to EUR 148.5 mln, other than impairment, is due primarily to the shift from the fair value method to the amortised cost method of former "Financial assets available for sale" government bonds (EUR 154.2 mln).
By contrast, as regards the effect of the introduction of the new impairment model, a negative impact of EUR 1,497.4 mln was recorded on loans to customers, attributable for EUR 1,496.7 mln to loans and EUR 0.7 mln to bonds. The impact was a positive EUR 2.8 mln for loans to banks.

d) The 5th update to Circular 262 of the Bank of Italy specifies that the "Tangible assets" also include inventories of tangible assets regulated by IAS 2: therefore, inventories of goods of EUR 33.5 mln were reclassified from "Other assets" to "Tangible assets".

e) The impacts on the item "Tax assets" are due mainly to the component "b) deferred; in particular, the latter decreased by EUR 13.9 mln, primarily due to the elimination of the negative valuation reserve of securities former "Financial assets available for sale" reclassified at amortised cost and increased, also due to the positive effect of the probability test, by EUR 10.4 mln.

The increase recorded in IFRS 9 loss provisions at the time of transition as at 1 January 2018 is attributable to the new provisions regarding impairment (higher Expected Credit Losses – ECL) on cash and unsecured exposures. A reconciliation of gross exposures and loss provisions of the portfolios subject to impairment is reported hereunder.

Reconciliation of gross exposures and IAS 39 funds - IFRS 9 (ref .: IFRS 7, paragraph 42P)

IAS 39 *item 40 - Finanancial assets available for sale* *item 60 - Loans to banks* *item 70 - Loans to customers* *item 150 - Non-current assets and groups of assets held for sale and discontinued operations*		*Interest on arrears (according to the 5th update of Bank of Italy Circular No. 262/2005)*	*Reclassification from items 60 "Loans to banks) and 70 "Loans to customers" - IAS39, in itmes "Financial assets measured at amortised cost" - IFRS 9*	*Reclassification from item 40 "Financial asset available for sale" - IAS 39, in item 20 "financial asset measured at fair value through other comprehensive income" - IFRS9*	*Reclassification from item 40 "Financial asset available for sale" - IAS 39, in item 40 "Financial assets measured at amortised cost" IFRS 9*	*New Balance-sheet exposure included in IFRS 9 perimeter (according to the 5th update of Bank of Italy Circular N° 262/2005)*	*Difference between loss (recoveries) on impairment IAS 39 and loss (recoveries) on impairment IFRS 9*	**IFRS 9** *item 30 - Financial assets measured at fair value through other comprehensive income* *item 40 - Financial assets measured at amortised cost* *item 120 - Non-current assets and groups of assets held for sale and discontinued operations*	
Performing gross esxposure									
Balance-sheet exposure	101,793.9	(4.0)	(497.1)	(36.0)	148.5	-	-	-	
Off- balance-sheet exposure	12,714.8	-	-	-	-	33,295.2	-	-	Stage 1
	-	-	-	-	-	-	-	83,898.1	Balance-sheet exposure
	-	-	-	-	-	-	-	42,106.0	Off- balance-sheet exposure
	-	-	-	-	-	-	-	-	Stage 2
	-	-	-	-	-	-	-	17,507.1	Balance-sheet exposure
	-	-	-	-	-	-	-	3,904.0	Off- balance-sheet exposure
Performing gross esxposure	**114,508.7**	**(4.0)**	**(497.1)**	**(36.0)**	**148.5**	**33,295.2**	**-**	**147,415.3**	
Performing gross esxposure									Stage 3
Balance-sheet exposure	45,118.7	(2,183.6)	(1,122.3)	(9.4)	-	-	-	41,803.5	Balance-sheet exposure
Off- balance-sheet exposure	699.2	-	-	-	-	1,070.0	-	1,769.2	Off- balance-sheet exposure
Non performing gross exposure	**45,818.0**	**(2,183.6)**	**(1,122.3)**	**(9.4)**	**-**	**1,070.0**	**-**	**43,572.7**	
Total gross exposure	**160,326.6**	**(2,187.6)**	**(1,619.4)**	**(45.4)**	**148.5**	**34,365.3**	**-**	**190,988.0**	
Performing loan loss provisions									
Loan loss provision on balance-sheet exposure	(563.9)	4.0	1.7	-	-	-	-	-	
Loan loss provision on Off-balance sheet exposure	(89.5)	-	-	-	-	-	-	-	Stage 1
	-	-	-	-	-	-	84.3	(90.0)	Loan loss provision on balance-sheet exposure
	-	-	-	-	-	-	(1.1)	(78.9)	Loan loss provision on Off-balance sheet exposure
	-	-	-	-	-	-	-	-	Stage 2
	-	-	-	-	-	-	(378.3)	(762.2)	Loan loss provision on balance-sheet exposure
	-	-	-	-	-	-	(0.8)	(12.5)	Loan loss provision on Off-balance sheet exposure
Performing loan loss provisions	**(653.3)**	**4.0**	**1.7**	**-**	**-**	**-**	**(296.0)**	**(943.6)**	
Non-Performing loan loss provisions									Stage 3
Loan loss provision on balance-sheet exposure	(30,308.8)	2,183.6	662.1	1.1	-	-	(1,200.9)	(28,663.0)	Loan loss provision on balance-sheet exposure
Loan loss provision on Off-balance sheet exposure	(136.8)	-	-	-	-	-	(40.0)	(176.8)	Loan loss provision on Off-balance sheet exposure
Non performing loan loss provisions	**(30,445.7)**	**2,183.6**	**662.1**	**1.1**	**-**	**-**	**(1,240.9)**	**(28,839.8)**	
Total loans loss provisions	**(31,099.0)**	**2,187.6**	**663.8**	**1.1**	**-**	**-**	**(1,536.8)**	**(29,783.3)**	
Perfoming net exposure									
Balance-sheet exposure	101,230.0	-	(495.5)	(36.0)	148.5	-	-	-	
Off-balance sheet exposure	12,625.3	-	-	-	-	33,295.2	-	-	Stage 1
	-	-	-	-	-	-	84.3	83,808.2	Balance-sheet exposure
	-	-	-	-	-	-	(1.1)	42,027.1	Off-balance sheet exposure
	-	-	-	-	-	-	-	-	Stage 2
	-	-	-	-	-	-	(378.3)	16,744.9	Balance-sheet exposure
	-	-	-	-	-	-	(0.8)	3,891.5	Off-balance sheet exposure
Performing net exposure	**113,855.3**	**-**	**(495.5)**	**(36.0)**	**148.5**	**33,295.2**	**(296.0)**	**146,471.7**	
Non performing net exposure									Stage 3
Balance-sheet exposure	14,809.9	-	(460.1)	(8.4)	-	-	(1,200.9)	13,140.5	Balance-sheet exposure
Off-balance sheet exposure	562.4	-	-	-	-	1,070.0	(40.0)	1,592.5	Off-balance sheet exposure
Non performing net exposure	**15,372.3**	**-**	**(460.1)**	**(8.4)**	**-**	**1,070.0**	**(1,240.9)**	**14,732.9**	
Total Net exposure	**129,227.6**	**-**	**(955.6)**	**(44.3)**	**148.5**	**34,365.3**	**(1,536.8)**	**161,204.6**	

BALANCE SHEET - LIABILITIES AND SHAREHOLDERS' EQUITY

Items according to the 4th update of Bank of Italy Circular No. 262/2005	31 12 2017	Reclassifications	IFRS 9			IFRS 15	01 01 2018	Items according to the 5th update of Bank of Italy Circular No. 262/2005	notes
	Total		Classification	Measurment: other	Measurment: impairment		*Total*		
	-	-	-	-	-	-	118,560.4	10 Financial liabilities measured at amortised cost (IFRS 7 par. 8 lett. g))	
10 Loans to banks	21,084.9	-	-	-	-	-	*21,084.9*	*a) loans to banks*	
20 Loans to customers	77,014.2	-	-	-	-	-	*77,014.2*	*b) loans to customers*	
30 Debt securities issued	20,461.3	-	-	-	-	-	*20,461.3*	*c) debts securities issued*	
40 Financial liabilities hel for trading	4,476.9	-	-	-	-	-	4,476.9	20 Financial liabilities held for trading	
50 Financial liabilities designed at fair value	326.3	-	-	-	-	-	326.3	30 Financial liabilities designated at fair value	
60 Hedging derivatives	691.4	-	-	-	-	-	691.4	40 Hedging derivatives	
70 Fair value change of financial liabilities in hedged portfolio (+/-)	(0.8)	-	-	-	-	-	(0.8)	50 Fair value change of financial liabilities in hedged portfolio (+/-)	
80 Tax liabilities	58.6	-	3.2	(2.0)	5.8	-	65.7	60 Tax liabilities	
a) current	*1.3*	-	5.8	0.0	0.0	-	*7.0*	*a) current*	
b) deferred	*57.4*	-	(2.6)	(2.0)	5.9	-	*58.7*	*b) deferred*	
90 Liabilities associated with non-current assets held for sale and discontinued operations	-	-	-	-	-	-	-	70 Liabilities associated with non-current assets held for sale and discontinued operations	
100 Other liabilities	3,272.0	(226.4)	-	-	-	-	3,045.6	80 Other liabilities	a)
110 Provision for employees severance pay	199.5	-	-	-	-	-	199.5	90 Provision for employees severance pay	
120 Provision for risks and charges:	1,138.5	226.4	-	-	41.9	25.6	1,432.4	100 Provision for risks and charges:	b)
	-	226.4	-	-	41.9	-	*268.3*	*a) financial guarantees and other commitments*	
a) post-employment benefits	*50.1*	-	-	-	-	-	*50.1*	*b) post-employment benefits*	
b) other provisions	*1,088.4*	-	-	-	-	25.6	*1,114.0*	*c) other provisions*	
130 Technical reserves	-	-	-	-	-	-	-	110 Technical reserves	
140 Valuation reserves	51.7	-	(45.7)	99.7	13.8	-	119.5	120 Valuation reserves	c)
AFS Equity instruments gross value	(28.4)	-	(49.2)	-	-	-	(77.6)	*OCI Equity instruments gross value*	
AFS Debt instruments gross value	200.9	-	2.0	148.5	20.2	-	367.6	*OCI Debt instruments gross value*	d)
Tax effects	(23.6)	-	5.5	(48.8)	(6.4)	-	(73.2)	*Tax effects*	
Others: gross value	(97.3)	-	-	-	-	-	(97.3)	*Others: gross value*	
150 Redeemable shares	-	-	-	-	-	-	-	130 Redeemable shares	
160 Equity instruments	-	-	-	-	-	-	-	140 Equity instruments	
170 Reserves	3,864.8	-	39.2	60.4	(1,540.6)	(17.2)	2,406.7	150 Reserves	e)
	-	-	51.2	22.8	(1,557.0)	(25.6)	*(1,508.5)*	*FTA earning reserve gross value*	
	-	-	(12.0)	37.5	16.4	8.4	*50.4*	*FTA earning reserve tax effect*	
others	3,864.8	-	-	-	-	-	*3,864.8*	*others*	
180 Share premium reserve	-	-	-	-	-	-	-	160 Share premium reserve	
190 Share capital	10,328.6	-	-	-	-	-	10,328.6	170 Share capital	
200 Treasury shares (-)	(313.7)	-	-	-	-	-	(313.7)	180 Treasury shares (-)	
210 Non-controlling interests (+/-)	2.3	-	-	-	-	-	2.3	190 Non-controlling interests (+/-)	
220 Profit (loss) (+/-)	(3,502.3)	-	-	-	-	-	(3,502.3)	200 Profit (loss) (+/-)	
Total liabilities and Shareholders' equity	**139,154.2**	**-**	**(3.2)**	**158.0**	**(1,479.0)**	**8.4**	**137,838.5**	**Total liabilities and Shareholders' equity**	

a) Provisions for risks regarding commitments to disburse funds and the financial guarantees given, subject to the measurement rules of IFRS 9, are accounted for under the new item "100a) Provisions for risks and charges: commitments and financial guarantees given. Therefore, reclassified provisions for risks on commitments and guarantees were reclassified to this new subitem, amounting to EUR 226.4 mln, previously stated under "Other liabilities".

b) Item 100 "Provisions for risks and charges" was impacted not only by the reclassification of EUR 226.4 mln, pursuant to the previous point, but i) EUR 41.9 mln in higher write-downs on commitments to disburse funds and the financial guarantees given, due to the application of model IFRS 9 and ii) EUR 25.6 mln in provisions due to the application of IFRS 15.

c) Item 120 "Valuation reserves" was impacted positively, net of tax effects, for an amount of EUR 67.8 mln, attributable: i) to a different valuation model, for EUR 99.7 mln (attributable mainly to the elimination of the valuation reserves of securities with the HTC business model[2]), ii) the variation in the portfolio, amounting to EUR -45.7 mln (mostly due to the elimination of IAS 39 write-downs on OCI option equities[3]) and iii) the accounting of adjustments on "Financial assets measured at fair value through comprehensive income" for EUR +13.8 mln (and, at the same time, EUR -13.8 mln on the FTA earnings reserve).

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[2] It should be noted that said securities (former "Financial assets available for sale" reclassified to "Financial assets measured at amortised cost"), in the absence of reclassification, would have recorded a fair value change in the half of EUR -45.4 mln.

[3] At the time of initial recognition, the entity can irrevocably choose to present, under other comprehensive income, any subsequent changes in the fair value of an investment in an equity instrument falling under the scope of application of IFRS 9, that is neither held for trading nor a contingent consideration recorded by a purchaser in a business combination to which IFRS 3 is applied.

d) Valuation reserves on debt securities was subject to the already mentioned positive impact of measurement, amounting to EUR 148.5 mln, due mainly to the elimination of the valuation reserves of the securities reclassified at amortised cost (EUR 154.2 mln).

e) The negative impact, totalling EUR 1,458.1 mln, net of the tax effect, on the item "150 Reserves" is attributable, for EUR 1,440.9 mln, to the transition to IFRS 9 and, for EUR 17.2 mln, to the transition to IFRS 15.

The impact on the item "150 Reserves" relating to the transition to IFRS 9 is represented, in short, by the following cases:

- EUR -1,557.0 mln before tax for the application of the new impairment model, of which:
  - EUR -292.8 mln for performing cash exposures due mainly to the inclusion of lifetime expected losses on performing assets classified as stage 2 as a result of the significant increase of the borrower's credit risk with respect to that existing at the moment of initial recognition of the receivable in the financial statements;
  - EUR -1,200.9 mln for non-performing cash exposures, due mainly to the inclusion of the scenario of the sale of those portfolios whose disposal is envisaged;
  - EUR -41.9 mln for off-balance sheet exposures relating to commitments to disburse funds and guarantees given;
  - EUR -21.4 mln in impairment on debt securities.
- EUR +22.8 mln as the effect of the measurement at fair value resulting from the reclassification of securities and receivables from "financial assets measured at amortised cost" to "financial assets measured at fair value as per mandatory requirements", due to the fact that certain financial instruments did not pass the SPPI test.
- EUR +51.3 mln for the reclassification under valuation reserves (of equities for EUR 49.2 mln and debt securities for EUR 2.1 mln) and FTA earnings reserves.

A reconciliation is provided below of equity as at 31 December 2017 and equity as at 1 January 2018 after the transition to IFRS 9 and IFRS 15, detailing the column "Changes in opening balances" of the Statement of changes in equity (see condensed consolidated half-year financial statement). The effects on the shareholders' equity of the Group amounted to –EUR 1,390.4 mln, of which –EUR 1,536.8 mln as the overall impact of the new IFRS 9 impairment model.

		Classification and measurment				Impairment										
				Reserve reclassifications		Evaluation loans measured at amortised cost		Evaluation debt securities measurd at			Reclassification reserves on financial assets measured at fair value through other comprehensive					
	Group Net Equity as at 31 12 2017	Change in business model	SPPI test failure	Valutation reserves	Earning reserves	Performing	Non performing	Performing	Non performing	Provision for financial guarantees and other commitments	Riserve da valutazione	Earning reserves	IFRS 15 effects charged to Equity	Tax effects	Total adjustments on Group Net Equity as at 01 01 2018	Group Net Equity as at 01 01 2018
Total Equity	10,431.4	148.5	22.8	(51.3)	51.3	(292.8)	(1,200.9)	(1.2)	-	(41.9)	20.2	(20.2)	(25.6)	0.7	(1,390.4)	9,041.0
Group Equity	10,429.1	148.5	22.8	(51.3)	51.3	(292.8)	(1,200.9)	(1.2)	-	(41.9)	20.2	(20.2)	(25.6)	0.7	(1,390.4)	9,038.7
Non-controlling interests	2.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2.3

Accounting standards

The accounting standards are described below which, with reference to the main balance sheet assets and liabilities, were modified from 1 January 2018 as a result of the entry into force of IFRS 9 (which replaced IAS 39) and IFRS 15 (which replaced IAS 11 and IAS 18 and interpretations IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31).

Financial assets measured at fair value through profit and loss

Financial assets other than those classified under "Financial assets measured at fair value through comprehensive income" and "Financial assets measured at amortised cost", are included under item "20 Financial assets measured at fair value through profit and loss".

a) recognition criteria

Initial recognition of debt securities and equities occurs at the settlement date. For loans and receivables, recognition in the financial statements occurs on the date of disbursement.

Upon initial recognition, financial assets measured at fair value through profit and loss are recognised at fair value, which usually corresponds to the amount paid, without considering transaction costs or revenues directly attributable to the instrument, which are directly recognised in the income statement.

b) classification criteria

The following are classified in this category:

- item "20.a) Financial assets measured at fair value through profit and loss: financial assets held for trading" includes financial assets held for trading. The item includes financial assets that:
  - are managed with the objective of generating cash flows through their sale, given:
    - acquired or incurred primarily for the purpose of selling or repurchasing them in the short-term;
    - part of a portfolio of identified financial instruments that are managed on an individual basis and for which there is proven existence of a recent and effective strategy targeted at earning a profit in the short-term;
  - derivatives (with the exception of derivatives that represent a financial guarantee contract or designated and effective hedging instruments).
- item "20.b) financial assets measured at fair value through profit and loss: financial assets designated at fair value" includes financial assets, designated irrevocably at the time of initial recognition, if by classifying in this manner, a valuation inconsistency is eliminated or reduced significantly. This category is not used by the Group at present;
- the following are classified under item "20.c) Financial assets measured at fair value through profit and loss: financial assets measured at fair value as per mandatory requirements":
  - Debt securities, loans and receivables, when the relative contractual flows do not represent solely payments of principal and interest on the residual capital (Solely Payment of Principal and Interest - SPPI - test failed);
  - equities held for purposes other than trading for which the option of classification at fair value[4] through comprehensive income is exercised.

c) measurement criteria

After initial recognition, financial assets measured at fair value through profit and loss are recorded at fair value, with changes recognised as a contra-item in the income statement.

d) derecognition criteria

Financial assets are derecognised upon maturity of the contractual rights on the cash flows resulting from the assets, when the financial assets are sold by transferring substantially all related risks/benefits or when the financial asset is subject to significant changes.

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[4] Please refer to the 2017 financial statements for the fair value calculation methods.

e) revenue recognition criteria

Gains and losses arising from any changes in the fair value of a financial assets held for trading are recognised in profit and loss under item “80 Net trading income (expenses)”, while gains and losses deriving from the fair value change of financial assets measured at fair value as per mandatory requirements are booked to the income statement under item “110b - Net profit / loss from financial assets and liabilities measured at fair value through profit and loss as per mandatory requirements”.

Financial assets measured at fair value through comprehensive income

a) recognition criteria

Financial assets are initially recognised on the date of settlement, with reference to debt or equity instruments, and on the date of disbursement, with reference to loans and receivables.

On initial recognition, the assets are measured at their fair value which normally corresponds to the price paid, inclusive of transaction costs or income directly attributable to the instrument.

b) classification criteria

This category includes:

- financial assets represented by debt instruments, managed under a ‘held to collect and sell business model’[5]*, whose contractual flows represent solely payments of principal and interest on the residual capital (Solely Payment of Principal and Interest - SPPI - test passed);*
- financial assets represented by equities, held under a non-trading business model, for which, on first-time recognition, the option for the recognition in the statement of comprehensive income of changes in fair value after first-time recognition in the financial statements (OCI election) has been irrevocably exercised.

c) measurement criteria

Financial instruments represented by debt instruments, following initial recognition, continue to be measured at fair value, with recognition in the income statement of interest (based on the effective interest rate method) and expected credit losses (for more details please refer to the paragraph “Impairment” in this section). Fair value changes, net of expected credit losses, are booked to the appropriate equity reserve net of the associated tax effect (item “120. “Valuation reserves”).

Financial assets represented by equities, following initial recognition, continue to be measured at fair value, with changes booked to the appropriate equity reserve net of the associated tax effect (item “120. “Valuation reserves”).

d) derecognition criteria

Financial assets are derecognised upon maturity of the contractual rights on the cash flows resulting from the assets, when the financial assets are sold by transferring substantially all related risks/benefits or when the financial asset is subject to significant changes.

e) revenue recognition criteria

As regards financial instruments represented by debt instruments:

- expected credit losses recognised in the period are accounted for in item “130 - “Net impairment (losses)/reversals for credit risk of: b) financial assets measured at fair value through comprehensive income”;

[5] Financial instruments held for sale within the framework of a business model whose objective is achieved through both the collection of cash flows and sale of said instruments can be associated to the Held to Collect & Sell Business Model.

- at the moment of derecognition, valuations accumulated in the specific equity reserve are reversed to the income statement under item "100 - Gains/losses from sale/repurchase of: b) financial assets measured at fair value through comprehensive income".

As regards financial instruments represented by equities, for which the so-called "OCI election" was exercised, only dividends are booked to the income statement (item "70. Dividends and similar income"). Fair value changes following first-time recognition are booked to an appropriate equity reserve (item "120. Valuation reserves"); in the event of derecognition of the asset, the accumulated balance of this reserve is not reversed to the income statement but is reclassified under earnings reserves of equity (item "150. Reserves").

Financial assets measured at amortised cost

a) recognition criteria

Financial assets are initially recognised on the date of settlement for debt instruments, and on the date of disbursement, with reference to loans and receivables; the following are included in said item;

- loans to banks;
- loans to customers.

The initial value is determined on the basis of the fair value of the financial instrument, normally equal to the amount disbursed, inclusive of the expenses/income directly related to the individual instrument and determinable as of the transaction date, even if such expenses/income are settled at a later date. This does not include costs which have these characteristics but are subject to repayment by the debtor or which can be encompassed in ordinary internal administrative expenses.

b) classification criteria

Financial assets represented by debt instruments, managed under a 'held to collect business model'[6]*, whose contractual flows represent solely payments of principal and interest on the residual capital (Solely Payment of Principal and Interest - SPPI - test passed) are included in this category.*

The portfolio of financial assets measured at amortised cost includes the entire loan portfolio, managed under a held to collect business model, net of loans that fail the SPPI test and which, consequently, are classified to the portfolio of financial assets measured at fair value as per mandatory requirements.

This category also includes debt securities, predominantly government bonds, managed as part of a held to collect model.

c) measurement criteria and revenue recognition criteria

Following initial recognition, financial assets booked to this category are measured at amortised cost.

The amortised cost is equal to the difference between the gross carrying amount and the bad debt provision determined by expected credit losses.

The gross carrying amount is equal to the first-time recognition value, decreased/increased by:

- principal repayments;
- amortisation – calculated using the effective interest rate method – of the difference between the amount disbursed and the amount repayable upon maturity, typically attributable to the costs/income directly charged to each receivable;
- gains/losses from granting.

[6] Financial instruments held within the framework of a business model whose objective is ownership of said instruments for the purpose of collecting cash flows can be associated to the Held to Collect Business Model.

The amortised cost method is not used for short-term receivables, for which the effect of applying a discounting logic is negligible. Similar valuation criteria are adopted for receivables with no specific maturity or subject to revocation.

At each year-end or interim reporting date, financial assets measured at amortised cost are subject to impairment through the recognition of expected credit losses (for more information please refer to the paragraph "impairment" of this section).

Expected credit losses are booked immediately to the income statement under item "130. Net impairment (losses)/reversals for credit risk" as with total or partial recoveries of the amounts subject to previous write-downs. Reversals are booked in respect of improved quality of the exposure as such to involve a decrease in the total write-down recognised previously.

d) derecognition criteria

Financial assets measured at amortised cost are derecognised in the event one of the following cases is verified:

- the contractual rights on the cash flows deriving from the same expire;
- the financial asset is sold with the substantial transfer of all risks and benefits resulting from ownership;
- the financial asset is written off since there are no longer any reasonable expectations regarding the recovery of the financial asset, including cases of relinquishment of the asset;
- the entity retains the contractual right to receive cash flows from the financial assets, but simultaneously assumes the contractual obligation to pay said flows to a third party (pass through arrangements);
- the contract is subject to "substantial" changes.

In the event of derecognition, the difference between the carrying amount of the asset at the derecognition date and consideration received, inclusive of any assets received net of any liabilities assumed, must be recognised in the income statement, under item "100. a) Profits/(Losses) from disposal or repurchase of: financial assets measured at amortised cost" in the event of transfer and, in all other cases, under item "130. Net impairment (losses)/reversals for credit risk".

Tangible assets

The 5th update to Circular 262 of the Bank of Italy required inventories of tangible assets governed by IAS 2 to be recognised under said item.

Hedging transactions

The Group availed itself of the possibility, envisaged on first-time application of IFRS 9, to continue to use, as regards "hedge accounting", the provisions of IAS 39 (carved out version endorsed by the European Commission) for all types of hedge (both micro and macro hedges).

For further information on the accounting policies of "Hedging transactions", reference should be made to the Notes to the 2017 Consolidated Financial Statements, Part A "Accounting Policies".

Provisions for risks and charges

The 5th update to Circular 262 of the Bank of Italy requires subitem 100 (a) "Provisions for risks and charges: commitments and guarantees given" to be included in said item, which includes the impairment adjustments of the commitments to disburse loans and the guarantees given which are not measured at fair value through profit and loss. As regards the associated valuation methodologies, please refer to the paragraph "Impairment" in this section.

As regards subitems "100b - Provisions for risks and charges: retirement and similar obligations" and "100c - Provisions for risks and charges: other provisions", please refer to the Notes to the 2017 Consolidated Financial Statements, Part A "Accounting Policies".

Revenue from customers

Standard IFRS 15 "Revenue from contracts with customers", which entered into force on 1 January 2018, introduces a new model for the recognition of revenues when the counterparty is a customer.[7].

For first-time application, the Group opted for the "Cumulative Effect Method", which envisages:

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

Entities must apply IFRS 15 to all contracts with customers, with the exception of:

- leases falling under the scope of application of IAS 17 "Leases":
- insurance contracts falling under the scope of application of IFRS 4 "Insurance contracts";
- these financial instruments and other contractual rights and obligations falling under the scope of application of: IFRS 9 "Financial instruments", IFRS 10 "Consolidated financial statements", IFRS 11 "Joint Arrangements", IAS 27 "Separate financial statements" and IAS 28 "Investments in associates and joint ventures";
- non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers;
- rights and obligations that fall under the scope of application of other standards.

a) new model for accounting for revenue from customer

For the purposes of revenue recognition, IFRS 15 is based on the concept of the transfer of control and, therefore, not solely on the concept of transfer of risks and benefits and proposes a single model based on five fundamental steps.

For the purposes of identifying the contract (first step), a contract only exists if all the following criteria are met;

- the parties to the contract has approved the contract and are committed to fulfilling the respective obligations;
- the entity can identify the rights of each of the parties as regards the goods or services to be transferred;
- the entity can identify the payment terms of the goods or services to be transferred;
- the contract has commercial substance (i.e. risk, timescale or amount of future cash flows of the entity are destined to change after the contract); and
- the entity is likely to receive the consideration to which it is entitled in exchange for the goods or services that will be transferred to the customer. In the evaluating the likelihood of receiving the amount of the consideration, the entity must only take account of the customer's intention and capacity to pay the amount of the consideration when due.

In relation to each contract, the new standard requires the individual contractual performances to be identified (second step), which represent the reference element for allocation of the price of the transaction to the different products and/or services offered.

For the purposes of determining the transaction process (third step), the consideration is defined as the amount to which the entity expects to be entitled in exchange for the transfer of goods and services. In

[7] The customer is the party that stipulated the contract with the entity in order to obtain, in exchange for a consideration, goods or services that are the result of the entity's ordinary activities.

the event in which the price includes a component of variable remuneration, as in the case of a fee linked to performance objectives, the latter must be estimated and included in the transaction price only to the extent in which it is highly likely that a significant reversal of the amount of total revenues will be verified. In the event of a high prevalence of factors of uncertainty linked to the nature of the consideration, it will only be recognised at the moment this uncertainty is resolved. The presence of financial components is also considered in determining the price, if considered relevant.

In contracts that envisage several services, the transaction price is therefore allocated to each performance obligation (fourth step), generally on the basis of the 'stand-alone selling price', i.e. based on the associated sale prices of the individual goods or services.

Revenue is recognised in the income statement when the customer obtains control of the goods or services promised or when the performance obligation may be deemed satisfied and can be:

- "over time" with reference to performance obligations rendered over a period of time, identifying the revenues over the duration of the performance;
- "at a point in time", with reference to performance obligations rendered at a given point, recognising the revenue in the income statement immediately.

Within said contract, some contractual performances may be satisfied over time (the revenue is recognised based on the progress made for the satisfaction of the performance obligation) while other obligations are satisfied at a precise moment (revenue is recognised at a point in time).

Some types of commission revenues linked to financial instruments may also fall under the scope of IFRS 15, such as:

- commissions charged for services connected with credit contracts;
- commissions received for the commitment to disburse credit, when the disbursement is deemed unlikely;
- commissions for the syndication of a loan, when the loan tranches are not maintained.

b) Other types of revenues

Interest is recognised according to a time criterion that considers the actual yield of the asset. The negative income components accrued on financial assets are booked to item "20. Interest expenses and similar charges"; the positive income components accrued on financial liabilities are booked to item "10. Interest income and similar revenues".

Interest on arrears is posted to item "10. Interest income and similar revenues", at the moment they are actually collected.

Dividends are accounted for when the right of shareholders to receive the payment arises.

Costs or revenues deriving from the buying/selling of financial instruments, determined by the difference between the consideration paid or collected of the transaction and the fair value of the instrument are booked to the income statement at the time of recognition of the financial instrument solely where the fair value is determined:

- by making reference to current and observable market transactions regarding the same instrument;
- through valuation techniques that use, as variables, solely data deriving from observable markets.

Other information

Business model

Financial assets held under a HTC business model are managed with the objective of obtaining cash flows by collecting the contractual flows envisaged over the life of the instrument.

As part of the HTC business model, it is therefore necessary to consider the reasons, frequency, value and timescale of the sales, in both previous years and in relation to expectations concerning future sales.

The information on past sales and expectations over future sales provide indications regarding the way in which the stated objective of the entity for the management of financial assets is pursued and, in particular, the way in which cash flows are realised. The entity must consider the information on past sales in the context of the reasons for said sales and the conditions at that time with respect to the current situation. However, past sales do not, in themselves, determine the business model and, therefore cannot be considered in isolation, but as part of an overall evaluation of the methods of management of financial assets based essentially on expected future sales.

IFRS 9 indicates the relevant factors for evaluating the consistency of sale transactions (true sales with derecognition of the financial asset) with respect to the HTC business model. Some examples of compatibility with the business objective pursued are indicated below:

A. increase in credit risk;
B. proximity to expiry of the financial asset;
C. frequency and significance of the sales completed in situations other than those set out in the previous points.

IFRS 9 establishes that the sales carried out in the event of an increase in credit risk are compatible with the HTC business model, regardless of their frequency and value, because the credit quality of the financial assets is relevant for the entity's capacity to collect the contractual cash flows. Credit risk management activities which are targeted at minimising the potential losses on credits due to the deterioration in credit are an integral part of this business model. The sale of a financial asset justified by the fact that said asset no longer meets the criteria regarding credit risk indicated in the documented investment policy of the entity is an example of a sale due to an increase in credit risk. This type of sale is compatible with a HTC business model with no limits as regards frequency and significance.

Sales due to other reasons, e.g.; sales carried out to manage concentrations of credit risk (without an increase in the credit risk of the financial assets), may be consistent with a HTC business model but are valued in the same way as other sales in the business model and, therefore, are subject to verification of the frequency and significance requirements described hereunder.

In order to be able to qualify the sales carried out in relation to the HTC business model as justified by an increase in credit risk, account is taken of the trigger for the move from stage 1 to stage 2.

The HTC business model does not obligate entities to maintain these assets in the financial statements until maturity.

Sales may be consistent with the HTC business model if carried out in proximity to the expiry of the financial asset and the income from the sales corresponds approximately to the collection of the remaining cash flows. In this regard the following should be noted:

- Securities: the Group defines proximity to the expiry of sales with a value equal to 10% of the original duration of the instrument, with an absolute limit of 12 months prior to the expiry;
- Receivables: the Group does not deem it necessary to define a timing prior to the expiry of the financial instrument, considering that, ordinarily, the recovery model makes no provision for sale.

As regards sales carried out under a HTC business model not justified by an increase in credit risk and not carried out in proximity to expiry, IFRS 9 establishes the limits of frequency and significance.

The sales performed are compatible with the HTC business model if:

a) they are infrequent[8], even if significant in terms of value or if

[8] *For the Group, sales carried out based on a number lower than a value equal to 5% of the number of securities held in the portfolio at the start of the year are infrequent (this value is equal to zero if the number of securities at the start of the year is under 40).*

b) they are not infrequent but are significant in terms of both the value of the individual sales and aggregate value[9].

In the event in which the combination of the characteristics of frequency and significance requires the reassessment of the HTC business model, the entity verifies if and how these sales are consistent with the HTC business objective, by demonstrating that they do not reflect a change of business model of the entity itself. This check must be performed by taking into account that "an increase in the frequency or value of the sales in a particular period is not necessarily incompatible with the objective of holding the financial assets in order to collect the contractual cash flows, if an entity can explain the reasons for said sales and demonstrate the reason for which these sales do not reflect a change of business model"[10].

Furthermore, the fact that the sales of financial assets are arranged by a third party or are at the discretion of the entity is not relevant for the purposes of evaluating their frequency.

In the Held to Collect and Sell (HTC&S) business model, the sale of a financial asset, like the collection of the contractual cash flows, is an integral part of the achievement of the model objective rather than being merely incidental. Consequently, the standard does not make provision for frequency and significant thresholds of the sales since they are an integral part of the business objective.

The observable frequency of the sales of financial assets held in a HTC&S business model is, in principle, higher than the threshold of observable sales for assets held in a HTC business model.

Possible objectives falling under the HTC&S business model include:

- management of the current liquidity requirement or maintenance of a given profile of interest;
- alignment of the duration of financial assets and liabilities.

Financial assets held in business models other than HTC e HTC&S business models are measured at fair value through Profit and loss (FVTPL).

This residual category includes, for example, the portfolios:

a) managed with the objective of generating cash flows through sale;
b) managed, and whose performance is measured on the basis of fair value; or
c) that satisfy the definition of trading portfolio (HFT).

IFRS 9 also sets out that the collection of the contractual cash flows is not essential to the achievement of the objectives of these business models; although, the contractual cash flows may be collected during the period of possession of the financial assets, the collection of the contractual cash flows is only accessory.

A financial asset is held for trading if:

- it is acquired primarily with the objective of selling it in the short-term;
- is part of a portfolio of identified financial instruments that are managed on an individual basis and for which there is proven existence of a recent and effective strategy targeted at earning a profit in the short-term; or
- relates to a derivative, with the exception of an instrument designated for hedging.

A portfolio of financial assets that is managed, and whose performance is measured on the basis of the fair value is not a HTC or HTC&S portfolio. The entity concentrates on the fair value information and uses said information to evaluate the yield of the assets and to take decision.

Financial assets managed under business models in which the objective is to originate exposures for subsequent sale on the market (e.g. syndicated loans in which the bank originates the entire loan but

[9] *An individual sale (sales carried out regarding the same security on the same day are considered a single sale) is considered to be of a significant amount if the nominal value sold is greater than 5% of the nominal value of the securities held in the portfolio at the start of the year. The aggregate amount of sales carried out in the portfolio is deemed significant if it exceeds 10% of the nominal value of the securities held in the portfolio at the start of the year.*

[10] *IFRS 9.B4.1.3B*

with the objective of retaining a limited share of risk through the transfer of loan tranches to the market) must be measured at fair value through profit and loss.

The classification of financial assets is determined at the time of initial recognition. Subsequent reclassification in the various categories is generally not permitted. However, when, and only when, an entity modifies its business model for managing its financial assets is the reclassification required on the basis of the criteria that govern the initial classification of financial assets. In said cases, which are expected to be highly infrequent, financial assets may be reclassified from the category 'measured at amortised cost', to the other two categories, "Financial assets measured at fair value through comprehensive income" or "Financial assets measured at fair value through profit and loss". The transfer value is represented by the fair value at the time of the reclassification and the effects of the reclassification apply prospectively from the reclassification date. Gains or losses resulting from the difference between the amortised cost of the financial asset and the associated fair value are booked to the income statement in the case of reclassification under "Financial assets measured at fair value through profit and loss" and, under equity, in the appropriate valuation reserve, in the case of the reclassification under "Financial assets measured at fair value through comprehensive income".

Impairment

The new impairment model introduced by IFRS 9 provides, first of all, a single method for the calculation of the value adjustments of all financial assets not classified at Fair Value Through Profit and Loss (FVTPL), unlike IAS 39, which made provision for two separate impairment models, one for financial assets at amortised cost and one for financial assets available for sale.

The following are subject to impairment:

- "Financial assets measured at amortised cost";
- "Financial assets measured at fair value through comprehensive income" other than equities;
- commitments to disburse loans and guarantees given that are not measured at fair value through profit and loss; and
- trade receivables or assets deriving from contracts that result from transactions falling under the scope of IFRS 15.

IFRS 9 introduces the concept of expected credit loss ("ECL"), defined as the weighted average of credit losses that uses the respective default risks as "weights". This concept represents an innovation with respect to the incurred loss concept, on which the impairment model of IAS 39 was based; this innovation is reflected primarily in the methodology for the valuation of performing loans; With respect to the "incurred losses" model of IAS 39, the ECL model is characterised by the use of forward-looking information and macroeconomic[11] *variables, involving a quicker recognition of losses, which are recognised on performing assets although still not directly observable (incurred).* The link between the macroeconomic scenarios and estimate of expected loss is realised by calculating the expected loss as the weighted average of the parameters generated with the different scenarios. In particular, the procedures described below are followed:

a. The provisional values of macroeconomic factors deemed relevant for the estimate of the bank's risk factors with a future time horizon of 3 years under different scenarios are considered; In

[11] The link between the macroeconomic scenarios and estimate of expected loss is realised by calculating the expected loss as the weighted average of the parameters generated with the different scenarios. In particular, the procedures described below are followed:

a. The provisional values of macroeconomic factors deemed relevant for the estimate of the bank's risk factors with a future time horizon of 3 years under different scenarios are considered;

b. These values are used as the inputs for models developed internally by the Parent Company, in order to incorporate macroeconomic and forward-looking information in the PD and LGD risk parameters;

c. The expected loss is calculated in relation to each scenario, considering the 12 month/multi-period PDs and the LGD adjusted in accordance with the specific scenario.

d. Starting from these expected losses relating to each scenario, the expected loss is determined as the average of the relative losses weighted for the likelihood of occurrence of each scenario.

particular, the Group uses three macroeconomic scenarios (Basic, Negative and Positive) which take into consideration the economic variables deemed relevant (Italian GDP, interest rates, unemployment rate, price of commercial and residential properties, inflation, equity indexes). A specific probability of occurrence is attributed to each scenario.

b. These values are used as the inputs for models developed internally by the Parent Company, in order to incorporate macroeconomic and forward-looking information in the PD and LGD risk parameters;

c. The expected loss is calculated in relation to each scenario, considering the 12 month/multi-period PDs and the LGD adjusted in accordance with the specific scenario.

d. Starting from these expected losses relating to each scenario, the expected loss is determined as the average of the relative losses weighted for the likelihood of occurrence of each scenario

For a financial asset, the ECL is calculated as the present value of the difference between the contractual cash flows due to the Group and the cash flows that the Group expects to collect.

For commitments to disburse funds, the ECL is instead calculated as the present value of the difference between the contractual cash flows due to the Group if the beneficiary uses the credit line and the amount of these cash flows that the Group expects to collect.

In particular, in accordance with IFRS 9, for the purposes of estimating the expected loss of non-performing exposures (NPEs), the expected transfers are also considered. The introduction of transfers of NPE positions entails that the positions potentially included in said transactions, as part of the NPE strategy, must be evaluated with reference also to this recovery method. Therefore, the NPE positions that form part of the portfolio for which the transfer is expected, are evaluated according to 2 recovery scenarios:

1. Hold scenario, characterised by ordinary recovery method (legal actions, settlement agreements, etc.) and which is incorporated in the valuation models reported in the previous paragraphs;
2. Sale scenario, characterised by recovery through transfers to third parties (securitisation, sales, etc.) by considering the typical prices of these transactions and discounted on the basis of the expected timescale of the transaction.

The Group attribuited a probability to the sale scenario, in line with the forecast of the Restructuring Plan, consistenly with the commitments undertaken with respect to DG Comp, taking also into account the Group's success rate in initiatives involving the sale of NPE positions, depending on the portfolios to which they belong.

The prices of the sale scenario are determined by considering similar transactions recorded on the market and binding and non-binding offers collected by the Group for similar positions.

Stage allocation of financial instruments

In order to determine the time horizon over which the ECL must be calculated, IFRS 9 subdivides the financial assets into 3 levels (so-called stages), determined on the basis of the deterioration in the credit quality with respect to the initial recognition. Specific methods for calculating value adjustments are associated to each of these levels, in particular:

- Stage 1: performing exposures that have not underwent a significant change in credit risk with respect to the initial recognition. The value adjustments correspond to the expected losses related to the verification of default in the 12 months following the reporting date.
- Stage 2: performing exposures whose credit rating is concerned by a significant change in credit risk, but for which the losses are still not observable. The events that determine the classification into this category may be both qualitative (e.g. presence of forbearance measures) and quantitative (e.g., past due by more than 30 days or change in credit risk above a certain threshold). The adjustments are calculated by considering the expected loss over the entire lifetime of the exposure, i.e. the estimate of the present value of losses (weighted for the

respective probabilities of occurrence) that are verified in the period between the valuation date and the date of expiry of the instrument.

- Stage 3: includes all non-performing loans, i.e. non-performing exposures that present objective evidence of deterioration and which must be adjusted by using the lifetime expected loss concept.[12]

Therefore, the new approach requires the classification of performing assets into two categories, based on the variation in the risk profile, and a change of the method of calculating statistical adjustments. The subdivision of performing loans into two stages with different methods for determining the ECLs represents one of the main new changes with respect to the provisions of the previously in force IAS 39.

In practice, for classification purposes, within each individual legal entity of the MPS Group, all the credit exposures of a given customer are, first of all, classified into performing and non-performing exposures. The exposures of performing customers (non-impaired) are subsequently subject to stage allocation, i.e. distribution into sub-portfolios 1 and 2. The subdivision into performing and non-performing therefore applies at customer level and at the level of all associated credit relationships, while the subdivision into stages 1 and 2 applies at the level of the individual credit exposure.

The concept of "significant increase in credit risk with respect to the initial recognition" actually forms the basis of the "relative model" of IFRS 9: the main criterion that guides the classification into stages 1 and 2 is not actually represented by the absolute level of credit quality of the debtor, but by the variation in said level with respect to the moment in which the credit was booked to the financial statements for the first time. The application of this model may mean that several relationships with the same counterparty are classified into different stages (1 or 2), based on the different level of credit quality at the moment of the first recognition of each relationship.

For securities, for stage allocation purposes, the Group uses a quali/quantitative approach; in particular, securities or portions of securities for which at least one of the following indicators is active are allocated to stage 2:

- variation in lifetime forward looking cumulative PD between the reporting date and the origination date above a certain threshold. For corporate issuers, the multi-year PD curve is the corporate one estimated entirely by the Bank; for government issues, the multi-year PD curve is the one prepared on the basis of the Moody's matrix of 1-year defaults of Government bonds. Cumulative PDs subject to comparison are based on the same model used for ECL purposes (e.g. definition of PD PIT (Point in Time) and macroeconomic scenarios). In order to obtain a unique classification result, use is made of a cumulative PD resulting from the weighted average of the cumulative PDs calculated for the individual prospective scenarios using the probabilities of the scenarios as weights. The exposures are classified into stage 2 if the ratio between the lifetime forward looking cumulative PD at the reporting date and that of the origination date exceeds a given threshold of significance equal, both for corporate bonds and Government bonds, to that used for corporate exposures in the form of loans;
- securities that present coupons or capital expired by more than 30 days.

The Group adopts the low credit risk exemption[13] *for stage allocation purposes. Therefore, considered in stage 1 are all securities that, at the reporting date, have an investment grade rating or a rating equal to or greater than BBB- from S&P, regardless of the variation in the credit risk; the latter is therefore relevant for staging purposes only in the event in which the rating is sub-investment grade at the reporting date.*

The stage allocation model is applied by taking account of the individual purchases. The date of the single purchase is relevant for the purpose of verifying whether there has been a significant change or

[12] The valuation is statistical for positions with a balance of under EUR 0.5 mln and analytical, carried out by managers, for positions above said threshold.

[13] With the low credit exemption (IFRS 9 5.5.10), it is assumed that there has been no significant increase in credit risk with respect to the initial recognition if the credit risk has remained below a threshold considered low (e.g. BBB- rating corresponding to the latest investment grade rating). The EBA, in the *Guidelines on credit institutions' credit risk management practices and accounting for expected credit losses* (paragraph 127 et seq.), requires the limited use of the exemption and, in any case, requires the entity to perform an evaluation of the significant increase in credit risk for all the credit exposures; in addition, the investment grade rating cannot automatically be considered evidence of low credit risk.

not in credit risk with respect to it. The result is that, for a non-impaired security, there may be portions simultaneously in stage 1 and stage 2.

For loans, the Group adopts a quali/quantitative approach. In particular, exposures for which at least one of the following indicators is active are allocated to stage 2:

- variation in lifetime forward looking cumulative PD between the reporting date and the origination date above a certain threshold. The comparison is based on the homogeneous residual durations[14] *and on homogeneous PD models, for example, if the definition of default changes over time, the original lifetime forward looking cumulative PD is recalculated to take account of said new definition of default. Cumulated PDs subject to comparison are based on the same model used for ECL purposes (e.g. definition of PD PIT (Point in Time), macroeconomic scenarios, expected life/contractual life). In order to obtain a unique classification result, use is made of a cumulative PD resulting from the weighted average of the cumulative PDs calculated for the individual prospective scenarios using the probabilities of the scenarios as weights. The exposures are classified into stage 2 if the ratio between the lifetime forward looking cumulative PD at the reporting date with respect to that of the origination date exceeds a given threshold of significance determined for each cluster defined on the basis of the counterparty type, initial rating class and vintage. The threshold of significance is determined by historically measuring, through quantile regression analysis per cluster, that level of ratio, between the lifetime forward looking cumulative PD at the reporting date and that of the origination date, which may be considered predictive of the classification as NPE*[15]*. The threshold is determined so as to minimise so-called false positives and false negatives and maximise true positives and true negatives;*
- exposures that present payments expired by more than 30 days;
- forborne under probation exposures;
- exposures classified in the High risk management portfolio;
- exposures considered for requalification for internal purposes; this sub-portfolio takes account of the level of geo-sectorial attractiveness in terms of RAPM (Risk Adjusted Performance Measure) and debtor rating.

The quali/quantitative indicators are updated to take account of the evolution in credit risk drivers used for management purposes, both for the monitoring of credit quality and for the purposes of credit policies.

The Group does not adopt the low credit risk exemption for stage allocation purposes.

An improvement in credit risk which involves the elimination of the conditions that led to the significant increase in said credit risk involves the reallocation of the financial instrument from stage 2 to stage 1. In that case, the entity recalculates the value adjustment recognised previously, by booking a write-back to the income statement.

Calculation of interest income on financial assets subject to impairment

The amortised cost of an asset is calculated in the same way envisaged by the previously in force IAS 39. However, IFRS 9 introduces the concept of Gross Carrying Amount ("GCA"), which represents the amortised cost before the adjustment relating to the "loss allowance" (i.e. expected loss). At the moment of initial recognition, the GCA of a financial asset coincides with the fair value of the instrument.

IFRS 9 requires interest income to generally be calculated by applying the effective interest rate to the GCA of a financial asset, with the exception of:

a) impaired purchased or originated financial assets (Purchased Originated Credit Impaired – "POCI"). For these financial assets, the Bank applies the credit-adjusted effective interest rate to the "net carrying amount";

[14] Therefore, the valuation at 31/12/T of the significant increase in credit risk of a thirty-year mortgage disbursed on 31/12/T-5 is carried out by comparing the lifetime forward looking cumulative PDs over the residual life of 25 years.

[15] The classification as NPE is measured over multi-year time horizons.

b) financial assets that are not POCI but which, after initial recognition, have become impaired financial assets. For these financial assets, the effective interest rate must be applied to the net carrying amount (NCA) instead of to the GCA.

For these financial assets sub (b) the effective interest rate ("EIR") must therefore be applied differently with respect to the approach adopted for performing financial assets.

Interest calculated on the GCA until the moment in which the asset has remained performing, must be calculated on the NCA (i.e. on the carrying amount net of value adjustments), starting from the moment in which the asset becomes impaired (stage 3). The presentation of interest income on the gross value of the asset would, in fact, not represent the actual economic return on said asset.

Lastly, in the event in which the financial asset ceases to be credit-impaired, the associated calculation of interest will return to being determined on a gross basis (GCA). The latter consideration does not apply for POCI assets, for which the calculation of interest will continue to be determined on the NCA, also when the credit risk of the assets improves.

Impaired purchased or originated financial assets (so-called POCI)

These relate to purchased or originated financial assets, which reflect a significant discount for losses on credits already verified and whose credit risk is already very high at the time of initial recognition; for this reason, they considered already impaired (credit-impaired) at the time of first recognition in the financial statements. For these financial assets, the "credit-adjusted effective interest rate" is used to calculate interest.

These assets are classified, based on the business model with which the asset is managed, to item "30. Financial assets measured at fair value through comprehensive income" or "40. Financial assets measured at amortised cost".

In relation to POCIs, there are two different types:

- instruments or portfolios of non-performing loans acquired on the market (Purchased Credit Impaired – "PCI");
- credits disbursed by the Group to customers characterised by a very high credit risk (Originated Credit Impaired – "OCI").

Impaired financial assets acquired through a business combination pursuant to IFRS 3 fall within the scope of application of POCI IFRS9.

Initial recognition

A purchased or originated financial asset (POCI) must be accounted for at fair value at the time of initial recognition, where the fair value takes into consideration the estimated losses or losses already verified, by recording, in the case of the purchase, a discount with respect to the original nominal value (discount that generally also takes into consideration any price gain).

Credit-adjusted effective interest rate - CEIR

Interest is booked by applying the CEIR to the amortised cost of the financial asset. The requirements of IFRS 9 for the calculation of the CEIR are very similar to those already set out in IAS 39 for instruments purchased at a "significant discount". However, while according to IAS 39, the calculation of EIR for said instruments only had to include incurred losses, IFRS 9 requires all expected future losses (regardless of whether they are incurred or expected) to be included in the CEIR.

In addition, while for an asset that becomes credit-impaired after the initial recognition, the calculation of interest returns to being applied on a "gross" basis (i.e. Gross Carrying Amount), when the asset is no longer credit-impaired, for POCI assets, the calculation of interest always remains determined on a "net" basis (i.e. on the Net Carrying Amount), even when the credit risk of the financial asset improves.

Lastly, on the rare occasion that it is not possible to estimate the future cash flows, the standard provides the possibility of using the contractual cash flows of the instrument. In any case, the Group uses - for the purposes of calculating the CEIR - the contractual cash flows net of expected losses.

Valuation

Similar to each financial asset, the POCIs are initially recognised at fair value.

Any write-down effected following the initial recognition for POCIs is not treated - for the purposes of amortised cost - in the same way as the other financial assets classified under "Stage 2" and "Stage 3". In the case of POCIs, in fact, the CEIR continues to be applied to the contractual cash flows net of expected losses estimated at the time of initial recognition, despite the presence of different collections from those expected or the revision of ECL estimates.

In fact, favourable changes in the estimate of lifetime expected losses are recognised by the Group as an impairment gain, given that lifetime losses are lower than the amount of expected losses that were included in the estimate of cash flows at the time of initial recognition. Vice versa, unfavourable changes in the lifetime expected losses will be recognised as an impairment loss, given that lifetime losses are higher than the amount of expected losses that were previously included in the estimate of cash flows at the time of initial recognition.

Unlike the positions classified in stages 2 or 3 which, following an improvement in the credit conditions of the counterparty, may be moved respectively to stage 1 or stage 2, for POCI financial assets, under no circumstances is it possible to exit this specific impairment model, i.e. solely migrations to stage 2 are permitted, which is compatible with an impairment model based on lifetime ECL.

Contractual modifications to financial assets

IFRS 9 replicates the same definition as well as the same criteria and rules set forth in IAS 39 previously in force regarding derecognition. Unlike IAS 39, IFRS 9 specifies, however, that the contractual modifications made to a financial asset may, in certain cases, determine their derecognition. In some circumstances, the renegotiation or modification of the contractual cash flows of the financial asset may lead to the derecognition of the existing financial asset according to the provisions of this standard. When the modification of the financial asset involves the derecognition of the existing financial asset and the subsequent recognition of the modified financial asset, the modified asset is considered a "new" financial asset for the purposes of this standard[16].

However, in addition to the general standard outlined above, the IASB does not provide quantitative guidance that governs the impacts of the modifications made on the derecognition of the financial assets. Therefore, in the case in which the contractual cash flows of a financial asset are subject to "modification", IFRS 9 requires entities to identify whether it constitutes:

case 1: "modifications" that involve derecognition;
case 2: "modifications" that do not involve derecognition.

Both IAS 39, and IFRS 9 currently applicable, reserve greater clarity to financial liabilities, with respect to financial assets[17], regarding the consequences of the modifications on derecognition.

The analyses targeted at determining the existence or not of derecognition following the modification of financial assets must reflect the following two aspects:

- first of all, it must be established, through a qualitative analysis, whether it constitutes a "substantial" modification with respect to the terms and conditions of the financial asset (the use of a quantitative threshold is not obligatory, as required for financial liabilities).

[16] IFRS 9 B5.5.25

[17] *In this regard, in paragraph B3.3.6, IFRS 9 establishes that the modifications of a financial liability are "substantial", and therefore lead to its derecognition, when the present value of the cash flows (inclusive of any commissions paid or collected) of the modified liability, discounted at the original EIR, differ by more than 10% with respect to the discounted cash flows of the liability prior to the modification.*

- the reasons forming the basis of the modifications must be identified, by distinguishing between:
  - commercial renegotiations that give rise to new terms that modify the contractual flows with respect to the original instruments;
  - concessions in the case of forbearance (EU REG and subsequent amendments and additions).

In order to define whether the modification is substantial, the Group conducts an exclusively qualitative assessment. The qualitative assessment consists of considering the new contractual clauses. In particular, if the "modification" implies the insertion of an introductory clause of a risks' different nature and which may not satisfy the SPPI criterion, then the original asset must be derecognised and the new modified financial asset must be recorded.

The Group defines as substantial modifications the clauses that involve:

1. modification of the reference currency;
2. change of counterparty/insertion of a new counterparty, unless it is a company of the same group to which the original debtor belongs. The change of counterparty is as such when there is a substantial transfer of risk;
3. debt to equity swap (including partial);
4. *datium in solutum*;
5. introduction of contractual clauses that expose the debtor to additional components of risk;
6. «pay if you can» clause, in which non-payment does not constitute non-fulfilment of a contractual obligation
7. "now instead of then" waiver, or future write-offs of amounts in principal already known at the time of the agreement, in order to guarantee the sustainability of the plan;
8. contractual modification which introduces creditor rights legally limited to specific balance sheet assets or cash flows from specific balance sheet assets of the debtor (non-recourse activities, liquidity event, etc.)

In terms of compliance with the SPPI criterion, it should be noted that the contractual modifications set out in points 3 to 6 involve the failure of the test, given incompatible with a basic loan granting agreement, with the subsequent valuation of the loan at fair value through profit and loss.

The modifications pursuant to points 1 and 2, in the absence of additional conditions, instead determine a passed SPPI test.

Going concern

This Interim Financial Report was prepared on the basis of the going concern assumption.

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

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 Report as at 30 June 2018, 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.

Scope and methods of consolidation

Investments in wholly-owned subsidiaries

	Name	Headquarters	Registered Office	Type of relationship (*)	Ownershp Relationship		Available votes % (**)
					Held by	Shareholding %	
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	99.993	
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 S.c.p.a.	Siena	Siena	1	A.0	99.760	
					A.1	0.060	
					A.2	0.030	
					A.3	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.	Brussells	Brussells	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.17	100.000	
17.2	IMMOBILIERE VICTOR HUGO S.C.I.	Paris	Paris		A.17	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	100.000	
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 include 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 is satisfied, 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 Full-Year 2017 Consolidated Financial Statements, Part A "Accounting Policies".

With respect to the situation as at 31 December 2017, note should be taken of the exit from the scope of consolidation of the investee Juliet given that the sale to Quaestio Cerved Management spa was completed on 14 May 2018.

Income statement and balance sheet reclassification principles

Reclassified income statement

- Item "**Net interest income**" was cleared of the negative contribution (equal to EUR -7 mln) of the Purchase Price Allocation (PPA), which was reclassified to a specific item.
- Item "**Dividends, similar income and profit/loss on equity investments**" incorporates item 70 "Dividends and similar income" and a portion of item 250 "**Profit/loss on equity investments**" (EUR 25 mln, corresponding to the contribution to profit and loss of profits from investments in the associate AXA, consolidated at equity). The aggregate was also cleared of dividends earned on equity securities other than equity investments (EUR 0.6 mln), reclassified to item "Net profit (loss) from trading and financial assets/liabilities".
- The item "**Net profit (loss) from trading and financial assets/liabilities measured at amortised cost and at fair value through profit and loss"** includes item 80 "Net profit (loss) from trading", item 100 "Gains (losses) on disposal/repurchase of: i) financial assets measured at amortised cost and at fair value through other comprehensive income and ii) financial liabilities" and 110 "Net profit (loss) from financial assets and liabilities measured at fair value through profit and loss". In addition, the item incorporates dividends earned on equity securities other than equity investments (EUR 0.6 mln).
- The item "**Other operating income (expense**)" includes the balance of income statement item 230 "Other operating expenses (income)" net of the recovery of stamp duties and client expenses, which are stated under the reclassified item "Other administrative expenses" (EUR 147 mln).
- The income statement item "**Personnel expenses**" was increased due to the reclassification of EUR 21 mln to "Restructuring costs/One-off charges", essentially related to INPS recoveries on the amounts allocated due to early retirement/solidarity fund initiatives in 2017.
- The item "**Other administrative expenses**" includes the balance of income statement item 190b "Other administrative expenses", reduced by the following cost items:
  - expenses, amounting to EUR 95 mln, resulting from EU DGSD and BRRD directives for the resolution of bank crises (posted under the reclassified item "Risks and charges associated with SRF, DGS and similar schemes");
  - DTA fees, convertible into tax credit, for an amount of EUR 35 mln (posted to the reclassified item "DTA fees");
  - extraordinary charges, relating to project initiatives also aimed at complying with the commitments undertaken with DG Comp (among which the closing of domestic branches), for EUR 5 mln (stated under reclassified item "Restructuring costs/One-off charges").

  This item also incorporates stamp duty and client expenses recoveries (EUR 147 mln) posted in the balance sheet under item 220 "Other operating expenses/income".
- Item "**Net value adjustments to tangible and intangible assets**" was cleared of the negative contribution (equal to EUR -12 mln) of the Purchase Price Allocation (PPA), which was reclassified to a specific item.
- Item **"Net impairment losses (reversals) on financial assets measured at amortised cost**" includes balance sheet items 130a "Financial assets measured at amortised cost" and 140 "Modification gains (losses)".
- The item "**Net provisions for risks and charges**" was cleared of extraordinary provisions, for EUR 50 mln, relating to corporate reorganisation initiatives stemming from commitments undertaken with DG Comp, which were allocated to the reclassified item "Restructuring costs/One-off charges".

- The item "**Restructuring costs/One-off charges**" mainly includes the charges relating to project initiatives, also aimed at complying with the commitments undertaken with DG Comp (for a total net amount of EUR 55 mln) and the aforementioned recoveries from INPS for previous early retirement/solidarity fund initiatives (EUR 21 mln).
- Item "**Risks and charges associated with SRF, DGS and similar schemes**" includes expenses deriving from the EU Deposit Guarantee Schemes Directive (DGSD) and the Bank Recovery and Resolution Directive (BRRD), posted in the financial statements under item 190b "Other administrative expenses". As at 30 June, expenses of EUR 95 mln were recorded, related to the ordinary contribution to the Single Resolution Fund (SRF) and the additional amount to the National Resolution Fund.
- Item "**DTA fees**" includes the expenses related to the fees paid on DTAs that can be converted into tax credit as set forth in art. 11 of Law Decree no. 59 of 3 May 2016, converted into Law no. 119 of 30 June 2016, recognised in the Financial Statements under item 190b "Other administrative expenses", for EUR 35 mln.
- Item "**Profit/loss on equity investments**" includes the balance of balance sheet item 250 "Profit/loss on equity investments", cleared of the amount contributed to profit and loss by investments in AXA, consolidated at equity and posted under the reclassified item "Dividends, similar income and profit/loss on equity investments" (EUR 25 mln).
- Item "**Tax expense (recovery) on income from continuing operations**" was cleared of the theoretical tax component relating to the Purchase Price Allocation (PPA), which was reclassified to a specific item for an amount of EUR 6 mln.
- The overall negative effects of the Purchase Price Allocation (PPA) were reclassified to a specific item, excluding them from affected income statement items (in particular "**Net interest income**" for EUR -7 mln and "**Net value adjustments to tangible and intangible assets**" for EUR -12 mln, net of a theoretical tax burden of EUR +6 mln which was added to the item).

A conventional and simplified reclassification was carried out, exclusively for income statement figures referring to FY 2017, on the basis of the new IFRS9 items. In particular, amounts relating to former item 130d "**Net impairment losses (reversals) on other financial transactions**" were reclassified to item 200a "**Net provisions for risks and charges: commitments and guarantees given**" (see paragraph First Time Adoption IFRS 9).

__Reclassified balance sheet__

a) Asset item "**Financial assets measured at fair value**" includes balance sheet items 20 "Financial assets measured at fair value through profit and loss" and 30 "Financial assets measured at fair value through other comprehensive income".

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

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

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

A conventional and simplified reclassification was carried out, exclusively for balance sheet figures referring to FY 2017, on the basis of the new IFRS9 items. In particular, guarantees and commitments previously booked in item "**Other liabilities**" were reclassified to item 100a **"Provisions for risks and charges: commitments and guarantees given**" (see paragraph First Time Adoption IFRS 9).

Reclassified income statement

MONTEPASCHI GROUP	30/06/18	30 06 2017*	Change Abs.	Change %
Net interest income	870.0	903.3	(33.3)	-3.7%
Net fee and commission income	809.5	857.5	(48.0)	-5.6%
Income from banking activities	**1,679.5**	**1,760.8**	**(81.3)**	**-4.6%**
Dividends, similar income and gains (losses) on equity investments	34.3	46.2	(11.9)	-25.7%
Net profit (loss) from trading and financial assets/liabilities measured at amortised cost and maesured at fair value through profit and loss	7.8	42.9	(35.0)	-81.7%
Net profit (loss) from hedging	0.2	(1.8)	2.0	n.s.
Other operating income (expenses)	(12.9)	4.6	(17.5)	n.s.
Total Revenues	**1,709.0**	**1,852.7**	**(143.7)**	**-7.8%**
Administrative expenses:	(1,042.1)	(1,139.1)	97.0	-8.5%
a) personnel expenses	(734.1)	(799.5)	65.4	-8.2%
b) other administrative expenses	(308.0)	(339.6)	31.6	-9.3%
Net adjustments to (recoveries on) property, plant and equipment / Net adjustments to (recoveries on) intangible assets	(112.2)	(127.6)	15.4	-12.1%
Operating expenses	**(1,154.2)**	**(1,266.7)**	**112.5**	**-8.9%**
Pre Provision Profit	**554.7**	**586.0**	**(31.3)**	**-5.3%**
Net impairment losses (reversals) on:	**(246.7)**	**(4,630.5)**	**4,383.8**	**-94.7%**
a) financial assets measured at amortised cost	(245.2)	(4,597.0)	4,351.8	-94.7%
b) Financial assets measured at fair value through other comprehensive income	*(1.5)*	*(33.5)*	32.0	-95.5%
Net operating income	**308.0**	**(4,044.5)**	**4,352.5**	**n.s.**
Net provisions for risks and charges	1.3	(106.4)	107.7	n.s.
*of which commitments and guarantees issued***	*46.7*	*(47.4)*	*94.1*	*n.s.*
Gains (losses) on investments	(4.0)	(3.8)	(0.2)	4.4%
Restructuring costs / One-off costs	(33.3)	(17.7)	(15.6)	87.9%
Risks and charges related to the SRF, DGS and similar schemes	(94.9)	(63.0)	(31.9)	50.7%
DTA Fee	(35.4)	(35.5)	0.1	-0.2%
Gains (losses) on disposal of investments	49.9	531.7	(481.8)	-90.6%
Profit (loss) before tax from continuing operations	**191.6**	**(3,739.2)**	**3,930.8**	**n.s.**
Tax expense (recovery) on income from continuing operations	109.5	510.0	(400.5)	-78.5%
Profit (loss) after tax from continuing operations	**301.1**	**(3,229.2)**	**3,530.3**	**n.s.**
Net profit (loss) for the period including non-controlling interests	**301.1**	**(3,229.2)**	**3,530.3**	**n.s.**
Net profit (loss) attributable to non-controlling interests	-	(0.1)	0.1	n.s.
Profit (loss) for the period before PPA	**301.1**	**(3,229.1)**	**3,530.2**	**n.s.**
PPA (Purchase Price Allocation)	(12.6)	(13.5)	0.9	-6.8%
Net profit (loss) for the period	**288.5**	**(3,242.6)**	**3,531.1**	**n.s.**

** The Group has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9; therefore, 2017 Fiscal Year values, determined in accordance with IAS 39, are not fully comparable.*
*** The item "Net provisions for risks and charges" encompasses, for the comparative figures, what was previously booked under "Net impairment losses (reversals): other transactions".*

Quarterly trend in reclassified consolidated income statement						
	2018		2017			
Montepaschi Group	2°Q 2018	1°Q 2018	4°Q 2017*	3°Q 2017*	2°Q 2017*	1°Q 2017*
Net interest income	448.5	421.5	414.6	470.4	445.9	457.4
Net fee and commission income	403.0	406.5	363.3	355.7	431.2	426.3
Income from banking activities	**851.5**	**828.0**	**777.9**	**826.1**	**877.1**	**883.7**
Dividends, similar income and gains (losses) on equity investments	16.2	18.1	32.3	22.4	25.7	20.5
Net profit (loss) from trading and financial assets/liabilities measured at amortised cost and maesured at fair value through profit and loss	(29.5)	37.4	3.4	528.5	18.3	24.5
Net profit (loss) from hedging	(0.9)	1.1	0.8	(2.7)	(2.0)	0.2
Other operating income (expenses)	(5.1)	(7.8)	(12.0)	(3.9)	0.3	4.3
Total Revenues	**832.2**	**876.8**	**802.4**	**1,370.5**	**919.5**	**933.2**
Administrative expenses:	(526.4)	(515.7)	(579.4)	(561.1)	(568.2)	(570.9)
a) personnel expenses	(366.2)	(367.8)	(387.1)	(388.8)	(395.1)	(404.4)
b) other administrative expenses	(160.1)	(147.9)	(192.3)	(172.3)	(173.1)	(166.5)
Net adjustments to (recoveries on) property, plant and equipment / Net adjustments to (recoveries on) intangible assets	(55.1)	(57.1)	(71.1)	(64.7)	(70.9)	(56.6)
Operating expenses	**(581.4)**	**(572.8)**	**(650.5)**	**(625.8)**	**(639.1)**	**(627.5)**
Pre Provision Profit	**250.8**	**304.0**	**151.9**	**744.7**	**280.4**	**305.6**
Net impairment losses (reversals) on:	**(108.8)**	**(137.9)**	**(581.6)**	**(204.7)**	**(4,321.4)**	**(309.1)**
a) financial assets measured at amortised cost	(108.1)	(137.1)	(551.7)	*(175.0)*	*(4,288.8)*	*(308.2)*
b) Financial assets measured at fair value through other comprehensive income	(0.7)	(0.8)	(29.9)	*(29.7)*	*(32.6)*	*(0.9)*
Net operating income	**142.0**	**166.1**	**(429.7)**	**540.0**	**(4,041.0)**	**(3.5)**
Net provisions for risks and charges	(51.3)	52.6	(142.1)	(27.6)	(66.8)	(39.6)
*of which commitments and guarantees issued***	*1.8*	*44.9*	*24.0*	*(19.8)*	*(53.4)*	*6.0*
Gains (losses) on investments	0.0	(4.0)	8.9	(19.1)	0.2	(4.0)
Restructuring costs / One-off costs	(16.3)	(17.0)	(34.5)	(278.0)	(17.7)	-
Risks and charges related to the SRF, DGS and similar schemes	(25.9)	(69.0)	2.3	(31.2)	0.4	(63.4)
DTA Fee	(17.7)	(17.7)	(17.7)	(17.7)	(17.5)	(18.0)
Gains (losses) on disposal of investments	49.6	0.3	(2.3)	1.8	532.0	(0.3)
Profit (loss) before tax from continuing operations	**80.4**	**111.3**	**(615.2)**	**168.2**	**(3,610.6)**	**(128.6)**
Tax expense (recovery) on income from continuing operations	26.1	83.3	119.7	79.9	543.5	(33.5)
Profit (loss) after tax from continuing operations	**106.5**	**194.6**	**(495.5)**	**248.1**	**(3,067.1)**	**(162.1)**
Net profit (loss) for the period including non-controlling interests	**106.5**	**194.6**	**(495.5)**	**248.1**	**(3,067.1)**	**(162.1)**
Net profit (loss) attributable to non-controlling interests	-	-	(0.1)	0.1	(0.1)	-
Profit (loss) for the period before PPA	**106.5**	**194.6**	**(495.6)**	**248.0**	**(3,067.0)**	**(162.1)**
PPA (Purchase Price Allocation)	(5.6)	(7.0)	(6.0)	(6.1)	(6.4)	(7.1)
Net profit (loss) for the period	**100.9**	**187.6**	**(501.6)**	**241.9**	**(3,073.4)**	**(169.2)**

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

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

Revenue trends

As at 30 June 2018, the Group recorded total **Revenues** of **EUR 1,709 mln**, down by 7.8% compared to the same period of the previous year, due to the downturn in Net interest income and Net fee and commission income and Net profit (loss) from trading and financial assets/liabilities measured at fair value through profit and loss. In 2Q18, Revenues fell by EUR 45 mln against the previous quarter, due above all to the Net profit (loss) from trading and financial assets/liabilities.

Revenues deriving from contracts with customers were disaggregated according to customer type. The table below shows these revenues from customers reconciled with segment reporting.

SEGMENT REPORTING	Business Segments								Corporate Center		Total MPS Group	
Primary segment	Retail banking		Wealth Management		Corporate banking		Widiba					
(EUR mln)	30/06/18	Chg % Y/Y	30/06/18	Chg % Y/Y	30/06/18	Chg % Y/Y	30/06/18	Chg % Y/Y	30/06/18	Chg % Y/Y	30/06/18	Chg % Y/Y
PROFIT AND LOSS AGGREGATES												
Net interest income	478.9	-24.6%	2.4	-86.9%	285.5	-19.0%	23.6	63.6%	79.6	n.s.	870.0	-3.7%
Net fee and commission income	662.1	-3.5%	60.9	-11.4%	158.8	-15.0%	7.7	-1.0%	(80.0)	-12.8%	809.5	-5.6%
fee and commission income	*673.6*	*n.d.*	*62.4*	*n.d.*	*184.7*	*n.d.*	*34.7*	*n.d.*	*(17.0)*	*n.d.*	*938.4*	*-9.4%*
fee and commission expense	*(11.5)*	*n.d.*	*(1.5)*	*n.d.*	*(25.8)*	*n.d.*	*(27.0)*	*n.d.*	*(63.0)*	*n.d.*	*(128.9)*	*-27.5%*
Other income	2.8	-85.9%	0.2	-49.5%	(17.6)	n.s.	0.9	n.s.	56.0	n.s.	42.4	-51.5%
Other operating expenses/income	11.9	79.8%	0.2	n.s.	(8.9)	n.s.	(0.8)	n.s.	(15.3)	n.s.	(12.9)	n.s.
Total Income	**1,155.8**	**-14.2%**	**63.7**	**-27.0%**	**417.8**	**-30.1%**	**31.4**	**42.3%**	**40.2**	**n.s.**	**1,709.0**	**-7.8%**

38% of the Group's income from fees and commissions by Business Segment derives from products (management, placement and custody), 31% from loans (granting and utilisation) and 31% from services (account maintenance, payments, etc.). More specifically, 40% of Retail banking fee and commission income is attributable to product fees and commissions, 26% to income from loans and 34% to fees and commissions on services. Wealth Management fee and commission income is essentially ascribable to the product component (91%), as is Widiba's (95%). On the other hand, Corporate banking income from fees and commissions comes mainly from loans (64%) and services (34%).

Net interest income as at 30 June 2018 amounted to **EUR 870 mln**, down by 3.7% compared to the same period in 2017, mainly related to the negative trend of interest-bearing assets, in particular commercial loans and the securities portfolio (reduction in average volumes and decline in the related returns). This trend was partially mitigated by the decrease in interest expenses following the reduction in the cost of commercial funding and the maturity of bonds with more costly conditions (including those relating to burden sharing). The result for 2Q18 shows an increase on the previous quarter due above all to the positive impact of a lower cost of funding, and the accounting of interest on notes deriving from the securitisation transaction.

Items	30 06 2018	30 06 2017 *	Chg. Y/Y		2°Q 2018	1°Q 2018	Chg. Q/Q	
			Abs.	%			Abs.	%
Loans to customers measured at amortised cost	910.5	1,139.9	(229.4)	-20.1%	459.2	451.3	7.9	1.8%
Securiries issued	(148.6)	(278.5)	129.9	-46.6%	(70.9)	(77.7)	6.8	-8.8%
Net Differentials on hedging derivatives	(0.6)	(7.8)	7.2	-92.3%	(1.2)	0.6	(1.8)	n.s.
Loans to Banks measured at amortised cost	1.4	(19.6)	21.0	n.s.	4.8	(3.4)	8.2	n.s.
Trading portfolios	16.6	28.4	(11.8)	-41.5%	11.6	5.0	6.6	n.s.
Portfolios measured at fair value	17.5	(39.5)	57.0	n.s.	6.1	11.4	(5.3)	-46.5%
Financial assets measured at fair value through other comprehensive income	70.4	80.5	(10.1)	-12.5%	36.6	33.8	2.8	8.3%
Other net interest income	2.8	(0.1)	2.9	n.s.	2.3	0.5	1.9	n.s.
Net interest income	**870.0**	**903.3**	**(33.3)**	**-3.7%**	**448.5**	**421.5**	**27.1**	**6.4%**
*of which: interest income on impaired financial assets***	147.0	252.0	(105.0)	-41.7%	66.2	80.8	(14.6)	-18.1%

** The Group has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9; therefore, 2017 Fiscal Year values, determined in accordance with IAS 39, are not fully comparable.*
*** Interest income on impaired financial assets is shown on a gross basis for 2017.*

Net fee and commission income totalled **EUR 810 mln**, declining by 5.6% compared to the same period of 2017, primarily as a result of the lower income on payment services (Bancomat and cards) following the disposal of the merchant acquiring business unit on 30 June 2017 and income from asset management. This item showed a decrease of 0.9% from the previous quarter, which had been positively impacted by one-off income.

Services / Values	30 06 2018	30 06 2017 *	Chg. Y/Y		2°Q 2018	1°Q 2018	Chg. Q/Q	
			Abs.	%			Abs.	%
Guarantees given / received	(21.2)	(19.5)	(1.7)	8.7%	(10.0)	(11.2)	1.2	-10.7%
Collection and payment services	75.7	52.4	23.3	44.5%	37.8	38.0	(0.2)	-0.5%
Current account keeping	226.8	244.5	(17.7)	-7.2%	112.0	114.8	(2.8)	-2.4%
Credit and debit cards	64.3	108.7	(44.4)	-40.8%	33.3	31.0	2.3	7.5%
Commercial banking activities	**345.7**	**386.1**	**(40.4)**	**-10.5%**	**173.1**	**172.6**	**0.5**	**0.3%**
Receipts and trasmission of orders	15.1	15.4	(0.3)	-1.9%	7.8	7.3	0.5	6.8%
Trading activities on financial instruments and currencies	7.4	6.5	0.9	13.8%	4.4	3.0	1.4	46.7%
Distribution of third party services	301.9	267.6	34.3	12.8%	145.1	156.8	(11.7)	-7.4%
Insurance services	104.3	95.4	8.9	9.3%	54.2	50.1	4.1	8.2%
Placement/ offering of financial instruments and services	(20.3)	(20.2)	(0.1)	0.5%	(8.4)	(11.9)	3.5	-29.4%
Asset management	23.7	26.6	(2.9)	-10.9%	11.6	12.1	(0.5)	-4.1%
Management, brokerage and advisory services	**432.1**	**391.3**	**40.8**	**10.4%**	**214.7**	**217.4**	**(2.7)**	**-1.2%**
Other advisory services	**31.7**	**80.1**	**(48.4)**	**-60.4%**	**15.2**	**16.5**	**(1.3)**	**-8.2%**
Net fee and commission income	**809.5**	**857.5**	**(48.0)**	**-5.6%**	**403.0**	**406.5**	**(3.5)**	**-0.9%**

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Dividends, similar income and profit/loss on equity investments, lower than those at 30 June 2017, totalled **EUR 34 mln**, mainly due to the AXA-MPS contribution[18]. In 2Q18, this component fell when compared to 1Q18 (EUR -10 mln), partially offset by the Bank of Italy dividend of EUR 8 mln.

Net profit (loss) from trading and financial assets/liabilities measured at amortised cost and at fair value through profit and loss as at 30 June 2018 totalled **EUR 8 mln** (detailed below), down from the same period of the previous year (EUR 43 mln), also impacted by lower profits from trading activities recorded in 2Q18. An analysis of the main aggregates shows the following:

- **Net profit from trading amounted to EUR 4 mln**, down compared to both 30 June 2017 and the previous quarter, due especially to the decrease in profits recorded by MPS Capital Services, which were impacted in 2Q18 by the negative effects of the trend in the BTP-Bund spread;
- **Net profit (loss) from financial assets/liabilities measured at fair value through profit and loss was a negative EUR 49 mln** (as at 30 June 2017, the loss was EUR -1 mln), attributable to the negative net results of assets/liabilities measured at fair value as per mandatory requirements;
- **Gains on disposals/repurchases of EUR 53 mln**, up against the same period last year (EUR +34 mln Y/Y), mainly due to gains from the transfer/expiry of securities. Down compared to 1Q18.

Items	30 06 2018	30 06 2017*	Chg. Y/Y		2°Q 2018	1°Q 2018	Chg. Q/Q	
			Abs.	%			Abs.	%
Financial assets held for trading	(89.7)	(45.6)	(44.0)	96.5%	(88.5)	(1.2)	(87.3)	n.s.
Financial trading liabilities	99.9	47.8	52.1	n.s.	90.9	9.0	81.9	n.s.
Exchange rate effects	14.4	4.9	9.5	n.s.	10.6	3.8	6.8	n.s.
Derivatives	(20.8)	17.6	(38.4)	n.s.	(23.5)	2.7	(26.1)	n.s.
Trading results	**3.8**	**24.7**	**(20.8)**	**-84.5%**	**(10.4)**	**14.3**	**(24.7)**	**n.s.**
Net profit (loss) from financial assets and liabilities measured at fair value through profit and loss	(48.8)	(0.6)	(48.2)	n.s.	(32.5)	(16.3)	(16.2)	99.4%
Disposal / repurchase	52.8	18.8	34.0	n.s.	13.4	39.4	(26.0)	-66.0%
Net profit (loss) from trading and financial assets and liabilities measured amortised cost and measuerd at fair value through profit and loss	**7.8**	**42.9**	**(35.0)**	**-81.7%**	**(29.5)**	**37.4**	**(66.9)**	**n.s.**

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The following items also make up Revenues:

- **Net profit (loss) from hedging amounting to EUR +0.2 mln**, an increase over 30 June 2017 and down on 1Q18;
- **Other operating income/expense of EUR -13 mln** compared to EUR +5 mln recorded in the first half of 2017 and EUR -8 mln recorded in 1Q18.

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

Operating expenses

Operating expenses totalled **EUR 1,154 mln** as at 30 June 2018, down 8.9% on the previous year. 2Q18 recorded growth of 1.5% over 1Q18, due mainly to the trend in Other administrative expenses. A closer look at the individual aggregates reveals the following:

- **Administrative expenses** were **EUR 1,042 mln,** down by EUR 97 mln over the previous year (-8.5 Y/Y) and up EUR 11 mln over 1Q18. A breakdown of the aggregate shows:
  - **Personnel expenses**, which totalled **EUR 734 mln**, declined year on year by 8.2% (EUR -65 mln) mainly as a result of workforce downsizing, also due to the Solidarity Fund initiatives of 1 May and 1 November 2017. This trend is essentially in line with the previous quarter.
  - **Other Administrative Expenses** stood at **EUR 308 mln**, down by 9.3% against the same period of 2017, attributable to structural cost control measures which involved, in particular, the management of the real estate segment, and of legal expenses connected to the debt collection, as well as the ICT segment (also following the disposal of the acquiring division in June 2017). The expenses recorded in 2Q18 recorded an increase compared to those of the previous quarter, in particular legal expenses (partly relating to credit and credit recovery), local taxes, as well as fees relating to the outsourcing of the credit recovery platform, which became operational on 14 May 2018.
- **Net value adjustments to tangible and intangible assets** as at 30 June 2018 amounted to **EUR 112 mln**, lower than the values in the corresponding period of the previous year, which was impacted by higher write-downs on tangible assets (impairment on land and buildings) and intangible assets (software licences). They were down compared to the previous quarter (-3.5% Q/Q), which included higher write-downs on tangible assets (land and buildings).

As at 30 June 2018, 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.

Type of transaction	30 06 2018	30 06 2017*	Chg Y/Y		2°Q 2018	1°Q 2018	Chg Q/Q	
			Abs.	%			Abs.	%
Wages and salaries	(529.0)	(576.7)	47.7	-8.3%	(265.6)	(263.4)	(2.2)	0.8%
Social-welfare charges	(144.6)	(156.1)	11.5	-7.4%	(72.2)	(72.4)	0.2	-0.3%
Other personnel expenses	(60.5)	(66.7)	6.2	-9.4%	(28.4)	(32.0)	3.6	-11.2%
Personnel expenses	**(734.1)**	**(799.5)**	**65.4**	**-8.2%**	**(366.2)**	**(367.8)**	**1.6**	**-0.4%**
Taxes	(131.3)	(143.5)	12.2	-8.5%	(68.3)	(63.0)	(5.3)	8.4%
Furnishing, real estate and security expenses	(77.1)	(87.5)	10.4	-11.9%	(38.2)	(38.9)	0.7	-1.8%
General operating expenses	(97.9)	(99.8)	1.9	-1.9%	(46.8)	(51.1)	4.3	-8.4%
Information technology expenses	(72.0)	(84.7)	12.7	-15.0%	(38.4)	(33.6)	(4.8)	14.3%
Legal and professional expenses	(45.4)	(63.8)	18.4	-28.8%	(26.4)	(19.0)	(7.4)	38.9%
Indirect personnel costs	(3.2)	(5.6)	2.4	-42.9%	(1.7)	(1.5)	(0.2)	13.3%
Insurance	(19.5)	(14.5)	(5.0)	34.5%	(10.7)	(8.8)	(1.9)	21.6%
Advertising, sponsorship and promotions	(3.5)	(4.0)	0.5	-12.5%	(1.2)	(2.3)	1.1	-47.8%
Other	(5.6)	(9.0)	3.4	-37.7%	(2.8)	(2.8)	0.1	-3.1%
Expenses recovery	147.5	172.8	(25.3)	-14.6%	74.3	73.2	1.2	1.6%
Other administrative expenses	**(308.0)**	**(339.6)**	**31.6**	**-9.3%**	**(160.1)**	**(147.9)**	**(12.2)**	**8.3%**
Tangible assets	(64.7)	(63.1)	(1.6)	2.5%	(30.8)	(33.9)	3.1	-9.1%
Intangible assets	(47.5)	(64.5)	17.0	-26.4%	(24.3)	(23.2)	(1.1)	4.6%
Net value adjustments to tangible and intangible assets	**(112.2)**	**(127.6)**	**15.4**	**-12.1%**	**(55.1)**	**(57.1)**	**2.0**	**-3.5%**
Operating costs	**(1,154.2)**	**(1,266.7)**	**112.5**	**-8.9%**	**(581.4)**	**(572.8)**	**(8.6)**	**1.5%**

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As a result of the trends outlined above, the Group's **Gross Operating Income** totalled **EUR 555 mln** (EUR 586 mln as at 30 June 2017), with a reduced contribution of EUR 53 mln with respect to 1Q18, mainly due to the effect of i) the decrease in Net profit/loss from trading and financial assets/liabilities measured at amortised cost and at fair value through profit and loss, and ii) the acceleration in operating expenses.

Net impairment (losses)/reversals on loans and financial assets

As at 30 June 2018, the Group accounted **Net impairment (losses)/reversals on financial assets measured at amortised cost and at fair value through comprehensive income** for **EUR 247 mln**, down EUR 4.4 bn from the same period of the previous year, which included adjustments to loans recorded on the perimeter of bad loans transferred following the adjustment to their realisable value. Down also compared to 1Q18, due to lower net hedging increases on positions already in default and a lower cost of positions slipping towards bad status.

Note that the comparisons with the figure for 2017 are purely indicative, as the results are not harmonised following the introduction of the new valuation models of IFRS 9, for the purposes of the impairment of all financial debt instruments not designated at FVTPL.

The ratio of net impairment losses on loans to total Loans to Customers as at 30 June 2018 (annualised) shows a **Provisioning Rate of 56 bps**.

	30 06 2018	30 06 2017*	Chg. Y/Y		2°Q 2018	1°Q 2018	Chg. Q/Q	
			Abs.	%			Abs.	%
Loans to banks measured at amortised cost	(2.2)	(6.4)	4.2	-65.6%	(3.9)	1.7	(5.6)	n.s.
- Loans	(0.9)	(6.7)	5.8	-86.6%	(2.7)	1.8	(4.5)	n.s.
- Debt securities	(1.3)	0.3	(1.6)	n.s.	(1.2)	(0.1)	(1.1)	n.s.
Loans to customers measured at amortised cost	(237.7)	(4,590.6)	4,352.9	-94.8%	(101.4)	(136.3)	34.9	-25.6%
- Loans	(237.4)	(4,590.6)	4,353.2	-94.8%	(101.0)	(136.4)	35.4	-26.0%
- Debt securities	(0.3)	-	(0.3)	n.s.	(0.4)	0.1	(0.5)	n.s.
Gains (losses) due to modifications in contractual cash flows without derecognition	(5.3)	-	(5.3)	n.s.	(2.8)	(2.5)	(0.3)	12.0%
Impairmet loss on loans measured at amortised cost	**(245.2)**	**(4,597.0)**	**4,351.8**	**-94.7%**	**(108.1)**	**(137.1)**	**29.0**	**-21.2%**
Financial assets measured at fair value through comprehensive income	(1.5)	(33.5)	32.0	-95.5%	(0.7)	(0.8)	0.1	-12.5%
Total adjustments due to credit risk	**(246.7)**	**(4,630.5)**	**4,383.8**	**-94.7%**	**(108.8)**	**(137.9)**	**29.1**	**-21.1%**

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

The Group's **Net Operating Income** in the first half of 2018 was **approximately EUR +308 mln**, compared to roughly EUR -4,045 mln in the same period of the previous year.

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

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

- **Allocations to provisions for risks and charges of EUR +1 mln**, net positive impact due primarily to the revaluation of the commitment made to cover the hedging costs of the vehicle with regard to the disposal of bad loans as per the binding agreement signed on 26 June 2017 with Quaestio, charged to the transferor, partially offset by provisions for commitments assumed in relation to operations with customer. As at 30 June 2017 there was a negative balance of EUR 106 mln, mainly due to provisions for legal risks.
- **Losses on equity investments** of around **EUR -4 mln** due mainly to write-downs effected on the associated company Trixia, already recorded in 1Q18. In line with 30 June 2017 (Euro -4 mln).
- **Restructuring costs/One-off charges of EUR -33 mln**, mainly encompass the charges relating to projects (EUR -55 mln) also seeking to implement the commitments made with DGComp, partially offset by the recoveries recognised by INPS for previous early retirement/solidarity fund initiatives (EUR +21 mln).
- **Risks and charges associated with SRF, DGS and similar schemes**, amounting to **EUR -95 mln**, comprised of the ordinary contribution to the Single Resolution Fund accounted for in the first quarter of 2018 and the additional amount to the National Resolution Fund accounted for in the second quarter of 2018.
- **DTA Fee**, amounting to **EUR -35 mln.** This amount, determined according to the criteria set forth in Law Decree 59/2016, converted into Law no. 119 of 30 June 2016, represents the fee as at 30 June 2018 on DTA (Deferred Tax Assets) that can be converted into a tax credit.
- **Gains (losses) on disposal of investments**, for an amount of **EUR 50 mln**, attributable essentially to income on the sale of Juliet. As at 30 June 2017, the aggregate was a positive EUR 532 mln, attributable primarily to the gain from the disposal of the merchant acquiring business unit.

Due to the trends discussed above, the Group's **Profit before tax from continuing operations** stood at **EUR +192 mln**, up compared to the levels as at 30 June 2017, which recorded a loss of EUR -3,739 mln.

Tax expense (recovery) on income from continuing operations amounted to income of **EUR +110 mln.** This result can essentially be attributed to the partial reassessment - equal to EUR 106 mln - of DTAs from tax losses accrued but not recognised in previous years. The item also includes the ACE accrued for EUR 21 mln.

Considering the net effects of the PPA (EUR -13 mln), the Group **consolidated profit as at 30 June 2018 amounted to EUR 289 mln,** compared to a loss of EUR 3,243 mln in the same period of 2017.

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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)
Parent Company's net equity	8,646.1	231.0
of which Parent Company's valuation reserves	*(295.8)*	-
Impact of line-by-line consolidation of subsidiaries	(2,023.2)	478.9
Impact of associates	*188.0*	26.4
Reversal of dividends from subsidiaries	-	(87.5)
Effect of write off of depreciation/revaluation of equity investments	*2,549.6*	10.6
Other adjustments	(467.8)	(370.8)
Subsidiaries' valuation reserves	*101.7*	-
	-	-
Consolidated balance	**8,994.5**	**288.5**
of which valuation reserves	*(194.1)*	

Reclassified balance sheet

Reclassified Balance Sheet				
ASSETS	**30 06 2018**	**31 12 2017***	**Chg**	
			abs.	**%**
Cash and cash equivalents	721.2	4,092.3	(3,371.1)	-82.4%
Financial assets measured at amortised cost :				
a) Loans to customers	87,010.1	86,456.3	553.8	0.6%
b) Loans to banks	8,636.3	9,966.2	(1,329.9)	-13.3%
Financial assets measured at fair value	29,257.2	24,168.4	5,088.8	21.1%
Equity investments	896.8	1,034.6	(137.8)	-13.3%
Property, plant and equipment / Intangible assets	2,789.9	2,854.2	(64.3)	-2.3%
of which:				
a) goodwill	*7.9*	*7.9*	-	
Other assets	6,411.4	10,582.2	(4,170.8)	-39.4%
Total assets	**135,722.8**	**139,154.2**	**(3,431.4)**	**-2.5%**

LIABILITIES	**30 06 2018**	**31 12 2017***	**Chg**	
			abs.	**%**
Payables				
a) Deposits from customers and securities issued	96,833.9	97,801.8	(967.9)	-1.0%
b) Deposits from banks	20,794.8	21,084.9	(290.1)	-1.4%
Financial liabilities held for trading	3,173.6	4,476.9	(1,303.3)	-29.1%
Provisions for specific use	-	-	-	
a) Provisions for staff severance indemnities	196.3	199.5	(3.2)	-1.6%
b) Provisione related to guarantees and other commitments given	209.7	226.4	(16.7)	-7.4%
c) Pensions and other post retirement benefit obli	43.8	50.1	(6.3)	-12.6%
d) Other provisions	1,112.5	1,088.4	24.1	2.2%
Other liabilities	4,361.5	3,794.8	566.7	14.9%
Group net equity	8,994.5	10,429.1	(1,434.6)	-13.8%
a) Valuation reserves	(194.0)	51.7	(245.7)	n.s.
c) Equity instruments carried at equity	-	-	-	
d) Reserves	(1,114.9)	3,864.8	(4,979.7)	n.s.
e) Share premium	-	-	-	-
f) Share capital	10,328.6	10,328.6	-	-
g) Treasury shares (-)	(313.7)	(313.7)	-	-
h) Net profit (loss) for the period	288.5	(3,502.3)	3,790.8	n.s.
Non-controlling interests	2.2	2.3	(0.1)	-4.3%
Total Liabilities and Shareholders' Equity	**135,722.8**	**139,154.2**	**(3,431.4)**	**-2.5%**

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

Reclassified Balance Sheet - Quarterly Trend						
ASSETS	**30/06/18**	**31/03/18**	**31 12 2017***	**30 09 2017***	**30 06 2017***	**31 03 2017***
Cash and cash equivalents	721.2	896.9	4,092.3	821.9	843.1	879.1
Financial assets measured at amortised cost :						
a) Loans to customers	87,010.1	89,320.4	86,456.3	91,041.1	89,713.1	102,406.9
b) Loans to banks	8,636.3	6,374.5	9,966.2	12,897.0	13,116.4	8,451.4
Financial assets measured at fair value	29,257.2	25,652.4	24,168.4	25,403.0	24,089.8	26,511.8
Equity investments	896.8	1,075.8	1,034.6	1,001.2	1,023.6	1,013.0
Property, plant and equipment / Intangible assets	2,789.9	2,831.2	2,854.2	2,833.7	2,844.7	2,894.2
of which:						
a) goodwill	*7.9*	7.9	*7.9*	*7.9*	*7.9*	*7.9*
Other assets	6,411.4	10,620.6	*10,582.2*	11,101.2	11,958.8	6,648.2
Total assets	**135,722.8**	**136,771.8**	**139,154.2**	**145,099.1**	**143,589.5**	**148,804.6**

LIABILITIES	**30/06/18**	**31/03/18**	**31 12 2017***	**30 09 2017***	**30 06 2017***	**31 03 2017***
Payables						
a) Deposits from customers and securities issued	96,833.9	97,856.8	97,801.8	102,968.4	106,543.9	109,390.0
b) Deposits from banks	20,794.8	20,483.1	21,084.9	21,566.1	22,802.8	22,837.5
Financial liabilities held for trading	3,173.6	3,625.4	4,476.9	4,201.1	4,449.9	4,412.4
Provisions for specific use						
a) Provisions for staff severance indemnities	196.3	197.3	199.5	234.7	233.7	252.5
b) Provisione related to guarantees and other commitments given	209.7	223.4	226.4	249.3	230.6	177.2
c) Pensions and other post retirement benefit obligations	43.8	49.4	50.1	45.9	47.3	52.5
d) Other provisions	1,112.5	1,086.6	1,088.4	959.8	958.8	954.2
Other liabilities	4,361.5	3,949.2	3,794.8	3,927.1	5,272.6	4,684.0
Group net equity	8,994.5	9,298.3	10,429.1	10,944.5	3,047.7	6,041.9
a) Valuation reserves	(194.0)	196.7	51.7	60.5	102.0	7.4
c) Equity instruments carried at equity	-	-	-	-	-	-
d) Reserves	(1,114.9)	(1,100.8)	3,864.8	(1,494.4)	(1,177.4)	(1,162.0)
e) Share premium	-	-	-	-	-	-
f) Share capital	10,328.6	10,328.6	10,328.6	15,692.8	7,365.7	7,365.7
g) Treasury shares (-)	(313.7)	(313.7)	(313.7)	(313.7)	-	-
h) Net profit (loss) for the period	288.5	187.5	(3,502.3)	(3,000.7)	(3,242.6)	(169.2)
Non-controlling interests	2.2	2.3	2.3	2.2	2.2	2.4
Total Liabilities and Shareholders' Equity	**135,722.8**	**136,771.8**	**139,154.2**	**145,099.1**	**143,589.5**	**148,804.6**

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

Customer funding

The Group's **total funding** as at 30 June 2018 amounted to **EUR 195.9 bn** (+1.1% versus 31 December 2017), up by EUR 2.7 bn compared to 31 March 2018 due to the increase in indirect funding (attributable primarily to a significant corporate position).

Background

In the first four months of 2018, direct funding registered good staying power, actually remaining unchanged with respect to the same period of the previous year. The two components recorded a diametrically opposite performance: a positive trend in deposits from ordinary resident customers, up 3.4% in the period (net of repo transactions with central counterparties and deposits connected with loan transfers) and the negative trend in bonds (-18.5%); these trends essentially mirror those recorded in the previous year.
Banks are actually continuing with their policy of reducing the supply of funds and the remuneration paid on bank-issued bonds. This approach is related to the liquidity provided to banks by the ECB as part of the expansionary monetary policy measures, also through the most recent longer-term refinancing operations.

With reference to interest rates, the average rate on deposits of non-financial companies and households rose by several basis points in the first few months of the year, standing at 0.40% in April. By contrast, the bond interest rate continues to fall (to 2.53% in April, -7 basis points compared to December 2017). The average weighted cost of direct funding for the ABI sample, which includes larger banks, continued to decline, reaching 0.60% in April (0.66% in December 2017).

In terms of asset under management, after an extremely positive 2017, with net funding from mutual funds which more than doubled compared to the figure recorded in 2016 (around EUR 77,300 mln against EUR 34,400 mln), the first four months of 2018 recorded a significant decrease compared to the same period of the previous year, due essentially to redemptions from monetary funds and bonds. Funding on individual retail portfolio management, after a positive 2017 with flows of EUR 4,093 mln, also recorded a clear downturn in 2018, with net flows in the first four months of barely EUR 295 mln. In April 2018, assets under management from open-ended funds were almost unchanged compared to the levels of December 2017, while the stock relating to individual portfolio management fell by 2.5%.

Customer Funding

					Chg Q/Q		Chg 31/12		Chg Y/Y	
	30/06/18	31/03/18	31/12/17	30/06/17	Abs.	%	Abs.	%	Abs.	%
Direct funding	96,833.9	97,856.8	97,801.8	106,543.9	(1,022.9)	-1.0%	(967.9)	-1.0%	(9,710.0)	-9.1%
Indirect funding	99,020.5	95,329.2	95,845.7	96,629.4	3,691.3	3.9%	3,174.8	3.3%	2,391.1	2.5%
Total funding	**195,854.4**	**193,186.0**	**193,647.5**	**203,173.3**	**2,668.4**	**1.4%**	**2,206.9**	**1.1%**	**(7,318.9)**	**-3.6%**

Volumes of **Direct Funding**, which stood at **EUR 96.8 bn**, recorded a decrease of EUR 1.0 bn compared to the end of December 2017 and the end of March 2018, primarily due to the drop in the bond component, impacted by the maturities during the period, only partially offset by growth in Current Accounts.

The Group's market share[19] on Direct Funding was 3.86% (figure updated in April 2018), up by 14 bps compared to the end of 2017.

Direct funding

					Change Q/Q		Change 31.12		Change Y/Y	
Type of transaction	30/06/18	31/03/18	31/12/17	30/06/17	Abs.	%	Abs.	%	Abs.	%
Current accounts	57,122.0	54,922.6	51,465.5	49,605.8	2,199.4	4.0%	5,656.5	11.0%	7,516.2	15.2%
Time deposits	8,926.8	10,045.0	10,469.0	10,889.3	(1,118.2)	-11.1%	(1,542.2)	-14.7%	(1,962.5)	-18.0%
Reverse repurchase agreements	10,955.7	10,824.6	8,572.3	14,847.9	131.1	1.2%	2,383.4	27.8%	(3,892.2)	-26.2%
Bonds	12,390.0	14,557.5	18,521.7	23,676.5	(2,167.5)	-14.9%	(6,131.7)	-33.1%	(11,286.5)	-47.7%
Other types of direct funding	7,439.4	7,507.1	8,773.3	7,524.4	(67.7)	-0.9%	(1,333.9)	-15.2%	(85.0)	-1.1%
Total	**96,833.9**	**97,856.8**	**97,801.8**	**106,543.9**	**(1,022.9)**	**-1.0%**	**(967.9)**	**-1.0%**	**(9,710.0)**	**-9.1%**

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

Indirect funding came to **EUR 99.0 bn**, an increase from 31 December 2017 and over 31 March 2018 (EUR +3.2 bn and EUR +3.7 bn respectively), due to assets under custody, which was influenced by the movement in a large corporate position.

Assets under management, which amounted to **EUR 58.1 bn**, were down compared to both December 2017 and March 2018. The decrease is concentrated primarily on funds and asset management.

Indirect Funding

					Change Q/Q		Change 31/12		Change Y/Y	
	30/06/18	31/03/18	31/12/17	30/06/17	Abs.	%	Abs.	%	Abs.	%
Assets under management	58,134.8	58,309.7	58,599.4	57,603.0	(174.9)	-0.3%	(464.6)	-0.8%	531.8	0.9%
Mutual Funds/Sicav	*28,021.5*	*28,315.1*	*28,477.9*	*27,650.0*	(293.6)	*-1.0%*	(456.4)	*-1.6%*	371.5	*1.3%*
Individual Portfolio under Management	*5,613.6*	*5,768.4*	*5,933.0*	*6,285.3*	(154.7)	*-2.7%*	(319.3)	*-5.4%*	(671.7)	*-10.7%*
Insurance Products	*24,499.6*	*24,226.3*	*24,188.5*	*23,667.7*	273.3	*1.1%*	311.1	*1.3%*	831.9	*3.5%*
Assets under custody	40,885.7	37,019.5	37,246.3	39,026.4	3,866.2	10.4%	3,639.4	9.8%	1,859.3	4.8%
Total funding	**99,020.5**	**95,329.2**	**95,845.7**	**96,629.4**	**3,691.3**	**3.9%**	**3,174.8**	**3.3%**	**2,391.1**	**2.5%**

Loans to customers

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

- the effects of the reclassification attributable to the introduction of IFRS 9, which led to a total net reduction of EUR 0.1 bn, due to decreases following reclassifications to other financial assets measured at fair value as per mandatory requirements (EUR -1.1 bn) partially offset by increases following reclassifications of bond securities from financial assets available for sale, formerly AFS (EUR +1 bn);
- and the negative impact stemming from the transition from IAS 39 to IFRS 9, connected to the new provisions regarding impairment (higher Expected Credit Losses – ECL) of cash exposures (in addition to endorsement credit exposures), amounting to EUR 1.5 bn, before the tax effect, booked to equity.

Background

The first four months of 2018 recorded more sustained growth in private sector bank loans than 2017, due to more dynamic growth in the economy and the improvement in supply conditions. The annual increase of the aggregate was 2.6% between January and April, compared to the growth rate in 2017 of just under 1.1%. The gap is decreasing between the trend in lending to households (up 2.8% during the period) and to non-financial companies, which showed a marked recovery of 1.6% in the period. The former were impacted by increasingly more encouraging signs of recovery of disposable income and the real estate market, while the increase in the demand for loans from companies was sustained primarily by the requirements related to spending on fixed investments, stocks and working capital, with slightly more accommodating supply policies, the effect of both greater pressure from competition and an improved perception of risk of the performance of the economy.

With regard to interest rates, in April 2018, the interest rate on the total stock of loans was 2.65%, 4 basis points lower than that recorded in December 2017 and 16 basis points down on the figures for April 2017. On new transactions, the rate for loans to households for home purchases is 1.84%, while the rate for non-financial companies remains just under 1.5%. The rates on new loans of less than EUR 1 mln to non-financial companies (1.96% in April) were essentially stable, but nonetheless were down 21 basis points compared to April 2017.

Efforts to reduce stock levels and the flows of bad loans also continued in the first four months of 2018, similar to the activities carried out in 2017. The stock levels in April were 19% lower than the same month of the previous year. After EUR 38,705 mln were eliminated from banks' financial statements in 2017, the first few months of 2018 registered new disposals of EUR 4,536 mln, with further transactions expected over the course of the year. Net of the disposal transactions, the change in the stock of bad loans Y/Y as at April 2018 was positive in any event, and stood at 7.5% (it was 10.1% in April 2017). Net of allowances for impairment, bad loans represented approximately 2.8% of bank loans, down compared to the average of 3.8% in 2017.

As at 30 June 2018, the Group's **Loans to Customers** amounted to **EUR 87.0 bn**, essentially in line with the end of December 2017, but down by EUR 2.3 bn over 31 March 2018, due to the effect of the segment of repurchase agreements with institutional counterparties (EUR -5.5 bn), partially offset by an increase in credit instruments as a result of the recognition of senior notes deriving from the securitisation transaction (EUR +2.9 bn) and mortgages (EUR +0.8 bn).

The Group's market share[20] stood at 6.51% (last available update in April 2018), stable compared to the end of 2017.

Loans to customers

Type of transaction	30/06/18	31/03/18	31 12 2017*	30 06 2017*	Change Q/Q Abs.	Change Q/Q %	Change 31.12 Abs.	Change 31.12 %	Change Y/Y Abs.	Change Y/Y %
Current accounts	5,473.4	5,768.0	5,757.5	6,684.3	(294.6)	-5.1%	(284.1)	-4.9%	(1,210.9)	-18.1%
Mortgages	48,347.2	47,536.4	46,868.4	47,867.3	810.8	1.7%	1,478.8	3.2%	479.9	1.0%
Other forms of lending	18,116.8	18,115.8	17,903.5	19,411.5	1.0	0.0%	213.3	1.2%	(1,294.7)	-6.7%
Repurchase agreements	2,243.8	7,746.6	4,524.8	4,145.0	(5,502.8)	-71.0%	(2,281.0)	-50.4%	(1,901.2)	-45.9%
Securities lending	4,635.6	1,735.8	1,050.1	1,130.1	2,899.8	n.s.	3,585.5	341.4%	3,505.5	n.s.
Non performing loans	8,193.3	8,417.8	10,352.0	10,474.8	(224.5)	-2.7%	(2,158.7)	-20.9%	(2,281.5)	-21.8%
Total	**87,010.1**	**89,320.4**	**86,456.3**	**89,713.0**	**(2,310.3)**	**-2.6%**	**553.8**	**0.6%**	**(2,702.9)**	**-3.0%**
Stage 1	*62,741.9*	*64,286.6*			*(1,544.7)*	*-2.4%*				
Stage 2	*16,074.9*	*16,615.9*			*(541.0)*	*-3.3%*				
Stage 3	*8,193.3*	*8,417.8*			*(224.5)*	*-2.7%*				

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In 2Q18, the medium/long-term component recorded new disbursements of EUR 2.6 bn, up compared to 1Q18 (EUR +0.3 bn) and Y/Y (EUR +2.3 bn).

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

Non-performing loans

As at 30 June 2018, the **Group's exposure to gross non-performing loans** totalled **EUR 19.8 bn**, down compared to both the end of December 2017 (EUR -23.1 bn) and 31 March 2018 (EUR -22.8 bn), essentially due to the deconsolidation of bad loans subject to disposal (by preparing the figures at 31 March 2018 and 31 December 2017 of the perimeter of IFRS 5 on a pro-forma basis, the aggregate is essentially stable). The gross exposure of the bad loans component fell by around EUR 22 bn compared to both 31 December 2017 and 31 March 2018, mainly due to the above-mentioned deconsolidation. The exposure of unlikely to pay also fell by EUR 1.2 bn over December 2017 and EUR 0.8 bn over March 2018, which was also impacted by the transfers performed in the first half year. Impaired Past Due Exposures were essentially stable.

As at 30 June 2018, the Group's **net exposure in terms of non-performing loans** totalled **EUR 8.7 bn**, down compared to both the end of December 2017 (EUR -6.1 bn) an 31 March 2018 (EUR -4.6 bn), also in this case essentially due to the above-mentioned deconsolidation. The net exposure of the bad loans component fell by around EUR 4.7 bn compared to 31 December 2017 and by around EUR 4.1 bn over 31 March 2018, mainly due to the factors outlined above. The net exposure of unlikely to pay also fell by EUR 1.3 bn over December 2017 and EUR 0.4 bn over March 2018. Impaired Past Due Exposures were essentially stable.

An improvement in the ratio of net non-performing loans to net loans to customers was recorded, which dropped from 14.0% in March 2018 to 9.9% in June 2018. Within the aggregate, the incidence of Past due exposures and Unlikely to pay remained essentially stable in the quarter with respect to March 2018, while that of net bad loans fell (from 7.4% in March 2018 to 3.2%, mainly due to the deconsolidation of positions transferred).

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

Loans to customers		Bad loans	Unlikely to pay	Non-performing Past due	**Non-performing exposures**	Perfoming exposures	**Total**	*- of which forbone impaired*	*- of which forborne not impaired*
30 06 18	Gross exposure	9,210.9	10,194.2	384.2	**19,789.3**	80,240.3	**100,029.6**	*7,270.2*	*2,368.6*
	Provisions	6,360.4	4,589.2	125.9	**11,075.5**	795.5	**11,871.0**	*3,230.3*	*180.7*
	Net exposure	2,850.5	5,605.0	258.3	**8,713.8**	79,444.8	**88,158.6**	*4,039.9*	*2,187.9*
	Coverage ratio	*69.1%*	*45.0%*	*32.8%*	***56.0%***	*1.0%*	***11.9%***	*44.4%*	*7.6%*
	% on Loans to customer.	*3.2%*	*6.4%*	*0.3%*	***9.9%***	*90.1%*	***100.0%***		
31 03 18	Gross exposure	31,151.0	10,985.2	450.0	**42,586.2**	82,372.0	**124,958.2**	*9,183.8*	*2,493.8*
	Provisions	24,163.0	4,988.1	142.4	**29,293.5**	844.0	**30,137.5**	*4,397.4*	*203.0*
	Net exposure	6,988.0	5,997.1	307.6	**13,292.7**	81,528.0	**94,820.7**	*4,786.4*	*2,290.8*
	Coverage ratio	*77.6%*	*45.4%*	*31.6%*	***68.8%***	*1.0%*	***24.1%***	*47.9%*	*8.1%*
	% on Loans to customer.	*7.4%*	*6.3%*	*0.3%*	***14.0%***	*86.0%*	***100.0%***		
31 12 17*	Gross exposure	31,045.3	11,374.2	488.8	**42,908.3**	76,794.6	**119,702.8**	*9,465.1*	*2,465.8*
	Provisions	23,513.7	4,494.4	102.1	**28,110.2**	551.2	**28,661.3**	*4,328.6*	*95.3*
	Net exposure	7,531.6	6,879.8	386.7	**14,798.1**	76,243.4	**91,041.5**	*5,136.5*	*2,370.5*
	Coverage ratio	*75.7%*	*39.5%*	*20.9%*	***65.5%***	*0.7%*	***23.9%***	*45.7%*	*3.9%*
	% on Loans to customer.	*8.3%*	*7.6%*	*0.4%*	***16.3%***	*83.7%*	***100.0%***		
30 06 17*	Gross exposure	29,505.4	13,226.7	738.5	**43,470.6**	79,832.3	**123,302.9**	*9,941.4*	*2,669.7*
	Provisions	22,476.3	5,247.3	165.9	**27,889.5**	592.4	**28,481.9**	*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	*76.2%*	*39.7%*	*22.5%*	***64.2%***	*0.7%*	***23.1%***	*44.1%*	*4.2%*
	% on Loans to customer.	*7.4%*	*8.4%*	*0.6%*	***16.4%***	*83.6%*	***100.0%***		

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

Change in gross exposure*

	abs/%	Bad loans	Unlikely to pay	Non performing past due	**Non performing exposures**	Performing exposures	**Total**	*- of which forbone impaired*	*- of which forborne not impaired*
Q/Q	abs.	(21,940.1)	(791.0)	(65.8)	**(22,796.9)**	(2,131.7)	**(24,928.6)**	*(1,913.6)*	*(125.2)*
	%	-70.4%	-7.2%	-14.6%	**-53.5%**	-2.6%	**-19.9%**	*-20.8%*	*-5.0%*
31.12	abs.	(21,834.4)	(1,180.0)	(104.6)	**(23,119.0)**	3,445.7	**(19,673.2)**	*(2,194.9)*	*(97.2)*
	%	-70.3%	-10.4%	-21.4%	**-53.9%**	4.5%	**-16.4%**	*-23.2%*	*-3.9%*
Y/Y	abs.	(20,294.5)	(3,032.5)	(354.3)	**(23,681.3)**	408.0	**(23,273.3)**	*(2,671.2)*	*(301.1)*
	%	-68.8%	-22.9%	-48.0%	**-54.5%**	0.5%	**-18.9%**	*-26.9%*	*-11.3%*

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

As at 30 June 2018, the **percentage coverage** of non-performing loans stood at 56.0%, a reduction compared to 31 December 2017 (65.5%) and 31 March 2018 (68.8%), due to the deconsolidation of the loans transferred.

Change in coverage ratio*

	Bad loans	Ulikely to pay	Non performing past due	**Non performing exposures**	Performing exposures	**Total**
Q/Q	*-8.51%*	*-0.39%*	*1.12%*	***-12.82%***	*-0.03%*	***-12.25%***
31.12	*-6.69%*	*5.50%*	*11.88%*	***-9.55%***	*0.27%*	***-12.08%***
Y/Y	*-7.12%*	*5.35%*	*10.31%*	***-8.19%***	*0.25%*	***-11.23%***

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

	30 06 2018		2°Q 2018		1°Q 2018		30 06 2017*		Chg. 2°Q 2018/1°Q2018 Non-performing		Chg. Y/Y Non-performing exposures	
	Non-performing exposures	*of which Bad loans*	Non-performing exposures	*of which Bad loans*	Non-performing exposures	*of which Bad loans*	Non-performing exposures	*of which Bad loans*	Abs.	%	Abs.	%
Gross exposure, opening balance	**42,908.3**	**31,045.3**	**42,586.2**	**31,151.0**	**42,908.3**	**31,045.3**	**44,021.9**	**27,949.6**	**(322.1)**	**-0.8%**	**(1,113.6)**	**-2.5%**
Increases from performing loans	657.6	77.8	366.4	55.5	291.2	22.3	1,065.0	145.5	75.2	25.8%	(407.4)	-38.3%
Transfers to performing loans	(409.2)	(6.4)	(191.0)	(0.1)	(218.2)	(6.3)	(445.4)	(3.6)	27.2	-12.5%	36.2	-8.1%
Collections	(5,569.7)	(4,819.2)	(4,908.9)	(4,636.3)	(660.8)	(182.9)	(1,155.5)	(497.1)	(4,248.1)	n.s.	(4,414.2)	n.s.
Write-offs and loss on disposal	(18,485.4)	(18,129.8)	(18,344.5)	(18,050.6)	(140.9)	(79.2)	(430.5)	(207.4)	(18,203.6)	n.s.	(18,054.9)	n.s.
+/- Other changes	687.7	1,043.2	281.1	691.4	406.6	351.8	415.1	2,118.4	(125.5)	-30.9%	272.6	65.7%
Gross exposure, closing balance	**19,789.3**	**9,210.9**	**19,789.3**	**9,210.9**	**42,586.2**	**31,151.0**	**43,470.6**	**29,505.4**	**(22,796.9)**	**-53.5%**	**(23,681.3)**	**-54.5%**
Opening balance of overall adjustments	**(28,110.2)**	**(23,513.7)**	**(29,293.5)**	**(24,163.0)**	**(28,110.2)**	**(23,513.7)**	**(23,701.9)**	**(17,584.7)**	**(1,183.3)**	**4.2%**	**(4,408.3)**	**18.6%**
Adjustments / write-backs*	(261.9)	(182.6)	(181.7)	(17.4)	(80.2)	(165.2)	(4,608.8)	(4,342.7)	(101.5)	n.s.	4,346.9	-94.3%
+/- Other changes	17,296.6	17,335.9	18,399.7	17,820.0	(1,103.1)	(484.1)	421.2	(548.9)	19,502.8	n.s.	16,875.4	n.s.
Closing balance of overall adjustments	**(11,075.5)**	**(6,360.4)**	**(11,075.5)**	**(6,360.4)**	**(29,293.5)**	**(24,163.0)**	**(27,889.5)**	**(22,476.3)**	**18,218.0**	**-62.2%**	**16,814.0**	**-60.3%**
Net exposure closing balance	**8,713.8**	**2,850.5**	**8,713.8**	**2,850.5**	**13,292.7**	**6,988.0**	**15,581.1**	**7,029.1**	**(4,578.9)**	**-34.4%**	**(6,867.3)**	**-44.1%**

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

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

It should be noted that the amounts as at 30 June 2018 of the rows "Collections (including profits from disposal)" and "Cancellations (including losses from disposal)" are impacted by the effects of the derecognition, completed on 22 June 2018, of a collection of credit exposures classified as bad loans (see paragraph "The bad loan disposal transaction").

Financial assets/liabilities

The book value of financial assets measured at fair value shown in the tables below was impacted, both as at 30 June 2018 and 31 March 2018, and the effects of the reclassification, attributable to the introduction of IFRS 9, of bond securities to financial assets measured at amortised cost, for a total of EUR 1 bn, and the recognition of loans/securities totalling EUR 1.2 bn in the new category "financial assets measured at fair value as per mandatory requirements".

As at 30 June 2018, the Group's financial assets measured at fair value totalled EUR 29.3 bn, growth of EUR 5.1 bn compared to 31 December 2017 and EUR 3.6 bn over 31 March 2018, principally in the trading component relating to the subsidiary MPS Capital Services (which rose during the quarter, in particular on Italian Government debt securities, for which the company acts as primary dealer). Financial liabilities held for trading declined by EUR 1.3 bn compared to the end of December 2017 and by EUR 0.5 bn compared to 31 March 2018.

Items	30 06 2018	31 03 2018	31 12 2017*	30 06 2017*	Chg. Q/Q		Chg. 31.12		Chg. Y/Y	
					Abs.	%	Abs.	%	Abs.	%
Tradable financial assets	29,257.2	25,652.3	24,168.4	24,089.8	3,604.9	14.1%	5,088.8	21.1%	5,167.4	21.5%
Financial assets held for trading	*13,270.3*	*9,877.7*	*8,718.0*	*9,711.2*	*3,392.6*	*34.3%*	*4,552.3*	*52.2%*	*3,559.1*	*36.6%*
Financial assets measured as per fair value mandatory requirement	*1,217.1*	*1,192.9*	*0.0*	*0.0*	*24.2*	*2.0%*	*1,217.1*	*n.s.*	*1,217.1*	*n.s.*
Financial assets measured at fair value through other comprehensive income	*14,769.8*	*14,581.7*	*15,450.4*	*14,378.6*	*188.1*	*1.3%*	*(680.6)*	*-4.4%*	*391.2*	*2.7%*
Financial liabilities held for trading	3,173.6	3,625.4	4,476.9	4,449.9	(451.8)	-12.5%	(1,303.3)	-29.1%	(1,276.3)	-28.7%

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

Items	30 06 2018		31 03 2018		31 12 2017*		30 06 2017*	
	Tradable financial assets	Financial liabilities held for tradig	Tradable financial assets	Financial liabilities held for tradig	Tradable financial assets	Financial liabilities held for tradig	Tradable financial assets	Financial liabilities held for tradig
Debt securities	24,965.4	-	21,440.1	-	20,331.5	-	20,018.1	-
Equity instruments and Units of UCITS	556.8	-	502.7	-	505.1	-	514.2	-
Loans	515.6	1,807.2	565.3	2,372.1	-	2,903.3	-	2,625.6
Derivatives	3,219.4	1,366.4	3,144.2	1,253.3	3,331.8	1,573.6	3,557.5	1,824.3
Total	29,257.2	3,173.6	25,652.3	3,625.4	24,168.4	4,476.9	24,089.8	4,449.9

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

Transfers between portfolios of financial assets due to change of business model

During the half, in which the new IFRS was applied, there were no transfers between portfolios of financial assets due to a change of business model.

Interbank position

At the end of June 2018, the **net interbank position** of the Group stood at **EUR 12.2 bn** in funding, EUR 1 bn higher than the balance recorded as at 31 December 2017 and down compared to March 2018 (EUR -2.0 bn), above all due to the increase in loans to banks relating to the growth in the balance of the mandatory reserve.

Interbank balances										
					Change Q/Q		Change 31.12		Change Y/Y	
	30/06/18	31/03/18	31 12 2017*	30 06 2017*	Abs.	%	Abs.	%	Abs.	%
Loans to banks measured at amortised cost	8,636.3	6,374.5	9,966.2	13,116.4	2,261.8	35.5%	(1,329.9)	-13.3%	(4,480.1)	-34.2%
Deposits from banks measured at amortised cost	20,794.8	20,483.1	21,084.9	22,802.8	311.7	1.5%	(290.1)	-1.4%	(2,008.0)	-8.8%
Net position	**(12,158.5)**	**(14,108.6)**	**(11,118.7)**	**(9,686.4)**	**1,950.1**	**-13.8%**	**(1,039.8)**	**9.4%**	**(2,472.1)**	**25.5%**

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

As at 30 June 2018, the operational liquidity position showed an **unencumbered Counterbalancing Capacity of approx. EUR 19.3 bn**, down by EUR 1.8 bn compared with the figures as at 31 December 2017, mainly due to the maturity of a tranche of government issues in 1Q18 and down EUR 0.2 bn compared to 31 March 2018.

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 2018				31 12 2017*			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
1, Financial assets measured at fair value through profit and loss of which:	9,413.1	4,465.5	608.8	14,487.4	4,907.2	3,807.7	3.0	8,718.0
a) financiale asset held for trading	9,413.1	3,853.8	3.4	13,270.3	4,907.2	3,807.7	3.0	8,718.0
c) other financial assets measured at fair value mandatory	-	611.7	605.4	1,217.1	n.a.	n.a.	n.a.	n.a.
2. Financial assets measured at fair value through other comprehensive income	13,983.5	551.1	235.2	14,769.8	14,744.4	373.3	332.8	15,450.4
3. Hedging derivative	-	121.0	-	121.0	-	156.5	-	156.5
Total assets	**23,396.6**	**5,137.6**	**844.0**	**29,378.2**	**19,651.7**	**4,337.4**	**335.8**	**24,324.9**
1. Financial liabilities held for trading	1,805.9	1,367.6	-	3,173.5	2,901.4	1,575.5	-	4,476.9
2. Financial liabilities designated at fair value	-	283.6	-	283.6	-	326.3	-	326.3
3. Hedging derivative	-	723.0	-	723.0	-	691.4	-	691.4
Total liabilities	**1,805.9**	**2,374.2**	**-**	**4,180.1**	**2,901.4**	**2,593.2**	**-**	**5,494.6**

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

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.

As at 30 June 2018, the value of 'Financial assets measured at fair value through profit and loss' - level 1, included a total amount of EUR 29 mln of financial instruments that at the end of the previous year had been classified at level 2. This level transfer relates to securities and is essentially due to improvement of the liquidity conditions of the same securities (measured in terms of bid-ask spread of the listed price) which allowed this reclassification, in accordance with the Group's policy on the valuation of financial instruments.

As at 30 June 2018, the value of ' Financial assets measured at fair value through profit and loss' - lvel 2 included a total amount of EUR 392 mln of financial instruments that at the end of the previous year had been classified at level 1. This level transfer relates to securities and is essentially due to worsening of the liquidity conditions of the same securities (measured in terms of bid-ask spread of the listed price) which allowed this reclassification, in accordance with the Group's policy on the valuation of financial instruments.

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-collateralised 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 CVAs in order to gauge market expectations resulting from CDS, also taking into consideration the historical information available within the Group. As at 30 June 2018 the change for the correction of CVA had a negative value of approx. EUR 38.6 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). As at 30 June 2018 the DVA is positive and amounts to a total of EUR 4.6 mln.

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

30 06 2018

	Financial assets measured at fair value through profit and loss			Financial assets measured at fair value through other comprehensive income
	Total	of which: a) financial assets held for trading	of whichi: c) financial assets measuerd at fair value mandatory	
Closing balance as at 31 12 2017*	**3.0**	**3.0**	**-**	**332.8**
FTA IFRS 9 Portfolio adjustments	664.8	-	664.8	(90.6)
1. Opening balance	**667.8**	**3.0**	**664.8**	**242.2**
2. Increases	**31.1**	**0.4**	**30.7**	**1.3**
2.1 Purchase	4.1	0.3	3.8	-
2.2 Profit posted to:	8.9	0.1	8.8	1.3
2.2.1 Profit and Loss	8.9	0.1	8.8	-
- of which capital gains	8.9	0.1	8.8	-
2.2.2 Equity	-	X	-	1.3
2.3 Transfers from other levels	-	-	-	-
2.4 Other increases	18.1	-	18.1	-
3. Decreases	**90.1**	**-**	**90.1**	**8.3**
3.1 Sales	13.2	-	13.2	0.9
3.2 Redemptions	15.6	-	15.6	-
3.3 Losses posted to:	35.6	-	35.6	1.7
3.3.1 Profit and Loss	35.6	-	35.6	-
- of which capital losses	22.5	-	22.5	-
3.3.2 Equity	-	X	-	1.7
3.4 Transfers to other levels	-	-	-	5.7
3.5 Other decreases	25.7	-	25.7	-
4. Closing balance	**608.8**	**3.4**	**605.4**	**235.2**

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

With respect to the previous year, under the category "Financial assets measured at fair value through other comprehensive income", a reclassification from level 3 to level 2 is recorded under the item "Transfers to other levels" for around EUR 5.8 mln, relating to equity securities valued until the previous year with non-market oriented methods but based on the analysis of the financial statements.

The Group does not have liabilities measured at fair value on a level 3 recurring basis.

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 2018: Financial assets held for trading	Financial assets mandatorily measured at fair value	Financial assets measured at fair value through other comprehensive income	Hedging deivatives	Financial liabilities held for trading	Financial liabilities designated at fair value	Hedging deivatives	Type	Valuation technique(s)	Inputs used
Debt securities	746.9	492.0	533.7	X	-	283.6	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	-	-	17.4	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	-	119.4	X	X	X	X	X	Funds/PE	Market price*	Market price*; recent transactions, appraisals, manager reports
Financial Derivatives	3,089.0	X	X	121.0	1,323.8	X	723.0	IR/Asset/Currency Swaps	Discounted Cash Flow	Interest rate curve, CDS Curve, Basi(yield), Inflation Curve, Foreign exchange rates and correlation
								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 (Surface)
								Equity Singlename Plain	Option Pricing Model	Interest rate curve, share price, foreign exchange rates, Equity volatility
								Equity Singlename Exotic	Option Pricing Model	Interest rate curve, share price, foreign exchange rates, Equity volatility
								Equity Multiname Plain	Option Pricing Model	Interest rate curve, share price, foreign exchange rates, Equity volatility
								Equity Multiname Exotic	Option Pricing Model	Interest rate curve, share price, foreign exchange rates, Equity volatility (surface),Model inputs,Quanto correlation, Equity/Equity 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
Credit Derivatives	17.8	X	X	-	42.5	X	-	Default swaps	Discounted Cash Flow	CDS curves, Interest rate curve
Total assets	3,853.7	611.4	551.1	121.0	X	X	X			
Total liabilities	X	X	X	X	1,367.6	283.6	723.0			

*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 2018			Type	Valuation techinque(s)	Unobservable inputs	Range (weighted average)
	Financial assets held for trading	Finacial assets mandatorily measured at fair value	Financial assets measured at fair value through other comprehensive income				
Debt securities	3.4	60.7	-	Bonds	Discounted Cash Flow	Yield	0.6% - 7.7%
				Convertible Bonds	Credit Model	Credit Data (LGD/PD)	58%/100%
Equity instruments	-	13.6	235.2	Investments	Discounted Cash Flow	Liquidity base/ Equity Risk Premium/Beta	20%/8%/0.4
				Investments	Cost/Net equity	Fair value asset	0-12.3 €/mln
				Investments	Credit Model	Future cash flows	8.5 €/mln
Units of UCITS	-	15.5		Side Pocket	External Pricing	NAV	0-0.3 €/mln
			X	Real estate closed-end Fund	Adjusted NAV	Fair value asset	4.9 €/mln
	-	X		Closed-end Fund	Adjusted NAV	Fair value asset	10 €/mln
Total Assets	3.4	89.8	235.2				
Total liabilities	X	X	X				

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

Item "*Financial assets measured at fair value as per mandatory requirements*", "Debt securities" category, valued according to the Credit Model method, essentially include two convertible bonds issued by the Sorgenia S.p.A. group. (Sorgenia S.p.A. and Sorgenia S.p.A. Power) following the restructuring of its original debit position toward the Bank for a total amount of EUR 58.9 mln. The bonds are valued according to the credit models and the value obtained is not verifiable through market results. Defining the Probability of Default (PD) and the Loss Given Default (LGD) as non-observable parameters, the sensitivity of this position is defined as the loss deriving from the impact on these parameters of a (negative) change in the administrative status of the counterparty and is quantified at approximately EUR 5.2 mln. The "Financial assets held for trading" portfolio, "Debt securities" category, comprises bonds for EUR 3.4 mln valued using the Discounted Cash Flow methodology, for which the unobservable parameter is the total return on the security. For each percentage point of return, the change in value can be estimated at EUR 0.01 mln.

Item "*Financial assets mandatorily measured at fair value*", "Equity instruments" category, encompasses participating equity instruments which were distributed to creditors in the context of a loan restructuring transaction. In valuing these instruments, hypotheses on future cash flows generated by the issuer were made; this parameter was considered unobservable and amounts to circa EUR 8.5 mln.

Within the same category, attention is drawn to the nearly total write-down of the contribution to the "Voluntary Scheme" of Cassa di Risparmio di Cesena, which shows a residual balance sheet amount of approximately EUR 2.1 mln.

Equity securities *measured at fair value through other comprehensive income* through the Discounted Cash Flow method mainly include the shareholding in the Bank of Italy (EUR 187.5 mln). The shareholding 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 identifies the parameters on which to make entity specific assumptions in the market beta of the equity risk premium and in the liquidity base, to be used for cash flow discounting. The valuation of this investment is also confirmed by market transactions carried out by some banks in recent years. During valuation, the intervals of the possible values that can be assigned to these parameters cause the following changes in value: roughly EUR -25 mln for every 100 bps increase in the equity risk premium, around EUR - 40 mln for every 10 percentage point increase in the market beta and roughly EUR -27 mln for every 10 percentage point increase in the cash flow base.

Equity securities valued at cost/net equity include all investments designated at fair value that could not be measured according to a market-based model. These positions amount to approx. EUR 47,7 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 0.7 mln).

This category also includes the total contributions to the Italian Recovery Fund (formerly Atlante Fund) for approx. EUR 9,9 mln made from June 2016. The value of this last position takes into account the fund's residual assets after the write-off of the two main equity investments in the fund's assets (BPVI and Veneto Banca).

The same category continues to include a position of approx. EUR 4,9 mln in the Rainbow Reserved Closed-end real estate investment fund by way of a "datio in solutum" title 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 2018		31 12 2017*	
	Book value	Total Fair value	Book value	Total Fair value
1. Fiancial assets measured at amortised cost	95,646.4	99,887.6	96,422.6	99,771.1
2. Property, plant and equipment held for investment	329.5	360.6	338.3	368.9
3. Non-current assets and groups of assets held for sale	95.4	95.4	4,595.1	4,596.2
Total	**96,071.3**	**100,343.6**	**101,356.0**	**104,736.2**
1. Financial liabilities measured at amortised cost	117,345.2	117,323.7	118,560.4	118,912.5
2. Liabilities associated to disposal groups held for sale	-	-	-	-
Total	**117,345.2**	**117,323.7**	**118,560.4**	**118,912.5**

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

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 2018, the **Group Shareholders' equity and non-controlling interests** amounted to around **EUR 9.0 bn**, down by approx. EUR 1.4 bn compared to the end of December 2017, due to the negative impacts recorded for first-time application of IFRS 9 to the item "Reserves" and the negative variations in value of the financial assets measured at fair value through other comprehensive income, partially offset by the result for the period. The drop of EUR 0.3 bn compared to 31 March 2018 is mainly attributable to the change in the fair value reserves, only partially offset by the profit for the quarter.

Reclassified Consolidated Balance Sheet

Equity	30/06/18	31/03/18	31 12 2017*	30/06/17	Chg Q/Q		Chg 31/12		Chg Y/Y	
					Abs.	%	Abs.	%	Abs.	%
Group net equity	8,994.5	9,298.3	10,429.1	3,047.7	(303.8)	-3.3%	(1,434.6)	-13.8%	5,946.8	n.s.
a) Valuation reserves	(194.0)	196.7	51.7	102.0	(390.7)	n.s.	(245.7)	n.s.	(296.0)	n.s.
d) Reserves	(1,114.9)	(1,100.8)	3,864.8	(1,177.4)	(14.1)	1.3%	(4,979.7)	n.s.	62.5	-5.3%
f) Share capital	10,328.6	10,328.6	10,328.6	7,365.7	-		-		2,962.9	40.2%
g) Treasury shares (-)	(313.7)	(313.7)	(313.7)	-	-		-		(313.7)	n.s.
h) Net profit (loss) for the period	288.5	187.5	(3,502.3)	(3,242.6)	101.0	53.9%	3,790.8	n.s.	3,531.1	n.s.
Non-controlling interests	2.2	2.3	2.3	2.2	(0.1)	-4.3%	(0.1)	-4.3%	-	
Total Group Shareholder's Equity and Non-controlling interests	**8,996.7**	**9,300.6**	**10,431.4**	**3,049.9**	**(303.9)**	**-3.3%**	**(1,434.7)**	**-13.8%**	**5,946.8**	**n.s.**

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

Capital adequacy

Regulatory capital and statutory requirements

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

• a minimum Pillar 1 requirement of 8% and

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

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

• CET1 Ratio of 9.44% on a transitional basis,

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

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

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

As at **30 June 2018**, the Group's level of capital on a transitional basis was as shown in the following table:

Categories / Values	Risk Weighted Assets		Chg. 31 12 2017	
	30 06 2018	31 12 2017	Abs.	%
OWN FUNDS				
Common Equity Tier 1 (CET1)	8,373.0	8,951.2	(578.2)	-6.46%
Tier 1 (T1)	8,373.0	8,951.2	-	-6.46%
Tier 2 (T2)	870.8	112.5	758.3	674.04%
Total capital (TC)	**9,243.8**	**9,063.7**	**180.1**	**1.99%**
RISK ASSETS				
Credit and Counterparty Risk	50,589.5	47,712.7	2,876.8	6.03%
Credit valuation adjustment risk	450.8	345.6	105.2	
Settlement risk	-	-	-	
Market risks	3,197.6	2,492.6	705.0	
Operational risk	10,036.6	10,011.5	25.1	
Other prudential requirements	-	-	-	
Other calculation elements	-	-	-	
Risk-weighted assets	**64,274.5**	**60,562.4**	**3,712.1**	**6.13%**
CAPITAL RATIOS				
CET1 capital ratio	**13.03%**	**14.78%**	**-1.75%**	
Tier1 capital ratio	**13.03%**	**14.78%**	**-1.75%**	
Total capital ratio	**14.38%**	**14.97%**	**-0.59%**	

Compared to 31 December 2017, CET1 recorded an overall reduction of EUR 578 mln, essentially due to the deterioration of the OCI Reserve for EUR 246 mln, higher deductions for DTAs and significant investments, partially offset by the increase deriving from the transitory effect of the first-time application of IFRS 9 and the share of profit for the period calculated in CET1.

Tier 2 showed a rise of EUR 758.3 mln, mainly due to the issue of a subordinated Tier 2 bond, finalised in January 2018, for the amount of EUR 750 mln.

The Total Capital Ratio therefore shows an overall increase in own funds of EUR 180 mln.

The RWAs record an overall increase of EUR 3,712 mln, essentially attributable to the increase in the RWAs relating to the "credit and counterpart risk" (EUR 2,877 mln), mainly due to the application of the specific requirements on non-performing exposures, as well as the effect of the new disbursements, partly offset by the reduction in the RWAs from capital due to the effect of the reduction in the CET1 deductibles and the transformation of "convertible DTAs" into tax receivables. An increase in the half year in the RWAs relative to the "market risk" of around EUR 705 mln is also recorded.

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 2018, the Board of Directors of Banca Monte Paschi di Siena S.p.A. approved the "Group Risk Appetite Statement 2018" (RAS 2018) 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 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.

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 2018, 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 2017, available in the Investor Relations section on the website www.mps.it.

Internal Capital

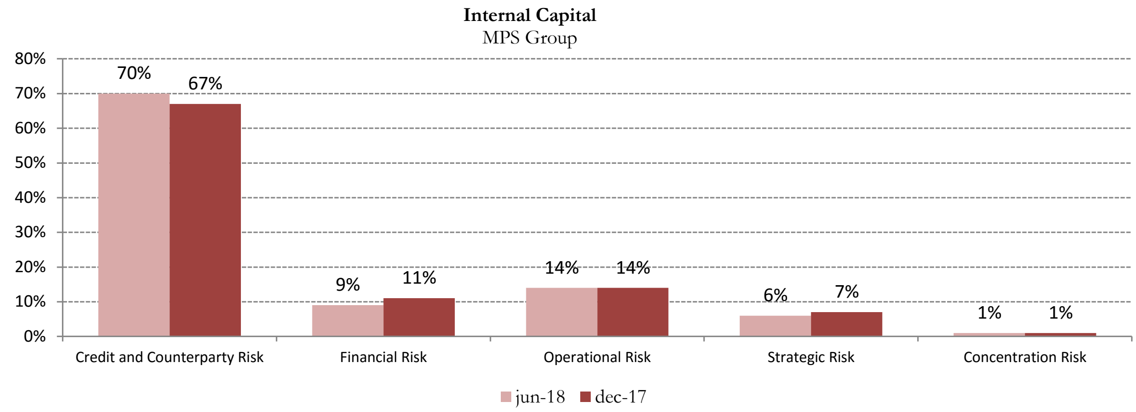
Risk assessment models

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 Notes to the 2017 Consolidated Financial Statements, there are some methodological changes in the internal model used to estimate Internal Capital with regard to Interest Rate Risk of the Banking Book, 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 to 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, the requirements calculated from internal models relating to Market Risks, both Trading Book and Banking Book, as well as Banking Book Interest Rate Risk (Financial Risks), Concentration Risk and Business/Strategic Risk should be added.

Overall Internal Capital is calculated without considering inter-risk diversification, therefore simply by adding together the internal capital contributions of the individual risks (Building Block). This approach is consistent with the prudent approach suggested by the SREP (Supervisory Review and Evaluation Process) Guidelines published by the EBA in July 2018.

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

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.

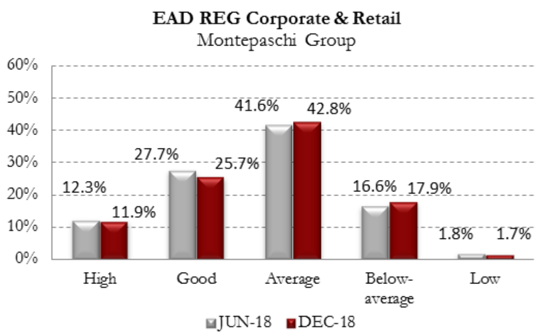
The Group is currently authorised to use the Advanced Internal Rating Based (AIRB) models to determine capital requirements against credit risk on the portfolios of "exposures to businesses" and "retail exposures" of Banca Monte dei Paschi di Siena, MPS Capital Services and MPS Leasing & Factoring, and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

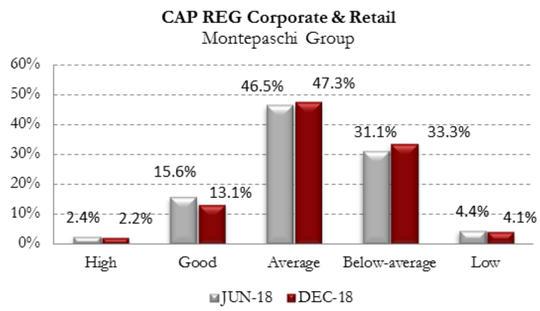
The Group has used PD, LGD and EAD parameters, estimated for regulatory purposes to calculate Risk Weighted Assets, also for other operational and internal management purposes. These provide the basis of calculation for different systems of measurement and monitoring, and specifically for the:

- measurement of internal 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.

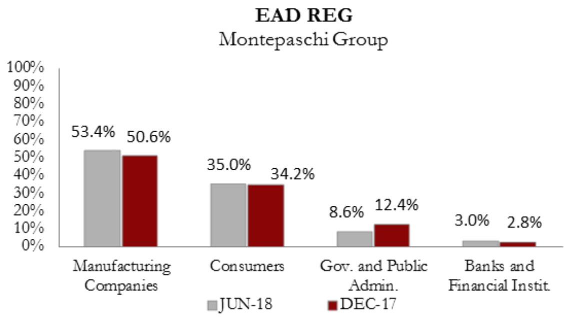
Risk exposure

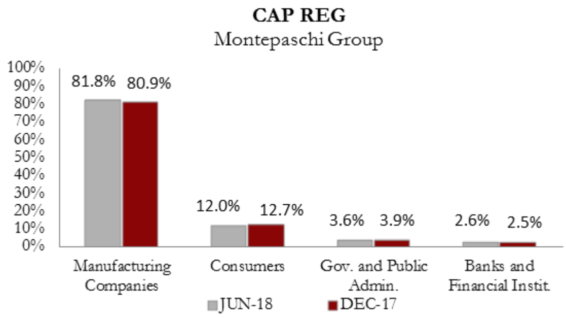
The charts below provide a credit quality breakdown of the MPS Group's portfolio (BMPS, MPS Capital Services, MPS L&F and Widiba) as at 30 June 2018 compared to the end of 2017 for Regulatory Exposure at Default (REG EAD) and Regulatory Capital (REG CAP) of the performing Corporate and Retail portfolios.





The charts below show the distribution of the MPS Group's REG EAD and REG CAP by type of client as at 30 June 2018 compared to the end of 2017.





Counterparty risk

Risk assessment model

With regard to the Counterparty Risk measurement methods, there are no significant changes to report compared to 2017.

- 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 2018.

The exposures are broken down by accounting categories.

COUNTRY	DEBT SECURITIES					LOANS	CREDIT DERIVATIVES
	Financial assets measured at fair value through profit and loss		Financial assets measured at fair value through other comprehensive income		Financial assets measured at amortised cost	Financial assets measured at amortised	Financial assets held for trading
	Nominal	Fair value=book value	Nominal	Fair value=book value	Book value	Book value	Nominal
Argentine	0.2	0.2	-	-	-	-	-
Austria	0.1	0.1	-	-	-	1.5	-
Belgium	-	-	-	-	3.0	687.1	-
Brazil	0.1	0.2	-	-	-	0.1	-
Bulgaria	-	-	-	-	-	0.5	-
Canada	0.3	0.3	-	-	-	0.4	-
United Arab Emirate	-	-	-	-	-	2.9	-
Philippines	0.1	0.1	-	-	-	-	-
Finalnd	-	-	-	-	-	4.7	-
France	-	0.1	-	-	-	55.9	3.0
Germany	(2.8)	(5.1)	-	-	-	14.1	-
Greece	0.1	0.1	-	-	-	0.6	-
Hong kong	-	-	26.7	27.3	-	0.2	-
Ireland	-	-	-	-	-	1.4	-
Israel	-	-	-	-	-	0.3	-
Italy	6,964.4	6,961.0	12,702.7	12,664.4	1,437.5	2,422.0	1,947.3
Lithuania	-	-	-	-	-	0.8	-
Holland	0.1	0.1	-	-	-	32.3	-
Poland	0.3	0.3	-	-	-	0.8	-
Portugal	-	-	5.0	6.3	-	0.4	-
United Kingdom	0.1	0.1	-	-	-	9.0	-
Romania	0.3	0.4	-	-	-	0.9	-
Russia	0.1	0.1	-	-	-	-	-
Spain	1.4	1.6	100.0	100.5	-	9.9	(3.2)
United States	-	-	42.8	42.9	-	10.4	-
Turkey	-	-	-	-	-	0.1	-
Hungary	-	-	-	-	-	0.4	-
Other Countries	0.1	0.1	(0.1)	-	1.0	76.9	-
Total 30 06 2018	**6,964.9**	**6,959.7**	**12,877.1**	**12,841.4**	**1,441.5**	**3,333.6**	**1,947.1**
Total 31 12 2017	**1,380.8**	**1,383.4**	**13,572.2**	**14,139.9**	**490.1**	**2,394.4**	**1,759.3**

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

Market risks

Risk assessment model

Market risk inherent in the Regulatory Trading Book is analysed by using an internally developed management model. A summary of the key characteristics is reported below:

- ✓ 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.

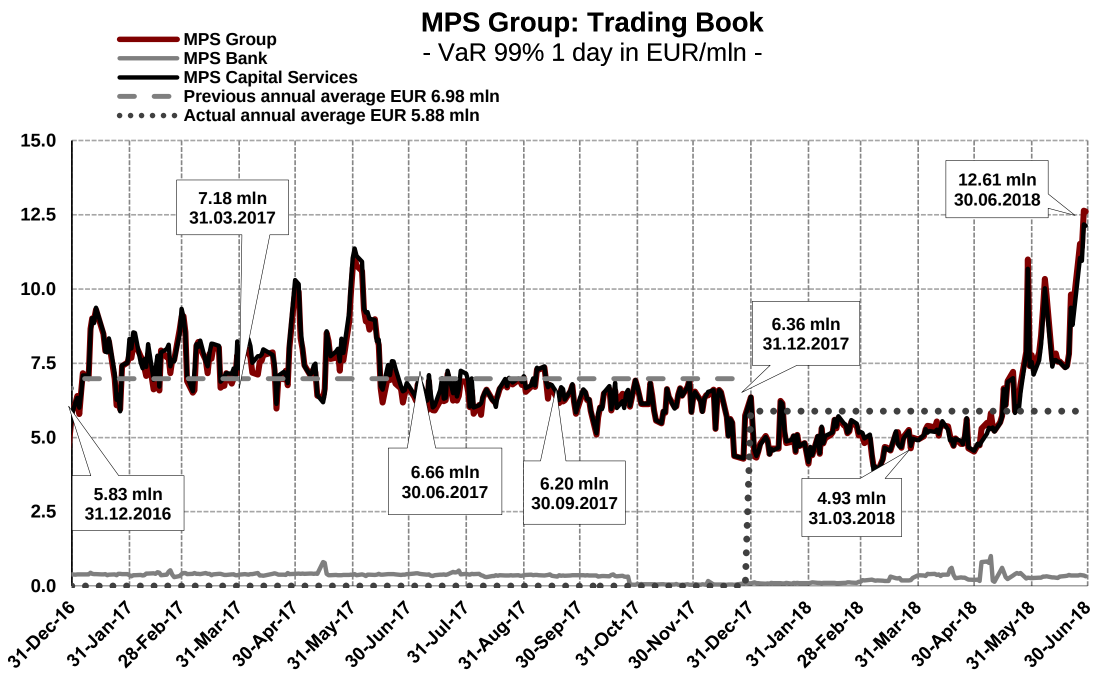
Internal Capital for Market Risk is also measured with regard to the Regulatory Trading Book and the Banking Book (positions classified as FVOCI and relative coverage through FVH, appropriately adjusted and streamlined in the risk integration phase).

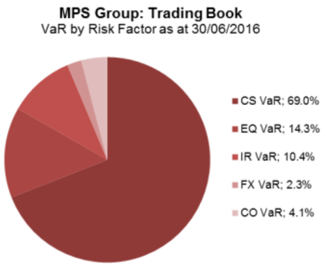
For Supervisory purposes, the Group uses the standard methodology.

Risk exposure

At the end of the second quarter of 2018, the market risks of the Group's Regulatory Trading Book, measured as VaR, have increased compared to the end of December 2017, amounting to EUR 12.61 mln.

In the second quarter of the year market risks in the Group's Regulatory Trading Book showed, in terms of VaR, a trend strongly affected by the high volatility recorded in Italian credit spreads at the end of May, with the inclusion of multiple scenarios in the VaR historical simulation models.





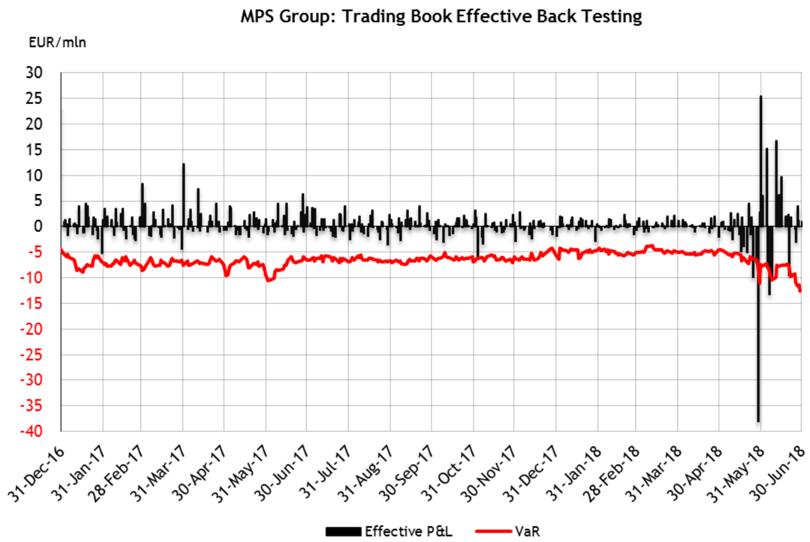
MPS Group

VaR 99%1 day in EUR/mln

	VaR	Date
End of Period	12.61	30/06/2018
Min	3.82	09/03/2018
Max	12.64	28/06/2018
Average	5.88	

VaR model backtesting

The chart below shows the Actual Backtesting results of the internal Market Risks model in relation to the Group's Regulatory Trading Book for 2017 and for the first six months of 2018:



The backtesting shows 5 exceptions in the first half of 2018. These exception are concentrated between the end of May and June 2018, as a consequence of the increase in volatility in the Italian credit spreads, due to a climate of political uncertainty following the political elections to form a new government and not as an increase in portfolio exposures.

Credit structured products

As at 30 June 2018, the securities positions on structured credit products of the MPS Group amounted to a nominal amount of EUR 545 mln (compared to a nominal amount of EUR 264.3 mln as at 31 December 2017).

Interest rate risk in the Banking Book

Risk assessment model

In relation to the methodologies for measuring Interest Rate Risk, with respect to what was already highlighted in the Notes to the 2017 Consolidated Financial Statements, the Group carried out an assessment of the estimate of the volume component of the model for the monitored entries to better define the persistency profile.

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 2018, was indicative of exposure to rate reduction risk. The amount of economic value at risk in the event of a +100 bps parallel shift of the rate curve came to EUR +150.97 mln at the end of June 2018 (vs. EUR -44.77 mln for a shift of -100 bps), down compared to the end of 2017. 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 estimate of 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 uses an internal method. 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 2018, the internal capital requirement for the MPS Group with regard to business/strategic risk was reduced compared to that recorded as at 31 December 2017.

The reduction is mainly attributable to a decrease in the average business margin following the update of the historical series.

Concentration risk

Risk assessment model

The Group, in accordance with Article 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 risk estimate, reference is made to the method proposed by the ABI Concentration Risk Laboratory.

Risk exposure

As at 30 June 2018, the internal capital requirement for the MPS Group with regard to concentration risk is essentially unchanged from 31 December 2017.

Liquidity risk

Risk assessment model

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. The reference Liquidity Risk model for the Montepaschi Group is "centralised" and calls for the management of short-term liquidity reserves and medium/long-term financial balance at Parent Company level, guaranteeing solvency on a consolidated and individual basis for the Subsidiaries.

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. From the operational perspective, the benchmark metric in this respect is the difference between net cumulative cash flows and Counterbalancing Capacity, i.e. the reserve of liquidity in response to stress conditions over a short time horizon, in addition to the Liquidity Coverage Ratio (LCR) regulatory measure - Delegated Act. 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 are gap ratios which measure both the ratio between deposits and loans over more-than-1-year and the ratio between deposits and retail loans regardless of their maturities, in addition to the regulatory measurement of the Net Stable Funding Ratio (NSFR) in accordance with the BCBS definition. 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;
- the Group's capacity to transform bank assets into eligible assets (or in an equivalent manner, to encumber non-eligible assets in bilateral transactions).

The liquidity position is monitored under business-as-usual conditions and under specific and/or system-wide **stress** scenarios based on the Liquidity Stress test Framework. The exercises have the twofold objective of promptly reporting the Bank's major vulnerabilities in exposure to liquidity risk and allowing for prudential determination of surveillance levels, to be applied to the Liquidity Risk measurement metrics within the scope of the annual Risk Appetite Statement.

Risk exposure

The Group's Liquidity Reserves at the end of the half-year deteriorated compared to the end of 2017, with the Liquidity Coverage Ratio (LCR) at 178.2%, while the Group's structural equilibrium was adequate with a Net Stable Funding Ratio (NSFR) of 108.7%.

The ratio of 1-month balance to the Group's consolidated assets is 12.53%, down compared to the end of 2017 (13.46%).

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.

Risk exposure

As at 30 June 2018, operational losses recognised in the first half of the year were reduced compared to those recorded for 2017, as was the number of operational risk events. The Regulatory Requirements as at 30 June 2018 were essentially stable compared to December 2017.

Main types of legal risks

Some summary information is reported below including, when relevant and/or advisable, that relating to individual claims with reference to significant issues involving the BMPS Group and which are not considered completely groundless or normal within the context of the activities of the Group companies.

In compliance with the provisions of IAS 37, information that could significantly harm the position of the Group companies is omitted.

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.

Updates on the more important disputes introduced in part E of the Explanatory Notes to the 2017 Consolidated Financial Statements, to which reference should be made for further details, are illustrated below, as are the new important disputes of the first half of 2018.

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

No further disclosure of the case in question, which has already been described in previous notes, is provided in this half-year report due to the fact that, in light of the first instance decision of the Court of Milan which completely dismissed the claims of the Extraordinary Administrators with respect to the various defendants, including the Parent Company, and taking into account the progress of the proceedings relating to the appeal lodged by the counterparty, the risk of the Parent Company losing this case is currently deemed to be remote.

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

At the hearing on 31 May 2018, the Judge reserved his decision on the challenges raised by the convened parties.

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

With a writ of summons issued on 23 March 2018, the Extraordinary Administrators (hereafter referred to as A.S.) of Lucchini SpA instituted legal proceedings before the Milan Court against the Parent Company and other 11 Institutes and Companies, to obtain compensation, jointly and severally, for damages allegedly suffered and quantified at around EUR 350.5 mln primarily and around EUR 261.2 mln in the alternative.

The A.S., which primarily quantifies the damages in relation to those generated by the delayed subjugation of the Company to the extraordinary administration proceedings and to the receipts by the defendants in the implementation of a restructuring agreement, essentially assumes that the responsibilities of the same defendants could be in fact justified in such restructuring agreement of December 2011 which, according to the plaintiff's submission, would have allowed its signatories, on the one hand, to conceal the real state of failure of the Company so preventing, more specifically delaying the start of the insolvency proceedings and, on the other, to exercise an improper intervention in the management of the Company which could have characteristics of abuse of direction and coordination in pursuant to articles 2497 and 2497 sexies of the Italian Code of Civil Procedure.

The A.S. therefore assumes the Banks' responsibilities, in addition to in relation to said hypothesis of abuse of direction and coordination, as they are considered to be de facto administrators and for the activities and violations ascribed to the administrators appointed by the same Banks in pursuant to articles 2055 and 2049 of the Italian Civil Code. The first hearing is scheduled on 30 October 2018.

Banca Monte dei Paschi di Siena S.p.A. vs. Fallimento Medeghini S.p.A. in liquidazione

At the hearing of 8 March 2018 the case was officially deferred to 25 October 2018 for closing arguments.

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

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 Banca MPS 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. The Judge admitted the CTU and postponed the hearing to 16 July 2018 for the Consultant to take the oath. At this hearing, the start for the investigative operations being scheduled for 4 September 2018, the Judge postponed the hearing to 18 February 2019.

With an action filed on 30 November 2016, the Parent Company petitioned the Court of Palermo to order Riscossione Sicilia to immediately pay the amount of EUR 40.0 mln, plus interest and expenses, for 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 Parent Company be sentenced to pay an amount of approximately EUR 66 mln.

To justify its objection, Riscossione Sicilia alleged that the Parent Company 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. With ruling dated 26 January 2018 the Judge rejected the counterparty's requests and accepted the Parent Company's request for the provisional enforceability of the order for the entire sum. At the hearing on 12 June 2018 the Judge dealt only with the counterclaim formulated in the opposition proceeding to the injunction with the proceeding above and postponed the hearing to 5 November 2018 for continuance.

For the sake of comprehensiveness, please note that with a complaint dated 19 October 2017, Riscossione Sicilia challenged the measure of 6 October 2017 whereby the Court of Palermo rejected the urgent appeal pursuant to art. 700 of the Code of Civil Procedure lodged by Riscossione Sicilia against the suspension of loans disclosed by the Parent Company. The hearing for the discussion of the case, initially scheduled for 24 November 2017, took place on 12 January 2018 and at that time the Judge reserved his decision. With a ruling dated 26 January 2018 the Court rejected the complaint of Riscossione Sicilia.

Subsequently the Finance Department of the Sicily Region, on 10 May 2018, made an appeal in pursuant to art. 700 of the Italian Code of Civil Procedure against the Parent Company and in respect of Riscossione Sicilia, before the Court of Palermo, asking for the Bank to be prevented from suspending credit lines to allow the current account holder Riscossione Sicilia to fulfil its obligation, as Collection Agent, to pay the amounts relating to tax revenues to the tax authority, the Sicily Region, by adopting any urgent means suitable for implementing the transfer of the amount of around EUR 68.6 mln of tax revenues, in addition to the anticipated interests, to the tax authority Sicily Region and through this to the competent Finance Department. In the proceedings in question the Parent Company is duly constituted and the Court, which at the hearing requiring both parties to appear set for 21 June 2018 had reserved judgement, rejected the appeal with decision communicated on 28 June 2018.

Lastly, on 17 July 2018, the Finance Department of the Sicily Region notified the Parent Company by means of an order of injunction pursuant to art. 2 of Italian Royal Decree no. 639/1910 and of repayment, pursuant to art. 823, paragraph 2 of the Italian Civil Code of the above amount of around EUR 68.6 mln, assigning BMPS with the term of 30 days (that will expire on 16 August) to make the payment with the warning that, on the back of the failure to do so, it will proceed with the forced recovery through entry of the action in the list of cases. At the date of this report, the Parent Company is proceeding with the notification of its defence, with the first hearing set for 12 December 2018, against said injunction and the related application for suspension of the enforceability of said injunction (or execution if launched in the meantime) with the request for a provision without prior hearing of the other side. More specifically, the Parent Company believes there are valid reasons, in fact and in law, to challenge the merits of the initiative of the Sicily Region.

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

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.

After an additional exchange of briefs, having acknowledged the difficulty that the parties had in reaching an agreement, the Board ordered the continuation with the expert appraisal on matters to be determined in the course of a hearing held on 4 December 2017. Subsequently, the parties reached an understanding for a settlement subject, as regards the Parent Company, to the approval of the Bodies. As a result of the arbitration, the hearing of 20 February 2018 was not held and the Court will declare the termination of the proceeding.

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

In the course of the proceedings there were multiple rulings by the Judge regarding the request for CTU put forward by the counterparties and, lastly, on cancellation of the previous conditions and with ruling of 21 May 2018, the Judge, having revoked the previous order of admission of the CTU, adjourned the hearing to 2 October 2018 for specification of the pleadings. In the course of the proceedings the counterparty submitted a new application for the revocation of the above-mentioned order which ultimately ruled out the admission of the CTU. By the express ruling of the Judge this application will be examined in the hearing already set for the specification of the pleadings. For the sake of comprehensiveness, please note that on 3 July 2017 parties in the De Masi Group, almost exactly corresponding to the composition of the opposing parties in the case referred to above, served a complaint on the Parent Company lodging new proceedings before the Court of Rome to obtain compensation for alleged damages suffered and quantified at EUR 16.6 mln.

Very briefly, the counterparties are alleging the Parent Company's breach of (alleged) agreements which - in their view - were reached and formalised within the scope of the negotiations held at the Ministry of Economic Development:

The Parent Company duly appeared before the court refuting the action of the counterparties in fact and in law. At the first hearing held on 10 January 2018, the Judge adjourned the case to 14 February 2018 for an attempted settlement. The Judge, after granting the terms pursuant to art. 163, paragraph VI of the Italian Code of Civil Procedure, adjourned the case to 15 November 2018.

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 proceeding is under preliminary investigation and the accounting expert appraisal was admitted. The next hearing is scheduled for 6 November 2018 for examination of the report of specialist advisor.

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 Banca MPS). 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.

At the hearing on 5 December 2017 the decision in the case was deferred to a later date.

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

On 11 November 2016, the Extraordinary Administrators of Impresa S.p.A. served a complaint on the Parent Company along with other banks participating in a pool (our share is 36.48%) to have the liability of such banks, the members of the Board of Directors of Impresa S.p.A., today under Extraordinary Administration, and the auditing firm confirmed and declared by the court and to have them ordered to provide compensation for damages, jointly and severally, allegedly suffered by the company to the extent of EUR 166.9 mln.

The case is still in the initial phases and the hearing for the first appearance of the parties was held on 31 October 2017.

Along with the defence attorneys of the other Banks in the pool, a preliminary objection was first of all raised concerning the nullity of the complaint; however, the Judge deferred all assessments in this regard to when the decision will be made by the Board.

Therefore, the Judge granted the terms for the filing of briefs pursuant to art. 183, paragraph 6 of the Italian Code of Civil Procedure with a deferred start date as of 1 January 2018 - and therefore until next 31 January, 2 March and 22 March 2018 - and scheduled the hearing for the discussion concerning any possible preliminary evidence requested by the parties for 29 October 2018.

Pending the hearing set for 29 October 2018, the parties have lodged their depositions in the terms indicated above and the C.T.P. for Banca MPS is currently being appointed.

Banca Monte dei Paschi di Siena S.p.A. vs. CO.E.STRA. Srl in Liquidazione e Concordato Preventivo.

On 4 December 2014, the administrators of the arrangement with creditors served a complaint on the Parent Company along with other banks participating in a pool (our share is 28.51%) to have their contractual or tort liability in relation to the company's debt restructuring agreement entered into on 30 November 2011 confirmed and declared by the court and have the defendant banks ordered to provide compensation for claimed damages, jointly and severally, suffered or for the claimed aggravation of distress that the company allegedly suffered, quantified by the opposing party as EUR 34.6 mln.

A petition was filed for the referral of the case to a different competent court, and the proceeding is still in the initial stage.

On 12 April 2018 the hearing was held in a closed session meeting for the discussion of the jurisdiction before the Court of Cassation (R.G. Cass. No. 23159/2017). The issue of the order of the Court of Cassation to settle the proceedings is still pending.

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

The proceedings were referred to the Board for a decision on the preliminary matters. The Judge handed down a decision on 25 January 2018 rejecting the objections on the preliminary matters and adjourned to 13 February 2018 for the continuation of the proceedings. At that hearing, the Parent Company reserved the right to appeal the non-definitive ruling of the Court of Milan and the Judge, after granting the terms pursuant to art. 183, paragraph 6 of the Italian Code of Civil Procedure, adjourned the proceedings to the hearing scheduled for 18 December 2018.

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, later determined in the course of the proceedings at EUR 103.5 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 (later determined in the course of the proceedings at EUR 17.9 million). The Parent Company duly appeared before the court with its defence pleadings.

The proceeding is under preliminary investigation. At the hearing on 12 October 2017, the Judge reserved his decision on the claims.

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, later in the course of the proceedings specified at EUR 61.4 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 (later determined in the course of the proceedings at EUR 9.7 mln). The Parent Company duly appeared before the court with its defence pleadings.

At the hearing on 13 March 2018, the Judge reserved himself for the admission of preliminary evidence. On cancellation of the previous conditions, the Judge decided to submit to the Council the decision on the preliminary exceptions raised by the Bank adjourning the hearing to 6 December 2018 for the specifications of the pleadings and, with a separate ruling, adjourned the hearing to 10 October 2018 for continuance of the proceedings.

Banca Monte dei Paschi di Siena S.p.A. vs. Alken Fund Sicav and Alken Luxembourg S.A.

On 22 November 2017, the counterparties served a complaint on the Parent Company as well as Nomura International, Giuseppe Mussari, Antonio Vigni, Alessandro Profumo, Fabrizio Viola and Paolo Salvadori, before the Court of Milan, requesting that the court confirm and declare: (i) the alleged liability of the Bank pursuant to art. 94) of the Consolidated Law on Finance, as well as for the deeds of defendants Mussari, Vigni, Profumo and Viola pursuant to art. 2935 of the Italian Civil Code due to the offences perpetrated against the plaintiffs; (ii) the alleged liability of defendants Mussari and Vigni in relation to investments made by the funds in 2012 on the basis of false information; (iii) the alleged liability of defendants Viola, Profumo and Salvadori in relation to investments made by the funds subsequent to 2012; and (iv) the alleged liability of Nomura pursuant to art. 2043 of the Italian Civil Code and, as a result, order BMPS and Nomura jointly and severally to provide compensation for financial damages equal to EUR 423.9 mln for Alken Funds Sicav and EUR 10 mln for lower management fees and reputational damage to the management company Alken Luxembourg SA, as well as jointly and severally with BMPS and Nomura the defendants Mussari and Vigni for damages resulting from the investments made in 2012, and Viola, Profumo and Salvadori for damages subsequent to 2012. The counterparties also requested that the defendants be ordered to provide compensation for non-financial damages upon confirmation that they were guilty of the offence of providing false corporate disclosures. The first hearing is scheduled for 18 September 2018 and the Parent Company will appear before the court within the required terms to present its defence.

Banca Monte dei Paschi di Siena S.p.A vs. (former) Banca MPS Shareholders and Investors

This disclosure is provided in consideration of the fact that an additional 28 lawsuits are currently pending, including the one mentioned above, brought forward by shareholders and/or former shareholders for a total claim of approximately EUR 763 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 investors submitted claims for compensation against the Parent Company as part of the criminal proceedings 29634/14 r.g.n.r. (General Criminal Records Registry) (a total of 1,243) pending before the Court of Milan, in which the Parent Company is involved as a civilly liable party, as well as the other criminal proceedings no. 955/16 (more than 3,000 civil parties in total) with reference to the financial statements, reports and other corporate communications of the Bank from 31 December 2012 to 31 December 2014 and with reference to the half-yearly report as at 30 June 2015, in which the Parent Company is a defendant pursuant to Italian Legislative Decree 231/01 as well as a civilly liable party.

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 and subsequent 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 Cosolidated half-year report , the Parent Company has received 770 requests, for a total of approximately EUR 653 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.

Another 44 claims relating to the increases in capital in 2014-15 must be added to the ones indicated above, for an amount claimed of EUR 8.5 mln.

Banca Monte dei Paschi di Siena S.p.A. vs. FRESH 2008 Bondholders 2008

Some holders of FRESH Bonds 2008 bonds maturing in 2099 initiated proceedings against the Parent Company, the company Mitsubishi UFJ Investors Services & Banking Luxembourg SA (which replaced the Bank issuing the bond loan Banca di New York Mellon Luxembourg), the British company JP Morgan Securities PLC and the American company JP Morgan Chase Bank NA (which entered into a swap agreement with the bond loan issuer) before the Court of Luxembourg to request confirmation of the inapplicability of Italian law decree 237/2016 (burden sharing) to the holders of FRESH 2008 bonds and, as a result, to have it affirmed that such bonds cannot be forcibly converted into shares, as well as that such bonds will continue to remain valid and effective in compliance with the issue terms and conditions, in that they are governed by the laws of Luxembourg. Lastly, to ascertain that MPS has no rights, in the absence of the conversion of the FRESH 2008 notes, to obtain the payment of EUR 49.9 mln from JPM in damages for holders of FRESH 2008 bonds. The schedule of hearings has not been clearly defined by the Court of Luxembourg.

In view of completeness it is noted that, following the start of the proceedings in question, the Parent Company, on 19 April 2018, tabled a dispute against JP Morgan Securities Ltd JP. Morgan Chase Bank n.a. London Branch, as well as the representative of the Fresh 2008 bond holders and Mitsubishi

Investors Services & Banking (Luxembourg) Sa to ascertain that the Italian Judge is the only one with jurisdiction and competence to decide about the usufruct contract and the company swap agreement signed by the Parent Company with the first two defendants in the context of the operation of the share capital increase in 2008. Consequently the Parent Company asks for: (i) the determination of the ineffectiveness of the usufruct contract and the company swap agreement which anticipate obligations of payment in favour of JPM and JPM chase in relation to the entry into force of Decree 237/16; (ii) the determination of the intervened ineffectiveness and/or resolution and/or termination of the usufruct contract or, alternatively, (iii) the determination of the intervened resolution of the usufruct contract relating to the capital deficiency event of 30 June 2017. The first hearing is scheduled for 18 December 2018.

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 1,064 resources, 634 workers (later reduced to 480 due to waivers/settlements 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 Banca MPS, upon the declaration of ineffectiveness of the transfer agreement entered into with Fruendo S.r.l.

At the reference date of these half-year report, for one plaintiff proceedings are still pending in the first instance with a hearing scheduled on 13 March 2019, while for the other 479 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 143 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 before the applicable Courts of Appeals with hearings currently scheduled from December 2018 to November 2019; on the other hand, for 336 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.

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 479 parties entitled to be rehired by the Bank, 72 workers (later reduced to 31 following 25 waivers to be ratified in accordance with legal procedures and 16 settlements that took place in the meantime) 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 for the discussion of the case will be held on 25 January 2019 and 15 February 2019).

Even if the Parent Company'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 Banca MPS 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. The Preliminary Investigations Judge of the Court of Siena, with ruling of 11 April 2018, decided to close the report of a criminal offence.

Please also note that in 2017, 52 Fruendo S.r.l. workers (later reduced to 37 following waivers/settlement) called Banca MPS before the Court of Siena (in 6 separate proceedings) to request the continuation of the employment relationship with the Parent Company, upon declaration of the unlawful interposition of labour ("unlawful contract", which does not call for criminal consequences) as part of the services outsourced by the Parent Company to Fruendo S.r.l., with hearings currently scheduled for 25 January 2019.

Also in this case, any unfavourable outcome of the proceedings would currently result in the re-establishment of the employment relationship of the parties concerned with the Parent Company with no expenses for previous remuneration differences, as the plaintiffs in question have continuously worked at Fruendo S.r.l., maintaining the remuneration received from Banca MPS when the business unit was transferred.

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

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 6 April 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 summoned the Parent Company as party with civil liability.

As things stand, in the context of the above-mentioned proceedings, witnesses are currently being heard.

On 12 May 2017 the committal for trial of the representatives Alessandro Profumo, Viola Fabrizio and Salvadori Paolo (the first two no longer in office) was requested within new criminal proceedings before the Court of Milan, in which they were charged with false corporate disclosures (art. 2622 of the Italian Civil Code) in relation to the accounting of the "Santorini" and "Alexandria" transactions with reference to the Parent Company's financial statements, reports and other corporate communications from 31 December 2012 to 31 December 2014 and with reference to the half-yearly report as at 30 June 2015, as well as market manipulation (art. 185 of the Consolidated Law on Finance) in relation to the disclosures to the public concerning the approval of the financial statements and the balance sheets specified above.

In relation to these proceedings, the first hearing was held on 5 July 2017, during which several hundred natural persons and a number of trade associations 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 as well as for consolidation with the proceedings pending against Banca MPS, as the defendant entity pursuant to Italian Legislative Decree 231/01 for the same actions with which Mr Profumo, Mr Viola and Mr Salvadori are currently charged. At the hearing on 29 September 2017, 304 of the 337 who requested were admitted as civil parties. The remaining parties were excluded due to lack of legittimatio ad causam. At the same hearing, the proceedings pending against the Parent Company, as the party liable under administrative law, were joined with those pending against the natural persons. Therefore, the Judge admitted the summons of the Parent Company as a civilly liable party and adjourned the proceedings to the hearings of 10 November 2017 and 24 November 2017 to allow for the service of the related notifications.

At the hearing on 10 November 2017, the defence attorney of Mr Salvadori objected on the basis of the alleged nullity of the committal for trial request against his client as the compulsory charge against the client should have been formulated only for the offence pursuant to art. 2622 of the Italian Civil Code and not also for that pursuant to art. 185 of the Consolidated Law on Finance. In connection with this issue, this defence attorney also objected on the grounds of the Milan A.G.'s lack of jurisdiction.

At the hearing on 24 November 2017, the Preliminary Hearing Judge handed down an order:

- declaring the nullity of the request for committal for trial with respect to Mr Salvadori;
- ordering the separation of the relative position from the main proceedings (pending against Mr Viola and Mr Profumo, as well as the Bank) with reference to the section relating to the alleged offence pursuant to art. 185 of the Consolidated Law on Finance;
- reserving any decision concerning issues of jurisdiction until such time as the public prosecutor makes his own determinations in this regard.

Therefore, the Public Prosecutor has issued the notice of the conclusion of investigations with respect to Mr Salvadori for the offence pursuant to art. 185 of the Consolidated Law on Finance and filed the (new) request for committal for trial against Mr Salvadori for such offence and, lastly, requested the (new) preliminary hearing (again for the crime of market manipulation).

At the hearing on 9 February 2018, the Preliminary Hearing Judge acknowledged the filing in the meantime of:

- the Bank's defence brief concerning jurisdiction;
- the documents submitted by the defence attorney of Mr Viola and Mr Profumo;
- the briefs of Mr Bivona and Attorney Falaschi; as well as
- a request for an order for attachment submitted by the latter against Mr Viola and Mr Profumo.

After which time, the Preliminary Hearing Judge convened the proceedings against Mr Salvadori following the excerpt from the previous hearing with regard to the charge pursuant to art. 185 of the Consolidated Law on Finance.

The civil parties readmitted again requested the summons of BMPS as civilly liable party. Therefore, the Preliminary Hearing Judge adjourned the case - also for the proceedings against Mr Viola and Mr Profumo - to the hearing of 13 March 2018 which was not held by abstention and was therefore postponed to 6 April 2018 for the appearance before the court of the liable party and for the discussion of and decision on the matter of jurisdiction.

Following the formalisation of the appearance before the court by the Bank, the Prosecutor requested the issue of a pronouncement of acquittal because there is no case to answer or because the act does not constitute an offence depending on the charge in question. On the outcome of the hearing, the schedule was updated on 13, 20 and 27 April 2018 for the continuance of discussion and the possible issue of the final ruling of the preliminary hearing.

Following the outcome of the preliminary hearing, the Preliminary Hearing Judge found that the requirements for a pronouncement of acquittal to be inexistent and ordered a committal for trial of the defendants, natural persons (Messrs Viola, Profumo and Salvadori) and Banca MPS (as the defendant entity pursuant to Italian Legislative Decree 231/01).

A further 3,000 civil parties joined the lawsuit at the hearing of 17 July 2018. Some of these have formally requested the mention of the Parent Company as party with civil liability, while most of the defence attorneys only requested the extension of the lawsuit to their clients with regard to the Bank, as a party with civil liabilities already called in the lawsuit. Some civil parties brought a lawsuit to the Bank as responsible party in pursuant to Italian Legislative Decree no. 231/2001.
At the outcome, the Court adjourned to the hearings of 16 October 2018, 6 November 2018, 13 November 2018 and 19 November 2018.

Only the preliminary questions relating to the civil parties joining the lawsuit will be heard at the hearing of 16 October.

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Offer of diamonds - In 2012, Banca Monte dei Paschi di Siena signed a cooperation agreement with Diamond Private Investment (DPI) to regulate the modalities for the reporting of the offer of diamonds by the company to the customers of the Bank. The activity generated volumes of purchases mainly in 2015 and 2016, with a significant drop already from 2017.

The Antitrust Authority (Autorità Garante della Concorrenza e del Mercato - AGCM), with the resolution adopted at the meeting of 20 September 2017, established the existence of behaviours in violation of the provisions relating to unfair trade practices on the part of DPI and of the Banks that have signed agreements with them. With regard to Banca Monte dei Paschi di Siena, a sanction of EUR 2 million was imposed.

This measure was challenged before the Lazio Regional Administrative Court. At this regard it should be noted that the Bank had in any case suspended the reporting activity to DPI of its customers already on 3 February 2017, as soon as they became aware of the opening (25 January 2017) of the formal AGCM investigation with regard to DPI (later extended to the Banks with which it had agreements). On 19 March 2018 the Bank terminated the cooperation agreement with DPI (the activity had in practice already been terminated from the date of suspension) and activated a compensation process for its customers who had received recommendations and intended to exit their diamond investment.

The compensation operation, agreed by Board of Directors since January 2018, anticipates the payment to customers a consideration up of an amount equal to the latter had originally paid to DPI for the purchase of stones, with the simultaneous transfer of the same to the Bank and the completion of the transaction.

In the first half of 2018 the Bank received several applications for compensation. A letter confirming the willingness of the Bank, subject to the completion of the administrative authorisations process required, to enable the customer to exit the investment has been sent to applicants. To meet the initiatives taken, the Bank has set aside provisions which take into account, among other things, the anticipated number of requests and the average wholesale value of the diamonds that the Bank will acquire in the context of the compensation process in question.

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.

Lastly, please note that on 10 April 2018, the Revenue Agency, Tuscany Regional Directorate, initiated an IRES, VAT and withholdings audit for the 2015 tax period as well as, for particular cases, for the tax years from 2013 to 2016. The audit is still ongoing and no significant disputes have been formalised.

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 2017 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.

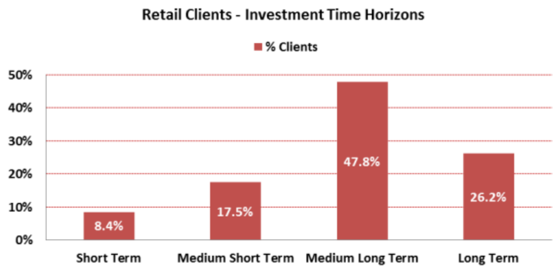
The advisory service is offered by the Parent Company on the basis of two different methods:

- "basic" transactional advisory, 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, which is instead aimed at verifying the suitability of the overall set of transactions, recommended on the basis of their impact on a suggested investment portfolio of the customer, with reference to the optimum asset allocation aimed at maximising prospective returns over a certain time horizon, given the customer's risk profile.

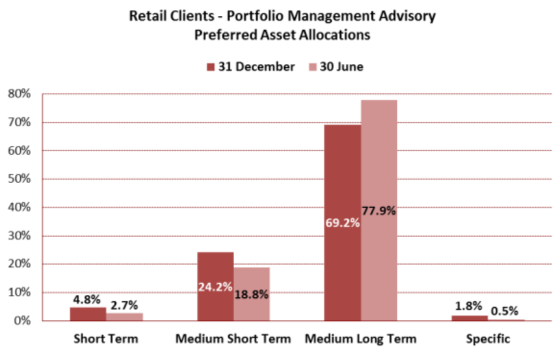
Wealth risk management activities cover the entire distribution perimeter of the network of Group branches, the investment services operated by Banca Widiba and by MPS Capital Services.

Risk exposure

From 3 January 2018, the new MiFID II directive (2014/65/EU) came into force in the entire European Union. Together with MiFIR or Markets in financial instruments regulation (EU Regulation 600/2014) , this has replaced the previous European legislation.
The Parent Company and Banca Widiba have adopted a New Questionnaire and Profiling for customers and the rules to determine the indicators underlying a customer's risk profile, introduced at the start of the year.
The graphs below show the distribution of the new Investment Objective and Time Horizon indicators based on the customers that completed the MiFID questionnaire.



At the end of June 2018, the portfolios held by Consumer/Retail customers on the basis of formalised "advanced" advisory proposals to obtain optimum asset allocation were mainly distributed into the recommended, 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 Parent Group structure envisages the implementation of a specialised commercial organisational model with three Departments (Retail, Wealth Management and Corporate), each of which is responsible for the pertinent markets, segments and products. In particular, in terms of elements, note the creation of the Wealth Management Department, focusing on monitoring and developing customers of high standing, and Banca Widiba SpA.

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

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

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

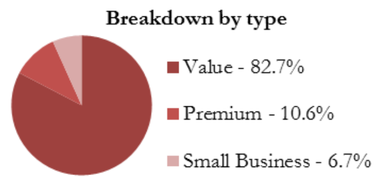
Results in brief

The following table reports the main income statement and balance sheet items that characterised the Group's Operating Segments as at 30 June 2018:

SEGMENT REPORTING	Business Segments											
Primary segment	Retail banking		Wealth Management		Corporate banking		Widiba		Corporate Center		Total MPS Group	
(EUR mln)	30/06/18	Chg % Y/Y	30/06/18	Chg % Y/Y	30/06/18	Chg % Y/Y	30/06/18	Chg % Y/Y	30/06/18	Chg % Y/Y	30/06/18	Chg % Y/Y
PROFIT AND LOSS AGGREGATES												
Total Income	1,155.8	-14.2%	63.7	-27.0%	417.8	-30.1%	31.4	42.3%	40.2	n.s.	1,709.0	-7.8%
Operating expenses	(826.2)	-8.4%	-30.8	-8.0%	-287.5	-8.5%	-30.3	-1.7%	20.5	47.3%	(1,154.2)	-8.9%
Pre Provision Profit	329.6	-26.0%	32.9	-38.8%	130.4	-54.0%	1.1	n.s.	60.8	n.s.	554.7	-5.3%
Net impairment losses (reversals) on loans and financial assets	(154.1)	-92.3%	-2.6	-17.7%	-95.1	-96.3%	-0.4	n.s.	5.5	n.s.	(246.7)	-94.7%
Net Operating Income	175.5	n.s.	30.3	-40.2%	35.3	n.s.	0.7	n.s.	66.2	n.s.	308.0	n.s.
BALANCE SHEET AGGREGATES												
Interest-bearing loans to customers	39,903.7	-5.1%	547.7	-6.5%	36,602.5	-8.1%	336.5	n.s.	6,867.6	34.2%	84,258	-3.9%
Deposits from customers and debt securities issued(*)	41,095.3	-2.4%	3,304.0	17.7%	20,689.8	30.9%	2,450.1	41.0%	29,294.7	-33.6%	96,834	-9.1%
Indirect funding	46,861.3	0.4%	16,768.9	-3.6%	14,894.9	12.9%	5,233.9	-0.3%	15,261.5	8.2%	99,020	2.5%
Assets under management	*37,619.5*	*3.6%*	*11,617.1*	*-3.4%*	*1,439.3*	*-13.6%*	*4,734.0*	*0.0%*	*2,724.9*	*-4.7%*	*58,135*	*0.9%*
Assets under custody	*9,241.7*	*-10.9%*	*5,151.8*	*-3.8%*	*13,455.6*	*16.7%*	*500.0*	*-2.6%*	*12,536.6*	*11.5%*	*40,886*	*4.8%*

N.B.: The Group has elected not to restate comparative data on a consistent basis in the year of initial application of IFRS 9; therefore, 2017 Fiscal Year values, determined in accordance with IAS 39, are not fully comparable.
(*)The values stated in the Sales & Distribution segments are gross interest-bearing loans and therefore do not include the allowance for impairment.

Retail Banking

<table>
<tr><th>Business areas</th><th>Customers</th></tr>
<tr><td rowspan="3">• Funding and provision of insurance products.
• Lending.
• Financial advisory services.
• Electronic payment services.</td><td>Retail customers number approximately 4.6 mln.</td></tr>
<tr><td>
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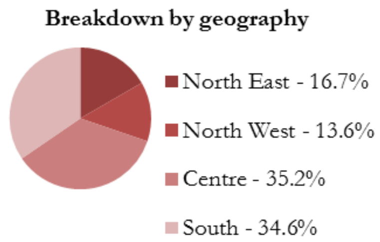
<tr><td>
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</table>

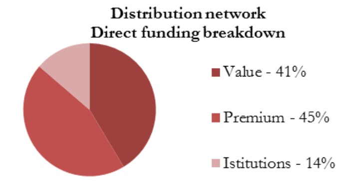
Income statement and balance sheet results

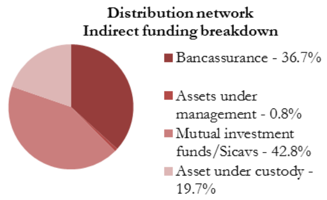
As at 30 June 2018, **Total Funding** for Retail Banking amounted to approximately **EUR 88 bn**, down by roughly EUR 1.7 bn from the end of the year and EUR 0.8 bn compared to March 2018. More specifically:

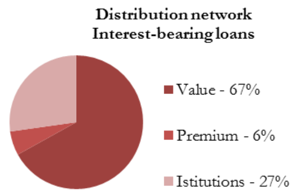
- **Direct Funding** was **EUR 41.1 bn,** down by around EUR 1.3 bn compared to 31 December 2017, due to the short-term (EUR -1.9 bn) and medium/long-term components (EUR -1.2 bn), only partly offset by the rise of demand funding (EUR +1.8 bn). The aggregated decreased by EUR 0.5 bn compared to 31 March 2018, with a rise in demand funding (EUR +1.2 bn) and a drop in short-term (EUR -0.8 bn) and medium/long-term (EUR -1 bn) forms.
- **Indirect Funding**, amounting to approx. **EUR 46.9 bn**, decreased compared to 31 December 2017 by EUR 0.4 bn, due to the downward trend in assets under custody (EUR -0.5 bn), partially offset by increase in assets under management (EUR +0.2 bn). Compared to the March 2018 levels, the aggregate is largely on par (EUR -0.2 bn), with a slight increase in assets under management and a decrease in assets under custody (EUR -0.3 bn).
- **Interest-bearing loans to Retail Banking customers** were **EUR 39.9 bn** as at 30 June 2018, down compared to both 31 December 2017 (EUR -0.3 bn) and 31 March 2018 (EUR -0.4 bn).

RETAIL BANKING - BALANCE SHEET AGGREGATES										
(Eur mln)	30/06/18	31/03/18	31/12/17	30/06/17	Chg Abs Q/Q	Chg % Q/Q	Chg Abs 31/12	Chg % 31/12	Chg Abs Y/Y	Chg % Y/Y
Deposits from customers and debt securities issued	**41,095**	**41,621**	**42,430**	**42,085**	**-526**	**-1.3%**	**-1,335**	**-3.1%**	**-990**	**-2.4%**
Assets under management	*37,620*	*37,550*	*37,447*	*36,310*	*69*	*0.2%*	*172*	*0.5%*	*1,310*	*3.6%*
Assets under custody	*9,242*	*9,552*	*9,772*	*10,378*	*-310*	*-3.2%*	*-530*	*-5.4%*	*-1,136*	*-10.9%*
Indirect Funding	**46,861**	**47,102**	**47,219**	**46,688**	**-241**	**-0.5%**	**-357**	**-0.8%**	**174**	**0.4%**
Total Funding	**87,957**	**88,723**	**89,649**	**88,773**	**-767**	**-0.9%**	**-1,692**	**-1.9%**	**-816**	**-0.9%**
Interest-Bearing Loans to Customers	**39,904**	**40,291**	**40,237**	**42,030**	**-388**	**-1.0%**	**-334**	**-0.8%**	**-2,127**	**-5.1%**

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







With regard to profit and loss, as at 30 June 2018 Retail Banking achieved total **Revenues** of approx. **EUR 1,156 mln**, down 14.2% compared to the same period of last year. A breakdown of the aggregate shows:

- Net Interest Income was approximately EUR 479 mln, down 24.6% annually due both to the decrease in returns on commercial assets (volumes and rates), and the reduction in the contribution of funding.
- Net Fee and Commission Income was around EUR 662 mln, down 3.5% against last year's levels, due to the effect of the decline in payment services, relating to the disposal of the acquiring business, only partially offset by the growth in credit operations, also impacted by non-recurrent components.

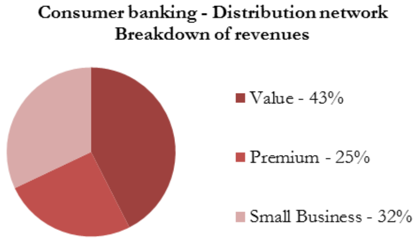
Considering the impact of Operating Expenses, which decreased by 8.4% Y/Y, Retail Banking generated a **Gross Operating Income** of about **EUR 330 mln** in the first half of 2018 (-26% Y/Y). Net impairment losses (reversals) on loans and financial assets totalled **EUR -154 mln** (EUR -2.0 bn as at 30 June 2017, penalised by the adjustment of provisions on "transferred" bad loans to their recoverable value).

The **Net Operating Income** recorded since the beginning of the year **is positive, amounting to around EUR 176 mln**.

The **cost-income ratio** of the Operating Segment is **71.5%** (67.0% at the end of June 2017).

RETAIL BANKING - PROFIT AND LOSS AGGREGATES				
			Chg. Y/Y	
(EUR mln)	30/06/18	30/06/17	Abs.	%
Net interest income	*478.9*	*634.9*	*-156.0*	*-24.6%*
Net fee and commission income	*662.1*	*685.8*	*-23.7*	*-3.5%*
Other income	*2.8*	*20.2*	*-17.3*	*-85.9%*
Other operating expenses/income	*11.9*	*6.6*	*5.3*	*n.s.*
Total Income	**1,155.8**	**1,347.6**	**-191.7**	**-14.2%**
Operating expenses	*(826.2)*	*(902.3)*	*76.0*	*-8.4%*
Pre Provision Profit	**329.6**	**445.3**	**-115.7**	**-26.0%**
Net impairment losses (reversals) on loans and financial assets	(154.1)	(1,991.0)	1,836.9	-92.3%
Net Operating Income	**175.5**	**(1,545.7)**	**1,721.2**	**n.s.**

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



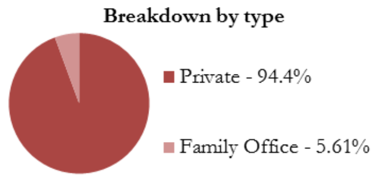
Wealth Management

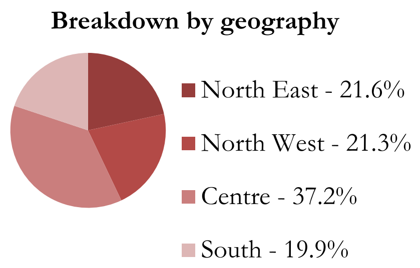
Business areas

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

Customers

There are around 37 thousand private customers.





Income statement and balance sheet results

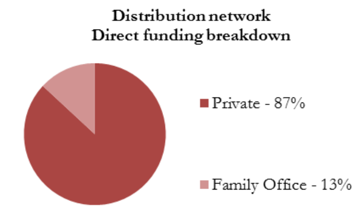
As at 30 June 2018, **Total Funding** for Wealth Management amounted to approximately **EUR 20.1 bn**, down compared to the end of the year (EUR -0.4 bn) and up by around EUR 0.1 bn against 31 March 2018. More specifically:

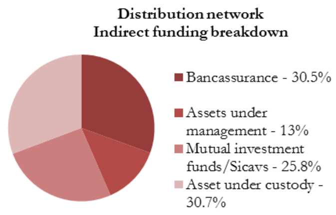
- **Direct Funding** amounted to **EUR 3.3 bn** as at 30 June 2018, down by EUR 0.1 bn as compared to 31 December 2017 and substantially stable compared to March 2018.
- **Indirect Funding**, amounting to about **EUR 16.8 bn**, was down by EUR 0.2 bn compared to the end of the year and up EUR 0.2 bn compared to 31 March 2018 (unchanged compared to assets under management and EUR +0.1 bn on assets under custody).
- **Interest-bearing loans** to Wealth Management customers were substantially in line with 31 December 2017 and up compared to March 2018, reaching around **EUR 0.5 bn**.

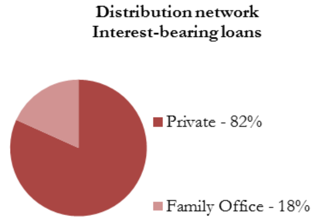
WEALTH MANAGEMENT - BALANCE SHEET AGGREGATES

(EUR mln)	30/06/18	31/03/18	31/12/17	30/06/17	Chg Abs Q/Q	Chg % Q/Q	Chg Abs 31/12	Chg % 31/12	Chg Abs Y/Y	Chg % Y/Y
Deposits from customers and debt securities issued	**3,304**	**3,363**	**3,436**	**2,807**	**-59**	**-1.8%**	**-132**	**-3.8%**	**497**	**17.7%**
Assets under management	*11,617*	*11,588*	*11,828*	*12,032*	*29*	*0.2%*	*-211*	*-1.8%*	*-415*	*-3.4%*
Assets under custody	*5,152*	*5,009*	*5,173*	*5,355*	*143*	*2.9%*	*-22*	*-0.4%*	*-204*	*-3.8%*
Indirect Funding	**16,769**	**16,597**	**17,002**	**17,387**	**172**	**1.0%**	**-233**	**-1.4%**	**-618**	**-3.6%**
Total Funding	**20,073**	**19,961**	**20,437**	**20,194**	**112**	**0.6%**	**-364**	**-1.8%**	**-121**	**-0.6%**
Interest-Bearing Loans to Customers	**548**	**525**	**547**	**586**	**23**	**4.3%**	**1**	**0.1%**	**-38**	**-6.5%**

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







With regard to profit and loss, in the first half of 2018 Wealth Management achieved total **Revenues** of approx. **EUR 64 mln**, down 27.0% compared to the same period of last year. A breakdown of the aggregate shows:

- as at 30 June 2018, Net Interest Income was approximately EUR 2 mln, down 86.9% annually, impacted to a large extent by the drop in the contribution of direct funding;
- in the first six months of 2018, Net Fee and Commission income totalled approximately EUR 61 mln, also down compared to the levels of the previous year (-11.4%) mainly due to the decline in the assets under management revenue.

Considering the impact of Operating Expenses, which decreased by 8.0% Y/Y, Wealth Management generated **Gross Operating Income** of about **EUR 33 mln** in the first half of 2018 (-38.8% Y/Y). Including net impairments losses (reversals) on loans and financial assets equal to about EUR -3 mln, the **Net Operating Income** since the start of the year totalled roughly **EUR 30 mln**.

The **cost-income ratio** of the Operating Segment is **48.3%** (38.3% at the end of June 2017).

WEALTH MANAGEMENT - PROFIT AND LOSS AGGREGATES

			Chg. Y/Y	
(EUR mln)	30/06/18	30/06/17	Abs.	%
Net interest income	*2.4*	*18.1*	*-15.7*	*-86.9%*
Net fee and commission income	*60.9*	*68.7*	*-7.9*	*-11.4%*
Other income	*0.2*	*0.4*	*-0.2*	*-49.5%*
Other operating expenses/income	*0.2*	*0.1*	*0.2*	*n.s.*
Total Income	**63.7**	**87.3**	**-23.6**	**-27.0%**
Operating expenses	*(30.8)*	*(33.5)*	*2.7*	*-8.0%*
Pre Provision Profit	**32.9**	**53.8**	**-20.9**	**-38.8%**
Net impairment losses (reversals) on loans and financial assets	(2.6)	(3.2)	0.6	-17.7%
Net Operating Income	**30.3**	**50.7**	**-20.3**	**-40.2%**

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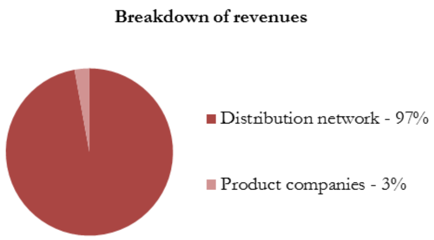
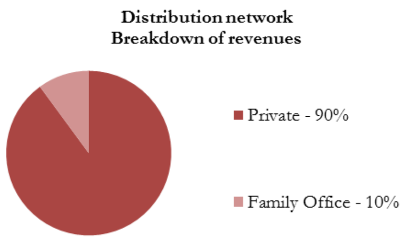




Corporate Banking

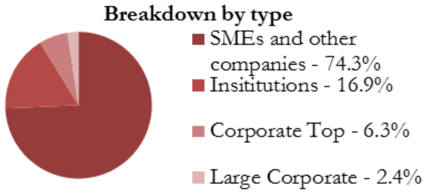
Business areas

- Lending and offering financial products and services to businesses, including through strategic partnerships with trade associations and Confidi (credit guarantee consortia), with Guarantee Institutions (including public) and Institutional Entities, through which funding is acquired at favourable terms.
- Offer of integrated leasing and factoring packages for businesses, artisans and professionals (through the subsidiary MPS Leasing & Factoring).
- Corporate finance - medium-long term credit facilities, corporate finance, capital markets and structured finance also through the subsidiary MPS Capital Services.
- Products and services issued by the Parent Company's foreign branches to support business expansion and investments by Italian companies abroad. Activities abroad are also supported by the operations of foreign subsidiaries MP Banque and MP Belgio.
- Custody and deposit services for dairy products on behalf of third parties (through the subsidiary Magazzini Generali Fiduciari di Mantova S.p.A., which is also authorised to issue documents of title to the merchandise, providing for easier access to bank lending).

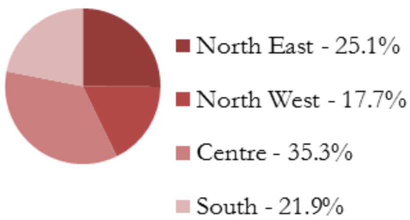
Customers

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

Breakdown by type



Breakdown by geography



Income statement and balance sheet results

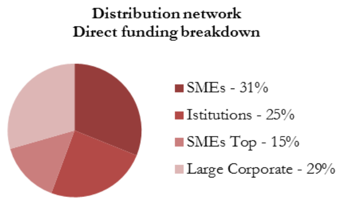
Corporate Banking **Total Funding** recorded growth of approx. EUR 4.4 bn, from EUR 31.2 bn at the end of December 2017 to **EUR 35.6 bn** as at 30 June 2018. Compared to 31 March 2018, the aggregate increased by EUR +2.9 bn mainly due to growth in indirect funding (EUR +3.4 bn), due to a relevant Large Corporate position. Direct funding shows a drop of EUR 0.4 bn compared to the end of March.

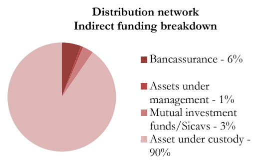
With regard to lending, as at 30 June 2018, **interest-bearing loans to Corporate Banking customers** stood at approximately **EUR 36.6 bn** (EUR +0.5 bn on 31 December 2017 and EUR -0.8 bn on the previous quarter).

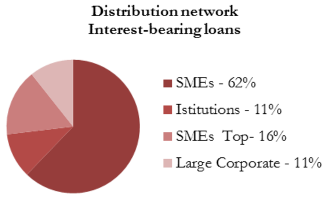
CORPORATE BANKING - BALANCE SHEET AGGREGATES

(EUR mln)	30/06/18	31/03/18	31/12/17	30/06/17	Chg Abs Q/Q	Chg % Q/Q	Chg Abs 31/12	Chg % 31/12	Chg Abs Y/Y	Chg % Y/Y
Deposits from customers and debt securities issued	**20,690**	**21,102**	**19,481**	**15,805**	**-413**	**-2.0%**	**1,209**	**6.2%**	**4,885**	**30.9%**
Assets under management	*1,439*	*1,685*	*1,591*	*1,666*	*-246*	*-14.6%*	*-152*	*-9.5%*	*-227*	*-13.6%*
Assets under custody	*13,456*	*9,849*	*10,089*	*11,533*	*3,607*	*36.6%*	*3,366*	*33.4%*	*1,923*	*16.7%*
Indirect Funding	**14,895**	**11,534**	**11,680**	**13,199**	**3,361**	**29.1%**	**3,215**	**27.5%**	**1,696**	**12.9%**
Total Funding	**35,585**	**32,636**	**31,162**	**29,004**	**2,948**	**9.0%**	**4,423**	**14.2%**	**6,581**	**22.7%**
Interest-Bearing Loans to Customers	**36,603**	**37,403**	**36,152**	**39,849**	**-800**	**-2.1%**	**450**	**1.2%**	**-3,246**	**-8.1%**

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







For profit and loss aggregates, in the first half of 2018 Corporate Banking **Revenues** came to approx. **EUR 418 mln** (-30.1% Y/Y). A breakdown of the aggregate shows:

- Net Interest Income was approximately EUR 285 mln, down 19.0% annually due to the decrease in returns on commercial assets and of the contribution of funding;
- Net Fee and Commission Income decreased by 15.0% Y/Y, amounting to approximately EUR 159 mln, mainly penalised by the downward trend in proceeds from traditional services;
- Other Income from Banking and Insurance Business amounted to approximately EUR -18 mln (EUR +57 mln compared to the first half of 2017), with the drop attributable to the operations of the subsidiary MPS Capital Services.

Considering the impact of Operating Expenses, down by 8.5% compared to 30 June 2017, the **Gross Operating Income** came to about EUR **130 mln** (-54.0% Y/Y). The **Net Operating Income** for this Segment was equal to approx. **EUR 35 mln** (the result as at 30 June 2017 was EUR -2,284 mln penalised by the adjustment of provisions on "transferred" bad loans to their recoverable value), with the contribution of the improvement in value adjustments for impairment of loans and financial assets at EUR -95 mln.

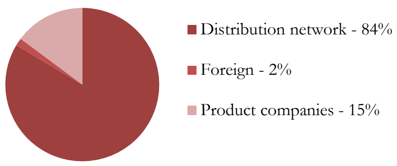
The Corporate Banking **cost-income ratio** stands at **68.8%** (52.6% as at 30 June 2017).

CORPORATE BANKING - PROFIT AND LOSS AGGREGATES

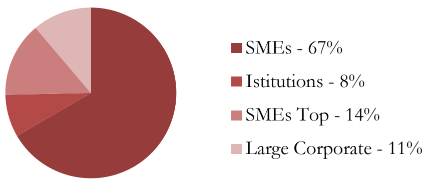
			Chg. Y/Y	
(EUR mln)	30/06/18	30/06/17	Abs.	%
Net interest income	*285.5*	*352.2*	*-66.8*	*-19.0%*
Net fee and commission income	*158.8*	*186.9*	*-28.1*	*-15.0%*
Other income	*(17.6)*	*56.9*	*-74.5*	*n.s.*
Other operating expenses/income	*(8.9)*	*1.7*	*-10.6*	*n.s.*
Total Income	**417.8**	**597.7**	**-179.9**	**-30.1%**
Operating expenses	*(287.5)*	*(314.1)*	*26.6*	*-8.5%*
Pre Provision Profit	**130.4**	**283.6**	**-153.2**	**-54.0%**
Net impairment losses (reversals) on loans and financial assets	(95.1)	(2,567.8)	2,472.7	-96.3%
Net Operating Income	**35.3**	**(2,284.2)**	**2,319.5**	**n.s.**

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

Breakdown of revenues



Breakdown of revenues



Results of the main subsidiaries

- **MPS Capital Services**: result before taxes of roughly EUR +5.8 mln and operating result for the period of around EUR 1 mln, up by around EUR 623 mln compared to the second quarter of 2017 due to the improvement of net losses (recoveries) on impairment, which had been penalised the previous year by the adjustment of provisions on “transferred” bad loans to their recoverable value while revenues decrease.
- **MPS Leasing & Factoring**: result before taxes of EUR +9.4 mln and net operating result for the period of around EUR -2 mln (EUR +56 mln compared to 30 June 2017), due to improvement in net losses (recoveries) on impairment, which had been penalised the previous year by the adjustment of provisions on “transferred” bad loans to their recoverable value, while revenues remained essentially stable.
- **Foreign bank**s[21]: in the first half of 2018, **MP Banque** recorded a profit of approx. EUR 2 mln compared to a profit of EUR 4.9 mln recorded in the corresponding period last year; with regard to **MP Belgio**, the profit for the period amounted to roughly EUR 1.2 mln, compared to a profit of EUR 12.5 mln recorded as at 30 June 2017.

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

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 591 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 243,365 customers as at 30 June 2018, of which 138,200 in the Financial Advisor Network channel, 65,700 in the self-service channel, and 39,300 customers migrated from the MPS branch network. There were approx. 211,161 customers managed exclusively by Banca Widiba SpA.</td></tr>
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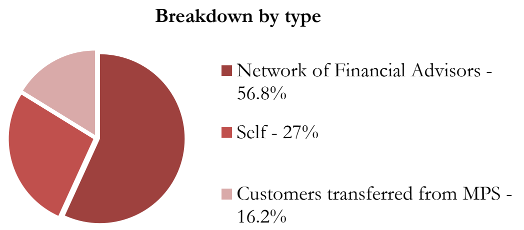

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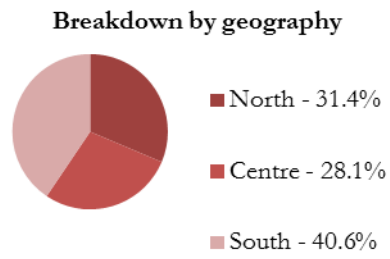


</td></tr>
</table>

Income statement and balance sheet results

As at 30 June 2018, **Total Funding** for Widiba amounted to approximately EUR 7.7 bn, in line with levels recorded at the end of March 2018 and up by EUR 0.7 bn compared to the 30 June of the previous year, due both to constant organic growth and to new assets contributed to the migration to Widiba of customers from the network of MPS branches. In the first half, an increase of around 8,300 units of the customer base was recorded, which generated a marked rise of the Direct Funding component, while Asset under Management was stable compared to the values of the first quarter of 2018 and those as at 30 June 2017, even though suffering a slowdown caused by a negative market effect. More specifically:

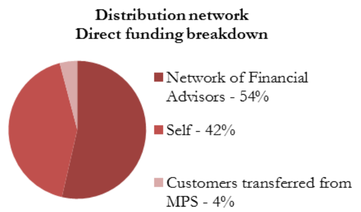
- **Direct Funding** of **EUR 2.5 bn** shows a significant growth trend, even though with a lower growth in the second quarter compared to the first due to lower commercial investments, both for current accounts and for restricted credit lines (EUR +61 mln corresponding to +2.5% compared to the first quarter 2018 and EUR +302 mln, corresponding to +14.1% from the start of the year), generating particularly positive net funding flows both for the self customer channel and for that of the Network of Financial Advisors. Given the positive results of 2017, the commercial initiatives in the first half of 2018 were directed not only to acquiring new customers, but also to increasing the share of wallet of existing customers, with offers dedicated to developing the segment of customers that had migrated from MPS branches and with the use of increasingly sophisticated intelligence instruments. The consolidation of assistance processes supporting the business and customers through the Widiba Media Centre structure made it possible to improve customer service levels while also continuing with the trend of achieving significant economies of scale as well as with ever increasing cross selling rates;

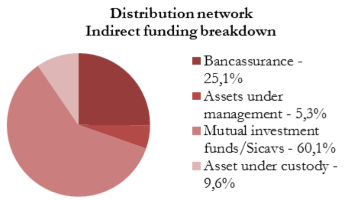
- **Indirect Funding**, of around **EUR 5.2 bn**, is essentially in line with the 1st quarter of 2018 (-52 mln) but down compared to 31 December 2017 by 167 mln (-3.1%) mainly because of the effect of an unfavourable financial markets performance. In fact, a markedly negative market impact on the Asset Management segment of around EUR 150 mln (around -3%) is estimated, accompanied by a slight recovery in the second quarter of net funding flows from the Network of Financial Advisors. 20 new Financial Advisors were hired in the first half of the year.

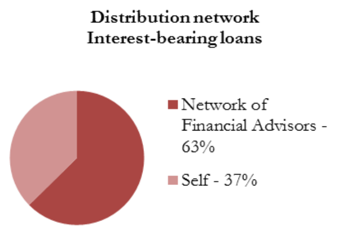
Interest-bearing loans to Widiba customers rose from roughly EUR 293 mln in the first quarter to **EUR 336 mln** as at 30 June 2018. The segment's net overall growth mainly refers to the consolidation of the range of mortgage loans offered by Widiba, with volumes disbursed in the first half of the year of around EUR 100 million. Volumes disbursed in the first half of the year amount to EUR 110 mln (of which EUR 51 mln in the second quarter) while disbursements from the launch of the product amount to EUR 307 mln.

WIDIBA BANK - BALANCE SHEET AGGREGATES										
(EUR mln)	30/06/18	31/03/18	31/12/17	30/06/17	Chg Abs Q/Q	Chg % Q/Q	Chg Abs 31/12	Chg % 31/12	Chg Abs Y/Y	Chg % Y/Y
Deposits from customers and debt securities issued	2,450	2,389	2,148	1,738	61	2.5%	302	14.1%	712	41.0%
Assets under management	*4,734*	*4,743*	*4,928*	*4,735*	*-10*	*-0.2%*	*-194*	*-3.9%*	*-1*	*0.0%*
Assets under custody	*500*	*543*	*473*	*513*	*-43*	*-7.9%*	*27*	*5.7%*	*-13*	*-2.6%*
Indirect Funding	5,234	5,286	5,401	5,248	-52	-1.0%	-167	-3.1%	-15	-0.3%
Total Funding	7,684	7,675	7,548	6,987	9	0.1%	136	1.8%	697	10.0%
Interest-Bearing Loans to Customers	336	293	238	98	44	14.9%	99	41.6%	239	243.8%

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







With regard to profit and loss, as at 30 June 2018 Widiba achieved total **Revenues** of approx. **EUR 31.4 mln**, up (EUR +9.3 mln; +42.3%) compared to the previous year. A further growth in Net Interest Income and a slight drop in Net Fee and Commission Income were recorded in the second quarter. In particular, a breakdown of the aggregate shows:

- **Net Interest Income** as at 30 June 2018 amounts to **EUR 23.6 mln**, marking a significant increase (+63.6%) against the first half of 2017. With regard to the components of net interest income, a particularly positive contribution was made by both financial assets (due to higher average volumes of +38% Y/Y and a rising average yield of +23 bps), and by commercial assets (due to higher average volumes corresponding to around EUR 229 mln), together with a lower cost of funding (-16 bps on average). These trends led to a net improvement in average performance (+51%) in the quarter with respect to the one in 2017 (corresponding to EUR 7.8 mln);
- **Net Fee and Commission Income** as at 30 June 2018, equal to **EUR 7.7 mln**, is largely in line with the first half of 2017 (EUR -0.1 mln; -1.0%). Gross Revenue is in decrease compared to the first half of 2017 because of the effect of the lower contribution of revenues from placement of

Assets under Management products (the activity was penalised in the first months of the year following the operational adjustments pursuant to the application of the Mifid II regulations). With reference to this segment, a recovery in profitability in the second quarter compared to the first quarter was recorded in any case, thanks to the upturn in funding flows. Commission from continuing Management Assets operations are essentially stable, while commissions from services have increased due to the effect of the growth of revenues in the banking and monetics segment. In the first half of the year, compared to the same period in 2017, lower extraordinary expenses relating to the recruiting of Financial Advisors and expenses relating to the loyalty system were recorded.

Overall, **Operating Expenses** show a decrease of 1.7% compared to the first half of 2017 due to lower administrative expenses (EUR -2.3 mln, -11%), deriving from a constant policy of optimising spending with a view to becoming an operating machine with an increasing number of customers, transactions and products. Higher amortisation (EUR +1.1 mln) relating to the continuous development of the technological platform (necessary, on one hand, to adapt to new legislation that came into force in January 2018 and, on the other hand, in order to improve the efficiency of internal and Network operations) and higher personnel expenses (EUR +0.7 mln due to the increase of the workforce) were recorded.

The **Gross Operating Income** therefore came to **EUR +1.1 mln**, an improvement of EUR +9.9 mln compared to the first half of 2017, showing a positive performance (EUR +0.5 mln) in the second quarter.

Net Operating Income performance was also similar, recording a rise of EUR +9.6 mln against the first quarter of 2017, due to an impact of insignificant write-downs on loans.

WIDIBA BANK - PROFIT AND LOSS AGGREGATES				
			Chg. Y/Y	
(EUR mln)	30/06/18	30/06/17	Abs.	%
Net interest income	*23.6*	*14.4*	*9.2*	*63.6%*
Net fee and commission income	*7.7*	*7.8*	*-0.1*	*-1.0%*
Other income	*0.9*	*0.0*	*0.9*	*n.s.*
Other operating expenses/income	*(0.8)*	*(0.1)*	*-0.7*	*n.s.*
Total Income	**31.4**	**22.0**	**9.3**	**42.3%**
Operating expenses	*(30.3)*	*(30.8)*	*0.5*	*-1.7%*
Pre Provision Profit	**1.1**	**(8.8)**	**9.9**	**n.s.**
Net impairment losses (reversals) on loans and financial assets	(0.4)	(0.1)	-0.2	n.s.
Net Operating Income	**0.7**	**(8.9)**	**9.6**	**n.s.**

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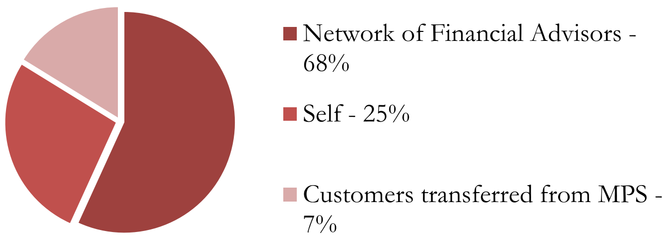
Breakdown of revenues



Corporate Centre

The Corporate Centre includes:

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

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

Prospects and outlook on operations

With regard to international economic activities, after the slowdown observed in the first quarter, short-term prospects for the global economy remain overall favourable even though the risk of larger-scale economic restrictions following the trade tension between the United States and its main economic partners has increased.

In the Euro zone even though uncertainty has not completely dissipated, significant progress has been made towards a sustainable adjustment in the level of inflation towards levels around 2 per cent in the middle-term. In consequence, the Governing Council of the ECB anticipates suspending the net purchase of securities at the end of the year, even though maintaining an accommodative monetary policy and continuing to consider the purchase program as one of the available instruments. Essentially, interest rates will be maintained on current low levels at least until the summer of 2019, reinvesting the capital repaid on expiring securities.

In Italy, the growth has continued in spite of signs of a slowdown experienced in the spring. Volatility of financial markets has increased in the second half of the quarter in connection with the uncertainty of the formation of the new government: yields in Italian state bonds moved upwards, also for shorter-term maturities, while equity market values have decreased, in particular in the banking sector. Tensions have been partly reduced since the second week of June, with short-term yields markedly reduced and with premiums for the Italian sovereign risk on the ten-year bond reduced compared to the maximum level of 305 basis points reached at the end of May. Compared to the end of the previous quarter, the spread of the ten-year bond has increased by 108 basis points, to 237 points.

Corporate lending is showing signs of a more decisive increase even though the risks for economic activity deriving largely from an accentuation of the protectionist trends in the main economic areas have become apparent. Negative repercussions could be experienced on global demand not only because of the direct effect on commercial exchanges but also in terms of corporate confidence and investment plans. In relation to inflation, downgrading risks could derive from the possibility of a weaker economic activity; upgrading risks could however derive from new increases in the price of energy resources, which at the beginning of July reached the highest levels since the end of 2014.

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

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

- establishing new credit policy guidelines for 2018 (Italy and Abroad) and studying, designing and rolling out new credit standards, namely the rules to comply with during the origination stage of the credit portfolio;
- updating the "credit algorithms" (so-called Score Engines) to support decision-making mechanisms for the disbursement of small scale loans to the sphere of Private and Small Business customers, in line with the best practices of the system and the new credit standards of Banca MPS;
- continuing with the programmes to dispose of/reduce the portfolio of Unlikely To Pay exposures by means of a set programme of transactions for a total amount in the two-year period 2018-2019 of EUR 3.5 bn (EUR 1.5 bn in 2018 and EUR 2.0 bn in 2019);
- launching the divestment and deconsolidation transactions, with a specific disposal plan to be finalised by the end of 2018, for bad loans up to around EUR 3.7 bn, represented by receivables resulting from lease agreements and by receivables for contained single amounts (under EUR 0.15 mln);
- the completion, on 14 May 2018, of the outsourcing of management of the flow of bad loans (activation of "Juliet" platform) and launch of ordinary interaction operations according to defined and shared processes is also reported.

At the end of June, the agreement to transfer 95% of the junior notes for a nominal value of EUR 565 mln, relating to the securitisation of the MPS Group bad loan portfolio, was signed with Quaestio Capital SGR S.p.A. on behalf of Italian Recovery Fund (formerly Atlante II Fund). This transaction, following the transfer of 95% of the mezzanine notes for a nominal EUR 847.6 million, which took place on 9 January 2018, again to the Italian Recovery Fund, marked the full achievement of the objectives set out in the agreements signed with Quaestio Capital SGR S.p.A. on 26 June 2017, which made provision for the acquisition, by the latter, of the mezzanine and junior tranches of the securitisation of the MPS Group bad loan portfolio by 30 June 2018. The remaining 5% of the junior and mezzanine notes was retained by the MPS Group for the purposes of observance of the "retention rule".

The overall transaction represents the biggest securitisation ever completed at European level and marks an important step in the process, envisaged in the 2017-2021 Restructuring Plan, approved on 4 July 2017 by the European Commission, of disposal of the prevailing portion of its bad loans by the MPS Group. The transfer of the junior notes, in addition to the transfer of the mezzanine notes and the full outsourcing of portfolio recovery activities,-on 22 June 2018 involved the deconsolidation of the portfolio securitised at the end of December 2017 for a gross value of around Euro 24.1 bn.

The economic impacts of the securitisation and the deconsolidation were already accounted for in 2017.

On 16 July 2018, the Parent Company received communication from the Ministry of Economy and Finance (MEF), of the granting - by means of its decree of 28 June 2018, registered by the Court of Auditors on 10 July 2018 and by the Central Budget Office of the MEF on 13 July 2018 - of the Government guarantee (GACS) on the senior tranche of the securitisation of NPLs, whose nominal amount is Euro 2,918 million (the bonds were initially issued in December 2017 for a higher amount, equal to Euro 3,095.6 million, reduced after the first payment date of 30 April 2018). The State guarantee on the senior tranche is effective from the date of the decree (28 June 2018) and comes within the overall bad loan portfolio securitisation operation of the MPS Group, for a total gross value at the end of December 2017 of around EUR 24.1 bn, whose finalisation was announced on 22 June.

The attainment of the GACS (Non-performing Securitisation Guarantee) concludes, within the time limits set out in the Restructuring Plan, the process linked to what is the largest bad loan securitisation operation at European level to date. It is to be noted that the deconsolidation of the portfolio took place on 22 June with the transfer of 95% of junior notes to Quaestio Capital SGR S.p.A. and that the economic impact of the securitisation have already been recorded in the 2017 financial statements.

In this context, the Parent Company has also received the LGD waiver, which forms the basis of the projections of capital adequacy of the Restructuring Plan and which makes it possible not to include in the LGD estimate process the effects of the derecognition of the securitised portfolio.

Subsequently, with reference to the commitment of the Restructuring Plan on the transfer of foreign banks, it should be noted that:

- for Monte Paschi Banque S.A., given the unsuccessful attempts at the transfer, the Parent Company, as set out in the Plan, resolved the run-off of the subsidiary, which consists of limiting the bank's activities strictly to those targeted at the deleveraging of loans, excluding the development of new business; during said period, the Bank will retain the banking licence;
- for Banca Monte Paschi Belgio S.A, negotiations are still in progress for the transfer which could materialise in the second half of the year; if the negotiations are unsuccessful, the run-off will be launched for the Belgian subsidiary too.

Lastly, in the second half of the year, as set out in the Restructuring Plan, the Group targets an additional downsizing operation by using the "Solidarity Fund for professional retraining and requalification, for support for the employment and the income of credit personnel".

Related-party transactions

Compensation of key management personnel

Items/Amounts	Total 30 06 2018	Total 30 06 2017
Short-term benefits	4.0	4.9
Post-retirement benefits	-	-
Other long-term benefits	-	-
Termination benefits	-	-
Share-based payments	-	-
Other compensation	-	-
Total	**4.0**	**4.9**

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.

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 Parent Company's Board of Directors established the "Committee of Independent Directors" which, as of 18 July 2013, was renamed "Related-Party Transactions Committee"; 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 to 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 Related-Party Transactions Committee 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 Parent Company's decision-making centres.

The Global Policy is published on the Parent Company's website and is therefore available in full-text version at the following links:

https://www.gruppomps.it/static/upload/ope/operazioni_con_parti_correlate_e_soggetti_-collegati-_obbligazioni_degli_esponenti_bancari.pdf

Already starting in 2016, the Parent Company'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.

Following completion of the Parent Company's precautionary recapitalisation procedure, after which the MEF became the controlling shareholder from August 2017, Banca MPS received notification on 18 December 2017 from the Supervisory Authorities with regard to the methods for the resulting application of limits to risk assets laid out in prudential regulations, pursuant to art. 53 of the Consolidated Law on Banking (TUB) and its implementing provisions (Bank of Italy Circ. 263/06 Title V Section 5), through application to the Parent Company of the "silo" approach for calculation of the reference limits.

With reference to the MEF scope, the Parent Company 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 portfolios Financial assets measured at fair value through other comprehensive income" and "Fianncial assets measured at fair value through profit and loss", for an amount respectively of 12.702,7 e 6.964,4 mln of eur.

Information is provided below regarding transactions that are worth special mention and which were concluded on the basis of assessments of economic advantage and carried out by the Parent Company with Related Parties in the first half of 2018.

February 2018

- On 1 February 2018, the Vice Deputy General Manager authorised in favour of SOGIN S.P.A. the ordinary revision, with extension, of two mixed credit facilities (already mentioned in the part H of the 2017 Financial Statements), for a total amount of EUR 19.90 mln, of which (i) one for EUR 18.90 mln used 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 and (ii) another for EUR 1 mln used for forward currency transactions that may be used only for transactions with a commercial underlying asset. The transaction falls within the scope of application of Consob regulation no. 17221/2010, as SOGIN S.p.A. is subject to the direct and total control of MEF, controlling shareholder of the Parent Company.

March 2018

- On 5 March 2018 around EUR 47.5 mln were drawn from available credit lines in the context of the Parent Company operations with regard to existing agreement stipulated between CASSA DEPOSITI E PRESTITI S.p.A. and the Italian Banking Association, subject of the Framework Resolution approved by the Board of Directors on 29 November 2017 (already discussed in Part H of the Financial Statements as at 31 December 2017). The transaction falls within the scope of application of Consob regulation no. 17221/2010, as CASSA DEPOSITI E PRESTITI S.p.A. is a subsidiary of the MEF, controlling shareholder of the Parent Company.

- On 28 March 2018 the Chief Lending Officer of the Parent Company, with the previous approval of the Committee for Related-party Transactions and in the context of the ABI-SACE-SIMEST "Export Banca" Convention, authorised with respect to ZOZIK LLC: (i) the rescheduling of the repayment plan of the Buyers' Credit of the original EUR 22.4 mln, with a one year extension for the final payment from 30 june 2021 to 30 june 2022, on condition that all the interested parties (including SACE and CDP) approve the same variation, with the guarantee and funding structure remaining unchanged; and (ii) the possibility of granting a further suspension to 30 september 2018 for the definition of the financing rescheduling, on condition that the validity of all guarantees and the correct question of liquidity are confirmed. The transaction falls within the scope of application of Consob regulation no. 17221/2010, as, even though ZOZIC LLC is not a related party of the Parent Company, the operation is financed through funds made available by CDP and is assisted by a guarantee by SACE, both subsidiaries of the MEF, which is in turn a controlling shareholder of the Parent Company.

May 2018

- On 3 May 2018 the Manager for the Parent Company's Credit Service authorised the opening of a current account credit facility to CONSIP S.p.A. for EUR 10 mln. The transaction falls within the scope of application of Consob regulation no. 17221/2010, as CONSIP S.p.A. is subject to total control of MEF, controlling shareholder of the Parent Company.

- On 10 May 2018 the Parent Company's Board of Directors, with the prior favourable opinion of the Committee for Related-party Transactions, granted MARINELLA S.p.A. IN LIQUIDAZIONE and TENUTA DI MARINELLA SOCIETÀ AGRICOLA A R.L. IN LIQUIDAZIONE, on request of the liquidators, a 24-month moratorium, effective from the expiry of the previous moratorium agreed in April 2017 (already discussed in Part H of the 2017 Financial Statements), on the unsecured loans from the Parent Company, which may be extended by MARINELLA S.P.A. IN LIQUIDAZIONE by up to 36 months should the residual debt to the Parent Company at the expiry of the 24 months be less than EUR 5 mln. The transaction, which amounts to EUR 22.8 mln, falls within the scope of application of

Consob Regulation no. 17221/2010 as MARINELLA S.p.A. IN LIQUIDAZIONE is subject to joint control by the Parent Company which holds a 25% direct stake in it and TENUTA DI MARINELLA SOCIETÀ AGRICOLA A R.L. IN LIQUIDAZIONE is wholly owned by MARINELLA S.p.A. IN LIQUIDAZIONE.

- On 25 May 2018 the Manager of the Parent Company's Credit Service authorised, with respect to AXA MPS ASSICURAZIONI VITA S.p.A., the confirmation of ordinary credit facilities of EUR 23 mln of which (i) EUR 20 mln as current account overdraft facilities and (ii) EUR 3 mln as credit facility to be used for the issue of financial and commercial guarantees of a duration no longer than 60 months. The transaction falls within the scope of application of Consob Regulation no. 17221/2010 since AXA MPS ASSICURAZIONI VITA S.p.A. is a related party of the Parent Company, as a result of the joint control exercised by the latter in accordance with the joint venture relationship in place between Banca MPS and AXA S.A.

§ * § * § * §

The following tables summarise the relationships and economic effects of transactions carried out in the first half of 2018 with associates, key management personnel and other related parties.

The "MEF Scope" column highlights the balances of the balance sheet and income statement items as at 30 June 2018 relating to the transactions carried out with the MEF and the companies directly and indirectly controlled by the MEF, now majority shareholder following the operation of Precautionary Recapitalisation concluded in 2017.

Related-party transactions: balance sheet items

	Value as at 30 06 2018						
	joint venture	Associated companies	Executives with strategic responsibility	Other related parties	MEF Perimeter	Other related parties	% on consolidated
Financial assets held for trading	-	-	-	12.8	8,621.4	8,634.2	65.06%
Financial assets designated at fair value	-	-	-	-	-	-	0.00%
Financial assets measured at fair value mandatory	-	102.3	-	384.8	143.4	630.5	51.81%
Financial assets measured at fair value through other comprehensive income	-	-	-	-	12,800.5	12,800.5	86.67%
Lonas to banks measured at amortised cost	-	-	-	-	0.0	-	0.00%
Loans to customers measured at amortised cost	89.3	413.8	3.4	8.1	2,329.6	2,844.2	3.27%
Other assets	-	-	-	0.1	-	0.1	0.00%
Total assets	89.3	516.1	3.4	405.8	23,894.9	24,909.5	-
Financial liabilities measured at amortised cost	4.5	299.4	2.8	36.8	2,734.8	3,078.3	2.62%
Financial liabilities held for trading	-	-	-	-	0.5	0.5	0.02%
Financial liabilities designated at fair value	-	-	-	-	-	-	0.00%
Other liabilities	1.1	4.8	-	-	0.1	6.0	0.17%
Total liabilities	5.6	304.2	2.8	36.8	2,735.4	3,084.8	-
Guaranties issued and Commitments	42.3	181.5	0.1	0.1	2,246.1	2,470.1	n.a.

Related-party transactions: income statement items

	Value as at 30 06 2018						
	joint venture	Associated companies	Executives with strategic responsibility	Other related parties	MEF Perimeter	Other related parties	% on consolidated
Interest income and similar revenues	1.3	2.9	-	14.9	99.2	118.3	9.78%
Interest costs and similar charges	-	0.1	-	-	1.1	1.2	0.34%
Fee and commission income	0.3	98.5	-	0.1	98.9	197.8	21.08%
Fee and commission expense	-	0.6	-	-	0.2	0.8	0.58%
Net adjustments/impaiments	(1.2)	(19.6)	-	(1.2)	15.2	(6.8)	-2.82%
Operating costs	-	1.2	4.0	3.4	7.9	16.5	1.24%

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, Stefania Bariatti, 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 half-year financial statements, in the first half of 2018.

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 2018 was based on methods defined by the MPS Group in line with the COSO models 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 2018:
      - 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 includes a reliable analysis of information regarding related-party transactions of major relevance.

Siena, 02/08/2018

On behalf of the Board of Directors

The Chairman

Signed by

Stefania Bariatti

The Financial Reporting Officer

Signed by

Nicola Massimo Clarelli

INDIPENDENT AUDITORS' REPORT

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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, 2018, 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, 2018 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.
Sede Legale: Via Po, 32 - 00198 Roma
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Emphasis Paragraph

Without modifying our conclusions, we draw attention to the disclosures included in the explanatory notes with respect to the completion of the securitization transaction and related derecognition of a portfolio of non-performing loans, which occurred during the half year, as well as to the state of implementation of the other actions envisaged in the 2017-2021 Restructuring Plan.

Rome, August 6, 2018

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

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

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

balance sheet

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

income statement

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

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

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

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

Reclassified Consolidated Income Statement

MONTEPASCHI GROUP	30 06 2017	Reclassifications	30 06 2017*	MONTEPASCHI GROUP
Net interest income	903.3	-	903.3	Net interest income
Net fee and commission income	857.5	-	857.5	Net fee and commission income
Income from banking activities	**1,760.8**	**-**	**1,760.8**	**Income from banking activities**
Dividends, similar income and gains (losses) on equity investments	46.2	-	46.2	Dividends, similar income and gains (losses) on equity investments
Net profit (loss) from trading and financial assets/liabilities	42.9	-	42.9	Net profit (loss) from trading and financial assets/liabilities measured at fair value through profit and loss
Net profit (loss) from hedging	(1.8)	-	(1.8)	Net profit (loss) from hedging
Other operating income (expenses)	4.6	-	4.6	Other operating income (expenses)
Total Revenues	**1,852.7**	**-**	**1,852.7**	**Total Revenues**
Administrative expenses:	(1,139.1)	-	(1,139.1)	Administrative expenses:
a) personnel expenses	(799.5)	-	(799.5)	a) personnel expenses
b) other administrative expenses	(339.6)	-	(339.6)	b) other administrative expenses
Net adjustments to (recoveries on) property, plant and equipment / Net adjustments to (recoveries on) intangible assets	(127.6)	-	(127.6)	Net adjustments to (recoveries on) property, plant and equipment / Net adjustments to (recoveries on) intangible assets
Operating expenses	**(1,266.7)**	**-**	**(1,266.7)**	**Operating expenses**
Pre Provision Profit	**586.0**	**-**	**586.0**	**Pre Provision Profit**
Net impairment losses (reversals) on:	**(4,677.9)**	**47.4**	**(4,630.5)**	Net impairment losses (reversals) on:
a) loans	(4,597.0)	-	(4,597.0)	*a) financial assets measured at amortised cost*
b) financial assets	*(80.9)*	*47.4*	*(33.5)*	*b) financial assets measured at fair value through other comprehensive income*
Net operating income	**(4,091.9)**	**47.4**	**(4,044.5)**	**Net operating income**
Net provisions for risks and charges	(59.0)	(47.4)	(106.4)	Net provisions for risks and charges
	-	*(47.4)*	*(47.4)*	*of which commitments and guarantees issued***
Gains (losses) on investments	(3.8)	-	(3.8)	Gains (losses) on investments
Restructuring costs / One-off costs	(17.7)	-	(17.7)	Restructuring costs / One-off costs
Risks and charges related to the SRF, DGS and similar schemes	(63.0)	-	(63.0)	Risks and charges related to the SRF, DGS and similar schemes
DTA Fee	(35.5)	-	(35.5)	DTA Fee
Gains (losses) on disposal of investments	531.7	-	531.7	Gains (losses) on disposal of investments
Profit (loss) before tax from continuing operations	**(3,739.2)**	**-**	**(3,739.2)**	**Profit (loss) before tax from continuing operations**
Tax expense (recovery) on income from continuing operations	510.0	-	510.0	Tax expense (recovery) on income from continuing operations
Profit (loss) after tax from continuing operations	**(3,229.2)**	**-**	**(3,229.2)**	**Profit (loss) after tax from continuing operations**
Net profit (loss) for the period including non-controlling interests	**(3,229.2)**	**-**	**(3,229.2)**	**Net profit (loss) for the period including non-controlling interests**
Net profit (loss) attributable to non-controlling interests	(0.1)	-	(0.1)	Net profit (loss) attributable to non-controlling interests
Profit (loss) for the period before PPA , impairment on goodwill and intangibles	**(3,229.1)**	**-**	**(3,229.1)**	**Profit (loss) for the period before PPA , impairment on goodwill and intangibles**
PPA (Purchase Price Allocation)	(13.5)	-	(13.5)	PPA (Purchase Price Allocation)
Net profit (loss) for the period	**(3,242.6)**	**-**	**(3,242.6)**	**Net profit (loss) for the period**

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

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

Reconciliation between the reclassified income statement as at 30 June 2018 and related statutory accounts

Accounts in Reclassified Profit and Loss Statement - Montepaschi Group	30/06/18	Accounts in the Profit and Loss Statement - Montepaschi Group		30/06/18	Operating Reclassifications			30/06/18
Net interest income	870.0	Interest income and similar revenues	Item 10	1,211.6	(+)	Economic effects from allocation of BAV acquisition costs to BMPS (PPA)		6.6
		Interest expense and similar charges	Item 20	-348.2				
Net fee and commission income	809.5	Fee and commission income	Item 40	938.4				
		Fee and commission expense	Item 50	-128.9				
Income from banking activities				**1,672.9**				**6.6**
Dividends, similar income and gains (losses) on equity investments	34.3	Dividends and similar income	Item 70	9.5	(-)	Reclassification of dividends on treasury stock transactions	Item 70 - Partial	-0.6
					(+)	Portion of profit from equity investments (Gruppo AXA)	Item 240 - Partial	25.5
Net profit (loss) from trading and financial assets/liabilities measured at amortised cost and maesured at fair value through profit and loss	7.8	Net profit (loss) from trading	Item 80	3.2	(+)	Reclassification of dividends on treasury stock transactions	Item 70 - Partial	0.6
		Gains/losses on disposal/repurchase of:	Item 100	52.8				
		a) financial assets measured at amortised cost		8.3				
		b) financial assets measuerd at fair value through comprehensive income		34.1				
		c) financial liabilities		10.4				
		Net profit (loss) from financial assets and liabilities designated at fair value	Item 110	-48.8				
		a) financial asset and liabilities measured at fair value		1.4				
		b) other financial assets measured at fair value mandatory		-50.2				
Net profit (loss) from hedging	0.2	Net profit (loss) from hedging	Item 90	0.2				
Other operating income (expenses)	-12.9	Other operating income (expenses)	Item 230	134.6	(-)	Recovery of stamp duty and customers' expenses	Item 230 - Partial	-147.5
Total Revenues	**1,709.0**			**1,824.4**				**-115.4**
Administrative expenses:	-1,042.1	Administrative expenses		-1,303.2				
a) personnel expenses	-734.1	a) Personnel expenses	Item 190a	-712.6	(+)	Restructuring costs	Item 190a) - Partial	-21.5
b) other administrative expenses	-308.0	b) Other administrative expenses	Item 190b	-590.6	(+)	Reclassification provision to BRRD and DGSD funds	Item 190b - Partial	94.9
					(+)	Recovery of stamp duty and customers' expenses	Item 230 - Partial	147.5
					(+)	DTA fee	Item 190b) - Partial	35.4
Net adjustments to (recoveries on) property, plant and equipment / Net adjustments to (recoveries on) intangible assets	-112.2	Net losses/reversal on impairment on property, plant and equipment	Item 210	-64.7				
		Net adjustments to (recoveries on) intangible assets	Item 220	-59.7	(+)	Economic effects from allocation of BAV acquisition costs to BMPS (PPA)		12.2
Operating expenses	**-1,154.2**			**-1,427.6**				**273.4**
Pre Provision Profit	**554.7**			**396.8**				**157.9**
Net impairment losses (reversals) on:	-246.7	Net impairment losses(reversals) on	Item 130	-241.4				
a) financial assets measured at amortised cost	-245.2	a) financial assets measured at amortised cost	Item 130a	-239.9	(-)	Modification gains/(losses)	Item 140	-5.3
b) Financial assets measured at fair value through other comprehensive income	-1.5	b) financial assets measured at fair value through other comprehensive income	Item 130b	-1.5				
		Modification gains/(losses)	Item 140	-5.3	(+)	Modification gains/(losses)	Item 140	5.3
Net operating income	308.0			150.1				157.9
Net provisions for risks and charges	**1.3**	**Net provisions for risks and charges**	**Item 200**	**-48.7**				
a) financial guarantees and other commitments	46.7	a) financial guarantees and other commitments	Item 200a	46.7				
b) other provisions	-45.4	b) other provisions	Item 200b	-95.4	(+)	Securitization, Recapitalization and Commitment Costs	Item 200b) - Partial	50.0
Gains (losses) on investments	-4.0	Gains (losses) on investments	Item 250	21.5	(-)	Portion of profit from equity investments (Gruppo AXA)	Item 250	-25.5
Restructuring costs / One-off costs	-33.3				(-)	Restructuring costs	Item 190b) e 200b)	-33.3
Risks and charges related to the SRF, DGS and similar schemes	-94.9				(-)	Provision to BRRD and DGSD funds	Item 190b - Partial	-94.9
DTA fee	-35.4				(-)	DTA fee	Item 190b - Partial	-35.4
Gains (losses) on disposal of investments	49.9	Gains (losses) on disposal of investments	Item 280	49.9				
Profit (loss) before tax from continuing operations	**191.6**			**172.8**				**18.8**
Tax expense (recovery) on income from continuing operations	109.5	Tax expense (recovery) on income from continuing operations	Item 300	115.7	(-)	Economic effects from allocation of BAV acquisition costs to BMPS (PPA)		-6.2
Profit (loss) after tax from continuing operations	**301.1**			**288.5**				**12.6**
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 320					
Net profit (loss) for the period including non-controlling interests	**301.1**			**288.5**				**12.6**
Net profit (loss) attributable to non-controlling interests		Net profit (loss) attributable to non-controlling interests	Item 340					
Profit (loss) for the period before PPA	**301.1**			**288.5**				**12.6**
PPA (Purchase Price Allocation)	-12.6				(-)	Economic effects from allocation of BAV acquisition costs to BMPS (PPA)		-12.6
Impairment on goodwill and intangibles			Item 260					
Net profit (loss) for the period	**288.5**	**Net profit (loss) for the period**		**288.5**		**Total**		**0.0**

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

Accounts in Reclassified Profit and Loss Statement Montepaschi Group	30 06 2017*	Accounts in the Profit and Loss Statement Montepaschi Group		30 06 2017*	Operating Reclassifications			30 06 2017*
Net interest income	903.3	Interest income and similar revenues	Item 10	1,422.4	(+)	Economic effects from allocation of BAV acquisition costs to		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**				**7.0**
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 250 - Partial	37.2
Net profit (loss) from trading and financial assets/liabilities measured at amortised cost and maesured at fair value through profit and loss	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) financial assets measured at amortised cost		-0.4				
		b) financial assets measuerd at fair value through comprehensive income		22.1				
		c) financial liabilities		-2.9				
		Net profit (loss) from financial assets and liabilities designated at fair value	Item 110	-0.6				
		a) financial asset and liabilities measured at fair value		-0.6				
		b) other financial assets measured at fair value mandatory						
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 230	177.4	(-)	Recovery of stamp duty and customers' expenses	Item 230 - Partial	-172.8
Total Revenues	**1,852.7**			**1,981.3**				**-128.6**
Administrative expenses:	-1,139.1	Administrative expenses	Item 190	-1,428.1				
a) personnel expenses	-799.5	a) Personnel expenses	Item 190a	-799.5				
b) other administrative expenses	-339.6	b) Other administrative expenses	Item 190b	-628.6	(+)	Restructuring costs	Item 190b - Partial	17.7
					(+)	Reclassification provision to BRRD and DGSD funds	Item 190b - Partial	63.0
					(+)	Recovery of stamp duty and customers' expenses	Item 230 - Partial	172.8
					(+)	DTA Fess	Item 190b - Partial	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 and equipment	Item 210	-63.1				
		Net adjustments to (recoveries on) intangible assets	Item 220	-77.7	(+)	Economic effects from allocation of BAV acquisition costs to		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:	-4,630.5	Net impairment losses(reversals) on	Item 130	-4,630.5				
a) financial assets measured at amortised cost	-4,597.0	a) financial assets measured at amortised cost	Item 130a	-4,597.0				
b) Financial assets measured at fair value through other comprehensive income	-33.5	b) financial assets measured at fair value through other comprehensive income	Item 130b	-33.5				
Net operating income	**-4,044.5**			**-4,218.1**				**173.6**
Net provisions for risks and charges	-106.4	Net provisions for risks and charges	Item 200	-106.4				
a) financial guarantees and other commitments	-47.4	a) financial guarantees and other commitments	Item 200a	-47.4				
b) other provisions	-59.0	b) other provisions	item 200b	-59.0				
Gains (losses) on investments	-3.8	Gains (losses) on investments	Item 250	33.4	(-)	Portion of profit from equity investments (Gruppo AXA)	Item 250 - Partial	-37.2
Restructuring costs / One-off costs	-17.7				(-)	Restructuring costs	Item 190b - Partial	-17.7
Risks and charges related to the SRF, DGS and similar schemes	-63.0				(-)	Provision to BRRD and DGSD funds	Item 190b - Partial	-63.0
DTA Fee	-35.5				(-)	DTA Fee	Item 190b - Partial	-35.5
Gains (losses) on disposal of investments	**531.7**	**Gains (losses) on disposal of investments**	**Item 280**	**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 operations	Item 300	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 sale and discontinued operations	Item 320					
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 interests	Item 340	-0.1				
Profit (loss) for the period before PPA	-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			(-)	Impairment on goodwill and intangibles		
Net profit (loss) for the period	**-3,242.6**	**Net profit (loss) for the period**		**-3,242.6**		**Total**		**0.0**

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

Reconciliation between the reclassified balance sheet and related statutory accounts

Balance-sheet Items - Assets	30 06 2018	31 12 2017*	Reclassified balance-sheet items - Assets
	721.2	**4,092.3**	**Cash and cash equivalents**
Item 10 – Cash and cash equivalents	721.2	4,092.3	
Financial assets measured at amortised cost:			**Receivables**
	87,010.1	**86,456.3**	**a) Loans to customers**
Item 40 – Loans to customers	87,010.1	86,456.3	
	8,636.3	**9,966.2**	**b) Loans to banks**
Item 40 – Loans to banks	8,636.3	9,966.2	
	29,257.2	**24,168.4**	**Financial assets measuerd at fair value**
Item 20 – Financial assets measured at fair value through profit and loss	14,487.3	8,718.0	
Item 30 – Financial assets measured at fair value through other comprehensive income	14,769.8	15,450.4	
	896.8	**1,034.6**	**Equity investments**
Item 70 – Equity investments	896.8	1,034.6	
	2,789.9	**2,854.2**	**Property, plant and equipment / Intangible assets**
Item 90 – Property, plant and equipment	2,542.5	2,571.0	
Item 100 – Intangible assets	247.4	283.2	
	6,411.4	**10,582.2**	**Other assets**
Item 50 – Hedging Derivatives	121.0	156.5	
Item 60 – Change in value of macro-hedged financial assets (+/-)	92.4	57.3	
Item 110 – Tax assets	3,749.7	3,815.3	
Item 120 – Non-current assets held for sale and discontinued operations	95.4	4,595.1	
Item 130 – Other assets	2,352.9	1,958.0	
Total Assets	**135,722.8**	**139,154.2**	**Total Assets**

Balance-sheet Items - Liabilities	30 06 2018	31 12 2017*	Reclassified balance-sheet items - Liabilities
			Payables
	96,833.9	**97,801.8**	**a) Deposits from customers and securities issued**
Item10 – Deposits from customers	82,803.2	77,014.2	
Item 10 – Debt securities issued	13,747.2	20,461.3	
Item 30 – Financial liabilities designated at fair value	283.5	326.3	
	20,794.8	**21,084.9**	**b) Deposits from banks**
Item 10 – Deposits from banks	20,794.8	21,084.9	
	3,173.6	**4,476.9**	**Financial liabilities held for trading**
Item 40 – Financial liabilities held for trading	3,173.6	4,476.9	
		-	**Provisions for specific use**
Item 90 – Provision for employee severance pay	196.3	199.5	a) Provision for employee severance pay
Item 100 - Provisions for risks and charges - a) financial guarantees and other commitments	209.7	226.4	b) Provision for pension
Item 100 - Provisions for risks and charges - a) pension and similar obligations	43.8	50.1	
Item 100 - Provisions for risks and charges - b) other provisions	1,112.5	1,088.4	c) Other provisions
	4,361.5	**3,794.8**	**Other liabilities**
Item 40 – Hedging Derivatives	723.0	691.4	
Item 50 – Change in value of macro-hedged financial liabilities (+/-)	8.4	(0.8)	
Item 60 – Tax liabilities	58.9	58.6	
Item 70 – Liabilities associated to disposal groups held for sale	-	-	
Item 80 – Other liabilities	3,571.2	3,045.6	
	8,994.5	**10,429.1**	**Group net equity**
Item 120 – Valuation reserves	(194.0)	51.7	a) Valuation reserves
Item 150 – Reserves	(1,114.9)	3,864.8	d) Reserves
Item 160 – Share premium reserve	-	-	e) Share premium reserve
Item 170 – Share Capital	10,328.6	10,328.6	f) Share Capital
Item 200 – Profit (loss) for the period (+/-)	288.5	(3,502.3)	h) Profit (loss) for the period
	2.2	**2.3**	**Non-controlling interests**
Item 210 – Non-controlling interests (+/-)	2.2	2.3	
Total liabilities and shareholders' equity	**135,722.8**	**139,154.2**	**Total liabilities and shareholders' equity**

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