MONTE DEI PASCHI DI SIENA GROUP

Annual report 2017 draft

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

Monte dei Paschi di Siena Group
Draft Consolidated Annual Report as at 31 December 2017

Banca Monte dei Paschi di Siena S.p.a.
Share Capital: € 10,328,618,260.14 fully paid in
Siena Companies' Register no. and tax code 00884060526
Member of the Italian Interbank Deposit Protection Fund. Banks Register no. 5274.
Monte dei Paschi di Siena Banking Group, registered with the Banking Groups Register

NOTICE OF ORDINARY SHAREHOLDERS' MEETING

The Shareholders of Banca Monte dei Paschi di Siena S.p.A. (the "**Bank**") are called to the Ordinary Shareholders' Meeting in **Siena - Viale Mazzini 23 - on 12 April 2018 at 9:30 a.m., on a single call**, to discuss and pass resolutions on the following

AGENDA

1. Individual and consolidated financial statements as at 31 December 2017, accompanied by the Reports of the Board of Directors, the Independent Auditors and the Board of Statutory Auditors; related and consequent resolutions.

2. Remuneration report: resolution pursuant to Article 123-ter, paragraph 6, of the Legislative Decree n. 58 of 24 February 1998 (Consolidated Law on Finance).

3. Proposal pursuant to the combined provisions of Article 114-bis and Article 125-ter of the Legislative Decree n. 58 of 24 February 1998 (Consolidated Law on Finance), for approval of a plan concerning the use of own shares for the payment of severance for the Montepaschi Group personnel, together with the authorization to dispose of own shares pursuant to Articles 2357 and 2357–ter of the Italian Civil Code; related and consequent resolutions.

The full version of the notice is available on the website *www.gruppomps.it*, in the section *Corporate Governance – Shareholders' Meetings and BoD*.

Siena, 12 March 2018

DRAFT CONSOLIDATED ANNUAL REPORT

GOVERNING AND CONTROL BODIES

BOARD OF DIRECTORS

Stefania BARIATTI	Chairman
Antonino TURICCHI	Deputy Chairman
Marco MORELLI	Chief Executive Officier
Giuseppina CAPALDO	Director
Maria Elena CAPPELLO	Director
Marco GIORGINO	Director
Fiorella KOSTORIS	Director
Roberto LANCELLOTTI	Director
Nicola MAIONE	Director
Stefania PETRUCCIOLI	Director
Salvatore Fernando PIAZZOLLA	Director
Angelo RICCABONI	Director
Michele SANTORO	Director
Giorgio VALERIO	Director

BOARD OF STATUTORY AUDITORS

Elena CENDERELLI	Chairman
Raffaella FANTINI	Standing Auditor
Paolo SALVADORI	Standing Auditor
Carmela Regina SILVESTRI	Alternative Auditor
Daniele Federico MONARCA	Alternative Auditor

SENIOR MANAGEMENT

Marco MORELLI	Chief Executive Officer
Angelo BARBARULO	Acting Deputy General Manager
Antonio NUCCI	Deputy General Manager

INDEPENDENT AUDITOR

Ernst & Young S.p.A.

CONSOLIDATED REPORT ON OPERATIONS

General accounting standards

The Consolidated Report on Operations as at 31 December 2017 provides a snapshot of the activities and results which largely characterised the Group's operations during the year, both as a whole and in the various business sectors into which consolidated operations are organised.

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

The income statement and balance sheet have been reclassified based on presentation criteria that are more suitable for representing the contents of the items according to consistent operational criteria.

In addition, the Report incorporates non-financial company information providing the details on the activities, capital, risks and relations that are significant to the Group’s current and future performance. This information is more thoroughly analysed in the Consolidated Non- Financial Statement, drafted pursuant to Legislative Decree no. 254 of 30 December 2016 and included in the Report, as well as other corporate communications found on the Banca MPS website www.mps.it., such as: the “Report on Corporate Governance and Ownership Structure”, the “Remuneration Report” and the “Pillar 3 Disclosure”.

Results in brief

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

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

The Group's results as at 31 December 2017 include the effects connected to the transfer, through a securitisation, of a set of credit exposures classified as doubtful (allocated to the "Other Assets" balance sheet item 150 "Non-current assets and groups of assets held for sale and discontinued operations"), which was concluded on 20 December 2017 (without derecognition). The transaction is part of the activities defined in the Restructuring Plan approved by the European Commission on 4 July 2017.

CONSOLIDATED REPORT ON OPERATIONS
Highlights at 31/12/2017

INCOME STATEMENT AND BALANCE SHEET FIGURES

MPS GROUP

INCOME STATEMENT FIGURES	31/12/17	31/12/16	Chg.
Net interest income	1,788.3	2,021.3	-11.5%
Net fee and commission income	1,576.5	1,839.4	-14.3%
Other operating income	660.8	421.3	56.8%
Total Revenues	4,025.6	4,282.0	-6.0%
Net impairment losses (reversals) on loans and financial assets	(5,460.0)	(4,500.9)	21.3%
Net operating income	(3,977.4)	(2,840.2)	40.0%
Net profit (loss) for the year	(3,502.3)	(3,241.1)	8.1%
EARNING PER SHARE (EUR)	31/12/17	31/12/16	Chg.
Basic earnings per share	(7.299)	(110.545)	-93.4%
Diluted earnings per share	(7.299)	(110.545)	-93.4%
BALANCE SHEET FIGURES AND INDICATORS	31/12/17	31/12/16	Chg.
Total assets	139,154.2	153,178.5	-9.2%
Loans to customers	86,456.3	106,692.7	-19.0%
Direct funding	97,801.8	104,573.5	-6.5%
Indirect funding	95,845.7	98,151.8	-2.3%
of which: assets under management	58,599.4	57,180.9	2.5%
of which: assets under custody	37,246.3	40,971.0	-9.1%
Group net equity	10,429.1	6,425.5	62.3%
OPERATING STRUCTURE	31/12/17	31/12/16	Chg.
Total head count - end of period	23,463	25,566	-2,103
Number of branches in Italy	1,745	2,032	-287

CONSOLIDATED REPORT ON OPERATIONS
Highlights at 31/12/2017

ALTERNATIVE PERFORMANCE MEASURES

MPS GROUP

PROFITABILITY RATIOS (%)	31/12/17	31/12/16	Chg.
Cost/Income ratio	63.2	61.2	2.0
R.O.E.	-41.6	-40.5	-1.1
Return on Assets (RoA) ratio	-2.5	-2.1	-0.4
ROTE (Return on tangible equity)	-41.6	-40.5	-1.1

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

KEY CREDIT QUALITY RATIOS (%)	31/12/17	31/12/16	Chg.
Net non-performing loans / Loans to Customers	16.3	19.0	-2.7
Coverage non-performing loans	67.2	55.6	11.6
Net doubtful loans / Loans to Customers	8.3	9.7	-1.4
Coverage doubtful loans	77.2	64.8	12.4
Net impairment losses on loans / Loans to Customers (Provisioning)	5.8	4.2	1.6
Texas Ratio	111.5	145.0	-33.5

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

KEY CREDIT QUALITY RATIOS (%)	31/12/17	31/12/16	Chg.
Net non-performing loans / Loans to Customers	12.0	19.0	-7.0
Coverage non-performing loans	50.5	55.6	-5.1
Net doubtful loans / Loans to Customers	3.6	9.7	-6.1
Coverage doubtful loans	64.8	64.8	
Net impairment losses on loans / Loans to Customers (Provisioning)	1.7	4.2	-2.5
Texas Ratio	101.0	145.0	-44.0

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

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

Return On Assets (ROA): ratio of the Net profit for the year to the total assets at the end of the period.

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

Net impairment losses on loans/Loans to Customers (Provisioning): ratio between net impairment losses on loans and loans to customers.

Texas Ratio: ratio between gross non-performing loans and the sum, in the denominator, of tangible shareholders' equity and the allowance for impairment on non-performing loans.

CONSOLIDATED REPORT ON OPERATIONS
Highlights at 31/12/2017

REGULATORY MEASURES

MPS GROUP

CAPITAL RATIOS (%)	31/12/17	31/12/16	Chg.
Common Equity Tier 1 (CET1) ratio	14.8	8.2	6.6
Total Capital ratio	15.0	10.4	4.6
FINANCIAL LEVERAGE INDEX (5)	31/12/17	31/12/16	Chg.
Leverage ratio - Transitional Phase	6.0	3.2	2.8
LIQUIDITY RATIO (%)	31/12/17	31/12/16	Chg.
LCR	199.5	107.7	91.8
NSFR	110.0	87.6	22.4
Encumbered asset ratio *	33.4	49.4	-16.0
Counterbalancing capacity (bn of Eur)	21.1	6.9	14.2

*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 for 2017 are summarised below:

- The Group recorded **Total revenues** of **EUR 4,026 mln**, down by 6.0% compared to the same period of the previous year, due to the downturn in Net interest income and Net fee and commission income, only partially offset by the increase in the Net profit (loss) from trading and financial assets/liabilities (influenced by the positive effects of burden sharing). This revenue trend is affected by the performance of **Net interest income**, which amounted to approximately **EUR 1,788 mln** (-11.5% Y/Y), due especially to 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 decrease in interest expense as a result of the reduction in the cost of commercial funding, the maturity of bonds issued with more costly conditions, and the effects of burden sharing. **Net fee and commission income**, totalling approximately **EUR 1,577 mln** as at 31 December 2017, recorded a decline of 14.3% compared to the previous year, penalised primarily by the recognition of the cost of the guarantee on government issues and the disposal of the merchant acquiring business on 30 June 2017. Under other revenues, **Net profit (loss) from trading and financial assets/liabilities** for the year stood at around **EUR 575 mln** (including the effects relating to the burden sharing transaction), an increase from the previous year. Net of these effects, the aggregate would have shown a reduction compared to 31 December 2016, which was characterised by higher net profit from trading, disposals/repurchases of securities and capital gains on liabilities issued and measured at fair value.

- **Operating expenses** amounted to **EUR 2,543 mln** (-3.0% Y/Y). **Personnel expenses**, which totalled **EUR 1,575 mln**, declined year on year by 2.2% mainly as a result of workforce downsizing, after the first Solidarity Fund exits of roughly 600 individuals on 1 May 2017 and the subsequent 1,200 exits on 1 November 2017. **Other administrative expenses** stood at about **EUR 704 mln** in 2017, down 11.1% from the previous year, due to the negative impact of one-off costs of EUR 37 mln (for the recapitalisation transaction expected at the end of 2016 which was not completed successfully). Excluding this component, Other administrative expenses posted a decrease for the year, which was characterised by the continual initiatives to contain structural expenses. **Net adjustments to (recoveries on) property, plant and equipment and intangible assets**, amounting to approximately **EUR 263 mln**, were higher than the values from the previous year due to write-downs on both property, plant and equipment (impairment on land and buildings of EUR 17 mln) as well as intangible assets (software write-down of EUR 25 mln).

- **Net impairment (losses)/reversals on loans, financial assets and other transactions** amounted to approximately **EUR 5,460 mln**, up EUR 959 mln from the figure for the previous year. These include i) net impairment losses posted at the beginning of the year on the loans to be transferred following the adjustment to their recoverable value and other additional charges envisaged in the agreement with Quaestio (in total, EUR 3.9 bn, already recognised as at 30 June 2017); ii) recovery costs associated with the long-term servicing contract signed with JV Cerved/Quaestio for managing the outsourcing of the MPS Group's doubtful loans (EUR -170 mln); iii) write-down of the equity investments in the Atlante Fund (EUR -30 mln, already recognised in the first half of the year) and in Banca Popolare di Spoleto (EUR -8 mln); iv) write-down of the share held in the Voluntary Scheme (for a total amount of EUR -46 mln). The ratio of net impairment losses on loans to total Loans to Customers as at 31 December 2017 reflects a **Provisioning Rate** of 585 bps, or **172 bps** net of the balance sheet and income statement effects of the transferred doubtful loans.

- As a result of the trend of the above-mentioned economic aggregates and also considering i) the capital gain realised from the sale of the merchant acquiring business to CartaSi (EUR +524 mln, recorded in June 2017), ii) restructuring charges allocated against the early retirement incentives/provision for personnel (EUR -282 mln), the closure of branches (EUR -17 mln), as well as the expenses associated with the securitisation of doubtful loans, the overall outsourcing transaction of the doubtful loan collection platform and the long-term servicing for managing doubtful loans by the JV Cerved/Quaestio (totalling EUR -32 mln), and iii) the partial reassessment of DTAs from tax losses (EUR +572 mln), accrued but not recognised in previous years, induced by the recent regulatory measure which ordered the reduction in the ACE benefit (refer to article 7 of Law Decree no. 50 of 24 April 2017), the Group recorded a **loss of EUR 3,502 mln** as at 31 December 2017, compared to a loss of EUR 3,241 mln in 2016.

- **Total Funding** at the end of December 2017 amounted to approximately **EUR 194 bn** with a decline in volumes of about EUR 9.1 bn compared to 31 December 2016, owing mainly to the decrease in the direct component, which was impacted by the effects of the burden sharing transaction on the bond component and the decrease in repurchase agreements with institutional counterparties.
- As at 31 December 2017, **Loans to Customers** amounted to **EUR 86.5 bn**, down EUR 20.2 bn compared to 31 December 2016. The decline in the aggregate posted for the year was concentrated on repurchase agreements with institutional counterparties and the non-performing loan segment due to both higher impairments recognised at the beginning of the year on the loans to be transferred following the adjustment to their recoverable value as well as the reclassification of transferred loans to balance sheet item "Other assets" (item 150 "Non-current assets and groups of assets held for sale and discontinued operations").
- The Group's **net exposure to non-performing loans**, included in item 70 "Loans to Customers" stood at **EUR 10.4 bn** at the end of December 2017 (EUR -10.0 bn since the beginning of the year as a result of the trends described above). Including the transferred portfolio, the value stood at EUR 14.8 bn (EUR -5.5 bn since the beginning of the year), with a decline in the share of net doubtful loans (from 9.7% in December 2016 to 8.3% as at 31 December 2017), unlikely to pay positions (from 8.5% in December 2016 to 7.6% as at 31 December 2017), and past due exposures (from 0.8% in December 2016 to 0.4% as at 31 December 2017), The percentage of coverage of non-performing loans, including the transferred portfolio, came to 67.2%, up by more than 1,000 bps compared to 31 December 2016 (on the other hand, the coverage percentage, net of this portfolio, would have been 50.5%, a decline of 510 bps compared to December 2016). The increase in coverage is linked primarily to impairment losses on loans within the transferred portfolio of roughly EUR -3.9 bn. The coverage of doubtful loans rose from 64.8% in December 2016 to 77.2% in December 2017 (64.8% net of that portfolio).
- With regard to capital ratios, as at 31 December 2017 the **Common Equity Tier 1 Ratio** stood at **14.8%** (8.2% at the end of 2016) and the **Total Capital Ratio** at **15.0%**, compared to 10.4% recorded at the end of December 2016.
- As at 31 December 2017, the operational liquidity position showed an **unencumbered Counterbalancing Capacity** of **EUR 21.1 bn**, up considerably (approximately EUR +14.2 bn) compared with the same figure as at 31 December 2016. This trend can be attributed to the improvement in commercial liquidity (increase in direct funding and simultaneous reduction in loans), government-backed bond issues carried out in the first quarter of 2017 (pursuant to Law Decree no. 23/2016), which made it possible to reduce exposure to the ECB, and the increase in cash deriving from the portion of the share capital increase subscribed by the MEF.

Group overview

The Montepaschi Group is the banking hub led by Banca Monte dei Paschi di Siena, which does business primarily in Italy, mainly providing traditional retail & commercial banking services.

The Group is also active through its specialised product companies in business areas such as leasing, factoring, corporate finance and investment banking. The insurance-pension sector is covered by a strategic partnership with AXA while asset management activities are based on the offer of investment products of independent third parties.

The Group combines traditional services offered through the network of branches and specialised centres with an innovative self-service and digital services system enhanced by the skills of the Banca Widiba financial advisor network.

Foreign banking operations are focused on supporting the internationalisation processes of corporate clients in all major foreign financial markets.

COMPANY	ACTIVITIES
MONTE DEI PASCHI DI SIENA BANCA DAL 1472	Banca Monte dei Paschi di Siena and its subsidiaries operate in the different segments of the banking and financial industry, with activities ranging from traditional banking to special purpose loans, assets under management, bancassurance and investment banking. The Bank performs functions of direction, coordination and control over the Group's companies, as part of the more general guidelines set out by the Board of Directors in compliance with the instructions provided by the Bank of Italy in the interest of the Banking Group's stability.
MPS FIDUCIARIA	Monte Paschi Fiduciaria aims to satisfy the needs of individuals and legal entities wishing to have their assets managed with the utmost confidentiality. Monte Paschi Fiduciaria may take on the custody of assets in its capacity as a trustee and act as a protector in trusts.
MPS CAPITAL SERVICES	MPS Capital Services Banca per le Imprese provides customers with solutions to financial and credit issues, focusing its business on medium-long term credit facilities, special-purpose loans, corporate finance, capital markets and structured finance.
MPS LEASING & FACTORING	MPS Leasing & Factoring is the Group bank specialised in developing an offer of integrated leasing and factoring packages for businesses, artisans and professionals.
widiba	Widiba (WIse-DIalog-Banking) is the Group's direct bank that integrates a self-service offer with the competencies of MPS's financial advisor network.
MPS CONSORZIO OPERATIVO	Consorzio Operativo is the centre for the development and management of ICT and telecommunication systems.
MONTE PASCHI BANQUE BANCA MONTE PASCHI BELGIO	Monte Paschi Banque SA and Banca Monte Paschi Belgio SA are the Group's banks that support commercial trade and investments of Italian companies abroad.

Shareholders

As at 31 December 2017, the share capital of BMPS is equal to EUR 10,328,618,260.14 and is broken down into 1,140,290,072 ordinary shares, of which 36,280,748 treasury shares.

According to the communications received pursuant to the applicable legislation and based on other information available, the entities that, as at 31 December 2017, directly and/or indirectly hold ordinary shares representing a shareholding exceeding 3% of the share capital of the Issuer and which do not fall under the cases of exemption set forth in art. 119-*bis* of the Issuers' Regulations, as well as on the basis of what is set forth on the Consob institutional website, are as follows:

Shareholder	% of Outstanding Ordinary Shares
Ministry of Economy and Finances	68.247%
Assicurazioni Generali*	4.319%
BMPS SPA	3.181%

*Share held directly and through subsidiary companies

**Treasury shares held by the MPS'Group following capital strengthening measures pursuant Law Decree n. 237/2016 (as subsequently amended and converted into law) and the Ministerial decree of 27/07/2017

The percentage of share capital held by MEF increased from 4.024% in December 2016 to the current 68.247%, following the conclusion of the "precautionary recapitalisation" procedure required of the Bank by the European Central Bank (ECB) at the end of December 2016, and the recovery of the 2008-2018 Upper Tier II subordinated security.

As part of the precautionary recapitalisation, the following transactions were carried out in 2017:

- burden sharing, that is, the forced conversion of all subordinated bonds issued by the Bank, for EUR 4,472,909,844.60, with the issue of 517,099,404 new shares, assigned on 1 August 2017;
- an increase in the Bank's share capital of EUR 3,854,215,456.30 for the subscription of 593,869,870 shares by Ministry of Economy and Finance (MEF), concluded on 11 August.

Following the subscription of share capital, MEF's ownership stake passed from 4.024% to 52.184%.

Furthermore, on 23 November, the Bank communicated that, in the name and on behalf of the MEF, it had acquired a portion of the ordinary shares resulting from the conversion of the "2008-2018 Upper Tier II" (IT0004352586) subordinated bond and purchased as part of the partial voluntary public offering for exchange as envisaged in Law Decree no. 237 of 23 December 2016 (as subsequently amended and converted into law).

Following this transaction, MEF's ownership stake passed from 52.184% to 68.247%.

Information on the BMPS share

Share price and trends

The year 2017 was characterised by the consolidation of economic growth, accommodating monetary policy, and stable inflation, despite significant geopolitical events, such as the tensions between the United States and North Korea, the presidential elections in France, and the secession attempt in Catalonia. Thus, the year closed with considerable advances in the S&P 500 and the Nikkei, +19.4% and 19.1% respectively. Europe also performed well, with the Milan posting the best stock exchange results of the year at +13.6%, followed by Frankfurt with +12.5%, Paris at +9.3%, London +7.6%, and Madrid +7.4%. The performance of the FTSE MIB also benefitted from trends in the FTSE IT Banks index, which closed 2017 with an improvement of 14.9%.

In the 4th quarter of 2017, European stock indices posted divergent trends, with London and Frankfurt closing the quarter with positive results (+4.3% and +0.7%, respectively), Paris essentially level (-0.3%), while the others had negative performance: Madrid with -3.3% and Milan -3.7%, the latter heavily influenced by the performance of the Italian banking sector index, FTSE IT Banks, at -10.5%.

In addition, during the 4th quarter of 2017 BMPS shares were readmitted to trading, after having been suspended for most of the year, following Consob Resolutions nos. 19833 and 19840 of 22 and 23 December 2016, respectively, which mandated the suspension until a proper disclosure framework had been restored for the securities issued and guaranteed by the Bank. With Resolution no. 20167 of 24 October 2017, Consob decided to readmit the shares for listing effective 25 October 2017.
The BMPS share, which closed the day at EUR 15.08 on 22 December 2016, opened trading on 25 October at EUR 4.10 and closed at EUR 4.55. During the 2017 trading period, the security posted performance of -14%, (closing the year at EUR 3.91), with an average daily trading volume of approximately 3.9 million shares.

BMPS SHARE PRICE: STATISTICAL SUMMARY (from 25/10/2017 to 30/12/2017)	
Average	4.06
Lowest	3.35
Highest	4.74

Ratings

The ratings assigned by the rating agencies as at 31 December 2017 are provided below:

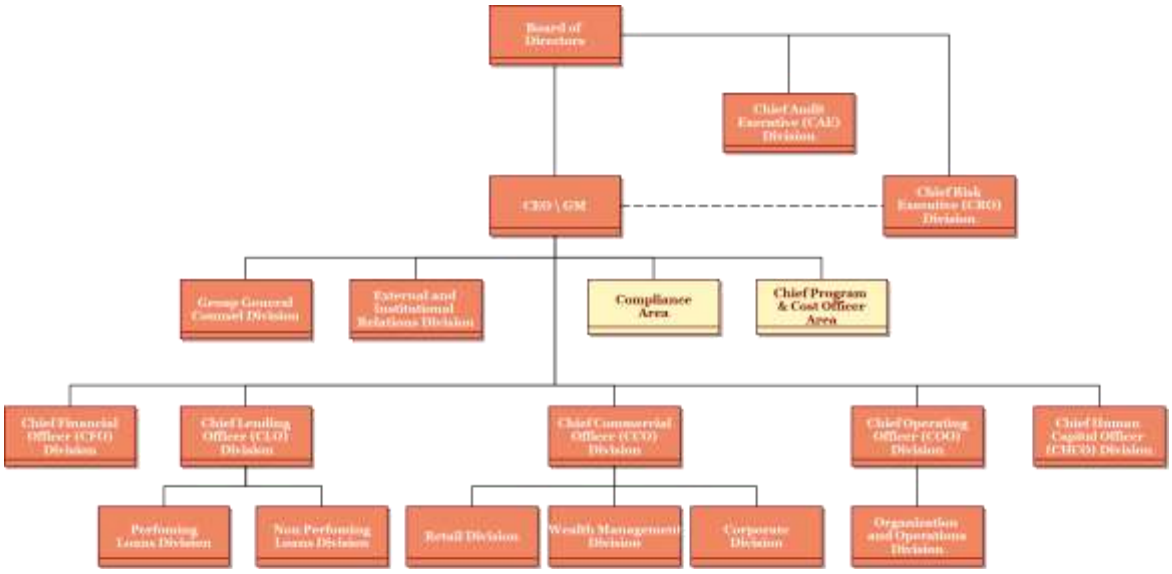
Rating Agencies	Short-term debt	Outlook	Long-term debt	Outlook	Last update
DBRS	R-4	Stable	B (High)	Stable	23/08/17
Fitch Ratings	B	-	B	Stable	11/08/17
Moody's Investors Service	NP	-	B3	Negative	12/07/17

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

Organisational structure

Through its Head Office, Banca Monte dei Paschi di Siena performs functions of direction, coordination and control over the Group's companies, as part of the more general guidelines set out by the Board of Directors and in the interest of the Group's stability.

Organisational chart of the Bank's Head Offices as at 31.12.2017



The organisational developments in 2017 were characterised by the completion of initiatives to redefine scopes of responsibility, delineated by the new organisational model approved by the Board of Directors in the 4th quarter of 2016 and, during that period, was limited to the first reporting level and the first step in the organisational reconfiguration of the CCO and CHCO areas.

In addition to completing the deployment of the new organisational model that involved nearly all of the Parent Company's areas of responsibility, though with differing degrees of depth and impacts, other optimisation initiatives were planned and carried out that, for the relevant areas, contributed to developing a framework design consistent with the reference philosophy that was the source of inspiration in terms of focused and clear assignment of responsibilities, simplification of structures and processes, strengthening of governance mechanisms and specialised oversights, as well as organisational suitability in relation to the provisions of supervisory bodies and designed to facilitate the realisation of the Bank's Restructuring Plan agreed with the competent authorities.

An overview of the most significant actions taken is presented below, broken down by area.

- Within the **Chief Audit Executive (CAE)** area, the reorganisation guidelines envisaged the reduction of direct reports to the CAE and more focus on the specialist areas by establishing a new responsibility centre (Specialist Review Area), which combined the Credit, Risk, Fraud, and IT/Operation functions.

- Within the **Chief Risk Officer (CRO)** area, the reorganisation guidelines envisaged the strengthening of governance process for business activities related to risk control, explicitly allocating responsibilities by setting up organisational functions focused on homogeneous risk segments. The organisational changes that resulted included the creation of areas that mirror the functions predominantly involved in customer interaction (Area Lending Risk Officer, Area Financial Risk Officer, Area Operating Risk Officer). With the same logic and in the context of improving the risk culture, the internal structure of the Risk Management Committee was reviewed, introducing specific sessions for homogeneous segments and by relevant function.

- Within the **Group General Counsel Department (GGC)**, the reorganisation guidelines involved strengthening governance by having technical/specialist functions report directly to the GGC as well as improved focus on organisational oversight of advisory activities on legal and corporate matters through the following actions:
    - changing the Judicial and Criminal Assistance and Financial Advisory functions to report directly to the GGC
    - review the internal structure of the Legal and Corporate Area, setting up two competency centres that are specialised in, and focused on, legal advisory and corporate advisory, respectively
    - strengthening local relationships by developing the specialised legal area for communicating and applying strategic/operational directives

- Within the **External Affairs** area, the reorganisation guidelines included the need to provide the Bank with a solid organisational structure that is able to ensure adequate support to top managers in relations with the media and local and national institutions.
  The organisational changes that resulted included the creation of the new External and Institutional Relations Department, with the mission of performing external relations and representation activities with institutions, managing top management's communication needs with the media, and monitoring content published by the media.

- For the **Chief Financial Officer (CFO)**, the reorganisation guidelines entailed defining a single governance of responsibilities within the M&A, Investor Relations, and Equity Investments functions, in order to maximise synergies, with a view to ensuring explicit directives and assessing the integration of the specialist areas that are managed.
  The organisational changes that resulted included the creation of a single Area which combines the responsibilities related to the Investor, M&A, and Equity Investments functions, integrating the responsibilities that had been previously distributed across two distinct Areas.
  To support the realisation of the Bank's Restructuring Plan, the governance model for the primary change projects and the initiatives supporting transformation were revised, which was necessary to achieve the established objectives.
  Thus, in order to support top management and monitor the structures involved in the change process that has been undertaken, the Bank set up a focused and skilled responsibility centre, which has the appropriate tools to guide decision-making processes and facilitate the achievement of objectives.
  The organisational solution involved the creation of a **Chief Program & Cost Officer** Area, reporting to the CEO, which combined the responsibilities of Projects Governance that were previously part of the CFO, in relation to the definition and management of Plan Projects and monitoring these plans in terms of execution status, with a dedicated focus on monitoring the principal Plan initiatives, determined in order to achieve its objectives, particularly in reference to cost reduction measures.

- For the **Chief Lending Officer (CLO)**, the reorganisation guidelines provided for strengthening the governance model of the Loan Portfolio and the objectives of the Business Plan and refocusing the 2 lending business lines dedicated to execution (on the Performing and Non-Performing Loans, respectively), through the following primary actions, the first step of which was essentially divided into:
    - creation of a function dedicated to governance of the loan portfolio (Area Credit Portfolio Governance) into which the responsibilities for defining credit policies have also been merged

- establishment of the new Performing Loans Department and renaming of the former Problem Loans & Assets Department to the Non-Performing Loans Department
- creation of Regional Credit Areas, reporting to the Performing Loans Department, defined as "mirror" structures and organisationally equivalent to the Regional Areas that maintain business oversight. At the same time, the responsibilities for evaluation and authorisation for foreign counterparties were transferred from the Business function to the Credit function. This was followed by the completion of the separation of the commercial and lending areas with the transfer of the authorities previously assigned to the Regional Business functions (Regional Areas/DTM) to the Regional Credit Areas. Simultaneously, in compliance with the recommendations of supervisory bodies, the credit authorities were reviewed at the highest levels, eliminating a corporate body (the Large Loans Committee) and redistributing its powers to the Board of Directors and the Credit and Credit Policies Committee.

- Within the **Chief Commercial Officer (CCO)**, the transformation that was launched with the review of the Department's internal structures was completed with the deployment of the organisational change in the regions: effective from the end of March 2017, the Regional Areas were reduced from 8 to 6, with a redesign of the geographical perimeters and simultaneous reduction of the related COO and CHCO support structures for the oversight of the respective areas.

- With regard to the **Chief Operating Officer (COO)**, the reorganisation guidelines entailed the strengthening of the operating cost governance strategy, including through a reduction in the number of direct reports to the COO, focusing on the quality of operational services to customers, and enhancing the leading role in simplifying IT procedures through the following actions:

    - establishment of a strong, new responsibility centre (Organisation and Operations Department) that combined governance of the operating apparatus, represented by the oversight and development of processes and the execution of the operating activities carried out both internally and through outsourcing
    - integration of the responsibilities of Organisation and Demand Management, in order to maximise lucidity in directives, continuity and coherence in the service offered in terms of oversight, and development of structures, processes, and related IT solutions
    - strengthening of the organisational structure in the regions through the creation of new specialised oversights deriving from the separation of the organisation and human resources areas that had previously been combined
    - optimisation of the structure and strengthening of specialised oversight related to Security with the establishment of expert responsibility centres dedicated to protecting physical and logical security and enhancing cost oversight with the establishment of an exclusive competency centre reporting directly to the Head of the Purchasing and Cost Management function

- For the **Chief Human Capital Officer (CHCO)**, the reorganisation guidelines provided for the strengthening of the organisational structure in the regions through the creation of specialised oversights on human resources similar and simultaneous to the organisational change in the COO area. Moreover, a function was established focused on Internal Communication, separating the responsibilities from the technical secretariat structure.

With respect to Network processes, actions continued to improve the quality of work, free up more time to be dedicated to sales activities and increase customer service quality, while reducing service response/provision times by streamlining "administrative" activities and document management costs, heavily oriented toward increasing digitalisation of processes.

Governance & control systems

Corporate governance

For the Bank, the relevance of corporate governance goes beyond its traditional technical meaning, i.e. a set of coordinated rules and structures governing relations amongst shareholders and between them and the directors and top management. In line with the Bank's mission, it is seen as a tool for relations with all stakeholders.

The Bank's bodies work so as to pursue the overall proper functioning of the business.

The Bank's fair and transparent corporate governance system and shared Code of Ethics provide it with rules that ensure that the legitimate expectations of all stakeholders are incorporated within corporate objectives.

The overall corporate governance system makes reference to the Corporate Governance Code of listed companies issued by the Italian Stock Exchange, thereby ensuring: a clear delineation of roles and responsibilities, the appropriate separation of powers, balanced composition of the corporate bodies, effective controls, monitoring of all business risks, adequacy of information flows and the company's social responsibility.

In particular, the administration and control system includes the following: the Board of Directors, the Board of Statutory Auditors and the Shareholders' Meeting. In addition, there are the CEO and four Board committees, specifically, the Risk Committee, Appointments Committee, Remuneration Committee and Related-Party Transactions Committee.

The Bank's internal control system is meant to ensure that risks are identified, measured, managed and monitored in such a way so as to enable sound, proper business management in line with pre-established objectives.

Further information is available in the "Report on Corporate Governance and Ownership Structure", available on the Bank's website. (https://www.gruppomps.it/corporate-governance/relazioni-corporate-governance.html)

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.

The Parent Company's Board of Directors defines the overall Risk Appetite Framework (RAF) for the Group and approves the "Group Risk Appetite Statement" (RAS) at least once per year. The Risk Control Function 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 RAS represents an essential element in defining the Group's risk strategy. The risk objectives/restrictions are identified and the indicators are broken down by Business Unit/Legal Entity (known as "cascading down" of the Risk Appetite). The objective is to increase the Group's Risk Culture and fully instil accountability in all relevant Business Units with regard to respect and pursuit of the risk appetite objectives, as required by the regulations and recommended by best practices.

The overall RAF system is broken down in terms of the Group's main Business Units and Legal

Entities, also in terms of operating limits for the various business areas, and formalised in governance policies and processes for the management of the various corporate risks.

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

Group Risk governance is provided centrally by the Parent Company's Board of Directors, which also supervises and is responsible for the updating and issue of internal policies and regulations in order to promote and guarantee a continuously greater and more widespread risk culture at all levels of the organisation. Awareness of risks and the correct knowledge and application of the internal processes and models governing those risks - especially for those validated for regulatory purposes - are fundamental requirements for effective, sound and prudent business management.

The incorporation of macro risk and risk-adjusted performance indicators, consistent with the RAF, within staff remuneration and incentive policies represents an additional tool to promote awareness of the conduct of all resources and the cultivation of a healthy risk culture.

During 2017, internal initiatives proceeded to ensure continued compliance with national and international regulatory provisions. With regard to risk management, reference internal regulations were updated for the management of Banking Book Interest Rate Risk, Credit Risk, Market Risk, as well as for the processes of ICAAP, ILAAP and Internal Validation.

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".

Initiatives designed to strengthen Group Governance in the area of risk reporting were activated, in order to ensure compliance with the instructions from the Basel Committee on Banking Supervision (BCBS Paper no. 239), which requires systemically important banks to adopt a series of standards to guarantee accurate aggregation of risk data and an efficient reporting process, with the launch of a dedicated project that also resulted in the publication of the "Group Directive on Integrated Risk Reporting".

In reference to the Group's Risk Culture, in addition to pursuing initiatives regarding corporate bodies (board induction cycles on specific issues), general training programmes (on-line courses) were also launched during the year for all personnel in the areas of risk management and mitigation, as well as other classroom training sessions.

The Montepaschi Group is one of the Italian banks subject to the ECB's Single Supervisory Mechanism.

Compliance systems

Within the broader internal control system, the Compliance Function of the Parent Company autonomously and independently governs non-compliance risk at Group level, periodically reporting to business top management and supervisory authorities on the overall status of compliance of systems, processes, and operations.

In 2017, a specific "Compliance Function Reinforcement Plan" was implemented, aimed at satisfying the concerns identified by the European Central Bank. This plan involved a general revision of the organisational model adopted, with:

- centralisation in the Parent Company of the compliance functions of the Italian subsidiaries and review of the information flows with banks and foreign branches;
- replacement of the "distributed Compliance Model", by centralising the operating activities previously assigned to the Specialised Compliance Controls within the BMPS Compliance Function, at the same time strengthening oversight on the 2 remaining Specialised Controls (Tax Compliance and Workplace Health and Safety).

- definition of a specific "Collaboration Protocol" between the Compliance and Internal Audit functions and the review of the entire regulatory framework for Compliance.

Additional initiatives were completed in 2017, particularly in matters related to:

- ICT compliance measures (Bank of Italy Circular no. 285) and combating international tax evasion (FATCA/CRS);
- banking transparency, with the conclusion of planned interventions on the plan sent to Bank of Italy in 2013;
- usury, adapting control procedures to the new Supervisory Instructions from Bank of Italy issued in 2016;
- protection of personal information, to improve the system for tracing banking transactions carried out by employees;
- payment systems, adapting to measures included in the new provisions of European Directive (PSD2), in effect from January 2018;
- investment services, with the definition and implementation of actions necessary to comply with the PRIIPs Regulation, MiFID II Directive, and MiFIR Regulation, effective from January 2018.

Executive Remuneration Policy

The Group's remuneration and incentive policies are described every year in the "Remuneration Report", prepared under Article 123-ter of the Consolidated Law on Finance and subject to approval by the Shareholders' Meeting.

(https://www.gruppomps.it/corporate-governance/remunerazione.html)

The enhancement of professional skills and taking management decisions aimed at long-term value creation reflect a corporate culture based on the ethics of responsibility, a strong sense of belonging and continuous focus on human capital growth, in compliance with prudent risk management policies. Thus, the Group approved a specific structured management plan so that the passage from business strategies to results is guaranteed, including through initiatives launched to ensure a continuous process of employee engagement, merit recognition, opportunities for professional growth, and a distinct and distributed leadership based on measurement of performance and responsibilities fulfilled. In particular, the distinctive element for managerial levels is the weighting of the business position (grade) based on its true effect on the business.

Distribution channels

The Group operates with a view to developing and rationalising its distribution network, by combining regional coverage with the strengthening of innovative channels.

Traditional domestic branches are supported by specialist sales centres, which oversee relations with and the specific management of particular customer segments (e.g. SMEs, Private individuals, Institutions, etc.) and by 606 Financial Advisors (-22 compared to 31 December 2016) that carry out their activities by making use of the offices open to the public that are distributed nationwide (up by 1 compared to 31 December 2016).

MONTEPASCHI GROUP - DISTRIBUTION NETWORK AS AT 31/12/2017

Region	Domestic branches(*)	Inc.	Client Centres(**)								Financial Advisory Offices	Inc.
			SME	Corporate	Private Top	Private	Istitutions	Corporate Top	Tot.	Inc.		
Emilia Romagna	115	6,6%	7			7	5		19	8,2%	7	6,1%
Friuli Venezia Giulia	47	2,7%	3			2	2		7	3,0%	3	2,6%
Liguria	21	1,2%	2			1	1		4	1,7%	4	3,5%
Lombardia	247	14,2%	7	3	1	9	6		26	11,2%	10	8,7%
Piemonte	41	2,3%	3			2	2		7	3,0%	2	1,7%
Trentino Alto Adige	3	0,2%										
Valle d'Aosta	4	0,2%										
Veneto	230	13,2%	14	1	1	8	7		31	13,3%	5	4,3%
Northern Italy	**708**	**40,6%**	**36**	**4**	**2**	**29**	**23**		**94**	**40,3%**	**31**	**27,0%**
Abruzzo	38	2,2%	3			2	2		7	3,0%	3	2,6%
Lazio	151	8,7%	8		1	7	5		21	9,0%	15	13,0%
Marche	45	2,6%	4			2	2		8	3,4%	4	3,5%
Molise	8	0,5%	1						1	0,4%	1	0,9%
Toscana	363	20,8%	17	1	2	17	10		47	20,2%	8	7,0%
Umbria	45	2,6%		2		2			4	1,7%	4	3,5%
Central Italy	**650**	**37,2%**	**33**	**3**	**3**	**30**	**19**		**88**	**37,8%**	**35**	**30,4%**
Basilicata	10	0,6%					1		1	0,4%	2	1,7%
Calabria	45	2,6%	2				2		4	1,7%	3	2,6%
Campania	97	5,6%	5	1	1	4	3		14	6,0%	20	17,4%
Puglia	104	6,0%	6			5	4		15	6,4%	16	13,9%
Sardegna	14	0,8%	1			1	1		3	1,3%	2	1,7%
Sicilia	117	6,7%	4	1		4	5		14	6,0%	6	5,2%
Southern Italy and island	**387**	**22,2%**	**18**	**2**	**1**	**14**	**16**		**51**	**21,9%**	**49**	**42,6%**
Total	**1.745**	**100,0%**	**87**	**9**	**6**	**73**	**58**		**233**	**100,0%**	**115**	**100,0%**

(*) as reported to the Bank of Italy
(**)of which n. 23 reported to the Bank of Italy as Office not having the same location of the branch.

The **Italy Network** has **1,745 branches** registered by the Supervisory Body at the end of 2017, a reduction of 287 operating units compared to 31 December 2016[1], in implementation of the initiatives laid out in the Restructuring Plan (-115 operating units in the last quarter).

The Group also relies on **233 Specialised Centres** (-18 compared to 31 December 2016), of which 154 dedicated to Corporate and Institutions and 79 to Private customers.

[1] *Spin-offs of branches with subsequent closure.*

The Group's **ATM** network comprises a total of **2,954 machines** (+86 compared to 31 December 2016), of which 2,539 coinciding with traditional branches (2,081 of these are located in premises with an independent entrance also accessible outside of branch hours) and 415 installed in public places with high operational potential, of which 153 in institutions/companies. There are 973 ATM machines with cash-in functions, of which 549 located in self-service areas and 424 inside branches. The increase in the ATM network is concentrated in the last quarter of 2017 (+213 machines), specifically with regard to "cash in - cash out" ATMs, in line with the provisions of the project to revise the Retail business model, aimed at reinforcing the use of remote channels and optimising service lines.

The Group has an international presence with a **Foreign Network**, geographically distributed in the main financial and economic markets, as well as in the emerging countries with the highest growth rates and/or key relations with Italy, currently structured as follows: **4 operational branches** (London, New York, Hong Kong and Shanghai), **10 representative offices** located in various "target areas" (EU, Central-Eastern Europe, North Africa, India and China), **2 banks under foreign law** (MP Belgio with 7 branches in Belgium and MP Banque with 14 branches in France).

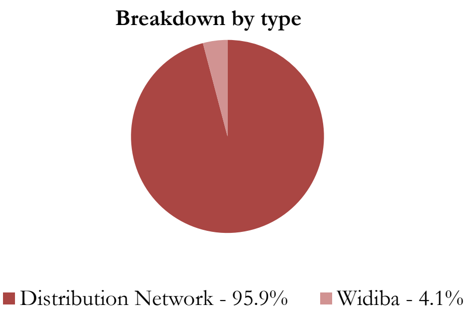
In addition to its presence across the country, the Parent Company offers banking services to customers through electronic channels, through Integrated Multichannel products for Retail and Corporate customers. As at 31 December 2017, there were a total of 2,040,214 agreements relating to electronic services, corresponding to 1,059,363 active users (+13,783 compared to 31 December 2016). Active customers of Retail Multichannel services numbered 969,693 (relating to 1,875,195 agreements) while Corporate customers totalled 89,670 (for 165,019 agreements).

Customer base

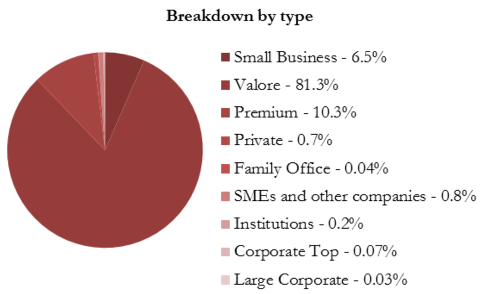
As at 31 December 2017, the Group had around 4.9 million customers (compared to 5.1 million as at 31 December 2016) broken down as follows:

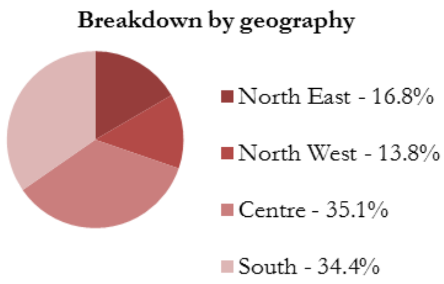
- roughly 4.7 million (down with respect to 31 December 2016) are managed by the Sales Network of the Parent Company Banca Monte dei Paschi;
- approximately 0.2 million (up compared to 31 December 2016) managed exclusively by Widiba, the Group's online bank.

Customer Breakdown



Business Customers





At the end of 2017, the Retention indicator stood at 92.5%, down slightly from 2016 (92.7%), while the Acquisition indicator was 3.4%, remaining essentially stable (3.4% in the previous year). The trends in these indicators reflected both the economic context as well as the closing of branches as part of the Network optimisation project.

Reference context

During 2017, the global economy transitioned to a scenario of robust growth. Growth in GDP in the principal regions was close to potential levels, estimated at 2.3% in the U.S. (from 1.5% in 2016), to 2.3% in the Euro zone (from 1.8%) and 1.7% in Japan (from 1%). Stronger growth and the associated improvement in the labour market that was evident in all regions did not, however, result in the expected increases in wages and prices. After the acceleration in 2016 and the early months of 2017, inflation posted a new decline, closing the year below 2% in the U.S. (core consumption deflator) and under 1% in the Euro zone (harmonised core index).

However, the absence of inflation did not stop the Fed and the ECB from beginning the gradual process to withdraw the accommodating monetary policy that has characterised the post-crisis period. In this matter, the two most important events were the launch in October of the reduction in the Fed's balance sheet, by partially reinvesting the proceeds from bonds held in the portfolio, and the announcement by the ECB in the same month of a reduction in monthly purchases to EUR 30,000 million from January to September of 2018. The Fed also raised official rates three times, bringing the Fed Funds range to 1.25-1.50%.

2017 was marked by a very intense political calendar in Europe, with elections in the Netherlands, France, and Germany. In particular, the French presidential elections in April produced a result that was seen as positive by financial markets and favourable for the prospects of the European Union. With regard to Brexit, early elections in the UK weakened Prime Minister May's position in negotiations with the European Union that began on 19 June. In the US, the dominant theme was the first year of the Trump administration, whose main economic policy result was the tax reform initiative at the end of the year.

Within a highly favourable global macro-environment, the Italian economy recorded growth, which should be around 1.5% on average for the year, much higher than expected at the start of the year. This result was driven by household consumption and new vitality in investments, which benefited from a series of specific fiscal measures. A more favourable cyclical environment makes it highly probable that the public finance objective of a 2.1% deficit/GDP ratio will be achieved, an objective that includes a reasonable amount of flexibility negotiated with the European Commission. In Italy, as in other major countries, inflation trends, although recovering, have been very weak, with a harmonised index that ended 2017 at an average of 1.3%, after the slightly negative change recorded in 2016 (-0.1%). On the political front, the last months of 2017 saw the beginning of the new electoral law and, at the end of the year, the dissolution of Parliament. Elections were scheduled for 4 March 2018.

In financial markets, 2017 was an extremely positive year for investors. The major equity indices recorded gains between 10% for the Euro Stoxx and 19% for the S&P 500 and Nikkei. In this context, the FTSE MIB rose by 13.6%. The combination of accelerating growth, weak inflation, and monetary policies that were still accommodating generated government bond yields that were in a relatively narrow range. In particular, the ten-year BTP fluctuated between 1.65% and 2.35%, closing the year at the mid-point of this range, around 2%.

Significant events in 2017

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

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

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

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

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

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

On **9 March 2017**, the Board approved a preliminary proposal for the Restructuring Plan, which was sent to the competent authority to start discussions to finalise the plan and obtain approval from the Authority.

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

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

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

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

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

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

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

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

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

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

For further details, please refer to the press release published on the website www.mps.it on the same date.

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

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

On **10 August 2017**, pursuant to art. 85-*bis* of the Issuers' Regulations, the new composition of the Parent Company's share capital was announced, as a result of the share capital increase which took place due to the issue on 27 July 2017 of the decrees of the Ministry of Economy and Finance (hereinafter, "MEF") relating to "Capital strengthening initiatives of Banca Monte dei Paschi di Siena, pursuant to art. 18, paragraph 2 of Law Decree no. 237 of 23 December 2016 converted, with amendments, by Law no. 15 of 17 February 2017" and "Capital strengthening initiatives of Banca Monte dei Paschi di Siena, pursuant to art. 18, paragraph 3 of Law Decree no. 237 of 23 December 2016 converted, with amendments, by Law no. 15 of 17 February 2017", published in Official Gazette no. 175 on 28 July 2017. The share capital increase was completed on **11 August** when it was recorded in the Companies' Register.

On **11 August 2017**, the Fitch rating agency raised the long-term rating of the Parent Company to "B" from "B-" and the individual rating to "b" from "c", changing the outlook from "Rating Watch Evolving" to "Stable".

On **23 August 2017**, the rating agency DBRS raised the long-term rating of the Parent Company 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 October 2017**, the Parent Company and Compass, the consumer credit company of the Mediobanca Group, renewed the long-term partnership for the distribution of Compass loans in the over 1,800 branches of Siena-based banking group. After the success of the first three years of this collaboration, the new agreement between the Companies strengthens the commercial offering. Starting from the new year, aside from loans, the salary/pension-backed loan product will be available throughout the country with the collaboration of Futuro S.p.A., the Compass subsidiary specialised in this type of lending.

On **24 October 2017**, Consob approved the document relating to the Partial Voluntary Public Offering for Exchange and Settlement (the "Offer Document") for the holders of ordinary shares of the Bank (ISIN IT0005276776) resulting from the conversion - following the application of the new burden sharing measures pursuant to article 22, paragraph 2 of Law Decree no. 237 of 23 December 2016 (as converted with amendments by Law no. 15 of 17 February 2017 as amended) - of the subordinated bond loan named "€2.160.558.000 Tasso variabile Subordinato Upper Tier II 2008 - 2018" (ISIN IT0004352586) (the "Offering").

Also on **24 October 2017**, Consob also issued its judgement of equivalences, pursuant to article 34-ter, paragraph 1, letter j) of the regulation it adopted with resolution no. 11971 of 14 May 1999, as amended (the "Issuers' Regulations"), in relation to the information requirements concerning the senior debt securities offered in exchange by BMPS as part of the Offering.

Also on the same date, Consob approved the Registration Document relating to the Issuer (the "Registration Document") and the Information Note (the "Information Note") and Summary Note (the "Summary Note") relating to the admission to listing on the Mercato Telematico Azionario market organised and managed by Borsa Italiana S.p.A. (the "MTA") of ordinary shares of the Bank (the "New Shares"). In particular, the New Shares were issued (a) on 1 August 2017 following the adoption of burden sharing measures pursuant to article 22, paragraph 1 of Law Decree 237/2016, converted with amendments by Law no. 15 of 17 February 2017 as amended by Law no. 121 of 31 July 2017 ("Decree 237") and the relative Ministerial Decree published in the Official Gazette on 28 July 2017 (the "Burden Sharing Shares") and (b) on 3 August 2017, following the share capital increase subscribed by the Ministry of Economy and Finance (the "Share Capital Increase reserved to the MEF" and the "MEF", respectively) pursuant to art. 18 of Decree 237 and the relative Ministerial Decree published in the Official Gazette on 28 July 2017. The Registration Document, the Information Note and the Summary Note constitute the prospectus - prepared in a three-part format - for the listing of the New Shares (the "Prospectus").

Finally, on **24 October**, Consob, with resolution no. 20167, also ordered the Revocation of Resolution 19840 of 23 December 2016 relating to the temporary suspension of trading in regulated markets, multilateral trading facilities and the Italian systematic internalisers relating to the securities issued or guaranteed by the Parent Company and the financial instruments with securities issued by the Parent Company as the underlying assets.

On **25 October 2017,** the MPS security was readmitted to trading on the MTA.

On **30 October 2017**, the Parent Company announced that the decree of the Ministry of Economy and Finance had been issued relating to the acquisition by that Ministry of the shares subject to partial voluntary public offering for exchange and settlement of BMPS intended for the holders of ordinary shares of the Bank (ISIN IT0005276776) resulting from the conversion - following the application of the burden sharing measures pursuant to article 22, paragraph 2 of Law Decree no. 237 of 23 December 2016 (as converted with amendments by Law no. 15 of 17 February 2017 as amended) - of the subordinated bond loan named "€2.160.558.000 Tasso variabile Subordinato Upper Tier II 2008 - 2018".

The period for acceptance of the Offering began at 8:30 a.m. on 31 October 2017 and ended at 4:30 p.m. on 20 November 2017 (inclusive). The Offering was settled on 24 November 2017 (the "Exchange Date"). For more information on the terms and conditions of the Offering, please refer to the offer document available on the website www.gruppomps.it.

On **23 November 2017**, the Parent Company communicated the final results of the Partial Voluntary Public Offering for Exchange and Settlement for holders of the Bank's ordinary shares (ISIN IT0005276776) resulting from the conversion, following the application of the new burden sharing measures pursuant to article 22, paragraph 2 of Law Decree no. 237 of 23 December 2016 (as converted with amendments by Law no. 15 of 17 February 2017 as amended), of the subordinated bond loan named "€2.160.558.000 Tasso variabile Subordinato Upper Tier II 2008 - 2018" (ISIN IT0004352586) (the "Offering"). During the Offer Acceptance Period (31 October 2017 - 20 November 2017), 198,521,533 BMPS UT2 shares were validly purchased under the Offer terms, equivalent to 83.520540% of the BMPS UT2 shares that were offered (equivalent to a total of 237,691,869). Based on these purchases, the final Allocation Coefficient is 92.275041%, for which the Offeror (the Parent Company), in the name an on behalf of MEF, purchased 92.275041% of BMPS UT2 shares purchased in Acceptance by each Subscriber and restored the remaining BMPS UT2 shares, under the conditions indicated in the Offer Document.

On **24 November 2017**, in relation to the Partial Voluntary Public Offering for Exchange and Settlement and pursuant to Section E of the Offer Document, the Parent Company announced that the fixed interest rate of the Senior Debt Securities is equal to 0.657%, determined in accordance with art. 19, paragraph 2, lett. c) of Decree 237. The coupon amount that will be paid on the Maturity Date is, therefore, equal to EUR 0.003096 for each Senior Debt Security. Furthermore, based on the final Allocation Coefficient announced on 23 November 2017, it was confirmed that the total nominal value of the Senior Debt Securities is equal to EUR 1,535,830,866.00.

On **15 December 2017**, the Chairman of the Board of Directors of Banca Monte dei Paschi di Siena, Alessandro Falciai, announced that he was unwilling to accept his nomination on the list submitted by the Ministry of the Economy and Finance in advance of the Shareholders' Meeting on 18 December.

On **18 December 2017**, the Shareholders' Meeting set the number of members of the Board of Directors at 14, in addition to a Deputy Chairman, and resolved to appoint the members of the Board of Directors of Banca Monte dei Paschi di Siena for the years 2017, 2018 and 2019 as well as the members of the Board of Statutory Auditors. Moreover, Stefania Bariatti was appointed as Chairman of the Board of Directors, and Antonino Turicchi was appointed Deputy Chairman.

On **20 December 2017**, the securitisation transaction to transfer doubtful loans was concluded, through the intervention of the Atlante Fund (managed by Quaestio Capital Management SGR S.p.A.), for which, on 26 June 2017, a binding agreement was signed to acquire 95% of the junior and mezzanine notes.

On **21 December 2017**, in reference to the communication of 18 December 2017 following the Ordinary and Extraordinary Shareholders' Meeting, the Parent Company announced that, following the receipt of the verification measure from the supervisory authorities, the new Articles of Association and appointment resolutions for the Board of Directors and the Board of Statutory Auditors were registered with the Siena Companies' Register, thereby becoming effective.

On the **same date**, pursuant to art. 85-*bis* of Consob Regulation no. 11971/1999 (Issuers' Regulation), the Parent Company's new share capital was announced (EUR 10,328,618,260.14), following the decision to reduce share capital pursuant to art. 2446 of the Italian Civil Code, to cover losses resulting from the financial statements as at 30 September 2017, resolved by the Shareholders' Meeting of 18 December 2017, filed on 20 December 2017 and registered on 21 December at the Siena Companies' Register. The number of outstanding shares remains unchanged (1,140,290,072).

On **22 December 2017**, the agreement to transfer 95% of the mezzanine notes for the securitisation of the MPS Group doubtful loan portfolio was signed with Quaestio Capital SGR S.p.A. on behalf of Atlante Fund. This transaction, effective 9 January 2018, is part of the agreements signed with Quaestio Capital SGR S.p.A. on 26 June 2017 and is an integral part of the MPS Restructuring Plan announced on 5 July 2017.

On **22 December 2017,** the first meeting of the new Board of Directors was held, with Stefania Bariatti as chairman. The Board of Directors, *inter alia*, resolved to confirm Marco Morelli as the Bank's CEO.

Significant events after 2017

On **11 January 2018**, the Parent Company announced that it had 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 includes the coupon payment at a fixed rate of 5.375% and has an issue price of 100%, 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 from approximately 250 institutional investors and 3.6 times higher than the offer. 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%). Whereas the allocation by investor type was 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, will be listed on the Luxembourg stock exchange. The expected ratings of the bond are CCC+ (Fitch) and Caa2 (Moody's). Global Coordinator and Joint Bookrunner: Goldman Sachs International and Mediobanca. Joint Bookrunners: Bank of America Merrill Lynch, Barclays, JP Morgan, MPS Capital Services, and UBS.

Human Resources

KPI as at 31.12.2017

Indicators	31/12/2017	31/12/2016	31/12/2015	31/12/2014	31/12/2013	31/12/2012
Headcount	**23,463**	**25,566**	**25,731**	**25,961**	**28,417**	**30,303**
Operational location (%)						
Head Offices*	**22.3**	**22.5**	**22.6**	**21.6**	**24.0**	**26.2**
Italy Network**	**75.8**	**75.5**	**75.3**	**76.3**	**74.1**	**72.0**
Foreign Network	**1.9**	**2.0**	**2.1**	**2.0**	**1.9**	**1.8**
Professional/ occupational level (%)						
Executives	**1.2**	**item**	**1.4**	**1.3**	**1.3**	**1.5**
Middle Managers	**38.9**	**39.6**	**39.2**	**38.8**	**38.3**	**38.8**
Professionals	**59.9**	**59.2**	**59.4**	**59.9**	**60.4**	**59.7**
Other indicators						
Training per capita (hours)	**41.9**	**46**	**37**	**36**	**35**	**36**
Female staff (%)	**49.7**	**48.0**	**47.8**	**47.6**	**46.2**	**45.1**
Female executives (%)	**8.2**	**7.8**	**7.1**	**6.1**	**5.6**	**5.2**

** Bank Parent Company and Group companies, net of sales & distribution structures with direct customer interface.*

*** Regional Areas, DTMs (local unit offices), Branches, Unit, Specialised Centres and sales & distribution structures of the Group companies*

Headcount changes

As at 31 December 2017, the Group had a total of 23,463 employees, down 2,103 compared to 31 December 2016. In the course of 2017, there were 134 people hired (of which 49 pursuant to contractual and regulatory provisions on mandatory placement) and 2,246 terminations (of which 1,839 for the Solidarity Fund, Early Retirement, and the Women's Option), with a positive balance of 9 in terms of other changes in the Group's scope of consolidation. Staff hiring involved 4 Executives, 26 Middle Managers and 104 Professionals, while the terminations concerned 50 Executives, 1,103 Middle Managers and 1,093 Professionals. Distribution of the workforce in favour of customer interface units stands at 75.8% (figure does not include the international banking division which represents 1.9% of the total staff) and 22.3% as regards the Head Office units.

Personnel management initiatives

The personnel management policies support the reorganisation projects, in line with the restructuring plan objectives, through mobility plans (geographical and professional) with a view to development opportunities for employees according to approaches based on transparency and participation. Thus, operational initiatives were supported by: the Performance Management system; professional and managerial plans which, based on a business continuity approach, ensure adequate quality-quantity staff coverage levels; training programmes to enhance skills, provide managerial career guidance and support requalification processes; as well as engagement and human resource motivation leverage (incentive policies, BMPS welfare system, and internal communication plans). In particular, the Group approved a series of personnel engagement and development initiatives through three specific programmes:

- MPS Development, based on Performance Management results and similar to the process for external customers, for which the population is segmented then coherent and specific HR development initiatives are activated for each segment, which become engagement levers in terms of a merit-based approach.
- MPS Academy, the Group's permanent training institute based on three pillars: People, Business, and Compliance & Safety;
- Welfare, which will supplement the current offering of services and benefits to employees and their families through the evolution of the MPS model, with the introduction of innovative actions to improve the quality of professional life for individuals, the work-life balance (agile work, MPSolidale, time saving), and creating comfortable business spaces.

Furthermore, mechanisms were activated to ensure the enhancement of internal skills, job rotation and continual turnover, with limited recourse to hiring from the external market.

In relation to enhancing diversity, the LeaderShe Project was launched for all of MPS Group, designed to enhance the feminine expression of leadership, identifying and eliminating any obstacles (organisational and cultural) that prevent the expression of women's managerial skills.

In 2017, operational plans were key to achieving operational efficiency objectives and strengthening the core business in accordance with the project activities set forth in the Restructuring Plan. In this context, and in relation to the implementation of the Parent Company's new organisational model, the mobility plans - primarily professional - concerned roughly 750 resources in the course of the year, based on an approach meant to ensure professional continuity and the best allocation of people with respect to the new organisational roles.

In relation to the Sales & Distribution Network, activities to streamline the branches continued (closure of 287 branches in 2017 and 150 already planned for January 2018), in line with Plan forecasts - supported by the activation of operational plans for the reallocation of resources primarily at the merging branches and, in any event, according to an approach which seeks to leverage the professional skills attained and takes into consideration individual needs and aspirations. At the same time, an experiment was started in about 30 branches as part of the "Banca più" project to optimise branch operations through a new digitalised model, widespread automation of administrative processes and the customer relationship through the use of self-service tools, and concentration of business lines on customer needs through a consultancy approach. During the year, total Network mobility came to roughly 5,300 employees, accompanied by a training offer appropriately set up to favour the continuing education and professional strengthening process in light of the new service models.

In line with the operational efficiency objectives laid out in the 2017-2021 Restructuring Plan, on 3 August 2017 the Group's trade union agreement for the activation of the banking industry's Solidarity Fund was signed for the exit of 1,200 resources (as at 1 November 2017), favouring voluntary participation and closer proximity to retirement benefits as priority selection criteria. There were a total of 600 exits in the first half of 2017 (1 May), through the use of the Solidarity Fund activated with the trade union agreement of 23 December 2016.

With respect to training, in its three main areas - People, Business, Compliance & Safety - MPSAcademy provided more than 955,000 training hours in 2017, equal to 41.9 hours per capita; roughly 99% of personnel participated in training activities. Aside from the focus on lending-related training, particular attention was reserved for topics connected to risk oversight and promoting digital culture through specific initiatives aimed at all personnel.

With the objective of enhancing managerial skills in innovative ways, more than 300 Group managers were involved in training programmes designed around digital culture, innovation, risks, communication, and people management, including through the experiences of managers from leading

Italian and global companies. In order to facilitate the development of a skills culture, a specific information campaign was launched that involved the distribution to all Network personnel of a specific guide containing the competencies and training activities envisaged for each role. This initiative is part of the training contribution to the evolution in the distribution model and careful oversight of the professional skills of resources that interact with customers. The English@MPSAcademy platform was activated for all Group employees (with access available also to their family members), which assists in understanding the English language through synchronised virtual lessons and multimedia content.

Strategy

The Restructuring Plan approved by the European Commission on 4 July 2017 aims for the Bank's return to an adequate level of profitability, with a target ROE of >10% in 2021, and is based on the following 4 pillars:

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

The Restructuring Plan includes the transfer of almost the entire doubtful loan portfolio as at 31 December 2016 (for further information, please refer to the paragraph "The doubtful loan disposal transaction" of the Consolidated report on operations).

In particular, the Restructuring Plan is consistent with and reflects the commitments undertaken with respect to DG Comp (the "Commitments") and is aligned with the parameters of the SREP letter received in June 2017. In this document, received on 19 June 2017, the ECB ordered the Bank to maintain a Total SREP Capital Requirement ratio of 11% at consolidated level as of 2018, which includes a minimum Pillar 1 requirement of 8% and an additional Pillar 2 requirement of 3% (P2R), entirely in terms of Common Equity Tier 1 capital.

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

- CET1 Ratio of 9.44% on a transitional basis,
- Total Capital Ratio of 12.94% on a transitional basis,

including, aside from the P2R, 1.875% for the Capital Conservation Buffer and 0.0625% for the O-SII Buffer (Other Systemically Important Institutions Buffer). The Capital Conservation Buffer and the O-SII Buffer will be fully implemented in 2019 with 2.5% and in 2021 with 0.25% (the latter on a transitional basis will have a coefficient of 0.125% in 2019 and of 0.1875% in 2020). The Restructuring Plan incorporates in full the results of the inspection on loans carried out by the ECB and completed in May 2017. The inspection, conducted on the loan portfolio with reference to 31 December 2015, brought to light the need to recognise additional provisions with respect to the levels of coverage as at the reference date. These additional adjustments substantially overlap with those already recognised from 31 December 2015 to date, the effects of the disposal of the doubtful loans portfolio and further reductions in non-performing loans laid out in the Restructuring Plan.

The Restructuring Plan includes the preliminary estimate, formulated as at the same date of the drafting of the Plan, of the negative effects of the entry into force of IFRS 9 for around EUR 1.2 bn upon First Time Adoption ("FTA"), amount currently confirmed.

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

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

Corporate segment activities are currently being streamlined, as a result of the revision of the business model and the optimisation of capital absorption.

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

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

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

- the full reorganisation of the CLO, with the centralisation of lending decision-making mechanisms and the creation of direct links with the Regional Area governance structures, a strong push towards the automation of the lending process for smaller amounts for Retail and Small Business which in 2021 will result in an increase in the automated disbursement process to 70% for Retail and to 50% for the Small Business segment;
- the strengthening of systems for early detection and the monitoring of at-risk positions, which will allow for a reduction of the default rate and growth in the recovery rate of past due exposures;
- the creation of a business unit within the CLO dedicated to the management of the non-performing loan portfolio, which will handle early remedial actions/restructuring, the control

of the activities and performance of the debt collection platform, as well as recovery activities relating to new streams of doubtful loans not conveyed to the platform;

- a specific programme for the transfer/reduction of the portfolio of unlikely to pay and doubtful loans, the economic effects of which are included in the Restructuring Plan, so as to allow for the achievement of the targets linked to the percentage of gross non-performing loans out of total loans (NPE ratio).

The Restructuring Plan envisages an overall capital strengthening exceeding EUR 8 bn, which was completed last August.

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

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

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

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

With reference to the Restructuring Plan approved by the European Commission in July 2017, the Bank has initiated the process of implementing the various operational policies.

In particular the Bank continues to optimize the distribution network, with regard to which the closure of an additional 115 branches in the fourth quarter. Furthermore, on 11 January 2018, the Parent Company issued a fixed rate 10 year subordinated "Tier 2" bond for a total amount of EUR 750 mln.

Regarding the efficiency of the organisational structure optimisation, the exit of 1,215 resources was registered through the Solidarity Fund in 4Q17, in line with the provisions of the Restructuring Plan.

As noted previously with regard to credit quality improvement initiatives, the Restructuring Plan includes the transfer of almost the entire doubtful loan portfolio as at 31 December 2016 (for futher information, please refer to the section "The doubtful loan disposal transaction"), in addition to the sale during the 2018 of a portfolio of EUR 2.5 bn (GBV as at 31 December 2016) made up of unsecured loans with gross unit value of less than EUR 150,000 and leasing credits. It also envisages, by 2019, further disposal of loans belonging to the Unilkely to Pay Portfolio, for a total exposure of aprrpximately EUR 4.5 bn, and of doubtful loansfor an total exposure of approximately EUR 2 bn, in the period 2020-2021.

The Restructuring Plan initiatives include the following results achieved within the Chief Lending Officer Department:

- Establishment of the lending chain dedicated to the Bank most risky portfolio, effective through out the the network since July 2017.

The supply chain manages the proposals for performing customers with a high risk of default (High Risk Portfolio, or "Portfolio") and for customers classified in the first stages of non-performing category (typically past due impaired loans) that come from the commercial network. The supply chain is rooted in both peripheral structures (at the Territorial Credit Area level, see the "Organisational Structure" section of this report) and at the General Management level with a dedicated area (High Risk Area), reporting to the Performing Credit Department. The supply chain was created for the dual purpose of maximising the composition of the flow of new default loans (with a targeted action on the "Portfolio") and of limiting and managing the risk of customers who are in the first NPE stages of deteriorating further (unlikely to pay or doubtful loans), also through the use of forbearance measures.

- Review of the process of loan supply to natural persons. In addition to acquiring a broader information set, than the previosu one, the new process makes it possible to more accurately profile not only the counterparty but also the type of request made to the Bank; this has led to a significant increase in its effectiveness and efficiency, expanding the scope of disbursements subjected to this process. During the first months of use of this process, a significant increase was observed in the share o loans suppy assisted be the new model (whether positive or negative), passing from the previous 19% to almost 30% of the total requests submitted to the Bank.
- In addition, a new process for intercepting unusual situations was also developed with the aim of identifying potential problems on the requesting counterparties that could generate operational risks for the Bank. For retail counterparties, the internal disbursement process began to be integrated with external bureaus that provide identification information on counterparties, useful for pinpointing the requests that require further analysis in order to understand if there are possible operational risks. The integration process began, in a trial phase, at the end of 2017 and will go into production by the middle of 2018.

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 first monitoring was carried out during the last quarter of the current year, with reference to the data as at 30 September 2017, specifying that, as regard to the verification of compliance with commitments, this assumes formal relevance only when specific deadline agreed upon with the European Commission.

The doubtful loan disposal transaction

The Parent Company and the subsidiaries MPSCS and MPSL&F sold a portfolio of doubtful loans, with a Gross Book Value ("GBV") as at 31 December 2016 of EUR 24,577.1 mln, to the securitisation vehicle Siena NPL 2018 srl ("SPV"). The sale price, equivalent to 20.58% of the GBV at the cut-off date of 31 December 2016, amounted to EUR 5,056.7 mln and was paid in part by offsetting the SPV's collections recognised on the transferred portfolio after the cut-off date of 31 December 2016 (EUR 548.5 mln) and, for the remaining part, through the issue by the SPV of the following securities (totalling EUR 4,508.2 mln):

- Senior A1 notes for EUR 2,683.5 mln
- Senior A2 notes for EUR 412.1 mln
- Mezzanine notes for EUR 847.6 mln
- Junior notes for EUR 565.0 mln

The securities were fully subscribed on a *pro-rata* basis by MPS, MPSCS, and MPSL&F as originator banks.

On 22 December 2017, the agreement to transfer 95% of the mezzanine notes referenced above was signed with Quaestio Capital SGR S.p.A. on behalf of Atlante Fund for a total value of approximately EUR 800 mln, effective 9 January 2018.

The contract for the sales of doubtful loans to the Siena NPL 2018 securitisation vehicle, signed on 20 December 2017, also included the transfer, by the originator banks, of an additional 3 sub-portfolios of doubtful loans, for an overall GBV of approximately EUR 793 mln as at 31 December 2016. The transfer of these sub-portfolios at a price of EUR 271 mln (equal to 34.17% of GBV) was contingent upon a series of events and conditions that had to have occurred by 31 January 2018.

The GBV of the doubtful loan portfolio, including the aforementioned sub-portfolios, amounted to EUR 25,370 mln as at 31 December 2016, with a sale price equal to 21% of GBV.

The conditions precedent for 2 of the 3 sub-portfolios was not met as at 31 January 2018 and, therefore, these loans were not transferred. Instead, with reference to the other loan sub-portfolio subject to conditions precedent, an extension until 20 March 2018 was signed. These loans were also reclassified to asset item 150 "Non-current assets and groups of assets held for sale and discontinued operations", for a book value of approximately EUR 48 mln, equal to the presumed sale price.

Note that for the Senior A1 notes, there will be a request for the "GACS" guarantee scheme, to be obtained by the end of June 2018, after the assignment of an investment grade rating by at least two rating agencies; after which time, the Senior notes may be placed in the market with institutional investors, provided that, for the entire duration of the securitisation, the Group maintains a net economic interest equal to 5% of the nominal amount of each class of securities in order to comply with the "retention rule", pursuant to current prudential regulations.

The doubtful loans portfolio will be derecognised by June 2018 with the sale of 95% of the junior securities to the Atlante Fund. The related economic impacts of the transaction were fully incorporated in the financial statements as at 31 December 2017.

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

Income statement and balance sheet reclassification principles

Reclassified income statement

a) The item "**Net interest income**" was cleared of the negative contribution (equal to EUR -12 mln) of the Purchase Price Allocation (PPA), which was included in its own specific item.

b) The item "**Net fee and commission income**" includes items 40 "Fee and commission income" and 50 "Fee and commission expense", and was cleared of the arrangement fees associated with the securitisation transaction for EUR 13 mln, which was reclassified in the item "Restructuring costs/One-off costs".

c) The item "**Dividends, similar income and gains (losses) on investments**" incorporates the item 70 "Dividends and similar income" and a portion of item 240 "Gains (losses) on investments" (value of EUR 92 mln, corresponding to the share of profit and loss for the period contributed by investments in the associate AXA, consolidated at equity). Dividends earned on equity securities other than equity investments have also been eliminated from the aggregate (EUR 6 mln), reclassified in the item "Net profit (loss) from trading and financial assets/liabilities".

d) The item "**Net profit (loss) from trading and financial assets/liabilities**" includes item 80 "Net profit (loss) from trading", item 100 "Gains (losses) on disposal/repurchase of loans, financial assets available for sale or held to maturity and financial liabilities" and item 110 "Net profit (loss) from financial assets and liabilities designated at fair value". In addition, the item incorporates dividends earned on equity securities other than equity investments (EUR 6 mln).

e) The item "**Other operating income (expenses)**" includes the balance of financial statements item 220 "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 323 mln).

f) The income statement item "**Personnel expenses**" was reduced by EUR 282 mln for restructuring charges, essentially related to allocations for early retirement incentives/provisions, as per the trade union agreement of 3 August 2017 and, marginally, to expenses related to the securitisation transaction of doubtful loans for EUR 0.6 mln. The amount was reclassified under "Restructuring costs/One-off costs".

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

- expenses, amounting to EUR 92 mln, resulting from EU DGSD and BRRD directives for the resolution of bank crises (posted under the reclassified item "Risks and charges associated with SRF, DGS and similar schemes");
- DTA fee, convertible into tax credit, for an amount of EUR 71 mln (posted to the reclassified item "DTA fee");
- restructuring charges: i) EUR 17 mln for the closure of branches envisaged in the restructuring plan, and ii) EUR 19 mln for costs incurred for the transaction to securitise doubtful loans and in part associated with contracts for the overall outsourcing transaction for the doubtful loan collection platform and the long-term servicing contract to manage doubtful loans, as agreed with Cerved/Quaestio.

This item includes also the portion of stamp duty and client expenses recovery (EUR 323 mln) posted under item 220 "Other operating expenses/income".

h) The item "**Net adjustments to (recoveries on) property, plant and equipment / Net adjustments to (recoveries on) intangible assets**" was cleared of the negative contribution (equal to EUR -26 mln) of the Purchase Price Allocation (PPA), which was included in its own specific item.

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

j) "**Restructuring costs/One-off costs"** includes: i) restructuring costs allocated against early retirement incentives/provisions for EUR 282 mln and against the branch closures set forth in the restructuring plan for EUR 17 mln; ii) total charges of EUR 32 mln for the doubtful loan securitisation transaction, contracts related to the overall outsourcing transaction for the doubtful loan collection platform, and the long-term servicing contract for doubtful loan management (included in Net fee and commission income, Personnel expenses, and Other administrative expenses).

k) The item **"Risks and charges associated with SRF, DGS and similar schemes**" includes the expenses deriving from the EU directives DGSD for deposit guarantee and BRRD for the resolution of bank crises, posted in the financial statements under item 180b "Other administrative expenses". As at 31 December 2017, there were charges recognised for SRF (EUR 62 mln accounted for in the first quarter) and DGS (EUR 30 mln accounted for in the third quarter).

l) The item "**DTA fee**" includes the expenses related to the fees paid on DTA that can be converted into tax credit as set forth in art. 11 of Law Decree no. 59 of 3 May 2016, converted into Law no. 119 of 30 June 2016, recognised in the Financial Statements item 180b "Other administrative expenses".

m) The item "**Gains (losses) on disposal of investments**" includes the balance of item 240 "Gains (losses) on investments" after deducting the portion of profit for the period contributed by investments in AXA, consolidated at equity and posted under the reclassified item "Dividends, similar income and gains (losses) on investments" (EUR 92 mln).

n) The item "**Tax expense (recovery) on income from continuing operations**" was cleared of the theoretical tax component relating to the Purchase Price Allocation (PPA), included in a specific item in the amount of EUR 13 mln.

o) The overall negative effects of Purchase Price Allocation (PPA) posted to this specific account were reclassified out of other items (in particular "**Net interest income**" for EUR -12 mln and "**Net adjustments to (recoveries on) property, plant and equipment/Net adjustment to (recoveries on) intangible assets**" for EUR -26 mln, net of a theoretical tax burden of EUR +13 mln which integrates the item).

<u>**Reclassified balance sheet**</u>

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

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

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

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

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The reconciliation between the statutory accounts and the reclassified consolidated income statement and balance sheet is included in the "Annexes" section.

Reclassified income statement

Reclassified Consolidated Income Statement				
	31/12/17	31/12/16	Change	
Montepaschi Group			Abs.	%
Net interest income	1,788.3	2,021.3	(233.0)	-11.5%
Net fee and commission income	1,576.5	1,839.4	(262.9)	-14.3%
Income from banking activities	**3,364.8**	**3,860.7**	**(495.9)**	**-12.8%**
Dividends, similar income and gains (losses) on equity investments	101.0	77.8	23.2	29.8%
Net profit (loss) from trading and financial assets/liabilities	574.8	441.2	133.6	30.3%
Net profit (loss) from hedging	(3.7)	(82.0)	78.3	-95.5%
Other operating income (expenses)	(11.3)	(15.7)	4.4	-28.0%
Total Revenues	**4,025.6**	**4,282.0**	**(256.4)**	**-6.0%**
Administrative expenses:	(2,279.6)	(2,402.5)	122.9	-5.1%
a) personnel expenses	(1,575.4)	(1,610.5)	35.2	-2.2%
b) other administrative expenses	(704.3)	(792.0)	87.7	-11.1%
Net adjustments to (recoveries on) property, plant and equipment / Net adjustments to (recoveries on) intangible assets	(263.4)	(218.8)	(44.6)	20.4%
Operating expenses	**(2,543.0)**	**(2,621.3)**	**78.3**	**-3.0%**
Pre Provision Profit	**1,482.6**	**1,660.7**	**(178.1)**	**-10.7%**
Net impairment losses (reversals) on:	**(5,460.0)**	**(4,500.9)**	**(959.1)**	**21.3%**
a) loans	(5,323.7)	(4,467.0)	(856.7)	19.2%
b) financial assets	(136.3)	(33.9)	(102.4)	n.s.
Net operating income	**(3,977.4)**	**(2,840.2)**	**(1,137.2)**	**40.0%**
Net provisions for risks and charges	(232.9)	44.4	(277.3)	n.s.
Gains (losses) on investments	(14.0)	11.8	(25.8)	n.s.
Restructuring costs / One-off costs	(330.2)	(117.0)	(213.2)	n.s.
Risks and charges related to the SRF, DGS and similar schemes	(91.9)	(241.1)	149.2	-61.9%
DTA Fee	(70.9)	(70.4)	(0.5)	0.7%
Gains (losses) on disposal of investments	531.2	33.2	498.0	n.s.
Profit (loss) before tax from continuing operations	**(4,186.2)**	**(3,179.3)**	**(1,006.9)**	**31.7%**
Tax expense (recovery) on income from continuing operations	709.6	(20.7)	730.3	n.s.
Profit (loss) after tax from continuing operations	**(3,476.6)**	**(3,200.0)**	**(276.6)**	**8.6%**
Net profit (loss) for the period including non-controlling interests	**(3,476.6)**	**(3,200.0)**	**(276.6)**	**8.6%**
Net profit (loss) attributable to non-controlling interests	0.1	9.7	(9.6)	-99.0%
Profit (loss) for the period before PPA , impairment on goodwill and intangibles	**(3,476.7)**	**(3,209.7)**	**(267.0)**	**8.3%**
PPA (Purchase Price Allocation)	(25.6)	(31.4)	5.8	-18.5%
Net profit (loss) for the year	**(3,502.3)**	**(3,241.1)**	**(261.2)**	**8.1%**

Quarterly trend in reclassified consolidated income statement								
	2017				2016			
Montepaschi Group	4°Q 2017	3°Q 2017	2°Q 2017	1°Q 2017	4°Q 2016	3°Q 2016	2°Q 2016	1°Q 2016
Net interest income	414.6	470.4	445.9	457.4	502.6	483.5	486.9	548.3
Net fee and commission income	363.3	355.7	431.2	426.3	437.0	461.7	483.8	456.9
Income from banking activities	**777.9**	**826.1**	**877.1**	**883.7**	**939.6**	**945.2**	**970.7**	**1,005.2**
Dividends, similar income and gains (losses) on equity investments	32.3	22.4	25.7	20.5	11.3	23.3	23.9	19.3
Net profit (loss) from trading and financial assets/liabilities	3.4	528.5	18.3	24.5	21.5	102.7	151.3	165.7
Net profit (loss) from hedging	0.8	(2.7)	(2.0)	0.2	(80.3)	(0.4)	(1.4)	0.1
Other operating income (expenses)	(12.0)	(3.9)	0.3	4.3	(27.6)	2.2	14.7	(5.0)
Total Revenues	**802.4**	**1,370.5**	**919.5**	**933.2**	**864.5**	**1,073.0**	**1,159.1**	**1,185.4**
Administrative expenses:	(579.4)	(561.1)	(568.2)	(570.9)	(630.6)	(595.1)	(582.1)	(594.7)
a) personnel expenses	(387.1)	(388.8)	(395.1)	(404.4)	(371.1)	(418.4)	(403.4)	(417.6)
b) other administrative expenses	(192.3)	(172.3)	(173.1)	(166.5)	(259.5)	(176.7)	(178.7)	(177.1)
Net adjustments to (recoveries on) property, plant and equipment / Net adjustments to (recoveries on) intangible assets	(71.1)	(64.7)	(70.9)	(56.6)	(61.6)	(55.2)	(51.7)	(50.3)
Operating expenses	**(650.5)**	**(625.8)**	**(639.1)**	**(627.5)**	**(692.2)**	**(650.3)**	**(633.8)**	**(645.0)**
Pre Provision Profit	**151.9**	**744.7**	**280.4**	**305.6**	**172.3**	**422.7**	**525.4**	**540.3**
Net impairment losses (reversals) on:	**(557.6)**	**(224.5)**	**(4,374.8)**	**(303.1)**	**(2,482.1)**	**(1,301.6)**	**(368.0)**	**(349.2)**
a) loans	(551.7)	(175.0)	(4,288.8)	(308.2)	(2,445.4)	(1,303.3)	(372.4)	(345.9)
b) financial assets	(5.9)	(49.5)	(86.0)	5.1	(36.7)	1.7	4.4	(3.3)
Net operating income	**(405.7)**	**520.2**	**(4,094.4)**	**2.5**	**(2,309.8)**	**(878.9)**	**157.4**	**191.1**
Net provisions for risks and charges	(166.1)	(7.8)	(13.4)	(45.6)	48.0	(27.5)	29.2	(5.3)
Gains (losses) on investments	8.9	(19.1)	0.2	(4.0)	2.5	1.6	0.2	7.5
Restructuring costs / One-off costs	(34.5)	(278.0)	(17.7)	-	(117.0)	-	-	-
Risks and charges related to the SRF, DGS and similar schemes	2.3	(31.2)	0.4	(63.4)	(139.1)	(31.2)	0.3	(71.1)
DTA Fee	(17.7)	(17.7)	(17.5)	(18.0)	53.9	(15.5)	(108.8)	-
Gains (losses) on disposal of investments	(2.3)	1.8	532.0	(0.3)	20.4	12.8	-	-
Profit (loss) before tax from continuing operations	**(615.2)**	**168.2**	**(3,610.6)**	**(128.6)**	**(2,441.1)**	**(938.7)**	**78.3**	**122.2**
Tax expense (recovery) on income from continuing operations	119.7	79.9	543.5	(33.5)	64.7	(203.9)	139.2	(20.7)
Profit (loss) after tax from continuing operations	**(495.5)**	**248.1**	**(3,067.1)**	**(162.1)**	**(2,376.4)**	**(1,142.6)**	**217.5**	**101.5**
Net profit (loss) for the period including non-controlling interests	**(495.5)**	**248.1**	**(3,067.1)**	**(162.1)**	**(2,376.4)**	**(1,142.6)**	**217.5**	**101.5**
Net profit (loss) attributable to non-controlling interests	(0.1)	0.1	(0.1)	-	(8.3)	0.6	0.3	0.5
Profit (loss) for the period before PPA , impairment on goodwill and intangibles	**(495.6)**	**248.0**	**(3,067.0)**	**(162.1)**	**(2,384.7)**	**(1,143.2)**	**217.2**	**101.0**
PPA (Purchase Price Allocation)	(6.0)	(6.1)	(6.4)	(7.1)	(7.7)	(7.5)	(8.3)	(7.9)
Net profit (loss) for the year	**(501.6)**	**241.9**	**(3,073.4)**	**(169.2)**	**(2,392.4)**	**(1,150.7)**	**208.9**	**93.1**

Trends in revenues

In 2017, the Group recorded total **Revenues** of **EUR 4,026 mln**, down by 6.0% compared to the previous year, due to the downturn in Net interest income and Net fee and commission income, only partially offset by the increase in the Net profit (loss) from trading and financial assets/liabilities (impacted by the positive effects of burden sharing). In 4Q17, Revenues, totalling EUR 802 mln, decreased by EUR 568 mln compared to the previous quarter, which, as stated previously, had benefitted from the effects of the burden sharing transaction represented in the item "Net profit (loss) from trading and financial assets/liabilities" and Net interest income.

Net interest income for 2017 amounted to **EUR 1,788 mln**, down by 11.5% compared to 2016, 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 is partially attenuated by the decrease in interest expense following the reduction in the cost of commercial funding, the maturity of bonds with more costly conditions, and the effects of burden sharing. The result for 4Q17 equal to EUR 415 mln was down EUR 56 mln from the previous quarter (-11.9% Q/Q), which reflected the positive effects of the reversal of interest expense accrued until the conversion date, in August, of the subordinated loans subject to burden sharing (EUR +51 mln). Excluding this component, the quarterly trend was essentially stable, with the reduction in interest expense offset by the decline in the contribution from commercial assets (both in terms of volumes and returns).

Items	31 12 2017	31 12 2016	Chg. Y/Y		4°Q 2017	3°Q 2017	Chg. Q/Q	
			Abs.	%			Abs.	%
Relations with customers	2,083.9	2,660.6	(576.7)	-21.7%	454.6	489.4	(34.8)	-7.1%
of which interest income on non-performing assets	*447.8*	*629.3*	*(181.5)*	*-28.8%*	*91.0*	*104.8*	*(13.8)*	*-13.2%*
Securities issued	(396.3)	(770.7)	374.4	-48.6%	(73.7)	(44.1)	(29.6)	67.1%
Net Differentials on hedging derivatives	(6.2)	(28.1)	21.9	-77.9%	2.1	(0.5)	2.6	n.s.
Relations with banks	(33.6)	(59.1)	25.5	-43.1%	(4.9)	(9.1)	4.2	-46.2%
Trading portfolios	45.3	66.3	(21.0)	-31.7%	6.5	10.4	(3.9)	-37.5%
Portfolios designated at fair value	(56.6)	(41.4)	(15.2)	36.7%	(4.8)	(12.3)	7.5	-61.0%
Financial assets available for sale	152.9	190.7	(37.8)	-19.8%	36.4	36.0	0.4	1.1%
Other net interest income	(1.1)	3.0	(4.1)	n.s.	(1.6)	0.6	(2.2)	n.s.
Net interest income	**1,788.3**	**2,021.3**	**(233.0)**	**-11.5%**	**414.6**	**470.4**	**(55.8)**	**-11.9%**

Net fee and commission income totalled **EUR 1,577 mln**, declining by 14.3% compared to 2016, primarily as a result of the recognition of the cost of the guarantee on government issues in the first quarter and lower income from the credit segment (against lower volumes compared to the prior year), as well as lower income on payment services following the disposal of the merchant acquiring business unit on 30 June 2017. This item showed an increase of 2.1% from the previous quarter, due to the contribution of fees and commissions from asset management.

Services / Values	31 12 2017	31 12 2016	Chg. Y/Y		4°Q 2017	3°Q 2017	Chg. Q/Q	
			Abs.	%			Abs.	%
Guarantees given / received	(50.6)	42.1	(92.7)	n.s.	(15.6)	(15.5)	(0.1)	0.6%
Collection and payment services	104.7	183.3	(78.6)	-42.9%	26.9	25.4	1.5	5.9%
Current account keeping	479.8	517.8	(38.0)	-7.3%	117.0	118.3	(1.3)	-1.1%
Credit and debit cards	176.5	232.4	(55.9)	-24.1%	35.7	32.1	3.6	11.2%
Commercial banking activities	**710.4**	**975.6**	**(265.2)**	**-27.2%**	**164.0**	**160.3**	**3.7**	**2.3%**
Receipts and trasmission of orders	28.9	43.0	(14.1)	-32.8%	7.9	5.6	2.3	41.1%
Trading activities on financial instruments and currencies	11.3	30.2	(18.9)	-62.6%	1.7	3.1	(1.4)	-45.2%
Distribution of third party services	481.7	460.4	21.3	4.6%	106.6	107.5	(0.9)	-0.8%
Insurance services	191.7	175.9	15.8	9.0%	50.2	46.1	4.1	8.9%
Placement/ offering of financial instruments and services	(44.9)	(31.0)	(13.9)	44.8%	(14.2)	(10.5)	(3.7)	35.2%
Asset management	50.7	59.6	(8.9)	-14.9%	11.9	12.2	(0.3)	-2.5%
Management, brokerage and advisory services	**719.4**	**738.1**	**(18.7)**	**-2.5%**	**164.1**	**164.0**	**0.1**	**0.1%**
Other advisory services	**146.7**	**125.7**	**21.0**	**16.7%**	**35.2**	**31.4**	**3.8**	**12.1%**
Net fee and commission income	**1,576.5**	**1,839.4**	**(262.9)**	**-14.3%**	**363.3**	**355.7**	**7.6**	**2.1%**

Dividends, similar income and gains (losses) on equity investments totalled **EUR 101 mln**, an increase compared to 31 December 2016, mainly due to the AXA-MPS contribution[2].

Net profit (loss) from trading and financial assets/liabilities in 2017 stood at **EUR 575 mln**, including the effects relating to the burden sharing transaction (for a total of EUR 503 mln, represented in the details noted below), an increase from the previous year (equal to EUR 441 mln). Net of the effects of the burden sharing transaction, the aggregate would be down considerably compared to 31 December 2016, which was characterised by higher net profit from trading, disposals/repurchases of securities and capital gains on liabilities issued and measured at fair value. An analysis of the main aggregates shows the following:

- **Trading result equivalent to EUR 0.2 mln**, down from 31 December 2016; This result reflects a lower contribution from the subsidiary MPS Capital Services. There was also a downturn on the previous quarter (EUR -17 mln);
- The **negative FVO results of EUR 3 mln** were almost entirely due to the burden sharing transaction, net of which the aggregate would be basically null due to the early adoption permitted by IFRS 9 of the method of accounting for profit/losses connected to own creditworthiness of fair value option liabilities (as at 31 December 2016, determined in accordance with IAS 39, the FVO Result was positive for EUR 99 mln);
- **Gains on disposal/repurchase totalled EUR 578 mln**, essentially relating to the effects of the burden sharing transaction for EUR +505 mln, net of which the aggregate would be down compared to the same period of the previous year (-54.8% Y/Y), which benefitted from the higher AFS capital gains and other extraordinary income (disposal of the equity investment held by the Parent Company in VISA Europe and repurchase of financial liabilities). Compared to 3Q17 and removing the effects of the burden sharing transaction, the aggregate would have essentially remained the same.

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

Items	31 12 2017	31 12 2016	Chg. Y/Y		4°Q 2017	3°Q 2017	Chg. Q/Q	
			Abs.	%			Abs.	%
Financial assets held for trading	(51.2)	(77.7)	26.5	-34.1%	(5.4)	(0.2)	(5.2)	n.s.
Financial trading liabilities	33.9	82.6	(48.7)	-59.0%	(17.1)	3.2	(20.3)	n.s.
Exchange rate effects	10.5	23.4	(12.9)	-55.1%	3.5	2.1	1.4	66.7%
Derivatives	7.0	152.1	(145.1)	-95.4%	(1.8)	(8.8)	7.0	-79.5%
Trading results	**0.2**	**180.4**	**(180.2)**	**-99.9%**	**(20.8)**	**(3.7)**	**(17.1)**	**n.s.**
FVO Results	(3.4)	99.3	(102.7)	n.s.	(2.0)	(0.8)	(1.2)	n.s.
Disposal / repurchase	578.0	161.5	416.5	n.s.	26.2	533.0	(506.8)	-95.1%
Net profit (loss) from trading	**574.8**	**441.2**	**133.6**	**30.3%**	**3.4**	**528.5**	**(525.1)**	**-99.4%**

The following items also make up Revenues:

- **Net profit (loss) from hedging totalled EUR -4 mln** (negative for EUR 82 mln as at 31 December 2016, including the negative impact from the unexpected ineffectiveness of the interest rate risk hedge on a subordinated bond, following the obligatory conversion envisaged in Law Decree 237/16, converted into law on 17 February 2017, as part of the precautionary recapitalisation by the State).
- **Other operating income/expense was negative** for **EUR 11 mln** (EUR -16 mln at the end of 2016).

Operating expenses

Operating expenses totalled **EUR 2,543 mln** in 2017, down 3.0% on the previous year. The results for 4Q17 were EUR 651 mln, an increase of 3.9% compared to 3Q17, mainly due to trends in Other administrative expenses and Net adjustments to (recoveries on) property, plant and equipment and intangible assets. A closer look at the individual aggregates reveals the following:

- **Administrative expenses** stood at **EUR 2,280 mln** (-5.1% Y/Y), with an impact of EUR 579 mln pertaining to 4Q17, up 3.3% compared to the previous quarter. A breakdown of the aggregate shows:
    - **Personnel expenses**, which totalled **EUR 1,575 mln**, declined year on year by 2.2% (EUR -35 mln) as a result of workforce downsizing, also due to the Solidarity Fund initiatives of 1 May and 1 November 2017. This trend is substantially in line with the previous quarter.
    - **Other administrative expenses** stood at **EUR 704 mln**, down 11.1% from 2016, which had been negatively affected by the expenses connected to the recapitalisation transaction (which was not completed successfully) of EUR 37 mln. Excluding this component, the annual trend would, in any case, show a decrease due to structural cost control measures which involved, in particular, the management of the real estate segment, ICT, and legal expenses connected to debt collection. The expenses posted in 4Q17 amounted to EUR 192 mln, higher than those of the previous quarter.
- **Net adjustments to (recoveries on) property, plant and equipment / Net adjustments to (recoveries on) intangible assets** amounted to EUR 263 mln in 2017, greater than the values from the previous year due to higher write-downs on property, plant and equipment (impairment on land and buildings of EUR 17 mln) and on intangible assets (software impairment of EUR 25 mln). They were also up compared to the previous quarter (+10.0% Q/Q), as a result of the higher write-downs on property, plant and equipment, following the refurbishment and expansion of the ATM machines.

Type of transaction	31 12 2017	31 12 2016	Chg Y/Y		4°Q 2017	3°Q 2017	Chg Q/Q	
			Abs.	%			Abs.	%
Wages and salaries	(1,137.5)	(1,157.7)	20.2	-1.7%	(280.6)	(280.2)	(0.4)	0.1%
Social-welfare charges	(308.2)	(318.7)	10.5	-3.3%	(75.8)	(76.3)	0.5	-0.7%
Other personnel expenses	(129.7)	(134.1)	4.5	-3.3%	(30.7)	(32.3)	1.6	-4.8%
Personnel expenses	**(1,575.4)**	**(1,610.5)**	**35.2**	**-2.2%**	**(387.1)**	**(388.8)**	**1.7**	**-0.4%**
Taxes	(263.5)	(287.3)	23.8	-8.3%	(50.0)	(70.0)	20.0	-28.6%
Furnishing, real estate and security expenses	(171.4)	(187.1)	15.7	-8.4%	(39.0)	(44.9)	5.9	-13.1%
General operating expenses	(201.5)	(201.6)	0.1	0.0%	(51.8)	(49.9)	(1.9)	3.8%
Information technology expenses	(166.7)	(180.0)	13.3	-7.4%	(41.8)	(40.2)	(1.6)	4.0%
Legal and professional expenses	(172.8)	(204.2)	31.4	-15.4%	(72.0)	(37.0)	(35.0)	94.6%
Indirect personnel costs	(11.4)	(13.7)	2.3	-16.8%	(3.9)	(1.9)	(2.0)	n.s.
Insurance	(29.2)	(31.7)	2.5	-7.9%	(7.5)	(7.2)	(0.3)	4.2%
Advertising, sponsorship and promotions	(12.5)	(16.6)	4.1	-24.7%	(6.5)	(2.0)	(4.5)	n.s.
Other	1.5	(14.0)	15.5	n.s.	14.6	(4.0)	18.6	n.s.
Expenses recovery	323.2	344.2	(21.0)	-6.1%	65.6	84.8	(19.2)	-22.6%
Other administrative expenses	**(704.3)**	**(792.0)**	**87.7**	**-11.1%**	**(192.3)**	**(172.3)**	**(20.0)**	**11.6%**
Tangible assets	(133.1)	(111.8)	(21.3)	19.1%	(37.5)	(32.5)	(5.0)	15.4%
Intangible assets	(130.3)	(107.0)	(23.3)	21.8%	(33.6)	(32.2)	(1.4)	4.3%
Amortization and impairment losses	**(263.4)**	**(218.8)**	**(44.6)**	**20.4%**	**(71.1)**	**(64.7)**	**(6.4)**	**9.9%**
Operating costs	**(2,543.0)**	**(2,621.3)**	**78.3**	**-3.0%**	**(650.5)**	**(625.8)**	**(24.7)**	**3.9%**

As a result of these factors, the Group's **Gross Operating Income** totalled **EUR 1,483 mln** (EUR 1,661 mln in 2016), with a contribution of EUR 152 mln from 4Q17, a decline from the previous quarter.

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

In 2017, the Group recognised **Net impairment (losses)/reversals on loans, financial assets and other transactions** of **EUR 5,460 mln**, an increase of EUR 959 mln from the previous year, mainly due to: i) net impairment losses posted at the beginning of the year on the loans to be transferred following the adjustment to their recoverable value and other additional charges envisaged in the agreement with Quaestio (in total, EUR -3.9 bn, already recognised as at 30 June 2017); ii) recovery costs associated with the long-term servicing contract signed with JV Cerved/Quaestio for managing the outsourcing of MPS Group's doubtful loans (EUR -170 mln); iii) write-down of the equity investments in the Atlante Fund (EUR -30 mln, already recognised in the first half of the year) and in Banca Popolare di Spoleto (EUR -8 mln); iv) write-down of the share held in the Voluntary Scheme (for a total amount of EUR -46 mln). The results for 4Q17 were up by EUR 333 mln from the previous quarter.

The ratio of 2017 net impairment losses on loans to total Loans to Customers reflects a **Provisioning Rate** of 585 bps, or **172 bps** net of the balance sheet and income statement effects of the transferred doubtful loans.

Reversals	31 12 2017	31 12 2016	Chg. Y/Y		4°Q 2017	3°Q 2017	Chg. Q/Q	
			Abs.	%			Abs.	%
Loans to banks	(1.7)	(0.3)	(1.4)	n.s.	(0.4)	5.1	(5.5)	n.s.
- Loans	(2.2)	(0.4)	(1.8)	n.s.	(0.4)	4.9	(5.3)	n.s.
- Debt securities	0.5	0.1	0.4	n.s.	-	0.2	(0.2)	-100.0%
Loans to customers	(5,321.9)	(4,466.7)	(855.2)	19.1%	(551.2)	(180.1)	(371.1)	n.s.
- Loans	(5,322.1)	(4,465.8)	(856.3)	19.2%	(551.3)	(180.2)	(371.1)	n.s.
- Debt securities	0.2	(0.9)	1.1	n.s.	0.1	0.1	-	0.0%
Impairment losses on loans	**(5,323.6)**	**(4,467.0)**	**(856.6)**	**19.2%**	**(551.6)**	**(175.0)**	**(376.6)**	**n.s.**
Financial assets available for sale	(93.1)	(41.8)	(51.3)	n.s.	(29.9)	(29.7)	(0.2)	0.7%
Guarantees and commitments	(43.2)	7.9	(51.1)	n.s.	24.0	(19.8)	43.8	n.s.
Total financial activities and other operations	**(136.3)**	**(33.9)**	**(102.4)**	**n.s.**	**(5.9)**	**(49.5)**	**43.6**	**-88.1%**
Total	**(5,459.9)**	**(4,500.9)**	**(959.0)**	**21.3%**	**(557.5)**	**(224.5)**	**(333.0)**	**n.s.**

Consequently, the Group's **Net Operating Income** in 2017 was **negative for EUR 3,977 mln**, compared to a negative value of EUR 2,840 mln in the previous year.

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

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

- **Net provisions for risks and charges** in the amount of **EUR -233 mln**, mainly allocated for legal risks. As at 31 December 2016 there was a positive balance of EUR 44 mln, which also benefitted from the release of provisions recognised against tax and legal risks which did not emerge or were attenuated.
- **Losses on investments** for **EUR -14 mln** related to write-downs on the associates Trixia, Interporto Toscano, and Fidi Toscana, partially offset by the gain on the sale of the investment in Intermonte Sim Sgr realised in 4Q17. As at 31 December 2016, this item was positive for EUR 12 mln, referring essentially to the capital gain realised from the sale of Fabrica Immobiliare SGR.
- **Restructuring costs/One-off costs**, amounting to **EUR -330 mln**, include the restructuring costs allocated against the early retirement incentives/provision for personnel (**EUR -282 mln**) relating to the agreement of 3 August 2017 for the exits in November (1,215 resources in 4Q17), charges related to branch closures set forth in the restructuring plan (**EUR -17 mln**), and expenses associated with the doubtful loan securitisation transaction, contracts for the overall outsourcing of the doubtful debt collection platform, and the long-term servicing contract for managing doubtful loans, as agreed with Cerved/Quaestio (totalling **EUR -32 mln**).
- **Risks and charges related with SRF, DGS and similar schemes**, had a balance of **EUR -92 mln**, reflecting the entire contribution due from the Group to the Single Resolution Fund, recognised in the first quarter (EUR 62 mln), with the remainder (EUR 30 mln) referring to the share to be paid to the IDPF (DGS) accounted for in 3Q17. The balance as at 31 December 2016, equivalent to EUR -241 mln, included two additional yearly contributions to the National Resolution Fund, as required by Bank of Italy on 28 December 2016 pursuant to art. 25 of Law Decree 237/2016.
- **DTA Fee**, amounting to **EUR -71 mln**. This amount, determined according to the criteria set forth in Law Decree 59/2016, converted into Law no. 119 of 30 June 2016, represents the fee as at 31 December 2017 on DTA (Deferred Tax Assets) that can be converted into a tax credit.

- **Gains (losses) on disposal of investments** for an amount of **EUR 531 mln** (resulting from the gain on the sale of the merchant acquiring business unit to CartaSi and the sale of a property owned by MPS Belgio) compared to a result of EUR 33 mln as at 31 December 2016 (related to the realised gain from the sale of a property owned by the investee CO.E.M.).

Due to the changes discussed above, the Group's **Loss before tax from continuing operations** stood at **EUR -4,186 mln**, down with respect to 2016 levels, which recorded a loss of EUR -3,179 mln.

Tax expense (recovery) on income from continuing operations amounted to income of **EUR 710 mln**. This result can essentially be attributed to the partial reassessment - equal to EUR 572 mln - of DTAs from tax losses accrued but not recognised in previous years, induced primarily by the regulatory measure which ordered the reduction in the ACE benefit (cf. article 7 of Law Decree no. 50 of 24 April 2017). The item also includes the ACE accrued for EUR 51 mln. Indeed, on a forward-looking basis, the lower ACE deductions planned as of 2017 and thereafter will reduce, with respect to what was expected with the regulations previously in force, the absorption of future taxable income, which therefore may be allocated to a greater extent to offsetting previous tax losses.

Considering the net effects of the PPA (EUR -26 mln), the **Group's consolidated loss for 2017 amounted to EUR -3,502 mln**, compared to a loss of EUR 3,241 mln in 2016.

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

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

	Shareholders' equity	Net profit (loss)
Balance as per Parent Company's Accounts	9,647.5	(2,857.4)
including Parent Company's valuation reserves	*(61.5)*	-
Impact of line-by-line consolidation of subsidiaries	(2,501.9)	(1,526.9)
Impact of associates	*249.0*	99.4
Reversal of dividends from subsidiaries	-	(20.9)
Effect of write off of depreciation/revaluation of equity investments	*2,539.0*	106.4
Other adjustments	382.3	697.1
Subsidiaries' valuation reserves	*113.2*	-
Consolidated balance	**10,429.1**	**(3,502.3)**
including valuation reserves	*51.7*	

Reclassified balance sheet

Reclassified Consolidated Balance Sheet				
ASSETS	**31/12/17**	**31/12/16**	**Chg**	
			abs.	**%**
Cash and cash equivalents	4,092.3	1,084.5	3,007.8	n.s.
Receivables :				
a) Loans to customers	86,456.3	106,692.7	(20,236.4)	-19.0%
b) Loans to banks	9,966.2	8,936.2	1,030.0	11.5%
Marketable assets	24,168.4	25,929.3	(1,760.9)	-6.8%
Equity investments	1,034.6	1,031.7	2.9	0.3%
Property, plant and equipment / Intangible assets	2,854.2	2,942.9	(88.7)	-3.0%
of which:				
a) goodwill	*7.9*	*7.9*	-	
Other assets	10,582.2	6,561.2	4,021.0	61.3%
Total assets	**139,154.2**	**153,178.5**	**(14,024.4)**	**-9.2%**

LIABILITIES	**31/12/17**	**31/12/16**	**Chg**	
			abs.	**%**
Payables				
a) Deposits from customers and securities issued	97,801.8	104,573.5	(6,771.7)	-6.5%
b) Deposits from banks	21,084.9	31,469.1	(10,384.2)	-33.0%
Financial liabilities held for trading	4,476.9	4,971.8	(494.9)	-10.0%
Provisions for specific use				
a) Provisions for staff severance indemnities	199.5	252.9	(53.4)	-21.1%
b) Pensions and other post retirement benefit obligations	50.1	53.6	(3.5)	-6.5%
c) Other provisions	1,088.4	1,054.5	33.9	3.2%
Other liabilities	4,021.2	4,342.7	(321.5)	-7.4%
Group net equity	10,429.1	6,425.5	4,003.6	62.3%
a) Valuation reserves	51.7	47.3	4.4	9.3%
d) Reserves	3,864.8	2,253.6	1,611.2	71.5%
e) Share premium	-	-	-	
f) Share capital	10,328.6	7,365.7	2,962.9	40.2%
g) Treasury shares (-)	(313.7)	-	(313.7)	
h) Net profit (loss) for the year	(3,502.3)	(3,241.1)	(261.2)	8.1%
Non-controlling interests	2.3	34.9	(32.6)	-93.4%
Total Liabilities and Shareholders' Equity	**139,154.2**	**153,178.5**	**(14,024.3)**	**-9.2%**

Reclassified Consolidated Balance Sheet - Quarterly Trend								
ASSETS	**31/12/17**	**30/09/17**	**30/06/17**	**31/03/17**	**31/12/16**	**30/09/16**	**30/06/16**	**31/03/16**
Cash and cash equivalents	4,092.3	821.9	843.1	879.1	1,084.5	941.4	794.6	913.4
Receivables :								
a) Loans to customers	86,456.3	91,041.1	89,713.1	102,406.9	106,692.7	104,612.4	107,547.8	113,544.3
b) Loans to banks	9,966.2	12,897.0	13,116.4	8,451.4	8,936.2	7,669.4	7,953.1	6,856.1
Marketable assets	24,168.4	25,403.0	24,089.8	26,511.8	25,929.3	35,748.3	36,022.6	39,999.9
Equity investments	1,034.6	1,001.2	1,023.6	1,013.0	1,031.7	910.7	948.0	934.3
Property, plant and equipment / Intangible assets	2,854.2	2,833.7	2,844.7	2,894.2	2,942.9	3,016.9	3,059.8	3,112.4
of which:								
a) goodwill	*7.9*	*7.9*	*7.9*	*7.9*	*7.9*	*7.9*	*7.9*	*7.9*
Other assets	10,582.2	11,101.2	11,958.8	6,648.2	6,561.2	7,230.0	8,059.6	8,285.2
Total assets	**139,154.2**	**145,099.1**	**143,589.5**	**148,804.6**	**153,178.5**	**160,129.1**	**164,385.5**	**173,645.6**

LIABILITIES	**31/12/17**	**30/09/17**	**30/06/17**	**31/03/17**	**31/12/16**	**30/09/16**	**30/06/16**	**31/03/16**
Payables								
a) Deposits from customers and securities issued	97,801.8	102,968.4	106,543.9	109,390.0	104,573.5	105,461.4	112,045.2	119,507.9
b) Deposits from banks	21,084.9	21,566.1	22,802.8	22,837.5	31,469.1	25,282.4	19,465.8	17,524.7
Financial liabilities held for trading	4,476.9	4,201.1	4,449.9	4,412.4	4,971.8	13,802.7	15,854.7	20,051.0
Provisions for specific use								
a) Provisions for staff severance indemnities	199.5	234.7	233.7	252.5	252.9	251.3	249.9	247.7
b) Pensions and other post retirement benefit obligations	50.1	45.9	47.3	52.5	53.6	51.2	52.3	51.4
c) Other provisions	1,088.4	959.8	958.8	954.2	1,054.5	1,018.8	1,012.5	1,050.0
Other liabilities	4,021.2	4,176.4	5,503.2	4,861.2	4,342.7	5,489.2	5,750.4	5,511.9
Group net equity	10,429.1	10,944.5	3,047.7	6,041.9	6,425.5	8,745.6	9,928.7	9,675.3
a) Valuation reserves	51.7	60.5	102.0	7.4	47.3	(24.7)	7.7	(36.5)
d) Reserves	3,864.8	(1,494.4)	(1,177.4)	(1,162.0)	2,253.6	617.2	617.2	610.5
e) Share premium	-	-	-	-	-	-	-	6.3
f) Share capital	10,328.6	15,692.8	7,365.7	7,365.7	7,365.7	9,001.8	9,001.8	9,001.8
g) Treasury shares (-)	(313.7)	(313.7)	-	-	-	-	-	-
h) Net profit (loss) for the year	(3,502.3)	(3,000.7)	(3,242.6)	(169.2)	(3,241.1)	(848.7)	302.0	93.2
Non-controlling interests	2.3	2.2	2.2	2.4	34.9	26.5	26.0	25.7
Total Liabilities and Shareholders' Equity	**139,154.2**	**145,099.1**	**143,589.5**	**148,804.6**	**153,178.5**	**160,129.1**	**164,385.5**	**173,645.6**

Customer funding

The Group's **Total Funding** as at 31 December 2017 amounted to **EUR 193.6 bn** (-4.5% versus 31 December 2016) with an overall decline in volumes of EUR 7.6 bn in the fourth quarter, mainly due to the decrease in direct funding with institutional counterparties as well as assets under custody.

Background

In the period from January through October of 2017, direct funding showed essentially flat performance (-0.7% compared to the same period in 2016), reflecting the positive trend in deposits from resident consumer clients, up 3.3% in the period (net of repo transactions with central counterparties and deposits connected with loan transfers) and the steady drop in bonds (-17.8%). Customers therefore continue to show high preference for liquid, risk-free instruments, also as a result of the low opportunity cost of holding such instruments. Bank bonds are instead penalised by the higher cost for the issuer with respect to the liquidity offered by the ECB and low demand resulting especially from the content of the regulation on banking crises ("bail-in").

With reference to interest rates, the average rate on deposits of non-financial companies and households was around 0.40% (0.39% in November), a slight decline compared to the end of 2016, while the bond rate continues to decline (2.64% in November, -10 bps compared to December 2016). The average weighted cost of direct funding for the ABI sample, which includes larger banks, declined throughout 2017, reaching just below 0.70% (0.68% in November).

New flows of assets under management recorded significant progress. In the first ten months of the year, the net funding from mutual funds was nearly double that for all of 2016 (roughly EUR 64,500 mln compared to EUR 34,400 mln), with the percentage of bond products dropping to nearly 37%, compared to nearly 50% in 2016. In January-October 2017, funding on individual retail portfolio management, of EUR 4,001 mln, was positive, after net flows which basically broke even in 2016. Assets under management from open-end funds were up by roughly 11.4% in October compared to December of the previous year, while the stock relating to individual portfolio management grew by 2.5%.

Customer Funding							
				Chg Q/Q		Chg Y/Y	
	31/12/17	30/09/17	31/12/16	Abs.	%	Abs.	%
Direct funding	97,801.8	102,968.4	104,573.5	-5,166.6	-5.0%	-6,771.7	-6.5%
Indirect funding	95,845.7	98,242.9	98,151.8	-2,397.2	-2.4%	-2,306.1	-2.3%
Total funding	**193,647.5**	**201,211.3**	**202,725.3**	**-7,563.8**	**-3.8%**	**-9,077.8**	**-4.5%**

Volumes of **Direct Funding**, which at the end of the year stood at **EUR 97.8 bn**, recorded a decrease of EUR 6.8 bn compared to the end of December 2016, primarily due to the drop in repurchase agreements with institutional counterparties and the bond component (impacted by the effect of burden sharing on institutional subordinated loans and maturities during the year), only partially offset by growth in current accounts, deposits, and other forms of funding. Compared to 30 September 2017, the aggregate was down EUR 5.2 bn, primarily in the segment of repurchase agreements with institutional counterparties (EUR -4.3 bn), while bonds were stable as repayments at maturity were offset by issues of senior debt securities, such as the recovery of the 2008-2018 T2 subordinated bond subject to burden sharing.

The Group's market share[3] on Direct Funding was 3.78% (figure updated in October 2017), up 23 bps compared to the end of 2016.

[3] *Deposits and repurchase agreements (excluding repurchase agreements with central counterparties) from resident consumer clients and bonds net of repurchases placed with resident consumer clients as first-instance borrowers. The value of Direct Funding in October did not include the effects of the recovery of the subordinated bond that was subject to burden sharing.*

Direct funding							
				Change Q/Q		Change Y/Y	
Type of transaction	31/12/17	30/09/17	31/12/16	Abs.	%	Abs.	%
Current accounts	51,465.5	50,561.2	40,972.6	904.3	1.8%	10,492.9	25.6%
Time deposits	10,469.0	11,556.9	10,133.5	(1,087.9)	-9.4%	335.5	3.3%
Reverse repurchase agreements	8,572.3	12,874.7	25,295.8	(4,302.4)	-33.4%	(16,723.5)	-66.1%
Bonds	18,521.7	18,468.6	23,676.3	53.1	0.3%	(5,154.6)	-21.8%
Other types of direct funding	8,773.3	9,507.0	4,495.3	(733.7)	-7.7%	4,278.0	95.2%
Total	**97,801.8**	**102,968.4**	**104,573.5**	**(5,166.6)**	**-5.0%**	**(6,771.7)**	**-6.5%**

Indirect Funding came to **EUR 95.8 bn** at the end of December, a decline from 31 December 2016 (EUR -2.3 bn), due to the reduction in assets under custody (EUR -3.7 bn), which was influenced by the movement in a large Corporate position. Instead, asset management was up (EUR +1.4 bn). The comparison with 30 September 2017 shows a trend similar to the annual performance (EUR -2.4 bn), with a reduction in assets under custody (EUR -3.2 bn) and growth in assets under management (EUR +0.8 bn). In addition, the trend in the aggregate was negatively influenced during the quarter by the effects of the recovery transaction for the subordinated bond subject to burden sharing (2008-2018 T2).

As regards **assets under management**, with a balance of **EUR 58.6 bn**, this aggregate was up compared to December 2016 as well as 30 September 2017. This growth was seen across all segments with the exception of Wealth Management.

Indirect Funding							
				Change Q/Q		Change Y/Y	
	31/12/17	30/09/17	31/12/16	Abs.	%	Abs.	%
Assets under management	58,599.4	57,812.7	57,180.9	786.7	1.4%	1,418.5	2.5%
Mutual Funds/Sicav	*28,477.9*	*27,891.6*	*27,020.5*	586.3	*2.1%*	1,457.4	*5.4%*
Individual Portfolio under Management	*5,933.0*	*6,149.0*	*6,619.7*	-216.1	*-3.5%*	-686.8	*-10.4%*
Insurance Products	*24,188.5*	*23,772.1*	*23,540.6*	416.5	*1.8%*	647.9	*2.8%*
Assets under custody	37,246.3	40,430.2	40,971.0	-3,183.9	-7.9%	-3,724.7	-9.1%
Total funding	**95,845.7**	**98,242.9**	**98,151.8**	-2,397.2	**-2.4%**	-2,306.1	**-2.3%**

Loans to customers

As at 31 December 2017, the Group's **Loans to Customers** amounted to **EUR 86.5 bn**, down EUR 20.2 bn compared to the end of December 2016 and EUR 4.6 bn from 30 September 2017. The trend in the aggregate during the quarter reflects the reduction in the segments of repurchasing agreements with institutional counterparts (EUR -2.5 bn) and commercial lending.

The Group's market share[4] stood at 6.64% (last available figure from October 2017), stable compared to the end of 2016.

Background

During 2017, the growth in bank loans maintained its modest pace, despite more dynamic growth in the economy and improvement in supply conditions. During the January-November period, this item increased at an annual rate of 1% over the corresponding period in 2016, and can be compared with a slightly lower growth rate (around 0.7%) in 2016. The gap between the trend in lending to households (up 2.5% during the period) and non-financial companies (which is flat at 0.05%) is growing. The former was impacted by ever more encouraging signs of a recovery in disposable income and the real estate market, while loans to non-financial companies remain weak despite the recovery in GDP growth, the renewal of tax measures supporting investments in operating assets and digital technologies, as well as the legislative initiatives supporting company capitalisation.

With regard to interest rates, in October the interest rate on the total stock of loans was 2.74%, down 11 bps compared to December 2016. On new transactions, the rate for loans to households for home purchases is 2.0%, while the rate for non-financial companies remains around 1.5%. In particular, rates on new loans of less than EUR 1 mln to non-financial companies (2.0%) were down 25 basis points compared to December 2016.

The stock of doubtful continues to decline, down 13.1% in November 2017 compared to November 2016. Loan transfers had an impact of EUR 30,171 mln (in 2016 transfers reached EUR 18,000 mln for the entire year). Net of these transactions, the annual change in November 2017 was positive and just under 7.8%. Net of allowances for impairment, doubtful loans represented approximately 3.5% of bank loans, down compared to the average of 4.5% in the second half of 2016.

Loans to customers

Type of transaction	31/12/17	30/09/17	31/12/16	Change Q/Q		Change 31.12		Change Y/Y	
				Abs.	%	Abs.	%	Abs.	%
Current accounts	5,757.5	6,032.6	6,313.2	(275.1)	-4.6%	(555.7)	-8.8%	(555.7)	-8.8%
Mortgages	46,868.4	47,682.2	49,532.6	(813.8)	-1.7%	(2,664.2)	-5.4%	(2,664.2)	-5.4%
Other forms of lending	17,903.5	18,906.8	20,542.0	(1,003.3)	-5.3%	(2,638.5)	-12.8%	(2,638.5)	-12.8%
Repurchase agreements	4,524.8	7,064.1	8,854.6	(2,539.3)	-35.9%	(4,329.8)	-48.9%	(4,329.8)	-48.9%
Securities lending	1,050.1	1,072.3	1,130.3	(22.2)	-2.1%	(80.2)	-7.1%	(80.2)	-7.1%
Non performing loans	10,352.0	10,283.1	20,320.0	68.9	0.7%	(9,968.0)	-49.1%	(9,968.0)	-49.1%
Total	**86,456.3**	**91,041.1**	**106,692.7**	**(4,584.8)**	**-5.0%**	**(20,236.4)**	**-19.0%**	**(20,236.4)**	**-19.0%**

The medium/long-term component recorded new disbursements of EUR 6.3 bn in 2017, for both households and businesses, down 18.7% Y/Y.

Please note that, also considering the transferred portfolio of doubtful loans, non-performing loans stood at EUR 14.8 bn as at 31 December 2017.

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

Non-performing loans[5]

As at 31 December 2017, the Group's **exposure to gross non-performing loans** totalled **EUR 45.1 bn**, down compared to the end of December 2016 (EUR -0.7 bn) and essentially flat compared to 30 September 2017. As concerns the quarterly trend of the non-performing loan segment, in 4Q17 there was an increase of EUR 1.1 bn in doubtful loans and a reduction in unlikely to pay (EUR -0.8 bn) and non-performing past due exposures (EUR -0.3 bn). Net of gross non-performing loans "held for sale", the gross exposure would decline from EUR 45.1 bn to EUR 20.9 bn.

As at 31 December 2017, the Group's **net exposure to non-performing loans** stood at EUR 14.8 bn recording a decline of EUR 5.5 bn since the beginning of the year, mainly attributable to net adjustments on the transferred loans following the adjustment of their recoverable value and a decrease of EUR 0.3 bn compared to 30 September 2017. This net exposure includes EUR 4.4 bn relating to the non-performing loans held for sale, net of which the value would have been EUR 10.4 bn, marking a significant improvement in the ratio of net non-performing loans to net loans to customers, which dropped from 16.3% to 12.0%. Within the aggregate, the percentage of unlikely to pay loans and past due exposures remained substantially stable in the fourth quarter of 2017, while doubtful loans increased (from 7.6% in September to 8.3% in December).

As at 31 December 2017, **coverage** of non-performing loans stood at 67.2%, an increase compared to 31 December 2016 (55.6%) and 30 September 2017 (66.4%).

		Doubtful loans	Unlikely to pay	Non performing Past due	**Non-performing exposures**	Perfoming exposures	**Total**	*- of which forbone impaired*	*- of which forborne not impaired*
31 12 17	Gross exposure	32,967.0	11,595.4	520.0	**45,082.4**	76,798.6	**121,881.0**	*9,465.1*	*2,465.8*
	Provisions	25,435.4	4,715.6	133.3	**30,284.3**	555.2	**30,839.5**	*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	*77.2%*	*40.7%*	*25.6%*	***67.2%***	*0.7%*	***25.3%***	*45.7%*	*3.9%*
	% on Loans to customers	*8.3%*	*7.6%*	*0.4%*	***16.3%***	*83.7%*	***100.0%***	-	-
30 09 17	Gross exposure	31,851.7	12,378.7	783.4	**45,013.8**	81,313.9	**126,327.7**	*9,553.5*	*2,590.7*
	Provisions	24,579.9	5,097.6	194.5	**29,872.0**	555.9	**30,427.9**	*4,250.5*	*92.6*
	Net exposure	7,271.8	7,281.1	588.9	**15,141.8**	80,758.0	**95,899.8**	*5,303.0*	*2,498.1*
	Coverage ratio	*77.2%*	*41.2%*	*24.8%*	***66.4%***	*0.7%*	***24.1%***	*44.5%*	*3.6%*
	% on Loans to customers	*7.6%*	*7.6%*	*0.6%*	***15.8%***	*84.2%*	***100.0%***	-	-
31 12 16	Gross exposure	29,424.4	15,246.6	1,114.4	**45,785.4**	87,060.9	**132,846.3**	*9,907.6*	*2,747.5*
	Provisions	19,059.5	6,145.8	260.1	**25,465.4**	688.1	**26,153.5**	*3,784.3*	*122.5*
	Net exposure	10,364.9	9,100.8	854.3	**20,320.0**	86,372.8	**106,692.8**	*6,123.3*	*2,625.0*
	Coverage ratio	*64.8%*	*40.3%*	*23.3%*	***55.6%***	*0.8%*	***19.7%***	*38.2%*	*4.5%*
	% on Loans to customers	*9.7%*	*8.5%*	*0.8%*	***19.0%***	*81.0%*	***100.0%***	-	-

[5] *Includes the component of non-performing loans included in item 70 "Loans to customers", and also part of item 150 "Non-current assets and groups of assets held for sale and discontinued operations" for the portion relating to the transferred doubtful loans.*

Changes in gross exposure

	abs/%	Doubtufl loans	Unlikely to pay	Non performing past due	**Non performing exposures**	Performing exposures	**Total**	*- of which forbone impaired*	*- of which forborne not impaired*
Q/Q	abs.	1,115.3	(783.3)	(263.4)	**68.6**	(4,515.3)	**(4,446.7)**	*(88.4)*	*(124.9)*
	%	3.5%	-6.3%	-33.6%	**0.2%**	-5.6%	**-3.5%**	*-0.9%*	*-4.8%*
Y/Y	abs.	3,542.6	(3,651.2)	(594.4)	**(703.0)**	(10,262.3)	**(10,965.3)**	*(442.5)*	*(281.7)*
	%	12.0%	-23.9%	-53.3%	**-1.5%**	-11.8%	**-8.3%**	*-4.5%*	*-10.3%*

Changes in coverage ratio

	Doubtful loans	Ulikely to pay	Non performing past due	**Non performing exposures**	Performing exposures	**Total**
Q/Q	*-0.02%*	*-0.51%*	*0.81%*	***0.81%***	*0.04%*	***1.22%***
Y/Y	*12.38%*	*0.36%*	*2.29%*	***11.56%***	*-0.07%*	***5.62%***

Financial assets/liabilities

As at 31 December 2017, the Group's tradable financial assets amounted to EUR 24.2 bn, down 6.8% compared to the end of the previous year. This item also posted a decline of 4.9% compared to 30 September 2017 (EUR -1.2 bn), principally in the trading component relating to the subsidiary MPS Capital Services (which declined during the quarter, in particular on Italian government debt securities, for which the company acts as primary dealer). Financial liabilities held for trading declined compared to the end of 2016 by EUR 0.5 bn but posted an increase of EUR 0.3 bn compared to 30 September 2017.

Items	31 12 2017	30 09 2017	31 12 2016	Chg. Q/Q		Chg. Y/Y	
				Abs.	%	Abs.	%
Tradable financial assets	24,168.4	25,403.0	25,929.3	(1,234.6)	-4.9%	(1,760.9)	-6.8%
Financial assets held for trading	*8,718.0*	*10,101.7*	*9,266.2*	*(1,383.7)*	*-13.7%*	*(548.2)*	*-5.9%*
Financial assets available for sale	*15,450.4*	*15,301.3*	*16,663.1*	*149.1*	*1.0%*	*(1,212.7)*	*-7.3%*
Financial liabilities held for trading	4,476.9	4,201.1	4,971.8	275.8	6.6%	(494.9)	-10.0%

Items	31 12 2017		30 09 2017		31 12 2016	
	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	20,331.5	-	21,510.5	-	20,979.4	-
Equity instruments and Units of UCITS	505.1	-	476.8	-	527.7	-
Loans	-	2,903.3	-	2,506.4	265.2	2,665.6
Derivatives	3,331.8	1,573.6	3,415.7	1,694.7	4,157.0	2,306.2
Total	24,168.4	4,476.9	25,403.0	4,201.1	25,929.3	4,971.8

Interbank position

At the end of December 2017, the **net interbank position** of the Group stood at **EUR 11.1 bn** in funding, down by EUR 11.4 bn compared to the balance as at 31 December 2016. This trend can be attributed to the improvement in commercial liquidity (increase in direct funding and simultaneous reduction in loans) and government-backed issues carried out in the first quarter of 2017, which made it possible to reduce exposure to the ECB. Furthermore, the change of EUR 2.4 bn compared to 30 September 2017 is primarily attributable to the drop in loans to banks in the form of ECB deposits.

Interbank balances

				Change Q/Q		Change Y/Y	
	31/12/17	30/09/17	31/12/16	Abs.	%	Abs.	%
Loans to banks	9,966.2	12,897.0	8,936.2	(2,930.8)	-22.7%	1,030.0	11.5%
Deposits from banks	21,084.9	21,566.1	31,469.1	(481.2)	-2.2%	(10,384.2)	-33.0%
Net position	**(11,118.7)**	**(8,669.1)**	**(22,532.9)**	**(2,449.6)**	**28.3%**	**11,414.2**	**-50.7%**

As at 31 December 2017, the operating liquidity position had an **unencumbered Counterbalancing Capacity of EUR 21.1. bn**, a considerable increase of EUR 14.2 bn compared to the value recorded as at 31 December 2016 and in line with that of 30 September 2017.

Shareholders' equity

As at 31 December 2017, the **Group shareholders' equity and non-controlling interests** amounts to around **EUR 10.4 bn**, an improvement of approx. EUR 4.0 bn compared to the end of December 2016, mainly due to the effects of the precautionary recapitalisation and burden sharing, and down by nearly EUR 0.5 bn compared to 30 September 2017 due to the loss posted in 4Q17.

Reclassified Consolidated Balance Sheet

Equity	31/12/17	30/09/17	31/12/16	Chg Q/Q		Chg Y/Y	
				Abs.	%	Abs.	%
Group net equity	10,429.1	10,944.5	6,425.5	(515.4)	-4.7%	4,003.7	62.3%
a) Valuation reserves	51.7	60.5	47.3	(8.8)	-14.5%	4.4	9.3%
c) Equity instruments carried at equity	-	-	-	-		-	
d) Reserves	3,864.8	(1,494.4)	2,253.6	5,359.2	n.s.	1,611.2	71.5%
e) Share premium	-	-	-	-		-	
f) Share capital	10,328.6	15,692.8	7,365.7	(5,364.2)	-34.2%	2,962.9	40.2%
g) Treasury shares (-)	(313.7)	(313.7)	-	-		(313.7)	
h) Net profit (loss) for the period	(3,502.3)	(3,000.7)	(3,241.1)	(501.6)	16.7%	(261.2)	8.1%
Non-controlling interests	2.3	2.2	34.9	0.1	4.5%	(32.6)	-93.4%
Total Group Shareholder's Equity and Non-controlling interests	**10,431.4**	**10,946.7**	**6,460.4**	**(515.3)**	**-4.7%**	**3,971.1**	**61.5%**

Results by operating segment

Identification of operating segments

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

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

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

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

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

Results in brief

The following table reports the main income statement and balance sheet items that characterised the Group's Operating Segments as at 31 December 2017.

SEGMENT REPORTING	Business Segments								Corporate Center		Total MPS Group	
Primary segment	Retail banking		Wealth Management		Corporate banking		Widiba					
(EUR mln)	31/12/17	Chg % Y/Y	31/12/17	Chg % Y/Y	31/12/17	Chg % Y/Y	31/12/17	Chg % Y/Y	31/12/17	Chg % Y/Y	31/12/17	Chg % Y/Y
PROFIT AND LOSS AGGREGATES												
Total Income	2,496.9	-17.2%	156.2	-18.2%	1,029.9	-29.7%	43.6	6.9%	299.0	n.s.	4,025.6	-6.0%
Operating expenses	(1,814.1)	-2.2%	-67.1	-1.9%	-626.1	-1.3%	-62.6	1.7%	26.9	n.s.	(2,543.0)	-3.0%
Pre Provision Profit	682.8	-41.3%	89.1	-27.3%	403.7	-51.4%	-19.0	-8.4%	326.0	n.s.	1,482.6	-10.7%
Net impairment losses (reversals) on loans and financial assets	(1,912.5)	30.7%	-3.8	-49.8%	-3,187.9	9.3%	0.4	-92.6%	(356.2)	n.s.	(5,460.0)	21.3%
Net Operating Income	(1,229.6)	n.s.	85.3	-25.9%	-2,784.2	33.5%	-18.6	21.3%	(30.3)	-94.5%	(3,977.4)	40.0%
BALANCE SHEET AGGREGATES												
Interest-bearing loans to customers	40,237.4	-8.8%	546.9	-7.3%	36,152.4	-13.8%	237.6	n.s.	6,167.1	-36.0%	83,341.5	-13.5%
Deposits from customers and debt securities issued(*)	42,429.9	-1.9%	3,435.6	23.4%	19,481.2	68.4%	2,147.7	37.4%	30,307.3	-33.2%	97,801.8	-6.5%
Indirect funding	47,218.7	1.7%	17,001.7	-6.8%	11,680.3	-14.1%	5,400.6	6.0%	14,544.3	-1.7%	95,845.7	-2.3%
Assets under management	*37,447.1*	*5.8%*	*11,828.3*	*-6.4%*	*1,591.1*	*-1.6%*	*4,927.7*	*8.1%*	*2,805.1*	*-6.1%*	58,599.4	*2.5%*
Assets under custody	*9,771.5*	*-11.5%*	*5,173.4*	*-7.8%*	*10,089.2*	*-15.7%*	*472.9*	*-12.1%*	*11,739.2*	*-0.6%*	37,246.3	*-9.1%*

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

Retail Banking

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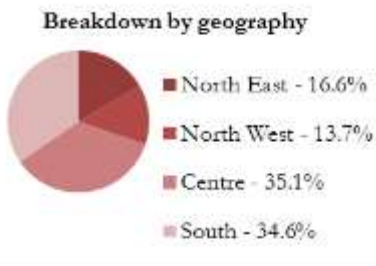
<tr><td>
</td></tr>
</table>

Income statement and balance sheet results

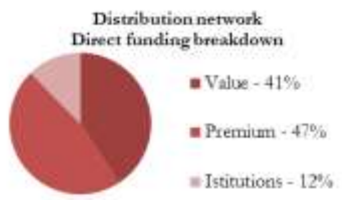
As at 31 December 2017, the **Total Funding** of Retail Banking totalled roughly **EUR 89.6 bn**, essentially in line with the value at the end of 2016, but higher than the level at the end of September 2017 (EUR +0.3 bn), with offsetting trends between the decrease in Direct Funding and the growth in Indirect Funding. More specifically:

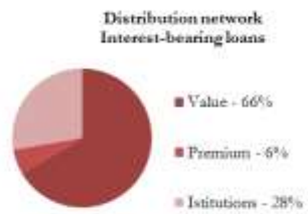
- **Direct Funding** came to **EUR 42.4 bn**, marking a decline of EUR -0.8 bn compared to 31 December 2016, with a recovery in demand and short-term forms and a decline in medium/long-term forms, also influenced by bond maturities and, in part, by the conversion of the subordinated loan subject to burden sharing. Compared to 30 September 2017, the aggregate increased (EUR +0.5 bn) due to the demand and medium/long-term components (EUR +0.4 bn), the latter affected during the quarter by the recovery of the subordinated bond mentioned previously, which more than offset the reduction in short-term funding (EUR -1.1 bn).

- **Indirect Funding**, amounting to approx. **EUR 47.2 bn**, increased compared to the end of December 2016 (EUR +0.8 bn), thanks to the upward trend in asset management (EUR +2.1 bn), which offset the decrease in assets under custody (EUR -1.3 bn). Compared to 30 September 2017, the aggregate remained stable, as the increase in asset management (EUR +0.8 bn) offset the reduction in assets under custody (EUR -1.0 bn), which had been affected during the quarter by the recovery of the subordinated bond mentioned previously.

- **Interest-bearing loans to customers** of Retail Banking decreased from EUR 44.1 bn in December 2016 to **EUR 40.2 bn** as at 31 December 2017, with a decline in volumes of EUR 3.9 bn across all types of loans, in particular in the medium/long-term component (EUR -2.7 bn). The aggregate also posted a decline compared to 30 September 2017 (EUR -0.7 bn), principally in the medium/long-term component (EUR -0.6 bn).

RETAIL BANKING - BALANCE SHEET AGGREGATES							
(Eur mln)	31/12/17	30/09/17	31/12/16	Chg Abs Q/Q	Chg % Q/Q	Chg Abs Y/Y	Chg % Y/Y
Deposits from customers and debt securities issued	**42,430**	**41,945**	**43,254**	**485**	**1.2%**	**-824**	**-1.9%**
Assets under management	*37,447*	*36,619*	*35,385*	*828*	*2.3%*	*2,062*	*5.8%*
Assets under custody	*9,772*	*10,739*	*11,043*	*-967*	*-9.0%*	*-1,272*	*-11.5%*
Indirect Funding	**47,219**	**47,358**	**46,428**	**-139**	**-0.3%**	**791**	**1.7%**
Total Funding	**89,649**	**89,303**	**89,682**	**346**	**0.4%**	**-34**	**0.0%**
Interest-Bearing Loans to Customers	**40,237**	**40,970**	**44,122**	**-732**	**-1.8%**	**-3,884**	**-8.8%**





With regard to profit and loss, Retail Banking achieved total **Revenues** of approx. **EUR 2,497 mln** as at 31 December 2017, down 17.2% compared to last year. A breakdown of the aggregate shows:

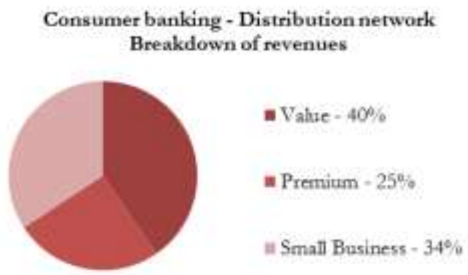
- Net Interest Income was approximately EUR 1,170 mln, down 26.9% annually due mainly to the decrease in returns on commercial assets (volumes and rates), and the reduction in the contribution of funding (essentially the effect of lower average volumes of direct funding by EUR -7.8 bn).
- Net fee and commission income totalled roughly EUR 1,285 mln, down with respect to the previous year (-6.4%), within which there was growth in the component from products, while commissions from services and income from lending declined.

Considering the impact of operating expenses, which decreased by 2.2% Y/Y, Retail Banking generated **Gross Operating Income** of about **EUR 683 mln** in 2017 (-41.3% Y/Y). Net impairment losses (reversals) on loans and financial assets totalled **EUR -1.9 bn** (EUR -1.5 bn as at 31 December 2016), penalised by the adjustment of provisions on transferred doubtful loans to their recoverable value (EUR -1,574 mln).

The **Net Operating Income** for the year **is negative for approximately EUR 1.2 bn.**

The **cost-income** of the Operating Segment is **72.7%** (61.5% at the end of December 2016).

RETAIL BANKING - PROFIT AND LOSS AGGREGATES				
			Chg. Y/Y	
(EUR mln)	31/12/17	31/12/16	Abs.	%
Net interest income	*1,170.0*	*1,601.1*	*-431.1*	*-26.9%*
Net fee and commission income	*1,285.0*	*1,373.3*	*-88.3*	*-6.4%*
Other income	*40.5*	*41.2*	*-0.7*	*-1.8%*
Other operating expenses/income	*1.5*	*1.8*	*-0.2*	*n.s.*
Total Revenues	**2,496.9**	**3,017.3**	**-520.4**	**-17.2%**
Operating expenses	*(1,814.1)*	*(1,854.3)*	*40.2*	*-2.2%*
Pre Provision Profit	**682.8**	**1,163.0**	**-480.2**	**-41.3%**
Net impairment losses (reversals) on loans and financial assets	(1,912.5)	(1,463.7)	-448.8	30.7%
Net Operating Income	**(1,229.6)**	**(300.6)**	**-929.0**	**n.s.**



The main product/service sales and innovation initiatives

The 2017 sales plan was developed within an environment impacted by the following main factors:

- economic recovery and re-launch of the bank lending cycle;
- the evolution in demand with greater customer knowledge and information, widespread use of multiple banks, spread of new technologies (primarily mobile), although a notable digital divide remains based on age, education and financial status; new, often complex, needs to be identified and met;
- regulatory pressure on adopting evolved advisory approaches (MiFID 2) to protect investors (ESMA/Consob instructions on "complex products").

The initiatives enacted during the year were developed in accordance with the following main policies:

- **Development of quality loans**, while maintaining a focus on credit quality, particularly concentrating on the Small Business market, leveraging the availability of low-cost funding guaranteed by the TLTRO and the **development of innovation** (consolidation of commercial covenants and digital lending), particular attention to the **price leverage**;
- **Advisory management of investments**, enhancement of Indirect Funding by **reviewing investment advisory models with a view to providing more customer service and offering innovation** (e.g., automated advisory services, expansion of the product range with third-party Asset Management and new Wealth Management);
- **Growth in fees and commissions from services by enhancing the offer** (new products, like Protection and E-money), **innovation and technology** (e.g., MPS Wallie).

Market	Main sales initiatives developed in the market
Value	**Specific initiatives have been launched dedicated to Retention and Collection Recovery**, with promotions on protection/insurance and e-money products. Distribution of **Compass SpA products** supported by the release of sales initiatives with the offer of loans under highly competitive conditions for specific target customers. To support the **development of the E-Money segment**, a prize contest was announced with the collaboration of Mastercard, focusing attention on the new Debit MC product. Targeted actions focused on the **acquisition of new customers both in the Protection/Insurance segment** (with dedicated prize contests) **and in the Pension segment**, also supported by events with customers (Pension Happy Hour). In 2017, the "**Value Skills**" project was developed, a unique and synergistic plan of info-training events in regional areas and via webinar created in collaboration with external partners, MPS Capital Services, and the Training Department, that seeks to strengthen the skills of the Value resources on issues related to the reference commercial activities for the year. Acquisition initiatives with the "Il tuo buongiorno (Your good morning)" prize contest aimed at increasing Conto Mio subscriptions with the awarding of 30 Amazon gift certificates of EUR 100 each. Flash initiatives with specific commercial offers for a limited time period, such as "Promo for a day", and "Super Flash Offers" for personal loans and Conto Mio.
Small Business	To **combine the objective of lending growth** with that of credit cost containment due to the decided boost in transactions with consortium guarantee (in particular Mcc), campaigns have been developed with pre-accepted conditions for transactions with a first-demand guarantee. The development was then supported by the release of innovative targeting in order to identify customers to whom an expansion of the agreement may be proposed, in accordance with the credit policy guidelines. **Increase in new POS terminals**, with marketing campaigns targeting Prospect customers and existing customers without POS terminals.
Premium	**Specific initiatives have been launched dedicated to Retention and Collection Recovery**, with promotions on protection/insurance and e-money products, including caring activities. Release of Growth and Asset Management initiatives, through the enhancement of the Advanced Advisory process and ancillary services. Targeted actions in both in the **Protection/Insurance** segment (with dedicated prize contests) **and in the Pension** segment, also supported by events with customers (Pension Happy Hour). Initiative dedicated to acquiring volumes, "**Un Monte di Valore**" ("A Mountain of Value"), with special benefits reserved for participating customers. The "**Fiduciaria Day**" project was strengthened to highlight the skills and solutions of MPS Fiduciaria in the area of succession plans, generational handovers, and legal protection. The **"Premium Academy" info-training plan**, launched in 2016, was further consolidated. In 2017, the plan was enriched in collaboration with reference partners (primarily, wealth management), developing classroom events, in both the Head Offices and in regional areas, in continuity with the reference commercial activities for the year. Training internships were launched with the partners AXA, Compass, Mastercard, both for the Value market and Premium market.

Advertising and marketing initiatives

In 2017, activities to improve and innovate advertising and marketing initiatives, designed to attract new customers and facilitate the transfer of Direct/Indirect Funding from other institutions, included the following:

- "**Un Monte di Valore**" (A Mountain of Value), targeted at attracting new deposits in exchange for increasing benefits (in the form of expense reimbursement, commissions and stamp duties), also connected with a process that leads to the adoption of additional services to Advanced Advisory; as well as **caring initiatives** dedicated to a cluster of high-value customers, or **initiatives dedicated to specific products**, for example the "I mesi della Protezione" (Protection months) prize contest in association with Axa Mps Assicurazioni Danni, with daily prize drawings and a grand prize for subscribers to the Tutta la Vita (Whole Life) and Mia Protezione (My Protection) policies and the "Realizziamo buoni propositi" (We achieve good objectives) prize contest, again in association with Axa Mps Assicurazioni Danni, with weekly prize drawings for subscribers to the Tutta la Vita, Mia Protezione, and Guidare Protetti (Drive Protected) policies.
- **Acquisition initiatives** with the "Il tuo buongiorno (Your good morning)" prize contest aimed at increasing Conto Mio subscriptions with the awarding of 30 Amazon gift certificates of EUR 100 each. Flash initiatives with specific commercial offers for a limited time period, such as "Promo for a day", and "Super Flash Offers" for personal loans and Conto Mio.
- "**MPS Private Solution**", aimed at acquiring new volumes with exclusive opportunities on short-term direct funding and on bancassurance solutions, which provides, in a single solution, the specialised skills of several managers on different asset classes, investment styles and strategies, through the MPS Private Solution Funds system;
- **PCA Small Business**: since June 2017 the Corporate Advisory Platform has also been extended to the Small Business segment. This platform was designed to strengthen commercial processes, develop business customers, existing and prospective, and with appropriate deployments, and was focused on the growth of paid, specialised advisory activities.

As part of the Convention agreements, there is a continued commitment to develop relationships that allow access to important customer segments (in terms of quality and quantity) to increase acquisition activities. Testing of an advanced model has been gradually launched, which conceives the agreements in terms of a real and effective partnership, including through "cross" activities on the reference targets.

Funding, Asset Management and Bancassurance

- The "Conto Italiano di Deposito" continues to represent the main product in the **short/medium-term funding** segment. During the first half of 2017, the entire offer was expanded with the introduction of a line offering the possibility of partial early repayment without causing the customer to lose the benefit of the interest on the remaining amounts invested. In the second half, a line dedicated exclusively to new acquisition was introduced and the product range was rationalised, eliminating certain lines that are no longer financially interesting for customers.
- With regard to **Asset Management**, the first half of the year was mainly characterised by the placement of two PIR products - a new investment instrument introduced by the "Stability Law" of 21 December 2016 (Anima Crescita Italia fund, established and managed by Anima SGR and the Italia PIR multi-fund unit policy of AXA MPS Financial). In the second half, as part of diversifying the multi-manager offer, a new partner, Quaestio Capital SGR, joined with the existing investment firms, and placement began at the end of the year for a single sub-fund with a flexible maturity.
- During the year, the current **Bancassurance** product offer was enriched with the introduction of new products, including, as mentioned above, PIR investment products and a new unit-linked product; the offer of units in tranches of the "Progetto Protetto (Project Protected)" and "Progetto

Valore (Project Value)" product families continued. A new investment line was also introduced for the Melody product. The first Italy PIR multi-fund unit with flexible pricing levels was also released.

- BMPS continued to be highly committed to the **Protection/Insurance segment (Non-Life, Life and Auto)** in 2017, confirming the Bank as a leader in the bancassurance sector.

Loans

- The sales partnership with Compass for the placement of personal loans continued, as well as that relating to salary/pension-backed products with the Futuro and Pitagora partnerships. The exclusive agreement with Compass and Futuro was renewed for the entire Network, effective from 1 January 2018, with the aim of further strengthening the offer and the commercial proposition, including with innovative channels.
- As part of participating in the ABI-CDP Agreement "Plafond Sisma Centro Italia", the operational procedure was developed for managing the subsidised loans to support individuals and entrepreneurs affected by the earthquakes of 2016 in regions of Abruzzo, Marche, Umbria and Lazio, and for the loan, disbursed with funds made available by Cassa Depositi e Prestiti S.p.A. (CDP), to allow the payment of "Suspended Taxes" and "Taxes Due" by those earning business income and self-employment income with registered and/or operational offices in the territories affected by the 2016 earthquake.
- In the Small Business Loan segment, new products were launched (Impresa Garantita and Working Capital) under the Industry 4.0 approach as well as the Cosvig Impresa Garantita mortgage.
- The product catalogue for retail mortgages was optimised, with new pricing and offers, in order to increase competitiveness.
- Activities were launched to issue a loan combined with voluntary APE (Pension Advance), based on the system requirements defined by INPS.

Current Accounts, Payments and Collections

- MPSMio was launched, a new modular, flexible account for the needs of Value customers.
- The MPS One current account, already available for Premium customers, was improved with new additional functions.
- The Cbill service was reinforced through integration with PagoPA (digitalisation of payments to PA - AgID).
- The SEDA service was revised based on the new pricing rules and approaches defined at system level.

E-Money

- MPS Wallie, the Mobile Payment and Digital Wallet services, was strengthened by adding to the functions that were already available (Wallet for Masterpass e-commerce and P2P Jiffy payments), the HCE/NFC payment in stores through digitalised cards on smartphones in c-less mode (currently available for debit cards and on Android terminals, extension to credit cards, prepaid cards, and Apple Pay is under development).
- The catalogue prepaid cards (Kristal Best and Spider) were reinforced with a new online purchase protection function (dynamic 3DSecure Code); platform for new prepaid Business cards was consolidated and deployment of the new Consumer prepaid offer was launched.
- New features for debit cards were released, to allow customers to control their spending/use through the new Digital Banking. Development to introduce the c-less function on debit cards on the national circuit (Pagobancomat) has begun.
- Commercial agreement with Mastercard was renewed to support innovative growth initiatives and increase penetration/use of payment instruments.
- A specific commercial agreement was activated to distribute the POS product following the sale of the Merchant Acquiring business unit to Nexi (formerly ICBPI).

Digital Banking and Transaction Banking

In 2017 Digital Banking was introduced, the Bank's new omni-channel service that includes the following channels:

- **Internet and Mobile Banking**, with updated graphics and new features, fully accessible from PCs, smartphones, and tablets (from browsers as well as Android and Apple apps);
- **Media Center**, a multi-channel point of contact available to customers both remotely (through a telephone operator) and to assist in using Digital Banking;
- **Cardless ATM**, a new channel that allows the use of ATMs (Bancomat) by customers that do not have payment cards, by entering the User Code for Internet Banking.

Digital Identity is available to all Digital Banking customers, which allows them to use the same authentication methods on all remote channels, validate a mobile number and email address, use the Remote Digital Signature for online contract signing with Banca MPS, and offers a certified e-mail address (name.surname@mpspec.it) that can be used both in communications with the Bank and third parties.

Digital Banking will become an important tool for acquiring customers, as well as for cross-selling and up-selling, due to the progressive expansion of products that can be purchased remotely.

Currently, customers can transact in Funds and Sicavs (purchase, subscribe new shares, switch, and sell), access information on their asset management and investment policies, as well as consult and renew insurance policies for cars, motorcycles and commercial vehicles.

Digital Identity allows the possibility of closing contracts in direct channels, potentially allowing the sale of all the main banking and insurance products (current accounts, cards, investments, loans, mortgages, etc.)

The migration of customers with Integrated Multi-Channel or Paschi Home contracts began in February 2017 and is currently underway.

Wealth Management

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

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

</td><td>There are around 37 thousand private customers.</td></tr>
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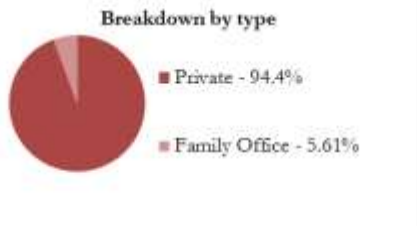

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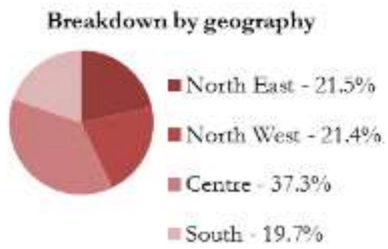

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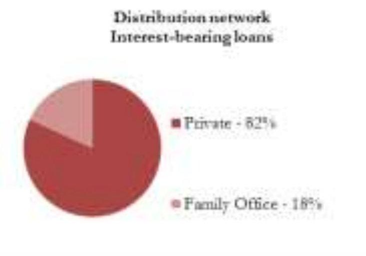
Income statement and balance sheet results

As at 31 December 2017, **Total Funding** for Wealth Management amounted to approximately **EUR 20.4 bn**, down by roughly EUR 0.6 bn from the end of December 2016 and up slightly over the levels recorded as at 30 September 2017 (EUR +0.1 bn). More specifically:

- **Direct Funding** as at 31 December 2017 was EUR 0.6 bn higher than the end of 2016, reaching **EUR 3.4 bn**, with a shift towards demand and short-term components, offsetting the downturn in medium/long-term components. Compared to 30 September 2017, the aggregate increased (EUR +0.4 bn) due to growth in demand and medium/long-term components (EUR +0.2 bn), the latter affected during the quarter by the recovery of the subordinated bond subject to burden sharing.
- **Indirect Funding**, amounting to about **EUR 17 bn**, was down by EUR 1.2 bn compared to 31 December 2016 (EUR -0.8 bn in asset management and EUR -0.4 bn in assets under custody) and down EUR 0.3 bn from September 2017, concentrated in assets under custody impacted in the quarter by the recovery of the subordinated bond discussed above.
- **Interest-bearing loans to Wealth Management customers** decreased with respect to 31 December 2016 and September 2017, with a balance of roughly **EUR 0.5 bn**.

WEALTH MANAGEMENT - BALANCE SHEET AGGREGATES							
(EUR mln)	31/12/17	30/09/17	31/12/16	Chg Abs Q/Q	Chg % Q/Q	Chg Abs Y/Y	Chg % Y/Y
Deposits from customers and debt securities issued	**3,436**	**3,003**	**2,785**	**433**	**14.4%**	**650**	**23.4%**
Assets under management	*11,828*	*11,863*	*12,634*	*-35*	*-0.3%*	*-805*	*-6.4%*
Assets under custody	*5,173*	*5,467*	*5,609*	*-293*	*-5.4%*	*-436*	*-7.8%*
Indirect Funding	**17,002**	**17,330**	**18,242**	**-328**	**-1.9%**	**-1,241**	**-6.8%**
Total Funding	**20,437**	**20,332**	**21,028**	**105**	**0.5%**	**-590**	**-2.8%**
Interest-Bearing Loans to Customers	**547**	**561**	**590**	**-14**	**-2.5%**	**-43**	**-7.3%**



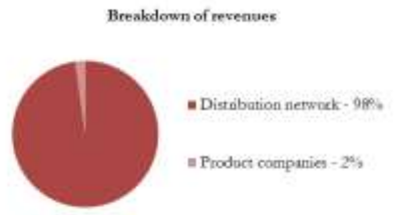
With regard to profit and loss, Wealth Management achieved total **Revenues** of approx. **EUR 156 mln** as at 31 December 2017, down 18.2% compared to last year. A breakdown of the aggregate shows:

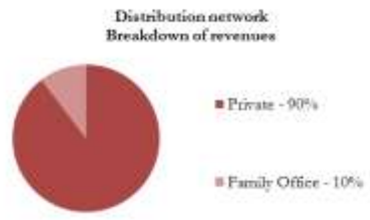
- As at 31 December 2017, Net Interest Income was approximately EUR 26 mln, down 37.1% annually, impacted to a large extent by the drop in the contribution of direct funding (primarily as a result of withdrawals of average funding volumes, -26.0% Y/Y);
- Net Fee and Commission income in 2017 totalled approximately EUR 130 mln, also down compared to the levels of the previous year (-12.9%) as a result of the decline in the product segment, for continuing operations and placement components.

Considering the impact of Operating Expenses, which decreased by 1.9% Y/Y, Wealth Management generated **Gross Operating Income** of about **EUR 89 mln** in 2017 (-27.3% Y/Y). Including net impairments losses (reversals) on loans and financial assets equal to EUR 4 mln, penalised especially by the adjustment of provisions on transferred doubtful loans to their recoverable value (EUR 3 mln), the **Net Operating Income** since the start of the year totalled roughly **EUR 85 mln**.

The **cost-income** of the Operating Segment is **43.0%** (35.8% at the end of December 2016).

WEALTH MANAGEMENT - PROFIT AND LOSS AGGREGATES				
			Chg. Y/Y	
(EUR mln)	31/12/17	31/12/16	Abs.	%
Net interest income	*25.7*	*40.8*	*-15.1*	*-37.1%*
Net fee and commission income	*129.7*	*148.9*	*-19.2*	*-12.9%*
Other income	*0.8*	*1.2*	*-0.4*	*-30.9%*
Other operating expenses/income	*0.1*	*0.2*	*-0.1*	*n.s.*
Total Revenues	**156.2**	**191.1**	**-34.9**	**-18.2%**
Operating expenses	*(67.1)*	*(68.5)*	*1.3*	*-1.9%*
Pre Provision Profit	**89.1**	**122.6**	**-33.5**	**-27.3%**
Net impairment losses (reversals) on loans and financial assets	(3.8)	(7.5)	3.8	-49.8%
Net Operating Income	**85.3**	**115.1**	**-29.8**	**-25.9%**





The main product/service sales and innovation initiatives

Market	Main sales initiatives developed in the market
Private Banking/ Family Office	At the beginning of May, a new investment solutions platform was released, called **MPS Private Solution**, designed to respond, simply and with specialised skills, to customer needs. In particular, a promotional initiative was launched for customers who contribute new funding and subscribe to one of the **MPS Private Solution Funds**, a system developed in collaboration with 7 leading investment firms and built exclusively for MPS Private Banking. This multi-manager offer system is characterised by a flexible management style, with 5 sub-funds (Absolute, Flexible, Multi Asset, Global and Flexible Bond) that have differentiated portfolio strategies and levels of risk, with an approach based on simplification, diversification, and efficiency of investment management. The release was also supported by a targeted marketing initiative through a dedicated advertising campaign on radio and daily financial-economic newspapers and on the Bank's social profiles.
	In addition to the launch of MPS Private Solution, the offer range was strengthened through the release of the Anima Crescita Italia fund and an Anima PIR vehicle. The Bancassurance segment performed a restyling of the Melody Advanced policy and the Melody Advance Bonus Edition policy with the issue of a new Investment Line and the launch of the Insurance PIR with dedicated pricing for Private Customers. New sub-funds of the Sicav Hedge Invest fund were opened for placement.
	Effective 29 December 2017, the Bank activated new processes for providing investment services through out-of-branch offers, or the promotion and placement of investment services and financial instruments to the public, outside the Bank's premises. In compliance with legislative requirements, the Bank has formulated a process according to which the mandate to operate off-premises on the Bank's behalf can only be granted to employees registered in the Qualified Financial Advisor Registry. In this phase, the out-of-branch offer is reserved exclusively for the promotion and placement of UCITS by providing investment advisory services (for the types: basic, base sales/purchases, and advanced transactions).

Advertising and marketing initiatives

For promotional and marketing initiatives, see the corresponding section for Retail Banking.

- With regard to **Asset Management** for Private/Family Office customers, the most significant changes relate to the launch of the "MPS Private Solution" investment platform and the "Anima Crescita Italia" fund, an Anima SGR fund that can be used by customers as a "PIR" vehicle. The first, dedicated solely to Private and Family Office customers, introduces considerable innovation, focusing the investor's attention on the volatility target deemed appropriate for the investment and leaving the objective of obtaining the highest possible return to the best investment firms, with extreme freedom in strategies. The second is the first PIR-compliant fund distributed by the Bank.
- For **Bancassurance**, the Wealth Management product range was reinforced in its main component (unit-linked) with the restyling of a "Melody Advanced - Bonus Edition" policy which, for a special fee profile, allows the customer to obtain a bonus on the investment in the subscription phase, making the policies more efficient for purposes of tax optimisation.

Results for the main subsidiary

- **MPS Fiduciaria**: Profit for the period of approximately EUR 0.06 mln, in line with the figure posted in December 2016.

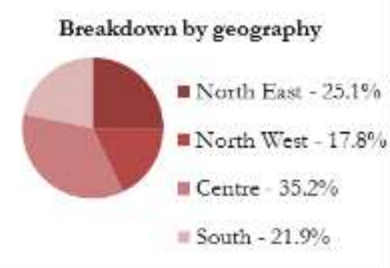
In 2017, the subsidiary confirmed the pace of acquisitions of new relationships already recorded in 2016: the ratio between new accounts opened with ordinary mandates and corporate mandates is slightly in favour of corporate mandates. In the various markets, the Private sector showed a positive trend, while the Corporate market recorded a slight contraction in volumes. In general, Monte Paschi Fiduciaria has confirmed its capacity to retain customers, even in unfavourable market conditions.

In 2017, in the wake of activities already launched in 2016, Monte Paschi Fiduciaria began a process of intense collaboration with the Bank’s three reference markets, involving intensive training and consolidating the integration of commercial processes with the Parent Company, through targeted and structured business initiatives in classroom and on-the-job training.

In addition, new marketing and collaboration initiatives were developed in 2017, both with the Parent Company and with external professionals, with the aim of strengthening the existing system of agreements.

During the second half of 2017, the strengthening activities referred to above continued through the preparation of supporting documents for commercial activities (handbooks and dedicated focus documents) in full collaboration between the Wealth Management Division and MPS Fiduciaria, with periodic and systematic sharing of issues and in-depth analyses in preparation for service improvements for the Network and Customers.

Corporate Banking

Business areas	Customers
• Lending and offering financial products and services to businesses, including through strategic partnerships with trade associations and Confidi (credit guarantee consortia), with Guarantee Institutions (including public) and Institutional Entities, through which funding is acquired at favourable terms. • Offer of integrated leasing and factoring packages for businesses, artisans and professionals (through the subsidiary MPS Leasing & Factoring). • Corporate finance - medium-long term credit facilities, corporate finance, capital markets and structured finance also through the subsidiary MPS Capital Services. • Products and services issued by the Parent Company's foreign branches to support business expansion and investments by Italian companies abroad. Activities abroad are also supported by the operations of foreign subsidiaries MP Banque and MP 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).	About 51,400 Corporate and large group customers of the Parent Company, directly followed by Corporate Banking.  

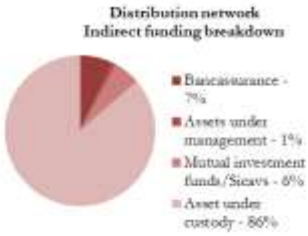
Income statement and balance sheet results

Corporate Banking **Total Funding** recorded growth of approx. EUR 6.0 bn, from EUR 25.2 bn at the end of December 2016 to **EUR 31.2 bn** as at 31 December 2017. The trend in this aggregate was principally due to the increase in direct funding (EUR +7.9 bn) in demand/short-term forms, while the medium/long-term component was basically stable. Compared to 30 September, the volumes show a decline of EUR 2.0 bn due to the drop in assets under custody, which was influenced by the movement in a large position.

With regard to lending, as at 31 December 2017, Corporate Banking **interest-bearing loans to customers** stood at approximately **EUR 36.2 bn** (EUR -5.8 bn on 31 December 2016 and EUR -2.1 bn on 30 September 2017), mainly consisting of medium/long-term loans.

CORPORATE BANKING - BALANCE SHEET AGGREGATES

(EUR mln)	31/12/17	30/09/17	31/12/16	Chg Abs Q/Q	Chg % Q/Q	Chg Abs Y/Y	Chg % Y/Y
Deposits from customers and debt securities issued	**19,481**	**19,458**	**11,567**	**24**	**0.1%**	**7,915**	**68.4%**
Assets under management	*1,591*	*1,664*	*1,617*	*-72*	*-4.4%*	*-26*	*-1.6%*
Assets under custody	*10,089*	*12,010*	*11,973*	*-1,921*	*-16.0%*	*-1,884*	*-15.7%*
Indirect Funding	**11,680**	**13,674**	**13,590**	**-1,993**	**-14.6%**	**-1,910**	**-14.1%**
Total Funding	**31,162**	**33,131**	**25,157**	**-1,970**	**-5.9%**	**6,005**	**23.9%**
Interest-Bearing Loans to Customers	**36,152**	**38,294**	**41,943**	**-2,142**	**-5.6%**	**-5,791**	**-13.8%**



For profit and loss aggregates, Corporate Banking **Revenues** came to approx. **EUR 1,030 mln** in 2017 (-29.7% Y/Y). A breakdown of the aggregate shows:

- Net Interest Income was approximately EUR 647 mln, down 31.7% annually due to the decrease in returns on commercial assets (average volumes and rates, the latter down by roughly 14.7% Y/Y);
- Net fee and commission income decreased by 15.0% Y/Y, amounting to approximately EUR 341 mln, mainly penalised by the downward trend in proceeds from Credit/Foreign services, also impacted by the reduction in operating volumes;
- Other Revenue from banking and insurance business amounted to approximately EUR 52 mln (-63.7% Y/Y), with the drop attributable to the operations of the subsidiary MPS Capital Services.

Considering the impact of Operating Expenses, down by 1.3% compared to 31 December 2016, the Gross Operating Income came to about **EUR 404 mln** (-51.4% Y/Y). The **Net Operating Income** for this Segment was equal to approx. **EUR -2,784 mln** (the result as at 31 December 2016 was EUR -2,085 mln), as a result of the deterioration of impairment losses (reversals) on loans and financial assets (EUR -3,188 mln), penalised by the adjustment of provisions on transferred doubtful loans to their recoverable value (EUR -2,208 mln).

The Corporate Banking **cost-income** ratio stands at **60.8%** (43.3% as at 31 December 2016).

CORPORATE BANKING - PROFIT AND LOSS AGGREGATES				
			Chg. Y/Y	
(EUR mln)	**31/12/17**	**31/12/16**	**Abs.**	**%**
Net interest income	*646.7*	*946.6*	*-299.9*	*-31.7%*
Net fee and commission income	*340.6*	*400.7*	*-60.1*	*-15.0%*
Other income	*51.5*	*141.6*	*-90.1*	*-63.7%*
Other operating expenses/income	*(9.0)*	*(24.1)*	*15.2*	*n.s.*
Total Revenues	**1,029.9**	**1,464.8**	**-434.9**	**-29.7%**
Operating expenses	*(626.1)*	*(634.6)*	*8.5*	*-1.3%*
Pre Provision Profit	**403.7**	**830.2**	**-426.5**	**-51.4%**
Net impairment losses (reversals) on loans and financial assets	(3,187.9)	(2,915.6)	-272.3	9.3%
Net Operating Income	**(2,784.2)**	**(2,085.4)**	**-698.8**	**33.5%**

Results of the main subsidiaries

- **MPS Capital Services**: loss for the year of approx. EUR -633 mln (EUR -770 mln as at 31 December 2016).
- **MPS Leasing & Factoring**: loss for the year of EUR -161 mln (EUR -170 mln as at 31 December 2016).
- **Foreign banks**[6]: In 2017, **MP Banque** recorded a profit of EUR 5.5 mln compared to a loss of EUR -27.7 mln recorded in the previous year; with regard to **MP Belgio**, the profit for the year amounted to roughly EUR 13.0 mln (due to the gain on the sale of the property where the office is located), compared to a loss of EUR 9.6 mln as at 31 December 2016.

Main Corporate and Investment Banking initiatives

Corporate Market

Amongst the initiatives developed in 2017, please note the following in particular:

- **Electronic invoicing** and related archiving in accordance with regulations (end of November 2017) - the service has been updated, extending the scope of target customers and functionalities. In addition, electronic invoicing is now available for B2B (invoicing between private parties) and for the management of the accounts payable cycle (receipt of electronic invoices). "Automatic calculation of availability" in the Cash Pooling product;
- **New combined authentication** (November 2017) - the migration of users of services for Internet Banking PasKey aziendaonline/tesoreriaonline/tribunalionline to a new access mode that meets the requirements of the PSDII directive The new method involves "two-factor authentication" (2FA) based on a one-time use code sent via SMS. In total, more than 200 thousand users were migrated, including "secondary" users (business collaborators).
- **Replacement of trading platform** (December 2017) - upon replacement of the Bank's infoprovider, the online trading platform was updated for the companies available on the PasKey aziendaonline portal. The level of service for end customers and the user experience was improved as a result of the new interface;
- **Extension of International Cash Management services** - service hours were extended and automatic messaging for bank transfers was introduced, which improves the timing of payment settlement, generally for those outside the SEPA area; new PasKey tesoreriaonline platform for entities.

Please note the following with respect to the products/services offered:

- **Marketing of OTC derivatives**: new Tarn exchange-rate hedging product; block of PS-Structured Products relationships for retail transactions with financial experience controls; increase of

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

minimum subscription amount and pricing optimisation; development of derivative transactions with collateral for large customers; improvements in Timely Confirmation aimed at identifying process innovations and IT upgrades to ensure prompt collection of customer confirmations; optimisation of the GPS application functionality.

- **SACE Loan - medium/long-term credit enhancement:** Unsecured medium/long-term loan subscribed, granted with the Bank's capital against expenses related to projects to expand in foreign markets, backed by SACE's first-demand guarantee. With the aim of continuing to have a valid instrument as a competitive offer for small and medium-sized businesses and small- mid-caps, on **1 August 2016** the Bank (as Parent Company) and SACE signed a new Convention (ref. SACE 2016/1058/00), replacing the previous agreement that expired on 30 June 2016. The new agreement will expire on **31 March 2018**.
- **2017 Central Italy Earthquake Tax Moratorium.** Loan designed to allow payment of "Suspended Taxes" and "Taxes Due" by those earning business income and self-employment income, as well as those with agricultural businesses in accordance with art. 4 of Italian Presidential Decree no. 633 of 26 October 1972, with registered and/or operational offices in the areas of Abruzzo, Lazio, Marche, and Umbria affected by the 2016 earthquake. This loan is granted with funds made available by Cassa Depositi e Prestiti S.p.A. (CDP).
- In April, the **MPS Corporate Industry 4.0** medium/long-term financing product was released, supported by commercial covenants to facilitate investments in capital goods and assets aimed at "digitalisation" of business activities and falling within the scope of tax incentive initiatives provided for by the 2017 Stability Law (known as "hyper-depreciation").
- The **MPS Corporate Replacement Loan** product was made available in May to facilitate the acquisition of loans already in place with other banks for new customers or existing customers through asset transfer operations pursuant to the provisions of art. 1202 of the Italian Civil Code.

In order to support the communities affected by earthquakes and other disasters, in agreement with ABI and Cassa Depositi e Prestiti ("CDP"), the following initiatives have been implemented:

- "**Plafond Sisma Centro Italia**" to support customers who suffered damages from the earthquakes in Central Italy in 2016;
- **"Plafond Eventi Calamitosi**" to support customers that suffered damages from the disasters that occurred in Italy in 2013;
- "**Plafond Moratoria Sisma Centro Italia**" to grant subsidised loans aimed at the recovery of tax collection in the territories of Central Italy affected by the 2016 earthquakes.

Furthermore, funding activities continued with CDP to ensure a greater flow of medium/long-term resources at favourable conditions to corporate customers.

The "Export Banca" operating agreement continued with SACE, the Italian Banking Association (ABI), CDP, and SIMEST.

Market	Main sales initiatives developed in the market
Large Groups	Leveraged the intragroup synergies between the MPS L&F product companies with the acquisition of new sales and increase in turnover and MPS Capital Services with a strong boost in terms of hedging (foreign exchange) as an opposing trend to other derivatives market activities. Intensified the activity of repositioning for loans to high potential counterparties, including with a forward-looking approach.
SMEs and Top Corporate	Reorganisation of the segment involving the closure of the CTop Centres and allocation of the CTop portfolios to the SME/Corporate Centres and refocusing of commercial initiatives to support the business. Commercial initiatives aimed at recovering Italian and foreign funding volumes and commercial flows. Conversion of BMPS advances on trade receivables into factoring of receivables purchases. "**Factoring in System**": commercial initiative designed to identify Top Corporate and SME customers that use the product with other competitors. "**Leasing Care**": promotional campaign dedicated to Top Corporate enterprises and SMEs in order to incentivise the use of vehicle leasing through a free 6-month insurance policy offer. "**Factoring Reverse**": initiative to identify, within Top Corporate and SME customers, important companies leading their respective sectors to stipulate indirect factoring agreements that would benefit their strategic suppliers and allowing the possibility of payment extensions. "**Hyper-depreciation**": an initiative based on the Industry 4.0 budget law to offer customers an all-inclusive package (leasing, advisory, and technical expertise) for Top Corporate and SME customers.
Institutions	Participation in the PagoPA Platform created by the Agency for Digital Italy (AgID) for payments to the Public Administration. Placement of the "Electronic Archiving" service for electronic documents with digital signature for the Public Administration and Servizio Inc@ssipiù Attainment of ISO 9001 certification for the Treasury and Cash Services.

MPS Capital Services

Corporate finance

Project Financing – Activities were focused on the sectors of infrastructure, renewable energy, and utilities; the most important transactions in 2017 include:

- refinancing of the largest wind farm ever built in Italy, consisting of 69 wind generators producing 138 MWe of power, located in the province of Sassari, undertaken by a leading domestic player in the renewable energy sector. The pool financing, in which MPSCS participated as MLA, amounting to a total of EUR 195 mln (of which EUR 7 mln granted by the subsidiary MPSCS), granted by 12 leading domestic and foreign banks;
- refinancing the transaction to launch the business of the first domestic private operator on the Italian high-speed rail network. The pool financing, in which MPSCS participated as MLA, amounts to a total of EUR 160 mln (of which EUR 38.5 mln granted by MPSCS), and was granted together with 2 other leading domestic banks. The total bank exposure was considerably reduced with the refinancing, as it involved the simultaneous subscription of a bond for a total of EUR 550 mln.

- refinancing of a wind farm, consisting of 13 wind generators producing 26 MWe of power, located in the province of Foggia, undertaken by a well-known operator in the renewable energy sector. The intervention, financed entirely by the subsidiary, amounts to EUR 20 mln.
- financing for an evaluation, by an important domestic player in the renewable energy sector, of the total share capital of a company that owns an operating wind farm with excellent performance, located in the province of Avellino and consisting of 15 wind generators for 41.7 MWe of power. The intervention, financed entirely by MPSCS, amounts to EUR 9 mln.

The Advising mandates acquired during the year include the assignment as part of the restricted procedure for the construction of a passive ultra-wideband infrastructure in the "white areas" of the Marche and Umbria regions.
In addition, note the acquisition of arrangement and structuring mandates for the upcoming financing of additional projects to construct wind and photovoltaic energy production plants.
Corporate Finance - Activities during 2017 focused generally on the real estate/hotel and industrial sectors. In particular, loans were provided to support important operators in the food, energy, clothing, and telecommunications sectors. In the second half of the year, "advising" activities and those related to preliminary assessments of loans in the water sector intensified, the latter in preparation for participating in competitive procedures, called by some operators in the sector, to select lending institutions. In particular, MPSCS, in a pool with other banks, was awarded the tender contract by the primary manager for the Lombardy Region.

Loan Syndication, Asset Disposal & Media Entertainment – A pool transaction was arranged and structured successfully, which was syndicated on behalf of Banca MPS. The syndication of two other transactions to be structured as a pool continues on behalf of Banca MPS.

The Asset Disposal activities include a non-binding offer received from a leading domestic operator for the acquisition of a company that owns a prestigious property located in the historic city centre of Florence. Negotiations are underway concerning wine producers in Tuscany.

Media Entertainment activities involved two financing transactions that were completed for leading operators in the production and distribution of films and television series.

Acquisition Financing - During the year, activities were focused, as usual, on Acquisition/Leverage Finance transactions in which MPSCS was able to take on the role of Mandate Lead Arranger and Facility Agent, confirming its positive positioning in the Mid Corporate segment. Thus, origination and structuring of interventions continued in support of leading businesses, with particular attention to acquisitions of acknowledged importance in the industry and capable of having significant positive effects for the MPS Group at the commercial level.

Investment banking

With regard to the bond market, MPSCS acted as Joint Bookrunner for the following bond issues in 2017: 10-year syndicated BTP linked to European inflation (BTPi); 12th issue of BTP Italy linked to Italian inflation; CMC Ravenna for EUR 325 million. In reference to "minibond" issues, the Bank handled the arrangement and placement of Fenicia S.p.A. (Camicissima brand) EUR 8 million; Prima Sole Components S.p.A. EUR 25 million; Corvallis Holding S.p.A. EUR 10 million; Renco SpA EUR 35 million. During the same period, the Bank acted as Co-Manager in the following issues: Nuovo Trasporto Viaggiatori SpA, Salini Impregilo SpA and two OBGs for Cariparma. Moreover, for the Italian government, the Bank acted as Co-Lead Manager in the 15-year and 30-year BTP issues. MPSCS also organised a private placement for Cassa Depositi e Prestiti for EUR 140 million.

Note that the Investment Banking Division managed the placement of the three government-backed bank bonds issued by the Parent Company. Finally, the Division assisted the Structuring & Product Engineering Office in finding supranational issuers to structure 3 transactions placed on the Parent Company's Network.

With regard to the equity market, the Division participated in the re-admission for listing of Pirelli & C. SpA.

MPSCS continues its activities as Nominated Advisor on behalf of Poligrafici Printing SpA, listed on the AIM market of Borsa Italiana.

Subsidised financing

During 2017, management activities for public aid to companies continued according to the obligations assumed upon entering into agreements with the Ministry of Economic Development (MiSE) and the Ministry of Education, Universities and Research (MIUR): Sustainable Growth Fund, Technological Innovation Fund, Law 488/92 and Regional Pacts, Research Subsidy Fund, and SME Guarantee Fund. In particular, note the preliminary assessment activities related to over 40 research and development projects submitted on tender calls issued by the Ministry of Economic Development in relation to the Sustainable Growth Fund, as well as the intense promotion and assistance activities carried out within the RTI Manager of the SME Guarantee Fund.

MPS Leasing & Factoring

Leasing

- "Maxileasing" initiative: commercial offer for operating asset and vehicle lease products, with dedicated conditions for trade associations that have entered into an agreement with MPSL&F.
- "Sudleasing" initiative: promotional campaign dedicated to companies with a registered office or production plant in Southern Italian regions, which acquire an operating asset. This offer provides dedicated conditions and a one-year insurance policy free of charge.
- Sabatini Ter: Agreement with the Ministry of Education, Universities and Research for access to the facilitation and full operations.
- "Top Car": Campaign for vehicle leasing aimed at prestigious automobiles.

Factoring

- Development of Non-Recourse Factoring and Receivables Purchasing to reclassify high-risk relationships and, thus, contain credit costs, making use, in this case, of the risk weighting of the transferred debtors.
- Indirect factoring (reverse factoring) campaign with the identification of a specific target for pre-analysis credit and setting of theoretical "ceilings" for a more fluid commercial initiative.

The optimisation of the agent network, which began in 2016, continued over the course of 2017 with the highest performing agents retained, while some were granted greater operating delegations.

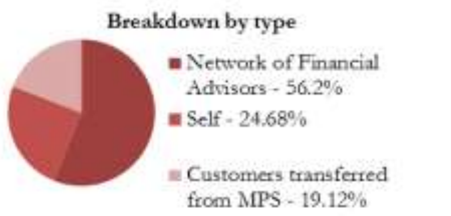
Banca Widiba

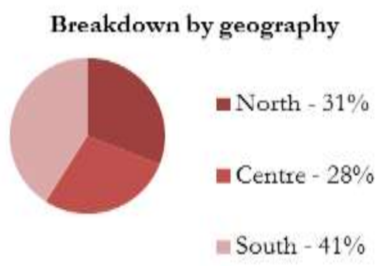
Business areas

- Banking products and services, deposit account, cards and advanced payment systems; customer self-service through the bank's digital channels or in assisted mode with the support of a Financial Advisor.
- Fully customisable online platform that relies on a network of 606 Financial Advisors present throughout the country.
- Funding and Global advisory services and financial planning through the advanced WISE platform and the skills of the Financial Advisor Network.
- Mortgages, credit facilities and personal loans.
- Innovative interaction through computers, smartphones, tablets, watches and TV.

Customers

There were roughly 235,000 customers as at 31 December 2017, of which 132,100 in the Financial Advisor Network channel, 58,000 in the self-service channel, and 44,900 customers migrated from the MPS branch network. There were approx. 202,765 customers managed exclusively by Banca Widiba SpA.





Income statement and balance sheet results

As at 31 December 2017, **Total Funding** for Widiba amounted to approximately EUR 7.5 bn, up EUR 0.9 bn from the end of December 2016. The annual trend was marked by growth in the Direct component as well as the Asset Management component, with a net increase in the customer base of roughly +73,900 from the beginning of the year, including the contribution of the migration into Widiba of nearly 44,900 customers from the MPS branch network. More specifically:

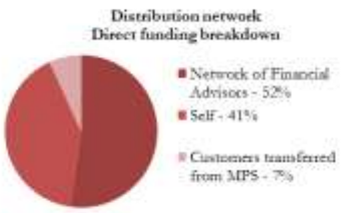
- **Direct Funding** of **EUR 2.1 bn**, after the difficult market environment in the final quarter of 2016 as a result of the negative outcome of the Parent Company's recapitalisation transaction, recorded a net recovery in volumes during the year (EUR +584 mln with respect to the end of December 2016, of which EUR +327 mln recorded in the fourth quarter) for both current accounts and restricted credit lines. The main commercial initiatives of the year were focused on the acquisition of new volumes from the market by acquiring new customers as well as increasing the share of wallet of existing customers. A particular focus was also placed on the stabilisation and retention of customers with "high value added" campaigns targeted at incentivising the direct deposit of wages or the closure of accounts held at other banks. The consolidation of assistance processes supporting the business and customers through the Widiba Media Centre structure made it possible to improve customer service levels while also continuing with the trend of achieving significant economies of scale;
- **Indirect Funding**, amounting to approx. EUR 5.4 bn, increased by EUR 0.3 bn compared to the end of December 2016, of which EUR +0.1 bn in the fourth quarter, due primarily to the positive commercial performance of the Financial Advisor Network, which recorded a significant growth in net flows as at 31 December. Please note in particular the extremely

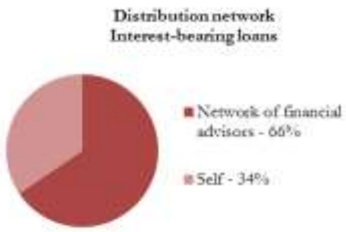
positive trend of Assets under management in the funds and UCITS component. Within the Financial Advisor Network, training activities continue with an increasing focus on Advisory services based on the new WISE platform (the new global advisory model). As at 31 December, 38 new Financial Advisors were hired.

Interest-bearing loans to Widiba customers rose from roughly EUR 44 mln at the end of December 2016 to **EUR 238 mln** as at 31 December 2017. This growth refers primarily to the launch of the offer of Widiba mortgages with roughly EUR 197 mln in new loans since the beginning of the year. The Widiba mortgage (first 100% paperless mortgage in Italy) won two important national awards in the first quarter of 2017 (ABI Innovation Award and AIFIN Cerchio d'Oro Award).

WIDIBA BANK - BALANCE SHEET AGGREGATES

(EUR mln)	31/12/17	30/09/17	31/12/16	Chg Abs Q/Q	Chg % Q/Q	Chg Abs Y/Y	Chg % Y/Y
Deposits from customers and debt securities issued	**2,148**	**1,821**	**1,563**	**327**	**18.0%**	**584**	**37.4%**
Assets under management	*4,928*	*4,830*	*4,557*	*98*	*2.0%*	*370*	*8.1%*
Assets under custody	*473*	*468*	*538*	*5*	*1.0%*	*-65*	*-12.1%*
Indirect Funding	**5,401**	**5,298**	**5,096**	**102**	**1.9%**	**305**	**6.0%**
Total Funding	**7,548**	**7,119**	**6,659**	**429**	**6.0%**	**889**	**13.4%**
Interest-Bearing Loans to Customers	**238**	**154**	**44**	**84**	**54.4%**	**193**	**438.3%**





With regard to profit and loss, as at 31 December 2017 Widiba achieved total **Revenues** of approx. **EUR 44 mln**, up (EUR +2.8 mln; +6.9%) compared to the previous year. The contribution from 4Q17 decreased compared to the previous quarter due to higher non-recurring charges relative to fees for the Financial Advisor Network. A breakdown of the aggregate shows:

- the **Net interest income** as at 31 December 2017 was equal to approx. EUR 31 mln, up by 8.6% compared to 2016, with a 4Q contribution showing significant growth compared to the previous quarters (EUR +1.8 mln over 1Q, EUR +1.4 mln over 2Q, EUR +0.9 mln over 3Q). With reference to the components of net interest income, there was a lower lending rate on financial loans offset entirely by a lower cost of Funding and higher volumes. These trends allow for a full recovery of the lower contribution of net interest income deriving from securities lending transactions with customers (due primarily to regulatory changes);
- **Net fees and commissions** as at 31 December 2017, equal to roughly 14 mln, posted an improvement compared to 2016 (EUR +1.8 mln; +15.1%). The quarterly trend in net fees and commissions shows a decline in 4Q solely related to the higher non-recurring charges for the

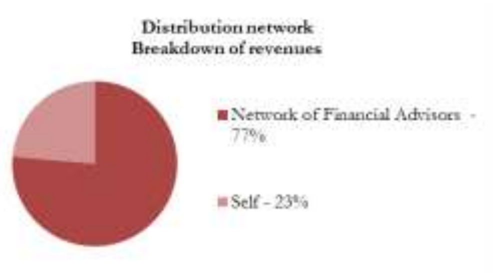
loyalty system for the Financial Advisor Network. Instead, the third quarter was the best of the year in terms of Gross Revenues, due to the positive contribution of fees and commissions on Asset Management and Assets under Custody. With reference to the previous year, there was higher income from placement (due to the positive sales performance of the Financial Advisor Network) and the continuing operations of Asset Management products (higher average volumes under management).

Operating Expenses rose by 1.7% compared to 31 December 2016, principally due to higher amortisation linked to investments in the Widiba banking platform and global advisory platform (WISE). In fact, personnel expenses were EUR 0.9 mln higher, more than offset by lower administrative costs of EUR 2.1 mln. As regards administrative costs, actions to optimise commercial costs continued that allowed growth in the customer base at acquisition costs that were lower than those of 2016.

The **Gross Operating Income** therefore came to EUR -19.0 mln, an improvement of EUR +1.7 mln (+8.4%) compared to 31 December 2016.

The **Net Operating Income** as at 31 December 2017 totalled EUR -18.6 mln, a deterioration with respect to 2016 (EUR -3.3 mln), which benefitted from write-backs on receivables equal to EUR 5.4 mln. In addition, there was an extraordinary effect from the write-down of the equity investment in the Voluntary Scheme linked to voluntary participation in IDPF for a total of EUR 1.8 mln. The quarterly trend of Net Operating Income showed a decrease in 4Q compared to the previous quarter, due mainly to the effect of the trend in Net fee and commission income, discussed above.

WIDIBA BANK - PROFIT AND LOSS AGGREGATES				
			Chg. Y/Y	
(EUR mln)	**31/12/17**	**31/12/16**	**Abs.**	**%**
Net interest income	*31.1*	*28.6*	*2.5*	*8.6%*
Net fee and commission income	*13.7*	*11.9*	*1.8*	*15.1%*
Other income	*(0.0)*	*0.0*	*0.0*	*n.s.*
Other operating expenses/income	*(1.2)*	*0.2*	*-1.4*	*n.s.*
Total Revenues	**43.6**	**40.8**	**2.8**	**6.9%**
Operating expenses	*(62.6)*	*(61.5)*	*-1.1*	*1.7%*
Pre Provision Profit	**(19.0)**	**(20.8)**	**1.7**	**-8.4%**
Net impairment losses (reversals) on loans and financial assets	0.4	5.4	-5.0	-92.6%
Net Operating Income	**(18.6)**	**(15.3)**	**-3.3**	**21.3%**



Banca Widiba main initiatives

In 2017, Widiba confirmed its focus on product and service innovation and on financial advisory, enriching the commercial offer in all components.

In the Italian market, Widiba is now a well-established bank of excellence due to its focus on innovation and its distinctive value proposition, the qualities of which are founded on simplicity, transparency, dynamism and listening to customers. Within the Group, Widiba's role is that of a "driver for change and innovation"; it has been the first to introduce in the market a service model that combines technology innovation with certified financial advisory services, thus contributing to strengthening the image of MPS Group.

As part of the strategic projects for the re-launch and re-positioning of MPS Group, in 2017 an initiative to transfer a selected perimeter of retail customers from Banca MPS to Banca Widiba, was planned. At the same time, the operation sought to respond to the changing needs of customers in the new digital context, to recover eroded share of wallet due to recent reputational issues, and to re-establish a sustainable balance between margins and cost-to-serve.

Widiba has once again been recognised by the market for its impressive innovation and ability to change in the banking industry. In 2017 there were numerous international awards and prizes including: the award as Global Innovator Challenger Player from the prestigious EFMA international organisation; the 2017 ABI award for innovation of banking services for the category "Operational innovation: process digitalisation and innovation", won as a result of the first native digital mortgage; the 2017 TOP Bank award for the mortgage offer recognised by the German Institute for Quality and Finance for all four categories in the competition: Quality-price relationship, digital mortgages, customer assistance, and customer communication.

Widiba's commercial offering was developed primarily with respect to the products/service components of banking, payments, and deposit accounts, and was considerably enriched with the launch of the WISE project, the new global advisory services and asset planning platform. Certification was another theme in 2017: after the advisory model, which had previously been certified, training and network engagement activities continued in 2017 for the competency certification process according to UNI ISO 22222:2008, which led to 370 advisors receiving certification as personal asset and financial planners.

Continuing on the topic of advisory services, the project to revise the model to adapt to new MiFID 2 regulations effective 3 January 2018 is critical.

Widiba's product range has been improved and completed during the year through the introduction of the credit department, in particular for mortgages and personal loans. Specifically, the Widiba mortgage range, launched exclusively for the Financial Advisor Network at the end of December 2016, was extended to all other Bank channels in 2017.

Additionally, in terms of services, 2017 represents the year in which initiatives were launched that placed Widiba up against non-bank players, including:

- the Apple Pay service. Widiba was one of the first banks to offer its customers the possibility to make payments with their iPhones easily, quickly, and securely, directly at points of sale enabled with contactless technology.
- the new Widiba Home smartphone app. The first of its kind, this application allows the customer, using a 3D viewer, to enter a true virtual branch, where he/she can check accounts or perform transactions, independently or with the help of a avatar, through voice and eye commands;
- Widiba Dialog, the first mixed reality app for financial advisory services. Using Microsoft's HoloLens technology, Widiba's Financial Advisors can share advisory data and proposals innovatively with their customers through holograms positioned in the physical world.

Widiba has continued to integrate and optimise an advanced CRM and customer contact platform which allows, on one hand, for multi-channel customer management (email, phone, social, virtual assistant, website, etc.) and, on the other, integration with all of the business structures involved in customer management, to speed up and streamline requests with the support of financial advisors.

The feedback from customers is tangible and significant: with more than 430 thousand reviews, users' rating of Widiba has reached a score of 4.8 out of 5.

In 2017, Banca Widiba continued the communication strategy with the market that had been outlined in previous years, focusing marketing activities and communication investments in four main areas:

1. Brand consideration on the market, consolidating the Bank's recognition and innovation, and continuing the progressive definition of positioning. To this end, press campaigns have been planned at various points during the year in the leading national media, newspapers, economic-financial journals, and verticals. The launch of Widiba Home was supported by a specific press campaign and events in the regions, dedicated to customers, influencers, and bloggers.
2. Increase the customer base, with the implementation of digital communication campaigns designed for customer acquisition: 12 different acquisition initiatives, for a total of over 450 digital acquisition materials, including animated banners, static banners, high impact materials and DEM.
3. Leadership within the market as a social bank, maintaining a strong link with its own DNA, based on listening to and involving the reference community using all available channels: from the website to email, to the presence of the Financial Advisor Network on the Bank's Facebook, Twitter and LinkedIn pages, which have led to 290,000 fans and followers of its community.
4. Engagement of the Financial Advisor Network on all aspects of the Bank's activities; support in their customer relationships, with the production of communications on the network and materials to support their activities.

At the end of 2017, the Bank had approx. 235 thousand customers and total funding amounting to roughly EUR 7.9 bn (+11.3% over 2016).

Corporate Centre

The Corporate Centre includes:

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

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

Equity investment management

In 2017, the Group continued to rationalise its equity investment portfolio.

The following is a list of the Bank's most significant transactions during 2017.

Acquisitions and capital increases

- As part of the sale of Bassilichi S.p.A. to Istituto Centrale per le Banche Popolari Italiane S.p.A., 10% of the share capital of the newly formed company, Ausilia S.r.l., was subscribed;
- The share capital increases of the subsidiaries MPS Capital Services S.p.A., Monte Paschi Banque SA., and Widiba S.p.A. were subscribed. For the subsidiary MPS Leasing & Factoring S.p.A., an advance payment was made against a future share capital increase, whose subscription is undergoing the authorisation process with the ECB;
- The company Juliet S.p.A. was incorporated in November (100% owned by the Parent Company) which must obtain authorisations to perform servicing activities for collection of the Group's doubtful loans.

Credit restructuring transactions

- In execution of the conversion of the Compagnia Aerea Italiana S.p.A. exposure, carried out based on restructuring agreements and in compliance with art. 67 of the Bankruptcy Law, an additional 3.80% stake in the company was acquired, bringing the total shareholding to 6.114%;
- Following the approval of the agreement with creditors submitted by Jeckerson S.p.A. the Group acquired a shareholding of 13.57% of the company's share capital by converting receivables (MPS Capital Services S.p.A. owns a 12.31% stake).

Disposals

- Disposal of the equity investments in: Intermonte Sim S.p.A., equal to 17.41% of share capital, Bassilichi S.p.A, equal to 11.74%, and Consorzio Triveneto S.p.A., equal to 10.13%.
- Other disposals of equity investments: Biofund S.r.l. (8.20% of share capital), E-Mid Sim S.p.A. (5% of share capital), Emilia Wine Società Cooperativa Agricola (3.41% of share capital), Unipeg Società Cooperativa Agricola (1.08% of share capital), and Progeo Società Cooperativa Agricola (0.01% of share capital).
- At the conclusion of the respective settlement procedures, the equity investments in Siena S.p.A. in liquidation (49.01%) and Gal Bassa Padovana Scarl in liquidation (8.33%) were removed from the portfolio.
- The following investments were partially disposed: Assofood S.p.A. in liquidation (from 6.25% to 1.04% of the share capital), Patto 2000 Scrl (from 5.29% to 0.17% of the share capital), and G.A.L. Terre del Primitivo Scarl (from 5.79% to 2.45% of the share capital).
- The subsidiary MPS Capital Services S.p.A sold its entire equity investment in Ital Tbs Telematic & Biomedical Services S.p.A., equal to 1.72% of the share capital.

Prospects and outlook on operations

The solid and general expansion of economic activity continues in the Eurozone. The ECB's monetary policy measures continue to support internal demand, which is an essential precondition for further progress on a lasting adjustment of the inflation profile towards levels lower than but close to 2 percent in the medium term. Private consumption is driven by growth in employment, which in turn benefits from labour market reforms and growing household wealth. The recovery in business investment continues to be supported by highly favourable financing conditions and by improvements in business profitability. Risks to growth forecasts for the Eurozone remain essentially balanced: on one hand, the strong economic momentum, evidenced by the recent trend in confidence indicators, could give rise to further unexpected developments for growth; on the other hand, downside risks remain, mainly due to international factors and trends in currency markets.

Globally, growth has spread to various countries and economic indicators point to sustained growth; the dynamics of global trade strengthened and remained solid, driven mainly by advanced economies. The leading indicators continue to signal positive forecasts for growth in trade in the short term.

Financial markets reflect the greater robustness of the economic outlook for the Eurozone as well as global trends. Since the beginning of September 2017, Eurozone government bond yields have increased and the EONIA forward curve has sharpened. The improvement in the economic outlook and the reduction of some geopolitical tensions have resulted in an increase in equity price indices, while the spreads on corporate bonds have decreased.

Since the monetary policy meeting of the Governing Council held in October 2017, the ECB reference interest rates have remained the same. With regard to unconventional monetary policy measures, it was decided that from January 2018 net asset purchases should be reduced by around one-half (EUR 30 billion until the end of September 2018), or beyond if necessary, and in any case until the Governing Council determines that there has been a lasting adjustment to prices, consistent with its inflation target. In addition, the Eurosystem will reinvest the principal repaid on securities maturing under the APP for a prolonged period of time after the conclusion of net asset purchases, as long as is deemed necessary. This measure will contribute both to maintaining favourable liquidity conditions and to an appropriate orientation of monetary policy. Finally, the Governing Council also decided to continue conducting the principal refinancing operations and the longer-term refinancing operations with a three-month maturity through fixed rate auctions with full allocation of the requested amounts as long as necessary, and at least until the end of the latest reserve maintenance period in 2019.

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

In this regard, with reference to the outsourcing of the platform of doubtful loans, a binding agreement was reached with Cerved Group S.p.A. and Quaestio Holding SA. The transaction envisages the consolidation of the platform to a vehicle company specifically established by Banca MPS, which would subsequently be transferred to Cerved and Quaestio, through the subscription of a long-term servicing agreement between the vehicle company and all of the Group's Italian banks for the management of future cash flows of doubtful loans. The consideration for the equity investment is EUR 52.5 mln, in addition to a possible earn out of up to EUR 33.8 mln, based on the achievement of economic results in the timespan until 2025. The closing of the transaction, expected to take place by the end of the first quarter of 2018, is subject to the approval of the supervisory authority as well the completion of the securitisation of the BMPS doubtful loans, with the subscription of mezzanine notes by funds managed by Quaestio.

During 2017, 1,839 resources left the Group through access to the "Solidarity Fund for professional retraining and requalification, for the support of employment and the income of credit personnel", in line with the targets of the Restructuring Plan, which requires, *inter alia*, a headcount reduction across all of the Group's organisational structures of around 5,500 resources, to be completed no later than 2021. Currently, the exits of a further 3,700 resources must be completed (of which approximately 3,000 through the "Solidarity Fund").

In carrying out the transfer transaction through the securitisation of the MPS Group portfolio of doubtful loans, on 9 January 2018, 95% of the mezzanine notes were sold by the three Originators (BMPS, MPSCS, and MPSLF), as per the agreement signed on 22 December 2017 with Quaestio Capital SGR S.p.A. on behalf of the Atlante Fund. The doubtful loans portfolio will be derecognised by June 2018 with the sale of 95% of the junior securities to the Atlante Fund. Note that the economic impacts of the securitisation, in addition to being included in the Restructuring Plan, were fully incorporated in the financial statements as at 31 December 2017.

On 11 January 2018, the Parent Company issued a fixed-rate Tier 2 subordinated bond with 10-year maturity (redeemable in advance starting from the fifth year at the issuer's option, subject to regulatory approval), for EUR 750 mln, at an issue price of 100%, equivalent to a spread of 500.5 bps over the 5-year swap rate (fixed-rate coupon of 5.375%). The expected ratings of the bond are CCC+ (Fitch) and Caa2 (Moody's).

Lastly, with reference to the future capital impacts arising from the Group's exposure to non-performing loans, on 4 October 2017 the ECB started a consultation process in relation to an addendum to the guidelines for banks on non-performing loans of 20 March 2017. In particular, the addendum establishes that for all loans that are classified as non-performing starting from 2018 a total coverage level will need to be reached, at the latest within two years for unsecured loans and within seven years for secured loans. From a regulatory perspective, the impact on capital adequacy ratios can be determined once the relevant regulations are finalised, which is expected by the end of March 2018.

CONSOLIDATED NON-FINANCIAL STATEMENT

Methodological note

Perimiter

This Non-Financial Statement (NFS), referring to the reporting period of 1 January 2017 - 31 December 2017, was drafted pursuant to Legislative Decree no. 254 of 30 December 2016, relating to the communication of non-financial information useful in understanding business performance, results, and the positive and negative impacts of the activities.

The scope of the information reported in the NFS, unless otherwise specified in the text, corresponds to the accounting consolidation.

The NFS seeks to balance the different information needs of the stakeholders, so it is possible that, in some cases, the discussion of the issues is not completely exhaustive. For these cases, interested individuals can request clarification and more information through the e-mail address csr@mps.it.

Relevant information

The NFS addresses environmental, social, and human resources issues, as well as respect for human rights, and anti-corruption measures, which are considered more relevant in relation to the extent to which the activities of the Group's companies may impact them or be impacted by them, and the perception of what the corresponding expectations of the stakeholders may be.

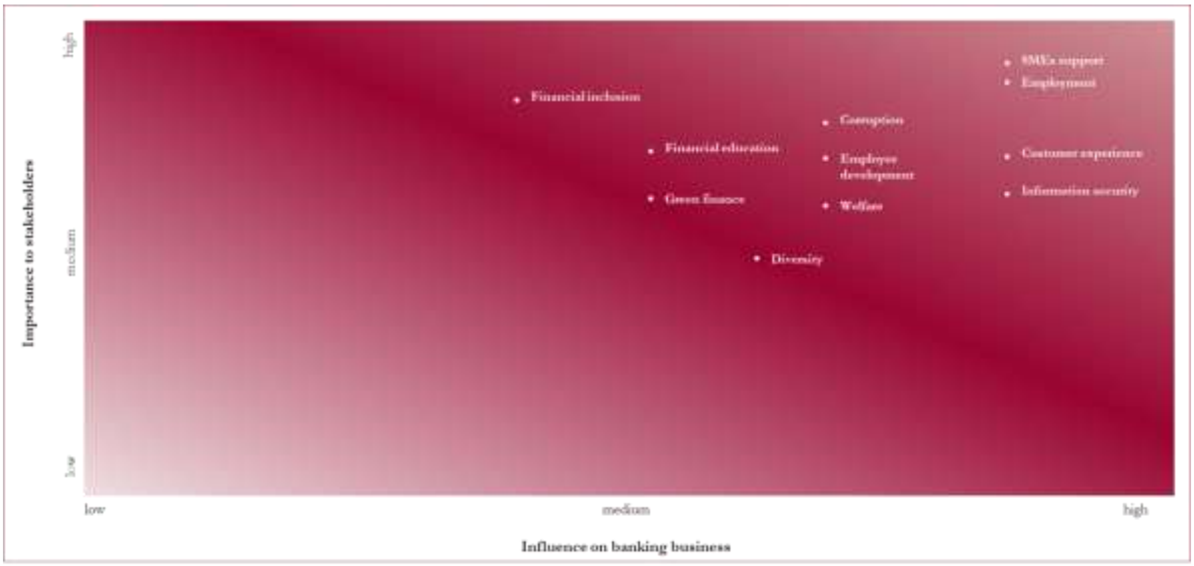
More specifically, the relevant issues on which the NFS is based are:

1. Employment (responsible management of human resources - hiring of professionals and maintenance of the workforce, guidance of young people toward professional careers);
2. Development of human resources (responsible management of human resources - development, training, as well as active, merit-based management of human resources and enhancement of skills);
3. Diversity (responsible management of human resources - gender diversity and equal opportunities);
4. Welfare (responsible management of human resources - business welfare);
5. Customer experience (protection of customers - adequate listening, assistance and service, simplicity, transparency and clarity of customer communications);
6. Security of services (protection of customers - security of digital/remote banking services and safeguarding of personal data);
7. Corruption (legality and ethics - active and passive anti-corruption measures between private individuals);
8. Support to SMEs (economic and social qualification - support to the entrepreneurial structure);
9. Green finance (green banking - monitoring the environmental impact of business lending, assessment of environmental risk associated with large transactions, credit to companies with high environmental added value);
10. Financial inclusion (economic and social qualification - access to credit at fair conditions and to "non-bankable" individuals and small businesses);
11. Financial education (economic and social qualification - financial education in schools and with Bank customers).

These were chosen through the following relevance assessment process:

- analysis of data published in respected studies and research, concerning some of the main economic, demographic, social, and environmental trends and their correlations with financial sector activities;
- identification of a broad range of topics, which, firstly, can be considered relevant for purposes of the NFS, based on concrete situations and sector considerations;
- weighting of the factors chosen to assess the relevance of each of the initially identified topics, from the perspective of both the business and the stakeholders. This was formulated based on sector considerations and perceptions of the company in its ordinary interactions with stakeholders. However, there was no specific stakeholder feedback and involvement for purposes of the NFS;
- development of the materiality matrix and its validation by management.

Materiality assessment criteria	
Influence on banking business	*Importance to stakeholders*
Is the issue material for the banking sector and is developed by peers?	Do one or more categories of stakeholders in the banking sector (or the bank) show strong expectations on the issue?
Is the issue inherent in the business model, does it involve risks or opportunities that are relevant to the bank and is therefore considered strategic?	Can the issue represent a significant opportunity for one or more categories of stakeholders and/or positively impact on the community?
Is the issue regulated and developed through key public policies?	Can the issue represent a risk for one or more categories of stakeholders and/or impact negatively on the community?



Materiality matrix - most relevant issues for purposes of the NFS

For each relevant issue, the NFS explains concisely the following information:

- Policies - vision, public statements, strategic commitments, formal documents on strategies, guidelines, and organisational approach;

- Management model - organisational oversight, offer systems, training, documented procedures or practices, operational tools, monitoring, controls, communication, etc.;
- Risks/Opportunities - description of the main risks (and opportunities) and related methods for assessment and control ("Appendix" also contains an overview of the main risks, incurred and generated, and the impacts connected to the issues in question);
- Results - improvement objectives, activities completed and underway, key performance indicators.

Moreover, the "Appendix" provides some information on the following issues indicated in Legislative Decree no. 254/2016, but not included in those deemed relevant for purposes of the NFS:

- use of energy resources in operations and estimates of related greenhouse gas emissions;
- health & safety in the workplace;
- respect for human rights, with a focus on the supply chain and the methods for verifying any discriminatory factors and other limitations on protections due to workers.

Information on the following are excluded from the NSF:

- emissions of pollutants into the atmosphere and use of water resources in operations, as they are considered to be irrelevant issues for the purposes of the NSF and, as such, are not subject to systematic monitoring;
- essential issues (pillars) for the general objectives of protection, stability, and sustainable growth of Group companies (economic performance, corporate governance structures, remuneration policies and incentive systems, business and systemic risk management models), for which the reader should refer to other chapters of the financial statements and to specific publications available on the Bank's website.

Reporting methodology

It was adopted the following reporting method: GRI *Sustainability Reporting Standards*, published in 2016 by *Global Reporting Initiative* (GRI). In particular, according to the provisions of the GRI 101 standard: *Foundation.*, reference has been made to the following *Reporting Standards:*

GRI 102: General Disclosures - Disclosure 102-43 "Approach to stakeholder engagement"

GRI 103: Management Approach

GRI 205: Corruption – Topic-specific disclosure 205-3 "Confirmed corruption incidents and related measures undertaken"

GRI 302: Energy

GRI 305: Emissions

GRI 401: Occupation

GRI 403: health and safety at work

GRI 404: Training

GRI 405: Diversity and equal opportunities

GRI 406: Non discrimination – Topic-specific disclosure 406-1 "Discriminatory incidents and actions undertaken"

GRI 417: Marketing and labeling – Topic-specific disclosures 417-2 "Cases of non-compliance with regulations on the labeling of products and services" and 417-3 "Cases of non-compliance with regulations relating to marketing communications"

GRI 418: Consumer Privacy - Topic-specific disclosures 418-1 "Lamentation regarding privacy violations and loss of customer data"

In addition, some information has been reported, considered most suitable for our reality, taking into consideration the following additional topic specific disclosures:

GRI 102: General Disclosures – Disclosure 102-8 "Pernsonnel informations"

GRI 205: Corruption – Topic-specific disclosure 205-2 "Communication and training related to anti-corruption policies and procedures"

GRI 302: Energy – Topic-specific disclosure 302-1 "Energy consumption"

GRI 305: Emission – Topic-specific disclosure 305-1 "Direct greenhouse gas emissions (scope 1)" e 305-2 "Indirect greenhouse gas emissions (scope 2)"

GRI 401: Occupation – Topic-specific disclosure 401-1 "Number of total recruitments and turnvoer rate"

GRI 401: Occupation – Topic-specific disclosure 401-2 "Benefit provided for full-time workers escluding part-time workers and term workers"

GRI 401: Occupation – Topic-specific disclosure 401-3 "Parental leavee"

GRI 403: health and safety at work – Topic-specific disclosure 403-2 "Types of accidents, frequency index, severity rate, absenteeism rate and number of work-related deaths."

GRI 404: Training and education – Topic-specific disclosure 404-1 "Average training hours per employee per year"

GRI 405: Diversity and equal opportunities – Topic-specific disclosure 405-1 "Diversity within governing bodies and personnel"

GRI 405: Diversity and equal opportunities – Topic-specific disclosure 405-2 "R elationship between male and female basic salary"

Finally, as regards the Financial Services Sector Disclosures, the following indicators were considered:

FS8 - Monetary value of products and services designed to provide an environmental benefit.

FS11 - Percentage of assets subject to positive and negative environmental or social screening.

FS14 - Initiatives to improve access to financial services for disadvantaged people

Compliance check

The NFS was subjected to the specific audits envisaged in Legislative Decree no. 254/2016. The audits were assigned to the same party that is responsible for performing the statutory audit of the financial statements, to leverage the knowledge already acquired regarding the organisation and business processes and ensure internal consistency with the Report on Operations, providing greater effectiveness and efficiency.

1. EMPLOYMENT

Policies

The Group is committed to limiting the effects on employment and responsibly managing the restructuring of the workforce according to the following guiding principles:

- leverage the professional skills present in the business;
- take advantage of development opportunities for employees;
- favour volunteers for exits and greater proximity to pension age;
- facilitate generational renewal with the hiring of new resources (including those envisaged in governing national regulations);
- consider the aspirations and needs of the resources involved.

The personnel cost containment measures were identified by applying principles of social equity and attention to the lowest compensation levels.

These guiding principles are then consistently outlined in specific business policies and/or external communications, including:

- the Collective Labour Agreement, second-level negotiations, and trade union agreements;
- internal regulations regarding "Personnel selection and hiring policies";
- Group regulations concerning "Management of human resource recruitment";
- business welfare policies and system which, as part of second-level negotiations, also provide for the employment of family members of employees deceased during their service. This provision is also extended to personnel participating in the Sector Solidarity Fund;
- human resource management policies.

Risks/Opportunities

The risks related to managing this issue are operational and reputational: difficulty in ensuring adequate coverage of roles and the operational continuity of certain activities, disputes with employees, decline in employee satisfaction, in relation, for example, to outsourcing of activities, structural workforce reductions, and any other business project that may impact personnel.

These risks are managed through a preventive approach, involving preliminary impact analyses, trade union dialogue procedures (in accordance with the law and contract), and mitigation actions, aimed at ensuring operational continuity, reducing litigation, avoiding demotion, etc.

Furthermore, this issue is particularly relevant for the inherent opportunities to:

- strengthen and consolidate the alliance with reference territories;
- benefit from an enriched vision as a result of intergenerational exchange;
- improve attraction and retention of stakeholders (both internal and external).

Management Model

The operational efficiency objectives of the 2017-2021 Restructuring Plan are pursued through a series of actions that safeguard employment levels to the extent possible.

In particular, the Plan's goals to reduce workforce were discussed with trade unions during meetings (pursuant to law and the contract, which concluded with specific agreements) for the joint examination of impacts on the personnel concerned.

The workforce reduction was carried out mainly using the Sector Solidarity Fund and was supported by management plans for territorial and/or professional mobility (refer to "Human Resources" chapter).

Moreover, the Plan's operational efficiency objectives were pursued through personnel cost containment measures, defined based on principles of social equity and attention to the lowest compensation levels. To this effect, the following measures were envisaged:

- modulation of the mandatory (unpaid) days of absence that contributed to the Sector Solidarity Fund (solidarity days);
- extraordinary contribution of executives to the Fund;
- MPSolidale (refer to "Welfare" chapter).

In parallel with the implementation of the aforementioned management systems, aimed at supporting the workforce reduction targets, the Parent Company provided ample space for the activities of "MPS Orienta": an organic approach to business activities, which the Group has for some time sought to deploy to contribute to the social objective of training and preparing young people for professional careers, which should also yield results in terms of strengthening the roots in our communities and the corporate image.

Results

In 2017, it was possible to achieve the exits of about 1,800 resources (of which 600 as at 1 May 2017 and 1,200 as at 1 November 2017), through the use of the Sector Solidarity Fund (activated based on the volunteer criterion and greater proximity to pension age).

During the year, ample space was provided for the activities of the "MPS Orienta" programme on the various open fronts:

- Apprenticeship for higher education and research - in collaboration with the University of Siena, the Parent Company, in order to favour interaction between the academic environment and corporate culture, offers young students an excellent training opportunity, with entry into the job market before they even complete their studies, providing them with direct comparison of the subjects they are studying and professional activities. For each apprentice, a specific training programme was developed, divided into three areas: initial training (on-the-job), technical-professional training (office, classroom and online courses consistent with the assigned role), and training on soft skills;
- School-work rotation - business track, both in head offices and regional areas, to favour the orientation of students in the last three years of upper secondary schools and leverage the education acquired in academic courses with additional skills that are applicable in the labour

market. Each student was involved in targeted training activities, such as multimedia courses aimed at developing teamwork behaviours, effective communication, and participation in working groups;

- Career day - organised in collaboration with the University of Siena, to bring together employment demand and supply, and provide functional information to guide young people in their future choices;
- Partnerships with schools and universities in events, workshops and seminars dedicated to selecting a university, social reputation, career orientation, professional progression, local development, in which business skills in the area of human resource management were shared;
- Internships (academic and extracurricular) - training periods, orientation and/or hiring into the business during or immediately after completing academic studies.

Indicators - Employment	2017	2016	GRI Standards
Total head count - end of period (number)	23.463	25.566	Disclosure 102-8
Hirings (number)	134	195	Disclosure 401-1
Dismissals (number)	2.246	359	Disclosure 401-1
Turnover (%)	9.6%	1.4%	Disclosure 401-1
Voluntary employee turnover rate (%) (*)	0.9%	0.6%	

(*) data refers to personnel on the payroll of: Parent Company, MPS Capital Services, MPS Leasing&Factoring, and Widiba

2. HUMAN RESOURCE DEVELOPMENT

Policies

The policies for this issue are inspired by the principles formulated in the Code of Ethics (in accordance with of the Collective Labour Agreement guidelines) and act to support the Group's business objectives and related organisational projects.

The policies were formalised in certain internal rules and, in particular, regard:

- training and continuous updating and reinforcing of skills, in line with changes in operating models;
- performance management and goal orientation;
- professional development, based on principles of transparency, participation, merit, and equal opportunities;
- involvement and leveraging of personnel through incentive policies, welfare, and internal communication.

Risks/Opportunities

The risks associated with managing this issue are mainly of an operational and reputational nature: disputes with employees, gaps in compliance with legal regulations, rules of supervisory authorities, and contractual requirements, reduction in employee satisfaction, in relation, for example, to applying performance evaluation and remuneration/incentive criteria. Additional risks in this area are related to inadequate coverage of the necessary internal competencies (in a context of profound changes in business models), attributable to training gaps and problems in implementing the development paths.

These risks are managed through a preventive approach, involving qualitative analyses of employee satisfaction, monitoring disputes, and the use of risk-adjusted performance indicators in personnel remuneration/incentive policies.

Furthermore, this issue is particularly relevant for purposes of effectively implementing business strategies. In this sense, employee involvement, leveraging, and motivation are critical success factors through which the Group can take action.

Management Model

There is an overall programme of measures and projects aimed at maximising the levels of personnel involvement and leveraging:

- MPS Sviluppa, which, based on the results of the performance management system, allows human resource development actions to be more finely tuned for the various clusters of characteristics and potential;
- MPS Academy, the permanent internal training school. The training programme is based on the people, business, compliance and safety strategies, supporting succession plans and adequate coverage of business roles, with the aim of accompanying each resource in the continuous development of all skills necessary for individual and professional growth;
- Welfare (refer to "Welfare" chapter).
- Other operating models and initiatives:
    - mechanisms to ensure the enhancement of internal skills, job rotation and turnover, with limited recourse to hiring from the external market. The hiring of resources into the structures is supported by an induction training programme, on-the-job training, and targeted interventions aimed at filling the initial skills gap;
    - professional and managerial development plans which, with a view to business continuity, guarantee suitable quality-quantity staff coverage levels, in line with the performance management system and with an approach based on results, sharing and self-development;
    - engagement initiatives and motivational leverage consistent with remuneration policies, the welfare system and internal communications plans; In particular, the new Total Reward model envisages a weighting system for managerial positions, grouped according to the real impact in the business organisation and to the responsibilities effectively carried out, to which specific compensation, career, and training packages are linked;
    - recruiting policies meant to enhance the internal growth of resources, favour managerial renewal and integrate and strengthen skills;
    - sharing experiences in the field and development of networks between resources/roles in the network and head offices, to increase the understanding of the different needs and interrelationships between strategic and operational approaches (Sinergicamente Project).

Results

In 2017, the activities in relation to this issue were developed with the objective of:

- ensuring effective coverage of organisational positions;
- involving and motivating personnel;
- leveraging diversity;
- encouraging exchanges and synergies between head office and network personnel.

The main activities include:

- MPS Sviluppa - segmentation of the business population by homogeneous clusters and identification of development actions to be undertaken for each segment;
- LeaderShe - launch of a diversity management project on female leadership (refer to the "Diversity" chapter);
- Parent Company Sinergicamente Project - launch of the pilot phase of the project, which consists of: initial training for participants, 3 months of an operating internship at the host structure (network or head office), and the development of two projects aimed at identifying improvements for network activities and general network-head office interaction;
- Broad use of the WOO (We Open Opportunities) platform to cover internal positions through voluntary application from employees;
- Project to leverage commercial roles - classroom training was held, developed for branch managers who have been in the role for more than three years;
- Activation of training plan, defined for the first time through an entirely "bottom-up" process. The principal activities aimed specifically at Parent Company personnel include:
    - multimedia training on digital culture (approx. 12,000 people involved in the network);
    - training of middle management on digital and innovation, income statement, risks, and communication (over 300 people involved);
    - launch of English@MPSAcademy, the business platform for learning English, which can also be used by the family members of employees;
    - IVASS (Institute for Insurance Supervision) professional development for more than 11,000 individuals who sell products;
    - specialised training for control, risk management, human resources, credit, commercial and organisation functions;
    - e-learning courses on the primary regulatory amendments (Mifid 2, anti-money laundering, privacy, Legislative Decree 231/2001, etc.);
    - classroom professional development for branch managers and other network roles most affected by the new requirements regarding anti-money laundering (approx. 2,500 people involved);
- multimedia courses for all employees concerning risk culture-governance and information security.

Indicators - Employee development	2017	2016	GRI Standards
Training per capita (hours)	41.9	46.0	Disclosure 404-1
Employees trained in the year (%)	99%	99%	Disclosure 404-1

data refers to personnel on the payroll of: Parent Company, MPS Capital Services, MPS Leasing&Factoring, and Consorzio Operativo

3. DIVERSITY

Policies

"[...] each new hire, promotion, career progression, and increase in compensation is carried out in compliance with the policies of merit and equal opportunities. [...]. No form of discrimination or harassment is tolerated".

The Code of Ethics has set forth the above statements on diversity (gender, age, health/disability, sexual orientation, ethnicity, religion, etc.).

Since 2017, these principles have been implemented through a comprehensive diversity management programme.

More specifically, with regard to gender diversity, a male-female balancing policy was formalised by the Articles of Association for the Board of Directors and the Board of Statutory Auditors and a structural project on female leadership (LeaderShe) is underway.

Risks/Opportunities

Notwithstanding the relevant considerations set forth in the "Development of human resources" chapter, it should be noted that the enhancement of diversity in the business brings together a broader range of perspectives, skills, and contributions that can provide greater benefits to the Group's business activities, at the same time generating positive values for stakeholders.

Management Model

This issue is the subject of continuous discussion with trade unions as part of the joint commission on equal opportunities. In particular, the commission performs periodic analyses of the most important data pursuant to Law 125/91, meets regularly with the Corporate Observatory to monitor methods of interaction between personnel, and identifies and reports any factors limiting the beneficial inclusion and involvement of female staff.

Among the main organisational and planning measures through which the Group takes action on this issue:

- flexibility of working schedules, leaves, furloughs, transfers - each employee can adjust his/her daily work schedule with flexibility in both starting and ending times; various part-time solutions are provided, including for limited periods of time, etc. These measures are requested in large part by female staff, as an aid for a better balance of work commitments with personal and family ones, as confirmed for example by data on part-time positions (2,349 at the end of the year, of which 95.2% granted to female staff) and on transfers (in 2017, 1,173 transfer requests were accepted in the Parent Company, of which 47.4% by female staff);
- training courses for staff returning to the workplace after maternity (and paternity) leave - developed by the company's Equal Opportunities Commission, and including training initiatives, structured and on-the-job training, and customisable multimedia tools. The initiatives are based on the individual's profile and requirements and promote organisational updating as well as the development of skills that can help to reconcile new needs (for example, time management, effective communications, stress management, teamwork and negotiation skills). The managers of the resources concerned also participate in the initiative through dedicated training events which aim to provide suggestions and points for reflection on how to promote work-life balance within their own organisational units. In 2017, a total of 314 "new-parents" were involved in the programme.

- smart working (or agile work) - employees can work from home one day a week (maximum four per month). This measure is currently being tested in some organisational units.
- LeaderShe - diversity management project on female leadership, designed to identify effective approaches for supporting the development and enhancement of women's managerial skills and remove any organisational and cultural obstacles. The topic is also supported through direct participation in "Valore D" activities (association of companies committed to this issue) involving about 100 female employees in roles of responsibility.

Results

In 2017, developments in this issue focused in particular on the launch of the LeaderShe project, with a first internal fact-finding survey for all employees: online questionnaire, focus groups in the network and head offices, as well as world cafè workshops with employees of the corporate segment. The survey identified the key obstacles and improvement actions to be taken.

Indicators - Diversity	2017	2016	GRI Standards
Female share of total workforce (%)	49.7%	48.0%	Disclosure 102-8
Females in management positions (%) (*)	43.2%	42.5%	Disclosure 405-1
Female executives (%)	8.2%	7.8%	Disclosure 405-1
Ratio of basic salary of women to men (executivess) (%) (*)	98.0%	93.0%	Disclosure 405-2
Ratio of basic salary of women to men (junior-middle managers) (%) (*)	90.0%	89.0%	Disclosure 405-2
Ratio of total remuneration of women to men (junior-middle managers) (%) (*)	89.0%	89.0%	Disclosure 405-2
Ratio of basic salary of women to men (others) (%) (*)	95.0%	94.0%	Disclosure 405-2

(*) data refers to personnel on the payroll of: Parent Company, MPS Capital Services, MPS Leasing&Factoring, and Widiba

4. WELFARE

Policies

The Group considers corporate welfare to be an important value for the well-being of employees. It is part of second-level negotiations and, despite the scenario of general containment of personnel costs, it has been continuously maintained and, in some respects, expanded with a range of products and services for employees, retired staff and their relatives, which currently involves about 75 thousand people.

The management and operational policies (general and on individual components of the welfare system) are set forth in the business contracts and in some internal rules aimed at ensuring standardisation of treatment and equal access to all beneficiaries.

Risks/Opportunities

Contributing to meeting the social needs of employees is an opportunity for the Group to strengthen the sense of belonging and motivation in the workplace, with positive impacts on business performance.

All aspects of risk and opportunities pertaining to this issues and to each initiative are also verified through a specific joint commission with trade unions.

Management Model

At the organisational level, this issue is monitored by the Industrial Relations and Welfare Policies Service, within the Chief Human Capital Officer Division. It is the subject of continuous discussion with trade unions as part of the joint welfare commission and is supported by specific training initiatives and internal communications.

Currently, the business welfare system consists of a wide range of institutions and initiatives (economic and otherwise) focused on the principal social needs (traditional and new):

- health - programme to cover medical expenses (which may also be used by family members) accident policy and other initiatives;
- pension plans - company pension plans to which Group companies allocate 2.5% of taxable salaries for the purposes of staff severance indemnity and for which they bear the management expenses;
- work-life balance - system of employment leave and time off, in particular to support parents, as well as smart working (agile work) mechanisms;
- MP Solidale - an internal fund fuelled by donations from employees of paid leave or portions of their remuneration, to help their co-workers who face serious and verified personal and family needs, with priority afforded to childcare requirements;
- education - study permits for student employees, initiatives dedicated to the education of children (including scholarships for study experiences abroad), English course through the English@MPSAcademy business platform (recently activated);
- income support - favourable terms and conditions on loans and bank services and products, meal vouchers, compensation for new hires or to help with specific needs (e.g., commuting), other types of support for household expenses;
- free time - employee social organisations, which promote cultural activities, sport and individual hobbies.

Results

- Measures for containing personnel expenses carried out with the union agreement of 24 December 2015, and functional to achieving the Restructuring Plan objectives, were identified and adjusted by giving adequate weight to social equity policies and criteria (focusing on lower compensation levels).
- New measures were introduced through second-level negotiations designed to provide flexibility and encourage solidarity amongst co-workers. Specifically, MP Solidale was confirmed again for 2017.
- In 2017, an agile work mechanism was activated on a trial basis for the employees of certain head office structures of the Parent Company and Consorzio Operativo (employees involved had the opportunity to work from home one day a week up to a maximum of four per month).

Indicators -Welfare	2017	2016	GRI Standards
Benefits provided to part-time or temporary employees vs those provided to full-time employees (%)	100%	100%	Disclosure 401-2
Employees that took parental leave (number)	1.733	1.679	Disclosure 401-3
Employees who returned to work after parental leave ended (number)	1.721	1.675	Disclosure 401-3
Employees who returned to work after parental leave ended who were still employed twelve months after their return to work (number)	1.665	1.695	Disclosure 401-3
Return to work rate of employees that took parental leave (%)	99.3%	99.8%	Disclosure 401-3
Retention rate of employees who took parental leave (%)	99.2%	99.1%	Disclosure 401-3

data refers to personnel on the payroll of: Parent Company, MPS Capital Services, MPS Leasing&Factoring, and Widiba

5. CUSTOMER EXPERIENCE

Policies

"The Group is committed to creating and developing relationships of trust and mutual and enduring satisfaction with customers. The goal is to be at the service of customers to respond to their needs and preferences with increasingly proper, transparent behaviours, with preparation, capacity for innovation, and credibility" (Code of Ethics).

The strategic programme of the Retail Division ("Banca Più") strengthens the customer relationship policy. It evolves from a traditional approach, which views the customer as a passive subject of purely commercial actions, to a complete and satisfactory "experience" strategy, throughout the banking life cycle, which places the customer and his/her needs at the centre of every action.

A customer experience approach must activate all mechanisms necessary so that the customer is satisfied and loyal, and his/her needs are often anticipated.

To do so, the Group has been moving along several directions for some time:

- customer segmentation, in line with new service models, to better address the needs of different types of customers (e.g. digitalised, young people, businesses);
- IT tools for "contact management" that can capture events (real-time or otherwise) in an automated manner and respond to them with personalised, multi-channel contact experiences, that are both commercial and purely caring (e.g., birthday greetings, operating suggestions, encouraging the use of ATM also for deposits);
- introduction of omni-channel relationship platforms able to support the customer in his/her contact and operating needs through digital tools (Digital Banking), telephone tools (Media Center and telephone banking), and physical tools (enhanced cash-in/cash-out ATMs);
- advanced statistical methodologies and techniques (advanced analytics) to analyse phenomena not visible to the naked eye and predict, with appropriate mathematical models, customers' needs with the highest probability of occurrence (target customer lists typically used by contact campaigns);
- adoption of new privacy profiling consent, to prepare contact experiences connected to the individual, using marketing automation tools;
- enrichment of data for customer profiling: in addition to those relating to banking transactions and use of products and services, information on behavioural aspects found in digital channels and/or external sources;
- customer satisfaction surveys.

Within the Group, Banca Widiba ensures a particularly strong driver for change and innovation, with a value proposition based on simplicity, transparency, enthusiasm, and listening to the customer.

Risks/Opportunities

The risks associated with managing this issue are operational and reputational: reduction of customer satisfaction, complaints from customers, loss of customers, and bad referrals in relation, for example, to possible gaps in service levels and application of compliance procedures, or specific initiatives such as closing a branch. These risks are managed through a preventive approach involving careful monitoring: verification of consistency between customer/product risk profiles, complaint management, customer satisfaction surveys, media monitoring, etc.

There are also risks/opportunities in terms of competitiveness. In fact, banks are increasingly required to face competitors who are not "native bankers", which offer highly evolved customer experiences. The speed of action, or deployment, of new digital and non-digital initiatives and strategies can make the difference.

For this reason, the most concrete risk is organisational, that is, the gap in operational processes and specific responsibilities that may not only be lacking in terms of "time-to-market", but also do not effectively implement the desired actions.

Furthermore, no less important is the need to have a customer database that is always up-to-date, especially on certain critical or "must have" information, such as: know your customer (for reinforced anti-money laundering oversight), privacy consent, identity documents, as well as mobile and email contact details. To do so, the Group has been engaged on three fronts for several years:

- raising the awareness of the network, so that every branch contact occasion is also an opportunity to add missing information;
- making use of information systems (e.g., migration to new digital banking) to "constrain" some processes to retrieve some necessary information;
- acquisition of data from certified external sources, in full compliance with legal and compliance restrictions, to enrich the personal data of active customers, selected according to cost-benefit criteria.

Management Model

Starting from the three models of retail customer management (representing 98.1% of total customer assets) currently in place (Value, Premium, and Small Business), the Group is reviewing the approach by identifying four differentiated segment types according to increasing complexity of needs (transactional or advisory).

The new management model envisages an increasing cost-to-serve in proportion to the evolving needs of advisory services, achieving sustainability with respect to the value of each segment.

The four retail segments will be served according to the following management models:

- Mass Market - specific follow-up through direct channels, which integrates a simple and intuitive self-service offer with low cost-to-serve;
- Family - envisages the presence of sales personnel with specialised skills in the main areas required by customers, supported by a self-service platform for transactions and online sales of standardised products;
- Affluent - involves the presence of a dedicated relationship manager with a portfolio of a maximum of 250 customers, in order to ensure higher-quality service and advisory activities to

meet customer requirements, supported by a self-service platform to complete the omni-channel customer experience;

- Small Business - unlike the three private segments, includes companies that, given the size in terms of turnover, have needs that are similar to Value and Affluent customers;

All management models assign a key role to the self omni-channel platform, which consists of:

- Digital Banking - information/instruction functions and online sales of standardised products, as a result of the digital identity with Certified Electronic Mail and Remote Digital Signature (PasKey azienda-online for the Small Business segment).
- ATMs - a cash-in/cash-out machine in each branch;
- Media Center and Telephone Banking - inbound and outbound activities, in addition to reactive inbound and operational capacities.

Banca Widiba ensures a highly advanced digital banking service, which integrates a simple and complete self-service offer with the competencies of MPS's financial advisor network.

Results

In 2017 the "Banca Più" strategic programme was launched with the objective of transforming the approach to retail customers through the full use of technology:

- in the customer relationship, with a renewed web and mobile banking platform, structural upgrading of the ATM network, and the creation of the new commercial site;
- in the development of internal branch processes, with the replacement of the technology infrastructure (PCs, printers, and data transmission lines) and enabling the most important working situations, such as withdrawals, deposits, payments, and recharging cards, to be performed in full digital mode and full paperless modes;
- with the strategic objective of freeing up professional time dedicated to operational/administrative activities to be requalified to contact activities and commercial management.

The main results achieved thus far are:

- ATMs:
    - installation of an additional 400 cash-in ATMs, to expand the 500 already operational, that allow self-banking operations of withdrawals, deposits, and payment orders with coverage of 60% of the branches;
    - migration of about 45% of the payment transactions and more than 90% of withdrawals from the branch desk to ATMs, compared to 25% and 80% at the end of 2016;
    - launch new cardless ATM functionality to allow customer recognition at the ATM without a card (using Digital Banking credentials);
- digital banking:
    - launch of the new web and mobile banking platform, "Widiba-like", which allows full operations for receiving information and instructions and performing online trading;
    - transfer of around 500 thousand active customers to the new platform;
    - completion of the advanced platform for online sales;

- commercial site - creation of the new commercial site by type of need;
- enrichment of digital contacts - adding information for about 300 thousand digital contacts with enhanced privacy to be used for business contacts;
- branch technology infrastructure - replacing 80% of jobs with new hardware and overall upgrading the data transmission line to improve the system's operational performance;
- advanced digital and paperless signature;
  - issue of the "advanced electronic signature" with multiple, multi-document and deferred signatures and operational extensions (autograph-specimen signature, delegations, transactional product contracts, Mifid, etc.);
  - release of the use of "remote digital signature" for branch operations (withdrawals, deposits, cash collection, top-up and reimbursement of prepaid cards, etc.);
- digital signage - activation of remote management, by content and time, of video communication and advertising devices (monitors, ATMs);
- closing of branches and introduction of cash-light model - closure of 267 branches and start-up of 316 branches with cash operations only in the morning, with recovery of efficiency for branch managers and employees;
- launch of 23 "Banca Più" pilot branches - initial phase of testing of new branch operating and commercial model with introduction of the new role of greeter to facilitate the migration of transactions to self-banking and introduce new segmentation criteria in order to create a greater number of Affluent portfolios and managers.

Note some of the initiatives and services of Banca Widiba, including:

- a selected group of Parent Company retail customers has been directed to Banca Widiba in order to benefit from more specialised digital banking services;
- launch of the first entirely digital (paperless) mortgage in Italy - the product received various awards (AIFIn Cerchio d'Oro award for financial innovation, ABI prize for banking services innovation, among the most highly rated in the mortgage study of the German Institute of Quality and Finance);
- launch of the Apple Pay service;
- Wise project - new platform for global advisory and asset planning services, which provides a complete solution of robot for advisors for the entire work cycle of the advisor and to contribute to an even more satisfactory customer experience;
- Widiba Home - app for smartphones (first of its kind), which allows the customer, using a 3D viewer, to enter a true virtual branch, where he/she can check accounts or perform transactions, independently or with the help of an avatar. The service received international recognition from EFMA, and within just two months from its launch, had been downloaded by more than 10 thousand customers;
- Widiba Dialog - first mixed reality app for financial advisory services. Using Microsoft's HoloLens technology, Widiba's Financial Advisors can innovatively share advisory data and proposals with their customers through holograms positioned in the physical world.
- Global Innovator Challenger Player international award from EFMA for innovation in processes and customer experience.

Indicators - Customer experience	2017	2016	GRI Standards
Customer satisfaction [(*)]	4.8	4.7	Disclosure 102-43 e 102-44
Total number of substantiated complaints received - parent company (number) [(**)]	2.223	2.537	
Total number of substantiated complaints received - Widiba (number)	155	218	
Total number of incidents of non-compliance with regulations and/or voluntary codes concerning product and service information (number)	3 [(***)]	-	Disclosure 417-2
Total number of incidents of non-compliance with regulations and/or voluntary codes concerning marketing communications (number)	1 [(****)]	-	Disclosure 417-3

(*) data referring to Banca Widiba customers - measurement of customer satisfaction after completing each transaction on the Widiba platform, with a rating on a scale from 1 to 5 stars (in 2017 160,263 opinions were collected with an average score of 4.8/5). The 2017 customer satisfaction survey data of Parent Company customers is being prepared and will be available by the end of 1Q2018 (in 2016 no customer satisfaction surveys were carried out)

(**) complaints collected are defined as those that have been processed in the period with a favourable outcome to the customer or that were determined to be valid; data is extracted from the "complaint registry" technology platform and monitored in compliance with the specific regulatory provisions of supervisory authorities

(***) involves: (i) a finding by which the Bank of Italy has highlighted cases in which it is necessary to improve certain areas of account statement information; in this regard, corrective actions have already been initiated; (ii) a measure by the Italian Anti-Trust Authority (AGCM) adopted at the meeting of 20 September 2017 on the marketing of diamonds for investment. The measure highlights violations of regulations on commercial practices, with financial penalties assessed. This measure was challenged before the Lazio Regional Administrative Court. In this regard, note that the Parent Company, even before the notification in its responsibility from the provision in question, as soon as it became aware of the opening on 25 January 2017 by AGCM of a proceeding against the broker Diamond Private Investment (DPI), independently, beginning on 3 February 2017, suspended the reporting to DPI of its customers; (iii) a request by AGCM to remove the profiles of alleged unlawfulness for the supposed absence or incompleteness, in communications sent to customers or posted on the website, of relevant information on the characteristics and conditions of use of the certified electronic mail and digital signature services associated with the internet banking service. Actions have been taken to adapt to the authority's requests.

(****) refers to an AGCM measure adopted at the meeting of 27 April 2017 on remuneration for the SEDA service (SEPA Electronic Database Alignment); the measure notes an infringement of anti-trust law. This measure was challenged before the Lazio Regional Administrative Court.

6. SERVICE SECURITY

Policies

The policies on this issue are formalised within a specific document of internal rules that provides the guidelines, framework, and management standards to all Group companies: "Policy on Logical Security". It is aligned with the highest quality and compliance requirements in relation to the various operational areas and risk sources:

- information security (ISO/IEC 27001:2013 and 27002:2013);
- operational continuity (ISO 27031:2011 and ISO 22301:2012);
- IT risk management (ISO/IEC 27005);
- ICT security (ISO 13335:2004);
- payment card data protection (PCI-DSS - Payment Card Industry Data Security Standard).

On a strategic level, through a specific three-year programme, IT security objectives are defined to mitigate the risks inherent to the confidentiality, integrity, and availability of information.

Risks/Opportunities

IT risks are identified in a preventive approach through periodic extensive analyses on the systems. Risks that cannot be avoided are mitigated and kept under control through a formalised process of managing the residual risk, including obtaining specific insurance coverage.

In particular, the risks of cyber fraud, to which, for example, customers operating on remote banking services may be more exposed, are captured and thwarted through specific prevention and protection systems, which allow the use of the service in a secure manner. The scope of these systems is proportional with the general business propensity to risk (Risk Appetite Framework) and the systems are implemented in close collaboration with law enforcement. Critical issues arise largely due to the characteristics of the personal technology equipment of customers (may not always have adequate settings for protection systems) and in the behaviours adopted in their use. In response to this issue, awareness-raising campaigns have been carried out for customers on the dangers of certain viral phenomena like spamming and phishing, and how to defend themselves.

To protect personal data, additional security and control safeguards are put in place that, in implementation of regulatory measures set forth by the Privacy Authority, allow, *inter alia*, the complete traceability of banking transactions carried out by employees and the activation for all Group companies of alerts in cases of potentially unauthorised access.

Management Model

An overall security management system is in place (organisation, processes, procedures, and technology solutions) to protect the information assets of the Group and its customers. In particular, the Logical Security and Operational Continuity Service, within the Chief Operating Officer Division, is responsible for:

- defining policies on logical security;
- monitoring and managing reports on anomalies in the infrastructure and system applications;
- managing the Group's business continuity;
- performing the functional reporting on the security functions of Consorzio Operativo and Group companies, which independently manage information systems that affect the operations of the company to which they belong and/or that of other companies (Italian or foreign) of the Group;
- performing the functional reporting on the Security Information Function of foreign branches.

Results

In 2017, activities related to this issue aimed to strengthen the Parent Company's controls and consolidate the technology security structures used by Consorzio Operativo and other Group companies.

The primary initiatives included the following:

- verification of the robustness of the Parent Company's security systems, identification of improvement areas and resulting development of an action plan;
- completion of certain projects designed to reinforce the technology infrastructure and increase the overall security and resilience of information systems;
- strengthen collaboration with law enforcement and other competent bodies (e.g., Certifin) to improve the ability to fight cyber fraud and other external threats.

Indicators - Information security	2017	2016	GRI Standards
Total number of substantiated complaints received concerning data breaches and customer privacy (number)	5 (*)	1	Disclosure 418-1
IT security level (*)	680	620	

(*) relates to: (i) 2 customer complaints for violation of personal data (ii) 2 complaints by the Privacy Authority for the Protection of Personal Data submitted in 2015 (and still pending) related to behaviours of employees and/or financial advisors that could result in the imposition of administrative penalties; (iii) 1 case of an anomaly in the functioning of the internet banking service dedicated to businesses, which occurred over a limited period of time (a few hours) and reported to the authority in accordance with current legislation.

(**) independent rating from BitSight Security Ratings (scale 250 - 900) https://www.bitsighttech.com/security-ratings

the rating covers the following evaluations: a) presence of compromised systems; b) user behaviour; c) prevention systems; d) data loss

7. CORRUPTION

Policies

The Group considers compliance with laws, industry regulations, and the principles of ethics and social responsibility an essential condition for the maintenance and improvement of business value.

In particular, it is committed to combating all forms of corruption by adhering to the principles promoted by the United Nations Global Compact Programme and in coherent implementation of the relevant policy included in its Code of Ethics:
"The Group does not tolerate corruption and commits to comply with the relevant laws and to implement all measures necessary to combat corruption in all its forms, including the promise and/or payment of bribes. In particular, it is forbidden to pay or accept amounts of money, or to carry out other forms of corruption for the purpose of obtaining undue advantages, direct and indirect, for the Group. Any gifts to or from third parties, including Christmas gifts or upon special occasions, are permitted within the limits of the norms of hospitality and courtesy".

This policy will be further clarified in 2018, including through the development and formalisation of a specific guidance document.

Risks/Opportunities

Risks related to corruption, both ordinary (Criminal Code Book II, Title II, Section I) and between individuals (art. 2635 of the Italian Civil Code), can result in litigation with the parties involved and defendant legal proceedings, with effects on reputation.
These risks are identified every two years through formalised assessment procedures. They mainly arise in activities such as: granting credit, recognition of gifts, allocating contributions in the form of sponsorships, awarding supply and consulting contracts, as well as in the context of personnel management activities (management of bankruptcy proceedings and direct recruitment, internal selection, recognition of ad personam fees, etc.).

Management Model

Offences relating to corruption are avoided through the implementation of the Organisational Model that Group companies have adopted pursuant to Legislative Decree no. 231/2001, which includes:

- periodic risk self-assessment by the heads of various organisational units;
- rules and operating procedures to evaluate and prevent compliance risks;
- financial resource management and control processes for higher risk activities;

- periodic training and behavioural protocols for all personnel;
- systems for reporting offences and disciplinary procedures.

To constantly monitor and update this Model, the Board of Directors has assigned specific responsibilities to the Supervisory Body (consisting of three members, two of whom are external professionals and a non-executive, independent Board member). To support the verification and control of the Model's effective implementation, suitable internal reporting systems are in place for presumed irregularities committed by employees, executives, members of the Board of Directors and Board of Statutory Auditors, as well as associated third parties (suppliers, consultants, etc.), with functional characteristics designed to ensure confidentiality and/or other reporting safeguards:

- intranet communications to the Supervisory Body;
- formal communications to the Compliance and Internal Audit functions;
- whistleblowing procedure.

Additional business rules govern:

- the spending capacity of various organisational units, signature powers of each employee, and detailed procedures for expense authorisation;
- authorisation processes relating to the offer of products and services;
- lending autonomy (through ad hoc regulations);
- relations with the Public Administration (e.g., political contributions or other disbursements, in cash or in kind, to support political causes are prohibited).

Results

Indicators - Corruption	2017	2016	GRI Standards
Training about anti-corruption (hours) (*)	20.662	2,784 (**)	Disclosure 205-2
Total number of employees that have received training on anti-corruption (number) (*)	20.288	928 (**)	Disclosure 205-2
Internal reports of alleged cases of corruption (number)	0	0	Disclosure 205-3
Total number of incidents of non-compliance with regulations and/or voluntary codes concerning anti-corruption (number)	0	0	Disclosure 205-3

(*) data refers to personnel on the payroll of: Parent Company, MPS Capital Services, MPS Leasing&Factoring, Consorzio Operativo, and Widiba (excluding financial advisors)

(**) data not comparable with the 2017 figures, as it relates only to the last portion of a training programme on the issue that began in 2014 and delivered to all employees

8. SME SUPPORT

Policies

The enhancement of the private sector is one of the main objectives of the 2017-2021 Business Plan. In particular it provides:

- a new small business customer service model based on a simplification of the offer and continuous attention focused on the granting of loans and the associated risks;
- streamlining of corporate segment activities, as a result of the revision of the business model and optimisation of capital absorption;
- improvement of credit quality and of the credit risk management process, new impetus in loan disbursement through an increase in small business mortgage volumes.

Development of the service to businesses is based on an approach highly focused on the customer relationship and is implemented in line with the instructions of the Credit Policy, with particular attention to the quality of loans.

Risks/Opportunities

Small and medium-sized businesses are the backbone of the economic-production-employment system in Italy. For these companies, bank credit is the main source of financing and thus a key factor for the country's sustainable economic growth.

For the Group, knowing how to best support small and medium-sized businesses (primarily through lending) is central to the business and a social responsibility. The associated risk profiles are mainly of a credit nature, for which robust management models are in place, and reputational, in relation to any gaps that may arise in the expansion of banking activities expected in local communities after a general credit crunch.

Management Model

The corporate segment is widely spread throughout regions by means of a distributed network of specialised centres (approx. 100 serving SMEs) with the aim of supporting an approach strongly focused on the relationship and contact with customers.

In this regard, the "Corporate and Credit Regata" process is especially important, which includes:

- frequent visits to companies;
- definition of shared growth plans;
- monitoring of actions implemented and defining any corrective measures.

The commercial offer includes loans to support the business growth, in particular:

- investments for the purchase of machinery, equipment, operating assets, and production equipment, as well as hardware, software, and digital technologies, within the scope of subsidies made available by the Ministry of Economic Development with the "Sabatini Ter" initiative;
- investments and innovation incentivised by the 2017 Stability Law (MPS Corporate Industry 4.0).

SMEs receive other structured supports through:

- an innovative service model in the field of subsidised lending, in partnership with a leading specialised company, to take advantage of the important opportunities provided by Industry 4.0;
- Corporate Advisory Platform, to assist clients in analysing their historical competitive positioning and develop their future positioning with a 3-5 year business plan;
- internet banking services, which continuously strengthen oversights on security and quality of service (e.g., for electronic invoicing);
- a range of advisory solutions, products, and services for import-export businesses, for which additional internet banking services are provided.

Results

- In order to support the growth of the economy and, at the same time, offer more competitive conditions to customers, special loan pools were set up in 2017.
- Advisory and subsidised loan services were particularly active (1,800 visits and 900 advisory proposals) and allowed customers to obtain benefits of approximately EUR 29 mln, in terms of principal/interest contributions and tax credits.
- Through the "Corporate and Credit Regata" process, 55,500 growth plans were completed with customers.
- In the small business segment, priority was given to:
  - optimising the offer;
  - defining conventions and agreements with guarantee institutions and trade associations;
  - enhancing risk mitigation requirements and agreements with guarantee institutions to facilitate access to credit;
  - financing medium/long-term investments and growth (also thanks to government subsidies);
  - offering value-added ancillary services (subsidised finance, startup consultancy, credit scoring).

9. GREEN FINANCE

Policies

Consistent with the general guidelines established by the Code of Ethics and in compliance with the principles promoted by the United Nations Global Compact Programme, the Group has been committed for several years to implementing an Environmental Policy with the objective of contributing to environmentally sustainable economic growth, through appropriate credit and financial support to businesses, households, and institutions

(https://www.gruppomps.it/static/upload/tut/tutela_ambientale_-_gruppo.pdf).

At present, banking industry policies have not been defined. In fact, the reference framework of credit policies does not have the necessary detail to be able to formulate strategic guidelines based on the environmental risk/value characteristics of each economic sector and, therefore, only qualitative guidelines can be established. In this regard, new developments are expected in the future in relation to guidelines emerging from institutions, regulatory bodies, and industry authorities, which the Group is committed to implementing in its operations.

Risks/Opportunities

Environmental risks (and related legal liability) and their impacts on the sustainability of the Group's credit-lending activities with customers, are evaluated differently for each market segment. Special focus and specific management models are implemented by the subsidiaries MPS Capital Services and MPS Leasing&Factoring in their respective businesses.

Management Model

The issue is understood and monitored through formalised procedures that, in particular in the Parent Company and MPS Capital Services, have been, for a number of years, coherently implemented within specific management models certified according to ISO 14001, which work alongside more general organisational models adopted pursuant to Legislative Decree no. 231/2001.

Environmental impact objectives are pursued by defining and continuously updating lending products that are finalised for the customer offer and specific risk assessments.

Financing products

- Large companies - largest Italian producers of electricity from renewable sources are granted revocable lines of credit and/or medium/long-term transactions (pools or bilaterals). These lines provide financial support for current operations and/or the issue of unsecured loans.
- SMEs
  - Welcome Energy - product to finance new photovoltaic plants (pursuant to Ministerial Decree no. 143 of 10 July 2012) and associated investment expenditures (costs to purchase land, construction and infrastructure expenses, maintenance contract, etc.);
  - Montepaschi Clean Energy - product to finance new plants for producing electricity from renewable sources (excluding photovoltaic), beneficiaries of the "all-inclusive tariff" and with maximum power up to 1 MW (wind, hydroelectric, plants powered by biomass, waste, biogas, and ocean sources). The product also supports investments for the refurbishment/upgrading of existing plants, within the limits indicated in regulations for access to the all-inclusive tariff;

  - corporate finance products handled by MPS Capital Services (medium/long-term loans, structured finance, acquisition finance, project finance, etc.).
- Small business - does not include ad hoc products; this type of financing is possible through the ordinary offer in the catalogue.
- Consumers - Mutuo Natura, a mortgage loan to requalify energy in housing that will be further developed in 2018 in line with the European guidelines on energy efficient mortgages (which the Group follows, in relation to the EEMAP Project - Energy Efficient Mortgages Action Plan). The additional unsecured financing products currently in the catalogue that are considered "green" (e.g., Siena Restart and Prestisole) will be rationalised into a single product to respond even more effectively and efficiently to customer needs.

Assessing environmental risk in lending

- Medium/long-term loans - transactions managed by MPS Capital Services, in addition to checks on compliance with governing environmental regulations for the specific project envisaged during the preliminary assessments, are subject to a screening that considers: the danger of the activity and sector legislative requirements, size of the business, and attainment of environmental certifications. The environmental rating (assigned to the transaction by the system algorithm which considers the above-mentioned variables) contributes to determining creditworthiness. In addition, especially in the most significant project finance transactions, specific contractual clauses are envisaged, differentiated according to the investment type, which commit the borrowing firm to comply with the laws and regulations established by local authorities as well as any other standards of quality regarding environmental protection, workplace health and safety, employment agreements and transparency in tender contracts. In these cases, compliance with the agreed standards is monitored in the various phases using the documentation provided by the customer or through due diligence carried out by external consultants. In the event of failure to comply with these agreements, the Bank is entitled to apply the agreed financial penalties.
- Loans to large companies - in the financial documentation for pool or bilateral finance transactions, where relevant to the business activities, there are commitments, for the borrowing party, to comply with environmental legislation, as well as specific declarations that all authorisations and certifications envisaged by the environmental regulations have been obtained. In this regard, some specific informative evaluations are carried out within the framework of the qualitative analysis for assigning the rating through an electronic credit procedure.
- Real estate leasing - with the support of external specialists, the assets acquired (and the customer's activities) are assessed through an environmental scoring model that weighs factors such as: asset type, intended use, environmental context in which it will be used, customer's production activity, legal context, and attainment of appropriate certifications. The transactions that pass this first screening, and any measures to mitigate the related environmental risks, are subject to monitoring (this activity is still to be launched). Issues that emerge as the project is underway are promptly reported and resolved. Instead, the riskiest transactions are the subject of appraisals and other analyses that, in the event of a negative outcome, interrupt the process and determine how the application should be handled.

Results

- As at 31 December 2017, the Parent Company had around 2 thousand green loans to SME customers for about EUR 660 mln.
- During the year, MPS Capital Services approved 58 loans (around EUR 924 mln), which in 75% of cases were assessed as having a low environmental impact. 11 transactions, for about EUR 107 mln, concerned renewable energy sectors.

- MPS Leasing&Factoring stipulated 204 new real estate transactions for around EUR 119 mln. Of these, 3 transactions totalling EUR 4 mln required more detailed analyses of the related environmental risks (2 were financed, 1 is currently being evaluated).

Indicators - Green Finance	2017	2016	GRI Standards
Monetary value of products and services designed to deliver a specific environmental benefit (€/mln) (*)	107	240	G4-FS8 (Sector Disclosure)
Share of assets with a positive environmental rating grade (%)	75%	86%	G4-FS11 (Sector Disclosure)

(*) financing granted by MPS Capital Services

(**) data referring to financing assessed by MPS Capital Services

10. FINANCIAL INCLUSION

Policies

"In relationships with customers, focus is given to the needs of the more vulnerable members of society, with the promotion of access to banking services, informed use of credit, and the prevention of over-indebtedness".

These principles, established by the Code of Ethics, have been implemented over time through:

- products and services for customers with low assets and income;
- support to individuals and businesses in temporary economic difficulty;
- disbursement of small loans to individuals and non-bankable companies, through significant investment and other supports from a specialised operator: Microcredito di Solidarietà Spa.

The commercial policies currently implemented do not contain specific, formalised guidelines on this issue.

Nonetheless, the objectives of financial inclusion continue to be supported in the network by listening attentively to customers' needs to ensure the most suitable profiling of the service proposal starting from an initial catalogue of rational and generally standard offerings. Notwithstanding the social policy and the work of Microcredito di Solidarietà Spa, predominantly focused in the province of Siena (https://www.microcreditosolidale.eu/).

Risks/Opportunities

The emergence of a significant segment of individuals and small businesses that have difficulty in relationships with banks is an expression of a broader and more general social problem of growing inequalities and risks of exclusion, which requires systemic responses. Financial inclusion, and in particular microcredit, may be part of the solution, but the associated risks must be duly considered, especially if there is no collateral. Microcredito di Solidarietà anticipates these risks, first of all by investing in building a trust relationship with the customer and then applying solid yet practical creditworthiness assessments (Ethical Pact).

Management Model

The responses to the requests for access to banking services by the most vulnerable customers are processed by the Retail Division, often in compliance and coherent with measures by the government and/or local public administrations.

Although current marketing and product strategies are geared towards rationalising the offer catalogue, a targeted diversification of the catalogue is appropriate to more effectively handle the unique needs of certain socio-demographic clusters:

- current account services - the catalogue includes 4 types of current accounts (2 for general consumer customers and 2 for pensioners) with considerable facilitations for account fees and basic services, commensurate with the customer's asset and income profile (ISEE);
- education loans - Diamogli Futuro: unsecured loan for young university or postgraduate students, between 18 and 40 years old;
- reverse mortgages and financial services for the elderly - Prestito Vitalizio Ipotecario: intended for customers over 65 years of age, who, due to their age, have difficulty in obtaining typical financing to cover expenditure needs;
- startups - financing and auxiliary support for startups and small businesses with low credit ratings, including through partnerships with consulting, innovation and business acceleration service providers;
- advances on INPS reimbursements for redundancy - to benefit employees of companies in financial difficulty, who are using the redundancy benefit scheme, both "extraordinary" and "in derogation". The advances, made available by the Bank with repayment in 4-7 months, ensure income continuity for the employees, including those in solidarity contracts;
- loan suspension - for consumer customers who have difficulty in repaying loans for serious reasons, such as: loss of employment, the death of one of the mortgage co-signors, damages suffered from natural disasters.

In terms of microcredit, the Parent Company uses Microcredito di Solidarietà Spa (MdS), of which it is the majority shareholder:

- MdS is a microcredit provider with registration no. 6 in the special registry pursuant to art. 111 of the Consolidated Law on Banking;
- operates mainly in the province of Siena through 38 welcome centres, an expression of the social fabric and local volunteerism;
- employs seconded personnel and retired employees of the Parent Company;
- provides small, unsecured loans to individuals, training initiatives, startups, and small businesses A small portion of the loans are used to acquire and restore liquidity;
- uses credit assessment and follow-up procedures that are formalised, digitised, and traceable.

Results

At the end of 2017, "basic" current accounts had been opened for 3,261 customers (453 new accounts during the year).

During the year, MdS granted 229 loans, for around EUR 748 thousand, and pursued the objective of developing production microcredit, including by defining specific agreements for collaboration with financial institutions, credit cooperatives, and local business networks.

Indicators - Financial inclusion	2017	2016	GRI Standards
Monetary value of products and services designed to deliver a specific social benefit (€/mln)	0.748	0.644	G4-FS7 (Sector Disclosure)

loans disbursed by Microcredito di Solidarietà Spa.

11. FINANCIAL EDUCATION

Policies

Over the years, the Group has undertaken a detailed programme on this issue, especially by supporting schools in their plans to gradually integrate economic and financial literacy into their curricula.

The activities are based on principles of social responsibility and are intended as a contribution to strengthening the nation's basic cultural understanding, to achieve a more informed and sustainable use of money, credit, and financial instruments in general. The Group undertakes this commitment directly in relation to customers, in accordance with the Code of Ethics.

The activities are carried out systematically, through ongoing partnerships and participation in systemic projects, but its guidelines are not currently formalised in a specific policy.

Risks/Opportunities

The lack of a widespread financial culture is a gap that cannot be reconciled with the social inclusion standards expected in this country as well as a gap in the competitiveness of Italian students compared to their European peers. It also represents a serious limit to the informed use of money by individuals and to general sustainable economic growth in Italy.

The initiatives in this area are an opportunity for the Group to highlight its identity as a socially responsible entity and consolidate brand awareness among the relevant public audience.

Management Model

The main activities for this issue are handled centrally by the Sponsorship and Cultural Activities Service, within the External and Institutional Relations Division. The approach is mainly of a project nature, as no ordinary working procedures are currently formalised.

The flagship project is Young Factor, promoted by the Osservatorio Permanente Giovani-Editori and identified as one of the major national initiatives in the latest surveys developed by supervisory authorities (www.young-factor.it and www.osservatorionline.it). Since its launch in 2014, the Group has participated in the initiative, along with Intesa Sanpaolo and Unicredit, contributing financial resources and internal expertise in the following activities for secondary school students:

- educator training through texts, videos, meetings, and the possibility to receive assistance from a team of experts and a dedicated call centre;
- preparation of a "workbook", made available to educators and students from a team of trainers and lecturers from the best Italian universities;
- meetings and major events in regional areas with journalists, experts, and international authorities who meet with students from various Italian schools;
- monitoring levels of satisfaction and understanding of the participants, by a leading research institute.

Results

Indicators - Financial education	2017	2016	GRI Standards
Beneficiaries - schools (number)	2.815	2.805	G4-FS16 (Sector Disclosure)
Beneficiaries - classes (number)	19.363	19.218	G4-FS16 (Sector Disclosure)
Beneficiaries - teachers (number)	7.672	7.569	G4-FS16 (Sector Disclosure)
Beneficiaries - students (number)	504,400	500.207	G4-FS16 (Sector Disclosure)

data refers to Young Factor project

ANNEX

Other issues

Use of energy

Workplace health & safety

Human rights (focus on supply chain)

Identification of principal risks incurred and generated and the impacts connected to the material issues

OTHER ISSUES - USE OF ENERGY

Policies

Consistent with the general guidelines established by the Code of Ethics, in accordance with legal requirements, and in compliance with the principles promoted by the United Nations Global Compact Programme, the Group has been committed for several years to implementing an Environmental Policy with the objective of gradually improving the environmental impact of operations (https://www.gruppomps.it/static/upload/tut/tutela_ambientale_-_gruppo.pdf).

More specifically, energy policy guidelines have been followed, which include:

- analysis and thorough understanding of the energy impacts of business activities, including during design and/or purchase of plants;
- regulatory compliance and observance of any voluntary commitments;
- efficiency measures and containment of energy use;
- obtaining energy from renewable sources;
- monitoring consumption data.

Risks/Opportunities

The efficient and socially responsible use of energy is particularly significant to control the Group's overall impact on the environment and is a driver for containing operating costs, which have been substantially implemented over the past 3-5 years with the deployment of purchasing strategies using a portfolio management approach. This strategy also enabled the related operational risks to be reduced.

Management Model

The energy policy is governed by an Energy Manager, certified according to UNI-CEI 11339 standards (within the Chief Operating Officer Division). The current organisational model ensures compliance with regulatory requirements and a specific management system in compliance with the ISO 50001 standard is under development.

Results

The main activities in 2017 included:

- energy & facility management project - 2017-2019 three-year plan which envisages additional substantial electricity savings (EUR 3 mln per year when fully operational);
- interventions for energy efficiency of the technical plants in 39 branches and 11 large properties;
- installation of automatic, centralised mechanisms to regulate energy for about 1,000 branches and 20 large properties (to be completed over the three-year plan);
- installation of tools to monitor consumption, environmental data, and for remote management of the main plants.

Indicators - Energy consumption	2017	2016	GRI Standards
Electricity consumption (MWh)(*)	146.462	150.197	Disclosure 302-1
Share of electricity consumption from renewable sources (%) (*)	100%	100%	Disclosure 302-1
Heating consumption - fuel gas (cubic meters)(*)	3,708,180	5,229,265	Disclosure 302-1
Heating consumption - fuel oil (litres)(*)	338.668	382.722	Disclosure 302-1
Direct (Scope 1) CO_{2e} emissions (metric tons)	10.924	14.165	Disclosure 305-1
Energy indirect (Scope 2) CO_{2e} emissions (metric tons)	0	0	Disclosure 305-2

(*) data referring to: Parent Company, Consorzio Operativo, MPS Capital Services, Perimetro Gestione Proprietà Immobiliari, WIDIBA, and Magazzini Fiduciari Generali di Mantova. The considerable reduction in natural gas consumption is due primarily to the rationalisation plan for branch offices and improvement in the monitoring system.

(**) electricity purchased on the free market produced entirely from water sources; about 161 MWh were produced through photovoltaic installations and consumed locally

(***) data referring to the Parent Company, calculated according to the ISPRA - National Inventory Report methodology: a) to calculate scope 1, the emissions generated by heating systems, company cars for business use, and for 70% of those as a fringe benefit were included; b) to calculate scope 2, a market-based approach was used, setting the value of the emission coefficient from a renewable source to "zero"

OTHER ISSUES - WORKPLACE HEALTH & SAFETY

Policies

Consistent with the general guidelines established by the Code of Ethics, in accordance with legal requirements, and in compliance with the principles promoted by the United Nations Global Compact Programme, the Group has been committed for several years to implementing a policy on workplace health and safety (https://www.gruppomps.it/static/upload/sal/salute_e_sicurezza.pdf).

The policy was issued by the Parent Company's Board of Directors in 2008. Senior executives and management are responsible for its implementation.

Risks/Opportunities

The RAD (Risk Assessment Document) identifies risks and related factors of danger for this issue. For each risk, the document describes:

- assessment of each risk;
- management methods and actions takes in compliance with the current regulations in force;
- prevention and protection measures to be adopted and improvement programmes to be considered in ordinary maintenance activities and in the restructuring plans for the various relevant production units;
- internal fire prevention, emergency, and first aid procedures.

The RAD is updated periodically and in relation to any significant changes to the activities

Management Model

The policy for this issue is implemented in a highly organised manner. For activities of the Parent Company, MPS Capital Services, and Consorzio Operativo, management systems are also in place that are certified in accordance with the OHSAS18001 standard (Occupational Health and Safety

Assessment Series), along with the more general organisational models adopted pursuant to Legislative Decree no. 231/2001.

At the head office level, the issue is coordinated by the Prevention and Protection Service, within the Chief Operating Officer Division.

Other roles that are especially relevant to the proper functioning of the system are:

- senior management representative (identified as the employer's delegate pursuant to Legislative Decree no. 81/08), who supervises the system maintenance and improvement objectives;
- system manager, who is responsible for planning and ensuring the actions identified as necessary to ensure compliance and system performance are carried out;
- network of doctors responsible for health supervision;
- security representative for employees.

Results

The main activities in 2017 included:

- updating of internal regulations on tobacco smoke on company premises to include a ban on the use of electronic cigarettes;
- work-related stress mitigation measures;
- asbestos project, with continued clean-up and monitoring activities;
- launch of the analytical evaluation of catastrophic risks;
- assessment of the risk of internal noise, with continued analytical verification on a sample basis for a series of properties;
- assessment of the risk of workplace air quality, with continued analytical verification on a sample basis;
- analytical evaluation of largest sources of electromagnetic fields;
- continuation of the radon gas monitoring activities throughout Italy and additional evaluations for the offices in Puglia, in compliance with a new regional law;
- launch of the project to replace old life-saving equipment for workers in isolated areas with more current models;
- continuation of updates on workers subject to health surveillance, including in relation to various organisational changes that have been implemented.

Indicators - Occupational health&safety	2017	2016	GRI Standards
Injuries at work (number)	129	109	Disclosure 403-2
Injuries on the way to work (number)	192	200	Disclosure 403-2
Frequency of injuries at work (*)	3.70	2.94	Disclosure 403-2
Frequency of injuries on the way to work (*)	5.51	5.39	Disclosure 403-2
Severity of injuries at work (*)	0.10	0.09	Disclosure 403-2
Severity of injuries on the way to work (*)	0.20	0.16	Disclosure 403-2

data referring to: Parent Company, Consorzio Operativo, MPS Capital Services, MPS Leasing&Factoring, and Widiba

(*) UNI 7249:2007 methodology for statistics on workplace accidents

OTHER ISSUES - HUMAN RIGHTS

Focus on the supply chain and the methods for verifying any discriminatory factors and other limitations on the protections due to workers.

Policies

"The Group considers the conduct of organisations with which it relates, directly or indirectly, in terms of professionalism and reliability, giving particular attention to their possible involvement in unlawful activities, detrimental to human rights, and harmful to the health and the safety of humans and the environment.
[...] In particular, suppliers must ensure professionalism in business, respect the rights of their workers, invest in quality, and responsibly manage environmental and social impacts."

The Code of Ethics has set forth the above statements.

These commitments for the protection of human rights are implemented in compliance with the principles promoted by the United Nations Global Compact Programme and, with regard to specific aspects concerning the management of supplier relationships, formalised guidelines are set forth in the relevant policy (https://www.gruppomps.it/static/upload/sos/sostenibilita_degli_approvvigionamenti.pdf).

Risks/Opportunities

The risk (operational and reputational) of undertaking supply relationships with companies that are not able to prove constant compliance with regulatory obligations in terms of human rights and employee rights is monitored through an indirect preliminary verification, based on the prices of the service offered. In cases where the prices are not consistent with market values, and therefore also the employee wages and working conditions may be lower than the minimum union and legal wages, the supplier cannot be awarded the contract.

Management Model

The overall management and monitoring activities of the supply chain are performed by the Group Purchasing and Supplier Management Service, within the Chief Operating Officer Division, with particular attention to the evaluation, registration, and maintenance of the supplier registry, as well as the awarding and contracting of services.

Checks on possible risk factors pertinent to respect for human and workers' rights and preventive measures include:

- acceptance by the supplier of the behavioural principles established by the Group's Code of Ethics both upon qualification/entry in the registry and upon signing of contracts and service agreements;
- supplier's obligation to exhibit, when the first invoice is issued, appropriate formal documentation attesting the proper application of the collective labour agreements (Single Document Certifying Contributions), an extract from the Single Labour Registry, a declaration that replaces a notary deed acknowledging the effective payment of compensation due to employees of the specific service);
- additional checks, during qualification/entry in the registry, on companies operating in sectors at higher risk for issues involving health, safety and other fundamental rights of workers (e.g.: general contractors, facility management, cleaning services and environmental sanitation): the supplier's economic-financial situation, status of payments with sub-contractors in the supply chain, effective

possession of permits to perform the awarded activities, adoption of prevention and safety measures, investments in specialised training, and appropriate assessment of business risks.

Results

In 2017, the Group pursued the objective of increasing the ability to identify and evaluate, during the selection phase, suppliers who guarantee the highest standards of operational correctness, quality, innovation and sustainability of processes and services. For that purpose:

- the information set used for evaluations and monitoring was revised and supplemented, and collected both through the purchasing portal and from infoproviders;
- special emphasis has been placed on the requirement for possessing the appropriate certifications for ongoing suppliers, operating in the most sensitive sectors. From 2018, these sectors are also expected to create real vendor lists to report the best suppliers available in accordance with these profiles to the relevant expenditure centres.

Indicators - Human rights (supply chain)	2017	2016	GRI Standards
Incidents of discrimination and/or violations og workers rights in the supply chain (number)	0	0	Disclosure 406-1
Suppliers with certifications ((ISO9001, ISO14001, OHSAS18001, etc.) (number)	614 (*)	na	

(*) equivalent to 53% of the 1,154 suppliers of the Group (individual lessors and professionals were excluded from the calculation, as they cannot be certified)

IDENTIFICATION OF MAIN RISKS (INCURRED AND GENERATED) AND IMPACTS RELATED TO MATERIAL ISSUES

ISUUE	ORIGIN (examples)	INCURRED RIKS (by the organization) Type	Description	Assessment and management methods	GENERATED RISKS (*vis a vis stakeholder*)	IMPACTS (*on society*)
1. Employment	Outsourcing of activities and structural headcount reductions	Operational	Difficulties to ensure adequate coverage of roles and the operational continuity of some activities	Preliminary impact analysis, with indication of mitigation actions aimed at guaranteeing the business continuity	Social risks *Information asymmetry, customer awareness*	Social impacts *Employment levels in regions where the bank has a significant presence*
			Disputes with employees	Preliminary impact analysis, with indication of mitigation actions aimed at preventing disputes with employees		
		Reputational	Employee satisfaction	Preliminary impact analysis, with indication of mitigation actions aimed at avoidinf demotions of employees		
2. Employee development **3. Diversity** **4. Welfare**	Training gaps; Remuneration/Incentive criteria; Assessment criteria and job development paths	Operational/compliance	Disputes with employees (e.g. on discrimination cases); Compliance gaps with laws, regulations, contractual requirements	Monitoring of disputes with employees	Social risks *Social-economic growth of employees;* *Social-economic growth of female personnel*	Social impacts *Participation of women in the economy* *Welfare state*
		Reputaztional	Weekness in the employer branding strategy; Employee satisfaction	Qualitative assessments aimed at addressing management actions for corrective and / or risk mitigation purposes		
		Other risks	Parziale sviluppo e copertura delle necessarie competenze interne	Assessment of some macro risk indicators and risk-adjusted performances (consistent with the Risk Appetite Framework) as part of the remuneration and incentive policies. This is aimed at promoting awareness and risk culture among employees.		
5. Customer experience	Branch closures; Non-timely application of compliance procedures; Service level agreement gaps	Wealth/Operational	Customer compliants; Loss of customers	Monitoring of client portfolios aimed at ensuring consistency between the risk profile of customers and the risk characteristics of products in offer	Social risks *Service inefficiency;* *Economic losses from customers*	
		Operational	Customer compliants	Monitoring of customer compliants		
		Reputational	Customer satisfaction and bad referral; Loss of customers and long term impacts on brand reputation	Qualitative assessments aimed at addressing management actions for corrective and / or risk mitigation purposes (customer satisfaction surveys, media monitoring, etc.); Opinions on reputational risk exposure prior to the launch of new projects and products		
6. Information security	ICT operating gaps; Cyber crime cases; Data breaches	Operational	Temporary interruption of some activities	Cyber crime insurance coverage	Social risks *Service inefficiency;* *Economic losses from customers*	Social impacts *Use of personal data for illicit purposes*
		Operational/compliance	Customer compliants			
		Reputational	Customer satisfaction	Customer satisfaction surveys		
7. Corruption	Cases of corruption	Compliance	Disputes with employees; Legal proceedings	Organizational supervision, controls, training and other mitigation measures pursuant to the Model 231/2001		Social impacts *Shadow economy, illegality, organized crime, etc.*
		Reputational	Long term impacts on brand reputation	Reputational crisis management and stakholder communication		
8.SMEs support	Non performing loans	Credit	Loan detorioration and non perfoming growth rates	Credit risk management models	Social risks *Loan accessibility*	Social impacts *Economic growth*
		Reputational	Week brand awareness in the territories	Customer satisfaction surveys (focus on SMEs)		
9. Green finance	Non performing loans; Training gaps and non-timely application of new legislations on matter	Credit	Loan detorioration and non perfoming growth rates	Environmental credit risk assessment procedures	Social risks *Loan accessibility*	Environmental impacts *Environmental impacts of corporate financing, decarbonisation of the economy, smart cities, circular economy*
		Compliance	Partial / non-timely application of new rules			
		Reputational	Week brand awareness as a social responsible bank; Inconsistency with the Code of Ethics	Implentation of environmental policies		
10. Financial inclusion	Non performing loans	Credit	Loan detorioration and non perfoming growth rates	Credit risk management models	Social risks *Loan accessibility*	Social impacts *Exclusion*
		Reputational	Week brand awareness as a social responsible bank; Inconsistency with the Code of Ethics	Implementation of financial inclusion solutions		
11. Financial education	Week participation to national goals in matter; Non-timely application of compliance procedures	Compliance	Customer compliants concerning product and service information		Social risks *Information asymmetry, customer awareness*	Social impacts *Financial literacy, economic inclusion of underprivileged segments of the society*
		Reputational	Week brand awareness as a social responsible bank; Inconsistency with the Code of Ethics	Supporting financial education projects in the secondary schools		

Annexes

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

Reconciliation between the reclassified income statement as at 31 December 2017 and related statutory accounts

Accounts in Reclassified Profit and Loss Statement - Montepaschi Group	31/12/17	Accounts in the Profit and Loss Statement - Montepaschi Group		31/12/17	Operating Reclassifications		#######
Net interest income	1,788.3	Interest income and similar revenues	Item 10	2,703.5	(+) Economic effects from allocation of BAV acquisition costs to BMPS (PPA)		12.4
		Interest expense and similar charges	Item 20	-927.6			
Net fee and commission income	1,576.5	Fee and commission income	Item 40	1,907.3			
		Fee and commission expense	Item 50	-343.6			12.8
Income from banking activities	**3,364.8**			**3,339.6**			**25.2**
Dividends, similar income and gains (losses) on equity investments	101.0	Dividends and similar income	Item 70	15.3	(-) Reclassification of dividends on treasury stock transactions	Item 70 - Partial	-6.2
					(+) Portion of profit from equity investments (Gruppo AXA)	Item 240 - Partial	91.9
Net profit (loss) from trading and financial assets/liabilities	574.8	Net profit (loss) from trading	Item 80	-6.0	(+) Reclassification of dividends on treasury stock transactions	Item 70 - Partial	6.2
		Gains/losses on disposal/repurchase of:	Item 100	578.0			
		a) loans		1.4			
		b) financial assets available for sale		75.8			
		c) held to maturity investments					
		d) financial liabilities		500.8			
		Net profit (loss) from financial assets and liabilities	Item 110	-3.4			
Net profit (loss) from hedging	-3.7	Net profit (loss) from hedging	Item 90	-3.7			
Other operating income (expenses)	-11.3	Other income/expenses	Item 220	311.9	(-) Recovery of stamp duty and customers' expenses	Item 220 - Partial	-323.2
Total Revenues	**4,025.6**			**4,231.7**			**-206.1**
Administrative expenses:	-2,279.6	Administrative expenses		-3,083.0			
a) personnel expenses	-1,575.4	a) Personnel expenses	Item 180a	-1,857.2	(+) Restructuring charges	item 180a - Partial	281.8
b) other administrative expenses	-704.3	b) Other administrative expenses	Item 180b	-1,225.8	(+) Reclassification provision to BRRD and DGSD funds	Item 180b - Partial	91.9
					(+) Recovery of stamp duty and customers' expenses	Item 220 - Partial	323.2
					(+) Restructuring charges	Item 180b - Partial	35.5
					(+) DTA fee	Item 220 - Partial	70.9
Net adjustments to (recoveries on) property, plant and equipment / Net adjustments to (recoveries on) intangible assets	-263.4	Net losses/reversal on impairment on property, plant and equipment	Item 200	-133.1			
		Net adjustments to (recoveries on) intangible assets	Item 210	-156.1	(+) Economic effects from allocation of BAV acquisition costs to BMPS (PPA)		25.8
Operating expenses	**-2,543.0**			**-3,372.2**			**829.2**
Pre Provision Profit	**1,482.6**			**859.5**			**623.1**
Net impairment losses (reversals) on:	-5,460.0	Net impairment losses(reversals) on	Item 130	-5,460.0			
a) loans	-5,323.7	a) loans	Item 130a	-5,323.7			
b) financial assets	-136.3	b) financial assets available for sale	Item 130b	-93.1			
		d) other financial transactions	Item 130d	-43.2			
Net operating income	**-3,977.4**			**-4,600.5**			**623.1**
Net provisions for risks and charges	-232.9	Net provisions for risks and charges	Item 190	-232.9			
Gains (losses) on investments	-14.0	Gains (losses) on investments	Item 240	77.9	(-) Portion of profit from equity investments (Gruppo AXA)	Item 240 - Partial	-91.9
Restructuring costs / One-off costs	-330.2				(-) Restructuring costs / One-off costs	Item 180b - Partial	-330.2
Risks and charges related to the SRF, DGS and similar schemes	-91.9				Provision to BRRD and DGSD funds	Item 180b - Partial	-91.9
DTA fee	-70.9				(-) DTA fee	Item 180b - Partial	-70.9
Gains (losses) on disposal of investments	531.2	Gains (losses) on disposal of investments	Item 270	531.2			
Profit (loss) before tax from continuing operations	**-4,186.2**			**-4,224.4**			**38.2**
Tax expense (recovery) on income from continuing operations	709.6	Tax expense (recovery) on income from continuing operations	Item 290	722.2	(-) Economic effects from allocation of BAV acquisition costs to BMPS (PPA)		-12.6
Profit (loss) after tax from continuing operations	**-3,476.6**			**-3,502.2**			**25.6**
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 310				
Net profit (loss) for the period including non-controlling interests	**-3,476.6**			**-3,502.2**			**25.6**
Net profit (loss) attributable to non-controlling interests	0.1	Net profit (loss) attributable to non-controlling interest	Item 330	0.1			
Profit (loss) for the period before PPA , impairment on goodwill and intangibles	**-3,476.7**			**-3,502.3**			**25.6**
PPA (Purchase Price Allocation)	-25.6				(-) Economic effects from allocation of BAV acquisition costs to BMPS (PPA)		-25.6
Impairment on goodwill and intangibles		Impairment on goodwill and intangibles	Item 260				
Net profit (loss) for the year	**-3,502.3**	Net profit (loss) for the year		**-3,502.3**	Total		**0.0**

Reconciliation between the reclassified income statement as at 31 December 2016 and related statutory accounts

Accounts in Reclassified Profit and Loss Statement - Montepaschi Group	31/12/16	Accounts in the Profit and Loss Statement - Montepaschi Group		31/12/16		Operating Reclassifications		31/12/16
Net interest income	2021.3	Interest income and similar revenues	Item 10	3317.2	(+)	Economic effects from allocation of BAV acquisition costs to BMPS (PPA)		19.3
		Interest expense and similar charges	Item 20	-1315.2				
Net fee and commission income	1839.4	Fee and commission income	Item 40	2132.3				
		Fee and commission expense	Item 50	-293.0				
Margine intermediazione primario	**3860.7**			**3841.3**				**19.3**
Dividends, similar income and gains (losses) on equity investments	77.8	Dividends and similar income	Item 70	13.5	(-)	Reclassification of dividends on treasury stock transactions	Item 70 - Partial	-3.4
					(+)	Portion of profit from equity investments (Gruppo AXA)	Item 240 - Partial	67.7
Net profit (loss) from trading and financial assets/liabilities	441.2	Net profit (loss) from trading	Item 80	177.0	(+)	Reclassification of dividends on treasury stock transactions	Item 70 - Partial	3.4
		Gains/losses on disposal/repurchase of:	Item 100	161.5				
		a) loans		1.0				
		b) financial assets available for sale		108.4				
		c) held to maturity investments						
		d) financial liabilities		52.1				
		Net profit (loss) from financial assets and liabilities designated at fair value	Item 110	99.3				
Net profit (loss) from hedging	-82.0	Net profit (loss) from hedging	Item 90	-82.0				
Other operating income (expenses)	-15.7	Other income/expenses (net) from insurance activities	Item 220	328.5	(-)	Recovery of stamp duty and customers' expenses	Item 220 - Partial	-344.2
Total Revenues	**4282.0**			**4539.1**				**-257.2**
Administrative expenses:	-2402.5	Administrative expenses		-3175.2				
a) personnel expenses	-1610.5	a) Personnel expenses	Item 180a	-1727.5	(+)	Restructuring charges	Item 180a - Partial	117.0
b) other administrative expenses	-792.0	b) Other administrative expenses	Item 180b	-1447.7	(+)	Reclassification provision to BRRD and DGSD funds	item 180b Partial	241.1
					(+)	Recovery of stamp duty and customers' expenses	Item 220 - Partial	344.2
					(+)	DTA fee	Item 220 - Partial	70.4
Net adjustments to (recoveries on) property, plant and equipment / N	-218.8	Net losses/reversal on impairment on property, plant and equipment	Item 200	-111.8				
		Net adjustments to (recoveries on) intangible assets	Item 210	-134.6	(+)	Economic effects from allocation of BAV acquisition costs to BMPS (PPA)		27.6
Operating expenses	**-2621.3**			**-3421.6**				**800.3**
Pre Provision Profit	**1660.7**			**1117.5**				**543.1**
Net impairment losses (reversals) on:	-4500.9	Net impairment losses(reversals) on	Item 130	-4500.9				
a) loans	-4467.0	a) loans	Item 130a	-4467.0				
b) financial assets	-33.9	b) financial assets available for sale	Item 130b	-41.8				
		d) other financial transactions	Item 130d	7.9				
Net operating income	**-2840.2**			**-3383.4**				**543.1**
Net provisions for risks and charges	44.4	Net provisions for risks and charges	Item 190	44.4				
Gains (losses) on investments	11.8	Gains (losses) on investments	Item 240	79.5	(-)	Portion of profit from equity investments (Gruppo AXA)	Item 240 - Partial	-67.7
Restructuring costs / One-off costs	-117.0				(-)	Restructuring costs / One-off costs	Item 180a - Partial	-117.0
Risks and charges related to the SRF, DGS and similar schemes	-241.1				(-)	.Reclassification provision to BRRD and DGSD funds	Voce 180b - Partial	-241.1
Dta fee	-70.4				(-)	Dta fee	Voce 180b - Partial	-70.4
Gains (losses) on disposal of investments	33.2	Gains (losses) on disposal of investments	Item 270	33.2				
Profit (loss) before tax from continuing operations	**-3179.3**			**-3226.3**				**46.9**
Tax expense (recovery) on income from continuing operations	-20.7	Tax expense (recovery) on income from continuing operations	Item 290	-5.2	(-)	Economic effects from allocation of BAV acquisition costs to BMPS (PPA)		-15.5
Profit (loss) after tax from continuing operations	**-3200.0**			**-3231.5**				**31.4**
Profit (loss) after tax from groups of assets held for sale and discontinued operations		Profit (loss) after tax from groups of assets held for sale and discontinued operations	Item 310					
Net profit (loss) for the period including non-controlling interests	**-3200.0**			**-3231.5**				**31.4**
Net profit (loss) attributable to non-controlling interests	9.7	Net profit (loss) attributable to non-controlling interests	Item 330	9.7				
Profit (loss) for the period before PPA , impairment on goodwill and intangibles	**-3209.7**			**-3241.2**				**31.4**
PPA (Purchase Price Allocation)	-31.4				(-)	Economic effects from allocation of BAV acquisition costs to BMPS (PPA)		-31.4
Impairment on goodwill and intangibles		Impairment on goodwill and intangibles			(-)			
Net profit (loss) for the year	**-3241.1**	**Net profit (loss) for the year**		**-3241.2**		**Total**		**0.0**

Reconciliation between the reclassified balance sheet and related statutory accounts

Balance-sheet Items - Assets	31/12/17	31/12/16	Reclassified balance-sheet items - Assets
	4,092.3	**1,084.5**	**Cash and cash equivalents**
Item 10 – Cash and cash equivalents	4,092.3	1,084.5	
			Receivables
	86,456.3	**106,692.7**	**a) Loans to customers**
Item 70 – Loans to customers	86,456.3	106,692.7	
	9,966.2	**8,936.2**	**b) Loans to banks**
Item 60 – Loans to banks	9,966.2	8,936.2	
	24,168.4	**25,929.3**	**Marketable assets**
Item 20 – Financial assets held for trading	8,718.0	9,266.2	
Item 30 – Financial assets designated at fair value	-	-	
Item 40 – Financial assets available for sale	15,450.4	16,663.1	
	-	**-**	**Financial assets held to maturity**
Item 50 – Held to maturity investments	-	-	
	1,034.6	**1,031.7**	**Equity investments**
Item 100 – Equity investments	1,034.6	1,031.7	
	2,854.2	**2,942.9**	**Property, plant and equipment / Intangible assets**
Item 120 – Property, plant and equipment	2,571.0	2,597.4	
Item 130 – Intangible assets	283.2	345.5	
	10,582.2	**6,561.2**	**Other assets**
Item 80 – Hedging Derivatives	156.5	327.3	
Item 90 – Change in value of macro-hedged financial assets (+/-)	57.3	113.3	
Item 140 – Tax assets	3,815.3	4,147.5	
Item 150 – Non-current assets held for sale and discontinued operations	4,595.1	60.7	
Item 160 – Other assets	1,958.0	1,912.4	
Total Assets	**139,154.2**	**153,178.5**	**Total Assets**

Balance-sheet Items - Liabilities	31/12/17	31/12/16	Reclassified balance-sheet items - Liabilities
			Payables
	97,801.8	**104,573.5**	**a) Deposits from customers and securities issued**
Item 20 – Deposits from customers	77,014.2	80,702.8	
Item 30 – Debt securities issued	20,461.3	22,347.5	
Item 50 – Financial liabilities designated at fair value	326.3	1,523.2	
	21,084.9	**31,469.1**	**b) Deposits from banks**
Item 10 – Deposits from banks	21,084.9	31,469.1	
	4,476.9	**4,971.8**	**Financial liabilities held for trading**
Item 40 – Financial liabilities held for trading	4,476.9	4,971.8	
	-	-	**Provisions for specific use**
Item 110 – Provision for employee severance pay	199.5	252.9	a) Provision for employee severance pay
Item 120 - Provisions for risks and charges - a) pension and similar obligations	50.1	53.6	b) Provision for pension
Item 120 - Provisions for risks and charges - b) other provisions	1,088.4	1,054.5	c) Other provisions
	4,021.2	**4,342.7**	**Other liabilities**
Item 60 – Hedging Derivatives	691.4	1,018.3	
Item 70 – Change in value of macro-hedged financial liabilities	(0.8)	-	
Item 80 – Tax liabilities	58.6	75.3	
Item 90 – Liabilities associated to disposal groups held for sale	-	10.4	
Item 100 – Other liabilities	3,272.0	3,238.7	
	10,429.1	**6,425.5**	**Group net equity**
Item 140 – Valuation reserves	51.7	47.3	a) Valuation reserves
Item 150 – Redeemable shares	-	-	b) Redeemable shares
Item 160 – Equity instruments	-	-	c) Capital instruments
Item 170 – Reserves	3,864.8	2,253.6	d) Reserves
Item 180 – Share premium reserve	-	-	e) Share premium reserves
Item 190 – Share Capital	10,328.6	7,365.7	f) Share capital
Item 200 – Treasury shares (-)	(313.7)	-	g) Treasury shares (-)
Item 220 – Profit (loss) for the year (+/-)	(3,502.3)	(3,241.1)	h) Profit (loss) for the year
	2.3	**34.9**	**Non-controlling interests**
Item 210 – Non-controlling interests (+/-)	2.3	34.9	
Total liabilities and shareholders' equity	**139,154.2**	**153,178.5**	**Total liabilities and shareholders' equity**

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated balance sheet

	Assets	31 12 2017	31 12 2016
10	Cash and cash equivalents	4,092,307	1,084,510
20	Financial assets held for trading	8,717,994	9,266,150
40	Financial assets available for sale	15,450,436	16,663,117
60	Loans to banks	9,966,212	8,936,239
70	Loans to customers	86,456,407	106,692,711
80	Hedging derivatives	156,485	327,349
90	Change in value of macro-hedged financial assets (+/-)	57,346	113,300
100	Equity investments	1,034,644	1,031,678
120	Property, plant and equipment	2,571,012	2,597,434
130	Intangible assets	283,235	345,513
	of which: goodwill	*7,900*	*7,900*
140	Tax assets	3,815,294	4,147,512
	a) current	*878,511*	*850,737*
	b) deferred	*2,936,783*	*3,296,775*
	under Law 214/2011	*1,313,058*	*2,367,240*
150	Non-current assets and groups of assets held for sale and discontinued operations	4,595,135	60,684
160	Other assets	1,957,685	1,912,269
	Total assets	**139,154,192**	**153,178,466**

continued: Consolidated balance sheet

	Total Liabilities and Shareholders' Equity	31 12 2017	31 12 2016
10	Deposits from banks	21,084,916	31,469,061
20	Deposits from customers	77,014,177	80,702,762
30	Debt securities issued	20,461,300	22,347,465
40	Financial liabilities held for trading	4,476,907	4,971,802
50	Financial liabilities designated at fair value	326,279	1,523,223
60	Hedging derivatives	691,368	1,018,291
70	Fair value change of financial liabilities in hedged portfolios (+/-)	(788)	-
80	Tax liabilities	58,633	75,342
	a) current	*1,255*	*5,292*
	b) deferred	*57,378*	*70,050*
90	Liabilities associated with non-current assets held for sale and discontinued operations	-	10,402
100	Other liabilities	3,272,036	3,238,931
110	Provision for employee severance pay	199,498	252,858
120	Provisions for risks and charges:	1,138,492	1,108,054
	a) post-employment benefits	*50,129*	*53,582*
	b) other provisions	*1,088,363*	*1,054,472*
140	Valuation reserves	51,705	47,251
170	Reserves	3,864,821	2,253,601
190	Share capital	10,328,618	7,365,674
200	Treasury shares (-)	(313,710)	-
210	Non-controlling interests (+/-)	2,279	34,859
220	Profit (loss) (+/-)	(3,502,339)	(3,241,110)
	Total Liabilities and Shareholders' Equity	**139,154,192**	**153,178,466**

Consolidated income statement

Items		31 12 2017	31 12 2016
10	Interest income and similar revenues	2,703,491	3,317,233
20	Interest expense and similar charges	(927,575)	(1,315,216)
30	**Net interest income**	**1,775,916**	**2,002,017**
40	Fee and commission income	1,907,271	2,132,321
50	Fee and commission expense	(343,588)	(292,965)
60	**Net fee and commission income**	**1,563,683**	**1,839,356**
70	Dividends and similar income	15,320	13,506
80	Net profit (loss) from trading	(6,010)	177,045
90	Net profit (loss) from hedging	(3,735)	(81,952)
100	Gains/(losses) on disposal/repurchase of:	577,959	161,501
	a) loans	*1,400*	*1,003*
	b) financial assets available for sale	*75,786*	*108,382*
	d) financial liabilities	*500,773*	*52,116*
110	Net profit (loss) from financial assets and liabilities designated at fair value	(3,358)	99,322
120	**Net interest and other banking income**	**3,919,775**	**4,210,795**
130	Net impairment (losses)/reversals on	(5,459,986)	(4,500,890)
	a) loans	*(5,323,687)*	*(4,467,024)*
	b) financial assets available for sale	*(93,082)*	*(41,762)*
	d) other financial transactions	*(43,217)*	*7,896*
140	**Net income from banking activities**	**(1,540,211)**	**(290,095)**
180	Administrative expenses:	(3,083,001)	(3,175,247)
	a) personnel expenses	*(1,857,161)*	*(1,727,543)*
	b) other administrative expenses	*(1,225,840)*	*(1,447,704)*
190	Net provisions for risks and charges	(232,884)	44,428
200	Net adjustments to/recoveries on property, plant and equipment	(133,135)	(111,822)
210	Net adjustments to/recoveries on intangible assets	(156,130)	(134,630)
220	Other operating expenses/income	311,879	328,533
230	**Operating expenses**	**(3,293,271)**	**(3,048,738)**
240	Gains (losses) on investments	77,904	79,453
270	Gains (losses) on disposal of investments	531,181	33,195
280	**Profit (loss) before tax from continuing operations**	**(4,224,397)**	**(3,226,185)**
290	Tax (expense)/recovery on income from continuing operations	722,152	(5,187)
300	**Profit (loss) after tax from continuing operations**	**(3,502,245)**	**(3,231,372)**
320	**Profit (loss)**	**(3,502,245)**	**(3,231,372)**
330	Profit (loss) attributable to non-controlling interests	94	9,738
340	**Parent company's net profit (loss)**	**(3,502,339)**	**(3,241,110)**

	31 12 2017	31 12 2016
Basic Earnings per Share (Basic EPS)	**(7.299)**	**(110.545)**
of continuing operations	(7.299)	(110.545)
Diluted Earnings per Share (Diluted EPS)	**(7.299)**	**(110.545)**
of continuing operations	(7.299)	(110.545)

Consolidated statement of comprehensive income

	Items	31 12 2017	31 12 2016
10	**Profit (loss)**	**(3,502,245)**	**(3,231,372)**
	Other comprehensive income after tax not recycled to profit and loss	**(115,168)**	**(8,868)**
40	Actuarial gains (losses) on defined benefit plans	3,666	(8,234)
50	Non current assets held for sale	83	(83)
60	Share of valuation reserves of equity-accounted investments	227	(551)
65	Finacial liabilities measured at fair value with impact to profit and loss	(119,144)	-
	Other comprehensive income after tax recycled to profit and loss	**(28,462)**	**77,943**
80	Exchange differences	(6,043)	1,364
90	Cash flow hedges	26,165	110,202
100	Financial assets available for sale	24,446	(137,075)
110	Non current assets held for sale	(15,430)	(4,107)
120	Share of valuation reserves of equity-accounted investments	(57,600)	107,559
130	**Total other comprehensive income after tax**	**(143,630)**	**69,075**
140	**Total comprehensive income (Item 10+130)**	**(3,645,875)**	**(3,162,297)**
150	Consolidated comprehensive income attributable to non-controlling interests	94	9,745
160	**Consolidated comprehensive income attributable to Parent Company**	**(3,645,969)**	**(3,172,042)**

Consolidated Statement of changes in equity – 2017

	Balance as at 31 12 2016	Change in opening balances	Balance as at 01 01 2017	Allocation of profit from prior year		Changes during the year									Total equity as at 31 12 2017	Group equity as at 31 12 2017	Non-controlling interest as at 31 12 2017
							Shareolders'equity transactions										
				Reserves	Dividends and other payout	Changes in reserves	Issue of new share	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Treasury shares derivatives	Stock options	Changes in equity investments	Total comprehensive income for 31 12 2017			
Share capital:	7,379,059	-	7,379,059	-	-	(5,376,535)	8,327,125	-	-	-	-	-	(59)	-	10,329,590	10,328,618	972
a) ordinary shares	7,379,059	-	7,379,059	-	-	(5,376,535)	8,327,125	-	-	-	-	-	(59)	-	10,329,590	10,328,618	972
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium	195	-	195	-	-	(177)	-	-	-	-	-	-	-	-	18	-	18
Reserves:	2,263,901	(150,529)	2,113,372	(3,231,474)	-	4,986,802	(3,923)	-	-	-	-	-	-	-	3,864,778	3,864,821	(44)
a) from profits	984,832	(150,529)	834,303	(1,832,754)	-	2,479,360	-	-	-	-	-	-	-	-	1,480,910	1,480,954	(44)
b) other	1,279,069	-	1,279,069	(1,398,720)	-	2,507,442	(3,923)	-	-	-	-	-	-	-	2,383,868	2,383,868	-
Valuation reserves	48,491	150,529	199,020	-	-	(2,445)	-	-	-	-	-	-	-	(143,630)	52,945	51,705	1,240
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	-	-	-	-	-	-	(313,710)	-	-	-	-	-	-	-	(313,710)	(313,710)	-
Net profit (loss)	(3,231,372)	-	(3,231,372)	3,231,475	(103)	-	-	-	-	-	-	-	-	(3,502,245)	(3,502,245)	(3,502,339)	94
Total equity	6,460,274	-	6,460,274	-	(103)	(392,355)	8,009,493	-	-	-	-	-	(59)	(3,645,875)	10,431,375	10,429,096	2,279
Group equity	6,425,416	-	6,425,416	-	-	(359,843)	8,009,493	-	-	-	-	-	-	(3,645,969)	10,429,096	10,429,096	X
Non-controlling interests	34,859	-	34,859	-	(103)	(32,512)	-	-	-	-	-	-	(59)	94	2,279	X	2,279

As at 31 December 2017 the Group's net equity, including non-controlling interests and profit for the year, amounted to EUR 10,431.4 mln, as compared to EUR 6,460.3 mln as at 31 December 2016, with a total increase of EUR 3,971.1 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 3,502.2 mln loss for the year, were the following.

1. The part of the loss for the year 2016 attributable to the Parent Company, equal to EUR 3,231.5 mln, was covered to the extent of EUR 1,398.7 mln during the same year through a share capital reduction in the corresponding amount in accordance with the shareholders' resolution of 24 November 2016 and by carrying forward the remaining EUR 1,832.8 mln.

2. The Parent Company's share capital increase was completed in August 2017 following the issue on 27 July 2017 of the Ministry of Economy and Finance ("MEF") decrees relating to:
   - "Capital strengthening initiatives of Banca Monte dei Paschi di Siena, pursuant to art. 18, paragraph 2 of Law Decree no. 237 of 23 December 2016 converted, with amendments, by Law no. 15 of 17 February 2017" and
   - "Capital strengthening initiatives of Banca Monte dei Paschi di Siena, pursuant to art. 18, paragraph 3 of Law Decree no. 237 of 23 December 2016 converted, with amendments, by Law no. 15 of 17 February 2017", published in Official Gazette no. 175 on 28 July 2017.

   These decrees provided for:

   - an increase in the Parent Company's share capital, in the amount of EUR 4,472.9 mln, through the issue of 517,099,404 ordinary shares fully subscribed as a result of the conversion into ordinary shares of the AT1 and T2 bond issues; and
   - an increase in the Parent Company's share capital for the subscription of 593,869,870 shares by the MEF, for a total of EUR 3,854.2 mln.

As a result of the above-mentioned events, the changes laid out below took place.

"New share issue" column:

- the item "Share capital - a) ordinary shares" increased by a total of EUR 8,327.1 mln;
- the item Reserves "other" decreased by EUR 3.9 mln due to the costs of the share capital increase, net of the relative taxes;
- the item "Treasury shares", a negative component of net equity, rose by EUR 313.7 mln, associated with the conversion of the AT1 and T2 bond issues present in the balance sheet assets of the Parent Company and of the subsidiary MPS Capital Services S.p.A.

"Changes in reserve" column:

- "Share capital - a) ordinary shares": the reduction of EUR 5,376.5 mln due to:
  a. EUR 5,364.2 mln in relation to the shareholders' resolution passed by the Parent Company on 18 December 2017 relating to the coverage of the total loss of EUR 5,364.2 mln (of which EUR 2,506.0 mln referring to the loss recognised as at 30 September 2017, EUR 534.1 mln for other equity adjustments and lastly EUR 2,324 mln concerning previous losses) by reducing the share capital by a corresponding amount;
  b. EUR 12.3 mln in relation to the loss of control during the period over the company CO.E.M. Costruzioni Ecologiche Moderne S.p.A.;
- "Share premium reserve": the reduction of EUR 0.2 mln was due primarily to the share capital increase carried out in November 2017 by the subsidiary MPS Capital Services S.p.A. and subscribed in full by the Parent Company;
- "Reserves - a) from profits": the increase in group net equity by a total of EUR 2,479.4 mln is attributable to the Parent Company to the extent of EUR 2,479.1 mln, specifically:

  a. the increase of EUR 2,485.5 mln due to the coverage of previous losses, equal to EUR 2,324 mln, and of part of the adjustments made to net equity;
  b. the decrease generated during the year of EUR 360.1 mln for the recognition of the difference between the fair value of the ordinary shares assigned to holders of the AT1 and T2 bond issues subject to conversion and the value of conversion into share capital. This reserve was covered by the Parent Company in the course of the same year for EUR 371.2 mln;
  c. the increase of EUR 51.8 mln deriving from the closure of the creditworthiness reserve of the fair value option liabilities involved in the conversion into ordinary shares;
  d. the decrease of EUR 51.7 mln due to the taxes previously recognised on negative components of net equity, which translated into a tax loss with unrecognisable DTAs;

e. EUR 2.4 mln relates primarily to the disposal of a property by the subsidiary MPS Belgio S.A. The item also includes the decline in non-controlling interests by EUR 20.1 mln, due to the loss of control during the period over the company CO.E.M. Costruzioni Ecologiche Moderne S.p.A.;

- "Reserves - b) other": coverage of the loss of the Parent Company recognised as at 30 September 2017 for EUR 2,506 mln and of part (EUR 1.4 mln) of the costs incurred by the Parent Company for the share capital increase;
- "Valuation Reserves": the amount of EUR 2.4 mln is due to the reversal of the FTA reserve recognised in the past following the disposal of the property of the subsidiary MPS Belgio S.A.

"Valuation reserves" show overall a negative change amounting to EUR 143.6 mln, the details of which are available in the statement of comprehensive income.

The decrease of EUR 32.6 mln in non-controlling interests is almost entirely due to the loss of control over the company CO.E.M. Costruzioni Ecologiche Moderne S.p.A.

Consolidated Statement of changes in equity – 2016

	Balance as at 31 12 2015	Change in opening balances	Balance as at 01 01 2016	Allocation of profit from prior year: Reserves	Allocation of profit from prior year: Dividends and other payout	Changes during the year: Changes in reserves	Shareolders'equity transactions: Issue of new share	Shareolders'equity transactions: Purchase of treasury shares	Shareolders'equity transactions: Extraordinary distribution of dividends	Shareolders'equity transactions: Change in equity instruments	Shareolders'equity transactions: Treasury shares derivatives	Shareolders'equity transactions: Stock options	Shareolders'equity transactions: Changes in equity investments	Total comprehensive income for 31 12 2016	Total equity as at 31 12 2016	Group equity as at 31 12 2016	Non-controlling interest as at 31 12 2016
Share capital:	9,015,184	-	9,015,184	-	-	(1,636,083)	-	-	-	-	-	-	(42)	-	7,379,059	7,365,674	13,385
a) ordinary shares	9,015,184	-	9,015,184	-	-	(1,636,083)	-	-	-	-	-	-	(42)	-	7,379,059	7,365,674	13,385
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium	6,538	-	6,538	(6,325)	-	(18)	-	-	-	-	-	-	-	-	195	-	195
Reserves:	231,700	-	231,700	396,092	-	1,636,134	-	-	-	-	-	-	(25)	-	2,263,901	2,253,601	10,300
a) from profits	440,147	-	440,147	307,322	-	237,363	-	-	-	-	-	-	-	-	984,832	974,532	10,300
b) other	(208,447)	-	(208,447)	88,770	-	1,398,771	-	-	-	-	-	-	-25	-	1,279,069	1,279,069	-
Valuation reserves	(20,584)	-	(20,584)	-	-	-	-	-	-	-	-	-	-	69,075	48,491	47,251	1,240
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net profit (loss)	389,868	-	389,868	(389,767)	(101)	-	-	-	-	-	-	-	-	-3,231,372	(3,231,372)	(3,241,110)	9,738
Total equity	9,622,706	-	9,622,706	-	(101)	33	-	-	-	-	-	-	(67)	(3,162,297)	6,460,274	6,425,416	34,859
Group equity	9,596,447	-	9,596,447	-	-	51	-	-	-	-	-	-	960	(3,172,042)	6,425,416	6,425,416	X
Non-controlling interests	26,259	-	26,259	-	(101)	(18)	-	-	-	-	-	-	-1,027	9,745	34,859	X	34,859

As at 31 December 2016 the Group's net equity, including non-controlling interests and profit for the year, amounted to EUR 6,460.3 mln, as compared to EUR 9,622.7 mln as at 31 December 2015, with a total decrease of EUR 3,162.4 mln.

The most significant phenomena impacting the net equity, in addition to the EUR 3,231.4 mln loss for the year, were:

- the profit of 2015, amounting to EUR 389.9 mln, for the portion attributed to the Parent Company, was used to cover losses, in compliance with the resolution issued by the Shareholders' Meeting on 14 April 2016;
- in November 2016, the extraordinary Shareholders' Meeting of the Parent Company, taking into account (i) the financial position as at 30 September 2016 and the resulting losses for the period of EUR 1,398.7 mln, as well as (ii) prior losses of EUR 237.4 mln (carried forward on the basis of shareholders' meeting resolution of 14 April 2016), decided to approve the coverage of the total loss of EUR 1,636.1 mln by means of a corresponding reduction in the share capital, which therefore amounts to EUR 7,379.1 mln;
- the column "Changes in equity investments" includes the decrease in non-controlling interests referring to the upward change of the investment held by the Parent Company in the subsidiary MPS Capital Services S.p.A., in execution of its share capital increase finalised in February 2016;
- valuation reserves show overall a positive change amounting to EUR 69.1 mln, the details of which are available in the Consolidated statement of comprehensive income;
- non-controlling interests is up by EUR 8.6 mln, as a result of the combination of what was discussed at point 3 and the comprehensive income for the year.

Consolidated cash flow statement - indirect method

A. OPERATING ACTIVITIES	31 12 2017	31 12 2016
1. Cash flow from operations	**1,092,447**	**810,144**
profit (loss) (+/-)	(3,502,245)	(3,231,372)
capital gains/losses on financial assets held for trading and on assets/liabilities designated at fair value (+/-)	59,997	(419,482)
net profit (loss) from hedging	3,735	81,952
net impairment losses/reversals	5,077,222	4,244,435
net losses/reversal on impairment on property, plant and equipment and on intangible assets (+/-)	289,265	246,452
net provisions for risks and charges and other costs/revenues (+/-)	245,256	(33,785)
tax espense (recovery) on income from continuing operations	(722,294)	5,187
other adjustments	(358,489)	(83,243)
2. Cash flow from (used in) financial assets	**12,298,863**	**11,829,916**
financial assets held for trading	424,957	8,998,173
financial assets available for sale	963,429	631,232
loans to banks: on demand	(1,019,181)	(706,775)
loans to customers	11,078,497	463,128
other assets	851,161	2,444,158
3. Cash flow from (used in) financial liabilities	**(14,263,427)**	**(12,763,722)**
deposits from banks: on demand	(10,384,144)	13,975,951
depostits from customers	(3,688,585)	(7,103,567)
debt securities issued	2,389,493	(7,031,378)
financial liabilities held for trading	(462,159)	(10,891,122)
financial liabilities designated at fair value	(1,011,961)	(436,977)
other liabilities	(1,106,071)	(1,276,629)
Net cash flow from (used in) operating activities	**(872,117)**	**(123,662)**

B. INVESTMENT ACTIVITIES		
1. Cash flow from	**575,579**	**201,727**
sales of equity investments	20,000	13,430
dividends collected on equity investments	20,024	57,085
sales of property, plant and equipment	9,287	130,762
sales of intangible assets	918	450
sales of subsidiaries and undertakings	525,350	-
2. Cash flow used in	**(185,711)**	**(182,215)**
purchase of property, plant and equipment	(90,915)	(106,717)
purchase of intangible assets	(94,796)	(75,498)
Net cash flow from (used in) investment activities	**389,868**	**19,512**

C. FUNDING ACTIVITIES		
issue/purchase of treasury shares	3,850,292	-
dividend distribution and other	(360,246)	(101)
Net cash flow from (used in) funding activities	**3,490,046**	**(101)**

NET CASH FLOW FROM (USED IN) OPERATING, INVESTMENT AND FUNDING ACTIVITIES DURING THE YEAR	**3,007,797**	**(104,251)**

Reconciliation

Accounts	31 12 2017	31 12 2016
Cash and cash equivalents at beginning of period	1,084,510	1,188,761
Net increase (decrease) in cash and cash equivalents	3,007,797	(104,251)
Cash and cash equivalents at end of period	4,092,307	1,084,510

The “distribution of dividends and other purposes” line - in section C. Funding activities - shows the difference between the fair value of the ordinary shares assigned to holders of the AT1 and T2 financial instruments subject to conversion, in compliance with the provisions of art. 23, paragraph 3 of Law Decree n. 237, as well as art. 2 of the Burden Sharing Decree, and the value of conversion into share capital.

For further information on the net cash flow generated/absorbed during the year, please refer to the section “Liquidity Risk” in Part E “Information on risks and hedging policies”.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Part A – Accounting policies

A.1 – General

Section 1 - Statement of compliance with international accounting principles

Pursuant to Legislative Decree no. 38 of 28 February 2005, these consolidated accounts were prepared in accordance with the international accounting principles issued by the International Accounting Standards Board (IASB) including interpretations by the IFRS Interpretations Committee, as endorsed by the European Commission, pursuant to EC Regulation no. 1606 of 19 July 2002 which was effective as at 31 December 2017.

The international accounting principles were applied following the indications set forth in the "Framework for the preparation and presentation of financial statements" (the Framework).

Failing a principle or an interpretation specifically applicable to a certain transaction, event or circumstance, the Bank's Management used its own judgment in developing and applying the accounting principles for the purpose of providing a report which is:

- relevant for the purpose of economic decision-making by the users;
- reliable so that the Financial Statements:
  - result in a true and fair view of the Group's assets, financial position, profit and loss and cash flows;
  - reflect the economic substance -and not merely the juridical form- of transactions, other events and circumstances;
  - are neutral, that is with no prejudice;
  - are conservative;
  - are complete in all relevant respects.

In its judgment, the Bank's Management made reference to and took account of the enforceability of the following provisions, listed in a hierarchically decreasing order:

- the provisions and implementation guidance contained in the principles and interpretations dealing with similar or related cases;
- the definitions, recognition and measurement criteria for the accounting of assets, liabilities, income and expenses contained in the Framework.

In delivering its judgment, the Bank's Management may also take account of:

- the most recent provisions set forth by other entities in charge of establishing the accounting principles which use a conceptually similar Framework for the purpose of developing the accounting principles;
- other accounting literature;
- consolidated practices of the banking industry.

In compliance with art. 5 of Legislative Decree no. 38 of 28 February 2005, if – in exceptional cases – the application of a provision set forth in the international accounting principles proved to be non-compliant with a true and fair view of the Group's balance-sheet, financial situation and profit and loss statement, then such provision would not be applied. The reasons for deviation and its impact on the representation of the balance-sheet, financial situation and profit and loss statement, would in such case be explained in the notes to the financial statements.

In the consolidated financial statements, any profits arising from this deviation are posted to a reserve which is only distributable in proportion to the value recovered.

Section 2 - General accounting standards

The Consolidated Financial Statements have been prepared in accordance with the IAS/IFRS International accounting standards issued by the International Accounting Standards Board (IASB) including the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), as endorsed by the European Union and mandatorily applied in the 2017 financial year, with the exception of partial early adoption by the Group, starting from 1 January 2017, of IFRS 9, limited to the part regarding the accounting treatment of the profit/loss connected to own creditworthiness of fair value option liabilities.

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

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

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

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

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

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

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

- in terms of determining the retrospective impacts, the formation as at 1 January 2017 of a positive valuation reserve in the amount of EUR 150.5 mln as a balancing entry to retained earnings, net of the relative tax effect;
- the attribution as at 31 December 2017 of a negative effect, net of the relative tax effect, of EUR 119.1 mln to shareholders' equity rather than to profit and loss.

The provisions contained in Circular Letter no. 262 issued by the Bank of Italy concerning the layout and rules for preparing separate and consolidated financial statements for the banks and the Group were also applied, as amended by the fourth addendum of 15 December 2015.

The consolidated financial statements consist of the:

- Consolidated Balance Sheet;
- Consolidated Income Statement;
- Consolidated Statement of Comprehensive Income;
- Consolidated Statement of Changes in Equity;
- Consolidated Cash Flow Statement;
- Notes to the Consolidated Financial Statements.

The Consolidated Financial Statements are integrated with the Directors' Report on the operations, profit and loss and financial position of the Group.

The Consolidated Financial Statements are prepared with transparency and provide a true and fair view of the balance-sheet, financial position and income statement for the year.

The notes to the consolidated financial statements contain all information required by the international accounting standards and provisions contained in Bank of Italy Circular Letter no. 262, together with other non-mandatory information deemed necessary to provide a true and fair, relevant, reliable, comparable and intelligible view of the Group's performance.

The consolidated balance sheet, profit and loss and comprehensive income statements consist of items (marked with numbers), sub-items (marked with letters) and further details (under "including/of which" in the items and sub-items). Items, sub-items and their details constitute the accounts.

Each item in the balance sheet, profit and loss account and statement of comprehensive income also indicates prior year's amounts. If the items cannot be compared, the items in relation to the prior year are reclassified; non-comparability, reclassification or impossible reclassification are pointed out and commented in the notes to the financial statements.

Assets and liabilities, expenses and income cannot be mutually offset, unless this is permitted or required by the international accounting standards or the provisions set forth in Circular no. 262 of the Bank of Italy.

The balance-sheet, profit and loss account and statement of comprehensive income do not indicate the items which do not show any amounts for the year of reference of the financial statements or prior year. If an item of the assets or liabilities is part of several items of the balance sheet, the notes to the financial statements indicate – whenever this is necessary for the purpose of intelligibility – that this component may also be referred to items other than the one it is posted to.

Income is posted with no sign in the profit and loss statement, in the statement of comprehensive income and the respective section of the notes, whereas expenses are indicated in brackets.

The statement of comprehensive income, beginning with profit (loss) for the year, shows the income items recognised as contra-entries of valuation reserves, net of the related tax effect, in compliance with international accounting standards. Consolidated comprehensive income is shown by separating income items that will not be transferred to the income statement in the future and those that may be subsequently classified to profit and loss when specific conditions are met. The statement also distinguishes between income of the parent company and that of non-controlling interests.

The statement of changes in equity shows the breakdown and changes in net equity accounts during the year and the previous year, broken down between share capital (ordinary and other shares), capital reserves, profit reserves and reserves from the valuation of assets or liabilities, equity instruments and profit and loss. Treasury shares in the portfolio are deducted from equity.

The cash flow statement has been prepared according to the indirect method, based on which cash flows from operations are represented by the income for the year adjusted to take into account the effects of non-monetary transactions. Cash flows are broken down amongst those deriving from operations, those deriving from investment activities and those generated by funding activities. In the statement, cash flows generated during the year have no sign, while those absorbed are shown between brackets.

In compliance with the provisions of art. 5 of Legislative Decree no. 38 of 28 February 2005, the financial statements have been prepared using the Euro as the accounting currency: the tables in the consolidated financial statements and in the consolidated notes are denominated in thousands of Euro.

The consolidated financial statements have been prepared based on a going concern assumption, according to the generally accepted principles of accrual accounting, relevance and materiality of information, priority of substance over form and with a view to encouraging consistency with future statements.

Items of a different nature or with different allocation were recognised separately, unless they were considered irrelevant. All amounts shown in the financial statements were adjusted so as to reflect any events subsequent to the date of closing which, according to IAS 10, make it mandatory to make an adjustment (adjusting events). Non-adjusting events reflecting circumstances that occurred after the reporting date should be disclosed as part of the Notes to the Financial Statements, Part A, section 4, if they are of such importance that non-disclosure would affect the ability of users to make proper evaluations and decisions.

Section 3 – Scope and methods of consolidation

1. Investments in 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	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	JULIET S.p.a.	Siena	Siena	1	A.0	100.000	
A.13	BANCA MONTE PASCHI BELGIO S.A.	Brussells	Brussells	1	A.0	99.900	
					A.1	0.100	
						100.000	
A.14	MPS PREFERRED CAPITAL I LLC	New York	Delaware	1	A.0	100.000	
A.15	MPS PREFERRED CAPITAL II LLC	New York	Delaware	1	A.0	100.000	
A.16	MPS CAPITAL TRUST I	New York	Delaware	4			
A.17	MPS CAPITAL TRUST II	New York	Delaware	4			
A.18	MONTE PASCHI BANQUE S.A.	Paris	Paris	1	A.0	100.000	
18.1	MONTE PASCHI CONSEIL FRANCE SOCIETE PAR ACTIONS SEMPLIFIEE	Paris	Paris		A.18	100.000	
18.2	IMMOBILIERE VICTOR HUGO S.C.I.	Paris	Paris		A.18	100.000	
A.19	MONTEPASCHI LUXEMBOURG S.A.	Luxembourg	Luxembourg	1	A.0	99.200	
					A.18	0.800	
						100.000	
A.20	ANTONVENETA CAPITAL L.L.C. I	New York	Delaware	1	A.0	100.000	
A.21	ANTONVENETA CAPITAL L.L.C. II	New York	Delaware	1	A.0	100.000	
A.22	ANTONVENETA CAPITAL TRUST I	New York	Delaware	1	A.0	100.000	
A.23	ANTONVENETA CAPITAL TRUST II	New York	Delaware	1	A.0	100.000	
A.24	MPS COVERED BOND S.r.l.	Conegliano	Conegliano	1	A.0	90.000	
A.25	MPS COVERED BOND 2 S.r.l.	Conegliano	Conegliano	1	A.0	90.000	
A.26	CIRENE FINANCE S.r.l.	Conegliano	Conegliano	1	A.0	60.000	
A.27	CONSUM.IT SECURITISATION S.r.l.	Conegliano	Conegliano	1	A.0	100.000	
A.28	SIENA MORTGAGES 07-5 S.p.a.	Conegliano	Conegliano	4	A.0	7.000	
A.29	SIENA MORTGAGES 09-6 S.r.l.	Conegliano	Conegliano	4	A.0	7.000	
A.30	SIENA MORTGAGES 10-7 S.r.l.	Conegliano	Conegliano	4	A.0	7.000	
A.31	SIENA CONSUMER S.r.l.	Conegliano	Conegliano	4	A.0	10.000	
A.32	SIENA CONSUMER 2015 S.r.l.	Conegliano	Conegliano	4	A.0	10.000	
A.33	SIENA PMI 2015 S.r.l.	Milan	Milan	4	A.0	10.000	
A.34	SIENA LEASE 2016 2 S.r.l.	Conegliano	Conegliano	4	A.0	10.000	
A.35	SIENA PMI 2016 S.r.l.	Conegliano	Conegliano	4	A.0	10.000	
A.36	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. 26.1. 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

2. Significant assessments and assumptions for determining the scope of consolidation

Scope of consolidation

The consolidated financial statements include the balance sheet and income statement results 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 principle of control laid out in IFRS 10 applies.

The concept of control is based on the simultaneous presence of three elements:

- power to direct the relevant activities, i.e., the activities that affect the investee's returns: the power arises from substantive rights that give the investor the power to direct the relevant activities; to be substantive, the rights must be exercisable when decisions about the direction of the relevant activities need to be made;
- exposure to variability of returns deriving from the investee's activities, which may increase or decrease.
- exercise of power to influence returns.

Structured entities are also consolidated when the requirement of actual control recurs, even if there is no stake in the entity.

More specifically, IFRS 12 defines structured entities as "entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity", such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. Examples of structured entities include securitisation vehicles, asset-backed financings and some investment funds.

The scope of consolidation may also include parts of a structured entity with no independent legal status, or so-called "deemed separate entities". In essence this is a group of well identified assets and liabilities within a company, characterised by both the fact that: the assets represent the only source of payment for those specific liabilities and that; third parties cannot claim rights to those specific assets or on the cash flows they generate.

Equity investments and equity securities

Equity investments and equity securities are considered subject to control if the Group directly or indirectly holds the absolute majority of voting rights and such rights are substantive, and the relative majority of voting rights if the other voting rights are held by widely-dispersed shareholders. Control may also exist in situations in which the Group does not hold the majority of voting rights, but holds sufficient rights to have the practical ability to unilaterally direct relevant activities of the investee or in the presence of:

- substantive potential voting rights through underlying call options or convertible instruments;
- rights deriving from other contractual arrangements which, combined with voting rights, give the Group the de facto ability to direct production processes, other operating or financial activities able to significantly influence the investee's returns;
- power to influence, through rules of the articles of association or other contractual arrangements, governance and decision-making procedures regarding relevant activities;
- majority of voting rights through contractual arrangements formalised with other holders of voting rights (i.e., shareholders' agreements).

Structured entities - investment funds

The Group takes the following positions with respect to funds:

- subscriber of units, held for long-term investment purposes or for trading,
- counterparty in derivatives.

A relationship of control exists when the following situations are present:

- the Group, as a subscriber of units, is able to remove the investment fund manager without just cause or for reasons associated with fund performance, and such rights are substantive;
- existence of provisions in the fund regulation envisaging the establishment within the fund of committees, in which the Group participates, that influence the governance of relevant activities and have the legal and/or de facto right to control the activities of the fund manager;
- existence of other relations with the fund, such as the presence within the fund of personnel with strategic responsibilities associated with the Group and the presence of contractual relations that subject the fund to the Group for the subscription or placement of units.

Structured entities - securitisation vehicles

In checking for the fulfilment of requirements of control over securitisation vehicles, both the possibility of exercising power over relevant activities for its own benefit and the end purpose of the transaction are taken into consideration, as well as the investor/sponsor's involvement in the structuring of the transaction.

For autopilot entities, the subscription of the substantial entirety of the notes by Group companies is considered an indicator of the presence, particularly during the structuring phase, of the power to manage relevant activities to influence the economic returns of the transaction.

Methods of consolidation

With reference to the consolidation methods, subsidiaries are consolidated on a line-by-line basis, interests in jointly controlled companies and investments in companies subject to the Group's "significant influence" are consolidated with the condensed equity method.

Line-by-line consolidation consists in the line-by-line acquisition of the balance-sheet and income statement aggregates of the subsidiaries. After the assignment to third parties, under a separate account, of their shares of equity and profit/loss, the value of the investment is eliminated against the recognition of the residual value of the subsidiary's equity.

Intragroup assets, liabilities, income and expenses are eliminated.

Acquisitions of companies are accounted for based on the "acquisition method" set forth in IFRS 3, as amended by Regulation 495/2009, based on which identifiable assets acquired and identifiable liabilities assumed (including contingent), must be recognised at their respective fair values at the acquisition date. In addition, for each business combination, any non-controlling interests in the acquired company may be recognised at fair value or in proportion with the share of non-controlling interests in identifiable net assets of the company acquired. Any excess of the consideration transferred (represented by the fair value of the assets transferred, liabilities assumed and equity instruments issued) and any recognition at fair value of the non-controlling interests with respect to the fair value of assets and liabilities acquired is recognised as goodwill; if the price is lower, the difference is allocated to the income statement.

The "acquisition method" is applied starting from the acquisition date, or beginning when control over the company acquired is effectively obtained. Therefore, the income and expenses of a subsidiary purchased during the reference year are included in the consolidated financial statements as of the date of purchase.

On the other hand, the income and expenses of a subsidiary sold are included in the consolidated financial statements up to the date of disposal, i.e. when the Parent ceases to control the subsidiary. At the date when control is lost, the controlling entity:

- derecognises the assets (including any goodwill) and liabilities of (and non-controlling interests in) the former subsidiary at their carrying amounts;
- recognises the fair value of the consideration received and of any investment retained in the former subsidiary;
- reclassifies to consolidated profit or loss any amounts previously recognised in the subsidiary's statement of other comprehensive income as if the assets or liabilities had been transferred;
- recognises any resulting difference in consolidated profit or loss.

Interests in jointly controlled companies and investments in companies subject to the Group's "significant influence" (associates) are consolidated with the condensed equity method.

This method contemplates the initial posting of the investment at cost. This value is subsequently adjusted to reflect:

- the Group's share of gains/losses on the investment for the period is recognised under item 240 "Gains (losses) on equity investments" of the consolidated income statement;
- the Group's share of changes recognised in the Statement of Consolidated Comprehensive Income.

If an investor's share of losses in an associate equals or exceeds the interest's carrying value, the investor discontinues recognising its share of further losses unless the investor has incurred specific legal obligations or made payments in favour of the associate.

Profits resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate. Losses resulting from transactions between the Group and its associates are eliminated as well, unless the transaction provides evidence of an impairment of the asset transferred.

The Group stops using the equity method on the date on which it stops exercising significant influence or joint control over the investee; in that case, as of that date the investment is reclassified to "Financial assets available for sale", on the condition that the associate or jointly controlled company does not become a subsidiary.

§ * § * § * §

During the course of 2017, investee company Juliet S.p.A., services company handling the management and recovery of credit, and controlled by the Parent Company as per IFRS 10, entered the scope of consolidation. Also noted is the exit from the scope of consolidation of investee company Costruzioni Ecologiche Moderne S.p.A., as a result of the loss of control and the simultaneous assumption of the status of associated company.

3. Investments in associates and joint ventures with significant non-controlling interests

This section has not been completed as there are no investments of this type.

4. Significant restrictions

Listed below are the significant restrictions on the Group's ability to access or use assets and to extinguish liabilities:

Regulatory restrictions

The Parent Company and the subsidiaries MPSL&F, MPSCS, MPS Banque, MP Belgio and Widiba, with assets and liabilities prior to intercompany eliminations amounting to EUR 168,744.5 mln as at 31 December 2017 (EUR 192,425.1 mln as at 31 December 2016) are subject to compliance with minimum capital requirements and prudential supervision exercised by the Authorities present in the respective countries of residence and by the European Central Bank, which is responsible, pursuant to the regulation instituting the Single Supervisory Mechanism, for ensuring the uniform application of Eurozone regulatory provisions. The credit institutions in question are required to comply with prudential requirements regarding capital, securitisations, limits on large exposures, liquidity, financial leverage and reporting and public disclosure of information regarding these aspects.

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, the BMPS Group 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%.

Until 31 December 2017, the CET1 threshold to be observed was 10.75%.

For further details, please refer to the quantitative and qualitative information provided in Part F, section 2.3 "Capital adequacy" of these Notes to the consolidated financial statements.

The subsidiaries MPS Capital Trust I, MPS Capital Trust II, MPS Preferred Capital I LLC, MPS Preferred Capital II LLC, Antonveneta Capital Trust I, Antonveneta Capital Trust II, Antonveneta Capital I LLC, Antonveneta Capital II LLC and Montepaschi Luxembourg are entities under foreign law incorporated between 2000 and 2003, through which the Parent Company had carried out capital strengthening transactions in compliance with supervisory provisions through public issues of preference shares, counted, pursuant to prudential regulations in force pro tempore, for the purposes of calculating the own funds of BMPS and the Group. In this respect, following approval of Italian Law Decree 237/2016 - Urgent provisions for the protection of savings in the credit sector, in compliance with what is set forth in art. 22, paragraphs 2 and 3 of Law Decree 237, as well as art. 2 of the Burden Sharing Decree issued on 28 July 2017, the AT1 financial instruments specified in them, issued by some of the aforementioned companies, were converted into newly issued ordinary shares of the Parent Company. Moreover, the same decree envisaged cancellation of the loans, in any technical form (deposits, bonds, etc.), granted by the Parent Company (including its foreign subsidiaries), and of the guarantees issued by the latter as part of the single financial transactions, in relation to which the above AT1 instruments were issued. Following the burden sharing provisions, the legal/operating methods, where necessary, for winding up the aforementioned entities are in the definition process, with the support of professional firms.

Legal restrictions

The Parent Company and the Italian subsidiaries other than securitisation vehicles are required, in compliance with statutory provisions, to deduct 5% of annual net profit to form the legal reserve, until it has reached 20% of the share capital. The reserve must be replenished if it is reduced for whatever reason.

Contractual restrictions

Encumbered assets

The Group holds assets not available to it in that they are used to guarantee financing transactions (e.g., repurchase or securitisation transactions).

The disclosure on assets pledged as collateral for liabilities and commitments is provided in the "Other information" section of Part B of these notes to the consolidated financial statements, which should therefore be referred to.

Group Assets relating to securitisation transactions

At the reporting date, the item loans to customers includes EUR 4,482.0 mln (EUR 5,649.5 mln as at 31 December 2016) relating to loans that have not been derecognised, which were sold with the securitisations Siena Mortgages 10-7, Siena Lease 2016-2 S.r.l., Siena Consumer 2015 S.r.l., Siena PMI 2015 S.r.l. and Norma SPV S.r.l. As an offsetting entry for the cash flows arising from these disposals, the Parent Company and subsidiaries MPS Capital Services and MPS Leasing & Factoring have recognised a liability in their financial statements with the vehicles that issued the senior notes (subject to final sale to a leading bank as part of the same securitisations) equal to EUR 929.3 mln (EUR 1,453.6 mln as at 31 December 2016). Against this liability, the creditors' entitlement to repayment is limited to cash flows arising from the assets underlying senior notes sold (please refer to table E.3 of the Notes to the consolidated financial statements Part E - Information on risks and hedging policies).

Other restrictions

The Group's banks are required to hold a compulsory reserve at national Central Banks. The compulsory reserve, included in the "Loans to Banks" portfolio at the Bank of Italy, amounts to EUR 3,611.3 mln as at 31 December 2017 (EUR 3,588.5 mln as at 31 December 2016).

5. Other information

The financial statements processed for line-by-line consolidation of the subsidiaries include the financial statements as at 31 December 2017, as approved by the Boards of Directors of the respective companies.

Section 4 – Events after the Reporting Period

On 9 January 2018, 95% of the mezzanine notes relative to securitisation of the doubtful loan portfolio of the MPS Group were sold, as per the agreement signed on 22 December 2017 with Quaestio Capital SGR S.p.A. on behalf of the Atlante Fund.

On 11 January 2018, the Parent Company issued a fixed-rate Tier 2 subordinated bond with 10-year maturity (redeemable in advance starting from the fifth year at the issuer's option, subject to regulatory approval), for EUR 750 mln. The bond pays a fixed rate coupon of 5.375% and has an issue price of 100% equivalent to a spread of 500.5 basis points above the 5-year swap rate. The expected ratings of the bond are CCC+ (Fitch) and Caa2 (Moody's).

Section 5 – Other matters

Going concern

The Consolidated Fnancial Statements were prepared based on a going concern assumption.

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

For this purpose, the following are particularly relevant:

- the approval of the Restructuring Plan by the European Commission on 4 July 2017 (for further details on the Plan's implementation status, refer to the paragraph entitled "Strategy" in the Consolidated Report on Operations;
- the finalisation on 11 August 2017 of the share capital increase for a total of EUR 8,327 million, following conversion of the AT1 and T2 financial instruments into ordinary shares of the Parent Company, in compliance with what is set forth in art. 23, paragraph 3 of Decree 237, as well as art. 2 of the Burden Sharing Decree and subscription of ordinary shares by the MEF;
- the restoration of the capital ratios above the SREP thresholds currently in force: at the date of 31 December 2017, the CET1 ratio is 14.8% while the TC Ratio is 15%, also considerably higher than those established for 2018 with the SREP decision of 19 June 2017 (which establishes the thresholds of 9.4% for the CET1 ratio and 12.9% for the TC ratio, excluding only the P2 Guidance component).

As regards the liquidity position, after the significant deterioration incurred in 2017, Banca MPS obtained the State guarantee on financial liabilities to be issued for a total of EUR 15 bn (for a maximum duration of three years). In 2017, the Parent Company carried out three government-backed securities issues for a total of EUR 11 bn, which were used in full in sales transactions in the market and as collateral to back funding transactions. As a result of these transactions, the recovery of commercial funding and the financial contribution by the MEF connected to the share capital increase as well as to the partial public offering of 2008-2018 subordinated UT2 bonds for exchange and settlement, liquidity indicators returned to ordinary levels.

Therefore, in light of what is noted above, as it is deemed reasonable that the Parent Company will continue operating in the foreseeable future, the financial statements have been prepared on a going concern basis.

List of key IAS/IFRS international accounting principles and related SIC/IFRIC interpretations for mandatory application as of the 2017 financial statements

On 29 January 2016, the IASB published the document **"Disclosure Initiative (Amendments to IAS 7)"** which contains amendments to IAS 7.

The document has the objective of providing certain clarifications to improve the disclosure on financial liabilities. In particular, the amendments introduce the requirement to provide a disclosure that allows financial statement users to understand changes in liabilities deriving from financing transactions, including changes deriving from monetary movements and non-monetary movements.

The amendments apply as of 1 January 2017. The presentation of comparative information relating to prior years is not required.

The document was endorsed by the European Commission with Regulation 2017/1990 on 9 November 2017.

On 19 January 2016, the IASB published the document **"Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)"** which contains amendments to IAS 12.

The document has the objective of providing certain clarifications on the recognition of deferred tax assets on unrealised losses. In particular, the amendments arise from a request for clarification promoted by the IFRS IC on the application of IAS 12 relating to the recognition of deferred tax assets in the following circumstances:

- when an entity holds a fixed-rate debt instrument classified as available for sale with profit and loss recognised in OCI;
- when a change in market conditions, in particular an increase in interest rates, provokes a reduction in the fair value of the instrument to below the initial cost;
- when tax regulations exclude the deductibility of a loss for tax purposes as long as it is unrealised;
- when the entity expects to recover all contractual cash flows while retaining the instrument until its natural maturity;
- when the entity has insufficient temporary taxable differences and has no future taxable income against which the entity can use deductible temporary differences.

The amendments apply as of 1 January 2017.

The document was endorsed by the European Commission last 9 November with Regulation 2017/1989.

IAS/IFRS international accounting standards and related SIC/IFRIC interpretations endorsed by the European Commission, the application of which is mandatory as of 31 December 2017

On 18 May 2014, the IASB published IFRS 15 **"Revenue from Contracts with Customers"** which replaces previous standards on revenue: IAS 11 "Construction Contracts", IAS 18 "Revenue", IFRIC 13 "Customer Loyalty Programmes", IFRIC 15 "Agreements for the Construction of Real Estate", IFRIC 18 "Transfer of Assets from Customers" and SIC 31 "Revenue – Barter Transactions Involving Advertising Services".

The new standard applies to all contracts stipulated with customers, except for those subject to other specific standards, even only partially.

This standard proposes a model according to which an entity must recognise revenue to accurately depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In this regard, the standard establishes five steps:

1. identify the contract with the customer, defined as an agreement (written or verbal) with commercial substance between two or more parties that generates legally enforceable rights and obligations with the customer;
2. identify the performance obligations in the contract;
3. determine the transaction price, i.e., the amount to which an entity expects to be entitled in exchange for the transfer of goods and services in line with the techniques set forth in the standard and on the basis of any presence of financial components;
4. allocate the transaction price to the performance obligations in the contracts;
5. recognise revenue when (or as) the entity satisfies a performance obligation, taking into consideration that services may be rendered either over time or at a point in time.

The clarifications published by the IASB in 2016 with the document **"Clarifications to IFRS 15 Revenue from Contracts with Customers"** are part of this standard.

- Identifying performance obligations;
- Principal-versus-agent considerations;
- Licensing.

This document was endorsed by the European Commission with Regulation no. 2017/1987 on 9 November 2017.

Application of the standard is mandatory as of the start date of the first annual period beginning on or after 1 January 2018.

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

On 24 July 2014, the IASB issued the final version of IFRS 9 **"Financial instruments"**, which replaces IAS 39. The aspect of macro hedging has not yet been addressed, as the IASB has decided to undertake an autonomous project on this matter.

The document was endorsed by the European Commission with Regulation no. 2016/2067 on 22 September 2016 and is mandatorily to be applied as of the start date of the first annual period beginning on or after 1 January 2018.

The key innovations are briefly described below:

<u>Classification and measurement of financial assets</u>

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

Classification and measurement of financial liabilities

It maintained the requirement for separate accounting of derivatives embedded in a financial host. For instruments other than derivatives, measurement of all fair value changes through profit or loss only applies to financial liabilities held for trading. For financial liabilities designated under the fair value option, the amount of change in the fair value that is attributable to changes in the credit risk of the liability, shall be presented directly in other comprehensive income, unless it creates or increases an accounting mismatch, in which case the entire change in fair value shall be presented within profit and loss. The amount that is recognised in other comprehensive income is not transferred from OCI to P&L ("recycled") when the liability is settled or extinguished.

The standard allows for the rules governing the treatment of own credit quality on financial liabilities under the fair value option included in IFRS 9 to be applied in isolation. The Group has exercised this option, applying said rules in advance in 2017.

Impairment

The standard sets forth a single impairment model for all debt financial instruments not measured at FVTPL: financial assets measured at amortised cost, those measured at fair value through other comprehensive income, lease receivables and trade receivables. The prospective model requires the recognition of expected losses (ECL) on the financial instrument beginning from initial recognition in the financial statements. Credit losses must be estimated on the basis of supportable information that is available without undue cost or effort, and that includes historical, current and forecast data. For purposes of impairment, IFRS 9 requires classification in three stages in increasing order of deterioration of credit quality. The first category includes financial instruments whose credit quality has not significantly deteriorated with respect to their initial recognition in the financial statements. On exposures included in the first category, expected losses should be recognised on the basis of a 12-month time horizon. On the exposures included in the other two categories, lifetime expected losses should be recognised on the financial instrument.

IFRS 9 also requires improved disclosure about expected credit losses and credit risk. In particular, entities are required to provide information that explains the basis for their expected credit loss calculations and how they assess changes in credit risk.

Hedge accounting

Excluding macro hedges, for which IAS 39 remains in force, the standard tends to align the accounting presentation with risk management activities and, in the second place, to strengthen the disclosure of risk management activities undertaken by the reporting entity.

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In relation to the expected impact of application of IFRS 9, it should be noted that, especially with regard to the ECL approach, this new standard, compared to IAS 39, will entail greater recourse to experience-based judgements and intrinsically complex calculations, with an accounting approach that is increasingly based on the use of valuation models. The preparation of the ECL model has required significant changes in data, information systems and processes within the Group, and has entailed the definition of appropriate IT implementation strategies, of a functional and accounting nature, following introduction of the new valuation models.

With respect to classification and measurement, the Group has launched a detailed examination of the characteristics of the contractual flows of the debt instruments classified at amortised cost in accordance with IAS 39, in order to identify any assets which will be measured at fair value in accordance with IFRS 9 as they do not pass the Solely Payment of Principal and Interest test (SPPI test).

The main quantitative impacts are essentially due to the following:

- reclassification of the financial instruments in accordance with the *Group's business model*;
- increase in the scope of instruments measured at fair value through profit and loss as a result of their failure to pass the SPPI test (mandatory FVPL), partly due to retrospective application of modification & derecognition accounting;
- application of the new impairment model, which will entail an increase in provisions due to the inclusion i) of lifetime expected losses on performing assets classified in stage 2 as a result of the significant increase in the borrower's credit risk with respect to that existing at the moment of initial recognition of the receivable in the financial statements; ii) of prospective macroeconomic scenarios on all categories of loans and iii) of prospective sales scenarios on an identified portfolio of gross non-performing loans to which a high probability of sale has been assigned, in line with the 2017-2021 Restructuring Plan.

Recall that the last two topics specified above may result, subsequent to the date of first-time application, in greater income statement volatility, due to the possible increased number of instruments measured at fair value and the transfer of financial instruments from stage 1 to stage 2 or vice versa; in this case, volatility will be positively correlated with the duration of the financial instruments.

Upon first-time application of the standard, the estimated quantitative negative effects on the Group's consolidated equity as at 1 January 2018 amount overall to about EUR 1.2 billion, net of the tax effect which, given the Group's tax position, is not significant.

With particular regard to the regulatory impact of the new impairment model, note that on 27 December 2017, EU Regulation no. 2017/2395, issued on 12 December 2017 by the European Parliament and Council ("Regulation") was published in the Official Gazette of the European Union, amending Regulation no. 2013/575 and introducing transition requirements aimed at mitigating the impact of introduction of IFRS 9 on own funds, in addition to modifying the handling of large exposures of certain exposures in the public sector that are in the national currency of a member country. The Regulation became effective on 28 December 2017 and is applicable starting from 1 January 2018.

Introduction of the transition requirements enables gradual determination of the negative impact arising from application of the expected loss model to determine write-downs on loans, as envisaged by the shift to the new IFRS 9. In this regard, the Group has exercised, pursuant to paragraph 9 of art. 1 of the aforementioned Regulation, the faculty of adopting the transition requirements, notifying the European Central Bank on 23 January 2018. Due to this transitional regime, the expected impacts on capital as at 1 January 2018 are not significant.

Lastly, recall that the new method for accounting for interest on assets classified in stage 3 (namely non-performing loans, for which the effective interest rate must be applied on the net, and not gross, exposure) will have consequences on the methods for presenting interest in the income statement starting from 2018.

As regards the exercise of the options contained in the standard, please note that the Group will avail itself of:

- the option of maintaining the current rules for recognition of hedge accounting outlined in IAS 39;
- the right not to present comparative information in the year of first-time application.

With regard to the impact on operating processes, note that the last updates to the internal regulations are underway, in order to adopt the operational/organisational changes connected to the classification and measurement of financial instruments, in addition to the IT implementations and releases, as per the project plan.

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.

This amendment introduced a series of modifications that permit:

- entities that issue insurance contracts to recognise the effects deriving from the volatility that may arise when an entity will apply IFRS 9 before the application of the new IFRS 4 in the statement of comprehensive income (i.e., in the OCI statement), rather than in the income statement (the "overlay approach").
- entities whose business is constituted to a predominant extent by insurance activities to rely on a temporary exemption from the application of IFRS 9 until 2021. Entities that defer the application of IFRS 9 will continue to apply the current IAS 39 (the "deferral approach").

The amendments apply as of 1 January 2018. On this matter, note that the Group's insurance associates shall apply the "deferral approach".

On 13 January 2016, the IASB published the new standard "**IFRS 16 Leases**" which 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 standard was endorsed by the European Commission on 9 November 2017 with Regulation no. 2017/1986 and shall apply as of 1 January 2019.

IAS/IFRS international accounting standards and related SIC/IFRIC interpretations issued by the IASB and still awaiting approval from the European Commission

On 12 December 2017, the IASB published the **Annual Improvements to IFRSs 2015-2017 Cycle**, which included amendments to IAS 12 Income Taxes, IAS 23 Borrowing Costs, IFRS 3 Business Combination and IFRS 11 Joint Arrangements. In particular:

- The amendments to IAS 12 clarify that the effects on the taxation of dividends (as in the case of distribution of profits) should be recognised in the income statement regardless of how the tax originates.
- The amendments to IAS 23 clarify that, if a specific loan remains outstanding after the corresponding asset is ready for use or sale, that loan becomes part of the funds considered for the purpose of calculating the capitalisation rate in relation to general loans.
- The amendments to IFRS 3 clarify that when the entity obtains control of a business, already a joint operation, it recalculates the stake held in that business.
- The amendments to IFRS 11 clarify that when an entity obtains joint control of a business, already a joint operation, it does not recalculate the stake held in that business.

The amendments shall apply as of 1 January 2019. However, their early application is permitted.

On 7 June 2017, the IASB published **"IFRIC 23 "Uncertainty over Income Tax Treatments**", which clarifies how to apply the requirements for recognition and measurement of IAS 12 when there is uncertainty on the treatment of income tax.

In this case, for the purposes of recognition and measurement of current and deferred tax assets/liabilities in accordance with IAS 12, taxable profits/losses, taxable bases, unused tax losses, unused tax credits and tax rates are determined based on the interpretation provided by IFRIC 23.

The entity is required to use judgement in determining whether an uncertain tax treatment should be considered independently or jointly with other tax treatments impacted by the uncertainty. The decision should be based on the approach that provides the greatest guarantee of resolving the uncertainty.

The entity should also consider that the relevant tax authority, in examining the data submitted to it, may or may not accept application of the tax treatment or set of tax treatments proposed by the entity.

If it is deemed probable that a specific tax treatment will be accepted, the entity must determine the taxable income, taxable bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment included in the tax return.

However, if the entity considers its acceptance to be unlikely, it must reflect the effect of the uncertainty in determining the tax components using one of the following methods:

- the "most likely amount", which identifies the most likely amount within a range of possible results;
- the expected amount, which is based on the weighted sum of probable values within a range of possible values.

The decision must be based on the method that provides greater guarantee of resolving the uncertainty.

Moreover the entity must review the judgements and estimates if the facts and circumstances change.

IFRIC 23 applies as of 1 January 2019. Early application is permitted.

Last 18 May 2017, the IASB issued **IFRS 17 Insurance Contracts**, which sets out the principles for recognition, measurement, presentation and disclosure of the insurance contracts under the scope of the standard.

The objective of IFRS 17 is to ensure that significant information is provided, faithfully representing the contracts, in order to provide a basis for users of the financial statements to assess their effects on the entity's financial performance and cash flows.

On 12 October 2017, the IASB published "**Amendments to IFRS 9: Prepayment Features with negative compensation**, which

- allows the measurement at amortised cost or, according to the business model, at fair value through other comprehensive income, of financial assets having specific early repayment options with negative compensatory payment, which would otherwise not satisfy the SPPI conditions;
- contains a clarification with regard to accounting of a change in a financial liability at amortised cost, which does not involve derecognition of the liability. Adjustment of the financial liability to amortised cost, calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the effective interest rate, is recognised in the income statement as at the date of the amendment.

The amendments apply as of 1 January 2019; early application is permitted.

Last 12 October 2017, the IASB issued **Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures**, which clarifies that an entity applies IFRS 9 "Financial instruments" to long-term interests in associates or joint ventures that are part of the net investment in the associate or joint venture, but to which the equity method does not apply.

The amendments apply as of 1 January 2019; early application is permitted.

The process for endorsement of the following documents published by the IASB in 2016 is still underway:

- Amendments to IFRS 2 "**Classification and Measurement of Share-Based Payment Transactions**", which applies from 1 January 2018 and provides a number of clarifications in relation to the following aspects:
    - accounting for the effects of vesting conditions in the case of cash-settled share-based payments;
    - the classification of share-based payments with net settlement characteristics;
    - accounting for amendments to the terms and conditions of a share-based payment which change its classification from cash-settled to equity-settled.
- Annual Improvements to IFRS Standards 2014-2016 Cycle, which amends IFRS 1, IFRS 12 and IAS 28;
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration, which enters into force on 1 January 2018;
- Amendment to IAS 40 **Investment Property: Transfers of Investment Property**, which enters into force on 1 January 2018.

A.2 – The main items of the accounts

Accounting standards

This chapter contains the accounting standards in relation to the main assets and liabilities in the balance sheet, which were adopted for the preparation of the consolidated financial statements as at 31 December 2017.

1 Financial assets held for trading

a) recognition criteria

Initial recognition of financial assets occurs at settlement date, for debt securities and equities and at trade date for derivative contracts.

Upon initial recognition, financial assets held for trading 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 statements.

Any embedded derivatives in combined financial instruments not directly connected to the latter and with the characteristics to meet the definition of a derivative are recognised separately from the host contract at fair value.

The applicable accounting criteria are administered to the primary contract.

b) classification criteria

This category includes debt securities and equities purchased mainly for the purpose of obtaining short-term profits arising from price changes and the positive value of derivative contracts, including expired and impaired derivatives not subject to early settlement as part of a master netting agreement. Contracts designated as hedging instruments are excluded. Derivative contracts include those embedded in combined financial instruments which were subject to separate accounting.

c) measurement criteria

After initial recognition, financial assets held for trading are recorded at fair value, with value changes recognised in profit or loss.

For a description of criteria used to determine the fair value of financial instruments, please see section "A.4.3 Fair Value Hierarchy" of this Part A.

d) derecognition criteria

Financial assets are derecognised upon maturity of the contractual rights on the cash flows resulting from the assets or when the financial assets are sold and all related risks/benefits are transferred. Securities received within the scope of a transaction that contractually provides for subsequent sale are not recorded in the financial statements, and securities delivered within the scope of a transaction that contractually provides for subsequent buyback are not derecognised from the financial statements. Consequently, in the case of securities acquired with an agreement for resale, the amount paid is recorded in the financial statements as loans to customers or banks, while in the case of securities transferred with an agreement for repurchase, the liability is recorded under deposits from banks or deposits from customers.

e) revenue recognition criteria

Gains and losses arising from any changes in the fair value of a financial asset are recognised in profit and loss under item "80 Net trading income (expenses)", except for gains and losses on derivative assets linked with the fair value option which are classified under item "110 Net profit / loss from financial assets and liabilities designated at fair value".

2 Financial assets available for sale

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. If recognition occurs following the reclassification from assets held to maturity, the recognition value is the fair value as at the time of transfer. In the case of debt instruments, any difference between the initial value and the value of repayment is spread out over the life of the debt instrument in accordance with the method of amortised cost.

b) classification criteria

This category includes non-derivative financial assets which are not classified as loans, financial assets designated at fair value through profit and loss or financial assets held to maturity.

In particular, this category also comprises strategic equity investments which are not managed for trading purposes and cannot be defined as controlling interest, significant influence and joint control, and bonds which are not subject to trading. Such investments may be transferred for any reason, such as liquidity requirements or variations in interest rates, exchange rates, or stock price.

c) measurement criteria

After initial recognition, financial assets available for sale are measured at fair value, with interest being recognised in the income statement as resulting from the application of the amortised cost and with appropriation to a specific equity reserve of the gains or losses arising from changes in fair value net of the related tax effect, except losses due to impairment. Foreign exchange fluctuations in relation to equity instruments are posted to the specific equity reserve, whereas changes in loans/receivables and debt instruments are allocated to profit and loss. Equity instruments, for which it is not possible to determine a reliable fair value, are maintained at cost, adjusted for any impairment losses.

Financial assets available for sale are reviewed for objective evidence of impairment at each balance sheet and interim reporting date. Indicators of a likely impairment include but are not limited to: significant financial difficulty of the issuer, non-fulfilment or defaults in payments of interest or principal, possibility that the borrower is declared bankrupt or submitted to other forms of insolvency proceedings, disappearance of an active market for the assets. In particular, as far as equity instruments that have a quoted market price in an active market are concerned, a market price as at the date of the financial statements lower than the original purchasing cost of at least 30% or a market value lower than the cost lasting more than 12 months are considered an objective evidence of value reduction. If further reductions take place in subsequent financial years, these are charged directly to the profit and loss statement.

With regard to debt securities, regardless of whether or not these are listed on active markets, any impairment loss is recognised in the profit and loss statement strictly in relation to the issuer's ability to fulfil its obligations and therefore make the necessary payments and repay capital at maturity. Therefore, it needs to be established whether there are indications of a loss event which could have a negative impact on estimated future cash flows. Where there are no actual losses, no loss is recognised on the stock, and any capital loss is recognised in the negative net equity reserve.

The amount of any value adjustment shown following the impairment test is recorded in the profit and loss statement as an expense for the year. Should the reasons for impairment cease to exist, following an event which occurred after recognition of impairment, reversals are recognised in equity in the case of equity instruments, and through profit and loss in the case of debt securities.

d) derecognition criteria

Financial assets are derecognised upon maturity of the contractual rights on the cash flows resulting from the assets or when the financial assets are sold and all related risks/rewards are transferred.

Securities received within the scope of a transaction that contractually provides for subsequent sale are not recognised in the financial statements, and securities delivered within the scope of a transaction that contractually provides for subsequent repurchase are not derecognised from the financial statements. Consequently, in the case of securities acquired with an agreement for resale, the amount paid is recognised in the financial statements as loans to customers or banks, while in the case of securities transferred with an agreement for repurchase, the liability is shown under deposits from customers or deposits from banks.

e) revenue recognition criteria

Upon disposal, exchange with other financial instruments or measurement of a loss of value following impairment testing, the fair value results accrued to the reserve for assets available for sale are reversed to profit and loss under:

- item "100 – Gains/Losses on purchase/disposal of: b) financial assets available for sale", in the case of disposal;
- item "130 - Net impairment losses/reversals on: b) financial assets available for sale", in the case of recognition of impairment.

If the reasons for impairment cease to exist, following an event which occurred after the impairment was recognised, the impairment loss is reversed: through profit and loss in the case of loans or debt securities, and through equity in the case of equity instruments.

3 Financial assets held to maturity

The Group does not use this portfolio.

4 Loans

a) recognition criteria

Recognition in the financial statements occurs:

- for a receivable:
  - on the date of disbursement;
  - when the creditor acquires the right to payment of the amounts contractually agreed upon;
- for a debt security:
  - on the date of settlement.

The initial value is determined on the basis of the fair value of the financial instrument (which is normally equal to the amount disbursed or price of underwriting), inclusive of the expenses/income directly related to the individual instruments 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.

Swaps and repo contracts under agreement to re-sell are posted as lending transactions. In particular, the latter are reported as receivables in the sum of the spot amount paid.

b) classification criteria

Receivables include loans to customers and banks, whether disbursed directly or purchased from third parties, with fixed or determinable payments, which are not quoted in an active market and were not initially classified among financial assets available for sale and financial assets at fair value through profit or loss.

They also incorporate trade receivables, repurchase agreements, receivables arising from financial leasing transactions and securities purchased in a subscription or private placement, with fixed or determinable payments, not quoted in active markets.

c) measurement criteria and revenue recognition criteria

After initial recognition, receivables are valued at amortised cost, which is the initial recognition amount decreased/increased by principal repayments, write-downs/write-backs and the 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. The effective interest rate is the interest rate which makes the current value of future flows of the receivable, in principal and interest, estimated over the expected life of the receivable, equal to the amount disbursed, inclusive of any costs/income attributable to the receivable. Therefore, the economic effect of costs and income is spread over the expected residual life of the receivable.

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.

Non-performing exposures (e.g. doubtful, unlikely to pay and non-performing past due; together, non-performing exposures) are classified into different risk categories in accordance with the regulations issued by the supervisory authorities, supplemented with internal provisions which set automatic criteria and rules and non-binding triggers for the transfer of receivables between different risk categories. In particular, classification is carried out by the various units independently, except for loans more than 90 days past due, which are measured using automated procedures.

With regard to the general concept of the restructuring of loans, three different categories have been identified:

- "forborne exposures" (as defined in Circular 272 of the Bank of Italy, which correspond to the definitions contemplated by the ITS – Implementing Technical Standards of the EBA);
- renegotiations for commercial reasons/practices;
- debt settlement via borrower substitution or debt-for-equity swap.

In line with Bank of Italy regulations, a "forborne exposure" is a debt agreement for which measures of tolerance have been applied (otherwise identifiable as "forbearance measures"). The measures of tolerance consist of concessions - in terms of the amendment and/or refinancing of the pre-existing debt agreement - to the borrower who has or is on the verge of having difficulty in meeting its financial commitments (in other words, the borrower is in financial difficulty).

Forborne exposures are broken down into:

- non-performing exposures with forbearance measures, pursuant to the ITS. These exposures represent a sub-category of, depending on the case, doubtful loans, unlikely to pay or non-performing past due; therefore, they do not make up their own category of non-performing exposures;
- forborne performing exposures, pursuant to the ITS.

The renegotiation of loans granted by the Bank to performing customers is substantially equated with the opening of a new position, if it is granted essentially for commercial reasons rather than for the borrower's economic-financial difficulties (therefore, not classifiable as forborne exposures as described above) and provided that the interest rate applied is a market rate as at the date of renegotiation.

As an alternative to the previously described options (renegotiations due to borrower difficulties and re-negotiations for commercial reasons/practice), the Bank and the borrower may agree on settlement of the original debt via:

- novation or assumption of the loan by another borrower (release from debt liability);

- substantial modification of loan terms involving a debt-equity swap.

Said events, involving a substantial modification of contractual terms, provide for cancellation of the pre-existing loan agreement from an accounting standpoint, and consequent booking of the new agreement at fair value, recognising through profit or loss an amount corresponding to the difference between the fair value of assets received and the book value of the cancelled loan.

In order to determine adjustments to the carrying value of receivables, and taking into account the different impairment levels, analytical or collective valuation is used, as outlined hereunder.

Doubtful loans, unlikely to pay and non-performing past due exposures are valued analytically (when the exposures exceed a given threshold value) or by applying the LGD parameter in the remaining cases. Performing exposures are subject to statistical valuation.

For loans subject to analytical assessment, the amount of value adjustment for each loan is equal to the difference between the loan book value at the time of measurement (amortised cost) and the current value of estimated future cash flows, as calculated by applying the original effective interest rate. When the original interest rate cannot be directly identified, or identifying it would be excessively burdensome, the best approximation is applied.

For all fixed-rate positions, the interest rate thus determined remains constant, even in subsequent years, while for floating-rate positions the interest rate is updated with respect to the reference variable component, and the originally established spread is kept constant.

Expected cash flows take account of the expected repayment schedule, the expected recovery value of collaterals, if any, as well as the costs expected to be incurred for the recovery of the credit exposure.

The value adjustments are booked to the profit and loss statement to item "130 - Net impairment losses (reversals)". The adjustment component attributable to the discounting of cash flows is calculated on an accrual basis in accordance with the effective interest rate method and posted under reversals.

In the Notes, impairment losses on non-performing exposures are classified as specific in the cited income statement item, even when the calculation method is statistical in nature.

If the quality of the non-performing receivable has improved to such a point that there is reasonable certainty of timely recovery of the principal and interest, its initial value is recycled in the following years to the extent in which the reasons determining the adjustment disappear, provided that such valuation can be objectively linked with an event which occurred after the adjustment. The reversal is posted to the profit and loss statement and may not in any case exceed the amortised cost that the receivable would have had without prior adjustments.

Receivables with no objective evidence of loss are subject to a collective assessment of impairment. Such assessment, developed on the basis of a risk management model, is carried out by category, with receivables grouped together according to credit risk, and the relative loss percentages are estimated taking into account time-series based on elements observed on the date of assessment which allow the value of latent loss in each category to be estimated.

The model, for this type of valuation, involves the following steps:

- Segmentation of the loan portfolio by:
  - client segment (turnover);
  - economic sectors of activity;
  - geographical location;
- determination of the loss rate of individual portfolio segments, using the historical experience of the Group as reference.

Value adjustments determined collectively are posted to the profit and loss statement. Any additional write-downs or write-backs are recalculated on a differential basis, at year-end or on the dates of interim reports, with reference to the entire loan portfolio on the same date.

d) derecognition criteria

Any receivables sold are derecognised from the assets on the balance sheet only if their disposal implied the substantial transfer of all associated risks and rewards. However, if the risks and rewards associated with the receivables sold have been maintained, they continue to be posted among the assets on the balance sheet, even if legal ownership has been transferred.

If it is not possible to ascertain a substantial transfer of all risks and rewards, the receivables are derecognised when control of the assets has been surrendered. If such control has been maintained, even partly, the receivables should continue to be recognised to the extent of residual involvement, as measured by the exposure to the changes in value of the receivables sold and to the changes in their cash flows.

In addition, receivables sold are derecognised if the contractual rights to receive the cash flows from the assets are maintained and a contractual obligation to pay only said flows to third parties is simultaneously undertaken (pass through arrangements).

Lastly, receivables are fully derecognised when they are deemed irrecoverable or they are written off. Derecognitions, for the portion exceeding the relative provision, are allocated directly to income statement item 130 a) “Net impairment (losses)/reversals” and are recognised as a reduction of the principal amount of the receivables. Recoveries of partial or entire amounts previously derecognised are posted to the same item.

5 Financial assets designated at fair value

The Group does not use this portfolio.

6 Hedging transactions

a) recognition criteria – purpose

Risk-hedging transactions are aimed at offsetting any potential losses on a certain element or group of elements that may arise from a specific risk, with the profits made on a different element or group of elements, should that particular risk occur.

b) classification criteria – types of hedging

IAS 39 provides for the following types of hedging:

- fair value hedges, which are intended to hedge the exposure to changes in fair value of a recognised asset or liability that are attributable to a particular risk;
- cash flow hedges, which are intended to hedge the exposure to variability in future cash flows attributable to particular risks associated with a recognised asset or liability;
- hedges of a net investment in a foreign operation, which refers to hedging the risks of an investment in a foreign operation denominated in a foreign currency.

To conclude the chapter on the accounting principles, a specific section is added to provide further insight into the application issues and policies adopted by the Parent Company with regard to hedging transactions. The hedging policies adopted by the Parent Company are explained, also including the “natural hedges” provided for by the Fair Value Option, used as an alternative to hedge accounting in the accounting management of liability hedges.

c) measurement criteria and revenue recognition criteria

Hedging derivatives are measured at fair value. In particular:

- in the case of fair value hedging, the changes in the fair value of the hedged asset are recognised, along with the change in the fair value of the hedging instrument, in profit and loss statement item

"90 - Net profit (loss) from hedging". Any difference, i.e. partial ineffectiveness of the hedging derivatives, reflects their net P&L impact;

- in the case of cash flow hedging, the changes in fair value of the derivative are posted to a specific shareholders' equity reserve with reference to the effective portion of the hedge, and are posted to the profit and loss statement under item 90 "Net profit (loss) from hedging" only when the changes in fair value of the hedging instrument do not offset the changes in the cash flows of the hedged item;
- hedges of foreign currency investments are accounted for similarly to cash flow hedges.

A hedging transaction should be reflective of a pre-determined risk management strategy and consistent with risk management policies in use. In addition, a derivative is designated as a hedging instrument if the relationship between the hedged item and the hedging instrument is formally documented, and provided that the hedging relationship is prospectively effective at inception.

Hedge effectiveness depends on the extent to which changes in the fair value or expected cash flows of the hedged item are offset by corresponding changes in the hedging instrument. Therefore, effectiveness is measured by comparing said changes, while taking into account the company's intent at hedge inception.

With reference to the hedged risk, the hedging is effective (within the 80% to 125% window) when the changes in fair value (or in the cash flows) of the hedging instrument offset the changes in the hedged item almost entirely.

Effectiveness is assessed at year-end by using:

- prospective tests, which justify continuing hedge accounting since they show its expected effectiveness;
- retrospective tests, which show how effective the hedging relationship has been in the period under review.

Derivatives which are considered as hedging instruments from an economic viewpoint because they are operationally linked with financial liabilities measured at fair value (Fair Value Option) are classified among trading derivatives; the respective positive and negative differentials or margins accrued until the end of the reporting period are recognised, in accordance with their hedging purpose, as interest income and interest expense, while valuation gains and losses are posted under item 110 of the profit and loss statement, "Net profit (loss) from financial assets and liabilities designated at fair value".

d) derecognition criteria – ineffectiveness

If tests do not confirm hedge effectiveness, both retrospectively and prospectively, hedge accounting is discontinued and, unless it has expired or has been terminated, the hedging derivative contract is reclassified as a held-for-trading instrument, whereas the hedged item reverts to the accounting treatment based on its original classification.

If a fair value hedge relationship is discontinued, any positive or negative adjustments made to the carrying amount of the hedged item until the last date on which compliance with hedge effectiveness was demonstrated are recycled into profit and loss. In particular, if the hedged item has not been derecognised, transfer to profit or loss is made using the effective interest method over the remaining life of the hedged instrument; if discontinuation of the hedge relationship leads to derecognition of the hedged item (for example due to early redemption), any gain or loss shall be entirely classified to profit or loss when the hedged item is derecognised.

Any amounts accumulated in cash flow hedge reserves are recycled to profit or loss when the hedged item affects profit or loss. Conversely, if the hedged item is discharged, cancelled or expires the reserve is immediately recycled to profit or loss upon derecognition of the hedged item.

7 Equity investments

a) recognition criteria

The account includes equity investments held in associates and joint ventures; the investments are initially recognised at purchase cost.

b) classification criteria

Please refer to item 10.6 "Key considerations and assumptions to determine the existence of joint control or significant influence" in Part B – "Assets" of these Notes to the financial statements.

c) measurement criteria and revenue recognition criteria

In consideration of the above, this item broadly contains the valuation of equity investments using the equity method; this method provides for initial recognition of the investment at cost and its subsequent adjustment on the basis of the share of the investee's profits and losses made after the date of purchase. The pro-rata amount of the profit/loss for the period of the investee is posted to item 240 "Gains/losses on investments" in the consolidated income statement.

If evidence of impairment indicates that there may have been a loss in value of an equity investment, then the recoverable value of the investment (which is the higher of the fair value, less costs to sell, and the value in use) should be estimated. The value in use is the present value of the future cash flows expected to be derived from the investment, including those arising from its final disposal.

Should the recoverable value be less than its carrying value, the difference is recognised immediately in profit or loss under item "240 - Gains (losses) on investments".

Should the reasons for impairment no longer apply as a result of an event occurring after the impairment was recognised, reversals of impairment losses are credited to the same account in profit and loss.

The profit related to the equity investments is booked to profit and loss of the Parent Company regardless of whether it was generated by the investee before or after the date of purchase. In the consolidated financial statements, dividends received are deducted from the investee's book value; should, after dividend recognition, the investee's book value in the separate financial statements exceed the book value (in the consolidated financial statements) of the investee's net assets, including goodwill, or should dividend payout exceed the investee's total profit, then the Group will determine the recoverable value of the investment to verify whether there has been a loss in its value.

d) derecognition criteria

Investments are derecognised upon maturity of the contractual rights on the cash flows resulting from the assets or when the financial assets are sold and all related risks/rewards are transferred.

8 Property, plant and equipment

a) recognition criteria

Property, plant and equipment are originally recognised at cost, which includes the purchase price and any additional charges directly attributable to the purchase and installation of the assets.

Non-recurring expenditures for maintenance which involve an increase in future economic rewards are booked as an increase in the value of the assets, while expenses for ordinary maintenance are booked to the profit and loss statement.

b) classification criteria

Fixed assets include land, operating properties, investment properties, systems, furnishings and fixtures, equipment of any type and works of art.

Operating properties are properties owned by the Group and used in production and in the supply of services or for administrative purposes, whereas investment properties are those owned by the Group for the purpose of collecting rents and/or held for appreciation of capital invested.

This item also includes any assets used in financial lease contracts, although their legal ownership rests with the leasing company, and any improvements and incremental expenses incurred in relation to third-party assets when they refer to identifiable and separable property, plant and equipment from which future economic rewards are expected. As regards real estate, components relating to land and buildings are separate assets for accounting purposes and are measured separately upon acquisition.

c) measurement criteria and revenue recognition criteria

Property, plant and equipment, including non-operating real estate, are valued at cost less any accrued depreciation and impairment.

They are systematically depreciated over their useful life on a straight-line basis, except for land and works of art which have an indefinite useful life and cannot be depreciated. The useful life of the fixed assets subject to depreciation is periodically reviewed and, in the event of any adjustments to the initial estimate, a change is also made in the related depreciation rate. The depreciation rates and subsequent useful life expected for the main categories of assets are reported in the specific sections of the notes to the financial statements.

The presence of any signs of impairment, or indications that assets might have lost value, shall be tested at the end of each reporting period.

Should there be indications of impairment of value, a comparison is made between the book value of the asset and the asset's recoverable value, i.e. the higher of the fair value, less costs to sell, and the value in use, which is the present value of the future cash flows generated by the asset. Any adjustments are posted to the profit and loss statement under item 170 “Net impairment losses/reversals on property, plant and equipment”. Periodic depreciation is reported in the same item.

Where the reasons for impairment cease to exist, a reversal is made, which shall not exceed the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognised for the asset in prior periods.

d) derecognition criteria

Property, plant and equipment are derecognised from the balance sheet upon their disposal or when the assets are permanently withdrawn from use and no future economic rewards are expected as a result of their disposal.

9 Intangible assets

a) recognition criteria

Intangible assets are identifiable, non-monetary assets without physical substance that are held for use over several years or indefinitely. They are recognised at cost, adjusted by any additional charges only if it is probable that the future economic rewards that are attributable to the asset will flow to the entity and if the cost of the asset can be measured reliably. The cost of intangible assets is otherwise posted to the profit and loss statement in the reporting period it was incurred.

Relevant intangible assets for the Group include:

- technology-related intangible assets including software licenses, internal capitalised costs, projects and licenses under development; in particular, internally incurred costs for software project development are intangibles recognised as assets if, and only if: a) the cost for development can be measured reliably, b) the entity intends and is financially and technically able to complete the intangible asset and either use it or sell it, c) the entity is able to demonstrate that the asset will generate future economic rewards. Capitalised costs for software development only include the expenses that are directly attributable to the development process.

- customer relationship intangible assets, represented by the value of assets under management/custody and core deposits in the event of business combinations.

Goodwill is posted among assets when it results from a business combination transaction in accordance with the principles of determination indicated by IFRS 3, as a residual surplus between the overall cost incurred for the transaction and the net fair value of the assets and liabilities purchased (i.e. companies or business units).

Should the cost incurred be less than the fair value of the assets and liabilities acquired, the difference (badwill) is directly recognised in profit or loss.

b) classification, measurement and revenue recognition criteria

The cost of intangible fixed assets is amortised on a straight-line basis over their useful life. An intangible asset with an indefinite useful life should not be amortised but assessed for impairment periodically. Intangible assets arising from an internally developed software purchased from third parties are amortised on a straight-line basis starting from completion and roll-out of the applications based on their useful life. Intangible assets reflective of customer relationships, which are taken over during business combinations, are amortised on a straight-line basis.

Where there is evidence of impairment, the recoverable amount of the assets is estimated at each reporting date. The amount of the loss recognised in profit and loss is equal to the difference between the carrying value and the recoverable amount of the assets.

The goodwill recognised is not subject to amortisation, but its book value is tested annually (or more frequently) when there are signs of impairment. To this end, the cash flow generating units to which goodwill is attributable are identified.

The amount of the impairment loss is determined by the difference between the book value of goodwill and its recoverable amount, if lower. Said recoverable amount is the higher of the cash-generating unit's fair value, less costs to sell, and its value in use. Value in use is the present value of future cash flows expected to arise from the years of operation of the cash-generating unit and its disposal at the end of its useful life. The resulting value adjustments are posted to the profit and loss statement under item 210 “Net adjustments to (recoveries on) intangible assets”. Periodic amortisation is reported in the same item. An impairment loss recognised for goodwill shall not be reversed in a subsequent period.

c) derecognition criteria

Intangible assets are derecognised from the balance sheet upon disposal and when no future economic rewards are expected.

10 Non-current assets held for sale

a) recognition criteria

Non-current assets held for sale and discontinued operations are initially valued at the lower of the book value and the fair value less costs to sell.

b) classification criteria

This item includes non-current (tangible, intangible and financial) assets held for sale and discontinued operations, with the relative associated liabilities, when the book value is to be recovered mainly through a highly likely sale rather than continuous use.

c) measurement criteria and revenue recognition criteria

Following initial recognition, non-current assets held for sale and discontinued operations, with the relative liabilities, are valued at the lower of the book value and the fair value net of selling costs.

The valuation reserves relating to non-current assets held for sale, recorded as a contra-entry to changes in value relevant for that purpose, are recognised in the statement of comprehensive income.

Income and costs relating to groups of assets and liabilities held for sale, net of the tax effect, are recognised in profit and loss item 310 "Profit (loss) after tax from assets held for sale and discontinued operations". Profit and loss associated with individual assets held for sale are recognised in the most appropriate income statement item.

In the case of discontinued operations, it is also necessary to disclose again the same economic information in a separate item for the previous periods presented in the financial statements, reclassifying the profit and loss statements as a result.

Amortisation is discontinued at the date the non-current asset is classified as a non-current asset held for sale.

d) derecognition criteria

Non-current assets held for sale and discontinued operations are derecognised from the balance sheet upon disposal.

11 Current and deferred tax

a) recognition criteria

The effects of current and deferred taxation calculated in compliance with Italian tax laws are recognised on an accrual basis, in accordance with the measurement methods of the income and expenses which generated them, by administering the applicable tax rates.

Income taxes are posted to profit and loss, excluding those relating to items directly credited or charged to equity.

Income tax provisions are determined on the basis of a prudential forecast of current tax expense, deferred tax assets and liabilities.

Current tax includes the net balance of current tax liabilities for the year and current tax assets with the Financial Administration, comprising tax advances, tax credit arising from prior tax returns and other withholding tax receivables. In addition, current tax includes tax credit for which reimbursement has been requested from the relevant tax authorities. Tax receivables transferred as a guarantee of own debts shall also be recorded within this scope.

Deferred tax assets and liabilities are determined on the basis of the temporary differences – with no time limits – between the value assigned to the assets or liabilities in accordance with statutory principles and the corresponding values for tax purposes, applying the so-called balance sheet liability method.

Deferred tax assets determined on the basis of deductible temporary differences are shown in the balance sheet for the extent to which they are likely to be recovered on the basis of the capacity of the company involved or all of the participating companies – as a result of exercising the option concerning "fiscal consolidation" – to generate a positive taxable profit on an ongoing basis, in light of a probability test.

For a description of the specific methodology of the probability test, please refer to the notes to these consolidated financial statements, paragraph 14.7 of Section 14 - Part B - Information on the balance sheet.

Recovery of deferred tax assets relating to goodwill, other intangibles and write-downs on loans is to be considered automatically probable because of existing regulations that provide for conversion into tax credits, if a statutory and/or tax loss is incurred.

In particular:

- if the financial statements filed by the company show a statutory loss for the year, deferred tax assets relating to goodwill, other intangible assets and loan write-downs will be subject to partial conversion into tax credits pursuant to the provisions set out in art. 2, par. 55 of Law Decree no. 225 of 29 December 2010, as amended by Law no. 10 of 26 February 2011. The conversion into tax credits becomes effective as of the date when the 'loss-incurring' separate financial statements are approved by the Shareholders' Meeting, as provided for by art. 2, par. 56 of aforementioned Law Decree no. 225/2010.
- if the financial statements filed by the company show a tax loss for the year, deferred tax assets relating to goodwill, other intangible assets and loan write-downs will be subject to conversion into tax credits pursuant to the provisions set out in art. 2, par. 56-bis of said Law Decree no. 225/2010, introduced by art. 9 of Law Decree no. 201 of 6 December 2011, as amended by Law no. 214 of 22 December 2011. Conversion will be effective as of the date of submission of the tax return for the year in which the loss is incurred.

As a result of changes introduced to the above provisions by Law no. 147 of 27 December 2013, starting from the tax period in progress as at 31 December 2013, the conversion into tax credits of deferred tax assets relating to goodwill, other intangible assets and loan losses and write-downs has also been extended to IRAP (regional productivity tax), in the case of both a statutory loss for the year and a negative production value.

On 27 June 2015, Law Decree no. 83/2015 (converted by Law no. 132 of 6 August 2015) was published in the Official Gazette (no. 147), which amended, inter alia, the tax deductibility regime with regard to the IRES and IRAP to which losses and write-downs on loans to customers of credit and financial institutions and insurance companies are subject and the ability to convert DTAs relating to goodwill and other intangible assets into tax credits.

In this regard, this tax measure set forth the following, in brief:

1. starting from 2016, full deductibility during the year of recognition in the income statement of loan write-downs and losses, unlike the previous situation which envisaged deduction in 5 years;
2. the new scheduling in 10 years, starting in 2016, of the stock of loan write-downs and losses deferred in prior years pursuant to the current legislation (18ths and fifths);
3. termination of the possibility to convert any DTAs relating to goodwill and other intangible assets recognised in the financial statements as of 2015 and later into tax credits.

As a result of these provisions, the DTAs that can be converted ceased to increase starting from 2016. In particular, the prerequisite for the future recognition of "convertible" DTAs relating to goodwill and other intangible assets as well as write-downs and losses on loans ceased to apply, with the latter becoming deductible negative income components (with the exception noted above of the portion not deductible in 2015).

On 3 May 2016, Law Decree no. 59/2016 was published in the Official Gazette (no. 102) (converted by Law of 30 June 2016 no. 119). In addition, on 17 February 2017, Law no. 237 of 23 December 2016 - "Urgent provisions for the protection of savings in the credit sector" was converted into Law no. 15.

As regards convertible DTAs, this Decree established that to continue to apply the existing rules on conversion into tax credits of deferred tax assets, companies must have exercised an irrevocable option and pay an annual fee payable with respect to each of the financial years from 2016 and subsequently, if the conditions exist, until 2030. The Bank exercised this option, thus maintaining, on its own behalf and for companies within the tax consolidation, the future right to the transformation into tax credits of DTAs relating to goodwill, other intangible assets and write-downs and losses on loans.

Deferred tax assets on unused tax losses are recognised based on the same criteria as those used to recognise deferred tax assets on deductible temporary differences: therefore, they are shown in the balance sheet to the extent to which they are likely to be recovered on the basis of the capacity of the company to generate a positive taxable profit in the future. Since the existence of unused tax losses may be symptomatic of difficulties to generate positive taxable profit in the future, IAS 12 establishes that if losses have been posted in recent periods, suitable evidence must be provided to support the existence of such profit in the future. Furthermore, current Italian tax law allows for IRES losses to be carried forward indefinitely (art. 84, paragraph 1, of the Income Tax Act – TUIR); as a result, verifying the existence of future taxable profit against which to use such losses is not subject to any time limits.

Deferred tax assets and liabilities are calculated using the tax rates expected at the date on which the temporary differences are reversed, on the basis of the provisions in force at the reporting date. Any changes in tax rates or tax standards having a significant effect on deferred tax assets and liabilities that are issued or announced after the reporting date and before the publication authorisation date are treated as events after the balance sheet date that do not entail an adjustment pursuant to IAS 10, with the resulting disclosure in the notes.

Deferred tax assets and liabilities are posted to the balance sheet by offsetting each tax against the defined asset or liability to which it relates.

Lastly, please note that Law no. 208 of 28 December 2015 (the 2016 Stability Law) established:

- effective for tax periods subsequent to that under way as at 31 December 2016, reduction of the IRES to 24%;
- for the credit and financial institutions pursuant to Legislative Decree no. 87/92, application of an additional IRES tax of 3.5% as of tax periods subsequent to that under way as at 31 December 2016, to be calculated on individual taxable income for companies participating in tax consolidation.

b) classification and measurement criteria

Deferred tax assets and liabilities are systematically measured to take account of any changes in regulations or tax rates and of any different subjective situations of Group companies. The charges which might result from already notified tax assessments or litigation pending with the tax authorities are instead recognised in "Net provisions for risks and charges".

With reference to fiscal consolidation of the parent company and participating subsidiaries, contracts have been stipulated to regulate offsetting flows in relation to the transfers of tax profits and losses. Such flows are determined by administering the applicable IRES tax rate to the taxable income of participating companies. The offsetting flow for companies that transfer tax losses – calculated as above – is posted by the consolidating to the consolidated company when and to the extent to which the consolidated company will transfer positive taxable income in tax periods subsequent to that in which the loss was recorded. Offsetting flows so determined are posted as receivables and payables with companies participating in fiscal consolidation, classified under other assets and other liabilities, offsetting item 290 "Tax expense (recovery) on income from continuing operations".

c) revenue recognition criteria

Where deferred tax assets and liabilities refer to components which affected the profit and loss statement, they are offset by income tax. When deferred tax assets and liabilities refer to transactions which directly affected equity without impacting the profit and loss statement (e.g. valuations of available-for-sale financial instruments or cash flow hedging derivatives), they are posted as a contra entry to shareholders' equity, involving the special reserves if required.

12 Provisions for risks and charges

Provisions to the reserve for risks and charges are made only when:

- there is a current (legal or implicit) obligation resulting from a past event;
- an outflow of resources producing economic rewards is likely to be necessary in order to settle the obligation; and
- the amount of the obligation can be estimated reliably.

Whenever timing is important, the provisions are discounted back.

Provisions to the reserve are posted to the profit and loss statement, in addition to interest expense accrued on the reserves which were subject to discounting.

No provision is shown for contingent and unlikely liabilities, but information is provided in the notes to the financial statements, except in cases where the probability of an outflow of resources to settle the amount is remote or the amount is not significant.

Sub-item 120 “Provisions for risks and charges: post-employment benefits” includes appropriations in compliance with the 2011 revised version of IAS 19 “Employee benefits” for the purpose of settling the technical deficit of defined benefit supplementary pension funds. Pension plans are either defined benefit or defined-contribution schemes. The charges borne by the employer for defined contribution schemes are pre-determined; charges for defined benefit plans are estimated and shall take account of any shortfall in contributions or poor investment performance of defined benefit plan assets.

For defined benefit plans, the actuarial values required by the application of the above principle are determined by an external actuary in accordance with the Projected Unit Credit Method). In particular, the accounting treatment of net defined benefit liabilities is as follows:

1) any surplus or deficit in the plan is measured as the difference between the present value of the defined benefit obligation (DBO) and the fair value of the plan’s assets, when present;
2) when the plan is in deficit, the net defined benefit liability recognised in the balance sheet is equal to the deficit itself;
3) when the plan is in surplus, it is necessary to determine the present value of any future economic benefits available to the Parent Company in the form of refunds from the plan or reductions in future contributions to the plan (asset ceiling);
4) when the asset ceiling is lower than the surplus, the net defined benefit asset is to be recognised in the balance sheet in an amount equal to the asset ceiling.

In essence, if the Parent Company cannot use the surplus in any way then no asset may be recognised in the balance sheet.

An increase in the present value of the DBO resulting from employee service in the current year is recognised in the Parent Company's P&L, regardless of whether the plan is in surplus or deficit, as is the case for past service costs and interest costs.

The following components, on the other hand, are immediately recognised in the statement of comprehensive income:

1) actuarial gains and losses on the DBO;
2) difference between the actual return on plan assets and net income on the plan assets;
3) any change in the effect of the asset ceiling, excluding the interest income component.

Sub-item 120 “Provisions for risks and charges: other provisions” includes any provision to cover expected losses for actions filed against the Bank, including clawback actions, estimated expenses in relation to customer claims for securities brokerage, and other estimated expenses in relation to legal or implicit obligations existing at the end of the period.

13 Liabilities and debt securities issued

a) recognition criteria

These financial liabilities are first recognised upon receipt of the sums collected or at the time of issuance of debt securities.

Liabilities are initially recognised at their fair value, which is generally equal to the amount received or the issue price, increased by any additional income/expense directly attributable to the funding or issuing transaction and not reimbursed by the creditors. Internal administrative costs are excluded. The fair value of financial liabilities (if any) issued at conditions other than market conditions is calculated by using a specific valuation technique, and the difference with respect to the consideration received is booked directly to profit and loss only when the conditions provided for by IAS 39 have been met, i.e. when the fair value of the instrument issued can be established by using either quoted market prices for similar instruments or a valuation technique based solely on market data.

b) classification criteria

Deposits from banks and customers and securities issued include different types of funding (both interbank and from customers) and funds raised through certificates of deposit and outstanding bonds, net of any repurchase. Debt securities issued include all securities that are not subject to "natural" hedging through derivatives and that are classified as liabilities measured at fair value.

The item also incorporates payables booked by the lessee in relation to any stipulated financial lease transactions.

c) measurement criteria and revenue recognition criteria

Following initial recognition, financial liabilities are valued at amortised cost using the effective interest method.

Short-term liabilities for which time effect is immaterial are an exception, and are recognised at the amount collected.

Should the requirements provided for by IAS 39 for the separate recognition of embedded derivatives be met in the case of structured instruments, they are separated from the host contract and reported at fair value as a trading asset or liability. In this case, the host contract is recognised at amortised cost.

d) derecognition criteria

Financial liabilities are derecognised upon maturity or extinction. Derecognition also occurs if previously issued securities have been repurchased. The difference between the book value of the liabilities and the amount paid to repurchase them is recorded in the profit and loss statement.

A new placement in the market of own securities after their repurchase is considered as a new issue and posted at the new price of placement, with no impact on the profit and loss statement.

In compliance with the provisions of IAS 32, any potential commitment to buy treasury shares as a result of the issuance of put options is shown in the balance sheet under financial liabilities, offset by the reduction of shareholders' equity in the amount of the current value of the contractual repayment sum. At the end of 2017, there were no put options sold on treasury shares of the Parent company.

14 Financial liabilities held for trading

a) recognition criteria

Financial liabilities held for trading are initially recognised on the date of issue for debt securities, and on the date of subscription for derivatives.

Upon initial recognition, they are measured at fair value, which usually corresponds to the amount collected net of any transaction costs or income directly attributable to the instrument itself, which are directly posted to the profit and loss statement. Any embedded derivatives in combined financial instruments not directly connected to the latter and with the characteristics to meet the definition of a derivative are recognised separately from the host contract at fair value. The applicable accounting criteria are administered to the primary contract.

b) classification criteria

This category includes debt securities issued mainly for the purpose of obtaining short-term profits and the negative value of derivative contracts excluding those designated as hedging instruments. Derivative contracts include those embedded in combined financial instruments which were subject to separate accounting.

The sub-items "Deposits from banks" and "Deposits from customers" also incorporate uncovered short positions on securities.

c) measurement criteria

Following initial recognition, financial liabilities held for trading are measured at fair value, every changes in fair value are recognised in the income statement.

For a description of criteria used to determine the fair value of financial instruments, please see section "A.4.5 Fair Value Hierarchy" of this Part A.

d) derecognition criteria

Financial liabilities are derecognised upon maturity or extinction. Derecognition also occurs if previously issued securities have been repurchased. The difference between the book value of the liabilities and the amount paid to repurchase them is booked in the profit and loss statement.

e) revenue recognition criteria

Profits and losses arising from any changes in the fair value of financial liabilities are recognised in profit and loss under item "80 Net profit/loss from trading", except for gains and losses on derivative payables linked with the fair value option which are classified under item "110 Net profit/loss from financial assets and liabilities designated at fair value".

15 Financial liabilities designated at fair value

a) recognition criteria

Financial liabilities measured at fair value are initially recognised on the date of issuance for debt securities. Upon initial recognition, they are measured at fair value, which usually corresponds to the amount collected net of any transaction costs or income directly attributable to the instrument itself, which are directly posted to the profit and loss statement.

The fair value of financial liabilities (if any) issued at conditions other than market conditions is calculated by using a specific valuation technique, and the difference with respect to the consideration received is booked directly to profit and loss only when the conditions provided for by IAS 39 have been met, i.e. when the fair value of the instrument issued can be established by using either quoted market prices for similar instruments or a valuation technique based solely on market data. Should these conditions not be available, the fair value used for valuations after the issuance of instruments is cleared of the initial difference between the fair value upon issuance and the consideration received. This difference is recognised in profit and loss only if it ensues from changes in the factors (including time), which market traders would consider for price determination.

b) classification criteria

According to IAS 39, this category includes financial liabilities which have been recognised at fair value through profit or loss; this option is allowed when:

1. the designation at fair value allows for the elimination or reduction of significant misrepresentations of the financial instruments in the profit and loss statement and balance sheet; or

2. the management and/or measurement of a group of financial instruments at fair value through profit or loss is consistent with an investment or risk management strategy documented as such by senior management;

   or

3. a host instrument embeds a derivative which significantly modifies the cash flows of the host and should otherwise be accounted for separately.

The Parent Company has exercised this option in case 1, classifying under this item financial liabilities that are subject to "natural hedging" through derivative instruments. In item 17 "Other information", a specific section is included to provide insight into the hedging management methods through the adoption of the fair value option.

c) measurement criteria

Following initial recognition, financial liabilities are measured at fair value.

For a description of criteria used to determine the fair value of financial instruments, please see section "A.4.5 Fair Value Hierarchy" of this Part A.

d) derecognition criteria

Financial liabilities are derecognised upon maturity or extinction. Derecognition also occurs if previously issued securities have been repurchased. The difference between the book value of the liabilities and the amount paid to purchase them is recorded in the profit and loss statement under item 110 "Net profit/loss from financial assets and liabilities designated at fair value". The cumulative amount recognised from early partial application of IFRS 9 among other items of the statement of comprehensive income as at the repurchase date is reclassified under retained earnings.

e) revenue recognition criteria

As a result of early partial adoption of IFRS 9, starting from the current year, gains and losses arising from any changes in the fair value of a financial asset are recognised:

- under other comprehensive income, as regards the change in the fair value that is attributable to changes in the issuer's credit risk, unless this creates or increases an accounting mismatch in the profit (loss) for the year, in which case the entire change in fair value of the liability must be presented within profit and loss;
- in profit and loss under item "110 Net gains/losses on financial assets and liabilities designated at fair value", for the portion of fair value change not attributable to changes in the issuer's creditworthiness.

The economic effect of derivatives linked with the fair value option is classified under item "110 Net gains/losses on financial assets and liabilities designated at fair value".

16 Foreign-currency transactions

a) recognition criteria

Upon initial recognition, foreign-currency transactions are recognised in the currency of account using the foreign-exchange rates on the date of the transaction.

b) revenue classification, measurement, recognition and derecognition criteria

Financial statement entries denominated in foreign currencies are valued at the end of each reporting period as follows:

- monetary entries are converted using the exchange rate on the closing date;
- non-monetary entries valued at historical cost are converted using the exchange rate on the date of the transaction;

- non-monetary entries that are measured at fair value in a foreign currency are translated at the closing date rate.

Any exchange-rate differences resulting from the settlement of monetary elements, or from the conversion of monetary elements at rates other than those used for initial conversion or conversion in the previous financial statements, are posted to the profit and loss statement for the period in which they arise.

When a profit or a loss on a non-monetary element is recognised in equity, the exchange-rate difference in relation to said element is also posted to equity. However, when a profit or a loss is posted to the profit and loss statement, the relative exchange-rate difference is also posted there.

The accounting position of foreign branches with different operating currencies is converted into Euros by using the exchange rates at the end of the reporting period.

Any exchange-rate differences attributable to investments in such foreign branches, and those resulting from the conversion into Euros of their accounting position, are recognised in equity reserves and transferred to the profit and loss statement only in the year when the investment is disposed of or reduced.

17 Other information

Other significant items

Other significant items from the Group's financial statements are described below.

Cash and cash equivalents

This item includes currencies that are legal tender, including foreign banknotes and coins and demand deposits with the central bank of the country or countries in which the Group operates with its own branches.

The item is posted at face value. For foreign currencies, the face value is converted into Euros at year-end exchange rate.

Value adjustment of macro-hedged financial assets and liabilities

These items show, respectively, the net amount, whether positive or negative, of the changes in value of the macro-hedged assets and the net amount, whether positive or negative, of the changes in value of liabilities macro-hedged against interest-rate risk, pursuant to IAS 39, paragraph 89.

Other assets

This item shows assets not attributable to the other items on the asset side of the balance sheet. It may include, for example:

- gold, silver and precious metals;
- accrued income other than that which is capitalised to the related financial assets;
- any inventories according to the definition of IAS 2;
- improvements and incremental expenses incurred on third-party real estate other than those attributable to property, plant and equipment and therefore not independently identifiable and separable.

The costs in the latter bullet point are posted to other assets, since the user company exercises control of the assets for the purpose of the tenancy agreement and can obtain future economic benefits from them. Said costs are posted to Item 220 "Other operating expenses (income)" on the income statement according to the shorter of the period in which the improvements and expenses can be used and the remaining term of the contract.

Severance pay

Employee severance pay is a defined benefit allowance subsequent to the employment relationship; therefore its actuarial value must be estimated for the purpose of the financial statements. This estimate is carried out using the "Projected Unit Credit" method, which predicts future disbursements on the basis of statistical historical analysis and the demographic curve, and the financial discounting of such flows according to market interest rates. For the calculation of liabilities to be recognised in the financial statements, the 2011 revised version of IAS 19 "Employee benefits" has been applied; please refer to the paragraph "Provisions for risks and charges" regarding defined benefit pension plans.

The costs accrued during the year for servicing the plan are posted to the profit and loss statement under item "180 a) Personnel expenses".

After the reform of supplementary pension funds as per Legislative Decree no. 252 of 5 December 2005, severance pay quotas accrued to 31 December 2006 remain with each company of the Group, while severance pay quotas accrued after 1 January 2007, at the discretion of the employee, are assigned to supplementary pension funds or maintained with the individual companies, which will provide for their transfer to the Treasury Fund managed by the Italian National Social Security Institute, INPS.

Other liabilities

This item shows liabilities not attributable to other items on the liability side of the balance sheet.

It includes, for example:

a) payment agreements that must be classified as debit entries according to IFRS 2;

b) debit entries connected with payment for provision of goods and services;

c) accrued liabilities other than those to be capitalised to the respective financial liabilities.

Other significant accounting practices

Details on significant accounting criteria for purposes of understanding the financial statements are shown below.

Treasury shares

Any shares of Parent Company Banca Monte dei Paschi di Siena S.p.A. held by Group companies are recorded in their own item and deducted directly from equity. No profits or losses are posted to the income statement upon the purchase, sale, issue or cancellation of the Parent Company's equity instruments. Any amount paid or received is posted directly to equity.

Dividends and income/cost recognition

Revenues are recognised upon attainment, or: in the case of selling goods or products, when it is likely that future benefits will be received and said benefits can be reliably quantified; in the case of services, when these are provided.

In particular:

a) interest is booked pro rata temporis on the basis of contractual interest rate or the effective interest rate in the event of application of the amortised cost;
b) interest on arrears is posted to the profit and loss statement only upon actual collection;
c) dividends are shown in the profit and loss statement upon resolution of their payout, i.e. when their payment is due;
d) commissions for service income are posted in the period when said services were rendered, on the basis of existing contractual agreements;
e) revenues from trading or from issuance of financial instruments, as determined by the difference between the transaction price and the fair value of the instrument, are booked to

the profit and loss statement upon reporting of the transaction if the fair value can be determined with reference to parameters or recent transactions observable on the same market in which the instrument is traded; otherwise, they are distributed over time, taking into account the duration and the nature of the instrument.

f) portfolio management fees are recognised based on the duration of service;
g) expenditures are booked to profit and loss during the periods in which the related revenues are booked. Expenditures that cannot be associated with income are booked immediately to the profit and loss statement.

Business combinations

A business combination is defined as the transfer of control of a company (or of a group of assets and integrated goods, conducted and managed as a unit). For the definition of control, please refer to Section 3 "Scope of consolidation" of this part A of the notes.

A business combination may give rise to an investment link between the acquiring parent company and the acquired subsidiary. In these cases, the acquirer applies IFRS 3 to the consolidated financial statements while posting the acquired interest to its separate financial statements as an equity interest in a subsidiary, consequently applying IFRS 10.

A business combination may also provide for the acquisition of the net assets of another entity, including any goodwill, or the acquisition of the share capital of another entity (for example mergers, splits, acquisitions of business units). Such a business combination is not an investment link like the one between a parent company and subsidiary, and therefore in these cases IFRS 3 is also applied to the individual financial statements.

Based on the provisions of IFRS 3, an acquirer must be identified for all combination transactions. It is identified as the subject that obtains control over another entity or group of assets.

The acquisition must be posted to the accounts on the date when the acquirer effectively obtains control over the entity or assets acquired.

At the date of acquisition, the acquirer must recognise goodwill as the difference between:

(a) the sum of:

i. the consideration generally measured at fair value at the acquisition date;
ii. the amount of any non-controlling interest in the acquired company and
iii. in a business combination carried out in multiple phases, the fair value at the acquisition date of interests in the acquired company previously held by the acquirer;

(b) the net value of amounts, at the acquisition date, of identifiable assets acquired and identifiable liabilities assumed.

The acquirer must account for transaction-related costs (legal, accounting costs, consulting expenses, etc.) as expenses in the periods in which the costs are incurred and the services are received, with the exception of the costs of issuing debt securities or equity instruments, which must be recognised in accordance with the provisions of IAS 32 and IAS 39.

The fair value of the assets, liabilities and contingent liabilities of the acquired entity may be determined provisionally by the end of the first reporting period in which the combination occurs and must be completed within twelve months of the date of acquisition.

Business combinations do not include transactions aimed at control of one or more entities that do not constitute a business activity, or aimed at temporary control, or finally, if the business combination is realised for restructuring purposes, thus among two or more entities or business activities already part of the MPS Group, and not involving changes to the control structures regardless of the percentage of rights of third parties before and after the transaction (so-called business combinations of entities under common control).

Business combinations under common control

Business combinations between entities under common control do not fall under IFRS 3. In the absence of a standard of reference, as indicated in Section 1 "Declaration of conformity with international accounting standards", these transactions are posted to the accounts by making reference to preliminary guidance from the Italian Association of Auditors (Orientamenti Preliminari, OPI no. 1 "Accounting treatment of "business combinations of entities under common control" in separate and consolidated financial statements" and OPI no. 2 "Accounting treatment of mergers in financial statements"). These guidelines consider the economic significance of business combinations on the basis of cash flow impact on the Group. Transactions, which had no significant influence on future cash flows, were recognised using the pooling of interest method. Therefore, in the financial statements of the seller, the difference between the sale price and the book value is posted as an increase/decrease in equity. Exclusively in the event of acquisition or transfer of a controlling interest, the equity investment is posted at acquisition cost in the acquirer/transferee's financial statements for the year.

Amortised cost

The amortised cost of financial assets or liabilities is the value at which they were measured upon initial recognition, net of principal repayments, plus or minus overall amortisation calculated using the effective interest method, on the differences between the initial value and that at maturity and net of any permanent impairment.

The effective interest rate is the rate which makes the present value of expected future payment or collection cash flows (without considering future losses on loans), until maturity or a subsequent price recalculation date, equal to the net book value of the financial assets or liabilities. To calculate the current value, the effective interest rate is applied to estimated future collection or payment flows over the entire useful life of the financial assets or liabilities – or for a shorter period if certain conditions are met (for example, a change to market rates).

The effective interest rate shall be redetermined where the financial assets or liabilities have been subject to fair value hedging that has ceased to exist.

In cases in which it is not possible to estimate the cash flows or expected life in a reliable manner, the Group uses the cash flows contractually envisaged for the entire contractual term.

Following initial recognition, the amortised cost makes it possible to allocate income and costs reducing or increasing the instrument over its entire expected life by means of the amortisation process. The determination of the amortised cost is different depending on whether the financial assets/liabilities are subject to valuation at a fixed or variable rate.

For fixed-rate instruments, future cash flows are quantified based on the known interest rate during the term of the financing. For floating-rate financial assets/liabilities, whose variability is not known beforehand (because, for example, it is tied to an index), cash flows are determined on the basis of the last known rate. At every rate review date, the amortisation schedule and the actual rate of return over the entire useful life of the instrument, i.e. until maturity, are recalculated. The adjustment is recognised as cost or income in the profit and loss statement.

Valuation at amortised cost is applied to receivables, held-to-maturity financial assets, financial assets available for sale, liabilities and debt securities issued; for debt securities classified under assets available for sale, amortised cost is calculated for the only purpose to post interest (based on the effective interest rate) to profit and loss; the difference between fair value and amortised cost is allocated to a specific equity reserve.

Financial assets and liabilities traded at market conditions are initially recognised at their fair value, which normally corresponds to the amount disbursed or paid inclusive -in the case of instruments valued at amortised cost- of transaction costs and commissions directly attributable to the assets and liabilities (such as fees and commissions paid to agents, consultants, intermediaries and dealers), as well as contributions withheld by regulatory bodies and securities exchanges, taxes, and transfer charges. These expenses, which must be directly attributable to the individual financial assets or liabilities, impact the original actual return and make the effective interest rate associated with the transaction different from the contractual interest rate. Calculation of the amortised cost does not include costs that the Group must incur regardless of the transaction (for example, administrative, stationery and advertising costs), which, even though they are specifically attributable to the transaction, occur in the normal practice of managing loans (for example, disbursement activities).

With particular reference to receivables, lump-sum reimbursements of expenses incurred by the Group for the provision of a service must not be attributed in a way that lowers the cost of disbursing the loan, but since they may be considered as other operating income, the related costs must be posted to a separate account in the income statement.

Guarantees issued

Adjustments due to any deterioration in the guarantees issued are posted to item 100 "Other liabilities". Impairment losses are posted to Item 130 d) "Net impairment losses/reversals on other financial transactions" in the profit and loss statement.

Accounting for contributions to the resolution funds and the Italian Interbank Deposit Protection Fund

Italian Legislative Decrees nos. 180 and 181 of 2015 transposed directive 2015/59/EU Banking Resolution and Recovery Directive ("BRRD"), which requires the formation of resolution funds, into Italian law.

These funds are funded, inter alia, by:

a) annual contributions from banks, in order to reach the target level of fund resources established by the regulation;
b) extraordinary contributions from banks when ordinary contributions are insufficient to support approved resolution interventions.

Both types of contribution are subject to interpretation IFRIC 21 "Levies", as the contribution obligations are based on legislative provisions. Based on this interpretation, a liability should be recognised when the "obligating event" takes place which triggers the payment obligation. The balancing entry of that liability is represented by income statement item 180 (b) "administrative expenses - other administrative expenses", as the conditions are not met for the recognition of an intangible asset pursuant to IAS 38 "Intangible assets", or for the recognition of an asset for a prepayment.

The same treatment is applied to "ex ante" contributions made to the Italian Interbank Deposit Protection Fund within the scope of Directive 2014/49/EU "Deposit Guarantee Schemes" (DGS).

Significant accounting choices made in preparing the financial statements (with particular reference to the provisions of IAS 1, paragraph 122, and documents nos. 4 of 3 March 2010 and 2 of 6 February 2009, issued jointly by the Bank of Italy/Consob/Isvap)

Decisions by senior management having a significant effect on amounts in the financial statements, other than those relating to estimates, made when applying accounting principles, are shown below.

Accounting for hedge transactions – adoption of the Fair Value Option

In its financial risk management policy, relating to financial instruments included in the banking book, the Bank has used the Fair Value Option accounting technique alongside fair value hedging and cash flow hedging methods.

The Fair Value Option was used to represent operational hedges on fixed-rate or structured bonds (Accounting Mismatch). In that case the Parent Company, the only issuer within the Group, stipulates operational microhedging derivative contracts with MPS Capital Services S.p.A., which in turn manages by assets the Group's overall exposure to the market.

The scope of application of the fair value option currently regards primarily fixed-rate securities and structured securities subject to hedges on interest-rate risk and the risk deriving from embedded derivative components.

Adopting the Fair Value Option necessitates the liabilities being measured at fair value while also taking into account changes in own creditworthiness of the issuer, the distorting effects of which are eliminated from own funds, from the perspective of prudential supervision, in compliance with prudential regulations in force. Starting from 2017, the Bank exercised early adoption of IFRS 9, limited to the part that envisages recognition under other comprehensive income of the fair value changes attributable to the issuer's creditworthiness.

IAS 39 allows the option of designating a financial instrument under the fair value option to be exercised irrevocably only upon initial recognition. The fair value option cannot therefore be used for hedges on funding instruments issued prior to the decision that the hedge be undertaken; hedge accounting must be used in these cases.

In the Operating Guide no. 4 of the OIC on accounting management of reserves and profit distribution pursuant to Legislative Decree no. 38 of 28 February 2005, the supervisory authorities (Bank of Italy/Consob/Isvap) specify that capital gains posted to the profit and loss statement using the Fair Value Option and not yet realised are not distributable.

Use of estimates and assumptions when preparing financial statements. Main causes of uncertainty (with particular reference to the provisions of IAS 1, paragraph 125, and documents nos. 4 of 3 March 2010 and 2 of 6 February 2009, issued jointly by the Bank of Italy/Consob/Isvap)

The estimates required by accounting standards can have a significant impact on the balance sheet and profit and loss account, as well as on disclosure of contingent assets and liabilities reported in the financial statements. 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.

The main cases in which subjective valuations are mostly opted for by Management include the:

a) use of valuation models to measure the fair value of financial instruments not listed in active markets;
b) quantification of impairment losses on loans and, more generally, other financial assets;
c) assessment of the fair value of equity investments, goodwill, other intangible assets and property, plant and equipment;
d) estimation of liabilities arising from defined benefit company pension funds:
e) estimation of deferred tax assets recoverability;
f) estimation of legal and tax costs.

For a description of item a), please see section A.4.5 Fair Value Hierarchy; in relation to items b) and c), the most important qualitative issues subject to elements of discretion are described below. The actual technical and conceptual solutions used by the Group are analysed in more detail in the individual sections of the notes to the balance sheet and the profit and loss statement, where the contents of each item in the financial statements are described. With regard to item d) please refer to section 12 of Liabilities in the Notes to the Financial Statements "Defined benefit company pension funds"; as for item e) please see section 14 of Assets in the Notes to the Financial Statements "Tax assets and liabilities". With reference to point f) please refer to section 12 of Liabilities in the Notes to the Financial Statements "Provisions for risks and charges" and section 1.4 "Operational Risk" in part E of the Notes to the Financial Statements.

Methods for determining impairment losses on loans and, more generally, other financial assets

At the end of every reporting period, the financial assets not classified as held-for-trading financial assets or assets at fair value are evaluated to check whether there is objective evidence of impairment that might render the book value of these assets not entirely recoverable.

A financial asset has suffered a reduction in value and the impairment losses must be posted to the financial statements if, and only if, there is objective evidence of a reduction in future cash flows compared with those originally estimated as a result of one or more specific events that have occurred after initial recognition; the loss should be determined reliably and in relation with recent events.

The reduction in value may also be caused not by a single separate event but by the combined effect of several events.

The objective evidence that a financial asset or group of financial assets has suffered a reduction in value includes measurable data that arise from the following events:

- significant financial difficulty of the issuer or debtor;
- breach of contract, for example non-fulfilment or failure to pay interest or principal;
- granting Beneficiary a credit facility that the Group has taken into consideration primarily for economic or legal reasons related to the beneficiary's financial difficulties and that would not have been granted otherwise;
- a reasonable probability that the beneficiary will file for bankruptcy or other financial restructuring procedures;
- disappearance of an active market for that financial asset due to financial difficulties. Nevertheless, the disappearance of an active market due to the fact that the financial instruments of the company are no longer publicly traded is not evidence of a reduction in value;
- measurable data which indicate the existence of a significant drop in the estimated future cash flows for a group of financial assets from the time of their initial recognition, even though the reduction cannot yet be matched to the individual financial assets of the Group, including:
    - unfavourable changes in the status of payments of the beneficiaries within the group; or
    - local or national economic conditions that are associated with non-fulfilment related to internal Group assets.

Objective evidence of reduction in value for an investment in an equity instrument includes information regarding important changes with an adverse effect that have occurred in the technological, market, economic or legal environment in which the issuer operates and indicates that the cost of the investment may not be recovered.

The impairment test is performed on an analytical basis with respect to financial assets that show specific evidence of impairment and on a collective basis with respect to financial assets for which such objective evidence does not exist. Collective valuation is based on identifying homogenous risk classes of financial assets with reference to the characteristics of the debtor/issuer, economic sector, geographic area, presence of any guarantees and other relevant factors.

Whenever loans to customers and banks are classified as doubtful, unlikely to pay or non-performing past due exposures, they are subject to an analytical valuation process, with the determination of expected losses by uniform categories and analytical attribution to each position. The amount of the loss is equal to the difference between the book value of the receivable upon valuation (amortised cost) and the current value of expected future cash flows, calculated using the original effective interest rate. Expected cash flows take account of the expected repayment schedule, the expected recovery value of collaterals, if any, as well as the costs expected to be incurred for the recovery of the credit exposure (including those attributable to outsourcing activities). In this regard, in order to determine the cash flows deemed recoverable, within the assessment process adopted by the Parent Company, if there are no analytical schedules, statistical schedules are used.

The amount of the loss is indicated in the profit and loss statement under Item 130 a) "Net impairment losses/reversals on loans".

Receivables classified as performing and certain non-performing loans (with exposures below a given threshold value) are statistically assessed. This valuation occurs by credit-risk homogenous categories of receivables, indicative of the debtor's ability to repay sums contractually owed. The segmentation drivers used for this purpose consist of: economic sector, geographic location and customer segments (turnover); on the basis of the last indicator, the main segments of the portfolio are differentiated as follows:

- Retail;
- Small and Medium Enterprises - Retail;
- Small and Medium Enterprises – Corporate;
- Corporate;
- Large Corporate;
- Banks;
- Other.

The rate of loss is determined for each portfolio segment by identifying the largest possible synergies (as allowed by various regulations) using the supervisory approach. In particular, the impairment for the year of each loan belonging to a particular category is given by the difference between the book value and the recoverable amount on the date of valuation, with the latter being determined by using the parameters of the calculation method provided for by the new supervisory provisions, represented by PD (probability of default) and LGD (loss given default).

For non-performing loans, statistical valuation is carried out by applying the specific LGD parameter to the exposures' book value.

If, in a subsequent year, the impairment loss decreases and the reduction can be objectively linked to an event that occurred after the impairment was recognised (such as an improvement in the financial solvency of the debtor), the previously recognised impairment loss will be reversed. The amount of the reversal is indicated in the profit and loss statement under Item 130 "Net impairment losses/reversals".

Regarding non-performing loans, and in particular doubtful loans, the valuations were conducted taking into account the ordinary recovery modalities (enforcement of guarantees, participation in bankruptcy proceedings, etc.), except for the portfolio of doubtful loans subject to disposal (without derecognition) on 20 December 2017, for which the net carrying amount reflected the conditions envisaged in the disposal agreement itself (see next paragraph).

With reference to loans which have been restructured by partial or full conversion into equity stakes of beneficiary companies, in accordance with joint document no. 4 issued by Bank of Italy/Consob/Isvap on 3 March 2010, it is noted that the fair value of quotas received was factored into the valuation. In particular, in the case of non-performing exposure, such classification was maintained for converted financial instruments received and, in the case of classification in the available-for-sale (AFS) category, capital losses recognised after conversion were posted directly to the profit and loss statement.

With regard to debt securities classified under loans to customers, if there is objective evidence of an impairment loss, the loss is calculated as the difference between the asset's carrying value and the present value of estimated cash flows, discounted at the asset's original interest rate.

If the amount of the impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. The reversal is not to result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised. The amount of the reversal is recognised in profit and loss.

Impairment of financial assets available for sale is posted to the profit and loss statement when a reduction in fair value has been directly recognised in equity and the aforementioned objective evidence exists. In such cases, the cumulative loss recognised directly in equity shall be reversed and posted to profit and loss, even if the financial asset has not been derecognised. The overall loss transferred from equity to profit and loss is the difference between the acquisition cost (net of any repayment of principal and amortisation) and the current fair value, less any impairment loss on the financial asset previously posted to profit and loss. Impaired losses posted to profit and loss for investment in an available-for-sale equity instrument do not have to be reversed with an impact on profit and loss.

If the fair value of an available-for-sale debt instrument subsequently increases, and the increase can be objectively linked to an event that took place after the impairment loss was posted to the profit and loss statement, the impairment loss must be derecognised and reversed to profit and loss.

However, the existence of a negative reserve is not in itself sufficient to determine a write-down in the profit and loss statement.

The nature and number of assumptions used to identify impairment factors and determine losses and reversals are elements of uncertainty in estimation.

Assumptions made in relation to disposal of the doubtful loans portfolio

As envisaged in the Restructuring Plan approved by the European Commission on 4 July 2017, the transaction for disposal of doubtful loans, which envisaged the transfer of a portfolio of doubtful loans for a net book value as at 20 December 2017 of EUR 4.5 bn through a securitisation transaction, was completed in December 2017. The transaction contemplates the intervention of the Atlante Fund (managed by Quaestio Capital Management SGR S.p.A.), with which, on 26 June 2017, a binding agreement was signed for the acquisition of 95% of the junior and mezzanine notes. Note that the latter were disposed with effective date 9 January 2018, with pledge on the amount whose payment was deferred to the date of disposal of the Junior notes, envisaged upon obtaining the GACS on the Senior tranche. For additional details, please refer to the section "The doubtful loan disposal transaction" of the Consolidated Report on Operations.

The doubtful loans included in the transferred portfolio were already classified in Asset item 150 "Non-current assets held for sale and discontinued operations" as at 30 June 2017, as the transfer transaction satisfied the requirements laid out in IFRS 5 (non-current assets which are highly likely to be sold within the 12 subsequent months). Note that deconsolidation of the doubtful loans portfolio will take place by the end of June 2018, with disposal of the junior notes, and that in any case, the economic impacts of the securitisation, in addition to being included in the Restructuring Plan, have been fully reflected in the half-year report as at 30 June 2017, based on the relative agreements signed with Quaestio.

Indeed, featuring an amendment of the management strategy for such assets, the recovery of which depends no longer on ordinary activities (enforcement of guarantees, participation in bankruptcy proceedings, etc.) but rather on disposal to third parties, the net book value of such doubtful loans was reduced in order to reflect the expected cash flows from this transaction, as envisaged by paragraph 63 of IAS 39. The impairment losses on the scope of transferred positions were adjusted so that the net book value of such doubtful loans would reflect the conditions set forth in the disposal agreement signed on 20 December 2017. The resulting additional adjustments, equal to EUR 3.9 bn, were already recognised to a significant extent in the first half of 2017 in the profit and loss statement under Item 130 a) "Net impairment losses/reversals on loans".

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

This accounting representation also takes into account the assessment of the overall set of conditions set forth in the agreement with Quaestio.

Methods for determining impairment losses on equity investments, goodwill and, more generally, other intangible assets

The assumptions used to determine impairment losses on equity investments, goodwill and other intangible assets are based on the 2017 final data and 2018-2021 projections prepared in line with the development policies of the Restructuring Plan agreed upon with the competent Authorities.

Equity investments

The impairment process entails computation of the recoverable amount, which is the greater of the fair value less costs to sell, and the value in use. The value in use is the present value of the cash flows arising from the impaired asset; it reflects the estimate of the cash flows expected from the asset, the estimate of possible changes in the amount and/or in the timing of the cash flows, the financial value over time, the price for remunerating the risk on the asset and other factors that can influence the pricing, on the part of market dealers, of the cash flows expected from the asset. Numerous assumptions are therefore required to estimate the fairness of the carrying amount of equity investments; it follows that the result of this verification inevitably entails some degree of uncertainty.

Goodwill

Goodwill posted following acquisitions is subjected to an impairment test at least once a year and whenever there are signs of impairment. For testing purposes, once goodwill has been allocated to cash-generating units (CGUs), the book value is compared with the recoverable value of said units. The discounted cash flow (DCF) method is normally used to determine the recoverable value of the CGUs. To this end, senior management has estimated CGU cash flows; these are dependent on several factors, including cost and revenue growth rates, which in turn depend on changes in the real economy, customer behaviour, competition and other factors. Numerous assumptions are therefore required to estimate the fairness of the carrying amount of goodwill; it follows that the result of this verification inevitably entails some degree of uncertainty. Disclosure in Section 13 of the "Assets" in the notes to the financial statements provides more details on this subject.

Other property, plant and equipment and intangible assets

The tangible and intangible assets with limited useful life are tested for impairment in the presence of any indication that the book value of the asset may not be recovered. The recoverable value is computed with reference to (i) the fair value of the tangible or intangible asset, net of the charges for disposal or (ii) the value in use if determinable and if it is above fair value.

The recoverable value of properties is determined on the basis of an appraisal or index-based valuations. The loss in value is reported only if the fair value less costs to sell, or the value-in-use, is less than the book value. The nature and number of assumptions are elements of uncertainty also for these values and for subsequent verifications. More information on the possible assumptions can be found in Sections 12 and 13 of the "Assets" in the notes to the financial statements.

Assumptions adopted with respect to the provisions of Law Decree 237/2016, converted with amendments to Law no. 15 of 17 February 2017

On 1 August 2017, in compliance with what is set forth in art. 23, paragraph 3 of Law Decree 237, as well as art. 2 of the Burden Sharing Decree issued on 28 July 2017, the AT1 and T2 financial instruments specified in them were converted into ordinary shares of the Parent Company newly issued at the unit price of EUR 8.65. As a result, 517,099,404 shares were issued for a total value of EUR 4,473 mln, of which 36,280,748 recognised as treasury shares (for a value of EUR 314 mln), as they arose from the conversion of the securities held by Group Companies.

Pursuant to the joint provisions of IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" and IAS 39, the difference between the carrying amount of the converted bonds and the fair value of the shares assigned to bondholders was recognised in profit and loss. In particular:

- the subordinated liabilities were derecognised for a carrying amount of EUR 4,353 mln, net of the amounts repurchased over time;
- the share capital increase was recognised for EUR 4,473 mln and treasury shares totalling EUR 314 mln were recognised as a deduction from shareholders' equity;

- the negative difference of EUR 360 mln between the fair value of the shares assigned to bondholders and the carrying amount recognised in the share capital net of treasury shares was debited to the item “Reserves”;
- a total positive effect of EUR 554 mln was recognised in profit and loss (EUR +51 mln in interest expenses, EUR +505 mln in gains from the repurchase of financial liabilities and EUR -2 mln from the profit (loss) from financial liabilities measured at fair value).

Correction of errors

The correction of errors is governed by IAS 8 (Accounting policies, changes in accounting estimates and errors). According to this standard, errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements.

When errors are discovered in the period in which the error occurred, they are corrected before the financial statements are authorised for issue.

Material errors that are discovered in a subsequent period with respect to the period in which they occurred, are corrected, when measurable, in the comparative information presented in the financial statements for that subsequent period; material previous period errors shall be corrected in the first set of financial statements authorised for issue after their discovery by retrospectively restating the comparative amounts for previous period(s) presented in which the error occurred or, if the error occurred before the previous periods presented, restating the opening balances of assets, liabilities and net assets/equity for the earliest previous period presented.

A.3 Information on portfolio transfers

A.3.1 Reclassified financial assets: book value, fair value and effects on comprehensive income

Type of financial instrument (1)	Portfolio prior to transfer (2)	Portfolio after transfer (3)	Book value at 31 12 2017 (4)	Fair value at 31 12 2017 (5)	Income components in the absence of transfers (before tax)		Income components reported for the period (before tax)	
					Value-relevance (6)	Other (7)	Value-relevance (8)	Other (9)
UCITS	Trading	Available for sale	-	-	-	(432)	-	(171)
Debt Securities	Trading	Loans to banks	42,522	41,093	153	1,247	(6)	1,368
Debt Securities	Trading	Loans to customers	102,464	82,780	(39,308)	3,419	(275)	2,858
Debt Securities	Available for sale	Loans to banks	643,634	527,497	3,703	(32,977)	(157)	(32,941)
Debt Securities	Available for sale	Loans to customers	184,213	162,621	(1,967)	7,196	(249)	6,984
	Total		**972,833**	**813,991**	**(37,419)**	**(21,547)**	**(687)**	**(21,902)**

In the course of 2008, the Group applied the amendment "Reclassification of financial assets", which was issued by the IASB to amend IAS 39 and IFRS 7 in October 2008 introducing the possibility of reclassifying portfolios in unusual circumstances such as the crisis that emerged in the markets in the second half of 2008.

This table, which refers exclusively to financial instruments reclassified in the second half of 2008 based on the above-mentioned amendment, reports, in addition to the book values and fair values of reclassified financial instruments as at 31 December 2017, financial results (columns 6 and 7) in terms of "value relevance" and "other" (realised profit/loss and interest), which the same financial instruments would have produced for the Group in 2017 had they not been transferred in 2008. Columns 8 and 9, on the other hand, contain the profit and loss results in terms of "value relevance" and "other" (realised profit/loss and interest) which the Group actually posted for these instruments in the course of 2017.

The hypothetical net capital losses (see column 6) of EUR 37.4 mln differ from the negative result actually recorded for 2017 (see column 8) of EUR 0.7 mln, for an overall impact of EUR -36.7 mln, due to higher write-downs posted to the income statement for EUR -38.5 mln, and revaluations of approximately EUR 1.8 mln to equity.

By way of completeness, on the back of the reclassification in 2008 of bonds originally classified as AFS financial instruments, the relative negative reserve, for an amount of EUR 228.4 mln, existing on the date of reclassification, was accounted for pursuant to the provisions set out in par. 50F of IAS 39.

In particular, the negative AFS reserve was gradually phased out over a timeframe reflecting the residual life of the underlying securities, measured as a direct reduction of interest income. This negative impact on net interest income was offset by the positive effect of the amortised cost mechanism on securities, which gradually brings the maturity value in line with the nominal value. The residual reserve at the end of 2017 was EUR 5.9 mln.

A.3.2 Reclassified financial assets: effects on comprehensive income

A.3.3 Transfer of financial assets held for trading

A.3.4 Effective interest rate and expected cash flows from reclassified financial assets

Tables A.3.2, A.3.3 and A.3.4 were left blank because no financial assets were reclassified during the year.

A.4 – Information on fair value

Qualitative information

A.4.1.a Fair value level 2: measurement techniques and inputs used

Items	Fair value 31 12 2017						Type	Valuation technique(s)	Inputs used
	Financial assets held for trading	Financial assets available for sale	Hedging deivatives	Financial liabilities held for trading	Financial liabilities designated at fair value	Hedging deivatives			
							Bonds	Discounted Cash Flow	Interest rate curve, CDS curve, Basi(yield), Inflation Curves
Debt securities	579,392	278,257	X	-	326,279	X	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
							Share/Equity Instruments	Market price	Market price, recent transactions, appraisals, manager reports
Equity instruments	99	10,455	X	X	X	X	Equity Instruments	Discount cash flow	Share price, beta sector, free risk rate
							Equity Instruments	Net asset adjusted	Carring Amount Asset/Liabilities
Units of UCITS	-	84,539	X	X	X	X	Funds/PE	Market price*	Market price*, recent transactions, appraisals, manager reports
Deposits	X	X	X	1,852	-	X	from banks		
				-	-		from customers		
							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, Foreign exchange rates
							Forex Singlename Plain	Option Pricing Model	Share price, Interest rate curve, Foreing exchange rates
							Forex Singlename Exotic	Option Pricing Model	Interest rate curve, Foreing exchange rates, Forex volatility
							Equity Singlename Plain	Option Pricing Model	Interest rate curve, share price, Foreing exchange rates, Equity volatility
Financial Derivati	3,216,807	-	156,485	1,539,477	X	691,368	Equity Singlename Exotic	Option Pricing Model	Interest rate curve,Share price, Foreing exchange rates, Equity volatility (Surface), Model inputs
							Equity Multiname Plain	Option Pricing Model	Interest rate curve, share price, foreign exchange rates, Equity volatility, Quanto correlation, Equity/Equity correlation
							Equity Multiname Exotic	Option Pricing Model	Interest rate curve, share price, foreign exchange rates, Equity volatility (surface), Model inputs,Quanto correlation, Equity/Equity correlation.
							Plain Rate	Option Pricing Model	Interest rate curve, inflation curve, bond price, foreign exchange rates, rate volatility, rates Correlation
							Spot-Forward	Market price*	Martket price, Swap point
Credit Derivatives	11,415	-	-	34,212	X	-	Default swaps	Discounted Cash Flow	CDS curves, Interest rate curve
Total assets	3,807,713	373,251	156,485	X	X	X			
Total liabilities	X	X	X	1,575,541	326,279	691,368			

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

A.4.1.b Fair value level 3: measurement techniques and inputs used

Items	Fair value 31 12 2017		Type	Valuation technique(s)	Unobservable inputs	Range (weighted average)
	Financial assets held for trading	Financial assets available for sale.				
Debt Securities	3,042	5,314	Bonds	Discounted Cash Flow	IRR (Yield)	
		8,358	Financila Instrument	Credit Model		8.5 €/mln
Equity Instruments	-	307,419	Equity Instruments	Discounted Cash Flow	Liquidity base/Equity Risk Premium/Beta	20%/8%/0.4
			Equity Instruments	Cost/Net Equity	Equity Risk Premium/Growth Rate	0-12.3 €/mln
			Convertible Bonds	Credit Model	Fair value asset	60%/100%
Units of UCITS		11,670	Side Pocket	External Pricing	NAV	0-0.3 €/mln
			Closed end Fund	Adjusted NAV	Fair value asseet	6 €/mln
			Closed real estate fund	Adjusted NAV	Fair value asset	4.9 €/mln
Total assets	3,042	324,403				
Total liabilities	X	X				

A.4.2 Measurement processes and sensitivity

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

Within "Financial assets available for sale", the category "Debt securities" includes equity instruments distributed to creditors as part of a loan restructuring operation. In the valuation of such securities, assumptions were made regarding the future cash flows generated by the issuer; this parameter was considered not observable and amounts to roughly EUR 8.5 mln. With regard to bonds measured with the Discounted Cash Flow method, placed in the amount of EUR 5.2 mln in "Financial assets available for sale" and EUR 3 mln in "Financial assets held for trading", the unobservable parameter is the overall return on the security. For each percentage point of return, the overall change in value can be estimated at EUR 0.03 mln.

Equity securities 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 Parent Company (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 4.5 mln.

Equity securities measured using the Discounted Cash Flow method mainly include the Bank of Italy shareholding (EUR 187.5 mln). The shareholding was measured with the methodology identified by the Committee of Experts of the Bank of Italy in the document "Revaluation of shareholdings in the Bank of Italy". This document not only details the valuation techniques adopted to reach the end result, but identified in the market beta of the equity risk premium and in the cash flow base to be used for cash flow discounting, the parameters on which to make entity specific assumptions. The valuation of that equity investment is also confirmed in market transactions carried out in recent years by certain banks. During valuation, also confirmed in market transactions carried out in recent years by a number of banks, the intervals of the possible values that can be assigned to these parameters cause the following changes in value: roughly EUR -23 mln for every 100 bps increase in the equity risk premium, around EUR -37.5 mln for every 10 percentage point increase in the market beta and roughly EUR -26 mln for every 10 percentage point increase in the cash flow base.

Within the same category, mention goes to the nearly total write-down of the contribution to the IDPF Voluntary Scheme, with the residual balance sheet amount valued at approximately EUR 2.6 mln.

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 74 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 Atlante Fund for approx. EUR 6 mln. The value of this last position takes into account the residual assets of the fund 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 "datio in solutum" as part of a loan restructuring operation.

A.4.3 Fair value hierarchy

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions.

The fair value of financial instruments listed in active markets is determined by using quoted market prices; quoted market prices for similar instruments or internal valuation models are used for other financial instruments.

Financial instruments are classified in three different levels according to the reliability of the inputs used during measurement.

The methods for classifying financial instruments in the three-level fair value hierarchy are shown below.

Level 1

This level shall include financial instruments measured using unadjusted quoted prices in active markets for identical instruments.

IFRS 13 defines an active market as a market in which transactions take place with sufficient frequency and volume to provide information on an ongoing basis. A financial instrument is quoted in a financial market when:

- the quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, authorised body or regulatory agency;
- the quoted prices represent actual and regularly occurring market transactions on an arm's length basis.

If the quoted prices meet these criteria, they represent the best estimation of fair value and must be used to measure the financial instrument.

From the definition of active market set out in IFRS 13 it is inferred that the active market concept is particular to the individual financial instrument being measured and not to the market on which it is listed; the fact that a financial instrument is quoted in a regulated market is therefore not in itself sufficient for the aforementioned instrument to be defined as listed in an active market. Conversely, a financial instrument that is not traded in a regulated market may present sufficient frequency and volumes for it to be classified in level 1 of the fair value hierarchy.

Levels 2 and 3

Financial instruments not listed in an active market must be classified in level 2 or 3.

Classification in level 2 rather than level 3 is determined on the basis of market observability of the significant inputs used to determine fair value. A financial instrument must be fully classified in a single level; if inputs belonging to different levels are used for the purpose of measuring an instrument, the aforementioned instrument is classified based on the lowest level of input that is significant to the fair value measurement.

An instrument is classified in level 2 if all significant inputs are directly or indirectly observable on the market. An input is observable if it reflects the same assumptions used by market participants, based on independent market data.

Level 2 inputs are as follows:

a) quoted prices on active markets for similar assets or liabilities;
b) quoted prices for the instrument in question or for similar instruments on non-active markets, i.e. markets where:
   - there are few transactions;
   - the prices are not current or they vary substantially over time and between the different market makers or

- little information is made public;

c) observable market inputs other than quoted prices (e.g. interest rates or yield curves observable in different buckets, volatility, credit curves, etc.);
d) inputs that derive primarily from observable market data, the reporting of which is confirmed by parameters such as correlation.

A financial instrument is classified in level 3 if the measurement techniques adopted use non-observable market inputs and their contribution to estimating fair value is deemed significant.

All financial instruments not listed in active markets are classified in level 3 where:

- despite having observable data available, significant adjustments based on non-observable data are required;
- the estimate is based on internal assumptions on future cash flows and risk adjustment of the discount curve.

It should also be noted that regardless of whether measurement techniques adopted use non-observable market inputs- the Group deemed it appropriate and conservative to include in Level 3 of the Fair Value hierarchy any instruments not listed in active markets which are complex by their financial structure or for which there is no clear measurement method recognised as standard in the market and adjustable based on observable prices of comparable structures.

This applies, for example, to assets in the structured credit category not listed in an active market. Although, in some cases, this category could avail itself of appropriate measurement models that make use of observable market inputs (e.g. credit default swap curves) or quotations by primary counterparties, the lack of a liquid market on correlations in the wake of the financial crisis made it necessary to use subjective estimates. Given the complexity of these structures, the Group decided to classify these instruments in level 3, in the absence of an active market, regardless of the observability of input parameters significant for their mark-to-model measurement.

The processes used to measure level 3 instruments are based on a shared analysis of the types of instruments and underlying risk parameters by the Group's Business functions and Risk Management. The analysis is completed with the formulation of a pricing model and/or a model for determination of non-observable market inputs which is subject to final validation by Risk Management. At different time intervals depending on the type of instruments (though commonly on a monthly basis) on the back of directly observable market inputs, the Group's Business functions proceed with determining the non-observable market inputs and measuring instruments of level 3. The Risk Management function, based on a shared methodological approach, proceeds with the final validation of fair value. In support of this activity and with a view to ensuring an adequate level of auditability, assessment data sheets have been introduced and are updated on a six-monthly basis for individual instruments classified in level 3, which contain a brief description of the instrument, pricing methods adopted and details about inputs used for fair value measurement.

As for fair value transfers between different levels, it is noted that the Group has set some rules to determine whether a financial instrument is level 1 or 3; level 2 is determined, from the logical point of view, on a residual basis. When an instrument no longer meets the conditions for classification in level 1 or 3, a new level is determined.

A.4.4 Other information

With reference to par. 93 lett. (i) of IFRS 13, the Group does not hold any non-financial assets designated 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.

Qualitative information

A.4.5 Fair value hierarchy

A.4.5.1 Assets and liabilities designed at fair value on a recurring basis: breakdown by fair value level.

Asset and liabilities measured at fair value	31 12 2017				31 12 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
1. Financial assets held for trading	4,907,239	3,807,713	3,042	8,717,994	4,525,257	4,740,893	-	9,266,150
3. Financial assets available for sale	14,744,424	373,251	332,761	15,450,436	15,981,636	359,564	321,917	16,663,117
4. Hedging derivative	-	156,485	-	156,485	-	327,349	-	327,349
Total	**19,651,663**	**4,337,449**	**335,803**	**24,324,915**	**20,506,893**	**5,427,806**	**321,917**	**26,256,616**
1. Financial liabilities held for trading	2,901,366	1,575,541	-	4,476,907	2,573,621	2,398,181	-	4,971,802
2. Financial liabilities designated at fair value	-	326,279	-	326,279	-	1,368,705	154,518	1,523,223
3. Hedging derivative	-	691,368	-	691,368	-	1,018,291	-	1,018,291
Total	**2,901,366**	**2,593,188**	**-**	**5,494,554**	**2,573,621**	**4,785,177**	**154,518**	**7,513,316**

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 requires significant adjustment based on non-observable data, or that requires internal assumptions and estimations of future cash flows.

Additional information on level 3 financial instruments can be found in the comments under the tables for the individual balance sheet items concerned.

The fair value of some financial assets, particularly the bonds for EUR 46.8 mln, worsened during the year from level 1 to level 2. This was essentially due to worsening of the liquidity conditions of the securities (measured in terms of bid-ask spread of the listed price), leading to the level transfer, in accordance with the Group's policy on the valuation of financial instruments.

With respect to the financial instruments that improved from fair value level 2 to level 1, this trend involved bonds for a total of EUR 77.7 mln. The change in the fair value level during the year is essentially linked to the improvement in the securities' liquidity conditions (measured in terms of bid-ask spread of the listed price) which allowed the level transfer in accordance with the Group's policy on the valuation of financial instruments.

As for OTC derivatives, in compliance with IFRS 13 the Group calculates adjustments to values, obtained through valuation models using risk-free interest rates, to take account of the creditworthiness of the individual counterparty. 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 prices without, however, losing the historical information available within the Group.

The impact of the CVA as at 31 December 2017 amounted to EUR -45.8 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 31 December 2017 the DVA is positive and amounts to a total of EUR 5.1 mln.

A.4.5.2 Annual changes of financial assets designated at fair value on a recurring basis (level 3)

31 12 2017

	Financial assets held for trading	Financial assets available for sale
1. Opening balance	**-**	**321,917**
2. Increases	**3,042**	**113,090**
2.1 Purchase	-	103,299
2.2 Profit posted to:	-	1,764
2.2.1 Profit and Loss	-	-
- of which capital gains	-	-
2.2.2 Equity	X	1,764
2.3 Transfers from other levels	3,042	6,948
2.4 Other increases	-	1,079
3. Decreases	**-**	**102,246**
3.1 Sales	-	7,849
3.2 Redemptions	-	1,511
3.3 Losses posted to:	-	92,711
3.3.1 Profit and Loss	-	88,815
- of which capital losses	-	87,252
3.3.2 Equity	X	3,896
3.4 Transfers to other levels	-	-
3.5 Other decreases	-	175
4. Closing balance	**3,042**	**332,761**

The amount shown in the column “Financial assets available for sale” under item “2.1 Purchases”, equal to EUR 103.3 mln, includes EUR 36.8 mln for the Sorgenia Power equity instrument and EUR 33.5 mln for the additional contribution to the IDPF Voluntary Scheme.

The amount shown in the same column under item “2.3 Transfers from other levels” totalling EUR 6.9 mln, includes EUR 5.3 mln in debt securities issued by the company AXA-MPS, previously classified under level 2 and measured through valuation techniques that are not market oriented but based on other non-market values, according to what is set forth in the internal policy on the matter.

Even the EUR 3 mln in “Transfers from other levels” under “Financial assets held for trading” regard debt securities issued by the company AXA-MPS, previously classified under level 2 and measured through valuation techniques that are not market oriented but based on other non-market values, according to what is set forth in the internal policy on the matter.

Lastly, the amount shown in the same column alongside item “3.3 Losses”, amounting to EUR 92.7 mln, is partly due to the write-down during the year of the amount held in the investee Voluntary Scheme for EUR 46.5 mln and Atlante Fund for EUR 29.8 mln.

A.4.5.3 Annual changes of financial liabilities designated at fair value on a recurring basis (level 3)

31 12 2017

	Financial liabilities designated at fair value
1. Opening balance	**154,518**
2.Increases	**9,187**
2.1 Issues	-
2.2 Losses posted to	9,187
2.2.1 Profit and Loss	-
- of which capital losses	-
2.2.2 Equity	9,187
2.3 Transfers from other levels	-
2.4 Other increases	-
3. Decreases	**163,705**
3.1 Redemptions	-
3.2 Repurchases	-
3.3 Profit posted to:	-
3.3.1 Profit and Loss	-
- of which capital gains	-
3.3.2 Equity	-
3.4 Transfers from other levels	-
3.5 Other decreases	163,705
4. Closing balance	**-**

The amount in the column "liabilities designated at fair value" under item "3.5 Other decreases" totalling EUR 163.7 mln refers to a subordinated issue of the Group, subject to conversion pursuant to Law Decree no. 237 of 23 December 2016 (*burden sharing*).

The amount recognised in the line "2.2.2 Losses posted to Equity" for an amount of EUR 9.2 mln regards the accounting effect of the early application of IFRS 9, related to the recognition of change in own credit risk of financial liabilities designated at fair value.

A.4.5.4 Assets and liabilities not designated at fair value or designated at fair value on a non-recurring basis: breakdown by fair value level

Financial assets/liabilities not designated at fari value or designated at fair value on a non-recurring basis	31 12 2017				
	Book value	Level 1	Level 2	Level 3	Total Fair value
2. Loans to bank	9,966,212	32,970	9,815,168	3,363	9,851,501
3. Loans to customers	86,456,407	127,653	6,019,800	83,772,117	89,919,570
4. Property, plant and equipment held for investment	338,281	-	-	368,924	368,924
5. Non-current assets and groups of assets held for sale	4,595,135	-	-	4,596,173	4,596,173
Total assets	**101,356,035**	**160,623**	**15,834,968**	**88,740,577**	**104,736,168**
1. Deposits from banks	21,084,916	-	21,084,916	-	21,084,916
2. Deposits from customers	77,014,177	-	77,014,177	-	77,014,177
3. Debt securities issued	20,461,300	14,061,015	6,752,432	-	20,813,447
Total liabilities	**118,560,393**	**14,061,015**	**104,851,525**	**-**	**118,912,540**

The amount stated in the line "Non-current assets held for sale and discontinued operations", equal to EUR 4,595.1 mln, refers primarily to receivables associated with the transfer of doubtful loans (for further detail, see the section "The Doubtful loan disposal transaction" of the Consolidated report on operations). The aggregate includes a further EUR 9.6 mln in property, plant and equipment (mainly land from credit recovery, for EUR 5.1 mln, and properties for business use, for EUR 4.1 mln).

For non-performing exposures classified in fair value hierarchy level 3, it is assumed that the book value represents a reasonable approximation of fair value. This assumption stems from the scenario according to which calculation of the fair value is predominantly impacted by the recovery expectations, determined through a subjective valuation by the manager, except for those reclassified under the line "5. Non-current assets held for sale and discontinued operations", for which the fair value is equal to the disposal price (or net book value). The discounting rate applied, where present, is that set forth in the contract, as the low liquidity and competition of the non-performing loans market does not make it possible to survey observable market premiums.

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

Therefore, and also due to the absence of a secondary market, the fair value recognised in the financial statements for disclosure purposes only could vary significantly from future sale prices.

Financial assets/liabilities not designated at fari value or designated at fair value on a non-recurring basis	31 12 2016				
	Book value	Level 1	Level 2	Level 3	Total Fair value
2. Loans to bank	8,936,239	52,546	8,755,442	1,937	8,809,925
3. Loans to customers	106,692,711	154,817	9,498,076	100,771,239	110,424,132
4. Property, plant and equipment held for investment	327,747	-	-	362,257	362,257
5. Non-current assets and groups of assets held for sale	60,684	-	17,921	1,128	19,049
Total assets	**116,017,381**	**207,363**	**18,271,439**	**101,136,561**	**119,615,363**
1. Deposits from banks	31,469,061	-	31,469,061	-	31,469,061
2. Deposits from customers	80,702,762	-	80,707,017	-	80,707,017
3. Debt securities issued	22,347,465	-	17,733,986	3,450,179	21,184,165
4. Liabilities associated to disposal groups held for sale	10,402	-	-	-	-
Total liabilities	**134,529,690**	**-**	**129,910,064**	**3,450,179**	**133,360,243**

A.5 Information on "*day one profit/loss*"

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.

Part B – Information on the balance sheet

ASSETS

LIABILITIES

ASSETS

Section 1 – Cash and cash equivalents – Item 10

1.1 Cash and cash equivalents: breakdown

	Total 31 12 2017	Total 31 12 2016
a) Cash	1,006,680	861,601
b) Demand deposits with central banks	3,085,627	222,909
Total	**4,092,307**	**1,084,510**

The line "Demand deposits with central banks" does not include the compulsory reserve, which is shown under Assets in Item 60 "Loans to banks".

Section 2 – Financial assets held for trading – Item 20

2.1 Financial assets held for trading: breakdown

Items/Amounts	Total 31 12 2017				Totale 31 12 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
A. Balance sheet assets								
1. Debt securities	4,716,866	579,392	3,042	5,299,300	4,413,046	387,644	-	4,800,690
1.1 Structured securities	14,668	85,594	-	100,262	-	110,627	-	110,627
1.2 Other debt securities	4,702,198	493,798	3,042	5,199,038	4,413,046	277,017	-	4,690,063
2. Equity instruments	25,094	99	-	25,193	31,306	26	-	31,332
3. Units of UCITS	61,728	-	-	61,728	12,122	-	-	12,122
4. Loans	-	-	-	-	-	265,210	-	265,210
4.1 Repurchase agreements	-	-	-	-	-	265,210	-	265,210
4.2 Others	-	-	-	-	-	-	-	-
Total (A)	**4,803,688**	**579,491**	**3,042**	**5,386,221**	**4,456,474**	**652,880**	**-**	**5,109,354**
B. Derivatives								
1. Financial derivatives:	103,551	3,216,807	-	3,320,358	68,783	4,048,084	-	4,116,867
1.1 held for trading	103,551	3,180,407	-	3,283,958	68,783	4,010,261	-	4,079,044
1.2 fair value option	-	36,400	-	36,400	-	37,823	-	37,823
1.3 Others	-	-	-	-	-	-	-	-
2. Credit derivatives:	-	11,415	-	11,415	-	39,929	-	39,929
2.1 held for trading	-	11,415	-	11,415	-	39,929	-	39,929
2.2 fair value option	-	-	-	-	-	-	-	-
2.3 Others	-	-	-	-	-	-	-	-
Total (B)	**103,551**	**3,228,222**	**-**	**3,331,773**	**68,783**	**4,088,013**	**-**	**4,156,796**
Total (A+B)	**4,907,239**	**3,807,713**	**3,042**	**8,717,994**	**4,525,257**	**4,740,893**	**-**	**9,266,150**

Criteria adopted for classification of financial instruments in the three levels of the "fair value hierarchy" are reported in Section A.4, "Fair value disclosure" of Part A, "Accounting policies" of the notes to the consolidated financial statements, which should therefore be referred to.

As a result of the provisions set out in IAS 39 with regard to the derecognition of financial assets, lines 1.1 Structured securities and 1.2 Other debt securities of the item "Cash assets" also include debt securities pledged in repos and securities lending transactions carried out in respect of own securities posted to the trading portfolio.

The amount of EUR 493.8 mln (EUR 277.0 mln as at 31 December 2016), reported on line "1.2 Other debt securities", in the level 2 column, includes senior, mezzanine and junior exposures assumed by the Group with reference to third-party securitisation transactions, equal to EUR 208.5 mln (EUR 59.3 mln as at 31 December 2016), EUR 51.4 mln (EUR 32.7 mln as at 31 December 2016) and lastly EUR 4.1 mln (EUR 5.0 mln as at 31 December 2016), respectively.

Derivatives connected with fair value option instruments are also classified as derivative instruments: these cover the risks of funding designated at fair value arising from possible interest rate fluctuations and from any embedded options in fixed-rate and structured bonds issued by the Bank (natural hedging). The positive fair value of these derivatives is shown in the table in line "B.1-1.2 – Fair value option".

By convention, such derivatives are classified in the trading book. In terms of their representation in the income statement, they comply with rules similar to the rules applicable to hedging derivatives: positive and negative spreads or margins settled or accrued until the balance sheet date are recognised as interest income and expense, while valuation profits and losses are posted under item 110 of the profit and loss statement, "Net profit (loss) from financial assets and liabilities designated at fair value", in compliance with representations used for funding instruments that adopted the fair value option.

2.1.a Breakdown of debt securities: structured securities

Structured debt securities	Total 31 12 2017	Total 31 12 2016
Index Linked	25,229	47,524
Equity Linked	17,144	18,991
Cap Floater	1,600	-
Reverse Floater	9,167	-
Commodity	36,439	38,166
Fund Linked	8,619	4,018
Other	2,064	1,928
Total	**100,262**	**110,627**

The table adds details to line "A.1.1 Structured securities" of table 2.1 above.

2.2 Financial assets held for trading: breakdown by borrower/issuer

Items/Amounts	Total 31 12 2017	Total 31 12 2016
A. Balance sheet assets		
1. Debt securities	5,299,300	4,800,690
a) Governments and Central banks	4,252,546	4,008,016
b) Other public entities	904	2
c) Banks	592,925	484,726
d) Other issuers	452,925	307,946
2. Equity instruments	25,193	31,332
a) Banks	10,949	4,316
b) Other issuers:	14,244	27,016
- insurance companies	962	3
- financial companies	124	401
- non-financial companies	13,158	26,612
- other	-	-
3. Units of UCITS	61,728	12,122
4. Loans	-	265,210
a) Governments and Central banks	-	-
b) Other public entities	-	-
c) Banks	-	60,699
d) Other entities	-	204,511
Total (A)	**5,386,221**	**5,109,354**
B. Derivatives		
a) Banks	1,460,111	2,054,940
b) Customers	1,871,662	2,101,856
Total (B)	**3,331,773**	**4,156,796**
Total (A+B)	**8,717,994**	**9,266,150**

The breakdown by borrower/issuer was carried out in accordance with criteria of classification by economic activity group and sector laid down by the Bank of Italy.
As for derivatives, it should be noted that the positive fair value of derivatives with customers includes approx. EUR 265.6 mln from balanced trading aimed at providing financial protection to customers of the Group's network (for further details, see Part E "Information on risks and hedging policies" of these Notes to the Financial statements). The remaining amount is generated from transactions with financial market participants classified as customers pursuant to the above classification criteria set by the Bank of Italy.

2.2.a Units of UCITS: Breakdown by main categories

Categories/Amounts	Total 31 12 2017	Total 31 12 2016
Equity	5	5
Bonds	50,578	159
Others	11,145	11,958
Total	**61,728**	**12,122**

The table adds details to line "A.3. Units of UCITS" of table 2.2 above.

Section 3 – Financial assets designated at fair value – Item 30

The tables for this section were not completed since the Bank has no financial assets designated at fair value to report for either the current or previous year.

Section 4 - Financial assets available for sale – Item 40

4.1 Financial assets available for sale: breakdown

Items/Amounts	Total 31 12 2017				Total 31 12 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
1. Debt securities	14,740,157	278,257	13,672	15,032,086	15,974,883	203,875	-	16,178,758
1.1 Structured securities	-	-	-	-	-	-	-	-
1.2 Other debt securities	14,740,157	278,257	13,672	15,032,086	15,974,883	203,875	-	16,178,758
2. Equity instruments	4,254	10,455	307,419	322,128	5,931	10,877	294,039	310,847
2..1 Designated at fair value	4,254	10,228	305,958	320,440	5,931	10,650	289,488	306,069
2.2. Carried at cost	-	227	1,461	1,688	-	227	4,551	4,778
3. Units of UCITS	13	84,539	11,670	96,222	822	144,812	27,878	173,512
4. Loans	-	-	-	-	-	-	-	-
Total	**14,744,424**	**373,251**	**332,761**	**15,450,436**	**15,981,636**	**359,564**	**321,917**	**16,663,117**

The portfolio of AFS financial assets includes:

a) bonds and UCITS not held for trading;

b) equity investments with shareholding lower than controlling or associate interests.

As a result of the provisions set out in IAS 39 for the derecognition of financial assets, line 1.2 also includes debt securities committed in repos (liabilities) and securities lending transactions carried out for own securities posted to the available-for-sale portfolio.

The sub-item “2.1 Equity instruments - measured at the fair value” includes investments in the Voluntary Scheme (qualified at level 3) for an amount of EUR 2.6 million, originally recognised for a total of EUR 53.6 million (written down by a total of EUR 51.4 million).

The sub-item “3 Units of UCITS” contains the investment in the shares of the Atlante Fund (level 3 column) for a value of EUR 6.1 million, following total write-downs equal to EUR 39.9 million.

At the reporting date, the aggregate does not include the Group’s senior, mezzanine and junior exposures with reference to own and third party securitisation transactions.

4.2 Financial assets available for sale: breakdown by borrower/issuer

Items/Amounts	Total 31 12 2017	Total 31 12 2016
1. Debt securities	**15,032,086**	**16,178,758**
a) Governments and Central banks	14,097,567	15,409,813
b) Other public entities	19,826	14,024
c) Banks	342,466	298,056
d) Other issuers	572,227	456,865
2. Equity instruments	**322,128**	**310,847**
a) Banks	207,194	229,256
b) Other issuers:	114,934	81,591
- insurance companies	-	404
- financial companies	29,441	27,135
- non-financial companies	85,493	54,052
- other	-	-
3. Units of UCITS	**96,222**	**173,512**
4. Loans	**-**	**-**
a) Governments and Central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other entities	-	-
Total	**15,450,436**	**16,663,117**

4.2.a Units of UCITS: breakdown by main categories

Categories/Amounts	Total 31 12 2017	Total 31 12 2016
Hedge Funds	667	8,681
Private Equity	78,049	151,488
Real estate	15,873	8,683
Other	1,633	4,660
Total	**96,222**	**173,512**

The table adds details to line “3 Units of UCITS” of table 4.1 above.

4.2.b Equity securities issued by entities classified as doubtful or unlikely to pay

Categories/Amounts	Total 31 12 2017	Total 31 12 2016
Equity securities issued by parties with doubtful status		
Gross exposure	47,082	20,735
Cumulative writedowns	34,716	20,735
of which: Writedowns for the period	-	*1,626*
Net exposure	12,366	-
Equity securities issued by parties with unlikely to pay status		
Gross exposure	162,537	143,897
Cumulative writedowns	99,511	114,320
of which: Writedowns for the period	*5,458*	*18,182*
Net exposure	63,026	29,577
Total net exposure	**75,392**	**29,577**

The main cumulative write-downs relating to equity securities issued by entities classified as unlikely to pay regard:

- Sorgenia S.p.A. (EUR 43.6 mln);
- Fenice Holding S.p.A. (EUR 42.1 mln);
- CISFI S.p.A. (EUR 10.9 mln);
- RCR S.p.A. (EUR 9.5 mln);
- Aedes Società di Investimento S.p.A. (EUR 5.8 mln);
- Compagnia Investimento e Sviluppo (EUR 3.8 mln);
- Marina di Stabia S.p.A. (EUR 6.9 mln);
- Targetti Holding S.p.A. (EUR 6.6 mln).

The main write-downs recognised during the year regard:

- Sorgenia S.p.A. (EUR 2.9 mln);
- Porto Industriale di Livorno S.p.A. (EUR 1.4 mln);
- Centro Agroalimentare di Napoli (EUR 0.5 mln).

4.3 Financial assets available for sale: micro-hedged assets

Items/Amounts	Total 31 12 2017	Total 31 12 2016
1. Financial assets subject to micro-hedging of fair value	4,159,523	3,948,514
a) interest rate risk	4,159,523	3,948,514
b) price risk	-	-
c) foreign exchange risk	-	-
d) credit risk	-	-
e) multiple risks	-	-
2. Financial assets subject to micro-hedging of cash flows	-	-
a) interest rate risk	-	-
b) foreign exchange risk	-	-
c) other	-	-
Total	**4,159,523**	**3,948,514**

Section 5 – Financial assets held to maturity – Item 50

The tables for this section were not completed since the Group has no financial assets held to maturity to report for either the current or previous year.

Section 6 – Loans to banks – Item 60

6.1 Loans to banks: breakdown

Type of transaction/Amount	Total 31 12 2017				
	Book value	Fair Value			
		Level 1	Level 2	Level 3	Total
A. Loans to central banks	**3,901,816**	**-**	**3,901,816**	**-**	**3,901,816**
1. Time deposits	20,000	X	X	X	X
2. Compulsory reserve	3,881,816	X	X	X	X
3. Reverse repurchase agreements	-	X	X	X	X
4. Others	-	X	X	X	X
B. Loans to banks	**6,064,396**	**32,970**	**5,913,352**	**3,363**	**5,949,685**
1. Loans	5,350,756	-	5,349,859	3,363	5,353,222
1.1 Current accounts and demand deposits	2,931,011	X	X	X	X
1.2 Time deposits	37,549	X	X	X	X
1.3 Other loans:	2,382,196	X	X	X	X
- Reverse repurchase agreements	898,734	X	X	X	X
- Finance leases	-	X	X	X	X
- Others	1,483,462	X	X	X	X
2. Debt securities	713,640	32,970	563,493	-	596,463
2.1 Securities	-	X	X	X	X
2.2 Other debt securities	713,640	X	X	X	X
Total	**9,966,212**	**32,970**	**9,815,168**	**3,363**	**9,851,501**

At the reporting date, the item includes non-performing loans for an amount of EUR 3.4 mln (EUR 1.0 mln as at 31 December 2016).

'Banks' also includes international entities of a banking nature subjected to zero weighting in accordance with prudential supervisory regulations on the standardised approach to counterparty and credit risk.

The portfolio of "Loans to banks" includes loans and deposits, in addition to the unrestricted part of the compulsory legal reserve with the Bank of Italy which, at year end, amounted to EUR 3,881.8 mln (EUR 3,588.5 mln as at 31 December 2016). In accordance with regulations on average maintenance levels, the end-of-period balance of the compulsory reserve may be subject to substantial changes in relation to the Group's contingent cash flow requirements.

Sub-item "B.1.3 Other loans – Other", totalling EUR 1,483.5 mln includes security deposits of approximately EUR 1,208.6 mln.

At the reporting date, the aggregate does not include the Group's senior, mezzanine and junior exposures with reference to own and third party securitisation transactions.

Type of transaction/Amount	Total 31 12 2016				
	Book value	Fair Value			
		Level 1	Level 2	Level 3	Total
A. Loans to central banks	**3,608,463**	**-**	**3,608,463**	**-**	**3,608,463**
1. Time deposits	20,000	X	X	X	X
2. Compulsory reserve	3,588,463	X	X	X	X
3. Reverse repurchase agreements	-	X	X	X	X
4. Others	-	X	X	X	X
B. Loans to banks	**5,327,776**	**52,546**	**5,146,979**	**1,937**	**5,201,462**
1. Loans	4,449,560	-	4,451,197	1,937	4,453,134
1.1 Current accounts and demand deposits	2,339,380	X	X	X	X
1.2 Time deposits	57,656	X	X	X	X
1.3 Other loans:	2,052,524	X	X	X	X
- Reverse repurchase agreements	151,545	X	X	X	X
- Finance leases	-	X	X	X	X
- Others	1,900,979	X	X	X	X
2. Debt securities	878,216	52,546	695,782	-	748,328
2.1 Securities	-	X	X	X	X
2.2 Other debt securities	878,216	X	X	X	X
Total	**8,936,239**	**52,546**	**8,755,442**	**1,937**	**8,809,925**

6.2 Loans to banks subject to micro-hedging

Type of transaction/Amounts	Total 31 12 2017	Total 31 12 2016
1. Loans subject to micro-hedging of fair value	**709,670**	**795,602**
a) interest rate risk	398,223	446,863
b) exchange risk	311,447	348,739
c) credit risk	-	-
d) multiple risks	-	-
2. Loans subject to micro-hedging of cash flows	**-**	**-**
a) interest rate risk	-	-
b) foreign exchange risk	-	-
c) others	-	-
Total	**709,670**	**795,602**

6.3 Finance leases

This table was not compiled since the Group had no finance leases with banking counterparties to report for either the period under review or the previous year.

Section 7 – Loans to customers – Item 70

7.1 Loans to customers: breakdown

Type of transaction Amount	31 12 2017							
	Book value				Fair value			
	Performing	Non-performing		Total	Level 1	Level 2	Level 3	Total
		Purchased	Others					
Loans	75,054,267	54	10,352,038	85,406,359	-	5,148,959	83,736,305	88,885,264
1. Current accounts	5,757,491	2	1,666,046	7,423,539	X	X	X	X
2. Reverse repurchase agreements	4,524,837	-	-	4,524,837	X	X	X	X
3. Mortgages	46,868,398	15	6,079,090	52,947,503	X	X	X	X
4. Credit cards, personal loans and fifth-of-salary backed loans	1,005,397	-	128,356	1,133,753	X	X	X	X
5. Finance lease	2,761,937	-	860,663	3,622,600	X	X	X	X
6. Factoring	816,537	-	67,828	884,365	X	X	X	X
7. Other transactions	13,319,670	37	1,550,055	14,869,762	X	X	X	X
of which: leased assets under construction	*178,049*	-	*17,113*	*195,162*	X	X	X	X
Debt securities	1,050,048	-	-	1,050,048	127,653	870,841	35,812	1,034,306
8. Structured securities	-	-	-	-	X	X	X	X
9. Other debt securities	1,050,048	-	-	1,050,048	X	X	X	X
Total	76,104,315	54	10,352,038	86,456,407	127,653	6,019,800	83,772,117	89,919,570

'Loans to customers' also includes operating receivables other than those connected with the payment for the supply of non-financial goods and services, which are posted to "Other assets" in account 160 of the Assets.

The securities portfolio also includes bonds not listed in active markets issued mainly by regional public bodies, e.g. municipal bonds (it.: buoni ordinari comunali, BOC).

According to the Bank of Italy's definitions, the "Non-performing" column, broken down into "Purchased" and "Others", includes doubtful, unlikely to pay and loans more than 90 days past due, recognised net of impairment losses. Details of these exposures can be found in Part E "Information on risks and hedging policies" of the notes to the financial statements (Section A "Credit Quality").

Please note that, on the basis of what is set forth in the Restructuring Plan and in line with the terms of the agreements entered into with Quaestio Capital SGR S.p.A., the Group completed a transfer through securitisation of a set of credit exposures classified as doubtful, for a net book value of EUR 4,556.0 million. Pursuant to IFRS 5, this portfolio was reclassified to item "150. Non-current assets and groups of assets held for sale and discontinued operations", given that the derecognition will be carried out by the end of June 2018 (for the details, please refer to the section "The doubtful loan disposal transaction" of the Consolidated Report on Operations). In addition, pursuant to IFRS 5, EUR 29.2 mln in receivables were reclassified (transfers completed in the early months of 2018).

At the reporting date, the aggregate does not include the Group's senior, mezzanine and junior exposures with reference to third party securitisation transactions.

Type of transaction Amount	31 12 2016							
	Book value				Fair value			
	Performing	Non-performing		Total	Level 1	Level 2	Level 3	Total
		Purchased	Others					
Loans	85,242,458	3,778	20,316,094	105,562,330	-	8,522,269	100,771,164	109,293,433
1. Current accounts	6,313,250	374	3,405,988	9,719,612	X	X	X	X
2. Reverse repurchase agreements	8,854,642	-	-	8,854,642	X	X	X	X
3. Mortgages	49,532,622	1,787	12,666,897	62,201,306	X	X	X	X
4. Credit cards, personal loans and fifth-of-salary backed loans	1,397,535	-	145,804	1,543,339	X	X	X	X
5. Finance lease	2,928,195	-	954,307	3,882,502	X	X	X	X
6. Factoring	756,321	-	134,422	890,743	X	X	X	X
7. Other transactions	15,459,893	1,617	3,008,676	18,470,186	X	X	X	X
of which: leased assets under construction	*183,337*	-	*30,871*	*214,208*	X	X	X	X
Debt securities	1,130,306	-	75	1,130,381	154,817	975,807	75	1,130,699
8. Structured securities	-	-	-	-	X	X	X	X
9. Other debt securities	1,130,306	-	75	1,130,381	X	X	X	X
Total	86,372,764	3,778	20,316,169	106,692,711	154,817	9,498,076	100,771,239	110,424,132

7.2 Loans to customers: breakdown by borrower/issuer

Type of transaction/Amount	31 12 2017			
	Performing	Non-performing		Total
		Purchased	Others	
1. Debt securities:	1,050,048	-	-	1,050,048
a) Governments	142,038	-	-	142,038
b) Other public entities	190,743	-	-	190,743
c) Other issuers	717,267	-	-	717,267
- non-financial companies	70,021	-	-	70,021
- financial companies	217,135	-	-	217,135
- insurance companies	430,111	-	-	430,111
- others	-	-	-	-
2. Loans to:	75,054,267	54	10,352,038	85,406,359
a) Governments	531,904	-	383	532,287
b) Other public entities	1,935,153	-	146,065	2,081,218
c) Other entities	72,587,210	54	10,205,590	82,792,854
- non-financial companies	37,637,324	19	8,206,911	45,844,254
- financial companies	7,308,985	-	269,553	7,578,538
- insurance companies	68	-	3	71
- others	27,640,833	35	1,729,123	29,369,991
Total	76,104,315	54	10,352,038	86,456,407

Type of transaction/Amount	31 12 2016			
	Performing	Non-performing		Total
		Purchased	Others	
1. Debt securities:	1,130,306	-	75	1,130,381
a) Governments	153,180	-	-	153,180
b) Other public entities	224,225	-	-	224,225
c) Other issuers	752,901	-	75	752,976
- non-financial companies	70,037	-	75	70,112
- financial companies	227,574	-	-	227,574
- insurance companies	455,290	-	-	455,290
- others	-	-	-	-
2. Loans to:	85,242,458	3,778	20,316,094	105,562,330
a) Governments	613,245	-	265	613,510
b) Other public entities	2,051,607	-	280,483	2,332,090
c) Other entities	82,577,606	3,778	20,035,346	102,616,730
- non-financial companies	41,607,346	2,512	16,563,009	58,172,867
- financial companies	12,174,474	-	487,717	12,662,191
- insurance companies	121	-	4	125
- others	28,795,665	1,266	2,984,616	31,781,547
Total	86,372,764	3,778	20,316,169	106,692,711

7.3 Loans to customers: micro-hedged assets

Type of transaction/Amount	Total 31 12 2017	Total 31 12 2016
1. Loans subject to micro-hedging of fair value	**297,292**	**380,059**
a) interest rate risk	297,292	380,059
b) exchange risk	-	-
c) credit risk	-	-
d) multiple risks	-	-
2. Loans subject to micro-hedging of cash flows	**50,069**	**50,095**
a) interest rate risk	50,069	50,095
b) foreign exchange risk	-	-
c) other	-	-
Total	**347,361**	**430,154**

7.4 Finance leases

7.4.a Reconciliation of future minimum payments receivable and finance leases

31 12 2017

Items/Accounts	Carrying amount			Gross investment		
	Lease payments receivable discounted at explicit lease rate (A)	Lease payments receivable discountued at implicit lease rate (present value of minimum lease payments) (B)	Total lease payments receivable recognised in income for the period (A + B)	Deferred financial income (D)	Future minimum lease payments (B + D)	*of which: unguaranteed residual values*
Up to 1 year	295,920	793,119	1,089,039	147,812	940,931	*24,818*
From 1 to 5 years	-	1,504,194	1,504,194	404,875	1,909,069	*125,152*
Over 5 years	-	1,614,204	1,614,204	291,859	1,906,063	*488,078*
Indefinite useful life	811,710	-	811,710	-	-	-
Total	**1,107,630**	**3,911,517**	**5,019,147**	**844,546**	**4,756,063**	***638,048***
Value adjustments	(968,079)	(428,468)	(1,396,547)	-	(428,468)	-
Loans and advances in the balance sheet			**3,622,600**			

Net loans to customers for finance leases amounted to EUR 3,622.6 mln, of which EUR 860.7 mln for "Non-performing assets". The finance lease portfolio of the subsidiary MPS Leasing & Factoring consists of 28,515 contracts, broken down as follows in terms of the remaining debt balance:

- 60.3% real estate segment;
- 19.7% operating asset segment;
- 11.3% energy segment;
- 6.3% vehicle segment;
- 2.4% aircraft and railway segment.

The remaining value of the thirty most significant loans was EUR 248.4 mln.

Section 8 – Hedging derivatives – Item 80

8.1 Hedging derivatives: breakdown by type of contract and underlying asset

	Fair value 31 12 2017				NV
	Level 1	Level 2	Level 3	Total	
A. Financial derivatives	**-**	**156,485**	**-**	**156,485**	**10,094,017**
1) Fair value	-	156,485	-	156,485	10,094,017
2) Cash flows	-	-	-	-	-
3) Foreign investments	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-
2) Cash flows	-	-	-	-	-
Total	**-**	**156,485**	**-**	**156,485**	**10,094,017**

Legend

NV = Notional or Nominal Value

The table displays the positive book value (fair value) of hedging derivatives for hedges carried out through hedge accounting.

Information on the underlying strategies and objectives of hedge transactions can be found in the Section "Market risks" of Part E "Information on Risks and hedging policies".

	Fair value 31 12 2016				NV
	Level 1	Level 2	Level 3	Total	
A. Financial derivatives	**-**	**327,349**	**-**	**327,349**	**15,282,706**
1) Fair value	-	327,349	-	327,349	15,282,706
2) Cash flows	-	-	-	-	-
3) Foreign investments	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-
2) Cash flows	-	-	-	-	-
Total	**-**	**327,349**	**-**	**327,349**	**15,282,706**

Legend

NV = Notional or Nominal Value

8.2 Hedging derivatives: breakdown by hedged portfolios and type of hedging

Transaction/Type of hedge	Fair Value						Cash Flows		Investments Foreign	Total 31 12 2017
	Micro-hedge					Macro-hedge	Micro-hedge	Macro-hedge		
	Risk Rate	Risk Exchange	Risk Credit	Risk Price	Multiple Risks					
1. Financial assets available for sale	2,443	-	-	-	-	X	-	X	X	2,443
2. Loans and receivables	-	-	-	-	-	X	-	X	X	-
3. Financial assets held to maturity	X	-	-	X	-	X	-	X	X	-
4. Portfolio	X	X	X	X	X	7,362	X	-	X	7,362
5. Other transactions	-	-	-	-	-	X	-	X	-	-
Total assets	**2,443**	**-**	**-**	**-**	**-**	**7,362**	**-**	**-**	**-**	**9,805**
1. Financial liabilities	146,680	-	-	-	-	X	-	X	X	146,680
2. Portfolio	X	X	X	X	X	-	X	-	X	-
Total liabilities	**146,680**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**146,680**
1. Expected transactions	X	X	X	X	X	X	-	X	X	-
2. Financial assets and liabilities portfolio	X	X	X	X	X	-	X	-	-	-
Total	**149,123**	**-**	**-**	**-**	**-**	**7,362**	**-**	**-**	**-**	**156,485**

The table shows the positive fair values of hedging derivatives, classified by hedged assets or liabilities and type of hedging implemented.

In particular, for the financial assets available for sale, fair value micro-hedging was used to hedge against interest-rate risk on fixed-rate and variable-rate capped mortgages and bonds classified in the available-for-sale portfolio or among receivables, in order to protect them from unfavourable interest rate changes. Fair value macro-hedging was carried out on fixed-rate mortgage loan portfolios.

With reference to financial liabilities, fair value micro-hedging of the interest-rate risk refers primarily to hedges of liabilities represented by securities. Cash flow hedges were carried out on some specific index-linked bond issues, in order to stabilise their flows through interest rate swaps.

More information on hedged assets and liabilities can be found in the tables contained in Part B of the notes for each section of the balance sheet items to which the hedged items are posted.

Section 9 – Change in value of macro-hedged financial assets – Item 90

9.1 Change in value of hedged assets: breakdown by hedged portfolios

Changes in value of hedged assets / Group components	Total 31 12 2017	Total 31 12 2016
1. Positive changes	**57,346**	**113,300**
1.1 of specific portfolios:	57,346	113,300
a) loans and receivables	57,346	113,300
b) financial assets available for sale	-	-
1.2 overall	-	-
2. Negative changes	**-**	**-**
2.1 of specific portfolios:	-	-
a) loans and receivables	-	-
b) financial assets available for sale	-	-
2.2 overall	-	-
Total	**57,346**	**113,300**

The value adjustment concerns fixed and capped floating rate mortgage loan portfolios that were fair value macro-hedged with derivatives to counter possible interest rate risk-induced fluctuations in value. As this is a macro-hedge, any gain or loss on the hedged item attributable to the risk hedged may not directly adjust the value of said item (unlike in micro-hedging), but must be presented in this separate line item of the assets. The amounts in this item must be removed from the balance sheet when the relevant assets or liabilities are derecognised.

The fair value of the corresponding hedging derivatives is shown respectively in Table 8.2 (assets) or Table 6.2 (liabilities), both entitled “Hedging derivatives: breakdown by hedged portfolio and type of hedging”, in the “Macro-hedging” column.

9.2 Assets subject to macro-hedging of interest-rate risk

Hedged assets	Total 31 12 2017	Total 31 12 2016
1. Loans and receivables	5,182,542	4,126,257
2. Assets available for sale	-	-
3. Portfolio	-	-
Total	**5,182,542**	**4,126,257**

The table shows the book value (amortised cost) of fixed-rate and capped floating rate mortgages included in Item 70 “Loans to customers”, which was macro-hedged against interest-rate risk as per Table 9.1 above.

The sum of this amount and the one shown in Table 9.1 expresses the book value of these receivables, adjusted for profit or loss attributable to the risk hedged.

Section 10 – Equity investments – Item 100

10.1 Equity investments: information on shareholding

Company Name	Headquarters	Registered Office	Type of relationship	Ownership Relationship		Avail. % votes
				Held by	Share holding %	
A. Companies under joint control						
Immobiliare Novoli S.p.a.	Florence	Florence	7	Banca Monte dei Paschi di Siena	50.000	-
Integra S.p.a.	Calenzano (FI)	Calenzano (FI)	7	Banca Monte dei Paschi di Siena	50.000	-
Marinella S.p.a.	Marinella di Sarzana (SP)	Marinella di Sarzana (SP)	7	Banca Monte dei Paschi di Siena	25.000	-
B. Companies under significant influence						
Axa Mps Assicurazioni Danni S.p.a.	Rome	Rome	8	Banca Monte dei Paschi di Siena	50.000	-
Axa Mps Assicurazioni Vita S.p.a.	Rome	Rome	8	Banca Monte dei Paschi di Siena	50.000	-
Casalboccone Roma S.p.a. (in liquidazione)	Siena	Siena	8	Banca Monte dei Paschi di Siena	21.750	33.675
CO.E.M. Costruzioni Ecologiche Moderne S.p.a.	Rome	Rome	8	Banca Monte dei Paschi di Siena	40.197	-
Fenice Holding S.p.a.	Calenzano (FI)	Calenzano (FI)	8	Banca Monte dei Paschi di Siena	4.156	-
				MPS Capital Services S.p.a.	16.383	-
Fidi Toscana S.p.a.	Florence	Florence	8	Banca Monte dei Paschi di Siena	27.460	-
Firenze Parcheggi S.p.a.	Florence	Florence	8	Banca Monte dei Paschi di Siena	16.807	-
Fondo Etrusco Distribuzione	Rome	Rome	8	Banca Monte dei Paschi di Siena	48.000	-
Fondo Minibond PMI Italia	Conegliano (TV)	Conegliano (TV)	8	Banca Monte dei Paschi di Siena	61.940	-
Fondo Socrate	Rome	Rome	8	Banca Monte dei Paschi di Siena	23.140	-
Immobiliare Centro Milano S.p.a.	Milan	Milan	8	MPS Capital Services S.p.a.	33.333	-
Interporto Toscano A.Vespucci S.p.a.	Collesalvetti (LI)	Collesalvetti (LI)	8	Banca Monte dei Paschi di Siena	21.819	-
				MPS Capital Services S.p.a.	19.002	-
Le Robinie S.p.a.	Reggio Emilia	Reggio Emilia	8	Banca Monte dei Paschi di Siena	20.000	-
Microcredito di Solidarietà S.p.a.	Siena	Siena	8	Banca Monte dei Paschi di Siena	40.000	-
Nuova Sorgenia Holding S.p.a.*	Milan	Milan	8	Banca Monte dei Paschi di Siena	16.670	-
NewColle S.r.l.	Colle V.Elsa (SI)	Colle V.Elsa (SI)	8	Banca Monte dei Paschi di Siena	49.002	-
Realizzazioni e Bonifiche Arezzo S.p.a. (in liquidazione)	Arezzo	Arezzo	8	Banca Monte dei Paschi di Siena	19.584	-
Sansedoni Siena S.p.a.	Siena	Siena	8	Banca Monte dei Paschi di Siena	21.754	33.674
S.I.C.I. Sviluppo Imprese Centro Italia SGR S.p.a.	Florence	Florence	8	MPS Capital Services S.p.a.	15.000	-
S.I.T. - Finanz.di Sviluppo per l'Inn. Tecnologica S.p.a.	Rome	Rome	8	Banca Monte dei Paschi di Siena	19.969	-
Terme di Chianciano S.p.a.	Chianciano T. (SI)	Chianciano T. (SI)	8	Banca Monte dei Paschi di Siena	18.816	-
				MPS Capital Services S.p.a.	26.807	-
Trixia S.r.l.	Milan	Milan	8	Banca Monte dei Paschi di Siena	15.000	-

** The portion pertaining to the Group in application of the equity method amounts to 22.24%, given the set of risks and benefits connected with the exposure to Sorgenia S.p.A.*

For further details on changes, see comments to table "10.5 - Equity investments: annual changes".

10.2 Significant equity investments: book value, fair value and dividends earned

31 12 2017

Company name	Book value		Fair value	Dividends earned
	31 12 2015	31 12 2014		
A. Companies under joint control				
Immobiliare Novoli S.p.a.	5,517	6,602	-	-
B. Companies under significant influence				
Axa Mps Assicurazioni Vita S.p.a.	791,659	771,707	-	-
Axa Mps Assicurazioni Danni S.p.a.	80,513	66,474	-	-
Fondo Etrusco Distribuzione	67,588	64,856	-	2,239
Fidi Toscana S.p.a.	22,159	42,439	-	-
Fondo Minibond PMI Italia	38,355	41,660	-	1,763
Intermonte SIM S.p.a.	-	16,307	-	2,240
Fondo Socrate	11,315	12,065	15,305	989
Firenze Parcheggi S.p.a.	4,596	4,556	-	-
Total	**1,021,702**	**1,026,666**	**15,305**	**7,231**

10.3 Significant equity investments: accounting information

Company name	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total revenues	Net interest income	Value adjustments and writebacks on tangible and intangible assets	Gain (Loss) from current operations before tax	Gain (Loss) from current operations after tax	Gain (Loss) from groups of assets held for sale after tax	Gain (Loss) for the year (1)	Other comprehensive income after tax (2)	Comprehensive income (3) = (1) + (2)
A. Companies under joint control														
Immobiliare Novoli S.p.a.	-	4	163,499	138,585	13,885	13,388	(2,531)	-	(2,666)	(2,682)	-	(2,682)	-	(2,682)
B. Companies under significant influence														
Axa Mps Assicurazioni Danni S.p.a.	-	599,753	66,701	422,870	87,189	187,442	-	-	40,523	27,892	-	27,892	186	28,078
Axa Mps Assicurazioni Vita S.p.a.	X	17,377,749	876,250	15,991,566	729,327	2,256,151	-	-	231,953	186,509	-	186,509	(115,950)	70,559
Fidi Toscana S.p.a.	X	207,220	113,755	-	173,670	7,042	-	-	(2,611)	(2,611)	-	(2,611)	396	(2,215)
Firenze Parcheggi S.p.a.	X	3,468	47,887	11,695	5,521	14,284	-	-	723	236	-	236	-	236
Fondo Etrusco	X	3,419	224,966	76,000	580	7,070	-	-	4,196	4,196	-	4,196	-	4,196
Fondo Minibond PMI Italia	X	63,918	971	-	167	1,666	-	-	1,153	1,153	-	1,153	-	1,153
Fondo Socrate	X	19,272	108,653	1,863	1,222	3,163	-	-	132	132	-	132	-	132

10.3a - Reconciliation of accounting information with the book value

	IMMOBILIARE NOVOLI S.P.A.	AXA MPS ASSICURAZIONI DANNI S.P.A	AXA MPS ASSICURAZIONI VITA S.P.A.	FIDI TOSCANA S.P.A.	FONDO ETRUSCO DISTRIBUZIONE	FONDO MINIBOND PMI ITALIA	FONDO SOCRATE	FIRENZE PARCHEGGI S.P.A.
Shareholding	50.00%	50.00%	50.00%	27.46%	48.00%	61.94%	23.14%	16.81%
Cash and cash equivalents	-	X	X	X	X	X	X	X
Financial assets	4	599,753	17,377,749	207,220	3,419	63,918	19,272	3,468
Non-financial assets	163,499	66,701	876,250	113,755	224,966	971	108,653	47,887
Fianlcial liabilities	138,585	422,870	15,991,566	-	76,000	-	1,863	11,695
Non-financiale liabilities	13,885	87,189	729,327	173,670	580	167	1,222	5,521
Shareholders'equity (100%)	11,033	156,394	1,533,106	147,305	151,805	64,721	124,839	34,139
Group shareholding	5,517	78,197	766,553	40,450	72,866	40,088	28,888	5,738
Cancellation of unrealised intragoup profit/loss	-	-	56,886	-	-	-	-	-
Goodwill	-	2,316	46,796	-	-	-	-	-
Value adjustments	-	-	-	(18,291)	-	-	-	-
Other increases/decreases	-	-	(78,576)	-	(5,278)	(1,733)	(17,573)	(1,142)
Book value of Associate company as at 31 12 2017	5,517	80,513	791,659	22,159	67,588	38,355	11,315	4,596
Book value as at 31 12 2016	6,602	66,474	771,707	42,439	64,856	41,660	12,065	4,556
Profit (loss) for the year	(2,682)	27,892	186,509	(2,611)	4,196	1,153	132	236
Other comprehensive income after tax	-	186	(115,950)	396	-	-	-	-
Comprehensive income attributable to the Group	(1,341)	14,039	35,279	(608)	2,014	714	31	40
Dividends	-	-	-	-	(2,239)	(1,763)	(989)	-
Value/adjustments and writebacks	-	-	-	(18,291)	-	-	-	-
Other changes	256	-	(15,327)	(1,381)	2,957	(2,256)	208	-
Book value of Associate company as at 31 12 2017	5,517	80,513	791,659	22,159	67,588	38,355	11,315	4,596

10.3b – Significant equity investments: information on business

Company name	Type of business
Companies under significant influence	
Axa Mps Assicurazioni Danni S.p.A.	Company specialising in P&C insurance, offering a comprehensive range of insurance solutions tailored to the needs of customers and businesses.
Axa Mps Assicurazioni Vita S.p.A.	Leading company in the domestic insurance market, offering innovative and advantageous solutions for all pension, insurance, savings and investment needs.
Fidi Toscana S.p.A.	A Tuscan financial company which aims to facilitate access to credit for small and medium businesses
Fondo Etrusco Distribuzione	Real estate fund for institutional investors. Its portfolio has been built up through a series of sale and leaseback transactions on commercial properties fully leased by a leading player in the Mass Distribution Industry
Fondo Minibond PMI Italia	Independent investment fund for investments in bonds issued by small and medium Italian businesses
Fondo Socrate	Closed-end mutual real estate investment fund. Listed on the Market for Investment Vehicles of the Italian Sotck Exchange as of 30 January 2014
Immobiliare Novoli S.p.A.	Real estate company
Firenze Parcheggi S.p.A	Company that manages and coordinates the parking in Florence

The associated companies Axa MPS Assicurazione Danni S.p.A and Axa Mps Assicurazioni Vita S.p.A. are strategic for the Group

10.4 Non-significant equity investments: accounting information

Denominazione	Book value of equity investment	Total assets	Total liabilities	Total revenues	Gain (Loss) from continuing operations after tax	Gain (Loss) from groups of assets held for sale after tax	Gain (Loss) for the year (1)	Other comprehensive income after tax (2)	Comprehensive income (3) = (1) + (2)
A. Companies under joint control	957	78,661	52,933	2,380	(1,138)	-	(1,138)	-	(1,138)
B. Companies under significant influence	11,987	2,776,966	2,655,395	1,789,453	26,581	-	26,581	9,055	35,636

10.5 Equity investments: annual changes

	Total 31 12 2017	Total 31 12 2016
A. Opening balance	**1,031,678**	**908,365**
B. Increases	**133,812**	**188,117**
B.1 Purchases	-	-
B.2 Write-backs	-	-
B.3 Revaluations	-	-
B.4 Other increases	133,812	188,117
C. Decreases	**130,846**	**64,804**
C.1 Sales	20,000	-
C.2 Write-downs	27,330	1,644
C.4 Other decreases	83,516	63,160
D. Closing balance	**1,034,644**	**1,031,678**
E. Total revaluation	-	-
F. Total write-downs	**136,774**	**110,384**

Below are the main changes in the course of the year.

With regard to increases, please note that line B.4 "other increases" includes: EUR 101.1 mln in profits and EUR 2.0 mln in increases in valuation reserves relating to associates; the profit of EUR 5.8 mln connected to the disposal of the investee Intermonte Sim Spa; an increase of EUR 17.6 mln associated with the change in status of the investee Costruzioni Ecologiche Moderne S.p.A., as a result of the loss of control and the company's simultaneous reclassification as an associate.

Among decreases:

- on line C.1 "Sales", the disposal of the investment in Intermonte SIM S.p.a., for an amount of EUR 20.0 mln;
- on line C.2 "Value adjustments", the write-downs of the equity investments in the associates Fidi Toscana S.p.a., Interporto Toscano A. Vespucci S.p.a. and Trixia S.r.l.;
- on line C.3 "Other decreases", dividends from associated companies of EUR 20.0 mln, losses recognised by the associates of EUR 1.7 mln and decreases in valuation reserves relating to associates of EUR 59.4 mln.

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In accordance with the accounting standards, the indicators of impairment of equity investments in associates have been measured, the recoverable value has been determined where applicable, and any write-downs or reversals have been accounted for.

As regards the equity investments in the associates Axa MPS Danni and Axa MPS Vita, an analysis on key impairment indicators has not identified elements indicating that impairment tests should be performed.

Reported below is the main embedded goodwill:

Embedded goodwill	31 12 2017	31 12 2016
Axa Mps Assicurazioni Vita S.p.A.	46,796	46,796
Axa Mps Assicurazioni Danni S.p.A.	2,316	2,316
Others	-	-
Total	**49,112**	**49,112**

10.6 Key considerations and assumptions to determine the existence of joint control or significant influence

The Group considers as associates, that is subject to significant influence, the companies of which it holds at least 20 per cent of the voting rights (including potential voting rights) and in which it has the power to participate in determining the financial and operating policies.

Similarly, companies are considered associates also when the Group – despite a lower percentage of voting rights– has the power of participating in the determination of the financial and operating policies of the investee on account of specific legal agreements such as, for example, the participation in important committees of the investee as well as the presence of vetoing rights on significant decisions.

The Group considers jointly controlled those companies with respect to which the following circumstances occur simultaneously:

- if an agreement has been entered into that assigns co-participation in the management of the investee's activities via a presence on the Board of Directors:
- none of the parties participating in the agreement holds exclusive control;
- decisions relating to relevant activities are made unanimously by the parties identified (each has an implicit or explicit veto right with regard to relevant decisions).

10.7 Covenants on investments in jointly controlled companies

No covenants on investments in jointly controlled companies are reported.

10.8 Covenants on investments in companies under significant influence

No covenants on investments in companies under significant influence are reported.

10.9 Significant restrictions

At the financial statement date there are no significant restrictions to the jointly controlled companies' or associates' ability to transfer funds to the Group in the form of dividends, aside from those set forth in Civil Code provisions, requiring the deduction of 5% of the net profit for the year and its allocation to the legal reserve, until the latter amounts to 20% of the share capital. The reserve must be replenished if it is reduced for any reason.

10.10 Other information

The equity method, a synthetic method for the valuation of the equity of companies on which the Group has significant influence or joint control, is performed on the basis of the financial statements for the year ended 31 December 2017; if these are not available, the valuation is carried out on the basis of the interim report as at 30 September 2017.

Section 11 – Reinsurance technical reserves – Item 110

No values are shown in this section as the insurance companies in which the Group holds equity investments are associates, and therefore these investments are consolidated using the equity method.

Section 12 - Property, plant and equipment - Item 120

12.1 Property, plant and equipment used in the business: breakdown of assets valued at cost

Asset/Amount	Total	
	31 12 2017	31 12 2016
1. Assets owned	**2,218,477**	**2,248,657**
a) land	786,524	795,492
b) buildings	1,102,476	1,144,413
c) furniture and furnishings	154,162	159,025
d) electronic systems	108,820	87,969
e) other	66,495	61,758
2. Assets leased	**14,254**	**21,030**
a) land	-	-
b) buildings	-	-
c) furniture and furnishings	-	-
d) electronic systems	14,254	21,030
e) other	-	-
Total	**2,232,731**	**2,269,687**

All of the Group's property, plant and equipment is measured at cost; the line "land" expresses the value of land separately from the value of buildings. In compliance with guidance provided by IAS 36 "Impairment of Assets" and recommendations contained in document no. 4 of 3 March 2010 issued jointly by the Bank of Italy, Consob and Isvap, an overall property appraisal was made with a view to determining any impairment losses to be posted to profit and loss for the year; disclosure of these impairment losses is provided in the notes to the table "12.5 Property, plant and equipment used in the business: annual changes".

Item 1 "Assets owned –c) furnishings" includes artworks whose value amounts to EUR 121.1 mln.

12.2 Property, plant and equipment held for investment: breakdown of assets valued at cost

Asset/Amount	Total 31 12 2017				
	Book value	Fair Value			
		Level 1	Level 2	Level 3	Total
1. Assets owned	**338,281**	**-**	**-**	**368,924**	**368,924**
a) land	164,333	-	-	163,771	163,771
b) buildings	173,948	-	-	205,153	205,153
2. Assets leased	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-
b) buildings	-	-	-	-	-
Total	**338,281**	**-**	**-**	**368,924**	**368,924**

All of the Group's property, plant and equipment is measured at cost; the line "land" expresses the value of land separately from the value of buildings. In compliance with guidance provided by IAS 36 "Impairment of Assets" and recommendations contained in document no. 4 of 3 March 2010 issued jointly by the Bank of Italy, Consob and Isvap, an overall property appraisal was made with a view to determining any impairment losses to be posted to profit and loss for the year; disclosure of these impairment losses is provided in the notes to the table "12.6 Property, plant and equipment held for investment: annual changes".

Attività/Valori	Total 31 12 2016				
	Book value	Fair Value			
		Level 1	Level 2	Level 3	Total
1. Assets owned	**327,747**	**-**	**-**	**362,257**	**362,257**
a) land	160,012	-	-	162,936	162,936
b) buildings	167,735	-	-	199,321	199,321
2. Assets leased	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-
b) buildings	-	-	-	-	-
Total	**327,747**	**-**	**-**	**362,257**	**362,257**

12.3 Property, plant and equipment used in the business: breakdown of revalued assets

The Group does not own any revalued property, plant and equipment.

12.4 Property, plant and equipment held for investment: breakdown of assets designated at fair value

The Group holds no property, plant and equipment designated at fair value pursuant to IAS 40.

12.5 Property, plant and equipment used in the business: annual changes

	Land	Buildings	Furniture and furnishings	Electronic systems	Others	Total 31 12 2017
A. Gross opening balance	**812,573**	**1,413,071**	**520,439**	**737,240**	**466,791**	**3,950,114**
A.1 Total net decrease	17,080	268,658	361,413	628,243	405,033	1,680,427
A.2 Net opening balance	**795,493**	**1,144,413**	**159,026**	**108,997**	**61,758**	**2,269,687**
B. Increases	**831**	**14,893**	**4,650**	**56,952**	**20,962**	**98,288**
B.1 Purchases	811	101	4,650	56,951	20,962	83,475
B.2 Capitalized expenditure on improvements	-	6,674	-	-	-	6,674
B.3 Write-backs	-	-	-	-	-	-
B.4 Increases in fair value booked to:	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) profit and loss	-	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	-	-	-
B.6 Transfers from properties held for investment	6	11	-	-	-	17
B.7 Other increases	14	8,107	-	1	-	8,122
C. Decreases	**9,799**	**56,829**	**9,514**	**42,876**	**16,226**	**135,244**
C.1 Sales	-	5	448	309	1,029	1,791
C.2 Depreciation	-	42,248	9,058	42,557	15,187	109,050
C.3 Impariment losses booked to:	2,995	2,166	-	-	-	5,161
a) shareholders' equity	-	-	-	-	-	-
b) profit and loss	2,995	2,166	-	-	-	5,161
C.4 Decreases in fair value booked to:	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) profit and loss	-	-	-	-	-	-
C.5 Negative exchange differences	-	-	3	10	8	21
C.6 Transfer to:	6,804	12,217	-	-	-	19,021
a) tangible asset held for investment	6,453	11,854	-	-	-	18,307
b) assets held for sale	351	363	-	-	-	714
C.7 Other decreases	-	193	5	-	2	200
D. Net closing balance	**786,525**	**1,102,477**	**154,162**	**123,073**	**66,494**	**2,232,731**
D.1 Total net decreases	20,075	310,367	368,510	668,371	419,127	1,786,450
D.2 Gross closing balance	**806,600**	**1,412,844**	**522,672**	**791,444**	**485,621**	**4,019,181**
E. Carried at cost	**-**	**-**	**-**	**-**	**-**	**-**

An analysis of external and internal impairment indicators resulted in impairment losses for an amount of EUR 5.2 mln being recognised in the balance sheet as at 31 December 2017 (line C.3). In addition, EUR 8.2 mln in overall capital gains on real estate used in the business is also reported; these capital gains were not recognised in the balance sheet. With regard to property, plant and equipment of the Group used in the business other than buildings, no extraordinary negative market factors were thought to exist under a going concern assumption, that might call for the need to recognise impairment losses.

Line E – "Carried at cost" was left blank, as per the Bank of Italy's instructions, since it only needs to be completed for assets accounted for at fair value.

12.6 Property, plant and equipment held for investment: annual changes

	31 12 2017		
	Lands	**Builiding**	**Total**
A. Opening balance	**160,012**	**167,735**	**327,747**
B Increases	**13,548**	**18,781**	**32,329**
B.1 Purchases	-	-	-
B.2 Capitalized expenditure on improvements	-	766	766
B.3 Increases in fair value	-	-	-
B.4 Write-backs	-	-	-
B.5 Positive exchange differences	-	-	-
B.6 Transfers from property used in the business	6,453	11,854	18,307
B.7 Other increases	7,095	6,161	13,256
C. Decreases	**9,227**	**12,568**	**21,795**
C.1 Sales	772	1,324	2,096
C.2 Depreciation	-	7,460	7,460
C.3 Decreases in fair value	-	-	-
C.4 Impairment losses	8,143	3,321	11,464
C.5 Negative exchange differences	-	-	-
C.6 Transfers to other asset potfolios	312	463	775
a) properties used in the business	6	11	17
b) non-current assets held for sale	306	452	758
C.7 Other decreases	-	-	-
D. Closing balance	**164,333**	**173,948**	**338,281**
E. Designated at fair value	**163,771**	**205,153**	**368,924**

An analysis of external and internal impairment indicators resulted in impairment losses for an amount of EUR 11.5 mln being recognised in the balance sheet as at the reporting date (line C.4). In addition, EUR 31.1 mln in overall capital gains on real estate held for investment is also reported; these capital gains were not recognised in the balance sheet.

12.7 Commitments to purchase property, plant and equipment

No commitments to purchase property, plant and equipment were registered in 2017.

12.8 Property, plant and equipment: depreciation rates

Main categories of tangible assets	%
Land and works of art	0.00%
Buildings	3.03%
Furniture and furnishings	10-20%
Alarm and video systems	20-30%
Electronic and ordinary office equipment	12-20%
Electronic data processing equipment	50.00%
Vehicles	20-25%
Telephones	20-25%

The percentages used for carrying out the depreciations with reference to the main categories of property, plant and equipment are presented in the table. Owing to their indefinite useful life, lands and artworks are not depreciated.

Section 13 – Intangible assets – Item 130

13.1 Intangible assets: breakdown by type

Asset / Amount	31 12 2017			31 12 2016		
	Finite Life	Indefinite Life	Total	Finite Life	Indefinite Life	Total
A.1 Goodwill	**X**	**7,900**	**7,900**	**X**	**7,900**	**7,900**
A.1.1 group	X	7,900	7,900	X	7,900	7,900
A.1.2 minorities	X	-	-	X	-	-
A.2 Other intangible assets	**275,335**	**-**	**275,335**	**337,613**	**-**	**337,613**
A.2.1 Assets carried ad cost	275,335	-	275,335	337,613	-	337,613
a) internally generated intangible assets	49,459	-	49,459	64,948	-	64,948
b) other assets	225,876	-	225,876	272,665	-	272,665
A.2.2 Assets valued at fair value:	-	-	-	-	-	-
a) internally generated intangible assets	-	-	-	-	-	-
b) other assets	-	-	-	-	-	-
Total	**275,335**	**7,900**	**283,235**	**337,613**	**7,900**	**345,513**

All of the Group's intangible assets are valued at cost. All intangible assets recognised in the financial statements have a finite useful life, except for goodwill.

During preparation of the 2017 accounts, goodwill recognised was tested for recoverability or impairment. In accordance with Document 4 jointly published by Bank of Italy/Consob/IVASS on 3 March 2010 and provisions set out in IAS 36, "Impairment of Assets", the activities carried out to perform the goodwill recoverability test are described below.

Goodwill is not systematically amortised but tested for impairment (Impairment Test). The test performed did not result in any impairment losses.

Line "A.2.1 Assets carried at cost – b) Other assets" includes:

- intangible assets arising from customer relations recognised following the acquisition of former Banca Antonveneta S.p.a.:
  - core deposits totalling EUR 30.9 mln, from the fair value measurement of on-demand funding (current accounts and savings deposits),
  - core overdrafts totalling EUR 7.5 mln, from the fair value measurement of assets represented by non-revolving credit facilities,
- purchase of externally-developed software for an amount of EUR 187.5 mln.

Considering that line "A.2.1 assets carried at cost – a) internally generated intangible assets" includes intangible assets linked to internally generated technology in the amount of EUR 49.5 mln, the software total recognised in the consolidated financial statement amounts to EUR 237.0 mln.

For intangible assets associated with customer relationships, an analysis was carried out on the impairment indicators, which resulted in no need for impairment testing.

With regard to the software, the analysis of the future service life of the main capitalised assets to check the impairment, is equal to ER 25 mln.

Impairment testing of Group Goodwill

IAS 36 sets out the principles for recognition and reporting of impairment for certain types of assets, including goodwill, illustrating the principles that an entity must follow to make sure that the carrying amount of its assets is not higher than their recoverable amount.

IAS 36 defines recoverable amount as the higher of:

- Fair value less costs to sell - the amount obtainable from the sale of an asset in a regular transaction between market participants, less the costs of disposal;
- Value in use - the present value of estimated future cash flows expected to arise from the continuing use of an asset or from a cash-generating unit (CGU).

IAS 36 requires the carrying amount of goodwill to be compared with the recoverable amount whenever there is an indication that the asset may have been impaired and in any case at least once a year at the balance sheet date (Impairment Test).

The recoverable amount of goodwill is estimated with reference to the CGUs, since goodwill is not able to generate cash flows independently from an asset.

A CGU is the smallest identifiable group of assets that generates cash inflows from continuing use which are largely independent of the cash inflows from other assets or groups of assets, which the Group is able to recognise separately in its management reporting system.

In accordance with IAS 36 and in light of the aforementioned considerations, the impairment test carried out on goodwill as shown in the Group's consolidated financial statements comprised the following activities:

- Identification of goodwill;
- Identification of cash-generating units and allocation of goodwill to the cash-generating units identified;
- Determination of the recoverable value of the CGUs
- Impairment Test results.

a. Identification of goodwill

The impairment test was carried out on goodwill; no other indefinite-life intangible assets are recognised in the financial statements.

b. Identification of cash-generating units and allocation of goodwill to the cash-generating units identified

According to IAS 36, each CGU or group of CGUs to which goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes and should not be larger than an operating segment as defined by IFRS 8 ("Operating Segments").

As for the impairment test as at 31 December 2016, the Group's goodwill was tested by identifying those CGUs into which the Group's operations can be separated and analysing the cash flows that these will be able to generate in future years, based on an approach consistent with Segment Reporting presented in the financial statement and therefore with Management Reporting.

For the purpose of primary reporting of profit and loss/balance-sheet data, the Group has adopted a business approach opting for results to be broken down by the business segments in which the Group operates. The new Parent Company structure was outlined at the end of 2016 within the scope of the broader objectives of the Plan and was fully implemented at the start of 2017. It envisages the implementation of a specialised commercial organisational model with three Departments (Retail, Wealth Management and Corporate), each of which is responsible for the pertinent markets, segments and products. In particular, as innovative elements, please note the creation of the Wealth Management Department, focusing on monitoring and developing customers of high standing (previously included within the Retail Department) and Banca Widiba SPA, which includes the financial advisor network and the self-service channel (previously named "Financial Advisory and Digital Banking").

In particular, the four CGUs have the following scope of business:

- "**Retail CGU**", which includes the retail customers of the BMPS branches;

- "**Corporate CGU**" composed of typically corporate clients of BMPS branches and foreign branches and subsidiaries, Large Corporates, MPS Leasing & Factoring and MPS Capital Services.

- "**Wealth Management CGU**" includes the typically private customers of BMPS and the subsidiary MPS Fiduciaria;

- "**Widiba CGU**" consisting of the customers of the subsidiary Widiba, a Group company established to relaunch the presence of MPS in direct channels, which has also been assigned the Financial Advisory Network.

It is noted that, since the Consumer, Corporate and Wealth Management CGUs have no allocated goodwill, they were not tested for impairment.

c. Determination of the recoverable value of the CGU

The Group's goodwill as at 31 December 2017 was tested for impairment by identifying the recoverable amount of the Widiba CGU as the value in use.

The recoverable amount of the CGU was estimated by discounting future distributable cash flows.

Taking into account what is described above and in continuity with the impairment test carried out for the 2017 half-year financial statements, based on the development policies defined within the Restructuring Plan approved by the European Commission in July 2017, this test was repeated by replacing the 2017 forecast data with actual data.

The recoverable amount was estimated on the basis of the following methodological steps:

- Determination of the CGU's value in use by discounting future distributable cash flows, based on the following formula:

$$W = \sum_{t=1}^{n} \frac{F_t}{(1+i)^t} + VT_a$$

where:

F_t = cash flows distributable to shareholders over the selected time horizon based on the economic and financial projections made, maintaining a satisfactory level of capitalisation.

i = discounting rate represented by the cost of equity (ke).

VT_a = present Terminal Value calculated as the value of a perpetual yield that is estimated according to an economically sustainable normalised cash flow consistent with the long-term growth rate ("g").

To discount cash flows distributable to shareholders, the cost of equity was used, i.e. the return on equity required by investors/shareholders for investments with comparable risk characteristics. This rate, equal to 9.2%, is consistent with that used in the process of "Determining the value of the ordinary shares of Banca Monte dei Paschi di Siena pursuant to Law no. 15 of 17 February 2017" and was calculated using the Capital Asset Pricing Model ("CAPM"), based on the following formula:

$$k_e = R_f + Beta * (R_m - R_f)$$

where:

Rf = risk-free rate (factoring in the country risk) of 2.1% identified as the half-yearly average yield of 10-year bonds issued by the Italian government (source: Bloomberg).

Beta = correlation factor between actual share performance and overall performance of the reference market (measurement of the volatility of a stock relative to the market), equivalent to 1.3% (median of the adjusted beta of a sample of listed companies comparable to Banca MPS, source: Bloomberg).

R_m - R_f = risk premium required by the market which, in line with assessment practices, is set at 5.3%.

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The Terminal Value was determined based on the following formula:

$$VT = \text{normalised distributable cash flow} / (k_e - g)$$

considering a normalised cash flow and an assumed long-term growth rate (g) of 1.5%.

- Determination of the CGU's value in use by discounting future distributable cash flows.

Cash flows of the Widiba CGU have been determined on the basis of the CGU's net profit projections inferred from the analysis of the development policies mentioned previously and the following main valuation parameters - reflective of the most recent market conditions - used to determine the recoverable amount of the CGU as at 31 December 2017:

- a target supervisory ratio (capital ratio) of 8.5% at 2021, taking into account the characteristics of Widiba's business;
- the CGU's cost of capital (ke) equal to 9.20%, determined using the method described above;
- a long-term growth rate (g) of 1.5%.

d. Impairment test results

The results (in million euros) of the impairment test performed on the Financial Advisory and Digital Banking CGU on the basis of the analysis are presented below.

	Book value	Recoverable value	Delta
Financial Advisory and Digital Banking	122	331	208

In conclusion, the impairment test on goodwill did not bring to light impairment losses for the Widiba CGU, as the recoverable value is higher than the book value by EUR 208 mln.

13.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: generated internally		Other intangible assets: other		Total
		finite life	indefinite life	finite life	indefinite life	31 12 2017
A. Opening balance	**6,605,132**	**437,437**	**-**	**1,744,978**	**-**	**8,787,547**
A.1 Total net decreases	6,597,232	372,489	-	1,472,313	-	8,442,034
A.2 Net opening balance	7,900	64,948	-	272,665	-	345,513
B. Increases	**-**	**17,948**	**-**	**76,849**	**-**	**94,797**
B.1 Purchases	-	17,948	-	76,849	-	94,797
B.2 Increases in internally generated intangible assets	X	-	-	-	-	-
B.3 Write-backs	X	-	-	-	-	-
B.4 Increases in fair value	-	-	-	-	-	-
- to net equity	X	-	-	-	-	-
- to profit and loss	X	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	-	-	-
B.6 Other increases	-	-	-	-	-	-
C. Decreases	**-**	**33,437**	**-**	**123,638**	**-**	**157,075**
C.1 Sales	-	-	-	918	-	918
C.2 Write-downs	-	33,437	-	122,693	-	156,130
- Depreciation	-	28,964	-	102,293	-	131,257
- Write-downs	-	4,473	-	20,400	-	24,873
+ net equity	-	-	-	-	-	-
+ profit and loss	-	4,473	-	20,400	-	24,873
C.3 Decreases in fair value	-	-	-	-	-	-
- to net equity	X	-	-	-	-	-
- to profit and loss	X	-	-	-	-	-
C.4 Transfers to non-current assets held for sale	-	-	-	-	-	-
C.5 Negative exchange differences	-	-	-	27	-	27
C.6 Other decreases	-	-	-	-	-	-
D. Net closing balance	**7,900**	**49,459**	**-**	**225,876**	**-**	**283,235**
D.1 Total net value adjustments	6,597,232	405,926	-	1,594,663	-	8,597,821
E. Gross closing balance	**6,605,132**	**455,385**	**-**	**1,820,539**	**-**	**8,881,056**
F. Carried at cost	-	-	-	-	-	-

Line A.1, “Total net decreases”, and line D.1, “Total net value adjustments”, show the opening and closing balances for total value adjustments and amortisation recorded for intangible assets with a finite life.

With regard to line C.2 “Writedowns” see footnotes to table 13.1 “Intangible assets: breakdown by type”.

Line F - “Carried at cost” was left blank in accordance with Bank of Italy's instructions, as it only needs to be completed for assets recognised at fair value.

13.3 Other information: amortisation rates

Main categories of intangible assets	%	residual depreciation period
Software	14,28- 33,00	
Concessions and other licenses	20,00 - 33,00	
Core deposits - current accounts	9.10%	2 years
Core deposits - deposit	6.70%	6 years
Core overdraft	9.10%	2 years

Intangible assets recognised during the purchase price allocation of Banca Antonveneta S.p.A. are all finite-life and therefore amortised based on their expected useful life.

As at 31 December 2017 there were no:

- revalued intangible fixed assets;
- intangible fixed assets acquired through government concessions (IAS 38, par. 4);
- intangible fixed assets pledged as loan collaterals;
- commitments to purchase intangible assets.

Section 14 – Tax Assets and Liabilities – Item 140 (Assets) and Item 80 (Liabilities)

14.1 Deferred tax assets: breakdown

Items/Amounts	IRES with offsetting entry to P&L	IRES with offsetting entry to Balance Sheet	IRAP with offsetting entry to P&L	IRAP with offsetting entry to Balance Sheet	31 12 2017	31 12 2016
Receivables (including securitisations)	68,004	-	-	-	68,004	65,010
Receivables (L. 214/2011)	638,964	-	94,951	-	733,915	1,231,877
Other financial instruments	2,273	-	9,522	-	11,795	13,083
Goodwill deduction pursuant to previous law provisions (L. 214/2011)	433,059	1,674	104,280	369	539,382	1,000,834
Tangible assets	76,915	-	9,093	-	86,008	80,418
Intangible assets	565	-	107	-	672	576
Intangible assets (Law 214/2011)	30,004	-	6,466	-	36,470	68,611
Personnel expenses	12,928	20,622	5,155	2,458	41,163	41,831
ACE surplus	146,427	-	-	-	146,427	97,342
Tax losses	863,377	37,659	-	-	901,036	293,020
Tax losses (Law 214/2011)	3,291	-	-	-	3,291	65,918
Financial instruments - valuation reserves	-	135,221	-	26,493	161,714	215,153
Others	336,521	26,938	17,910	2	381,371	372,037
Deferred tax assets (gross)	**2,612,328**	**222,114**	**247,484**	**29,322**	**3,111,248**	**3,545,710**
Offsetting with deferred tax liabilities	(60,244)	(90,069)	(6,252)	(17,900)	(174,465)	(248,935)
Deferred tax assets (net)	**2,552,084**	**132,045**	**241,232**	**11,422**	**2,936,783**	**3,296,775**

Deferred tax assets were recognised after verifying the existence of foreseeable future income (probability test). For additional information, please refer to paragraph 14.7 "Other information" below.

In addition to deferred taxes referring to the main tax (at the rate of 24%) the amounts shown in the IRES column also include those relating to the additional IRES tax (3.5% rate) introduced by Law no. 208 of 28 December 2015, paragraphs 65-66, for the companies concerned.

The line "Financial instruments – valuation reserves" includes tax assets relating to the valuation of cash flow hedge derivatives and financial instruments classified in portfolios of 'financial assets available for sale'.

The line "Other" includes tax assets relating to other cases, such as those recognised on provisions for risks and charges in respect of deductible costs expected for future periods and those on accessory costs of the share capital increase deductible over five years.

14.2 Deferred tax liabilities: breakdown

Items/Amounts	IRES with offsetting entry to P&L	IRES with offsetting entry to Balance Sheet	IRAP with offsetting entry to P&L	IRAP with offsetting entry to Balance Sheet	Total 31 12 2017	Total 31 12 2016
Capital gains to be divided into installments	-	-	-	-	-	421
Tangible and intangible assets	843	-	30	-	873	6,635
Financial instruments	57,233	-	10,919	-	68,152	75,088
Personnel expenses	390	443	-	-	833	406
Financial instruments - valuation reserves	-	125,471	-	24,876	150,347	187,534
Others	9,541	820	1,117	160	11,638	48,901
Deferred tax liabilities (gross)	**68,007**	**126,734**	**12,066**	**25,036**	**231,843**	**318,985**
Offsetting with deferred tax assets	(60,244)	(90,069)	(6,252)	(17,900)	(174,465)	(248,935)
Deferred tax liabilities (net)	**7,763**	**36,665**	**5,814**	**7,136**	**57,378**	**70,050**

The line “Financial instruments – valuation reserves” includes tax liabilities relating to the valuation of financial instruments classified in the portfolio of “financial assets available for sale” and those originally in the portfolio of financial assets available for sale and reclassified in 2008 in the “loans to customers” and “loans to banks” portfolios, as well as tax liabilities relating to cash flow hedge derivatives.

14.3 Deferred tax assets: annual changes (with offsetting entry to profit and loss)

	Total 31 12 2017	Total 31 12 2016
1. Opening balance	**3,224,703**	**3,202,928**
2. Increases	**853,705**	**503,380**
2.1 Deferred tax assets arising during the year	848,255	370,189
a) relating to previous years	-	-
b) due to changes in accounting principles	-	-
c) write-backs	580,083	-
d) other	268,172	370,189
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	5,450	133,191
3. Decreases	**1,218,596**	**481,605**
3.1 Deferred tax assets derecognised during the year	143,199	442,419
a) reversals	142,021	178,747
b) write-downs of non-recoverable items	1,178	259,061
c) changes in accounting principles	-	-
d) other	-	4,611
3.2 Reduction in tax rates	-	-
3.3 Other decreases	1,075,397	39,186
a) conversion into tax credits pursuant to Law no. 214/2011	1,052,859	17,540
b) others	22,538	21,646
4. Total	**2,859,812**	**3,224,703**

Line 2.1 letter c) "Write-backs" reflects the effect of the partial recognition of deferred tax assets on tax losses accrued and not recognised in previous years, to the extent to which they were deemed recoverable in light of the results of the probability test carried out as at 31 December 2017. For additional information, please refer to paragraph 14.7 "Other information" below.

Amongst the main "Deferred tax assets arising during the year" in line 2.1 letter d), note those relating to taxed provisions for risks and charges recognised during the year, the ACE deduction accrued during the year and not used and the share of tax losses with respect to the additional IRES tax deemed recoverable on the basis of the probability test.

Amongst the most significant amounts shown in line 3.1 letter a) "Reversals" are the use of provisions for risks and charges taxed in previous years.

With regard to the decrease pursuant to line 3.3 a), please refer to the comments to the subsequent table "14.3.1 Deferred tax assets: changes under law 214/2011 (with offsetting entry to profit and loss)".

14.3.1 Deferred tax assets: changes under law 214/2011 (with offsetting entry to profit and loss)

Items/Amounts	Total	
	31 12 2017	31 12 2016
1. Opening balance	**2,364,736**	**2,385,327**
2. Increases	3,400	66,144
3. Decreases	1,057,121	86,735
3.1 Reversals	4,259	68,951
3.2 Conversion into tax credits	1,052,860	17,540
a) arising from loss for the period	986,801	6,746
b) arising from tax losses	66,059	10,794
3.3 Other decreases	2	244
4. Closing balance	**1,311,015**	**2,364,736**

Line "2. Increases" includes the portion of the tax loss of Consorzio Operativo arising in 2017 which will be convertible into a tax credit with the submission of the income tax return pursuant to art. 2, par. 56-bis and 56-bis.1, of Law Decree no. 225 of 29 December 2010 (transposed, as amended, into law no. 10 of 26 February 2011).

As a result of the loss recorded in their separate statutory financial statements for 2016, in 2017 the Parent Company, MPS Capital Services, MPS Leasing e Factoring and Widiba transformed into tax credits a portion of the deferred tax assets relating to loan writedowns, goodwill and other intangible assets, pursuant to art. 2, par. 55 of Law Decree no. 225 of 29 December 2010.
This conversion has been in effect as of the dates of approval of the respective 2016 Financial statements by the Shareholders' Meeting in April 2017 and concerned, in addition to the amount shown in line 3.2 letter a) of this table, also deferred tax assets with offsetting entry to equity, as presented in the subsequent table 14.5.1.

In addition, in 2017 the Parent Company, MPS Capital Services and Consorzio Operativo transformed deferred tax assets recognised on the share of the tax loss for the year 2016 consisting of the deduction of write-downs and losses on loans carried forward from previous years as well as deductions relating to the value of goodwill and other intangible assets. This conversion became effective as of the date of the submission of the 2016 income tax return in October 2017, as laid out by the provisions pursuant to art. 2, paragraph 56-bis of the above-mentioned Law Decree 225/2010, and regarded the amount highlighted on line 3.2, letter b).

14.4 Deferred tax liabilities: annual changes (with offsetting entry to profit and loss)

	Total 31 12 2017	Total 31 12 2016
Opening balance	**125,515**	**85,699**
2. Increases	**14,741**	**59,974**
2.1 Deferred tax liabilities arising during the year	14,625	47,368
a) relating to previous years	-	-
b) due to changes in accounting principles	-	-
c) other	14,625	47,368
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	116	12,606
3. Decreases	**60,183**	**20,158**
3.1 Deferred taxes derecognised during the year	9,327	13,458
a) reversals	9,327	13,394
b) due to changes in accounting principles	-	-
c) other	-	64
3.2 Reduction in tax rates	-	-
3.3 Other decreases	50,856	6,700
4. Closing balance	**80,073**	**125,515**

14.5 Deferred tax assets: annual changes (with offsetting entry to equity)

	Total 31 12 2017	Total 31 12 2016
1. Opening balance	**321,007**	**335,082**
2. Increases	**63,150**	**89,452**
2.1 Deferred tax assets arising during the year	62,934	86,728
a) relating to previous years	-	-
b) due to changes in accounting principles	-	-
c) other	62,934	86,728
2.2 New taxes or increases in tax rates	-	42
2.3 Other increases	216	2,682
3. Decreases	**132,721**	**103,527**
3.1 Deferred tax assets derecognised during the year	132,156	101,356
a) reversal	132,156	101,356
b) write-downs of non-recoverable items	-	-
c) due to changes in accounting principles	-	-
d) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	565	2,171
4. Closing balance	**251,436**	**321,007**

Deferred tax assets derecognised during the year, line 3.1 a) refers primarily to costs deductible during the year connected with previous capital increases of the Parent Company and valuations of cash flow hedging derivatives.

14.5.1 Deferred tax assets: changes under law 214/2011 (with offsetting entry to equity)

Items/Amounts	Total 31 12 2016	Total 31 12 2015
1. Opening balance	**2,504**	**4,146**
2. Increases	-	-
Fusioni/scissioni in entrata	-	-
3. Decreases	461	1,642
3.1 Reversals	-	-
3.2 Conversion into tax credit	459	-
a) arising from loss for the period	459	-
b) arising from tax losses	-	-
3.3 Other decreases	2	1,642
4. Closing balance	**2,043**	**2,504**

The table shows deferred tax assets that may be converted into tax credits pursuant to Law 214/2011, recognised with an offsetting entry to equity. These refer to goodwill posted by the Parent Company to equity on business combinations "under common control".

14.6 Deferred tax liabilities: annual changes (with offsetting entry to equity)

	Total 31 12 2017	Total 31 12 2016
1. Opening balance	**193,470**	**201,817**
2. Increases	**54,740**	**41,446**
2.1 Deferred tax liabilities arising during the year	54,564	36,491
a) relating to previous years	-	-
b) due to changes in accounting principles	-	-
c)other	54,564	36,491
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	176	4,955
3. Decreases	**96,440**	**49,793**
3.1 Deferred tax liabilities derecognised during the year	96,421	46,943
a) reversal	96,421	46,522
b) due to changes in accounting principles	-	-
c) other	-	421
3.2 Reduction in tax rates	-	-
3.3 Other decreases	19	2,850
4. Closing balance	**151,770**	**193,470**

The increases mainly relate to taxes recognised on changes in equity reserves relating to securities classified in the "financial assets available for sale" portfolio.
Aside from the changes in the reserves mentioned above, the decreases also regard the changes in the valuation reserve of cash flow hedging derivatives.

14.7 Other information

Probability test

Deferred tax assets were recognised after verifying the existence of foreseeable future income sufficient to absorb them (probability test).
In this test, the different rules set forth in the Italian tax laws which impact the assessment in question were taken into account, in particular:

- art. 2, paragraphs 55-59, of Law Decree no. 225 of 29/12/2010 (converted, with amendments, by Law no. 10 of 26/02/2011) which establishes the obligation for financial intermediaries to convert into tax credits DTAs (IRES and IRAP) relating to goodwill, other intangible assets and impairment losses on receivables, in the case of a loss in the statutory financial statements and/or a tax loss;
- art. 84, paragraph 1 of the TUIR, which allows for the possibility of carrying forward IRES tax losses with no time limits;
- art. 1, paragraph 4 of Law Decree no. 201 of 06/12/2011 (converted, with amendments, by law no. 214 of 22/12/2011), which allows for unused excess ACE to be carried forward with no time limits, as well as, alternatively, conversion into a tax credit to be used to offset IRAP due in 5 annual instalments;

- in paragraphs 61 to 66, art. 1, of the 2016 Stability Law (Law no. 208 of 28 December 2015) reduced the IRES rate from 27.5% to 24% and simultaneously introduced an additional IRES tax of 3.5% for credit and financial institutions; both measures are effective as of 2017.

In terms of relevant new regulations issued during the year, art. 7 of Law Decree no. 50 of 24/04/2017 provided for - effective as of the 2017 tax period - a reduction in the rate (notional return) to be applied to increases in own capital relevant for the purposes of the ACE benefit.

Concretely, the ACE benefit rate for 2017 declines from 2.3% to 1.6% and, when fully implemented, for the subsequent years, from 2.7% to 1.5%. For the MPS Group, this entailed the downsizing of the benefit in profit and loss for 2017 and also had a significant impact on the valuation of DTAs recognisable in the financial statements (probability test). Indeed, the expectation of lower ACE deductions in the future reduced the absorption of future taxable income which may be allocated to a greater extent, with respect to the previous scenario, to offsetting previous tax losses. From the accounting perspective, this translated into a partial write-back on DTAs on consolidated tax losses not recognised in previous years, which will be described at the end of this paragraph.

Practically speaking, the probability test was carried out by following the steps listed below.

DTAs relating to goodwill, other intangible assets and impairment losses on receivables ("qualified" DTAs), were excluded from the total amount of DTAs for which the existence of sufficient future taxable income needs to be identified.

This is because the above-mentioned art. 2, paragraphs 55-59 of Law Decree 225/2010 made the recovery of that type of DTA certain, with respect to both IRES and IRAP, regardless of the presence of future taxable income.

Indeed, the rule sets forth that, if taxable income for the year in which the recovery of qualified DTAs is expected is not sufficient to absorb them, the resulting tax loss would be convertible into a tax credit that may be, alternatively (i) used to offset, with no amount limits, the various taxes ordinarily due from the Bank, or (ii) requested in the form of a refund, or (iii) transferred to third parties. In addition, qualified DTAs may be converted into tax credit in advance of their natural maturity, in the event of a loss for the year in the statutory financial statements or voluntary liquidation, as well as subjection to bankruptcy proceedings.

In other words, for qualified DTAs the probability test must be deemed automatically satisfied; this is also confirmed by the joint Bank of Italy, Consob and ISVAP document no. 5 of 15/05/2012.

For DTAs other than qualified DTAs, the year in which the relative recovery is expected has been identified (or estimated when uncertain).

Taxable income in future years has been estimated based on the forecast profit and loss statements of the MPS Group as laid out in the Restructuring Plan approved by the European Commission on 4 July 2017. Taxable income was estimated for the probability test by applying a discount factor to the forecast profits established in the above-mentioned Restructuring Plan (the "risk-adjusted profits approach"); this factor used in a combined manner discounts future income to an increasing extent to reflect its uncertainty. The discount factor is calculated by taking into account observable market parameters. This methodological approach was introduced into the MPS Group in the course of 2016; for more information on the reasons for this methodological update in the probability test, please refer to the Notes to the 2016 Consolidated Financial Statements (Part B - Assets, par. 14.7).

Taxable income was estimated:

- at domestic tax consolidation level, for the IRES probability test, since for the payment of this tax the Parent Company uses the method set forth in arts. 117 et seq. of the TUIR;
- at individual level for additional IRES;
- at individual level for IRAP.

The data thus processed have shown that taxable income in future years will be sufficient to absorb the unqualified DTAs other than tax losses and ACE deductions recognised in the financial statements as at 31 December 2017.

The DTAs referring to ACE deductions accrued during the year are recognisable, with the exception of EUR 0.5 mln; as a result, the total DTAs relating to ACE deductions not recognised in the Balance Sheet assets as at 31 December 2017 amount to EUR 1.8 mln (EUR 1.3 mln as at 31 December 2016).
As regards tax losses, the probability test entailed:

- not recognising DTAs on the consolidated IRES tax loss emerging in 2017, for EUR 1,153.7 mln;
- not recognising DTAs on part of the tax losses for the IRES additional tax emerging in 2017, for EUR 140.4 mln;
- the partial write-back on DTAs on consolidated IRES tax losses not recognised in previous years for a total of EUR 572.3 mln, in large part resulting from the reduction of ACE rates in light of the above-mentioned art. 7 of Law Decree no. 50 of 24/04/2017;
- the partial write-back on DTAs on tax losses for the IRES additional tax not recognised in previous years for EUR 6.7 mln.

As a result of the above-mentioned assessment, the Group had a total of EUR 1,783.8 mln in DTAs on consolidated tax losses and on tax losses for the IRES additional tax not recognised in the balance sheet assets as at 31 December 2017 (EUR 1,068.7 mln as at 31 December 2016).

For the Group, this amount is a potential asset not subject to any time limits according to current tax legislation, whose recognition in the balance sheet asset will be evaluated at the future financial statement dates based on the Group's profit outlook.

Current tax assets

Items/Amounts	Total 31 12 2017	Total 31 12 2016
Prepayments of corporate income tax (IRES and IRAP)	52	14,002
Other tax credits and withholdings	880,465	838,752
Gross current tax assets	**880,517**	**852,754**
Offsetting with current tax liabilities	(2,007)	(2,017)
Net current tax assets	**878,510**	**850,737**

"Other tax credits and withholdings" mostly consist of income tax credits claimed for refund, IRES/IRAP credits resulting from prior tax returns which can be used as a set-off, the tax credit arising from DTA transformation (Law no. 214/2011), and withholdings incurred and deductible during the year.

Current tax liabilities

Items/Amounts	31 12 2017			31 12 2016		
	Booked to net equity	Booked to P&L	Total	Booked to net equity	Booked to P&L	Total
Corporate income tax (IRES IRAP) payables	-	33	33	-	39	39
Other current income tax payables	-	3,228	3,228	-	7,270	7,270
Gross current tax payables	**-**	**3,261**	**3,261**	**-**	**7,309**	**7,309**
Offsetting with current tax asset	-	2,007	2,007	-	2,017	2,017
Net current tax payables	**-**	**1,254**	**1,254**	**-**	**5,292**	**5,292**

Section 15 – Non-current assets held for sale / discontinued operations and associated liabilities – Item 150 (assets) and 90 (liabilities)

15.1 Non-current assets held for sale and discontinued operations: breakdown by type

	Total	
	31 12 2017	31 12 2016
A. Individual assets		
A.1 Financial assets	4,585,524	19,049
A.2 Equity investments	-	-
A.3 Tangible assets	9,611	23,322
A.4 Intangible assets	-	-
A.5 Other non-current assets	-	18,313
Total A	**4,595,135**	**60,684**
of which valued at cost	4,594,835	41,635
of which designated at fair value (level 1)	-	-
of which designated at fair value (level 2)	-	17,921
of which designated at fair value (level 3)	300	1,128
B. Asset groups (discontinued operations)		
C. Liabilities associated with individual assets held for sale and discontinued operations		
C.1 Payables	-	-
C.2 Securities	-	-
C.3 Other liabilities	-	10,402
Totale C	**-**	**10,402**
of which valued at cost	-	10,402
of which designated at fair value (level 1)	-	-
of which designated at fair value (level 2)	-	-
of which designated at fair value (level 3)	-	-
D. Liabilities included in groups of assets held for sale and discontinued operations		

Line “A.1 Financial assets”, equal to EUR 4,585.5 mln, refers primarily to receivables associated with the transfer of doubtful loans (for further detail, see the section “The Doubtful loan disposal transaction” of the Consolidated report on operations).

Line “A.3 Property, plant and equipment”, equal to EUR 9.6 mln, mainly refers to land from credit recovery, for EUR 5.1 mln, and properties used in the business, for EUR 4.1 mln, which will soon be disposed of.

15.2 Other information

None to report as at 31 December 2017.

15.3 Details of investments in companies subject to significant influence not valued at equity

As at 31 December 2017, there were no investments in companies subject to significant influence not valued at equity classified as held for sale.

Section 16 – Other assets – Item 160

16.1 Other assets: breakdown

	Total 31 12 2017	Total 31 12 2016
Tax credits from the Revenue and other tax levying authorities	252,029	280,347
Third party cheques held at the cashier's for collection	123,809	131,949
Cheques drawn on the Company held at the cashier's for collection	1,370	482
Gold, silver and precious metals	24,283	8,599
Property inventory	43,237	45,834
Items in transit between branches	8,019	3,004
Items in processing	608,917	567,620
Receivables associated with the provision of goods and services	13,420	40,333
Improvements and incremental costs on third party assets other than those included under tangible assets	43,019	43,924
Prepaid expenses and accrued income not attributable to other line items	496,999	386,963
Biological assets	3,315	3,411
Other	339,268	399,803
Total	**1,957,685**	**1,912,269**

The lines "Items in processing" and "Other" include transactions which were cleared in early 2018.

LIABILITIES

Section 1 – Deposits from banks – Item 10

1.1 Deposits from banks: breakdown

Items/accounts	Total 31 12 2017	Total 31 12 2016
1. Deposits from central banks	**16,893,695**	**24,439,087**
2. Deposits from banks	**4,191,221**	**7,029,974**
2.1 Current accounts and demand deposits	861,626	182,050
2.2 Time deposits	43,514	21
2.3 Loans	2,529,686	6,085,027
2.3.1 Repurchase agreements	1,823,607	5,534,131
2.3.2 Other	706,079	550,896
2.4 Liabilities for commitments to repurchase own equity instruments	-	-
2.5 Other liabilities	756,395	762,876
Total	**21,084,916**	**31,469,061**
Fair value - level 1	-	-
Fair value - level 2	*21,084,916*	*31,469,061*
Fair value - level 3	-	-
Total fair value	**21,084,916**	**31,469,061**

The line "Deposits from central banks" includes EUR 16,894 mln for refinancing operations, guaranteed by securities pledged by the Parent Company using the pooling mechanism.

Line 2.3.1 "Repurchase agreements" contains the financial liabilities arising from repo transactions with banks on both treasury securities and securities made available through reverse repurchase agreements or securities lending transactions.

1.2 Details of Item 10 "Deposits from banks": subordinated liabilities

This table was not completed as the Group has no such liabilities to report for either the current or the previous year.

1.3 Details of Item 10 "Deposits from banks": structured liabilities

This table was not completed as the Group has no such liabilities to report for either the current or the previous year.

1.4 Deposits from banks subject to micro-hedging

Type of transaction/Amount	Total 31 12 2017	Total 31 12 2016
1. Liabilities subject to micro-hedging of fair value	**10,486,006**	**8,483,790**
a) interest rate risk	10,486,006	8,483,790
b) exchange risk	-	-
c) multiple risk	-	-
2. Liabilities subject to micro-hedging cash-flow	**-**	**-**
a) interest rate risk	-	-
b) exchange risk	-	-
c) multiple risk	-	-
Total	**10,486,006**	**8,483,790**

The amount shown in item 1 letter a) of EUR 10,486.0 mln refers to fair value hedging of interest rate risk, carried out on certain refinancing transactions performed as part of Eurosystem financing.

1.5 Finance lease payables

This table was not provided as the Group has no such liabilities to report for either the current or the previous year.

Section 2 – Deposits from customers – Item 20

2.1 Deposits from customers: breakdown

Type of transaction/Amount	Total 31 12 2017	Total 31 12 2016
1. Current accounts and demand deposits	51,465,521	40,972,592
2. Time deposits	10,627,582	10,133,515
3. Loans	13,942,001	28,721,385
3.1 Repurchase agreements	8,413,727	25,295,838
3.2 Other	5,528,274	3,425,547
4. Liabilities for commitments to repurchase own equity instruments	-	-
5. Other liabilities	979,073	875,270
Total	**77,014,177**	**80,702,762**
Fair value - level 1	-	-
Fair value - level 2	*77,014,177*	*80,707,017*
Fair value - level 3	-	-
Total fair value	**77,014,177**	**80,707,017**

Deposits from customers are valued at cost or at amortised cost, except for liabilities subject to micro-hedging of fair value as reported in Table 2.4 of this section, the amortised cost of which is adjusted proportionally to the fair value of the hedged item.

The line 3.1 "Repurchase agreements" contains the financial liabilities arising from repo transactions with customers on both treasury securities and securities made available through repurchase agreements or securities lending transactions.

2.2 Details of Item 20 "Deposits from customers": subordinated liabilities

This table was not completed as the Group has no such liabilities to report for either the current or the previous year.

2.3 Details of Item 20 "Deposits from customers": structured liabilities

This table was not completed as the Group has no such liabilities to report for either the current or the previous year.

2.4 Deposits from customers subject to micro-hedging

This table was not completed as the Group has no such liabilities to report for either the current or the previous year.

2.5 Finance lease payables

Type of transaction/ Amount	31 12 2017	
	Future minimum lease payments	Present Value
Finance lease liabilities		
- Up to 1 year	-	-
- From 1 to 5 years	1,215	1,161
- Over 5 years	-	-
Present value of gross/net minimum payments	**1,215**	**1,161**
Value adjustments	(54)	-
Present value of liabilities for the minimum lease payments	**1,161**	**1,161**

Section 3 – Debt securities issued – Item 30

3.1 Debt securities issued: breakdown

Type of Securities/ Amounts	Total 31 12 2017				
	Book value	Fair value			
		Level 1	Level 2	Level 3	Total
A. Listed securities					
1. Bonds	18,195,449	14,061,015	4,444,794	-	18,505,809
1.1 Structured	-	-	-	-	-
1.2 Other	18,195,449	14,061,015	4,444,794	-	18,505,809
2. Other securities	2,265,851	-	2,307,638	-	2,307,638
2.1 Structured	-	-	-	-	-
2.2 Other	2,265,851	-	2,307,638	-	2,307,638
Total	**20,461,300**	**14,061,015**	**6,752,432**	**-**	**20,813,447**

The table shows funding represented by securities, including bonds and certificates of deposit (outstanding and maturities).

Liabilities are net of bonds and repurchased CDs. In this connection it is noted that on 31 December 2017 State-guaranteed bonds, issued and concurrently repurchased for a nominal amount of EUR 2,508 mln, were in place, part of which were then pledged as collateral for financing transactions.

Please recall that in August 2017 the conversion of AT1 and T2 financial instruments issued by the Group into ordinary shares of the Parent Company was completed in compliance with the provisions of art. 23, paragraph 3 of Law Decree 237, as well as art. 2 of the Burden Sharing Decree, for a total nominal amount of EUR 4,309 mln, in addition to a nominal amount of EUR 350 million of AT1 recognised in Liability item "50. Financial liabilities designated at fair value". In addition, in November 2017, in relation to the Partial Voluntary Public Offering for Exchange and Settlement for the holders of ordinary shares of the Parent Company resulting from the conversion of the subordinated bond loan named "Tasso variabile Subordinato Upper Tier II 2008 - 2018 (ISIN IT0004352586)", EUR 1,535.8 million in senior debt securities were issued.

Type of Securities/ Amounts	Total 31 12 2016				
	Book value	Fair value			
		Level 1	Level 2	Level 3	Total
A. Listed securities					
1. Bonds	22,153,122	-	17,497,857	3,450,179	20,948,036
1.1 Structured	-	-	-	-	-
1.2 Other	22,153,122	-	17,497,857	3,450,179	20,948,036
2. Other securities	194,343	-	236,129	-	236,129
2.1 Structured	-	-	-	-	-
2.2 Other	194,343	-	236,129	-	236,129
Total	**22,347,465**	**-**	**17,733,986**	**3,450,179**	**21,184,165**

3.2 Details of Item 30 "Debt securities issued": subordinated securities

At the reporting date, the Group does not have liabilities of this type (EUR 4,214.6 mln in 2016). For further details, see the note below table 3.1 above.

3.3 Details of Item 30 "Debt securities issued": securities subject to micro-hedging

Type of transaction / Amount	Total 31 12 2017	Total 31 12 2016
1. Securities subject to micro-hedging of fair value:	**10,070,862**	**8,977,475**
a) interest rate risk	10,015,254	8,878,980
b) exchange risk	-	-
c) multiple risks	55,608	98,495
2. Securities subject to micro-hedging of cash flows:	**-**	**-**
a) interest rate risk	-	-
b) exchange risk	-	-
c) other	-	-
Total	**10,070,862**	**8,977,475**

As a result of cash flow hedging, the fair value of derivative contracts is posted to a specific equity reserve.

The liabilities of this type increased as a result of the opening of two new interest rate risk hedges on securities issued by the Parent Company for a notional amount of EUR 3,200.7 mln.

Section 4 – Financial liabilities held for trading – Item 40

4.1 Financial liabilities held for trading: breakdown

Type of transaction/ Group item	Total 31 12 2017					
	NV	FV				FV*
		Level 1	Level 2	Level 3	Total	
A. Balance-sheet liabilities						
1. Deposits from banks	931,754	1,002,677	1,852	-	1,004,529	1,004,529
2. Deposits from customers	1,701,715	1,898,689	-	-	1,898,689	1,898,689
3. Debt securities issued	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	-	X
3.1.2 Other	-	-	-	-	-	X
3.2 Other securities	-	-	-	-	-	-
3.2.1 Structured	-	-	-	-	-	X
3.2.2 Other	-	-	-	-	-	X
Total A	**2,633,469**	**2,901,366**	**1,852**	**-**	**2,903,218**	**2,903,218**
B. Derivatives						
1. Financial derivatives		-	1,539,477	-	1,539,477	
1.1 Trading	X	-	1,539,477	-	1,539,477	X
1.2 Fair value option (FVO)	X	-	-	-	-	X
1.3 Other	X	-	-	-	-	X
2. Credit derivatives		-	34,212	-	34,212	
2.1 Trading	X	-	34,212	-	34,212	X
2.2 Fair value option (FVO)	X	-	-	-	-	X
2.3 Other	X	-	-	-	-	X
Total B	**X**	**-**	**1,573,689**	**-**	**1,573,689**	**X**
Total (A+B)	**2,633,469**	**2,901,366**	**1,575,541**	**-**	**4,476,907**	**X**

Legend

FV = Fair Value

FV*= Fair value calculated excluding value adjustments due to variations in the credit rating of the issuer since the date of issue

NV = Nominal or Notional Value

Criteria adopted for classification of financial instruments in the three levels of the "fair value hierarchy" are reported in Section A.3, "Fair value disclosure" of Part A, "Accounting policies" of the notes to the financial statements.

The amounts classified in lines "1. Deposits from banks" and "2. Deposits from customers" are related primarily to those in lines "1. Debt securities" and "4. Loans" in table 2.1 of the assets "Financial assets held for trading". Please also note that the sub-items "Deposits from banks" and "Deposits from customers", mentioned above, also incorporate uncovered short positions. They are designated at fair value in line with the method applied for "long" positions.

Derivatives connected with fair value option instruments are also included in the trading book: these cover the risks of funding designated at fair value arising from possible interest rate fluctuations and from any embedded options in structured bonds issued (natural and systematic hedging). The fair value of these derivatives is shown in the table in line B1.1 as they are FVO hedges originally carried out with the subsidiary MPS Capital Services S.p.A., for which risk externalisation was required.

For FVO derivatives arranged by Group companies with the subsidiary MPS Capital Services S.p.A., it is worth noting that the relevant internal units responsible for risk management perform suitable tests at consolidated level in order to periodically test the effectiveness of the hedge established from the perspective of a 'natural hedge'.

The fair value calculated on financial derivatives includes value adjustments owing to changes in the Group's creditworthiness, Debit Value Adjustment (i.e. DVA), totalling EUR 5.1 mln (EUR 23 mln as at 31 December 2016).

Type of transaction/ Group item	NV	Total 31 12 2016 FV				FV*
		Level 1	Level 2	Level 3	Total	
A. Balance-sheet liabilities						
1. Deposits from banks	1,508,245	1,816,532	6,462	-	1,822,994	1,822,994
2. Deposits from customers	713,483	756,581	86,071	-	842,652	842,652
3. Debt securities issued	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	-	X
3.1.2 Other	-	-	-	-	-	X
3.2 Other securities	-	-	-	-	-	-
3.2.1 Structured	-	-	-	-	-	X
3.2.2 Other	-	-	-	-	-	X
Total A	**2,221,728**	**2,573,113**	**92,533**	**-**	**2,665,646**	**2,665,646**
B. Derivatives						
1. Financial derivatives		508	2,257,152	-	2,257,660	
1.1 Trading	X	508	2,257,152	-	2,257,660	X
1.2 Fair value option (FVO)	X	-	-	-	-	X
1.3 Other	X	-	-	-	-	X
2. Credit derivatives		-	48,496	-	48,496	
2.1 Trading	X	-	48,496	-	48,496	X
2.2 Fair value option (FVO)	X	-	-	-	-	X
2.3 Other	X	-	-	-	-	X
Total B	**X**	**508**	**2,305,648**	**-**	**2,306,156**	**X**
Total (A+B)	**2,221,728**	**2,573,621**	**2,398,181**	**-**	**4,971,802**	**X**

Legend

FV = Fair Value

FV*= Fair value calculated excluding value adjustments due to variations in the credit rating of the issuer since the date of issue

NV = Nominal or Notional Value

4.2 Details of item 40 "Financial liabilities held for trading": subordinated liabilities

The Group has issued no subordinated liabilities classified in the trading book.

4.3 Details of item 40 "Financial liabilities held for trading": structured liabilities

The Group has issued no structured liabilities classified in the trading book.

Section 5 – Financial liabilities designated at fair value – Item 50

5.1 Financial liabilities designated at fair value: breakdown

Type of transaction / Amount	Total 31 12 2017					
	NV	FV				FV*
		Level 1	Level 2	Level 3	Total	
1. Deposits from banks	-	-	-	-	-	-
1.1 Structured	-	-	-	-	-	X
1.2 Other	-	-	-	-	-	X
2. Deposits from customers	-	-	-	-	-	-
2.1 Structured	-	-	-	-	-	X
2.2 Other	-	-	-	-	-	X
3. Debt securities issued	325,046	-	326,279	-	326,279	369,731
3.1 Structured	112,239	-	104,252	-	104,252	X
3.2 Other	212,807	-	222,027	-	222,027	X
Total	**325,046**	**-**	**326,279**	**-**	**326,279**	**369,731**

Legend

FV = Fair Value

FV*= Fair value calculated excluding value adjustments due to variations in the credit rating of the issuer since the date of issue

NV = Nominal or Notional Value

The table shows the financial liabilities represented by fixed-rate and structured bonds which have been classified at fair value and are subject to hedging. Hedging occurs through derivative contracts and is used to cover the risk of interest rate fluctuations and the risk resulting from embedded options.

Positive and negative spreads or margins in relation to derivative contracts settled or accrued until the balance sheet date are recorded in the profit and loss statement under interest income and expense, while valuation profits and losses are posted under Item 110, “Net profit (loss) from financial assets and liabilities designated at fair value”, in compliance with reporting used for funding instruments for which the fair value option was used.

For the sake of brevity, please recall that in August 2017 the conversion of AT1 and T2 financial instruments issued by the Group into ordinary shares of the Parent Company was completed in compliance with the provisions of art. 23, paragraph 3 of Law Decree 237, as well as art. 2 of the Burden Sharing Decree, for a total nominal amount of EUR 350 million.

Type of transaction / Amount	Total 31 12 2016					
	NV	FV				FV*
		Level 1	Level 2	Level 3	Total	
1. Deposits from banks	-	-	-	-	-	-
1.1 Structured	-	-	-	-	-	X
1.2 Other	-	-	-	-	-	X
2. Deposits from customers	-	-	-	-	-	-
2.1 Structured	-	-	-	-	-	X
2.2 Other	-	-	-	-	-	X
3. Debt securities issued	1,670,756	-	1,368,705	154,518	1,523,223	1,788,649
3.1 Structured	170,265	-	144,916	-	144,916	X
3.2 Other	1,500,491	-	1,223,789	154,518	1,378,307	X
Total	**1,670,756**	**-**	**1,368,705**	**154,518**	**1,523,223**	**1,788,649**

Legend

FV = Fair Value

FV*= Fair value calculated excluding value adjustments due to variations in the credit rating of the issuer since the date of issue

NV = Nominal or Notional Value

5.1.a Liabilities designated at fair value: the Fair Value Option approach

Liabilities for which the fair value option was adopted include natural hedges through debt security derivatives for a book value of EUR 326.3 mln, as compared to EUR 1,523.2 mln in the previous year.

5.1.b Financial liabilities designated at fair value: structured debt securities

Item/Amount	Total 31 12 2017	Total 31 12 2016
Index Linked	104,252	144,916
Inflation Linked	-	-
Total	**104,252**	**144,916**

The table reports the main types of structured bonds issued by the Group and measured at fair value. Since bonds are measured at fair value as an offset to profit or loss, embedded derivatives are not reported separately.

5.2 - Details of item 50 "Financial liabilities designated at fair value": subordinated liabilities

At the date of these Financial Statements, the Group does not have liabilities of this type (EUR 154.5 mln in 2016). For further details, see the note below table 5.1 above.

Section 6 – Hedging derivatives – Item 60

6.1 Hedging derivatives: breakdown by type of contract and underlying asset

	Fair value 31 12 2017				NV
	Level 1	Level 2	Level 3	Total	
A. Financial derivatives	**-**	**691,368**	**-**	**691,368**	**22,301,778**
1) Fair value	-	691,368	-	691,368	22,301,778
2) Cash flows	-	-	-	-	-
3) Foreign investments	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-
2) Cash flows	-	-	-	-	-
Total	**-**	**691,368**	**-**	**691,368**	**22,301,778**

Legend

NV = Nominal or Notional Value

The table displays the negative book value (fair value) of hedging derivatives for hedges carried out through hedge accounting.

Hedges of financial liabilities represented by securities are also managed through the fair value option.

Information on the underlying strategies and objectives of hedge transactions can be found in Section 2 "Market risks" of Part E "Information on risks and hedging policies".

	Fair value 31 12 2016				NV
	Level 1	Level 2	Level 3	Total	
A. Financial derivatives	**-**	**1,018,291**	**-**	**1,018,291**	**8,464,780**
1) Fair value	-	1,018,291	-	1,018,291	8,464,780
2) Cash flows	-	-	-	-	-
3) Foreign investments	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-
2) Cash flows	-	-	-	-	-
Total	**-**	**1,018,291**	**-**	**1,018,291**	**8,464,780**

Legend

NV = Nominal or Notional Value

6.2 Hedging derivatives: breakdown by hedged portfolios and type of hedging

Transaction/Type of hedge	Fair Value						Cash flow Hedge		Foreign investments	Total 31 12 2017
	Micro Hedge					Macro-hedge	Micro-hedge	Macro-hedge		
	interest rate risk	exchange risk	credit risk	price risk	multiple risks					
1. Financial assets available for sale	260,508	-	-	-	-	X	-	X	X	260,508
2. Loans and receivables	115,465	-	-	-	-	X	-	X	X	115,465
3. Financial assets held to maturity	X	-	-	X	-	X	-	X	X	-
4. Portfolio	X	X	X	X	X	306,657	X	-	X	306,657
5. Other transactions	-	-	-	-	-	X	-	X	-	-
Total assets	**375,973**	**-**	**-**	**-**	**-**	**306,657**	**-**	**-**	**-**	**682,630**
1. Financial liabilities	6,596	-	-	X	2,142	X	-	X	X	8,738
2. Portfolio	X	X	X	X	X	-	X	-	X	-
Total liabilities	**6,596**	**-**	**-**	**-**	**2,142**	**-**	**-**	**-**	**-**	**8,738**
1. Expected transactions	X	X	X	X	X	X	-	X	X	-
2. Financial assets and liabilities portfolio	X	X	X	X	X	-	X	-	-	-
Total	**382,569**	**-**	**-**	**-**	**2,142**	**306,657**	**-**	**-**	**-**	**691,368**

The tables show the negative fair values of hedging derivatives, classified by hedged assets or liabilities and type of hedging implemented.

In particular, on the assets side, fair value micro-hedging was used to hedge against interest-rate risk on fixed-rate and variable-rate capped mortgages and bonds classified in the available-for-sale portfolio or among receivables, in order to protect them from unfavourable interest rate changes. Fair value macro-hedging was carried out on fixed-rate mortgage loan portfolios.

With reference to financial liabilities, fair value micro-hedging of the interest-rate risk refers primarily to hedges of liabilities represented by securities. Cash flow hedges were carried out on some specific index-linked bond issues, in order to stabilise their flows through interest rate swaps.

More information on hedged assets and liabilities can be found in the tables contained in Part B of the notes for each section of the balance sheet items to which the hedged items are posted.

Transaction/Type of hedge	Fair Value						Cash flow Hedge		Foreign investments	Total 31 12 2016
	Micro Hedge					Macro-hedge	Micro-hedge	Macro-hedge		
	interest rate risk	exchange risk	credit risk	price risk	multiple risks					
1. Financial assets available for sale	401,069	-	-	-	-	X	-	X	X	401,069
2. Loans and receivables	96,674	46,939	-	-	-	X	-	X	X	143,613
3. Financial assets held to maturity	X	-	-	X	-	X	-	X	X	-
4. Portfolio	X	X	X	X	X	468,170	X	-	X	468,170
5. Other transactions	-	-	-	-	-	X	-	X	-	-
Total assets	**497,743**	**46,939**	**-**	**-**	**-**	**468,170**	**-**	**-**	**-**	**1,012,852**
1. Financial liabilities	5,439	-	-	X	-	X	-	X	X	5,439
2. Portfolio	X	X	X	X	X	-	X	-	X	-
Total liabilities	**5,439**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5,439**
1. Expected transactions	X	X	X	X	X	X	-	X	X	-
2. Financial assets and liabilities portfolio	X	X	X	X	X	-	X	-	-	-
Total	**503,182**	**46,939**	**-**	**-**	**-**	**468,170**	**-**	**-**	**-**	**1,018,291**

Section 7 – Changes in value of macro-hedged financial liabilities – Item 70

7.1 Change in value of hedged liabilities: breakdown by hedged portfolios

Fair value change of financial liabilities in hedged portfolios / Values	Total 31 12 2017	Total 31 12 2016
1. Positive fair value change of financial liabilities	**-**	**-**
2. Negative fair value change of financial liabilities	788	-
Total	**(788)**	**-**

The balance of changes in value of the liabilities subject to macro-hedging of interest rate risk is recognised in this item.

7.2 Financial liabilities subject to macro-hedging of interest-rate risk: breakdown

As at 31 December 2017, the amount of financial liabilities subject to macro-hedging of interest rate risk stood at EUR 1,187.9 mln. The Group adopts macro-hedging to hedge demand items (CIDs - Italian Deposit Accounts).

Section 8 – Tax liabilities – Item 80

Please refer to section 14 of the assets.

Section 9 – Liabilities associated with individual assets held for sale – Item 90

Please refer to section 15 of the assets.

Section 10 – Other liabilities – Item 100

10.1 Other liabilities: breakdown

	Total 31 12 2017	Total 31 12 2016
Due to the Revenue and other tax levying authorities	172,982	94,705
Due to social security authorities	494,018	238,582
Amounts available to customers	41,346	122,465
Other amounts due to employees	40,699	47,799
Items in transit between brances	34,165	69,941
Items in processing	911,743	938,389
Payables in relation to the payment of supplies of goods and services	329,603	307,187
Irrevocable commitments to disburse funds	226,388	183,171
Accrued expenses and unearned revenues not attributable to other line items	87,120	53,573
Other	933,972	1,183,119
Total	**3,272,036**	**3,238,931**

The lines "Items in processing" and "Other" include transactions which were cleared during the first days of 2018.

Section 11 – Provision for employee severance pay – Item 110

11.1 Provision for employee severance pay: annual changes

	Total 31 12 2017	Total 31 12 2016
A. Opening balance	**252,858**	**246,170**
B. Increases	**4,668**	**12,598**
B.1 Provision for the year	3,964	5,644
B.2 Other increases	704	6,954
C. Decreases	**58,028**	**5,910**
C.1 Severance payments	51,080	4,329
C.2 Other decreases	6,948	1,581
D. Closing balance	**199,498**	**252,858**

11.2 Other information

Provision for employee severance pay is considered as a defined benefit fund for the purpose of international accounting standards.

The provision for the year, as clarified by the Bank of Italy, does not include amounts which, as a result of the reform introduced by Legislative Decree no. 252 of 5 December 2005, are paid directly by the Bank, depending on the various employee options, to complementary pension schemes or to the treasury fund managed directly by the Italian National Social Security Institute, INPS. These items are recognised in personnel expenses, as "contributions to external pension funds: defined contribution".

11.2.a Changes in net defined benefit liability during the year: Severance pay

Item/Amount	Present value of DBO	
	31 12 2017	31 12 2016
Opening balance	**252,858**	**246,170**
Current service cost	9	13
Interest income/expense	3,954	5,630
Remeasurement of net defined benefit liability (asset):	(5,631)	6,947
Actuarial gains (losses) arising from changes in demographic assumptions	67	825
Actuarial gains (losses) arising from experience adjustments	(5,261)	(1,619)
Actuarial gains (losses) arising from changes in financial assumptions	(437)	7,741
Payments from plan	(50,924)	(4,346)
Other changes	(768)	(1,556)
Closing balance	**199,498**	**252,858**

The table above reports the information required by paragraphs 140 and 141 of IAS 19.

11.2.b Key actuarial assumptions

Key actuarial assumptions/percentage	31 12 2017	31 12 2016
Discount rates	0,79% - 1,93%	0,76-1,82%
Expected rates of salary increases	X	X

11.2.c Sensitivity of defined benefit obligation to changes in key actuarial assumptions

Actuarial assumptions	31 12 2017		31 12 2016	
	Change in DBO	Change (%) in DBO	Change in DBO	Change (%) in DBO
Discount rates				
Increase of 0.25%	(3,146)	-1.58%	(5,826)	-2.30%
Decrease of 0.25%	3,922	1.97%	2,669	1.06%

Section 12 – Provisions for risks and charges – Item 120

12.1 Provisions for risks and charges: breakdown

Item/Amount	Total 31 12 2017	Total 31 12 2016
1. Pensions and other post retirement benefit obligations	50,129	53,582
2. Other provisions for risks and charges	1,088,363	1,054,472
2.1 legal disputes	622,489	599,910
2.2 personnel charges	82,010	178,123
2.3 other	383,864	276,439
Total	**1,138,492**	**1,108,054**

For further details of the sub-item 2.3 "others", please refer to table 12.4 below "Provisions for risks and charges - Other provisions".

12.2 Provisions for risks and charges: annual changes

Item/Amount	Total 31 12 2017		
	Pensions and other post retirement benefit obligations	Other provisions	Total
A. Opening balance	**53,582**	**1,054,472**	**1,108,054**
B. Increases	**2,143**	**425,199**	**427,342**
B.1 Provision for the year	691	419,823	420,514
B.2 Changes due to the time value of money	1,382	44	1,426
B.3 Changes due to discount rate changes	-	95	95
B.4 Other increases	70	5,237	5,307
C. Decreases	**5,596**	**391,308**	**396,904**
C.1 Use during the year	3,455	156,780	160,235
C.2 Changes due to discount rate changes	451	316	767
C.3 Other decreases	1,690	234,212	235,902
D. Closing balance	**50,129**	**1,088,363**	**1,138,492**

12.3 Defined benefit company pension funds

12.3.1. Description of funds and related risks

The information provided below concerns defined benefit pension funds in favour of employees and terminated employees of the Parent Company and the Group companies, i.e. funds in which the obligation of future payment of retirement benefits is undertaken by the funds and indirectly by the companies, which may be required to increase the value of the obligation in the event of inadequate capital assessed in accordance with actuarial criteria.

For each definite benefit plan the Parent Company relies on analyses carried out by an independent certified actuary.

In accounting for the plans, the surplus or deficit was determined using the credit unitary projection method; therefore the fair value of the assets servicing the plan, if any, was deducted from the current value of the obligation (*see Part A of the Notes - Accounting Policies*).

The valuations concerned those participating, which form a closed group of retired or active employees, and were carried out on the basis of these groups of employees as measured in December 2017 (with the exclusion of the Section of the Cassa di Previdenza Aziendale (Company's Pension Scheme) for employees of Monte dei Paschi di Siena, valued as at 30 November 2017).

In accordance with IAS 19, revised by amendments issued by IASB on 16 June 2011 and approved by EU Regulation no. 475/2012 dated 5 June 2012, in determining the total cost of each defined benefit plan, which - as is well-known - may be influenced by many variables, objective and prudential technical bases were adopted in formulating both demographic and financial assumptions.

In view of the evolutionary nature of the main relevant aggregates, actuarial valuations were performed under dynamic conditions, so as to subsume in the medium-long term both the average annual changes in the benefits defined in each plan, and the interest rate trends expected in the financial market.

Some of the main actuarial assumptions that were formulated and used as valuation bases are mentioned below:

- technical mortality basis: using death probability data as provided in ISTAT's 2016 tables, broken down by gender and age, with mortality reduced by 20%;
- economic-financial basis: using as annual relative interest rate the interpolated EUR Composite AA rate curve (BFV) as at 31 December 2017.

For each defined benefit plan, the balance sheet equity resulting from valuations carried after reconciliation of actuarial assets and liabilities as at 31 December 2017 underwent a sensitivity analysis to examine the effects of changes in the key technical assumptions included in the calculation model (average annual discount rate and inflation rate), and the results were presented in specific tables.

The theoretical future increase in INPS pensionable earnings, which in any case is considered in the calculation model in an average annual percentage of 0.75%, was not included in the sensitivity analysis because it is essentially irrelevant for the preparation of the technical financial statements as, given that all defined benefit pensions funds are closed to new participants and taking into account the progressive decrease in the active population due to retirements during the year, the ratio between active and retired participants has now reduced to a percentage of less than 0.1%.

The defined benefit plans, in which the Group companies are co-obliged within the limits set out in the respective articles of association or regulations, are either internal plans, divided in the description below between unfunded and funded, or independent external funds.

Unfunded internal plans

Supplementary pension provision for staff in the former tax collection division of Banca Monte dei Paschi di Siena S.p.a.

(Bank Register no. 9185)

This is a defined benefit plan designed to provide retired staff of the former Direct Management division of the Parent Company with supplementary pension in the form of annuity.

The entitled population, consisting solely of retirees whose number is 329, is made up of staff of the former business unit, divested in 2006, who retired after the year 1982.

For the purposes of the preparation of the technical financial statements, the liabilities were valued taking into account INPS pension payment regulations issued by Law no. 335/95 as amended and the Plan Regulations.

The valuations concerning participants were carried out on the basis of the positions of retirees receiving immediate or deferred retirement benefits, taking into account details on currently paid pensions, types of pension, personal data of the beneficiary and amount of the annuity paid by the Fund and that paid by INPS.

In the event that the agreed benefits are more costly than expected, the Parent Company remains responsible for providing additional funds to meet the financial requirements of the retirement plans.

The valuations show an actuarial loss of EUR 1.23 mln at the date of 31 December 2017.

National insurance (INPS) for former Banca Operaia di Bologna staff

(Bank Register no. 9142)

The fund is intended to supplement benefits paid out under INPS pension schemes for retired employees of former Banca Operaia di Bologna.

The Plan's Regulations, signed on 23 September 1980, provide for supplementary benefit up to a certain percentage of the last salary earned. For the purposes of pension calculation, annual salary means a set of items paid on a continuous basis and on which benefits are paid out to surviving dependents. For the purposes of the preparation of the technical financial statements, the liabilities were valued taking into account INPS pension payment regulations issued by Law no. 335/95 as amended.

The valuations concerning participants were carried out taking into account details on currently paid pensions, personal data of the beneficiary and the ratio between the annuity paid by the Fund and that paid by INPS.

In the event of deficit, the Parent Company remains responsible for providing additional funds to meet the financial requirements of the retirement plans.

The valuations show an actuarial loss of EUR 0.03 mln at the date of 31 December 2017.

The plan applies to a population made up exclusively of non-active participants, of which 64 are retired and 2 on deferred retirement.

Pension provision for employees of former Banca di Credito Popolare e Cooperativo di Reggio Emilia

(Bank Register no. 9178)

The sole aim of the fund is to supplement compulsory schemes in order to guarantee higher levels of insurance coverage for ex-employees of former Banca di Credito Popolare e Cooperativo di Reggio Emilia, as the direct beneficiaries of a life annuity or as the surviving spouse of a former employee.

The pension provision for employees participating in the Fund is governed by the Regulations issued in 1977 and later amended to reflect subsequent laws. It provides for payment of supplementary benefits so as to reach a certain percentage of the last salary earned.

The valuations concerning participants were carried out taking into account details on currently paid pensions, personal data of the beneficiary and the ratio between the annuity paid by the Fund and that paid by INPS.

The obligation to pay the benefits lies with the Parent Company, which must provide the wherewithal to cover the liability over time.

The valuations show an actuarial loss of EUR 0.019 mln at the date of 31 December 2017.

The Plan applies to a population of only 12 retirees.

Pension provision for employees of former Banca Popolare Veneta

(Bank Register no. 9066)

The pension plan, which applies to a residual population of 20 retirees, is aimed at supplementing the benefits paid out by INPS for employees already retired at 7 December 1989 and their assigns, under labour agreements signed on 4 February 1956 and on 1 January 1982 for executive staff, as amended.

The valuations concerning participants were carried out taking into account details on currently paid pensions, personal data of the beneficiary and the ratio between the annuity paid by the Fund and that paid by INPS.

In the event of deficit, the Parent Company is responsible for providing additional funds to meet the financial requirements of the retirement plans.

The valuations show an actuarial loss of EUR 0.10 mln at the date of 31 December 2017.

Pension fund of MPS Capital Services Banca per le Imprese S.p.A.

(Bank Register no. 9134)

This defined benefit complementary pension fund is reserved to 38 retirees, including 27 direct and 11 indirect beneficiaries.

The valuations show an actuarial loss of EUR 0.06 mln at the date of 31 December 2017.

Funded internal plans

Pension provision for employees of former Banca Nazionale Agricoltura

(Bank Register no. 9047)

The purpose of this Provision is to pay additional retirement benefits over and above those paid by INPS to employees of the former Banca Nazionale dell'Agricoltura, who retired before 1 October 2000 or whose employment was terminated after this date without their having exercised the right, provided under the agreement of 12 September 2000, to transfer their contributions to another individual capitalisation, defined contribution fund.

The Plan applies to a population of 231 retirees and 3 employees on deferred retirement.

The Plan's Regulations, first approved in 1966, provide for supplementary benefit up to a certain percentage of the last salary earned, to be paid to the direct beneficiaries and their surviving dependants.

The valuations concerning participants were carried out taking into account details on currently paid pensions, personal data of the beneficiary and the ratio between the annuity paid by the Fund and that paid by INPS.

Although the Fund has its own separate and independent allocation capital, the guarantee of performance of the benefit payment obligation lies with the Parent Company, which must ensure the wherewithal to cover the liability over time.

At the valuation date of 31 December 2017, the actuarial calculations show that the capital adequacy of the Fund satisfies the obligation to pay benefits with respect to the participants.

Complementary pension provision for employees of former Banca Toscana

(Bank Register no. 9110)

This defined benefit complementary pension fund is reserved for employees of the former Banca Toscana who were already retired at 1 January 1999 and to active employees hired before 27 April 1993 who did not opt at the time to transfer their contributions to an individual capitalisation and defined contribution fund.

The population of employees eligible for the present and future benefits is composed of 838 retirees, 4 active employees and 3 employees on deferred retirement.

The current Fund Regulations set out the rules concerning the retirement benefits to be paid to eligible employees, distinguishing between old age, seniority and disability pensions. Calculation of the complementary benefits is based on the average of the last three years of employment, taking into account only the items specified in the Regulations.

The guarantee of performance of the benefit payment obligation lies with the Parent Company, which must ensure the wherewithal to cover the liability over time, although the Fund has its own separate accounting and capital, with the effects set out in art. 2117 of the Italian Civil Code.

At the valuation date of 31 December 2017, the actuarial calculations show that the capital adequacy of the Fund satisfies the obligation to pay benefits with respect to the participants.

External funds

Cassa di Previdenza Aziendale (Company's Pension Scheme) for employees of Monte dei Paschi di Siena

(Bank Register no. 1127)

The Fund has legal personality and full independence in terms of capital and operation.

It is reserved to employees and retirees of the Parent Company hired until 31 December 1990 who, following the agreement of 30 June 1989, opted to remain in the specific complementary benefit Section under a defined benefit regime.

The Fund's governance consists of a Board of Directors and a Board of Statutory Auditors with joint membership (some of the members are appointed by the Parent Company and others are appointed by the participants) supported by the General Manager.

The Parent Company provides, free of charge, the employees, premises and other resources required for the autonomous management of the Cassa and incurs all the related costs and expenses, including those for the functioning of the governing and control bodies.

In terms of guarantees given, in accordance with art. 26 of the Articles of Association, any deficits in Section coverage which should be identified during actuarial checks will be made up by the Parent Company only to the extent necessary to maintain tier 1 services, in accordance with the guarantee to the participants undertaken in compliance with Law no. 218/90 and referred to in the agreement of 24 June 1991.

The complementary benefits, which are determined by subtracting the benefits paid out by INPS from the annual amount of the complementary benefits, are made up of two components. The first component increases the benefits to be paid by the Cassa up to 70% of the fixed items of the salary of an employee of the same level, and the second component increases the complementary benefits by a further 9%.

The assets that comprise the reference capital consist primarily of investments in securities, managed almost entirely under a financial management agreement, and properties.

The population is composed of 2,663 retirees, 126 active employees and 126 employees on deferred retirement.

The technical report prepared in accordance with IAS 19 criteria by the designated actuary shows the capital adequacy of the Complementary Section which, against an asset fair value calculated at 30 November 2017 *(*)* of EUR 364.16 mln, takes into consideration the DBO (Defined Benefit Obligation) as at 31 December 2017 of EUR 166.41 mln.

(*) most recent figure available

Pension Fund for personnel of former Banca Agricola Mantovana S.p.A.

(Bank Register no. 1341)

The Fund, which operates on a defined benefit basis, has legal personality and full independence in terms of capital and operation, as its legal form is that of an unincorporated association under art. 36 of the Italian Civil Code.

The Fund's governance consists of a Board of Directors and a Board of Statutory Auditors with joint membership, supported by the General Manager.

The sole purpose of the Fund is to pay to eligible participants complementary benefits over and above those paid out by INPS; the participants include 33 retirees and 3 employees on deferred retirement.

At the valuation date of 31 December 2017, the actuarial calculations highlight a DBO (Defined Benefit Obligation) of EUR 0.95 mln against capital meant to satisfy the pension obligation (Asset Fair Value) of EUR 0.92 mln.

Pension Fund for personnel of former Banca Antonveneta S.p.a.

(Bank Register no. 1033)

The Fund, whose legal form is that of an unincorporated association in accordance with article 36 of the Italian Civil Code, has the sole purpose of providing benefits in addition to AGO (General Compulsory Insurance) cheques, was established in 1966 and has continued to operate to date.

The currently limited group of pensioners entitled to benefits refers to those who at the time did not accept the proposal for the settlement in capital of the value of the position recognised.

Although the Fund has legal personality and full independence in terms of capital, in the event of operating deficit, the co-obliged Parent Company is responsible for providing the wherewithal to cover such deficit.

The population eligible to receive the benefits is composed of only 31 retirees.

At the valuation date of 31 December 2017, the actuarial calculations highlight a DBO (Defined Benefit Obligation) of EUR 2.25 mln against capital meant to satisfy the pension obligation (Asset Fair Value) of EUR 2.08 mln.

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The defined benefit pension funds for personnel of the London branch (BMPS UK Pension Fund) and the New York branch (Retirement Plan) of the Parent Company are designed to pay for the employees' benefits upon reaching normal retirement age as well as benefits to other surviving beneficiaries.

As concerns the pension plan for the London branch, the plan is funded by the branch itself through approximately 53.7% of the total salaries. A Trustee whose members include active employees, is responsible for plan administration; the financial resources are managed by a specialised company. The plan's deficit is currently being made up through a plan of 67 monthly instalments the first of which was paid in October 2017. The technical report prepared in accordance with IAS 19 criteria by the designated actuary at the valuation date of 31 December 2017 shows the capital adequacy of the pension plan which, against an asset fair value of EUR 58.24 mln, takes into consideration the DBO (Defined Benefit Obligation) of EUR 54.2 mln.

As regards the New York branch's retirement plan (external/funded), which includes a total of 60 members, of which 19 active employees, the actuarial calculations for the year 2017 show a DBO (Defined Benefit Obligation) of EUR 16.82 mln, against an asset fair value of EUR 12.13 mln.

There is also a pension plan for Banca Monte dei Paschi Belgio intended to guarantee pension benefits to active employees as well as their beneficiaries. As at 31 December 2017, the actuarial valuation (66 active employees and 17 on deferred retirement as at 31 December 2016) highlights a DBO (Defined Benefit Obligation) of EUR 5.2 mln against capital meant to satisfy the pension obligation (Asset Fair Value) of EUR 3.9 mln.

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IAS 19 was also applied to calculate the actuarial values that could be used to determine the liability relating to the complementary benefits associated with the former Credito Lombardo Spa. Considering the contractual nature of the obligation, the economic costs are incurred directly by the Parent Company. The currently limited group of people eligible for benefits regards a total of 98 immediate pensions, of which 61 direct and 37 indirect. The actuarial calculations show a DBO (Defined Benefit Obligation) of EUR 2.97 mln at the valuation date of 31 December 2017.

Finally, there are two positions referring to former General Managers of the Parent Company to whom specific economic benefits other than pension benefits are disbursed. In any event, they are assessed on the basis of actuarial parameters in order to determine the value of the Parent Company's obligation. This type of remuneration, known as *ex contractu*, consists of payment of monthly benefits revalued on the basis of automatic pension equalisation indexes.

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As required by the Bank of Italy, the internal fund statements can be found in the annexes to the financial statements.

12.3.2 Changes in net defined liability (asset) and reimbursement rights during the year

The following tables show movements for the year in internal and external funds which, according to international accounting standards, come under the heading of defined benefit funds.

12.3.2a Changes in net defined liability (asset) and reimbursement rights during the year – Internal Funds

Item/Amount	31 12 2017			
	A (-) Plan assets	B (+) Present value of DBO	C (+) Effect of asset ceiling	D=A+B+C Net defined benefit liability (asset)
Opening balance	**(132,072)**	**158,615**	**15,588**	**42,131**
Current service cost	X	16	X	16
Interest income/expense	(538)	1,252	-	714
Remeasurement of net defined benefit liability (asset):	804	2,059	(1,101)	1,762
Return on plan assets excluding interest	804	X	X	804
Actuarial gains (losses) arising from changes in demographic assumptions	X	4,678	X	4,678
Actuarial gains (losses) arising from experience adjustments	X	(2,332)	X	(2,332)
Actuarial gains (losses) arising from changes in financial assumptions	X	(287)	X	(287)
Changes in effect of limiting net defined benefit asset to asset ceiling	X	X	(1,101)	(1,101)
Past service cost and gains (losses) arising from settlements	X	-	X	-
Changes in foreign exchange rates	-	-	-	-
Contributions to plan:	-	-	-	-
by employer	-	-	X	-
by employee	-	-	X	-
Payments from plan	9,746	(13,201)	X	(3,455)
Effect of business combinations and disposals	-	-	-	-
Effect of any plan curtailments	-	-	X	-
Effect of any plan settlements	-	-	X	-
Other changes	-	-	-	-
Closing balance	**(122,060)**	**148,741**	**14,487**	**41,168**

Item/Amount	31 12 2016			
	A (-) Plan assets	B (+) Present value of DBO	C (+) Effect of asset ceiling	D=A+B+C Net defined benefit liability (asset)
Opening balance	**(141,674)**	**165,599**	**17,421**	**41,346**
Current service cost	X	-	X	-
Interest income/expense	(969)	1,211	96	338
Remeasurement of net defined benefit liability (asset):	191	2,687	(1,985)	893
Return on plan assets excluding interest	191	X	X	191
Actuarial gains (losses) arising from changes in demographic assumptions	X	(457)	X	(457)
Actuarial gains (losses) arising from experience adjustments	X	(1,533)	X	(1,533)
Actuarial gains (losses) arising from changes in financial assumptions	X	4,677	X	4,677
Changes in effect of limiting net defined benefit asset to asset ceiling	X	X	(1,985)	(1,985)
Past service cost and gains (losses) arising from settlements	X	-	X	-
Changes in foreign exchange rates	-	-	-	-
Contributions to plan:	-	-	-	-
by employer	-	-	X	-
by employee	-	-	X	-
Payments from plan	10,436	(13,965)	X	(3,529)
Effect of business combinations and disposals	-	-	-	-
Effect of any plan curtailments	-	-	-	-
Effect of any plan settlements	-	-	X	-
Other changes	(56)	3,083	56	3,083
Closing balance	**(132,072)**	**158,615**	**15,588**	**42,131**

12.3.2b Changes in net defined liability (asset) and reimbursement rights during the year: External Funds

Item/Amount	31 12 2017			
	A (-) Plan assets	B (+) Present value of DBO	C (+) Effect of asset ceiling	D=A+B+C Net defined benefit liability (asset)
Opening balance	**(451,404)**	**258,098**	**204,761**	**11,455**
Current service cost	X	675	X	675
Interest income/expense	(4,026)	5,268	(575)	667
Remeasurement of net defined benefit liability (asset):	3,388	(4,708)	346	(974)
Return on plan assets excluding interest	3,388	X	X	3,388
Actuarial gains (losses) arising from changes in demographic assumptions	X	1,428	X	1,428
Actuarily gains (losses) arising from experience adjustments	X	(5,964)	X	(5,964)
Actuarial gains (losses) arising from changes in financial assumptions	X	(172)	X	(172)
Change in effect of limiting net defined benefit asset to asset ceiling	X	X	346	346
Past service cost and gains (losses) arising from settlements	X	-	X	-
Changes in foreign exchange rates	3,464	(4,356)	-	(892)
Contributions to plan:	(1,969)	-	-	(1,969)
by employer	(1,969)	-	X	(1,969)
by employee	-	-	X	-
Payments from plan	9,079	(9,079)	X	-
Effect of business combinations and disposals	-	-	-	-
Effect of any plan curtailments	-	-	X	-
Effect of any plan settlements	-	-	X	-
Other changes	-	-	-	-
Closing balance	**(441,468)**	**245,898**	**204,532**	**8,962**

Item/Amount	31 12 2016			
	A (-) Plan assets	B (+) Present value of DBO	C (+) Effect of asset ceiling	D=A+B+C Net defined benefit liability (asset)
Opening balance	**(472,644)**	**259,935**	**220,733**	**8,024**
Current service cost	X	541	X	541
Interest income/expense	(7,112)	6,044	1,741	673
Remeasurement of net defined benefit liability (asset):	13,986	7,315	(17,713)	3,588
Return on plan assets excluding interest	13,986	X	X	13,986
Actuarial gains (losses) arising from changes in demographic assumptions	X	(719)	X	(719)
Actuarily gains (losses) arising from experience adjustments	X	(13,896)	X	(13,896)
Actuarial gains (losses) arising from changes in financial assumptions	X	21,930	X	21,930
Change in effect of limiting net defined benefit asset to asset ceiling	X	X	(17,713)	(17,713)
Past service cost and gains (losses) arising from settlements	X	-	X	-
Changes in foreign exchange rates	7,325	(7,258)	-	67
Contributions to plan:	(1,787)	-	-	(1,787)
by employer	(1,787)	-	X	(1,787)
by employee	-	-	X	-
Payments from plan	8,479	(8,479)	X	-
Effect of business combinations and disposals	-	-	-	-
Effect of any plan curtailments	-	-	-	-
Effect of any plan settlements	-	-	X	-
Other changes	349	-	-	349
Closing balance	**(451,404)**	**258,098**	**204,761**	**11,455**

12.3.2c Changes in net defined liability (asset) and reimbursement rights during the year – Total

Item/Amount	31 12 2017			
	A (-) Plan assets	B (+) Present value of DBO	C (+) Effect of asset ceiling	D=A+B+C Net defined benefit liability (asset)
Internal funds	(122,060)	148,741	14,487	41,168
External funds	(441,468)	245,898	204,532	8,962
Total defined benefit funds	**(563,528)**	**394,639**	**219,019**	**50,130**

Item/Amount	31 12 2016			
	A (-) Plan assets	B (+) Present value of DBO	C (+) Effect of asset ceiling	D=A+B+C Net defined benefit liability (asset)
Internal funds	(132,072)	158,615	15,588	42,131
External funds	(451,404)	258,098	204,761	11,455
Total defined benefit funds	**(583,476)**	**416,713**	**220,349**	**53,586**

12.3.3 Information on Fair value of plan assets

Item	31 12 2017			
	Internal pension plans		External pension plans	
	Listed in active markets	Not listed in active markets	Listed in active markets	Not listed in active markets
Cash and cash equivalents	83,847	-	10,154	3,920
of which: used by the Group	83,847	-	3,012	-
Equity instruments	-	-	36,941	-
of which: issued by Group	-	-	-	-
Debt instruments	38,213	-	170,019	-
of which: issued by the Group	-	-	5,974	-
Real estate	-	-	-	72,896
UCITS	-	-	147,538	-
Total	**122,060**	**-**	**364,652**	**76,816**
of wich: own instruments/assets used by the Group	83,847	-	8,987	-

The table shows, for funded defined benefit plans, the total amount of plan assets. In particular, the assets refer to the following funds:

- Pension Fund for personnel of former Banca Nazionale dell'Agricoltura S.p.a.,
- Pension Fund for personnel of former Banca Agricola Mantovana S.p.A.
- Pension Fund for personnel of former Banca Toscana S.p.A.
- Pension Fund for personnel of Monte Paschi Belgio,
- Pension Fund for personnel of former Banca Antonveneta and
- Cassa di Previdenza Aziendale for Monte dei Paschi di Siena employees, defined benefit section

the total of which exceed the obligations existing at year end.

The table also includes the defined benefit pension funds for the Parent Company's personnel of the branches in London (BMPS UK Pension Fund) and New York (Retirement Plan).

Item	31 12 2016			
	Internal pension plans		External pension plans	
	Listed in active markets	Not listed in active markets	Listed in active markets	Not listed in active markets
Cash and cash equivalents	91,806	-	14,632	3,920
of which: used by the Group	91,806	-	3,055	-
Equity instruments	-	-	44,030	-
of which: issued by Group	-	-	2	-
Debt instruments	40,266	-	178,895	-
of which: issued by the Group	-	-	5,983	-
Real estate	-	-	-	62,700
of which: used by the Group	-	-	-	-
Derivatives	-	-	-	-
UCITS	-	-	147,227	-
Asset-backed securities	-	-	-	-
Structured debt	-	-	-	-
Total	**132,072**	**-**	**384,784**	**66,620**
of wich: own instruments/assets used by the Group	91,806	-	9,040	-

12.3.4 Key actuarial assumptions used

Key actuarial assumptions/percentages	31 12 2017		31 12 2016	
	Defined benefit funds		Defined benefit funds	
	Internal pension plans	External pension plans	Internal pension plans	External pension plans
Discount rates	0.79%	1.65%	0.84%	1.85%
Expected rates of salary increases	0.75%	2.03%	0.75%	1.63%

A discount rate of 0.79% was used for internal plans and of 1.65% for external ones (0.79% - 1.93% for Provision for severance pay, see table 11.2b), calculated as a weighted average of interest rates in EUR Composite AA yield curve as at 31 December 2017, using, as weights, the ratio between the amount paid / paid in advance for each maturity and the total amount to be paid/paid in advance for the entire duration of the population considered.

12.3.5 Information on amount, timing and uncertainty of cash flows

31 12 2017

Actuarial assumption	Change in DBO	Change (%) in DBO
Discount rate		
Increase of 0.25%	(16,881)	-4.28%
Decrease of 0.25%	9,687	2.45%
Expected rates of salary increases		
Increase of 0.25%	4,072	1.03%
Decrease of 0.25%	(10,956)	-2.78%

31 12 2016

Actuarial assumption	Change in DBO	Change (%) in DBO
Discount rate		
Increase of 0.25%	(15,229)	-3.86%
Decrease of 0.25%	9,219	2.34%
Expected rates of salary increases		
Increase of 0.25%	10,730	2.72%
Decrease of 0.25%	(6,110)	-1.55%

With respect to pay increases, it is not possible to conduct any sensitivity analysis given the static nature of the benefits linked to the choice of participants to stay in the fund.

12.3.6 Plans covering multiple employers

12.3.7 Defined benefit plans sharing risks among entities under common control

Plans having these characteristics are not present for the Group.

12.4 - Provisions for risks and charges - Other provisions

Items/Amounts	Total 31 12 2017	Total 31 12 2016
2.1 Legal disputes	622,489	599,910
- Revocatory	80,259	82,965
- Other legal disputes	542,230	516,945
2.2 Personnel charges	82,010	178,123
- Job disputes	39,483	46,364
- Leaving incentives	15,008	120,032
- Other	27,519	11,727
2.3 Other	383,864	276,439
- Risks related to the sale of business units	26,541	30,321
- Charges due to corporate restructuring	25,769	17,654
- Payments to financial advisors	57,428	60,098
- Charges for embezzlement	13,479	8,144
- Claims and Court agreements	1,085	781
- Other	259,562	159,441
Total	**1,088,363**	**1,054,472**

Section 13 – Insurance reserves – Item 130

The tables in this section have not been completed as no data is present for either current or previous year.

Section 14 – Redeemable shares – Item 150

The tables in this section have not been completed as no data is present for the current year or for the previous year.

Section 15 – Group equity – Items 140, 160, 170, 180, 190, 200 and 220

15.1 “Share capital” and “Treasury shares”: breakdown

15.1.a “Share capital” breakdown

(in units of Eur)

Items/Amounts	31 12 2017		31 12 2016	
	Implied par value share	Par value of fully paid shares	Par value per share	Par value of fully paid shares
Ordinary shares	9.06	10,328,618,260.00	251.21	7,365,674,050.00
Total		**10,328,618,260**		**7,365,674,050**

On 6 June 2011 the Bank's Extraordinary Shareholders' Meeting resolved that indication of the par value of the classes of shares be eliminated; accordingly, as at 31.12.2011, the so-called “Implied par value” is indicated, which is obtained by dividing the total share capital amount by the number of shares in the same category, outstanding at the reference date.

Ordinary shares are registered and indivisible. Each share entitles to one vote. Information on the number of fully paid-up shares can be found in the notes to Table “15.2 Share capital – number of shares: annual changes”.

In August 2017, the share capital increase of Banca Monte dei Paschi di Siena was completed for a total amount of EUR 8,327.1 mln through the conversion into ordinary shares of AT1 and T2 bond issues for a value of EUR 4,472.9 mln, and through the subscription by the MEF of ordinary shares for a value of EUR 3,854.2 mln.

On 18 December 2017, the extraordinary Shareholders’ Meeting of the Parent Company, taking into account (i) the financial position as at 30 September 2017 and the resulting losses for the period of EUR 2,506.0 mln, as well as (ii) prior losses of EUR 2,324.0 mln carried forward on the basis of shareholders’ meeting resolution of 24 November 2016 and (iii) the equity adjustments equal to EUR 534.1 mln, decided to approve the coverage of the total loss of EUR 5,364.2 mln by means of a corresponding reduction in the share capital.

As a result of the above, at the reporting date, the Parent Company’s share capital amounted to EUR 10,328,618,260.14, represented by 1,118,778,319 ordinary shares without a nominal value.

15.1.b “Treasury shares”: breakdown

At the date of these financial statements, the Group holds 36,280,748 treasury shares for a total value of EUR 313.7 mln.

15.2 Share capital - Parent company's number of shares: annual changes

Item/Type	31 12 2017	31 12 2016
	Ordinary	Ordinary
A. Shares outstanding as at the beginning of the year	**29,320,798**	**2,932,079,864**
- fully paid	29,320,798	2,932,079,864
- not fully paid	-	-
A.1 Treasury shares (-)	-	-
A.2 Shares outstanding: opening balance	**29,320,798**	**2,932,079,864**
B. Increases	**1,110,969,274**	**-**
B.1 New issuances	1,110,969,274	-
- Against payment:	1,110,969,274	-
- Business combinations	-	-
- Bond converted	517,099,404	-
- warrants exercised	-	-
- other	593,869,870	-
- without payment:	-	-
- to employees	-	-
- to directors	-	-
- other	-	-
B.2 Sale of treasury shares	-	-
B.3 Other increases	-	-
C. Decreases	**36,280,748**	**2,902,759,066**
C.1 Cancellation	-	-
C.2 Purchase of treasury shares	-	-
C.3 Business transferred	-	-
C.4 Other decreases	36,280,748	2,902,759,066
D. Shares outstanding: closing balance	**1,104,009,324**	**29,320,798**
D.1 Treasury shares (+)	36,280,748	-
D.2 Shares outstanding as at the end of the year	1,140,290,072	29,320,798
- fully paid	1,140,290,072	29,320,798
- not fully paid	-	-

Line C.4 “Other decreases” for 2016 includes the grouping of the Parent Company’s ordinary shares at a ratio of 1 new ordinary share for every 100 shares held, pursuant to the resolution passed by the Extraordinary Shareholders’ Meeting of Banca Monte dei Paschi di Siena S.p.A. held on 24 November 2016, after the cancellation of 64 ordinary shares of the Parent Company for accounting reconciliation purposes.

At the date of these financial statements, the share capital is fully paid in.

15.3 Share capital: other information

15.3a Equity instruments: breakdown and annual changes

As at 31 December 2017, the Group held no equity instruments.

15.4 Retained earnings: other information

See “Part F – Information on consolidated shareholders’ equity” of these notes to the financial statements.

15.5 Other information

See “Part F – Information on consolidated shareholders’ equity” of these notes to the financial statements.

Section 16 – Non-controlling interests - Item 210

16.1 Details of item 210 “Non-controlling interests”

Company name	31 12 2017	31 12 2016
Equity investments in consolidated companies with significant non-controlling interests	-	-
Other equity investments	2,279	34,859
Total	**2,279**	**34,859**

16.2 Equity instruments: breakdown and annual changes

No such instruments are present within the Group.

Other information

1 Guarantees and commitments

Transactions	Amount 31 12 2017	Amount 31 12 2016
1) Financial guarantees given to	2,170,143	2,667,840
a) Banks	468,550	512,555
b) Customers	1,701,593	2,155,285
2) Commercial guarantees given to	3,697,118	4,146,156
a) Banks	260,038	295,912
b) Customers	3,437,080	3,850,244
3) Irrevocable commitments to disburse funds	6,285,561	6,633,037
a) Banks	366,287	161,748
i) drawdown certain	366,287	158,015
ii) drawdown uncertain	-	3,733
b) Customers	5,919,274	6,471,289
i) drawdown certain	3,304,149	4,086,218
ii) drawdown uncertain	2,615,125	2,385,071
4) Underlying commitments on credit derivatives: sales of protection	2,325,302	3,112,038
5) Assets pledged as collateral for third-party commitments	7,529	7,529
6) Other commitments	830,444	1,188,543
Total	**15,316,097**	**17,755,143**

2 Assets pledged as collateral for liabilities and commitments

Portfolios	31 12 2017	31 12 2016
1. Financial assets held for trading	4,556,810	4,302,070
2. Financial assets designated at fair value	-	-
3. Financial assets available for sale	4,310,010	15,248,469
4. Financial assets held to maturity	-	-
5. Loans to banks	1,250,156	2,104,241
6. Loans to customers	29,331,330	36,708,498
7. Property, plant and equipment	1,359,791	1,379,320

The table summarises the assets pledged by the Group as collateral for its liabilities, mainly represented by repurchase agreements. The amount in line "6. Loans to customers" includes approx. EUR 19.5 bn related to loans transferred to the vehicles MPS Covered Bond S.r.l. and MPS Covered Bond 2 S.r.l. as part of two programmes for the issue of covered bonds.

3 Operating leases

3.1 Future minimum lease payments due under operating leases

Items/Amounts	31 12 2017
Up to 1 year	59,500
From 1 to 5 years	200,370
Over 5 years	133,324
Future minimum lease payments due	**393,194**
Non-cancellable future minimum lease payments receivable	-

4 Investments in unit-linked and index-linked policies: breakdown

The Group does not hold any such investments since no company of the Group issues insurance policies.

5 Asset management and trading on behalf of third parties

	Amount 31 12 2017
1. Trading of financial instruments on behalf of third parties	
a) Purchases	14,620,742
1. Settled	14,547,027
2. Unsettled	73,715
b) Sales	14,549,662
1. Settled	14,477,433
2. Unsettled	72,229
2. Asset management accounts	
a) individual	3,853,269
b) collective	1,186
3. Custody and administration of securities	
a) third party securities on deposit associated with custodian bank transactions (excluding asset management)	-
1. Securities issued by companies included in consolidation	-
2. Other securities	-
b) Other third party securities on deposit (excluding asset management)	52,037,012
1. Securities issued by companies included in consolidation	4,666,501
2. Other securities	47,370,511
c) third party securities deposited with third parties	45,427,242
d) own securities deposited with third parties	37,011,397
4. Other transactions	**26,326,481**

6 Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements.

Type	Gross amount of financial assets (a)	Amount of financial liabilities offset in balance sheet (b)	Net amount of financial assets recognised in the balance sheet (c=a-b)	Related amounts not subject to balance sheet offsetting		Net amount (f=c-d-e) 31 12 2017	Net amount 31 12 2016
				Financial instruments (d)	Deposits of cash collateral received (e)		
1. Derivatives	4,347,597	1,259,698	3,087,899	1,413,756	1,496,279	177,864	311,666
2. Repurchase agreements	5,423,571	-	5,423,571	5,418,565	-	5,006	157
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total as at 31 12 2017	**9,771,168**	**1,259,698**	**8,511,470**	**6,832,321**	**1,496,279**	**182,870**	**X**
Total as at 31 12 2016	**15,413,764**	**1,307,592**	**14,106,172**	**12,963,439**	**830,910**	**X**	**311,823**

7 Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

Type	Gross amount of financial liabilities (a)	Amount of financial assets offset in balance sheet (b)	Net amount of financial liabilities recognised in the balance sheet (c=a-b)	Related amounts not subject to balance sheet offsetting		Net amount (f=c-d-e) 31 12 2017	Net amount 31 12 2016
				Financial instruments (d)	Deposits of cash collateral received (e)		
1. Derivatives	3,446,126	1,259,698	2,186,428	1,318,441	645,899	222,088	45,608
2. Repurchase agreements	10,237,334	-	10,237,334	10,237,334	-	-	-
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total as at 31 12 2017	**13,683,460**	**1,259,698**	**12,423,762**	**11,555,775**	**645,899**	**222,088**	**X**
Total as at 31 12 2016	**36,095,172**	**1,307,592**	**34,787,580**	**34,596,942**	**145,030**	**X**	**45,608**

IFRS 7 requires disclosure of information for all financial instruments that:

- were offset in the balance sheet pursuant to IAS 32;
- could potentially be offset, given certain conditions, but presented in the balance sheet as open balances as they are governed by "framework offsetting agreements or similar agreements" which do not meet the criteria established in IAS 32 for offsetting.

The amount offset in the financial statements refers to trading in OTC derivatives managed through central counterparties of the subsidiary MPS Capital Services S.p.a. and the Parent Company.

For the purposes of reconciliation of the amounts shown in the column (c) "net amount of financial assets/liabilities recognised in the balance sheet" with the opening balances shown in "Part B – Information on the balance sheet", it should be noted that:

- the amount related to both trading and hedging derivative financial instruments, aided by netting agreements or similar, is represented in asset items 20 "Financial assets held for trading" and 80 "Hedging derivatives" and in liability items 40 "Financial liabilities held for trading" and 60 "Hedging derivatives";
- the amount related to repurchase agreements subject to netting agreements or similar is shown in line "Repurchase agreements/Reverse repurchase agreements" in the tables containing a breakdown of asset items 60 "Loans to

banks" and 70 "Loans to customers" and of liability items 10 "Deposits from banks" and 20 "Deposits from customers".

It should also be noted that:

- with regard to securities lending transactions, in these tables transactions involving the payment of cash collateral fully owned by the lender are included in the item "Repurchase agreements";
- the repurchase agreements are recognised in the tables at amortised cost, while the financial collateral and derivative transactions are reported at their fair value.

8 Securities lending transactions

In its capacity as borrower, the Parent Company has entered into a number of securities lending agreements with leading market counterparties. These agreements are backed by other securities and total approximately EUR 1.5 bn.

In its capacity as borrower, the Parent Company has also entered into securities lending agreements (mainly Italian government bonds) with customers, for a total of approximately EUR 1.4 bn.

These transactions, which in compliance with current accounting standards have no impact on the balance sheet, are carried out with the aim of increasing the Group's counterbalancing capacity.

9 Information on joint control activities

This paragraph was not completed as no such activities are present within the Group.

Part C – Information on the consolidated income statement

Section 1 – Interest income/expense and similar revenues/charges – Items 10 and 20

1.1 Interest income and similar revenues: breakdown

Itme/Type	Debt securities	Loans	Other transactions	Total 31 12 2017	Total 31 12 2016
1. Financial assets held for trading	29,325	6	24,100	53,431	87,064
3. Financial assets available for sale	152,906	-	-	152,906	190,654
5. Loans to banks	13,070	17,411	-	30,481	25,070
6. Loans to customers	43,324	2,418,803	-	2,462,127	3,009,233
8. Other assets	X	X	4,546	4,546	5,212
Total	**238,625**	**2,436,220**	**28,646**	**2,703,491**	**3,317,233**

The amount in line “1. Financial assets held for trading”, in the “Other transactions” column, includes the positive net balance of spreads relating to derivatives connected with financial liabilities designated at fair value (fair value option), for an amount of EUR 24.1 mln (EUR 29.5 mln as at 31 December 2016).

Lines 5 and 6, “Loans to banks” and “Loans to customers”, in the “Debt securities” column, include interest income on treasury securities not listed in active markets and classified in these portfolios.

The amount in line “8. Other assets”, in the “Other transactions” column, shows mainly interest accrued on tax credits.

Interest other than that recognised in item 130 “Net impairment losses/reversals” and accrued during the year for positions that are classified as “non-performing” as at balance sheet date totalled EUR 447.8 mln (EUR 629.3 mln as at 31 December 2016). This interest is calculated for financial assets measured at amortised cost under the effective interest rate method and is entered in different columns based on the original 'technical form'. Interest on arrears accrued during the year is posted to interest income only for the portion actually recovered. Any amounts recovered in subsequent years are treated as a write-back on receivables and recognised in Item 130 of the profit and loss statement, “Net impairment losses/reversals on loans”.

For a trend analysis of the concerned items, reference should be made to the consolidated Report on Operations.

1.2 Interest income and similar revenues: spreads on hedging transactions

Information on spreads relating to hedging transactions is provided in Table 1.5.

1.3 Interest income and similar revenues: other information

1.3.1 Interest income from financial assets denominated in foreign currency

Interest income from financial assets denominated in foreign currency for 2017 amounted to EUR 50.9 mln as compared to EUR 52.4 mln in 2016.

1.3.2 Interest income from finance leases

Interest income from finance lease transactions for 2017 amounted to EUR 94.2 mln as compared to EUR 110.1 mln in 2016.

1.4 Interest expense and similar charges: breakdown

Item/Type	Deposits	Securities	Other transactions	Total 31 12 2017	Total 31 12 2016
1. Deposits from central banks	(1,450)	X	-	(1,450)	(5,821)
2 Deposits from banks	(62,585)	X	-	(62,585)	(78,376)
3. Deposits from customers	(390,648)	X	-	(390,648)	(367,861)
4. Debt securities issued	X	(396,307)	-	(396,307)	(770,743)
5. Financial liabilities held for trading	(249)	-	(7,961)	(8,210)	(20,766)
6. Financial liabilities designated at fair value	-	(56,645)	-	(56,645)	(41,432)
7. Other liabilities	X	X	(5,574)	(5,574)	(2,118)
8. Hedging derivatives	X	X	(6,156)	(6,156)	(28,099)
Total	**(454,932)**	**(452,952)**	**(19,691)**	**(927,575)**	**(1,315,216)**

Lines 2, "Deposits from banks" and 3, "Deposits from customers", in the "Deposits" column, include interest on payables under repurchase agreements on: treasury securities recognised in the balance sheet or securities not recognised in the balance sheet obtained through repo transactions or from self-securitisations without derecognition.

Line 4, "Debt securities issued", indicates the interest expense accrued during the year on bonds and certificates of deposit valued at amortised cost.

For a trend analysis of the concerned items, reference should be made to the consolidated Report on Operations.

1.5 Interest expense and similar charges: spreads on hedging transactions

Items	Total 31 12 2017	Total 31 12 2016
A. Positive spreads on hedging transactions	312,929	465,332
B. Negative spreads on hedging transactions	(319,085)	(493,431)
C. Balance (A+B)	**(6,156)**	**(28,099)**

In line with its hedging objectives and consequent minimisation of risks in the banking book, the Group carries out both fair value and cash flow hedging transactions.

1.6 Interest expense and similar charges: other information

1.6.1 Interest expense on liabilities denominated in foreign currency

Interest expense on financial liabilities denominated in foreign currency for 2017 amounted to EUR 32.0 mln as compared to EUR 31.5 mln in 2016.

1.6.2 Interest expense on liabilities from finance leases

No values are shown in this table as there is no significant data to be reported for either the current or the previous year (less than EUR 1 million).

Section 2 – Fee and commission income/expense – Items 40 and 50

2.1 Fee and commission income: breakdown

Type of service / Amount	Total 31 12 2017	Total 31 12 2016
a) guarantees issued	65,457	76,275
b) credit derivatives	-	-
c) management, brokerage and advisory services:	903,830	930,170
1. trading of financial instruments	23,113	44,650
2. currency trading	4,591	4,565
3. asset management	51,059	60,347
3.1 individual accounts	51,059	60,347
3.2. collective investment schemes	-	-
4. custody and administration of securities	9,033	9,279
5. custodian bank	-	-
6. placement of securities	14,922	24,387
7. client instructions	28,863	42,977
8. advisory on	10,877	10,555
8.1 investments	7,576	7,015
8.2 financial structure	3,301	3,540
9. distribution of third-party services	761,372	733,410
9.1. asset management	-	-
9.1.1 individual accounts	-	-
9.1.2 collective investment schemes	-	-
9.2 insurance products	191,672	175,881
9.3 other products	569,700	557,529
d) collection and payment services	265,010	353,047
e) servicing of securitisations	50	936
f) factoring transaction services	8,440	9,263
g) tax collection services	-	-
h) management of multilateral trade systems	-	-
i) current account keeping	479,773	517,821
j) other services	184,711	244,809
Total	**1,907,271**	**2,132,321**

Sub-item “j) other services” includes fee and commission income for an amount of EUR 5.2 mln (EUR 2.5 mln as at 31 December 2016) on securities lending.

For a trend analysis of the items mentioned above, reference should be made to the Report on Operations.

2.2 Fee and commission expense: breakdown

Type of service / Amount	Total 31 12 2017	Total 31 12 2016
a) guarantees received	(116,117)	(34,203)
b) credit derivatives	-	-
c) management, brokerage and advisory services:	(88,721)	(82,545)
1. trading of financial instruments	(16,366)	(19,031)
2. currency trading	(4)	(23)
3. asset management:	(430)	(665)
3.1 own portfolio	(4)	(5)
3.2 third-party portfolios	(426)	(660)
4. custody an administration of securities	(12,075)	(7,452)
5. placement of financial instruments	-	(93)
6. off-site marketing of financial instruments, products and services	(59,846)	(55,281)
d) collection and payment services	(64,430)	(89,789)
e) other services	(74,320)	(86,428)
Total	**(343,588)**	**(292,965)**

Line "a) guarantees received" includes EUR 113.6 mln (EUR 31.7 mln as at 31 December 2016) of fees and commissions paid by the Parent Company for the guarantee pledged by the Italian Government on securities issued and concurrently repurchased, for a residual nominal amount of EUR 11,000.0 mln as at 31 December 2017, against Eurosystem financing transactions.

Line "c) 6 "off-site marketing of financial instruments, products and services" includes fees and commissions paid to Financial Advisors.

Line "e) other services" includes fee and commission expense for an amount of EUR 5.2 mln (EUR 16.7 mln as at 31 December 2016) on securities lending.

For a trend analysis of the concerned items, reference should be made to the Report on Operations.

Section 3 – Dividends and similar income – Item 70

3.1 Dividends and similar income: breakdown

Item/Income	31 12 2017			31 12 2016		
	Dividends	Income from units of UCITS	Total	Dividends	Income from units of UCITS	Total
A. Financial assets held for trading	1,643	303	1,946	2,858	337	3,195
B. Financial assets available for sale	9,520	3,854	13,374	10,311	-	10,311
C. Financial assets designated at fair value	-	-	-	-	-	-
D. Investments	-	-	-	-	-	-
Total	**11,163**	**4,157**	**15,320**	**13,169**	**337**	**13,506**

The table shows the amount of dividends received on shares traded within the trading book and non-controlling interest classified in the available-for-sale asset portfolio.

Line "B. Financial assets available for sale" includes the dividend of EUR 8.5 mln collected on the Bank of Italy shareholding.

Conversely, dividends relating to the Group's subsidiaries and associates, consolidated line-by-line or under the equity method, are excluded.

Section 4 – Net profit (loss) from trading – Item 80

4.1 Net profit (loss) from trading: breakdown

Transactions / P&L items	Unrealized Profits	Trading Profits	Unrealized Losses	Trading Losses	31 12 2017 Net Profit (Loss)	31 12 2016 Net Profit (Loss)
1. Financial assets held for trading	25,312	100,016	(86,267)	(96,432)	(57,371)	(81,097)
1.1 Debt securities	21,435	81,741	(84,701)	(75,001)	(56,526)	(81,644)
1.2 Equity instruments	3,314	2,314	(1,541)	(5,255)	(1,168)	(906)
1.3 Units of UCITS	563	4,459	(25)	(5,581)	(584)	1,646
1.4 Loans	-	-	-	-	-	-
1.5 Other	-	11,502	-	(10,595)	907	(193)
2. Financial liabilities held for trading	33,051	39,969	(315)	(38,734)	33,971	82,675
2.1 Debt securities	32,944	39,420	(203)	(38,734)	33,427	86,149
2.2 Deposits	-	-	-	-	-	-
2.3 Other	107	549	(112)	-	544	(3,474)
3. Other financial assets and liabilities: exchange differences	X	X	X	X	10,526	23,390
4. Derivatives	721,863	3,308,072	(769,086)	(3,273,512)	6,864	152,077
4.1 Financial derivatives:	698,298	3,193,208	(720,023)	(3,170,249)	20,761	135,762
- on debt securities and interest rates	581,571	2,250,034	(591,204)	(2,257,322)	(16,921)	100,770
- on equity instruments and stock indices	71,145	781,533	(80,098)	(753,852)	18,728	9,456
- on currency and gold	X	X	X	X	19,527	26,794
- other	45,582	161,641	(48,721)	(159,075)	(573)	(1,257)
4.2 Credit derivatives	23,565	114,864	(49,063)	(103,263)	(13,897)	16,315
Total	**780,226**	**3,448,057**	**(855,668)**	**(3,408,678)**	**(6,010)**	**177,045**

The impact on this item deriving from the application of the Credit Value Adjustment (CVA) on OTC derivatives is a positive EUR 39 mln; likewise, the application of the Debt Value Adjustment (DVA) on OTC derivatives entailed a negative impact of EUR 17.9 mln.

For the year under way and for 2016, the breakdown of values within the “4.1 Financial derivatives” grouping was revised.

Section 5 – Net profit (loss) from hedging – Item 90

5.1 Net profit (loss) from hedging: breakdown

P&L items/Values	Total 31 12 2017	Total 31 12 2016
A. Gains on:		
A.1 Fair value hedging instruments	228,974	114,564
A.2 Hedged financial assets (fair value)	4,674	231,379
A.3 Hedged financial liabilities (fair value)	77,085	86,675
A.4 Cash-flow hedging derivatives	-	-
A.5 Assets and liabilities denominated in foreign currency	-	-
Total gains on hedging activities (A)	**310,733**	**432,618**
B. Losses on:		
B.1 Fair value hedging instruments	83,489	321,906
B.2 Hedged financial assets (fair value)	218,996	39,752
B.3 Hedged financial liabilities (fair value)	11,983	74,779
B.4 Cash-flow hedging derivatives	-	78,133
B.5 Assets and liabilities denominated in foreign currency	-	-
Total losses on hedging activities (B)	**314,468**	**514,570**
C. Net profit (loss) from hedging activities (A - B)	**(3,735)**	**(81,952)**

For information on hedging derivatives, the gains and losses on which are indicated in lines A.1 and A.4, B.1 and B.4 of this table, see Section 8, “Hedging derivatives – Item 80” of the Assets and Section 6, “Hedging derivatives – item 60” of the Liabilities in Part B of the notes to the financial statements.

More information on hedged assets and liabilities can be found in the tables in Part B of the notes for each section of the accounts to which hedges are posted.

As at 31 December 2016, this item includes the negative impact of EUR 78.7 mln deriving from the interruption of cash flow hedges on a subordinated security that will be subject to compulsory conversion into shares of the Bank pursuant to Law Decree 237 of 23 December 2016, converted with amendments into law no. 15 of 17 February 2017.

Section 6 – Gains/(losses) on disposal/repurchase - Item 100

6.1 Gains (losses) on disposal/repurchase: breakdown

Items / P&L items	Total 31 12 2017			Total 31 12 2016		
	Gains	Losses	Net Profit (Loss)	Gains	Losses	Net Profit (Loss)
Financial assets						
1. Loans to banks	58	(114)	(56)	-	(204)	(204)
2. Loans to customers	17,743	(16,287)	1,456	20,616	(19,411)	1,205
3. Financial assets available for sale	107,567	(31,781)	75,786	117,430	(9,048)	108,382
3.1 Debt securities issued	65,162	(30,810)	34,352	87,439	(7,598)	79,841
3.2 Equity instruments	19,035	(1)	19,034	29,690	(1,406)	28,284
3.3 Units of UCITS	23,370	(970)	22,400	301	(44)	257
3.4 Loans	-	-	-	-	-	-
4. Financial assets held to maturity	-	-	-	-	-	-
Total assets	**125,368**	**(48,182)**	**77,186**	**138,046**	**(28,663)**	**109,383**
Financial liabilities	-	-	-	-	-	-
1. Deposits from banks	94,483	(1,201)	93,282	37,546	-	37,546
2. Deposits from customers	23,311	-	23,311	-	-	-
3. Debt securities issued	386,629	(2,449)	384,180	16,422	(1,852)	14,570
Total liabilities	**504,423**	**(3,650)**	**500,773**	**53,968**	**(1,852)**	**52,116**

As regards financial liabilities, the amount of EUR 504.4 mln in the "Gains" column is almost entirely associated with profits from the repurchase of financial liabilities included within the burden sharing transaction.

Section 7 – Net profit (loss) from financial assets and liabilities designated at fair value – Item 110

7.1 Net changes in financial assets and liabilities designated at fair value: breakdown

Transaction/P&L items	Unrealized profits	Realized profits	Unrealized losses	Realized losses	Net Profit (loss) as at 31 12 2017	Net Profit (loss) as at 31 12 2016
1. Financial assets	-	-	-	-	-	-
1.1 Debt securities issued	-	-	-	-	-	-
1.2 Equity instruments	-	-	-	-	-	-
1.3 Units of UCITS	-	-	-	-	-	-
1.4 Loans	-	-	-	-	-	-
2. Financial liabilities	30,465	52	-	(10,918)	19,599	118,641
2.1 Debt securities issued	30,465	52	-	(10,918)	19,599	118,641
2.2. Deposits from banks	-	-	-	-	-	-
2.3. Deposits from customers	-	-	-	-	-	-
3. Financial assets and liabilities	X	X	X	X	-	-
4. Credit and financial derivatives	-	18,668	(15,021)	(26,604)	(22,957)	(19,319)
Total	**30,465**	**18,720**	**(15,021)**	**(37,522)**	**(3,358)**	**99,322**

The item includes solely the profit, loss, capital gains and capital losses from structured fixed-rate bonds included in the fair value option and derivative contracts through which these bonds receive natural hedging.

Line "2.1 Financial liabilities - Debt securities" includes the capital gains and capital losses deriving from changes in fair value other than those attributed to changes in the issuer's creditworthiness, recognised as a balancing entry of net equity following the partial early adoption of IFRS 9.

Section 8 – Net impairment losses/(reversals) – Item 130

8.1 Net impairment losses (reversals) on loans: breakdown

Transaction/P&L items	Value Adjustments			Write - backs				Total 31 12 2017	Total 31 12 2016
	Specific			Specific		Portfolio			
	Write-off	Others	Portfolio	A	B	A	B		
A. Loans to banks	**(9)**	**(1,184)**	**(2,013)**	**21**	**107**	**3**	**1,342**	**(1,733)**	**(348)**
- Loans	(9)	(1,184)	(2,013)	21	107	3	867	(2,208)	(428)
- Debt securities	-	-	-	-	-	-	475	475	80
B. Loans to customers	**(142,728)**	**(6,667,664)**	**(237,703)**	**376,949**	**1,170,178**	**-**	**179,014**	**(5,321,954)**	**(4,466,676)**
Non performing loans purchased	-	(2,687)	-	52	1,205	-	-	(1,430)	(1,679)
- Loans	-	(2,687)	X	52	1,205	-	X	(1,430)	(1,679)
- Debt securities	-	-	X	-	-	-	X	-	-
Other receivables	(142,728)	(6,664,977)	(237,703)	376,897	1,168,973	-	179,014	(5,320,524)	(4,464,997)
- Loans	(142,728)	(6,664,977)	(237,703)	376,897	1,168,965	-	178,869	(5,320,677)	(4,464,051)
- Debt securities	-	-	-	-	8	-	145	153	(946)
C. Total	**(142,737)**	**(6,668,848)**	**(239,716)**	**376,970**	**1,170,285**	**3**	**180,356**	**(5,323,687)**	**(4,467,024)**

Legend

A = From interest

B= Other reversals

In impairment losses, the column "Write-off" shows losses recorded in relation to the derecognition of financial instruments, whereas the "Others" column includes specific write-downs on non-performing loans subject to analytical valuation. Portfolio value adjustments are quantified with reference to financial instruments that are not non-performing.

Specific value adjustments also include debt collection costs connected to the long-term servicing agreement entered into with the Cerved/Quaestio JV for the outsourced management of part of the MPS Group's doubtful loans (EUR 170 mln).

Column A (specific reversals) incorporates primarily the reversals represented by interest released on non-performing positions valued at amortised cost.

For further information on loans to banks and customers, see Section 1, "Credit risk", in Part E of the notes to the financial statements.

8.2 Net impairment losses (reversals) on financial assets available for sale: breakdown

Transactions/ P&L items	Value Adjustments		Write - backs		Total 31 12 2017	Total 31 12 2016
	Specific		Specific			
	Write-offs	Others	A	B		
A. Debt securities issued	(28)	(299)	-	27	(300)	339
B. Equity instruments	-	(61,859)	X	X	(61,859)	(26,439)
C. Units of UCITS	-	(30,924)	X	1	(30,923)	(15,662)
D. Loans to banks	-	-	-	-	-	-
E. Loans to customers	-	-	-	-	-	-
F. Total	**(28)**	**(93,082)**	**-**	**28**	**(93,082)**	**(41,762)**

Legend

A = From interest

B= Other reversals

The column "Others" of the specific value adjustments above, in sub-item "B. Equity instruments", includes the write-down of the contribution paid to the Voluntary Scheme, equal to EUR 46.5 mln, while sub-item "C. Units of UCITS" includes the write-down on units held in the Atlante Fund, equal to a total of EUR 29.8 mln.

8.3 Net impairment losses (reversals) on financial assets held to maturity: breakdown

This table has not been completed since financial assets held to maturity were not present for the Group in 2017 or in the year of comparison.

8.4 Net impairment losses (reversals) on other financial transactions: breakdown

Transactions / P&L items	Value Adjustments			Write-backs				Total 31 12 2017	Total 31 12 2016
	Specific		Portfolio	Specific		Portfolio			
	Write-offs	Others		A	B	A	B		
A. Guarantees issued	-	(3,894)	(1,762)	-	11,989	-	15,420	21,753	5,705
B. Credit derivatives	-	-	-	-	-	-	-	-	-
C. Commitments to disburse funds	-	(65,000)	(2)	-	17	-	15	(64,970)	116
D. Other transactions	-	-	-	-	-	-	-	-	2,075
E. Total	**-**	**(68,894)**	**(1,764)**	**-**	**12,006**	**-**	**15,435**	**(43,217)**	**7,896**

Legend

A = From interest

B= Other reversals

This table shows impairment losses/reversals (against expected loss) on guarantees issued, if drawn down.

Section 9 – Net premiums – Item 150

9.1 Net premiums: breakdown

The section was not completed, as net premiums do not exist in the Group either in the current or in the previous year.

Section 10 – Other net insurance income/expense – Item 160

The tables of this section were not completed because there is no other net insurance income/expense in the Group, either in the current or in the previous year.

Section 11 – Administrative expenses – Item 180

11.1 Personnel expenses: breakdown

Type of Expense / Area	Total 31 12 2017	Total 31 12 2016
1. Employees	(1,847,039)	(1,718,113)
a) wages and salaries	(1,137,494)	(1,157,653)
b) social-welfare charges	(308,211)	(318,746)
c) severance pay	(48,058)	(49,268)
d) social security expenses	-	-
e) provision for staff severance pay	(3,964)	(5,644)
f) pension fund and similar obligations:	(1,394)	(768)
- defined contribution	(664)	(430)
- defined benefit	(730)	(338)
g) contributions to external pension funds:	(19,476)	(19,817)
- defined contribution	(18,134)	(18,603)
- defined benefit	(1,342)	(1,214)
h) costs related to share-based payments	612	(824)
i) other employee benefits	(329,054)	(165,393)
2. Other staff	(1,407)	(44)
3. Directors and Statutory Auditors	(4,360)	(4,863)
4. Retired personnel	(4,355)	(4,523)
Total	**(1,857,161)**	**(1,727,543)**

Line f) “pension fund and similar obligations” includes amounts set aside for internal funds, while line g) “contributions to external pension funds” includes contributions paid and adjustments made to external pension funds.

Line “h) costs deriving from share-based payments”, equal to EUR 0.6 mln in 2017, reflects the reduction in provisions recognised in the previous year relating to the performance shares assigned to the Group’s “key employees”. In 2016, the provision was equal to EUR 0.8 mln.

Line “i) other employee benefits” includes the provision recognised for the early retirement incentives/solidarity fund pursuant to the agreement of 3 August 2017 entered into with the trade unions, for around EUR 281.8 mln.

11.2 Average number of employees by category

Category / Average Number	31 12 2017	31 12 2016
Employees:	**23,252**	**24,557**
a) executives	299	335
b) middle managers	9,369	9,929
c) remaining staff	13,584	14,293
Other personnel	**1**	**3**
Total	**23,253**	**24,560**

11.3 Defined benefit company pension funds: costs and revenues

Items/Amounts	31 12 2017			31 12 2016		
	Defined benefit company pension funds		Provision for staff severance pay	Defined benefit company pension funds		Provision for staff severance pay
	Internal pension plan	External pension plan		Internal pension plan	External pension plan	
Interest income/expense	(714)	(667)	(3,954)	(338)	(673)	(5,630)
Current service cost and gains (losses) arising from settlements°	(16)	(675)	(9)	-	(541)	(13)
Past service cost	-	-	-	-	-	-
Gains (losses) arising from settlements°°	-	-	-	-	-	-
Other operating costs	-	-	(1)	-	-	(1)
Total	**(730)**	**(1,342)**	**(3,964)**	**(338)**	**(1,214)**	**(5,644)**

° Past service cost and gains and losses arising from settlements need not be distinguished if they occur together (IAS 19.100)

°° Only in the event of settlement not set out in the terms of the plan.

11.4 Other employee benefits

No information to report pursuant to sections 53, 158 and 171 of IAS 19.

11.5 Other administrative expenses: breakdown

Items/Amounts	31 12 2017	31 12 2016
Stamp duties	(196,231)	(216,327)
Indirect taxes and duties	(45,895)	(48,743)
Municipal real estate property tax	(21,388)	(22,350)
Property rentals	(79,662)	(92,687)
Cleaning service contracts	(14,141)	(14,741)
Insurance	(29,206)	(31,750)
Rentals	(132,624)	(132,702)
Remuneration of external professionals	(170,983)	(202,593)
Third-party data processing	(56,045)	(68,369)
Lease of equipment	(33,086)	(32,846)
Utilities	(32,810)	(35,732)
Maintenance of movable and immovable properties (used in the business)	(41,735)	(39,511)
Postage	(24,263)	(24,824)
Advertising, sponsorships and promotions	(12,491)	(16,553)
Membership dues	(5,402)	(5,535)
Reimbursement of employee car and travel expenses	(7,451)	(9,571)
Security services	(9,330)	(11,641)
Software	(51,934)	(55,175)
expenses for personnel training	(3,888)	(4,070)
Corporate entertainment expenses	(1,886)	(3,392)
Expenses for non-rented investment real estate	(85)	(887)
Printing and stationery	(9,094)	(8,014)
Telephone, telefax and telegraph	(6,461)	(5,459)
Transportation	(35,198)	(33,990)
Sundry occupancy expenses and refunds for release of immovable property used in the business	(7,811)	(6,676)
Contributions Resolution Funds (SRF) and Deposits Guarantee Schemes (DGS)	(91,923)	(241,071)
DTA fee	(72,329)	(70,396)
Others	(32,488)	(12,099)
Total	**(1,225,840)**	**(1,447,704)**

Line "Advertising, sponsorships and promotions" for an amount of EUR 12.5 mln includes advertising, events and printing (EUR 11.0 mln), sponsorships and promotions (EUR 1.2 mln) and other communication expenses (EUR 0.3 mln).

Sub-item "Contributions Resolution Funds (SRF) and Deposits Guarantee Systems (DGS)", equal to EUR 92 mln, consists of: EUR 63 mln for charges associated with the SRF and NRF (National Resolution Fund) and EUR 29 mln for contributions to the DGS. The line "DTA fee" includes the expenses related to the fee 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.

For a trend analysis of the remaining concerned items, reference should be made to the consolidated Report on Operations.

Section 12 – Net provisions for risks and charges – Item 190

12.1 Net provisions for risks and charges: breakdown

Items/Amounts	31 12 2017				31 12 2016			
	Legal disputes	Personnel costs	Others	Total	Legal disputes	Personnel costs	Others	Total
Provisions for the year	(172,411)	(20,425)	(162,829)	(355,665)	(135,721)	(9,164)	(32,354)	(177,239)
Write-backs	91,199	5,492	26,090	122,781	125,633	14,548	81,486	221,667
Total	**(81,212)**	**(14,933)**	**(136,739)**	**(232,884)**	**(10,088)**	**5,384**	**49,132**	**44,428**

"Provisions for the year" include changes due to the time value of money, which show the amount of "time value" accrued during the year due to the expected imminent maturity of the estimated liability.

Section 13 – Net adjustments to/recoveries on property, plant and equipment – Item 200

13.1 Net losses (reversals) on property, plant and equipment: breakdown

\	Amortization	Impairment losses	Write-backs	Net Profit (loss) 31 12 2017	Net Profit (loss) 31 12 2016
A. Tangible assets					
A.1 Owned	(109,734)	(16,625)	-	(126,359)	(111,822)
- used in the business	(102,274)	(5,161)	-	(107,435)	(101,964)
- held for investment	(7,460)	(11,464)	-	(18,924)	(9,858)
A.2 Leased	(6,776)	-	-	(6,776)	-
- used in the business	(6,776)	-	-	(6,776)	-
- held for investment	-	-	-	-	-
Total	**(116,510)**	**(16,625)**	**-**	**(133,135)**	**(111,822)**

Property and equipment with a finite life is tested for impairment.

Section 14 – Net adjustments to /(recoveries on) intangible assets – Item 210

14.1 Net adjustments to intangible assets: breakdown

Assets/P&L items	Amortization (a)	Impairment losses (b)	Write-backs (c)	Net profit (loss) (a+b-c) 31 12 2017	Net profit (loss) 31 12 2016
A. Intangible assets					
A.1 Owned	(131,257)	(24,873)	-	(156,130)	(134,630)
- generated internally by the company	(28,964)	(4,473)	-	(33,437)	(28,101)
- other	(102,293)	(20,400)	-	(122,693)	(106,529)
A.2 Leased	-	-	-	-	-
Total	**(131,257)**	**(24,873)**	**-**	**(156,130)**	**(134,630)**

Amortisation mainly relates to software held by the MPS Consorzio Operativo di Gruppo and finite life intangible assets identified during the PPA process for former subsidiary Banca Antonveneta.

Section 15 – Other operating expenses/income – Item 220

15.1 Other operating expenses: breakdown

Items/Amounts	Total 31 12 2017	Total 31 12 2016
Costs of robberies	(2,645)	(5,258)
Write-downs on improvements of third-party goods recognized as "Other Assets"	(10,852)	(9,198)
Other expenses on real estate (real estate inventory)	(3,311)	(10,283)
Cost of financial lease transactions	(10,528)	(8,796)
Costs from judgments and settlement agreements	(49,892)	(76,220)
Other	(40,365)	(46,960)
Total	**(117,593)**	**(156,715)**

15.2 Other operating income: breakdown

Items/Amounts	Total 31 12 2017	Total 31 12 2016
Rents from investment real estate	15,685	23,291
Other revenues from real estate (real estate inventory)	2,001	4,655
Recovery of taxes	209,474	223,754
Recovery of insurance premiums	17,820	18,466
Recovery of other expenses	103,231	117,926
Income from financial lease transaction	3,050	2,590
Other	78,211	94,568
Total	**429,472**	**485,250**

The amount of EUR 103.2 mln classified under "Recoveries of other expenses" includes the "fast-track facility fee" introduced by Law Decree 201/2011 ("Save Italy Decree") amounting to EUR 20.8 mln (EUR 33.9 mln as at 31 December 2016) and the compensation of legal fees incurred for the enforced recovery of non-performing loans of EUR 51.9 mln (EUR 47.8 mln as at 31 December 2016).

Section 16 – Gains (losses) on investments – Item 240

16.1 Gains (losses) on investments: breakdown

P&L items/Sectors	Total 31 12 2017	Total 31 12 2016
1) Jointly owned companies		
A. Income	6	25
1. Revaluations	6	25
2. Gains on disposal	-	-
3. Write-backs	-	-
4. Other income	-	-
B. Expense	(1,086)	(1,577)
1. Write-downs	(1,086)	(1,577)
2. Impairment losses	-	-
3. Losses on disposal	-	-
4. Other expenses	-	-
Net Profit (Loss)	**(1,080)**	**(1,552)**
2) Companies subject to significant influence		
A. Income	106,905	87,146
1. Revaluations	101,088	79,318
2. Gains on disposal	5,817	7,828
3. Write-backs	-	-
4. Other income	-	-
B. Expense	(27,921)	(6,141)
1. Write-downs	(591)	(4,497)
2. Impairment losses	(27,330)	(1,644)
3. Losses on disposal	-	-
4. Other expenses	-	-
Net Profit (Loss)	**78,984**	**81,005**
Total	**77,904**	**79,453**

The amount of EUR 5.8 mln shown in line “2.A.2 Gains on disposal” consists entirely of the gain from the sale of Intermonte SIM S.p.A., realised in the final quarter of 2017.

The negative amount of EUR 27.3 mln reported on line “2.B.2 Impairment losses” refers to the write-down of the associates Fidi Toscana S.p.a., Interporto Toscano A.Vespucci S.p.a. and Trixia S.r.l.

For further information on the methodology for determining impairment losses, please see section 10.5, part B, of these notes to the consolidated financial statements.

Section 17 – Net gains (losses) on tangible and intangible assets measured at fair value – Item 250

17.1 Net gains (losses) on tangible and intangible assets measured at fair value (or revalued): breakdown

The section was not completed as tangible and intangible assets measured at fair value do not exist in the Group either in the current or in the previous period.

Section 18 – Impairment of goodwill – Item 260

18.1 Impairment of goodwill: breakdown

Owing to its indefinite or unlimited useful life, goodwill is tested at the end of each year to assess whether its carrying value is fairly stated or recoverable. The impairment test conducted in 2017 did not result in any impairment losses on goodwill allocated to the Financial Advisory and Digital Banking CGU (Cash Generating Unit), as the recoverable amount is higher than the book value by EUR 208 mln.

For additional information concerning the methods for conducting impairment tests, see the appropriate section in Part B of the Notes to the Financial Statements, Section 12.1 of Assets "Intangible Assets: breakdown by type".

Section 19 – Gains (losses) on disposal of investments – Item 270

19.1 Gains (losses) on disposals of investments: breakdown

P&L items/Sectors	Total 31 12 2017	Total 31 12 2016
A. Property	8,966	34,678
- Gains on disposal	9,489	34,738
- Losses on disposal	(523)	(60)
B. Other assets	522,215	(1,483)
- Gains on disposal	523,592	-
- Losses on disposal	(1,377)	(1,483)
Net Profit (Loss)	**531,181**	**33,195**

Please note that amongst gains on disposals, sub-item "A. Property" includes the capital gain of EUR 9 mln realised on the disposal of a property of the investee MPS BELGIO.

The amount of sub-item "B. Other assets - Gains on disposal" relates to the capital gain connected to the disposal of the merchant acquiring business unit to CartaSi.

Section 20 – Tax (expense)/recovery on income from continuing operations – Item 290

20.1 Tax (expense)/recovery on income from continuing operations: breakdown

P&L items/Sectors	Total	
	31 12 2017	31 12 2016
1. Current tax (-)	(5,192)	(11,073)
2. Adjustments to current tax of prior years (+/-)	(15,896)	8,533
3. Reduction of current tax for the year (+)	-	-
3.bis Reduction in current tax for the period due to tax credits under Law 214/2011	1,052,859	-
4. Changes in prepaid taxes (+/-)	(350,669)	37,820
5. Changes in deferred taxes (+/-)	41,050	(40,467)
6. Tax expense for the year (-) (-1+/-2 +3+/-4+/-5)	**722,152**	**(5,187)**

20.2 Reconciliation of theoretical to actual tax charge

Items/Amounts	31 12 2017	%	31 12 2016	%
Pre-tax profit (loss) from continuing operations	**(4,224,397)**		**(3,226,185)**	
Theoretical IRES payable	**1,161,709**	**27.5%**	**887,201**	**27.5%**
Permanent increases	**(24,669)**	**0.6%**	**(24,361)**	**0.6%**
Non-deductible interest expense	-	0.0%	(16,037)	0.4%
Losses on sale of AFS equity investments	(3,615)	0.1%	(2,800)	0.1%
Non-deductible administrative expenses (Municipal real estate property tax, vehicles, telephone, etc.)	(21,054)	0.5%	(5,524)	0.1%
Impairment of goodwill	-	0.0%	-	0.0%
Permantent decreases	**214,907**	**-5.1%**	**93,744**	**-2.2%**
Gains on sales of AFS equity investments	5,195	-0.1%	7,404	-0.2%
Gains on disposal of subsidiaries and associates	2,512	-0.1%	2,623	-0.1%
Capital gains due to conversion of debt instruments into shares, not relevant (Art.22 paragraph 2-bis DL237/2016)	155,919	-3.7%	-	0.0%
Deduction ACE	51,281	-1.2%	83,717	-2.0%
Reversal of theoretical tax charge on profits / net losses of equity investments in associates (valued at equity method)	30,638	-0.7%	22,123	-0.5%
DTA write-downs related to prior tax losses	572,270	-13.5%	(251,610)	6.0%
Effetct due to non-registration of DTA on tax loss of current year	(1,239,213)	29.3%	(817,059)	19.3%
Adjustments previos year tax	-	0.0%	112,593	-2.7%
Other components (IRES relative to previous years, spreads between Italian and foreign tax rate, etc.)	16,268	-0.4%	(47,471)	1.1%
Effectiove IRES payable	**731,910**	**-17.3%**	**(24,840)**	**0.6%**
Theoretical IRAP payable	**196,434**	**-4.6%**	**150,018**	**-3.6%**
Economic items not relevant for IRAP purposes	**25,245**	**-0.6%**	**(12,051)**	**0.3%**
Non-deductible interest expense	(173)	0.0%	(7,795)	0.2%
Value adjustments and credit losses	(6,040)	0.1%	663	0.0%
Non-deductible costs of pernsonnel	(606)	0.0%	(701)	0.0%
Profit (loss) on subsidiaries ad associates	2,112	0.0%	780	0.0%
Other non-deductible administrative expenses (10%)	(7,071)	0.2%	(8,062)	0.2%
Amortization non-deductible (10%)	(417)	0.0%	(359)	0.0%
Capital gains due to conversion of debt instruments into shares, not relevant (Art.22 paragraph 2-bis DL237/2016)	26,364	-0.6%	-	0.0%
Other P&L items not relevant	11,076	-0.3%	3,423	-0.1%
Value adjustments and credit losses	-	0.0%	397	0.0%
Increase Regional rates effects	43,048	-1.0%	28,600	-0.7%
Charges from not recognised tax loss carryforward IRAP	(273,979)	6.5%	(174,916)	4.1%
Adjustmtes previous years tax	-	0.0%	20,391	-0.5%
Other components (IRAP relative to previous years, spreads between italian and foreign tax rate, etc.)	(506)	0.0%	7,214	-0.2%
Effective IRAP payable	**(9,758)**	**0.2%**	**19,653**	**-0.5%**
Total effective IRES and IRAP tax expense	**722,152**	**-17.1%**	**(5,187)**	**0.1%**

The reconciliation relating to IRES includes, aside from the main tax at the rate of 24%, also the additional tax of 3.5% introduced by Law no. 208 of 28 December 2015, paragraphs 65-66.

Section 21 – Profit (loss) after tax from assets held for sale and discontinued operations – Item 310

The tables in this section are not presented as there were no profits or losses from discontinued operations in 2017.

Section 22 – Profit (loss) attributable to non-controlling interests – Item 330

22.1 Details of item 330 "Profit (loss) attributable to non-controlling interests"

	Total 31 12 2017	Total 31 12 2016
Consolidated equity investments with significant non-controlling interests	-	-
Other equity investments	94	9,738
Total	**94**	**9,738**

Section 23 – Other information

No additional disclosure to that presented in accordance with the international accounting standards and Circular letter no. 262 of the Bank of Italy is required.

Section 24 – Earnings per Share (EPS)

24.1 Average number of diluted ordinary shares

Items/Amounts	(n. Shares)	
	31 12 2017	31 12 2016
Weighted average number of ordinary shares outstanding (+)	479,806,673	29,319,322
Dilutive effect from put options sold (+)	-	-
Dilutive effect from ordinary shares to be assigned as a result of treasury share-based payments (+)	-	-
Dilutive effect from convertible liabilities (+)	-	-
Dilutive effect from convertible liabilities (+)	-	-
Weighted average number of ordinary shares outstanding by diluted earnings per share	**479,806,673**	**29,319,322**

The earnings per base share is calculated by dividing the Parent Company's overall net result by the weighted average of ordinary shares issued, or net of the average number of treasury shares.

24.2 Other information

24.2a Reconciliation of net profit (loss) for the year - numerator for basic earnings per share

Item/Amount	31 12 2017			31 12 2016		
	Relating to continuing operations and pertaining to the Parent Company	Relating to discontinued operations and pertaining to the Parent Company	Total pertaining to the Parent Company	Relating to continuing operations and pertaining to the Parent Company	Relating to discontinued operations and pertaining to the Parent Company	Total pertaining to the Parent Company
Net Profit (Loss)	(3,502,339)	-	(3,502,339)	(3,241,110)	-	(3,241,110)
Profit (loss) attributable to other types of shares	-	-	-	-	-	-
Net profit (loss) attributable to ordinary shares - numerator for basic earnings per share	**(3,502,339)**	**-**	**(3,502,339)**	**(3,241,110)**	**-**	**(3,241,110)**

24.2.b Reconciliation of net profit (loss) for the year - numerator for diluted earnings per share

Item/Amount	31 12 2017			31 12 2016		
	Relating to continuing operations and pertaining to the Parent Company	Relating to discontinued operations and pertaining to the Parent Company	Total pertaining to the Parent Company	Relating to continuing operations and pertaining to the Parent Company	Relating to discontinued operations and pertaining to the Parent Company	Total pertaining to the Parent Company
Net Profit (Loss)	(3,502,339)	-	(3,502,339)	(3,241,110)	-	(3,241,110)
Dilutive effect from convertible liabilities	-	-	-	-	-	-
Net profit (loss) attributable to ordinary shares - numerator for diluted earnings per share	**(3,502,339)**	**-**	**(3,502,339)**	**(3,241,110)**	**-**	**(3,241,110)**

24.2.c Basic and diluted earnings per share

(in units of Eur)

Item/Amount	31 12 2017			31 12 2016		
	Relating to continuing operations and pertaining to the Parent Company	Relating to discontinued operations and pertaining to the Parent Company	Total pertaining to the Parent Company	Relating to continuing operations and pertaining to the Parent Company	Relating to discontinued operations and pertaining to the Parent Company	Total pertaining to the Parent Company
Basic Earnings per Share	(7.299)	-	(7.299)	(110.545)	-	(110.545)
Diluted Earnings per Share	(7.299)	-	(7.299)	(110.545)	-	(110.545)

As at 31 December 2017, basic and diluted earnings per share was influenced by the significant change in the value of the ratio denominator compared to the previous year, i.e., the average number of ordinary shares outstanding. As at 31 December 2017, this number was impacted by the effects of the share capital increase completed by Banca Monte dei Paschi di Siena in August 2017, which resulted in the issue of 1,110,969,274 new shares (see Section 15 of the liabilities, Part B).

Part D – Consolidated statement of comprehensive income

Consolidated Statement of Comprehensive Income

				31 12 2017
	Items	**Gross**	**Income Tax**	**Net**
10.	**Proft (loss) for the year**	**X**	**X**	**(3,502,245)**
	Other income components without reversal to profit & loss			
20.	Tangible assets	-	-	-
30.	Intangible assets	-	-	-
40.	Actuarial defined benefit plans	4,839	(1,173)	3,666
50.	Non-current assets held for sale	83	-	83
60.	Share of valuation reserves of equity-accounted investments	328	(101)	227
65	Financial liabilities measured at fair value with impact to profit and loss	(177,430)	58,286	(119,144)
	Other income components with reversal to profit & loss			
70.	**Hedges of foreign investments:**	**-**	**-**	**-**
	a) changes in fair value	-	-	-
	b) reversal to profit & loss	-	-	-
	c) other changes	-	-	-
80.	**Exchange differences:**	**(9,056)**	**3,013**	**(6,043)**
	a) changes in value	(9,172)	3,013	(6,159)
	b) reversal to profit & loss	-	-	-
	c) other changes	116	-	116
90.	**Cash flow hedges:**	**41,620**	**(15,455)**	**26,165**
	a) changes in fair value	(6,312)	291	(6,021)
	b) reversal to profit & loss	44,360	(14,572)	29,788
	c) other changes	3,572	(1,174)	2,398
100.	**Financial assets available for sale:**	**35,217**	**(10,771)**	**24,446**
	a) changes in fair value	18,290	(25,375)	(7,085)
	b) reversal to profit & loss	12,412	16,020	28,432
	- impairment provisions	61,940	39	61,979
	- realised net gains/losses	(49,528)	15,981	(33,547)
	c) other changes	4,515	(1,416)	3,099
110.	**Non-current assets held for sale:**	**(16,360)**	**930**	**(15,430)**
	a) changes in value	112	(8)	104
	b) reversal to profit & loss	(16,472)	938	(15,534)
	c) other changes	-	-	-
120.	**Share of valuation reserves of equity-accounted investments:**	**(83,488)**	**25,888**	**(57,600)**
	a) changes in fair value	(83,488)	25,888	(57,600)
	b) reversal to profit & loss	-	-	-
	- impairment provisions	-	-	-
	- realised net gains/losses	-	-	-
	c) other changes	-	-	-
130.	**Other income components**	**(204,247)**	**60,617**	**(143,630)**
140.	**Total comprehensive income (Item 10 + 130)**	**(204,247)**	**60,617**	**(3,645,875)**
150.	Consolidated comprehensive income attributable to non-controlling interests	98	(4)	94
160.	**Consolidated comprehensive income attributable to Parent Company**	**X**	**X**	**(3,645,969)**

Part E – Information on risks and hedging policies

Note: Public Disclosure (Basel III Pillar) is published on the Group's website: https://www.gruppomps.it/investor-relations.

Foreword

A summary of the organisation of the Group's risk governance and the related processes and key functions is described below. An estimate of the Overall Internal Capital and a description of the relative assessment models are also provided.

For more detailed information on the bank's Risk Governance and risk culture, please refer to the Consolidated Report on Operations.

Risk governance system

The risk governance system adopted by the Group is characterised by a clear-cut distinction of roles and responsibilities of the different functions at first, second and third level of control.

Policies relating to the assumption, management, coverage, monitoring and control of risks are defined by the statutory bodies of the Parent Company. In particular:

- The Parent Company's Board of Directors defines and approves strategic guidelines and risk management policies and, at least once a year, quantitatively expresses the Group's overall risk appetite in terms of economic capital;
- The Board of Statutory Auditors and the Risk Committee evaluate the level of efficiency and adequacy of the internal control system, with particular regard to risk control;
- The CEO/General Management is responsible for ensuring compliance with risk policies and procedures;
- The Director in charge of the internal control and risk management system, appointed in compliance with the Corporate Governance Code for listed companies, is responsible for creating and maintaining an effective system of internal control and risk management.

Specific Management Committees responsible for risk issues have been established in order to promote efficiency and flexibility in the decision-making process and facilitate interactions between the various company functions involved:

- The Risk Management Committee establishes Risk Management policies, evaluates the Group's risk appetite in accordance with annual and long-term Group value creation targets and ensures and monitors overall compliance with the limits defined for the various operating levels; proposes the allocation of capital to be submitted to the Board of Directors for approval; evaluates the risk profile reached and therefore the capital consumption at both Group level and for each individual company of the Group; analyses risk-return performance indicators;
- The Finance and Liquidity Committee formulates the principles and strategic guidelines relating to proprietary finance; it resolves upon and submits proposals regarding exposures to interest rate and liquidity risk in the banking book and defines capital management actions;
- The Credit and Credit Policies Committee formulates policies in relation to credit processes and formulates an opinion, at least once per year, on credit policies by verifying their commercial sustainability and consistency with risk appetite levels. It also approves, at least annually, company policies pertaining to 'credit assessment'. Based on the authorities assigned to it, it is also responsible for taking decisions with respect to lending and the management of problem receivables and assets.

As part of the Internal Control System, the Chief Audit Executive Division conducts third-level controls, the Chief Risk Officer Division and the Compliance Area carry out second-level controls and the Business Control Units (BCUs) carry out first-level controls.

The Chief Audit Executive Division performs an independent and objective "assurance" and advising activity, aimed both at monitoring operations compliance and risk trends (including through on-site audits) as well as assessing the efficiency of the overall internal control system in order to improve the effectiveness and efficiency of the organisation. It also acts as Internal Secondary Supervisor with a view to focusing on the main characteristics of the prudential supervision process adopted by the European Supervisory Authority and on the orientations/priorities outlined by the latter over time so as to evaluate the Group's positioning with respect to the expectations of the Single Supervisor.

The Chief Risk Officer Division, which reports directly to the Board of Directors and functionally reports to the CEO, includes a risk management function, the anti-money laundering function and the internal approval function. This Division therefore has the following tasks:

- to guarantee the overall functioning of the risk management system;
- to verify capital adequacy based on the ICAAP and liquidity adequacy based on the ILAAP;
- to participate in the definition and control of the Risk Appetite Framework (RAF), as well as ensure that significant transactions are consistent with the RAF;
- to define strategic policies for the loan portfolio;
- to perform the anti-money laundering duties envisaged by Law and the internal validation of risk management models;
- to ensure the necessary reporting flows to the Group's Top Management and Governance bodies;
- to guarantee proper and adequate control activities for the Group Companies that have outsourced the analogous corporate function.

Specifically, within the Chief Risk Officer Division, the risk control function structures are:

- the Financial Risk Officer Area. It defines the integrated methods of risk measurement/analysis and ensures they are constantly monitored, verifying their consistency with the risk appetite and compliance with the thresholds defined in terms of adequacy with respect to capital and liquidity reserves, participating in the definition of any mitigating actions required. It participates in the preparation, drafting and monitoring of the Recovery Plan. It governs the development of the proprietary financial risk measurement and control system in line with internal and regulatory principles. It guarantees management risk reporting for the Corporate Bodies and the Top Management.
- the Lending Risk Officer Area. It governs the evolution of the credit risk measurement system, in line with internal and regulatory principles, in terms of statistical models as well as analytical and process assessments, overseeing the credit risk assessment from portfolio quality to the single name level. It conducts second-level controls on the Group's credit exposures.
- the Operating Risk Officer Area. It governs the evolution of the risk measurement and control system correlated with the operational application of the Group's business model (including operational, reputational, business model and customer portfolio risks).

The Compliance Area performs the function of control of compliance with regulations for the Parent Company. The function is directly responsible for managing risks relating to the violation of the most significant rules in bank-customer relations and it periodically reports to the company's top management and supervisory authorities regarding the overall state of compliance of the Bank's systems and operations. In compliance with the supervisory provisions, the Compliance function reports directly to the CEO.

The outlying BCUs operating within the subsidiaries or main business areas, carry out compliance checks on the transactions which they are responsible for and are the first level of organisational supervision of transactions within the broader internal control system.

In compliance with the requirements of autonomy and independence of each participating function, there is also a Function Coordination Committee in place with control responsibilities. The Committee promotes and shares operational and methodological aspects to identify possible synergies in control activities carried out by second and third-level Functions, coordinate methods and timing for planning and reporting to the Corporate Bodies and project initiatives connected with the Internal Control System, and share areas for improvement identified by all Functions with control responsibilities as well as the Supervisory Authorities.

The Staff Regulatory Relationship, reporting directly to the CEO, was established for centralised oversight of management of relationships and assessments by the Supervisory Authorities, coordinating and monitoring planning of the commitments made and the main directions of evolution in the European regulatory environment.

Requirements of autonomy and independence of the Risk Division

The Chief Risk Officer (CRO) is the head of the Parent Company's Risk Control Division.

The Division's autonomy and independence are ensured as it reports directly to the Corporate Body with strategic supervisory functions (the Board of Directors) and only functionally to the Management Body (CEO/GM). It has direct access to the Body with control functions (Board of Statutory Auditors) and may communicate continuously with no restriction or intermediation. The CRO is also entitled at his or her discretion to participate in Risk Committee meetings to intervene or propose discussions on specific topics.

In particular, the Board of Directors appoints and removes the Chief Risk Officer, upon proposal by the Risk Committee, with the assistance of the Appointments Committee, having consulted the Board of Statutory Auditors.

The remuneration of the Parent Company's Chief Risk Officer is determined and approved by the Board of Directors upon proposal by the Remuneration Committee, having heard the opinion of the Risk Committee.

Activities relating to the international Regulatory framework

Pillar 1: since 2008, the Group has used internal models validated by the Bank of Italy for the measurement and management of credit risk (AIRB - Advanced Internal Rating Based) and operational risk (AMA - Advanced Measurement Approach). Over time, and in collaboration with the Supervisory Authorities, these models have been further enhanced and their scope of application extended to Group entities not originally included in the initial validation scope.

Pillar 2: efforts to ensure compliance with the Supervisory Review and Evaluation Process (SREP) framework and to further improve the Group's Internal Capital Adequacy Assessment Processes (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) continued during the year, with the mandatory reporting provided to Supervisors. In 2017, the Risk Appetite Framework (RAF), the overall internal reference framework for the determination of the Group's risk appetite, was further developed. In addition, the Group engaged in several improvement projects on the system for the management of the various risks.

Pillar 3: public disclosure is provided on a quarterly basis through the Group's internet site www.mps.it/investors and is continuously updated in accordance with regulatory developments.

An analysis of the Group's Internal Capital

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

The main types of risks incurred by the Group in its day-to-day operations can be summarily described as follows:

- Credit risk;
- Market risk;
- Operational risk;
- Banking book interest rate risk;
- Counterparty risk;
- Real estate risk;
- Issuer risk;
- Concentration risk;
- Equity investment portfolio risk;
- Business/Strategic risk;
- Liquidity risk;
- Reputational risk.

All of the types of risk mentioned above are involved in quantifying the Overall Internal Capital, with the exception of liquidity and reputational risk that, instead, are mitigated through organisational policies and processes.

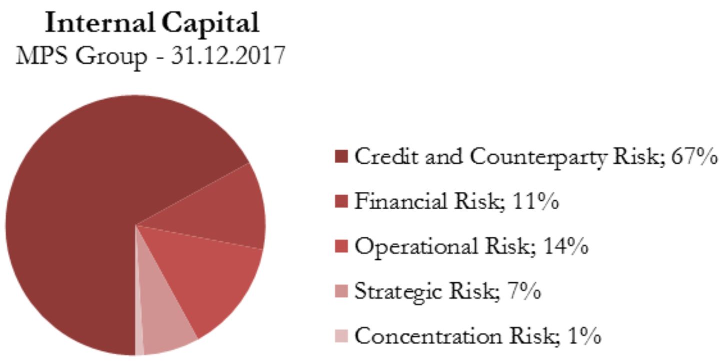
Risks inherent in investment products/services for the Group's customers are also monitored, to protect the customer and preventing any potential repercussions in terms of reputation.

Risk assessment models

The Risk Management Area regularly quantifies the Group's Internal Capital for each type of risk and periodically reports these to the Risk Management Committee and to the Governing Bodies as part of the reporting flows prepared by the Chief Risk Officer Division.

The approach used to quantify and supplement the risks-to-capital with regard to which the Group is exposed is known in the literature as Pillar 1 Plus. This approach envisages that the Pillar 1 requirements for Credit and Counterparty Risk, which already include those relating to Issuer Risk on the Banking Book, Equity Investment Risk, Real Estate Risk and Operational Risk, be increased by the requirements from internal models relating to Market Risks, both Trading Book and Banking Book, Banking Book Interest Rate Risk (Financial Risks), Concentration Risk and Business/Strategic Risk.

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



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.

Section 1 – Risks of the banking group

1.1 – Banking group - Credit risk

Qualitative Information

1.1.1 General aspects

Within the guidelines approved by the Parent Company's Board of Directors, and in line with the evolution of the supervisory regulatory framework, the Group pursues the primary objective of improving the quality of the managed loan book and consequently reducing the cost of credit.

The Group's credit activity is managed with a view to monitoring risk and enhancing growth opportunities, through the development of credit policies and systems aimed at making the most of trend data in connection with individual borrowers, against a background of in-depth knowledge and strategic management of positions.

1.1.2 Credit risk management policies

Organisational aspects

As its distinctive mission, the Chief Lending Officer Division performs activities of credit risk taking and operational monitoring of credit quality, giving guidance and support to the network in credit activities, monitoring trends in the cost of credit and the direct management of impaired loans, including financial restructuring transactions.

The Chief Lending Officer Division includes the Performing Loan Division, focused on the management of performing exposures, non-performing past due exposures and unlikely to pay positions within the sales network, and the Non-Performing Network Division, responsible for the management of exposures that have been or are currently being restructured, higher risk unlikely to pay loans and doubtful loans under the responsibility of specialised head office units.

The Performing Loans Division includes:

- the Loan Disbursement Area which, relying on its constituent units dedicated to Market Disbursement and Corporate Specialised Disbursement, is responsible for generating a flow of loans consistent with credit policies and proceeding with the appropriate reclassifications, while guaranteeing efficiency by reducing response times;
- the High Risk Area which monitors default detection and impairment indicators in order to enact the reclassification process accordingly through the High Risk Resolutions function and manage credit problems through the Credit Process Quality function.

The Non-Performing Loan Division, on the other hand, is responsible for impaired loans. This Division consists of three Areas:

- the Restructured Loans and Problem Assets Area, which works on managing problematic loans that require the implementation of restructuring actions, by directly managing the Group's restructured loans and those undergoing restructuring, including those for lower amounts;
- the Distressed Credit Risk Area which, through the Mid Ticket service which heads up the Distressed Credit Risk and the newly established Big Ticket Service Departmental Sectors, properly manages positions classified as unlikely to pay with "distressed credit risk" with a view to maximising the reduction of the stock under management from the perspective of costs and timing;
- the Debt Collection Area which, through its Departmental Sectors, pursues the mission of protecting credit claims from counterparties in doubtful status for judicial and out-of-court collection purposes. In the course of 2017, the Area successfully completed a large-scale deleveraging of doubtful loans without recourse through a securitisation vehicle; in terms of

debt collection, an ad hoc platform was also created for the management of the majority of the doubtful loans on behalf of the Group, in order to raise the level of efficiency and cost-effectiveness of collection activities; the platform will begin operating in the early months of 2018 and will also be disposed of in the course of 2018.

Furthermore, the Non-Performing Loans Division includes two additional structures:

- the Specialised Support and Non-Performing Loan Quality Service, which plays an advisory and support role for more complex positions, conducts monitoring, reporting and controls on non-performing loans and sets up structured credit asset derecognition transactions;
- the Bulk Problem Loan Management Service specialised in small ticket debt collection activities and in the management of positions in arrears by relying on affiliated external debt collection companies.

The Chief Lending Officer also relies on another two functions reporting directly to him:

- the Credit Portfolio Governance Area which oversees the lending information base on a unitary basis and outlines credit policies, defines lending operational and management strategies and sets up extraordinary deleveraging transactions; the Function also carries out support/operations activities such as accounts payable, document management, operational requirements on transferred loans and the management of collateralisable bank assets;
- the Credit Control Unit Service, the function responsible for supporting the CLO in monitoring, supervision and management reporting activities, on KPIs as well as KRIs, in addition to overseeing the analytical write-down calculation process, acting as an interface between the CLO Division and the various control functions inside and outside the Group.

Management, measurement and control systems

Starting in 2008, statistical models aimed at creating the Internal Rating Model and rating assignment processes were authorised by the Supervisory Authority for the calculation of capital requirements using the Advanced IRB approach (AIRB).

The prudential regulation requires the Group to adopt the following credit risk measures needed to calculate regulatory capital (AIRB approach): Probability of Default (PD), Loss Given Default (LGD), and Exposure At Default (EAD). The "Probability of Default", which is a reflection of the borrower's rating, represents its ability to meet obligations assumed over a time horizon of one year. Thus, a rating is a probability-based approach to risk assessment, and represents a projection of portfolio quality that forms a part of daily processes of credit facility assessment, loan management and pricing, as well as of the procedures used to determine loan loss provisions and reports used by management.

The statutory adoption of risk criteria has made it possible for the Group to obtain significant operational advantages, both in terms of a higher accuracy in credit budgeting forecasts and in terms of a more effective monitoring of credit aggregates. Based on the risk criteria, the Group sets the process for the yearly budgeting of credit items and makes accurate and sustainable forecasts in relation to the loan book, unlikely to pay and doubtful loan flows and loan-loss provisions.

Forecast sustainability is ensured by the definition of concrete loan book actions which are communicated to the outlying networks through an internal regulatory document as well as by amending the credit disbursement and management processes and criteria.

All credit processes use the borrower rating as a decision-making driver, and they are conceived as a function of the specific nature of various customer segments in order to optimise the use of resources employed in loan management/monitoring and to achieve the right balance between the push for sales and an effective loan management system. The internal rating system, which affects the Corporate and Retail portfolios, is based on the development of several statistical models specialised by customer type with the aim of assigning a solvency rating for prospective borrowers (first-time lending models based on financial and demographic information taken from outside databases) and for existing borrowers (for which behavioural models have also been used, which incorporate internal performance data).

In order to increase efficiency levels in managing internal ratings, the locally situated Internal Rating Agencies have become the single point of reference for all units on rating issues. The role of the Rating Agencies allows for a closer interaction with the Network to make assistance more effective, generate more synergies and enable a more efficient transfer of knowledge.

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 internal PD, LGD and EAD models for risk measurement are one of the main elements of assessment for all Group units involved in the credit industry, both at Head Office level (Risk Management, Credit Division, Chief Financial Officer, General Management, Risk Committee, Board of Directors) and at branch level (Rating agencies and Relationship Managers). 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 development of the internal rating systems involved the adoption of strict and advanced statistical methodologies in compliance with the requirements set out in the regulations; at the same time, models were selected in such a way as to make results consistent with the historical experience of the bank in credit management. Lastly, in order to optimise the proper use of these new instruments, the rating models were shared with a top-down approach – from Risk Management down to individual client managers. Estimation of the LGD model was based on internal data relative to capital flows, recoveries and expenses actually incurred on positions transferred to the doubtful loans portfolio. Results obtained from model application were then compared with data recorded by the Debt Collection Area which is dedicated to the management and recovery of non-performing loans.

The main characteristics of the advanced rating systems are as follows:

- for all validated regulatory portfolios, the rating is calculated with a counterparty-based approach for each individual borrower, in line with the accepted management practice which provides for the assessment of credit risk, both in the disbursement and monitoring phases;
- each individual counterparty is assigned a single rating at banking Group level, based on the set of information pertaining to all lending banks within the AIRB scope; the LGD is different for each company given the diversity of products issued and the type of customers to whom they are offered;
- the rating model segmentation is defined in such a way as to make the individual model clusters consistent with commercial objectives, credit processes and regulatory portfolios set out in the regulations;
- the calculation of the final rating is differentiated by type of counterparty. The credit process envisages a level of in-depth analysis proportional to counterparty risk: the assessment of loan disbursements is based on a complex multi-level structure for medium-large corporate counterparties, whose exposure and concentration risks are higher, and a simplified structure for Small Business and Retail clients;
- in line with this process, the final rating for medium-large corporations is the result of a number of different factors: statistical rating, qualitative rating, overrides and valuation of the

'economic group' which businesses belong to; for Small Business and Retail counterparties the rating is calculated only on the basis of statistical factors;
- the rating has a 12-month internal validity period and is usually reviewed on a yearly basis, except for rating reviews following well-structured codified practices or that are brought forward on client managers' request or following serious counterparty deterioration;
- LGD reflects the economic (and not only the accounting) loss incurred; for this reason, LGD estimates must also include the costs incurred for the recovery process and a time factor;
- loss given default is differentiated by type of loans and a LGD value is assigned at the level of each individual transaction; it is differentiated by geographical area since historical and current recovery rates are different among Northern Italy, Central and Southern Italy and Islands;
- loss on defaulted positions other than doubtful loans is estimated with a Cure Rate approach. With regard to counterparties whose exposures are administratively classified as unlikely to pay and non-performing past due, the percentage of exposures reverting back to a performing status was calculated and used to adjust the estimated LGD, starting from doubtful loans.

The Group has adopted a single Master Scale for all types of exposures; this enables all units involved in credit management to immediately compare the risk level associated with different counterparties or portfolios; furthermore, the probabilities of default of internal rating classes were mapped against Standard&Poor's external rating scale so as to make internal risk measurements comparable to those available on the financial market.

The development and monitoring of rating systems has been functionally assigned to Risk Management and is subject to control by the Internal Validation and Internal Control functions.

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

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

In compliance with the guidelines set forth by the Basel Committee and Best Practices, new prudential supervisory provisions for banks require credit institutions to carry out adequate stress testing exercises.

The Group regularly conducts stress tests on all risk factors. Stress tests are used to assess the Group's capacity to absorb large potential losses in extreme yet plausible market situations, so as to identify the measures necessary to reduce the risk profile and preserve assets.

Stress tests are developed on the basis of discretionary and trend-based scenarios.

- trend-based scenarios: assumptions are made of shocks that are due to a combination of risk factors which were historically observed in the past and whose recurrence and plausibility retain a certain degree of likelihood;
- discretionary scenarios: assumptions are made of shocks that are due to a combination of risk factors which may emerge in the near future, depending on the foreseeable environmental, social and economic developments. Simple discretionary scenarios are currently being developed (variation of a single risk factor) as are multiple ones (variation of several risk factors simultaneously). Simple discretionary scenarios are calibrated to independently deal

with one category of risk factors at a time, assuming shocks do not spread to the other factors. Multiple discretionary scenarios, on the other hand, aim to assess the impact of global shocks that simultaneously affect all types of risk factors.

The Group's methodological approach to stress-testing is based upon the identification of main risk factors whose objective is to select events or combinations of events (scenarios) which reveal specific vulnerabilities at Group-level. To this end, specific stress plans have been put in place on Pillar I risks (credit, market and operational) which were then made to converge – together with stress events designed ad hoc on other risk factors – into an overall Pillar II stress test plan, aimed at determining the potential impact on the Group within the ICAAP process.

With regard to Credit risk in particular, the Group has defined a macro-economic regression model to estimate the variations in the Probability of Default as a function of changes in the main credit drivers. Credit drivers which significantly describe PD variations are identified beforehand.

On the basis of the regression model, credit driver disturbances are then estimated according to the current and prospective economic situation. The shock applied to the credit drivers determines the change in credit portfolio PD, triggering the simulation of a hypothetical counterparty downgrading, with consequent risk variations in terms of Expected Loss, Unexpected Loss and input from new Defaults.

The results from the stress test are submitted to the Top Management and Board of Directors. They are formally examined by the BoD as part of the ICAAP Annual Report approval process, with a view to providing a self-assessment of the current and prospective capital adequacy of the Group.

Credit risk mitigation policies

With reference to the retail and corporate loan portfolio, the Group does not apply any netting processes to the credit risk exposures with on- or off-balance sheet items with opposite sign. The Group adopts policies to reduce counterparty risk with institutional counterparties, by entering into netting agreements according to the international ISDA and ISMA standards and related collateral agreements for both derivatives and repos (repurchase agreements).

The main forms of real guarantees for credit protection used by the Group include pledges, mortgages and other collateral (insurance, guarantee funds).

As at today, the pledge of sums and the pledge of securities and mutual funds deposited with the Parent Company and mortgages on properties account for over 98% of the nominal amount of collaterals received and all of them ensure full compliance with regulatory/legal/organisational requirements set out by the Supervisory Regulations for the enforcement of credit risk mitigation standards.

The Group has developed one single process for the acquisition of collaterals which is at the same time a working instrument and the expression of the Group's management policies. The management of collateral is activated after loan disbursement is approved and its process is organised into a number of different stages:

- acquisition (including multiple acquisition): the controls of (formal and amount) consistency with the guarantees proposed during the authorisation phase are performed in this stage;
- adjustment/change/amendment: useful to amend the characteristics of a guarantee without interrupting loan protection;
- query: gives information about the present data and the historical trend of guarantees received;
- repayment/cancellation.

If the measures for monitoring collaterals on loans show operational irregularities during the acquisition phase or any inadequacies/losses of the values received as a pledge, events falling within the scope of credit monitoring policies are put in place, which trigger operational obligations of credit risk assessment.

The Group accepts different instruments to protect loans which can be summarised in the following categories:

- Guarantees (including omnibus guarantees and personal guarantees issued by third parties);
- Endorsement;
- Guarantee policy;
- Credit mandate;
- Strong/binding patronage letter;
- Negotiable instruments;
- Performance bond agreement;
- Debt delegation;
- Expromission;
- Assumption of debt;
- Personal Collateral governed by foreign law;
- Credit derivatives:
  - credit default swaps;
  - total return swaps;
  - credit linked notes.

The main parties issuing the above credit-protection instruments are:

- Sovereign governments and central banks;
- Public sector and local agencies;
- Multilateral development banks;
- Regulated intermediaries;
- Guarantee institutions (Confidi);
- Companies and individuals.

Over 95% of personal guarantees are traceable to companies and individuals as guarantors. Only to a limited portion of these customers can an internal rating be assigned, since these guarantors are not borrowers of Group companies.

The main concentration of collaterals is linked with retail mortgage loans. However, it cannot be referred to as risk concentration by virtue of the principle of risk fragmentation which is implicit in this type of customers.

More generally, as regards mortgage collateral, an IT platform integrated within the Parent Company's systems has been introduced which is used to automatically transfer information about the property acquired from appraisers directly to those systems. The platform automatically updates all of the Parent Company's loan management applications and digitally archives the appraiser's documentation. It is also capable of standardising the set of information provided by the appraisers.

Appraisers are selected based on an individual analysis of their abilities, professional skill and experience, and are placed on a dedicated list of accredited professionals; their work is monitored continuously, including by checking any divergence between surveyed values and benchmark market data. Appraisers are required to prepare their estimates using valuation methods consistent with the Italian Banking Association's Guidelines for the appraisal of properties backing credit exposures.

For the phase of monitoring the assets pledged, the Group has a policy establishing the amounts of the secured exposure and the age of the appraisal, beyond which the properties are appraised again. For exposures lower than the thresholds defined, the Group in any event conducts half-yearly monitoring of the property value based on market data.

The disbursement of loans secured by collaterals is subject to specific control measures, differentiated by type of guarantee pledged, which are applied during the phase of disbursement and monitoring.

The general requirements for ensuring the legal certainty and enforceability of guarantees are verified by checking compliance with the following relevant conditions:

- binding nature of the legal obligation entered into by the parties and enforceability in the event of legal proceedings;
- documented evidence and enforceability of the instrument against third parties in all relevant jurisdictions for the purpose of its exercise and execution;
- timely liquidation in case of non-fulfilment;
- compliance with organisational requirements.

With reference to compliance with organisational requirements, mitigation of risk is ensured by:

- the presence of an IT system in support of the life cycle phases of the guarantees (acquisition, valuation, management, re-valuation and enforcement);
- the existence of regulated policies for the management of guarantees (principles, practices, processes), available to all users.

Non-performing financial assets

Non-performing financial assets include loans which, following the occurrence of events subsequent to their disbursement, show objective evidence of a possible loss in value.

Non-performing exposures (e.g. doubtful, unlikely to pay and non-performing past due; together, non-performing exposures) are classified into different risk categories in accordance with the regulations issued by the Bank of Italy, supplemented with internal provisions which set automatic criteria and rules for the transfer of receivables between different risk categories. In particular, classification is carried out by bodies within the loan decision-making chain based on a process that provides for a series of codified controls aiming to guarantee proper asset classification, except for loans more than 90 days past due, which are measured using automated procedures. To activate the controls, default detection parameters have been integrated within the Group's business procedures (Credit Monitoring) so as to subject the most critical positions to assessment, including for any reclassification if required.

The Group's procedures also manage the phases for transfer to non-performing categories, in particular forborne positions. A "forborne exposure" (as defined in Bank of Italy circular 272) is a debt agreement for which measures of tolerance have been applied (otherwise identifiable as "forbearance measures"). The measures of tolerance consist of concessions - in terms of the amendment and/or refinancing of the pre-existing debt agreement - to the borrower who has or is on the verge of having difficulty in meeting its financial commitments (in other words, the borrower is in financial difficulty).

Forborne exposures are broken down into:

- non-performing exposures with forbearance measures, pursuant to the Implementing Technical Standards (ITS) issued by the EBA. These exposures represent a sub-category of, depending on the case, doubtful loans, unlikely to pay or non-performing past due; therefore, they do not make up their own category of non-performing exposures;
- forborne performing exposures, pursuant to the ITS.

If a new facilitation or a change in the credit line which amounts to a new concession is requested, the manager is asked to evaluate the counterparty's financial difficulty. With support from the procedure, the manager establishes whether the borrower is in financial difficulty and how severe it is. If the financial difficulty is serious, the manager should decide, in addition to the concession, on whether to change the counterparty's classification to unlikely to pay.

Positions are classified into the various categories of non-performing assets at the proposal of the regional network responsible for the commercial relationship as well as peripheral and central specialised functions responsible for loan control and management.

For non-performing past due loans, classification as non-performing takes place via automatic procedures if specific objective conditions of default have been satisfied.

Non-performing exposures are returned to performing status at the initiative of the above-mentioned structures responsible for loan control and management, after it is verified that the critical conditions and state of insolvency no longer apply. Non-performing past due loans are returned to performing automatically when the exposure is paid up.

Non-performing loan management begins at the first signs of impairment with the support of the Credit Monitoring procedure, which first identifies non-performing positions (Intercept phase) and subsequently routes them to dedicated management processes (Routing phase). More specifically:

• Intercept phase: identification of high insolvency risk positions

Ordinary-risk positions are scanned by a 'screening' engine which selects the highest-risk positions on a weekly basis, so as to identify the counterparties bound to become insolvent at a sufficiently early stage. Screening is based on a 'performance risk indicator' (it.: "indicatore di rischio andamentale", IRA) which summarises a set of critical elements including the worsening of leading indicators, ratings, information on related counterparties and days past due.

• Routing phase: customer-type differentiated treatment of positions

This choice was based on the need for differentiating the treatment of positions by customer segments, in the conviction that a corporate client cannot be treated in the same way as a retail client and that specific client management needs should be met with 'ad hoc' processes. Ordinary-risk positions, reported as higher risk by the 'screening' engine, are routed to specific processing queues depending on the type of customer and credit facility involved:

1. 'Mass Retail' procedure, dedicated to Retail clients for which it is possible to activate mass debt collection;
2. 'Standard Retail' procedure, dedicated to the remaining Retail customers with more limited exposures and small-sized businesses with limited exposure;
3. A dedicated Corporate procedure for corporate customers.

As regards assessment, doubtful loans, unlikely to pay and non-performing past due exposures with exposure above a given threshold value are valued analytically. For all non-performing exposures under a given threshold value, the valuation is carried out statistically on the basis of parameters determined by Risk Management.

The evaluation is carried out at the time of their classification, when significant events take place and, in any event, reviewed periodically. In particular, the loan valuation is subject to review any time knowledge is gained of significant events that could change prospects for recovery. For such events to be promptly taken into consideration, all borrower information is periodically monitored.

Quantitative Information

A. Credit quality

For the purposes of quantitative information on the credit quality, the term "credit exposures" does not include equity securities and Units of UCITS, whereas the term "exposures" includes equity securities and Units of UCITS.

A.1 Non-performing and performing loans: amounts, value adjustments, changes, breakdown by business sector and geographical area

A.1.1 Breakdown of financial assets by portfolio and credit quality (book values)

31 12 2017

	Doubtful loans	Unlikely to pay	Past-due Impaired exposures	Past-due not impaired exposures	Performing exposures	Total
1. Financial assets available for sale	-	8,357	-	-	15,023,729	15,032,086
3. Loans to banks	3,355	8	-	134	9,962,715	9,966,212
4. Loans to customers	3,114,773	6,850,579	386,738	1,390,563	74,713,754	86,456,407
6. Financial assets held for sale	4,416,877	29,211	-	-	139,135	4,585,223
Total 31 12 2017	**7,535,005**	**6,888,155**	**386,738**	**1,390,697**	**99,839,333**	**116,039,928**
Total 31 12 2016	**10,365,311**	**9,101,306**	**854,286**	**2,263,738**	**109,223,067**	**131,807,708**

Since the entire portfolio of financial assets is subject to classification by credit quality, with the exception of equity securities and units of UCITS, it should be noted that the items "Loans to banks" and "Loans to customers" include not only loans but also other types of assets (debt securities, etc.). All amounts are book values, and thus, net of any related doubtful amounts.

Lastly, please note that, at the reporting date, line "3. Loans to banks" includes net performing forborne exposures equal to EUR 2.8 mln (EUR 2.7 mln as at 31 December 2016) and line "4. Loans to customers" includes net performing forborne exposures totalling EUR 2,370.5 mln (EUR 2,625.0 mln as at 31 December 2016) and net non-performing forborne exposures of EUR 5,136..5 mln (EUR 6,123.2 mln as at 31 December 2016).

The table below provides an ageing analysis of past due amounts on performing financial assets.

Portfolio/Quality	Performing Exposures					
	Past due up to 3 months	Past due 3 to 6 months	Past due 6 months to 1 year	Over 1 year	Not past due	Total 31 12 2017
1. Financial assets available for sale	-	-	-	-	15,023,729	15,023,729
3. Loans to banks	9	-	-	125	9,962,715	9,962,849
4. Loans to customers	1,028,676	136,583	125,030	100,274	74,713,754	76,104,317
6. Financial assets held for sale	-	-	-	-	139,135	139,135
Total 31 12 2017	**1,028,685**	**136,583**	**125,030**	**100,399**	**99,839,333**	**101,230,030**

A.1.2 Breakdown of credit exposures by portfolio and credit quality (gross and net values)

31 12 2017

Portfolio/quality	Non perfoming assets			Performing			Total (Net exposure)
	Gross exposure	Specific write-downs	Net exposure	Gross exposure	Portfolio adjustments	Net exposure	
1. Financial assets available for sale	9,688	1,331	8,357	15,023,729	-	15,023,729	15,032,086
2. Financial assets held to maturity	-	-	-	-	-	-	-
3. Loans to banks	26,558	23,195	3,363	9,971,550	8,701	9,962,849	9,966,212
4. Loans to customers	20,920,063	10,567,973	10,352,090	76,659,489	555,172	76,104,317	86,456,407
5. Financial assets designated at fair value	-	-	-	X	X	-	-
6. Financial assets held for sale	24,162,432	19,716,344	4,446,088	139,135	-	139,135	4,585,223
Total 31 12 2017	**45,118,741**	**30,308,843**	**14,809,898**	**101,793,903**	**563,873**	**101,230,030**	**116,039,928**
Total 31 12 2016	**45,809,757**	**25,488,854**	**20,320,903**	**112,182,993**	**696,188**	**111,486,805**	**131,807,708**

At the reporting date, the Group had 408 positions relating to creditors who had filed a "blank" request for a pre-insolvency creditor arrangement procedure "Concordato in bianco" for a net exposure of EUR 242.4 mln and 9 positions relating to creditors who had filed a request for a pre-insolvency creditor arrangement with going concern "Concordato in continuità" for a net exposure of approx. EUR 3.4 mln.

Partial derecognitions on non-performing financial assets carried out during the year totalled EUR 276.1 mln.

	Low quality assets		Other assets
	Cumulative losses	Net exposure	Net exposure
1 Financial assets held for trading	108,231	6,109	8,624,963
2 Hedging derivatives	-	-	156,485
Total 31 12 2017	**108,231**	**6,109**	**8,781,448**
Total 31 12 2016	**130,722**	**24,910**	**9,525,136**

In particular, please note that item "1. Financial assets held for trading" includes exposures generated by derivative contracts with low credit quality for a net value of EUR 6.0 mln; impairment losses recognised on these instruments to take into account the fair value credit adjustment amount to EUR 9.0 mln.

A.1.3 Banking Group - Balance sheet and off-balance sheet exposure to banks: gross and net amounts and past due ranges

31 12 2017

Portfolio/quality	Gross exposure					Specific write-downs	Portfolio adjustments	Net Exposure
	Non-performing Assets							
	Past due up to 3 months	Past due 3 to 6 months	Past due 6 months to 1 year	Over 1 year	Performing Assets			
A. Balance-sheet exposure								
a) Doubtful loans	-	-	-	26,549	X	23,194	X	3,355
- of which forborne	-	-	-	-	X	-	X	-
b) Unlikely to pay	9	-	-	-	X	1	X	8
- of which forborne	-	-	-	-	X	-	X	-
c) Past due	-	-	-	-	X	-	X	-
- of which forborne	-	-	-	-	X	-	X	-
d) Past-due not impaired	X	X	X	X	153	X	19	134
- of which forborne	X	X	X	X	-	X	-	-
e) Other assets not impaired	X	X	X	X	10,933,450	X	8,682	10,924,768
- of which forborne	X	X	X	X	2,783	X	-	2,783
Total A	**9**	**-**	**-**	**26,549**	**10,933,603**	**23,195**	**8,701**	**10,928,265**
B. Off-balance-sheet exposure								
a) Impaired	-	-	-	-	X	-	X	-
b) Not Impaired	X	X	X	X	2,251,102	X	3,093	2,248,009
Total B	**-**	**-**	**-**	**-**	**2,251,102**	**-**	**3,093**	**2,248,009**
Total (A+B)	**9**	**-**	**-**	**26,549**	**13,184,705**	**23,195**	**11,794**	**13,176,274**

The table provides a breakdown of exposure with banks by credit quality, using the definition of impaired exposures set out by the Bank of Italy and adopted for the purposes of the financial statements.

Thus, all balance-sheet exposures are stated at book values, before and after any doubtful amounts. In particular, balance-sheet exposures encompass all financial assets related to banks arising from financial statement Item 20 "Financial assets held for trading," Item 30 "Financial assets designated at fair value," Item 40 "Financial assets available for sale" and Item 60 "Loans to banks" with the exception of derivative contracts which are considered as off-balance-sheet in this section.

Off-balance-sheet exposures include all financial transactions other than balance-sheet transactions (guarantees issued, commitments and derivatives, including those used for hedging purposes) involving the assumption of credit risk and valued using the measurement criteria set forth by the Bank of Italy. They also include the counterparty risk connected to securities lending transactions and repurchase agreements and loan transactions with margins included within the notion of Securities Financing Transactions as defined by prudential regulations.

A.1.4 Banking Group - Balance-sheet exposure to banks: changes in gross non-performing loans

31 12 2017

Source/Categories	Doubtful loans	Unlikely to pay	Non-performing Past due
A. Gross exposure, opening balance	**22,611**	**617**	**-**
- of which: transferred but not derecognised	-	-	-
B. Increases	**4,391**	**2,100**	**-**
B.1 Transfers from performing loans	3,194	2,100	-
B.2 Transfers from other impaired loans	-	-	-
B.3 Other increases	1,197	-	-
C. Decreases	**453**	**2,708**	**-**
C.1 Transfers to performing loans	-	-	-
C.2 Write-offs	-	26	-
C.3 Ccollections	453	2,682	-
C.4 Amounts realised upon disposal of positions	-	-	-
C.5 Losses from disposal	-	-	-
C.6 Transfers to other categories of impaired exposure	-	-	-
C.7 Other decreases	-	-	-
D. Gross exposure, closing balance	**26,549**	**9**	**-**
- of which: transferred but not derecognised	-	-	-

With regard to balance-sheet exposures to banks, the table shows changes in non-performing exposures in the course of the year.

Since the entire portfolio of financial asset exposures to banks is subject to classification by credit quality, exposures include not only loans but also other types of assets (e.g. securities). Balance-sheet exposures are expressed at book value.

A.1.4 bis Banking Group - Balance-sheet exposure to banks: changes in gross forborne exposures by credit quality

31 12 2017

Source/Categories	Non performing forborne exposures	Performing forborne exposures
A. Goss esposure, opening balance	**-**	**2,722**
- of which: transferred but not derecognised	-	-
B.Increases	**-**	**61**
B.1 Transfers from performing loans	-	-
B.2 Transfers from performing forborne esposures	-	X
B.3 Transfers from Non-performing forborne esposures	X	-
B.4 Other increases	-	61
C. Decreases	**-**	**-**
C.1 Transfers to performing loans	X	-
C.2 Transfers to performing forborne exposures	-	X
C.3 Transfers to non-performing forborne exposures	X	-
C.4 Write-offs	-	-
C.5 Collections	-	-
C.6 Amounts realised upon disposal of positions	-	-
C.7 Losses from disposal	-	-
C.8 Other decreases	-	-
D.Gross exposure, closing balance	**-**	**2,783**
- of which: transferred but not derecognised	-	-

A.1.5 Banking Group - Non-performing balance-sheet exposure to banks: changes in overall value adjustments

31 12 2017

Source/Categories	Doubtful loans		Unlikely to pay		Non-performing Past due	
	Total	of which forborne	Total	of which forborne	Total	of which forborne
A. Opening balance of overall adjustments	**22,164**	**-**	**110**	**-**	**-**	**-**
- of which: transferred but not derecognised	-	-	-	-	-	-
B. Increases	**1,048**	**-**	**27**	**-**	**-**	**-**
B.1 Value adjustments	1,039	-	10	-	-	-
B.2 Loss from disposal	-	-	-	-	-	-
B.3 Transfers from other categories of impaired exposures	-	-	-	-	-	-
B.4 Other increases	9	-	17	-	-	-
C. Decreases	**18**	**-**	**136**	**-**	**-**	**-**
C.1 Write-backs from valuation	18	-	3	-	-	-
C.2 Write-backs from collection	-	-	107	-	-	-
C.3 Profit from disposal	-	-	-	-	-	-
C.4 Write-offs	-	-	26	-	-	-
C.5 Transfers to other categories of impaired exposure	-	-	-	-	-	-
C.6 Other decreases	-	-	-	-	-	-
D. Closing balance of overall adjustments	**23,194**	**-**	**1**	**-**	**-**	**-**
- of which: transferred but not derecognised	-	-	-	-	-	-

With regard to balance-sheet exposures to banks, the table shows changes in overall value adjustments on non-performing exposure during the year.

Since the entire portfolio of financial assets to banks is subject to classification by credit quality, value adjustments shown refer not only to loans but also to other types of assets (e.g. securities). Balance-sheet value adjustments are expressed at book value

A.1.6 Banking Group - Balance sheet and off-balance sheet exposure to customers: gross and net amounts and past due ranges

31 12 2017

Portfolio/quality	Gross exposure					Specific write-downs	Portfolio adjustments	Net Exposure
	Non-performing Assets				Performing Assets			
	Past due up to 3 months	Past due 3 to 6 months	Past due 6 months to 1 year	Over 1 year				
A. Balance-sheet exposure								
a) Doubtful loans	24,462	16,140	50,341	32,876,742	X	25,436,016	X	7,531,669
- of which forborne	1,258	4,420	15,729	3,230,740	X	1,963,799	X	1,288,348
b) Unlikely to pay	4,838,681	341,424	999,172	5,425,871	X	4,716,984	X	6,888,164
- of which forborne	3,324,081	183,598	533,767	2,125,523	X	2,357,756	X	3,809,213
c) Past due	80,961	60,597	131,544	246,959	X	133,310	X	386,751
- of which forborne	13,526	6,571	11,056	14,840	X	6,971	X	39,022
d) Past-due not impaired	X	X	X	X	1,440,372	X	41,312	1,399,060
- of which forborne	X	X	X	X	151,429	X	8,699	142,730
e) Other assets not impaired	X	X	X	X	94,781,052	X	563,181	94,217,871
- of which forborne	X	X	X	X	2,314,407	X	86,607	2,227,800
Total A	**4,944,104**	**418,161**	**1,181,057**	**38,549,572**	**96,221,424**	**30,286,310**	**604,493**	**110,423,515**
B. Off-balance-sheet exposure								
a) Impaired	697,229	-	-	2,056	X	136,919	X	562,366
b) Not Impaired	X	X	X	X	13,272,836	X	136,172	13,136,664
Total B	**697,229**	**-**	**-**	**2,056**	**13,272,836**	**136,919**	**136,172**	**13,699,030**
Total (A+B)	**5,641,333**	**418,161**	**1,181,057**	**38,551,628**	**109,494,260**	**30,423,229**	**740,665**	**124,122,545**

The table provides a breakdown of dealings with customers by credit quality, using the definition of impaired exposures set out by the Bank of Italy and adopted for the purposes of the financial statements.

Since the entire portfolio of financial assets is subject to classification by credit quality, with the exception of equity securities and units of UCITS, it should be noted that the item “Loans to customers” includes not only loans but also other types of assets (debt securities, etc.).

Thus, all balance-sheet exposures are stated at book values, before and after any doubtful amounts. In particular, “Balance-sheet exposure” summarises all financial assets related to customers arising from financial statement Item 20 “Financial assets held for trading,” 30 “Financial assets designated at fair value,” 40 “Financial assets available for sale”, 70 “Loans to customers” and 150 “Non-current assets and groups of assets held for sale and discontinued operations”, with the exception of derivative contracts that are considered as off-balance-sheet in this section.

Please see the consolidated report on operations for quantification of and reporting on capital ratios for coverage of lending relationships.

Off-balance-sheet exposures include all financial transactions other than balance-sheet transactions (guarantees issued, commitments and derivatives, including those used for hedging purposes) involving the assumption of credit risk and valued using the measurement criteria set forth by the Bank of Italy. They also include the counterparty risk connected to securities lending transactions and repurchase agreements and loan transactions with margins included within the notion of Securities Financing Transactions as defined by prudential regulations.

Lastly, please note that at the reporting date, gross non-performing forborne exposures with no past due amounts in the cure period include unlikely to pay positions of EUR 3,016.5 mln (EUR 3,203.2 mln as at 31 December 2016) and non-performing past due exposures of EUR 12.9 mln (EUR 12.3 mln as at 31 December 2016).

A.1.7 Banking Group - Balance-sheet exposure to customers: changes in gross non-performing loans

31 12 2017

Source / Categories	Doubtful loans	Unlikely to pay	Non-performing Past due
A. Gross exposure, opening balance	**29,424,969**	**15,247,709**	**1,114,469**
- of which: transferred but not derecognised	58,721	91,163	110,399
B. Increases	**5,013,637**	**2,625,351**	**393,528**
B.1 Transfers from performing loans	386,271	1,593,636	305,937
B.2 Transfers from other impaired loans	3,844,054	459,952	9,645
B.3 Other increases	783,312	571,763	77,946
C. Decreases	**1,470,921**	**6,267,912**	**987,936**
C.1 Transfers to performing loans	57,255	530,607	84,722
C.2 Write-offs	385,064	577,756	5,977
C.3 Collections	953,144	1,369,768	140,317
C.4 Amounts realised upon disposal of positions	6,465	101,189	-
C.5 Losses from disposal	605	15,061	-
C.6 Transfers to other categories of impaired exposure	13,662	3,572,232	727,756
C.7 Other decreases	54,726	101,299	29,164
D. Gross exposure, closing balance	**32,967,685**	**11,605,148**	**520,061**
- of which: transferred but not derecognised	517,398	130,362	92,298

With regard to balance-sheet exposures to customers, the table shows changes in non-performing exposures during the year. Since the entire portfolio of financial asset exposures to customers is subject to classification by credit quality, it should be noted that exposure includes not only loans but also other types of assets (e.g. securities). Balance-sheet exposures are expressed at book value.

Exposures sold but not derecognised, under letter "D", do not include exposures linked to the "Doubtful loan disposal transaction" (for more details, please refer to the relative section of the Consolidated Report on Operations) as, as at 31 December 2017, the Group holds all of the securities issued by the vehicle Siena Npl 2018 and therefore represented in the Liquidity Risk section, in line with what is laid out in the 4th update of Bank of Italy Circular 262.

A.1.7 bis Banking Group - Balance-sheet exposure to customers: changes in gross forborne exposures by credit quality

31 12 2017

Source/Categories	Non performing forborne exposures	Performing forborne exposures
A. Goss esposure, opening balance	**9,907,562**	**2,747,529**
- of which: transferred but not derecognised	**38,693**	**85,347**
B.Increases	**1,976,895**	**1,296,652**
B.1 Transfers from performing loans	305,097	743,020
B.2 Transfers from performing forborne esposures	379,865	X
B.3 Transfers from Non-performing forborne esposures	X	349,506
B.4 Other increases	1,291,933	204,126
C. Decreases	**2,419,348**	**1,578,345**
C.1 Transfers to performing loans	X	609,575
C.2 Transfers to performing forborne exposures	349,506	X
C.3 Transfers to non-performing forborne exposures	X	370,924
C.4 Write-offs	465,739	5,436
C.5 Collections	1,322,710	486,344
C.6 Amounts realised upon disposal of positions	104,166	-
C.7 Losses from disposal	13,536	-
C.8 Other decreases	163,691	106,066
D.Gross exposure, closing balance	**9,465,109**	**2,465,836**
- of which: transferred but not derecognised	291,126	80,857

Line B.4 “Other increases” includes EUR 578.1 mln in the Non-performing forborne exposures column relating to non-performing credit exposures at the start of the year which were subjected to forbearance measures in the course of the year.

A.1.8 Banking Group - Balance-sheet exposure to customers: changes in overall value adjustments

31 12 2017

Source/Categories	Doubtful loans		Unlikely to pay		Non-performing Past due	
	Total	of which forborne	Total	of which forborne	Total	of which forborne
A. Opening balance of overall adjustments	**19,060,084**	**863,441**	**6,146,902**	**2,907,481**	**260,162**	**13,397**
- of which: transferred but not derecognised	20,348	1,436	29,906	8,012	31,064	274
B. Increases	**7,593,297**	**1,217,000**	**1,596,625**	**920,978**	**80,332**	**6,336**
B.1 Value adjustments	5,790,529	728,063	1,385,583	704,866	53,534	5,335
B.2 Loss from disposal	605	-	15,061	13,536	-	-
B.3 Transfers from other categories of impaired exposures	1,736,223	447,379	106,685	182,599	2,054	693
B.4 Other increases	65,940	41,558	89,296	19,977	24,744	308
C. Decreases	**1,217,365**	**116,642**	**3,026,543**	**1,470,703**	**207,184**	**12,762**
C.1 Write-backs from valuation	583,691	68,266	558,328	345,336	29,670	3,742
C.2 Write-backs from collection	233,077	27,402	148,432	140,985	1,148	50
C.3 Profit from disposal	1,468	1,351	16,069	16,069	-	-
C.4 Write-offs	384,207	16,207	575,908	449,291	5,989	147
C.5 Transfers to other categories of impaired exposure	3,109	1,737	1,676,272	467,141	165,581	8,470
C.6 Other decreases	11,813	1,679	51,534	51,881	4,796	353
D. Closing balance of overall adjustments	**25,436,016**	**1,963,799**	**4,716,984**	**2,357,756**	**133,310**	**6,971**
- of which: transferred but not derecognised	339,414	142,122	45,104	6,928	32,991	114

With regard to balance-sheet exposures to customers, the table shows changes of total value adjustments of non-performing exposures during the year. In particular, write-offs include reductions due to loan redemptions. Since the entire portfolio of financial asset exposures is subject to classification by credit quality, it should be noted that exposure includes not only loans but also other types of assets (e.g. securities). Balance-sheet exposures are expressed at book value.

Adjustments on exposures trasferred not derecognised, under letter "D", do not include adjustments linked to the "Doubtful loan disposal transaction" (for more details, please refer to the relative section of the Consolidated Report on Operations) as, as at 31 December 2017, the Group holds all of the securities issued by the vehicle Siena Npl 2018 and therefore represented in the Liquidity Risk section, in line with what is laid out in the 4th update of Bank of Italy Circular 262.

Exposure to sovereign debt risk

Below are the sovereign credit risk exposures in government bonds, loans and credit derivatives held by the Group as at 31 December 2017 pursuant to the criteria of the European Securities and Markets Authority (ESMA).

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

(in milion of EUR)

COUNTRY	DEBT SECURITIES					LOANS	CREDIT DERIVATIVES
	Financial assets held for trading		Financial asset available for sale		L&R	L&R	Financial Asset HFT
	Nominal	Fair value=Book value	Nominal	Fair value=Book value	Book value	Book value	Nominal
Argentine	0.86	0.74	-	-	-	-	-
Austria	0.05	0.08	-	-	-	-	-
Belgium	(5.62)	(5.73)	47.25	49.35	-	-	-
Bosnia	0.01	0.00	-	-	-	-	-
Brazil	0.12	0.17	-	-	-	-	-
Canada	0.33	0.30	-	-	-	-	-
Philippines	0.08	0.12	-	-	-	-	-
France	0.18	0.19	409.50	423.32	-	-	3.00
Germany	9.46	10.45	-	-	-	-	-
Greece	0.06	0.06	-	-	-	-	-
Hong kong	-	-	26.66	26.66	-	-	-
Italy	1,368.99	1,369.73	12,921.82	13,465.11	489.05	2,394.44	1,759.53
Lithuania	0.21	0.22	9.00	9.45	-	-	-
Holland	0.23	0.26	-	-	-	-	-
Poland	0.44	0.48	-	-	-	-	-
Portugal	0.67	0.76	16.00	18.45	-	-	-
United Kingdom	0.20	0.20	-	-	-	-	-
Romania	0.29	0.31	-	-	-	-	-
Spain	3.91	4.72	142.00	147.58	-	-	(3.20)
United States	0.24	0.26	-	-	-	-	-
Hungary	0.04	0.04	-	-	-	-	-
Venezuela	0.03	0.01	-	-	-	-	-
Other Countries	-	-	-	-	1.05	-	-
Total 31 12 2017	**1,380.75**	**1,383.38**	**13,572.23**	**14,139.92**	**490.10**	**2,394.44**	**1,759.33**
Total 31 12 2016	**1,672.34**	**1,553.76**	**14,020.86**	**15,415.99**	**534.02**	**2,747.08**	**2,063.05**

Details on the Group's exposure is presented taking into consideration that, according to instructions from the European Securities and Markets Authority (ESMA), "sovereign debt" is defined as bonds issued by central and local Governments and by government Entities, as well as loans disbursed to aforementioned entities.

These financial instruments were measured according to the standards applicable to the category to which they belong.

The overall exposure on loans and debt securities amounted to EUR 18,407.84 mln, almost entirely in Italian debt, and is concentrated under the AFS accounting category. Exposures to Italy are nearly exclusively level 1, with the exception of EUR 156.3 mln in government bonds.

Following are the details of Italian AFS reserves and credit derivatives (in EUR/mln):

AFS securities: Italy	31 12 2017	31 12 2016
Book value	13,465.1	15,127.7
AFS reserve (after tax)	(59.8)	(69.4)
of which: hedging effect (after tax)	60.8	(42.7)

Credit derivatives - Italy	31 12 2017	31 12 2016
Purchase of protection		
Nominal	(268.3)	(139.5)
Positive fair value	9.2	17.7
Negative fair value	(0.1)	-
Sale of protection	-	-
Nominal	2,027.8	2,102.7
Positive fair value	-	-
Negative fair value	(18.4)	(26.5)

A.2 Classification of exposure by external and internal ratings

A.2.1 Banking Group - Breakdown of balance sheet and off-balance sheet exposures by external ratings

31 12 2017

Esposures	External rating classes						No Rating	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Balance-sheet exposure	1,431,754	2,299,564	20,173,797	700,418	421,134	9,350	96,473,716	121,509,733
B. Derivatives	41,592	318,245	127,863	1,332	214,455	-	1,454,244	2,157,731
B.1 Financial derivatives	41,592	318,245	127,863	1,332	214,455	-	1,324,244	2,027,731
B.2 Credit derivatives	-	-	-	-	-	-	130,000	130,000
C. Guarantees issued	8,684	261,716	208,881	415,164	460,891	1,848	4,510,265	5,867,449
D. Commitments to disburse fund:	5,826	3,365	2,473,199	72,179	183,426	1	4,536,616	7,274,612
E. Others	-	103,393	522,283	17,906	-	-	3,662	647,244
Total	1,487,856	2,986,283	23,506,023	1,206,999	1,279,906	11,199	106,978,503	137,456,769

class 1=AAA/AA- class 2=A+/A- class 3=BBB+/BBB- class 4=BB+/BB- class 5=B+/B- class 6=lower than B-

The external rating categories used to complete the table are from Standard & Poor's. The exposures shown are those reported in Tables A.1.3 (exposures to banks) and A.1.6 (exposures to customers) above, in addition to units of UCITS. If multiple external ratings are assigned, the rating is selected based on Bank of Italy's criteria (when two ratings are available, the lower of the two is used, and when three or more ratings are assigned, the second highest rating is selected). To ensure relevance of information, internal cross-reference tables were used to convert classification by various rating agencies into classification by Standard & Poor's.

2.2 Banking Group - Breakdown of balance sheet and off-balance sheet exposures by internal ratings

31 12 2017

Exposures	Internal rating classes							No rating	Total
	High quality	Average quality	Fair quality	Mediocre quality	Poor quality	Default	Group administrative default		
A. Balance-sheet exposure	8,808,366	17,110,516	26,872,234	11,406,302	1,085,893	13,817,994	996,176	41,254,300	121,351,781
B. Derivatives	288,411	167,884	166,718	73,215	7,801	25,330	10	1,428,362	2,157,731
B.1 Financial derivatives	288,411	167,884	166,718	73,215	7,801	25,330	10	1,298,362	2,027,731
B.2 Credit derivatives	-	-	-	-	-	-	-	130,000	130,000
C. Guarantees issued	543,518	1,650,853	2,053,083	350,182	19,077	301,838	-	1,029,417	5,947,968
D. Commitments to disburse funds	156,943	420,489	741,266	600,996	40,315	249,192	87,947	4,896,947	7,194,095
E. Others	70,931	207,805	17,906	-	-	-	-	350,602	647,244
Total	9,868,169	19,557,547	29,851,207	12,430,695	1,153,086	14,394,354	1,084,133	48,959,628	137,298,819

High Quality customers (Master Scale categories AAA and A1) Good Quality Customers (Master Scale categories A2, A3 and B1) Fair Quality customers (Master Scale categories B2, B3, C1 and C2) Mediocre Quality customers (Master Scale categories C3, D1, D2 and D3) Poor Quality customers (Master Scale categories E1, E2 and E3)

The table provides a breakdown of customers of the MPS Group by risk categories assigned on the basis of ratings arising from internal models. For this purpose, account is given only of exposures (borrowers) for which an internal rating is periodically recorded for models/legal entities/portfolios which have been subject to a validation process with the regulatory authorities without any cross-reference from official ratings to internal ratings especially with regard to the following customer segments: “Banks,” “Non-banking financial institutions,” and “Governments and Public Administration”. Thus, based on this provision, exposures related to the latter segments, even if covered by official ratings, were reported as “unrated” in the internal rating models.

A.3 Breakdown of secured exposures by type of collateral

A.3.1 Banking Group - Secured exposures to banks

31 12 2017

	Amount of Net Exposure	Real guarantees				Personal guarantees									Total real and personal guarantees
						Credit derivatives					Unsecured signature loans				
							Other derivatives								
		Real estate mortgages	Real estate leasing	Securities	Other collaterals	CLN	Governments and central banks	Other public entities	Banks	Other entities	Governments and central banks	Other public entities	Banks	Other entities	
1. Secured balance-sheet exposures:	901,428	1,259	-	892,459	-	-	-	-	-	-	-	-	-	24	893,742
1.1 totally secured	900,007	1,259	-	892,459	-	-	-	-	-	-	-	-	-	14	893,732
- of which non performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2 partially secured	1,421	-	-	-	-	-	-	-	-	-	-	-	-	10	10
- of which non performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Secured off-balance sheet exposures:	833,535	-	-	302,587	503,876	-	-	-	-	-	-	-	92	-	806,555
2.1 totally secured	553,063	-	-	302,587	250,367	-	-	-	-	-	-	-	50	-	553,004
- of which non performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 partially secured	280,472	-	-	-	253,509	-	-	-	-	-	-	-	42	-	253,551
- of which non performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

In addition to secured balance-sheet exposures to banks, the table shows the amount of off-balance-sheet exposures, including derivative contracts with banks, which are fully or partially secured. As regards personal guarantees, the economic segments to which guarantors and sellers of protection belong (in the case of unsecured loans and credit derivatives, respectively) are identified making reference to the classification criteria provided for in the brochure "classification of customers by segments and groups of economic activity" published by the Bank of Italy.

Exposures are classified as either "fully secured" or "partially secured" by comparing the gross exposure with the amount of the guarantee established in the contract; for that purpose, any supplemental guarantees are also considered.

The fair value of collaterals estimated as at the balance sheet date is shown in the columns "Real guarantees" and "Personal guarantees"; if such information is not available, the contractual value is reported. Both values cannot be higher than the book value of secured exposures, in line with the 4th update of Bank of Italy circular 262.

A.3.2 Banking Group - Secured exposures to customers

31 12 2017

	Amount of Net Exposure	Garanzie reali				Personal guarantees									Toal real and personal guarantees
						Credit derivatives					Unsecured signature loans				
		Real estate mortgages	Real estate leasing	Securities	Other collaterals	CLN	Other derivatives: Governments and central banks	Other derivatives: Other public entities	Other derivatives: Banks	Other derivatives: Other entities	Governments and central banks	Other public entities	Banks	Other entities	
1. Secured balance-sheet exposures:	66,587,446	45,188,474	2,606,792	5,325,156	2,224,338	-	-	-	-	-	218	992,705	4,153	8,892,289	65,234,125
1.1 Totally secured	63,876,152	44,764,579	2,606,792	5,199,570	2,191,489	-	-	-	-	-	35	562,177	3,072	8,096,426	63,424,140
- of which non perfroming	10,870,515	8,395,732	647,708	80,498	202,028	-	-	-	-	-	12	87,088	1,465	1,371,543	10,786,074
1.2 Partially secured	2,711,294	423,895	-	125,586	32,849	-	-	-	-	-	183	430,528	1,081	795,863	1,809,985
- of which non perfroming	827,910	339,497	-	39,532	4,827	-	-	-	-	-	79	15,472	72	316,867	716,346
2. Secured off-balance sheet exposures:	3,745,434	144,747	15,067	681,012	1,156,888	-	-	-	-	-	-	7,889	53,027	1,395,657	3,454,287
2.1 Totally secured	3,146,069	141,802	15,012	662,351	910,087	-	-	-	-	-	-	4,295	52,837	1,328,061	3,114,445
- of which non perfroming	252,834	59,830	1,643	2,841	3,994	-	-	-	-	-	-	1,376	52,777	125,453	247,914
2.2 Partially secured	599,365	2,945	55	18,661	246,801	-	-	-	-	-	-	3,594	190	67,596	339,842
- of which non perfroming	11,814	118	-	607	662	-	-	-	-	-	-	-	188	6,086	7,661

In addition to balance-sheet exposures to customers, the table shows the amount of off-balance-sheet exposures, including derivative contracts with customers, which are fully or partially secured. As regards personal guarantees, the economic segments to which guarantors and sellers of protection belong (in the case of unsecured loans and credit derivatives, respectively) are identified making reference to the classification criteria provided for in the brochure “classification of customers by segments and groups of economic activity” published by the Bank of Italy. Exposures are classified as either “fully secured” or “partially secured” by comparing the gross exposure with the amount of the guarantee established in the contract; for that purpose, any supplemental guarantees are also considered.

The fair value of collaterals estimated as at the balance sheet date is shown in the columns “Real guarantees” and “Personal guarantees”; if such information is not available, the contractual value is reported. Both values cannot be higher than the book value of secured exposures, in line with the 4th update of Bank of Italy circular 262.

B. BREAKDOWN AND CONCENTRATION OF CREDIT EXPOSURE

B.1 Banking Group - Breakdown of on- and off-balance sheet exposures to customers by business segment (book values)

Exposure/ Customers	Governments			Other public entities			Financial companies			Insurance companies			Non financial companies			Other entities		
	Net exposure	Specific write-downs	Portfolio adjustments	Net exposure	Specific write-downs	Portfolio adjustments	Net exposure	Specific write-downs	Portfolio adjustments	Net exposure	Specific write-downs	Portfolio adjustments	Net exposure	Specific write-downs	Portfolio adjustments	Net exposure	Specific write-downs	Portfolio adjustments
A. Balance-sheet exposure																		
A.1 Doubtful loans	-	-	X	184	1,025	X	70,337	458,894	X	-	-	X	6,077,717	22,133,370	X	1,383,431	2,842,727	X
- of which forborne	-	-	X	-	-	X	7,749	25,244	X	-	-	X	1,034,711	1,695,122	X	245,885	243,433	X
A.2 Unlikely to pay	1	-	X	150,378	100,908	X	243,094	337,288	X	3	4	X	5,615,307	3,988,975	X	879,381	289,809	X
- of which forborne	-	-	X	5,233	3,137	X	128,408	203,320	X	-	-	X	3,258,501	2,067,854	X	417,071	83,445	X
A.3 Past-due Impaired	383	260	X	287	234	X	2,451	799	X	-	-	X	163,806	54,140	X	219,824	77,877	X
- of which forborne	-	-	X	-	-	X	731	278	X	-	-	X	24,003	5,015	X	14,288	1,678	X
A.4 Other Performing	19,013,055	X	1,066	2,130,965	X	3,844	8,185,742	X	19,729	463,664	X	1,201	38,167,862	X	512,622	27,655,643	X	66,031
- of which forborne	-	X	-	2,295	X	29	89,994	X	3,155	-	X	-	1,708,192	X	77,997	570,050	X	14,125
Total A	19,013,439	260	1,066	2,281,814	102,167	3,844	8,501,624	796,981	19,729	463,667	4	1,201	50,024,692	26,176,485	512,622	30,138,279	3,210,413	66,031
B. Off-balance-sheet exposures																		
B.1 Doubtful loans	-	-	X	-	-	X	33	147	X	-	-	X	40,365	66,201	X	1,074	325	X
B.2 Unlikely to pay	-	-	X	-	-	X	17,196	311	X	-	-	X	492,700	66,223	X	3,540	2,451	X
B.3 Other non-performing	-	-	X	-	-	X	-	-	X	-	-	X	6,621	1,165	X	837	96	X
B.4 Other performing	2,611,801	X	-	1,281,798	X	198	2,102,996	X	66,510	4,280	X	13	6,795,526	X	69,212	292,019	X	239
Total B	2,611,801	-	-	1,281,798	-	198	2,120,225	458	66,510	4,280	-	13	7,335,212	133,589	69,212	297,470	2,872	239
Total (A+B) 31 12 2017	21,625,240	260	1,066	3,563,612	102,167	4,042	10,621,849	797,439	86,239	467,947	4	1,214	57,359,904	26,310,074	581,834	30,435,749	3,213,285	66,270
Total (A+B) 31 12 2016	24,818,109	205	1,005	3,271,998	59,020	4,045	17,034,831	801,242	59,895	488,744	1	1,288	67,457,364	22,220,390	708,137	32,120,372	2,540,643	71,629

Balance sheet exposures reported in the table below are the same as those reported in the financial statements, net of any doubtful amounts and inclusive of specific/portfolio value adjustments, while off-balance-sheet transactions include all financial transactions other than balance-sheet transactions (guarantees issued, commitments and derivatives) involving the assumption of credit risk and valued using the measurement criteria set forth by the Bank of Italy. The business segments to which borrowers and collateral providers belong are identified making reference to the classification criteria provided for in the brochure "Classification of customers by segments and groups of economic activity" published by the Bank of Italy.

B.2 Banking Group - Breakdown of on- and off-balance-sheet exposures to customers by geographic area (book values)

Exposure/Geographic Areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net esposure	Overall value adjustments	Net esposure	Overall value adjustments	Net esposure	Overall value adjustments	Net esposure	Overall value adjustments	Net esposure	Overall value adjustments
A. Balance-sheet esposures										
A.1 Doubtful loans	7,490,544	25,244,809	34,514	170,177	5,012	8,405	1,243	11,450	356	1,175
A.2 Ulikely to pay	6,823,864	4,675,753	47,454	33,693	183	80	8,846	3,658	7,817	3,800
A.3 Past-due Impaired	370,369	132,820	15,550	431	64	22	30	2	738	35
A.4 Other performing exposures	91,488,167	579,741	3,479,431	22,309	468,231	1,304	169,787	971	11,315	168
Total A	106,172,944	30,633,123	3,576,949	226,610	473,490	9,811	179,906	16,081	20,226	5,178
B. Off-balance-sheet exposures										
B.1 Doubtful loans	40,769	66,642	700	-	2	31	-	-	-	-
B.2 Substandard loans	513,116	68,985	321	1	-	-	-	-	-	-
B.3 Other non performing exposures	5,117	1,170	2,341	90	-	-	-	-	-	-
B.4 Other performing exposures	11,314,995	135,483	1,664,117	518	70,949	49	35,258	109	3,101	13
Total B	11,873,997	272,280	1,667,479	609	70,951	80	35,258	109	3,101	13
Total (A+B) 31 12 2017	118,046,941	30,905,403	5,244,428	227,219	544,441	9,891	215,164	16,190	23,327	5,191
Total (A+B) 31 12 2016	138,289,320	26,230,286	5,885,900	211,818	616,781	5,176	354,169	14,519	45,248	5,701

Balance-sheet exposures reported in the table below are the same as those reported in the financial statements, while off-balance-sheet transactions include all financial transactions other than balance-sheet transactions (guarantees issued, commitments and derivatives) involving the assumption of credit risk and valued using the measurement criteria set forth by the Bank of Italy. Amounts are stated before and after any doubtful amounts. Exposures are broken down geographically by the country of residence of the borrower.

B.3 Banking Group - Breakdown of on- and off-balance-sheet exposures to banks by geographic area (book values

Exposure/Geographic Areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net esposure	Overall value adjustments	Net esposure	Overall value adjustments	Net esposure	Overall value adjustments	Net esposure	Overall value adjustments	Net esposure	Overall value adjustments
A. Balance-sheet esposures										
A.1 Doubtful loans	-	-	3,183	1,345	75	21,749	-	-	97	100
A.2 Ulikely to pay	-	-	-	-	-	-	8	1	-	-
A.3 Past-due Impaired	-	-	-	-	-	-	-	-	-	-
A.4 Other performing exposures	7,799,807	372	2,658,392	5,598	264,829	1,646	138,527	825	63,347	260
Total A	7,799,807	372	2,661,575	6,943	264,904	23,395	138,535	826	63,444	360
B. Off-balance-sheet exposures										
B.1 Doubtful loans	-	-	-	-	-	-	-	-	-	-
B.2 Substandard loans	-	-	-	-	-	-	-	-	-	-
B.3 Other non performing exposures	-	-	-	-	-	-	-	-	-	-
B.4 Other performing exposures	891,482	29	402,787	673	194,996	576	58,566	164	103,921	1,651
Total B	891,482	29	402,787	673	194,996	576	58,566	164	103,921	1,651
Total (A+B) 31 12 2017	8,691,289	401	3,064,362	7,616	459,900	23,971	197,101	990	167,365	2,011
Total (A+B) 31 12 2016	7,714,597	794	3,328,085	8,130	497,237	21,233	231,768	988	218,073	583

Balance-sheet exposures to banks reported in the table below are the same as those reported in the financial statements, while off-balance-sheet transactions include all financial transactions other than balance-sheet transactions (guarantees issued, commitments and derivatives) involving the assumption of risk and valued using the measurement of criteria set forth by the Bank of Italy. Amounts are stated before and after any doubtful amounts. Exposures are broken down geographically by the country of residence of the borrower.

B.4 Large exposures

Item/Amount	31 12 2017	31 12 2016
a) Book value	45,996,695	75,524,335
b) Weighted value	4,534,114	6,572,291
c) Number	11	16

Regulations provide for positions to be defined as "large exposures" by making reference to credit-risk unweighted exposures. An exposure is deemed as a "large exposure" when its amount is equal to or greater than 10% of Regulatory capital. Pursuant to the afore-mentioned regulations, exposures in government securities were also included.

C. SECURITISATION TRANSACTIONS

C.1 Securitisation transactions

Qualitative Information

Structures, processes and goals

In keeping with the organisational model established at Group level for the governance and management of risks, securitisation risk is governed by a specific Group directive.

The Parent Company's Structural Liquidity Service establishes general practices and coordinates activities in relation to securitisation transactions. The criteria and rules for managing securitisation transactions are instead determined by the Credit Portfolio Governance Area.

More specifically, for the securitisation of performing loans, the Outsourced Credit Services and Suppliers Governance Service, within the Credit Portfolio Governance Area, is responsible for establishing operational guidelines and general practices. For this purpose, it looks after related aspects and obligations associated with servicing activities and monitors the performance of existing transactions through monthly and quarterly reports on collections of remaining principal, positions in arrears and disputed positions arising from securitisation transactions. The same Service prepares the summary statements containing the data of the portfolio sold and, as part of critical situation management, it reports cases that may pose potential risks for noteholders to the relevant functions in the organisation.

In its capacity as third-level control body, the Credit Audit Service uses sampling procedures to periodically validate:

- whether the degree of recoverability of loans sold is accurate and, as a result, whether the fair value of securities issued is appropriate;
- whether line checks assigned to the various units have been carried out and roles and responsibilities properly identified; it also verifies:
- the compliance of reporting/accounting procedures with current regulations in collaboration with other units, as necessary;
- the existence of any conflicts of interest with respect to noteholders; and compliance, on a sampling basis, with the obligations of Law 197/91, as amended.

For securitisations of non-performing loans, the servicing and debt collection performance control services are handled by market operators outside the Group.

C.1 Banking Group - Exposures arising from major own securitisation transactions broken down by type of securitised assets and type of exposure

31 12 2017

Quality of underlying assets/Exposures	Balance-sheet esposure						Guarantee issued						Lines of credit					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
A. Fully derecognised	850,420	(46)	136,495	(1,512)	2,821	-	-	-	-	-	-	-	-	-	-	-	-	-
Mortgages Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Residential mortgages	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non residential mortages	850,420	(46)	136,495	(1,512)	2,821	-	-	-	-	-	-	-	-	-	-	-	-	-
B. Partially derecognised	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
C. Not derecognised	-	-	3,444,400	-	583,596	-	-	-	-	-	-	-	-	-	-	-	-	-
Consumer credit	-	-	159,687	-	19,468	-	-	-	-	-	-	-	-	-	-	-	-	-
Mortgages Loans	-	-	-	-	52,110	-	-	-	-	-	-	-	-	-	-	-	-	-
Residential mortgages	-	-	1,532,432	-	76,507	-	-	-	-	-	-	-	-	-	-	-	-	-
Corporate Loans	-	-	1,118,677	-	3,800	-	-	-	-	-	-	-	-	-	-	-	-	-
Leasing	-	-	633,604	-	202,530	-	-	-	-	-	-	-	-	-	-	-	-	-
Shipping	-	-	-	-	229,181	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	850,420	(46)	3,580,895	(1,512)	586,417	-	-	-	-	-	-	-	-	-	-	-	-	-
of which non-performing	-	-	161,533	-	287,337	-	-	-	-	-	-	-	-	-	-	-	-	-
Others	850,420	(46)	3,419,362	(1,512)	299,079	-	-	-	-	-	-	-	-	-	-	-	-	-

In relation to securitisation transactions with own underlying assets, the table indicates balance sheet exposures, unsecured exposures, and other forms of ‘credit enhancement’.

C.2 Banking Group - Exposures arising from major 'third-party' securitisation transactions broken down by type of securitised asset and type of exposure

31 12 2017

Type of securitised asset/Exposure	Balance-sheet exposure						Guarantees issued						Lines of credit					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Book value	write-downs/ write-backs	Book value	write-downs/ write-backs	Book value	write-downs/ write-backs	Book value	write-downs/ write-backs	Book value	write-downs/ write-backs	Book value	write-downs/ write-backs	Book value	write-downs/ write-backs	Book value	write-downs/ write-backs	Book value	write-downs/ write-backs
Other assets	2,088	2	864	-	4,066	13	-	-	-	-	-	-	-	-	-	-	-	-
Consumer credit	48,987	129	27,002	(211)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Residential mortgages	125,240	177	17,105	117	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non residential mortgages	32,204	(55)	6,456	59	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	208,519	253	51,427	(35)	4,066	13	-	-	-	-	-	-	-	-	-	-	-	-

The table indicates the exposures assumed by the Group in relation to each third-party securitisation transaction, and also reports the contractual type of assets sold. The column “Write-downs/write-backs” indicates the amount of any write-downs or write-backs during the year as well as depreciations and revaluations posted to profit and loss or directly to equity reserves, in the case of AFS securities

C.3 Banking Group - Stakes in special purpose securitisation vehicles

31 12 2017

Securitisation/Vehicle company name	Registered office	Consolidation	Assets			Liabilities		
			Credit	Debt securities	Other	Senior	Mezzanine	Junior
2017 Popolare Bari RMBS S.r.l.	Via V. Alfieri, 1 Conegliano (TV)	NO	704,901			571,872	58,264	92,516
Argo Mortgage 2 S.r.l.	Via Cassa di Risparmio 15 Genova	NO	63,112			6,962	26,800	29,350
Berica Abs 3 S.r.l.	Via Battaglione Framarin, 18 Vicenza	NO	572,688			310,911	93,900	115,012
Bumper 7 S.A.	Av. Du XX Sept. 52-54 Luxembourg	NO	552,739		26,527	332,195		49,100
Cars Alliance Auto Loans Germany V 2013-1	41 rue Délizy, 93500 Pantin (France)	NO	135,533			26,520	56,799	52,300
Citizen Irish Auto Receivables Trust 2017 DAC	Fourth Floor, 3 George's Dock, IFSC, Dublin 1, Ireland	NO	127,561			101,968	8,700	16,600
Claris ABS 2011 S.r.l.	Via V. Alfieri, 1 Conegliano (TV)	NO	112,604			525,117	654,178	
Deco 2015 CHARLEMAGNE S.A.	2 BOULEVARD KONRAD ADENAUER, Luxembourg	NO	226,130			116,483	40,098	69,553
Dilosk RMBS No1 Designated Activity Company	16 Hume Street, Dublin 2, Ireland	NO	145,683			100,311	24,700	20,600
E-MAC NL 2005	Fred. Roeskestraat 123 Amsterdam, 1076 EE Netherlands	NO	356,651					342,355
FASTNET SECURITIES 13 DAC	3 George's Dock, I.F.S.C. Dublin 1	NO	512,740		10,526	413,100	86,900	26,300
Fip Funding S.r.l.	Via Parigi, 11 Roma	NO	1,848,597			844,022		
First Swiss Mobility 2017-2-AG	Bellerivestrasse 201, 8008 Zürich	NO	329,998			228,422	14,100	12,647
GRAND CANAL SECURITIES 2 DAC	3rd Floor, Kilmore House, Park Lane, Spencer Dock, Dublin 1	NO	517,638		13,994	230,860	67,809	218,961
GREEN APPLE 2017 I NHG BV	Prins Bernhardplein 200 1097 JB, Amsterdam	NO	1,339,463		20,340	1,182,000	156,000	10,690
Italfinance Securitisation Vehicle S.r.l.	Via V. Alfieri, 1 Conegliano (TV)	NO	1,660,601			1,434,376	261,898	235,099
Madeleine SPV S.r.l.	Via V. Alfieri, 1 Conegliano (TV)	NO	61,884		6,074	33,754	15,665	17,522
Marche M6 S.r.l.	Via V. Alfieri, 1 Conegliano (TV)	NO	1,244,207			748,266		494,565
Sestante Finance S.r.l.	Via G. Negri 10 - 20123 Milano	NO	109,310			59,744	30,530	30,547
SME GRECALE 2017 S.R.L.	Piazza della Costituzione 2 - Bologna	NO	767,680		17,550	508,000	77,000	184,800
Tagus Sociedade de Titularizacao de Creditos S.A.	Rua Castilho, 20 Lisbona	NO	770,391			612,897	17,865	45,581
Taurus 2015-1 IT S.r.l.	Via Gustavo Fara 26 - Milano	NO	189,193			136,069	15,192	37,931
Titulisacion de Activos CAM N 9	Calle Orense, 58 Madrid	NO	550,468			416,817	48,000	43,500
Towers CQ S.r.l.	Via A. Pestalozza, 12/14 Milano	NO	832,913			625,716	87,100	121,720
VCL Multi-Compartment S.A. VCL 23	52-54 avenue du X Septembre L-2550 Luxembourg	NO	270,259			237,153	12,837	
VOBA N. 5 S.r.l.	Via V. Alfieri, 1 Conegliano (TV)	NO	279,646				169,591	89,450
Wizink Master Credit Cards	C/Principe de Vergara, 131 Planta 3, 28002 Madrid	NO	776,889			781,505		
Norma Spv S.R.L.	Via Vittorio Alfieri 1, 31015 Conegliano	NO	474,817		1,613	8,377	159,174	308,879
Siena Mortgages 10-7 S.r.l.	Via V. Alfieri, 1 Conegliano (TV)	YES	450,426		218	451,066		(422)
Casaforte S.r.l.	Via Eleonora Duse 53 Roma	YES	1,304,186		13,140	1,106,064		211,261
Siena Consumer 2015 S.r.l	Via V. Alfieri, 1 Conegliano (TV)	YES	239,147		14	186,980		52,182
Siena Lease 2016 2 S.r.l.	Via V. Alfieri, 1 Conegliano (TV)	YES	188,578		115	188,552		142
Siena PMI 2015 S.r..l	Via A. Pestalozza 12/14, Milano	YES	105,241		357	106,608		(1,010)
Total			17,821,874	-	110,468	12,632,687	2,183,100	2,927,731

Liabilities of third-party securitisation transactions do not have the remaining items different from the financial instruments issued, including cumulative profit (loss) for the year.

As regards the "Casaforte Srl" own securitisation with the derecognition of underlying assets, please note that the assets acquired from the originator are included under "Loans". As regards the other consolidated own securitisation transactions, all without the derecognition of the underlying assets, the item "Loans" does not include the receivables acquired from the originator, but rather includes primarily the liquidity held by the vehicles at the reporting date.

C.4 Banking Group - Non-consolidated special purpose securitisation vehicles

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Balance-sheet item/Type of structured entity	Accounting portfolio:		Total assets (A)	Accounting portfolio: Liabilities		Total liabilities (B)	Net book (C=A-B)	Maximum exposure to loss (D)	Difference between exposure to loss and book value (E=D-C)
	Loans to customers	Financial assets held for trading		Financial Liabilities hekd for trading	Deposits from customers				
2017 Popolare Bari RMBS S.r.l.		28,492	28,492			-	28,492	28,492	-
Argo Mortgage 2 S.r.l.		99	99			-	99	99	-
Berica Abs 3 S.r.l.		3,060	3,060			-	3,060	3,060	-
Bumper 7 S.A.		2,000	2,000			-	2,000	2,000	-
Cars Alliance Auto Loans Germany V 2013-1		2,088	2,088			-	2,088	2,088	-
Citizen Irish Auto Receivables Trust 2017 DAC		3,501	3,501			-	3,501	3,501	-
Claris ABS 2011 S.r.l.		18,337	18,337			-	18,337	18,337	-
Deco 2015 CHARLEMAGNE S.A.		1,599	1,599			-	1,599	1,599	-
Dilosk RMBS No1 Designated Activity Company		2,015	2,015			-	2,015	2,015	-
E-MAC NL 2005		7,598	7,598			-	7,598	7,598	-
Fastnet securities 13 DAC		2,501	2,501			-	2,501	2,501	-
Fip Funding S.r.l.		17,203	17,203			-	17,203	17,203	-
First Swiss Mobility 2017-2-AG		1,026	1,026			-	1,026	1,026	-
Grand Canal Securities 2 DAC		6,545	6,545			-	6,545	6,545	-
Green Apple 2017 I NHG BV		4,983	4,983			-	4,983	4,983	-
Italfinance Securitisation Vehicle S.r.l.		9	9			-	9	9	-
Madeleine SPV S.r.l.		5,745	5,745			-	5,745	5,745	-
Marche M6 S.r.l.		28,855	28,855			-	28,855	28,855	-
NORMA SPV	113,577	-	113,577	-	5,448	5,448	108,129	108,129	-
Sestante Finance S.r.l.		807	807			-	807	807	-
SME GRECALE 2017 S.R.L.		15,001	15,001			-	15,001	15,001	-
SRF 2017 1 FONDO DE TITULIZACION		101	101			-	101	101	-
Tagus Sociedade de Titularizacao de Creditos S.A.		51,134	51,134			-	51,134	51,134	-
Taurus 2015-1 IT S.r.l.		4,857	4,857			-	4,857	4,857	-
Titulisacion de Activos CAM N 9		3,431	3,431			-	3,431	3,431	-
Towers CQ S.r.l.		18,853	18,853			-	18,853	18,853	-
VCL Multi-Compartment S.A. VCL 23		1,894	1,894			-	1,894	1,894	-
VOBA N. 5 S.r.l.		29,775	29,775			-	29,775	29,775	-
Wizink Master Credit Cards		2,500	2,500			-	2,500	2,500	-
Total	113,577	264,009	377,586	-	5,448	5,448	372,138	372,138	-

The table includes the interests held by the subsidiary MPS Capital Services S.p.A. and the Parent Company as described below:

- 2017 Popolare Bari RMBS S.r.l.: vehicle established on 17 May 2017 in the Italian Republic pursuant to article 3 of the Supervisory Law as a limited liability company with the name 2017 Popolare Bari RMBS Srl, tax code and VAT no. 04881030268. The issuer is registered in the Treviso-Belluno companies' register with number 04881030268 and in the register of vehicles held by the Bank of Italy pursuant to the regulation issued by the Bank of Italy on 7 June 2017 ("Provisions on disclosure and statistical obligations of companies involved in securitisation transactions") with no. 35362.3. The loans present in the vehicle's assets are Italian residential mortgages with a particular concentration in the Puglia region.

- Argo Mortgage 2 S.r.l.: Securitisation of loans originated with 13,322 residential mortgages distributed throughout Italy. Originator: Banca Carige SpA.
- Berica Abs 3 S.r.l.: vehicle established pursuant to Law no. 130/1999. Multi-originator securitisation (Banca Popolare di Vicenza and Banca Nuova S.p.A.), which entails the non-recourse transfer of performing loans consisting of residential mortgages in favour of parties residing in Italy.
- Bumper 7 S.A.: German loan securitisation company. Originator: LeasePlan Deutschland GmbH. The portfolio consists of 36,580 operating lease contracts granted to consumer or public customers residing in Germany.
- Cars Alliance Auto Loans Germany V 2013-1: Vehicle established with auto loans disbursed in Germany. The vehicle was initially established with 139,361 loans with an LTV of 83.06%.
- Citizen Irish Auto Receivables Trust 2017 DAC: Vehicle established under Irish law. This is a portfolio of auto loans disbursed in Ireland.
- Claris ABS 2011 S.r.l.: vehicle established pursuant to Law no. 130/1999. Multi-originator securitisation (Banca Apulia, CASSA DI RISPARMIO DI FABRIANO E CUPRAMONTANA and Veneto Banca), which entails the non-recourse transfer of performing loans consisting of residential mortgages in favour of parties residing in Italy.
- Deco 2015 CHARLEMAGNE S.A.: Portfolio collateralised by commercial properties including more than ten offices and retail shops located in the Netherlands and Germany, plus eight office buildings in an industrial park in Belgium. Country of issue: Luxembourg.
- Dilosk RMBS No1 Designated Activity Company: portfolio including mortgages originated by ICS Building Society and secured by residential properties located in Ireland which were sold by the Bank of Ireland to Dilosk Funding No.1 Limited.
- E-MAC NL 2005: 3,428 loans to 2,121 parties. Dutch residential mortgages.
- Fastnet securities 13 DAC: Portfolio including mortgages originated by Permanent TSB plc (Permanent TSB or PTSB and in its role as vendor of mortgage loans) and secured by residential properties located in Ireland.
- Fip Funding S.r.l.: FIP Funding is the first investment fund promoted by the Italian Republic as part of a more extensive enhancement process promoted by the Ministry of Economy and Finance (MEF) through the transfer/contribution of real estate assets to mutual real estate investment funds.
- First Swiss Mobility 2017-2-AG: vehicle with loans disbursed in Switzerland in the form of auto loans and leases.
- Grand Canal Securities 2 DAC: the vehicle will make payments on Bonds through principal and interest payments deriving from a portfolio including mortgages originated by Irish Nationwide Building Society (Anglo Irish Bank, Irish Bank Resolution Corporation, Hill Samuel Irlanda Ltd, Scottish Legal Trustee Ltd, Irish Industrial Building Society and Irish Mutual Building Society) and Springboard Mortgages Limited for borrowers secured by real estate located in Ireland. There is also a small number of mortgage loans in the mortgage portfolio, for which foreclosure procedures have been completed in relation to the mortgaged properties.
- Green Apple 2017 I NHG BV: the vehicle is a private limited liability company (besloten vennootschap met beperkte aansprakelijkheid) incorporated under the name Green Apple 2017-I NHG B.V. pursuant to the laws of the Netherlands on 1 August 2017 for an undefined period of time, with registered office in Amsterdam. Dutch residential mortgages.
- Italfinance Securitisation Vehicle S.r.l.: vehicle established on 23 November 2004 in the Italian Republic (with the companies' register of Treviso) pursuant to Law no. 130 of 30 April 1999, as a vehicle for the issue of asset-backed securities. The Issuer is a limited liability company established with the name Doride Finance Srl, which subsequently changed its name to Italfinance Securitisation Vehicle Srl, and is enrolled in the special register of the Bank of Italy pursuant to article 107 of the banking law. The initial duration of the Issuer is until 31 December 2050, without prejudice to extensions pursuant to Italian law. The assets held by the vehicle are loans in the form of leases disbursed to businesses located throughout Italy.
- Madeleine SPV S.r.l.: as set forth in article 2 of its by-laws, the objective of this vehicle is the acquisition of monetary receivables for the purpose of securitisations and the issue of securities backed by such assets. The Issuer has been established as a multi-use vehicle and as a result it may conduct securitisation transactions in addition to the Securitisation. The loans subject to the securitisation are fifth-of-salary-backed loans to Italian public and private employees.
- Marche M6 S.r.l.: vehicle established pursuant to Law no. 130/1999. Originator Banca Marche S.p.A. Banca Marche S.p.A. A portfolio of performing loans deriving from residential first mortgages.
- Norma SPV: on 1 July 2017, as part of a securitisation of non-performing loans, also originated by banks outside the MPS Group, Banca MPS and MPS Capital Services completed the sale of a portfolio of non-performing loans

in the real estate and shipping sectors. The entire portfolio sold to the vehicle Norma SPV S.r.l. consisted of 20 loans equal to EUR 284.9 mln on the transfer date, of which:

- no. 12 loans disbursed by Banca MPS for EUR 24.0 mln in the real estate sector and EUR 145.3 mln in the shipping sector;
- no. 8 loans disbursed by MPS Capital Services for EUR 28.8 mln in the real estate sector and USD 86.8 mln in the shipping sector.

As at 31 December 2017, the remaining debt balance (including interest on arrears accrued) of the portfolio originated by the MPS Group amounted to EUR 252.7 mln (including EUR 145.4 mln transferred by Banca MPS and EUR 107.3 mln by MPS Capital Services). To fund the acquisition of this portfolio, on 21 July 2017 the Vehicle issued Class A1, B, C and D ABS securities (the "securities") for the real estate sector and Class A1, B, C1, C2 and D ABS securities for the shipping sector. *The senior classes of both the real estate and shipping transactions were placed with institutional investors, while the mezzanine and junior classes were subscribed by each transferring bank in proportion with the transferred loans.* In particular, the MPS Group subscribed the following classes:

- *Real Estate:* Class B for a nominal amount of EUR 31.2 mln; Class C for a nominal amount of EUR 4.2 mln; Class D for a nominal amount of EUR 15.8 mln.
- *Shipping:* Class B for a nominal amount of EUR 77.5 mln; Class C1 for a nominal amount of EUR 32.7 mln; Class C2 for a nominal amount of EUR 10.4 mln; Class D for a nominal amount of EUR 105.6 mln.

The placement of part of the notes did not entail the derecognition of the underlying assets from the balance sheet of the transferring Banks, which have substantially retained all risks and rewards associated with the ownership of the assets sold.

- Sestante Finance S.r.l. is a limited liability company incorporated in the Italian Republic pursuant to article 3 of Italian Law no. 130 of 30 April 1999 (Provisions on loan securitisations). The Issuer is registered in the Milan companies' register with number 03367430968 and in the register held by the Italian Foreign Exchange Office pursuant to article 106 of the Banking Law with number 33852 and the special register (special list) held by the Bank of Italy pursuant to article 107 of the banking law. Since its establishment, the Issuer has undertaken no activities other than the acquisition of initial claims and the signing of settlement documents and it has not prepared any financial statements or declared or paid dividends or assumed any debt, other than the costs and expenses of establishing the Issuer or otherwise pursuant to the settlement documents. The issuer has no employees. The Issuer was established on 17 December 2001 with the name Gea S.r.l. The extraordinary shareholders' meeting held on 7 November 2003 changed the name to Sestante Finance S.r.l. The Issuer's authorised share capital, issued and fully paid-up, is EUR 10,000. The Issuer's share capital has been subscribed as follows: Stichting Artemide: EUR 6,000, which represents 60% of the share capital Stichting Olimpo: EUR 4,000, which represents 40% of the equity. The loans held by the vehicle are Italian residential mortgages.
- SME GRECALE 2017 S.R.L.: vehicle with a portfolio of loans granted (with or without collateral) to SMEs located throughout Italy.
- SRF 2017 1 Fondo de titulisacion: Vehicle established under Spanish law with a portfolio consisting of residential mortgages (5,325 contracts) secured by residential properties located in Spain.
- Tagus Sociedade de Titularizacao de Creditos S.A.: Portuguese vehicle which issued notes collateralised with loans for auto/lorry purchases/leases and electricity receivables (Originator EDP Servico Universal SA).
- Taurus 2015-1 IT S.r.l.: the issuer was incorporated in the Italian Republic pursuant to the Securitisation Law on 23 October 2014 as a limited liability company and, on 17 November 2014, it changed its name to "TAURUS 2015-1 IT S.R.L.". The Issuer's by-laws call for its closure on 31 December 2100. The Issuer has no employees or subsidiaries. The Issuer's authorised and issued share capital is EUR 10,000, fully paid-up. The current shareholder of the Issuer is: Quotaholder Quota Stichting SFM Italia n. 1 EUR 10,000 (100% of the share capital). The main activity of the Issuer, its only scope of business, pursuant to article 2 of its by-laws and in compliance with the Securitisation Law, is the performance of securitisations. The vehicle is collateralised by a portfolio 95% of which consists of three loans secured by 14 commercial and office properties located in Northern Italy and Rome.
- Titulisacion de Activos CAM N 9: vehicle subject to Spanish law. Loan originator: Caja de Ahorros del Mediterraneo. Spanish residential mortgages.
- Towers QC S.r.l.: vehicle established pursuant to Law no. 130/1999. A securitisation of salary/pension-backed loans granted by Accedo S.p.A.
- VCL Multi-Compartment S.A. VCL 23, a limited liability company established in order to issue asset-backed securities pursuant to the laws of Luxembourg on 16 September 2009, for an unlimited period of time, which acts in the name and on behalf of its specific Compartment VCL 23, duly created by resolutions of its Board of Directors on 24 February 2016. VCL Multi-Comparto SA is registered with the chamber of commerce and companies of Luxembourg with registration number B 148436. The issuer expressly chose in its By-laws to be governed by the Luxembourg securitisation law.2. The corporate purpose of the Issuer VCL Multi-Compartment SA is the issue of ABSs. VCL Multi-Compartment SA may issue notes of any nature and in any currency and, to the

maximum extent permitted by the Luxembourg securitisation law, pledges and mortgages. VCL Multi-Compartment SA may enter into any agreement and take any measure necessary or useful to perform the transactions permitted by the Luxembourg securitisation law including, for example, the dissolution of its activities in compliance with the relative agreements. VCL Multi-Comparto SA may carry out the above-mentioned activities only if and to the extent to which they are compatible with the Luxembourg Securitisation Law. The vehicle's loans are secured with 73,605 loan agreements for cars purchased in Germany.

- VOBA N. 5 S.R.L.: the fifth securitisation transaction, "Voba 5", is for the non-recourse transfer to a newly established SPV named Voba N.5 S.r.l. of performing loans consisting of mortgages disbursed to customers with SAE code (business code) 600, 614 or 615 (private parties, self-employed people or sole proprietorships).
- Wizinik master credit cards f.t.: vehicle for the securitisation of Spanish personal loans. The group holds senior shares.

Maximum exposure to the risk of loss has been determined to be equal to book value. During the year under review, the Group did not provide and does not intend to provide financial or other support.

C.5 Banking Group - Servicer activities - Collections of securitised loans and redemptions of securities issued by the special purpose securitisation vehicle

31 12 2017

Servicer	Special Purpose Vehicle	Securitised assets (year-end data)		Loans collected during the year		Percentage of securities redeemed (year-end data)					
						Senior		Mezzanine		Junior	
		Impaired	Performing	Impaired	Performing	Impaired assets	Performing loans	Impaired assets	Performing loans	Impaired assets	Performing loans
BMPS	Casaforte S.r.l.	-	1,269,567	-	134,348	0.0%	36.7%	0.0%	0.0%	0.0%	0.0%
	Total 31 12 2017	-	1,269,567	-	134,348						
	Total 31 12 2016	-	1,318,072	-	137,590						

The table conventionally shows the Casaforte securitisation for which the Parent Company carries out servicer activities, although this is a consolidated vehicle.

C.6 Banking Group - Consolidated special purpose securitisation vehicles

The Group carried out securitisation transactions chiefly to optimise its liquidity profile; besides placement on the market, the securities were sold to perform refinancing transactions with the ECB and repurchase agreements with the market.

The paragraphs below describe the characteristics of the Group's securitisation transactions originated in previous years and ongoing as at 31 December 2017 where the securities were partly placed on the market or with retail customers, as well as information on the nature of the risks associated with the interests in consolidated securitisation vehicles.

In view of these transactions, the Parent Company allocated reserves in support of the vehicles, should such funds be needed upon occurrence of certain events. As at 31 December 2017, these reserves amounted to EUR 129.83 mln.

Own securitisations with derecognition of the underlying assets

Casaforte Srl

This securitisation was carried out in 2010 and consisted in the transfer to Vehicle Casaforte Srl of a pool of receivables arising from a mortgage loan granted to the consortium company, Perimetro Gestione Proprietà Immobiliari. As at 31 December 2017 the residual debt amounts to EUR 1,269.6 mln. In December 2013 the Parent Company announced the completed buyback in full of the PGPI 2010 equity financial instruments and related Class Z Notes for a value of approximately EUR 70 mln. As a result of these purchases, the Parent Company acquired control of the Company, which was subsequently consolidated in the Financial Statements.

At the reporting date, Casaforte Class A Notes amounting to EUR 157.2 mln placed with third-party investors are posted under item "30 – Debt securities issued" of the liabilities in the consolidated balance sheet. The Group is committed to repurchasing these securities from investors at a price calculated on the basis of the equivalent issue spread.

Own securitisations without derecognition of the underlying assets

Siena Mortgages 10-7 Srl

On 30 September 2010, a portfolio of 34,971 performing residential mortgages originated by the Parent Company was sold for approx. EUR 3,479.5 mln. As at 31 December 2017, the remaining debt balance amounted to EUR 1902.4 mln (22,426 outstanding contracts).
To fund the acquisition of the portfolio, the Vehicle issued residential mortgage-backed securities (RMBS); Class A1 and A2 notes - now fully repaid - were placed with market investors, whereas the remaining classes of notes issued were underwritten by the Parent Company and part of them were subsequently placed with market investors (class A3).
Market placement of these classes did not entail the derecognition of the underlying assets from the balance sheet of the Parent Company (transferor), which has substantially retained all risks and rewards associated with the ownership of the assets sold.

Siena Consumer 2015 Srl

On 27 February 2015, the former subsidiary Consum.it S.p.A., now absorbed into the Parent Company, carried out a second securitisation transaction with the disposal of a portfolio of 198,371 personal, auto and special purpose loans, all disbursed by Consum.it S.p.A. for an amount of EUR 1,505.4 mln.

As at 31 December 2017, the remaining debt balance amounted to EUR 363.5 mln (191,994 outstanding loans).

To finance the purchase of this portfolio the Vehicle issued various classes of ABS securities, of which those in the Senior Class were placed with an institutional investor; the remaining mezzanine and junior classes were subscribed by the Parent Company.

In June 2017, the transaction was restructured in relation to the ABSs issued by the vehicle, with an increase in the nominal amount of Class A through the partial redemption of Classes B, C and E. This transaction also did not entail the derecognition of the underlying loans from the transferor's financial statements.

Siena PMI 2015 Srl

On 26 June 2015, in order to optimise the Group's liquidity profile, the Parent Company transferred a portfolio to the vehicle company "Siena PMI 2015 Srl" consisting of 24,683 performing, unsecured or mortgage loans disbursed to Italian SMEs totalling EUR 3,002.7 mln. As at 31 December 2017, the remaining debt balance amounted to EUR 1,167.0 mln (13,309 outstanding contracts).

To fund the acquisition of the portfolio, the Vehicle issued ABS securities on 6 August 2015. In the senior tranche, Senior classes A1A and A1B - now fully repaid - were placed with institutional investors, while classes A2A and A2B - also now fully repaid - were placed with the European Investment Bank. The remaining classes of notes issued were repurchased by the Parent Company, which subsequently placed part of Class B with institutional investors.

The B and C classes were rated by Moody's and DBRS.

The placement of part of the notes did not entail the derecognition of the underlying assets from the balance sheet of the Parent Company, which has substantially retained all risks and rewards associated with the ownership of the assets sold.

Siena LEASE 2016-2 Srl

On 3 December 2015, the subsidiary MPS Leasing & Factoring Banca per i Servizi Finanziari alle Imprese sold a portfolio consisting of 13,181 performing finance leases totalling EUR 1,622.4 mln to the vehicle company "Siena LEASE 2016-2 S.r.l.". As at 31 December 2017, the remaining debt balance amounted to EUR 1,061.9 mln (8,647 outstanding contracts).

To fund the acquisition of the portfolio, the Vehicle issued ABS securities on 28 January 2016. In particular, the senior tranche was placed with institutional investors, while the remaining classes of securities issued were repurchased by the Originator.

The Senior and Mezzanine classes were rated by Moody's and Fitch.

The placement did not entail the derecognition of the underlying assets from the balance sheet of the Parent Company, which has substantially retained all risks and rewards associated with the ownership of the assets sold.

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For all the securitisation transactions described above, during the period under review the Parent Company and its subsidiaries have not provided any financial or other support without being obliged under the contract. There are no cases of financial or other support to a previously non-consolidated structured entity as a result of which the structured entity was controlled by the Group.

The Group does not intend to provide financial or other support to consolidated securitisation vehicles, nor to assist entities in obtaining financial support.

D. Information on structured entities (other than securitisation vehicles)

D.1 Consolidated structured entities

This paragraph was not completed as no such entities are present.

D.2 Structured entities not consolidated for accounting purposes

D.2.1 Structured entities consolidated for supervisory purposes

This paragraph was not completed as no such entities are present.

D.2.2 Other structured entities

Qualitative Information

For disclosures pursuant to IFRS 12 please refer to the comments provided under the tables below.

Quantitative Information

31 12 2017

Balance sheet item/Type of structured entity	Accounting portfolio: Assets		Total assets (A)	Accounting portfolio: Liabilities	Total liabilities (B)	Net book value (C=A-B)	Maximum exposure to loss (D)	Difference between exposure to loss and book value (E=D-C)
	Held for trading	Available for sale		held for trading				
1. Special Purpose vehicles	-	-	-	-	-	-	-	-
2. UCITS	985,284	96,210	1,081,494	172,744	172,744	908,750	1,240,964	332,214
Total	985,284	96,210	1,081,494	172,744	172,744	908,750	1,240,964	332,214

UCITS

The aggregate includes, in the column 'Financial assets held for trading':

- EUR 61.7 million (EUR 12.1 million as at 31 December 2016) relating to the interests held by the subsidiary MPS Capital Services S.p.A in units of open-ended asset funds and Exchange Traded Funds investing in stocks, bonds and derivatives. These units are purchased for the hedging of risks associated with the issue of fund structured bonds placed through the network by the Parent Company or for repurchase on the secondary market of the structured funds that had been originally structured;
- EUR 923.6 million (EUR 985.0 million as at 31 December 2016) relating to exposures in credit and financial derivatives with a positive fair value to the counterparties Rainbow (EUR 485.2 million; EUR 614.9 million as at 31 December 2016) and Axa Im Deis asset funds (EUR 325.0 million; EUR 370.1 million as at 31 December 2016). Rainbow, Anima and Axa Im Deis are funds under Irish law managed by Anima Asset Management and AXA Investment Managers, respectively. These funds are divided into subfunds purchased by MPS AXA Financial Limited, which are the funds to which are linked the services of the Unit Linked policies placed with the latter's customers with the name "AXA MPS Valore Performance". The subsidiary MPS Capital Services S.p.A. operates with Rainbow, Anima and Axa Im Deis as counterparty with which the derivatives included in the Fund assets are negotiated.

The column 'Financial assets available for sale' includes:

- EUR 66.7 mln (EUR 147.4 mln as at 31 December 2016) relating to interests held by the Parent Company in private equity funds, whose purpose is to increase the value of the respective equity through mainly medium to long-term investments chiefly in the purchase and/or subscription of shares, units and securities in general representing the equity of target enterprises, exclusively in the best interest of the investors;

- EUR 12.9 mln (EUR 14.3 mln) relating to units of a multi-segment closed-end Italian alternative asset investment fund (Idea CCR I) held by the Parent Company and the subsidiary MPS Capital Services S.p.A. The fund's purpose is to contribute to the re-launch of medium-sized Italian companies in financial difficulty, but with solid fundamentals;
- EUR 7.6 mln (EUR 6.3 mln as at 31 December 2016) relating to units - held by the Parent Company and by the subsidiaries MPS Capital Services S.p.A. and MPS Leasing & Factoring S.p.A - of a closed-end private contribution real estate fund for qualified investors only (Athens RE Fund B). The fund, managed by Unipol Sai Investimenti SGR, holds prestigious tourism complexes located in Tuscany and Sicily.
- EUR 3.4 mln (EUR 4.4 mln as at 31 December 2016) relating to the units of a closed-end real estate investment fund for qualified investors only (Fondo Leopardi and Fondo Cosimo I), held by the Parent Company and the subsidiary MPS Capital Services S.p.A., respectively. The objective of the funds is to maximise income for its investors through a growing dividend yield as well as increased value of portfolio assets.
- EUR 4.9 mln relating to units of a closed-end alternative real estate investment fund for qualified investors only (Rainbow Fund), held by the Parent Company and by the subsidiary MPS Capital Services S.p.A. The fund's objective is to maximise income for its investors through the increased value of the investments made. The fund, managed by Serenissima SGR, holds several hotel complexes located in Puglia;
- EUR 0.7 mln (EUR 8.7 mln as at 31 December 2016) includes interests of the Parent Company in hedge funds, particularly side pockets and funds under liquidation.

The column 'Financial liabilities held for trading' includes:

- EUR 172.7 million (EUR 171.5 million as at 31 December 2016) relating to the negative fair value of financial and credit derivatives with the counterparties Rainbow (EUR 107.6 million; EUR 135.9 million as at 31 December 2016), Anima (EUR 34.1 million; not present in 2016) and the AXA IM DEIS asset funds managed by AXA Investment Managers (EUR 31.0 million; EUR 35.6 million as at 31 December 2016).

The entities in question raise funds through the issue of units, making recourse to the capital that investors committed to paying upon placement and forms of borrowing in line with their respective management regulations.

Maximum exposure to the risk of loss was determined to be equal to book value for exposures to UCITS units other than the financial and credit derivatives for which reference is made to positive fair value plus the add-on (calculated also taking into account positions with a negative fair value). For UCITS, the maximum risk exposure also includes the Group's commitments not yet called up by the funds, to subscribe additional units.

During the year under review, the Group did not provide and does not intend to provide financial or other support to the non-consolidated structured entities referred to above.

There are no sponsored non-consolidated entities for which the Group holds no interests at the reporting date.

E. Transfers

A. Financial assets sold and not fully derecognised

Qualitative Information

For a description of the transactions contained in the tables reported in this section, please refer to the footnotes of the tables themselves.

Quantitative Information

E.1 Banking Group - Financial assets sold and not derecognised: book value and full value

31 12 2017

Type/portfolio	Financial assets held for trading			Financial assets designated at fair value			Financial assets available for sale			Financial asset held to maturity			Loans to banks			Loans to customers			Total	
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	31 12 2017	31 12 2016
A. Balance-sheet assets	4,556,819	-	-	-	-	-	1,774,273	-	-	-	-	-	-	-	-	4,482,006	-	-	10,813,098	25,115,230
1. Debt securities	4,556,261	-	-	-	-	-	1,774,273	-	-	-	-	-	-	-	-	-	-	-	6,330,534	19,442,975
2. Equity instruments	558	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	558	22,707
3. UCITS	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	-	-
4. Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,482,006	-	-	4,482,006	5,649,548
B. Derivatives	-	-	-	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	-	-
Total 31 12 2017	4,556,819	-	-	-	-	-	1,774,273	-	-	-	-	-	-	-	-	4,482,006	-	-	10,813,098	X
of which non performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	*307,512*	-	-	*307,512*	*X*
Total 31 12 2016	4,299,467	-	-	-	-	-	14,078,883	-	-	-	-	-	726,598	-	-	6,010,282	-	-	X	25,115,230
of which non performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	*178,965*	-	-	*X*	*178,965*

Legend:
A = Financial assets sold and fully recognised (book value)
B = Financial assets sold and partially recognised (book value)
C = Financial assets sold and partially recognised (full value)

The table reports the book value of financial assets sold but not derecognised, and still partially or fully reported in balance sheet assets. Line “1. Debt securities” exclusively includes securities sold in repurchase agreements; the amount in line “4. Loans” refers to the loans included in securitisation transactions without derecognition described in this section.

E.1.1 – Types of transfers of financial assets not derecognized

Item/Amount	Total 31 12 2017	Total 31 12 2016
Repurchase agreements	6,331,092	19,450,638
Securitisations	4,482,006	5,649,548
Others	-	15,044
Total	**10,813,098**	**25,115,230**

E.2 Banking Group - Financial liabilities associated with transferred financial assets that are not derecognised: book value

Liabilities/ Asset Portfolios	Financial assets held for trading	Financial assets designated at fair value	Financial assets available for sale	Financial assets held to maturity	Loans to banks	Loans to customers	Total
1. Deposits from customers	**2,505,918**	**-**	**751,958**	**-**	**-**	**2,948**	**3,260,824**
a) relating to fully recognised assets	2,505,918	-	751,958	-	-	2,948	3,260,824
b)relating to partially recognised assets	-	-	-	-	-	-	-
2. Deposits from banks	**76,276**	**-**	**216,065**	**-**	**-**	**-**	**292,341**
a) relating to fully recognised assets	76,276	-	216,065	-	-	-	292,341
b) relating to partially recognised assets	-	-	-	-	-	-	-
3. Debt securities issued	**-**	**-**	**-**	**-**	**-**	**923,807**	**923,807**
a) relating to fully recognised assets	-	-	-	-	-	923,807	923,807
b) relating to partially recognised assets	-	-	-	-	-	-	-
Total 31 12 2017	**2,582,194**	**-**	**968,023**	**-**	**-**	**926,755**	**4,476,972**
Total 31 12 2016	**2,692,615**	**-**	**13,496,086**	**-**	**-**	**2,123,516**	**18,312,217**

The table indicates the book value of financial liabilities posted as offsetting entries to financial assets sold and not derecognised partially or in their entirety from balance sheet assets.

E.3 Banking Group - Sales transactions relating to financial liabilities with repayment exclusively based on assets sold and not derecognised: fair value

Type/ Portfolio	Financial assets held for trading		Financial assets designated at fair value		Financial assets available for sale		Financial assets held to maturity (fair value)		Loans to banks (fair value)		Loans to customers (fair value)		Total	
	A	B	A	B	A	B	A	B	A	B	A	B	31 12 2017	31 12 2016
A. Balance-sheet assets	-	-	-	-	-	-	-	-	-	-	4,758,802	-	4,758,802	6,005,722
1. Debt securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.Equity instruments	-	-	-	-	-	-	X	X	X	X	X	X	-	-
3. UCITS	-	-	-	-	-	-	X	X	X	X	X	X	-	-
4. Loans	-	-	-	-	-	-	-	-	-	-	4,758,802	-	4,758,802	6,005,722
B. Derivatives	-	-	X	X	X	X	X	X	X	X	X	X	-	-
Total assets	-	-	-	-	-	-	-	-	-	-	4,758,802	-	4,758,802	6,005,722
C. Associated financial liabilities	-	-	-	-	-	-	-	-	-	-	929,263	-	X	X
1. Deposits from customers	-	-	-	-	-	-	-	-	-	-	5,456	-	X	X
2. Deposits from banks	-	-	-	-	-	-	-	-	-	-	-	-	X	X
3. Debt securities issued	-	-	-	-	-	-	-	-	-	-	923,807	-	X	X
Total liabilities	-	-	-	-	-	-	-	-	-	-	929,263	-	929,263	1,453,609
Net value as at 31 12 2017	-	-	-	-	-	-	-	-	-	-	3,829,539	-	3,829,539	X
Net value as at 31 12 2016	-	-	-	-	-	-	-	-	-	-	4,552,113	-	X	4,552,113

Legend:
A = Financial assets sold and fully recognised (book value), B = Financial assets sold and partially recognised (book value)

The amount reported in the column "Loans to customers – fair value" exclusively refers to the fair value of receivables sold with own securitisations without derecognition which continue to be fully recognised in the Group's balance sheet assets. The amount of EUR 929.3 mln reported under associated liabilities refers to the fair value of the portion of senior notes sold to market counterparties as part of the same securitisation. The Bank recognised a liability with the notes-issuing vehicles as an offsetting entry for the cash flows arising from this disposal. Against this liability, the creditor's entitlement to repayment is limited to cash flows arising from the assets underlying senior notes sold.

B. Financial assets sold and fully derecognised with assessment of "continuing involvement"

Qualitative Information

Quantitative Information

None to report as at 31 December 2017.

E.4 Banking Group – Covered bond transactions

Characteristics of the Covered Bond Issuance Programmes

The Group has two Covered Bond Issuance Programmes.

The first Programme, meant for institutional investors, was launched in 2010 for an amount of EUR 10,000 mln. The programme is intended to place a secured product on the market, offering covered bonds as a preferred instrument for financial profile improvement in the mid and long term. In light of the developments in the financial markets, the Programme should be considered as part of a wider strategy, aimed at:

- curbing the costs of funding: covered bonds are widely preferred, inasmuch as they are issued directly by the Bank and their repayment is also guaranteed by a segregated pool of assets (in this case, residential mortgage loans); in the event of issuer bankruptcy, covered bond holders enjoy a right of recourse on a portfolio of segregated high-quality assets and are, therefore, willing to accept a lower yield than the one offered by similar uncovered bonds;
- diversifying the Bank's funding sources on the international market;
- lengthening its average debt maturity profile.

On 26 June 2015, the First Programme's meeting of the covered bond holders approved the proposed amendments in order to:

- amend the Programme, to obtain a rating from DBRS (in addition to Moody's and Fitch) for the covered bonds issued and to be issued as part of the Programme; and
- activate, if specific cases of default take place pursuant to the Programme, a "conditional pass through" type mechanism for the repayment of the bonds issued.

At the time of the annual renewal of the Programme, on 23 December 2017, its maximum amount was increased from EUR 10,000 mln to EUR 20,000 mln.

With a view to improving the efficiency and stability of the Group's Counterbalancing Capacity, in 2012 a second Bond Issuance Programme was authorised, collateralised by separate assets consisting of residential and commercial mortgage loans for a maximum of EUR 20,000 mln. The programme is not intended for the market but for instruments eligible as collateral in refinancing transactions through the European Central Bank. The programme, which did not have an explicit rating at its launch, was rated by DBRS in 2013.

The structure of the Group's Covered Bond programmes requires fulfilment of the following activities:

a) the Parent Company or another Group company transfers, without recourse, a pool of assets, which may consist of cash and other assets as appropriate (real-estate backed, residential and commercial mortgage loans), to the vehicles MPS Covered Bond S.r.l. and MPS Covered Bond 2 S.r.l., thereby forming a segregated cover pool;

b) the Transferor grants a subordinated loan to the vehicle, for the purpose of financing payment of the assets' purchase price by the vehicle;

c) the Parent Company issues covered bonds secured by an autonomous, irrevocable and unconditional first-demand guarantee issued by the vehicle for the only benefit of the bond-holding investors and senior debtors in the Programme (the guarantee involves limited recourse to the assets of the Cover Pool owned by the vehicle, which acts as Guarantor).

Accounting treatment

Pursuant to IAS 39, the derecognition of a financial instrument from the balance sheet of the transferor is determined on the basis of the substance of the contract, not its legal form.

Having said this, the deal is recognised as follows:

- transferred loans continue to be reported in the Parent Company's balance sheet under sub-item "Loans" of item 70 " Loans to customers" on the asset side, inasmuch as the Parent Company retains the risks and rewards of ownership of the loans transferred;
- the loan disbursed by the Parent Company to the Vehicle is not classified as a separate item in the balance sheet, since it is offset with the amount due to the Vehicle in which the initial transfer price was recognised. The loan, therefore, is not subject to credit risk assessment, because this risk is entirely reflected in the assessment of transferred loans, which continue to be reported in the Parent Company's balance sheet.
- loans are subject to movements based on own events (figures and assessment); instalments collected by the Parent Company (which also acts as a servicer) are reallocated daily to the Vehicle's "Collection Account" and accounted for by the Parent Company as follows:
    - collection of principal from borrower is recognised as an offsetting entry to the reduction in the loan to the borrower;
    - reallocation of principal to the Vehicle is recognised as an offsetting entry to the recognition of a loan to the Vehicle;
    - this loan is paid off upon repayment of the subordinated loan;
    - interest from the borrower is recognised as an offsetting entry to Item 10 "Interest income: loans to customers" (interest on loans continues to be recognised on an accrual basis);
    - reallocation of interest to the Vehicle is recognised as an offsetting entry to the recognition of a loan to the Vehicle;
    - this loan is paid off upon collection of interest on the subordinated loan.
- the vehicles "MPS Covered Bond S.r.l." and "MPS Covered Bond 2 S.r.l." are invested in by the Parent Company for a control stake of 90%, recognised under Item 100 "Equity Investments" and included in the Group's consolidated financial statements under the comprehensive approach;
- bonds issued are posted to Item 30 "Debt securities issued" on the liabilities side, and related interest expense is recognised on an accrual basis.

In consideration of the characteristics and accounting treatment of the deal, the swaps associated with the transaction are not recognised in the balance sheet, since their recognition would entail, pursuant to par. AG49 of IAS 39, a duplication of rights and obligations already recognised due to loans transferred being maintained on the balance sheet.

Risks and Control Measures

In order to allow the transferee to meet the obligations of the collateral pledged, the Parent Company uses appropriate Asset & Liability Management techniques to secure a trend of substantial balance between the maturities of cash flows arising from the assets sold and maturities of payments due in relation with the covered bonds issued and other costs of the transaction.

The Programmes were structured in compliance with applicable rules and regulations which authorise the issuance of covered bonds only if the transferring and issuing banks meet certain capital requirements.

The structure of the debt issuance programmes of the Parent Company (in the role of transferor and servicer) is subject to stringent regulatory requirements and calls for continuous actions for each transaction by the Credit Portfolio Governance; Finance, Treasury & Capital Management and Lending Risk Officer Areas, as well as supervision by the Credit Audit Service and an external auditor (Deloitte & Touche) as Asset Monitors. In particular, these actions include:

- assessment of capital requirements mandated by Supervisory Instructions when it comes to covered bond issuance programmes;
- assessment of the quality and integrity of assets transferred with regard, in particular, to the estimated value of properties, both residential and commercial, on which a mortgage in relation with the asset-backed loans is placed; this assessment may result in repurchases, integrations and additional transfers of supplemental assets;
- assessment of an appropriate ratio being maintained between bonds issued and assets transferred as collateral (Cover Pool - mortgage and residential assets for the first programme and residential and commercial assets for the second programme);
- assessment of transfer limits and integration practices;
- assessment on whether risks are effectively and adequately hedged by derivative contracts in relation to the transaction.

In the course of 2013, the mitigation strategy for interest rate risk on the first Programme was restructured in order to minimise the Vehicle's exposure to market counterparties. In particular, the newly-defined strategy aims to only cover the Vehicle's net exposure to interest rate risk, as opposed to the nominal amount. At the same time, the outsourcing of Covered Bond Swaps outstanding with market counterparties was carried out.

The paragraphs below provide information on the nature of the risks associated with the interest in the MPS Covered Bond S.r.l. vehicle, whose assets are pledged as collateral of bond issues of the Parent Company partly placed with the market.

In particular, the terms of the agreements that could require the Group to provide financial support to the vehicle MPS Covered Bond S.r.l. are as follows:

- the Parent Company undertakes, in accordance with the programme's terms, to ensure compliance over time with the regulatory and contractual tests determined according to the methodologies set by the rating agencies from time to time;
- if the Parent Company's rating decreases below “BBB(low)” (DBRS), “BBB-” (Fitch) and “Baa3” (Moody's), the repayment of each subordinated loan will be delayed by 6 months after the original expiry (unless early loan repayment is necessary to allow for compliance with the maximum limit of cash that may be accumulated by the Vehicle, established by regulation as 15% of the total of the cover pool, to the extent to which it is not possible for the Vehicle to acquire new suitable assets to replace cash, pursuant to the Framework Transfer Agreement);
- in accordance with the Master Definition Agreement, the Parent Company shall allocate and change the amount of the variable liquidity reserve according to criteria agreed upon with the rating agencies.

As concerns the second programme, the terms of the agreements that could require the Group to provide financial support to the vehicle MPS Covered Bond 2 S.r.l. are as follows:

- the Parent Company undertakes, in accordance with the programme's terms, to ensure compliance over time with the regulatory and contractual tests determined according to the methodologies set by the rating agency from time to time;

- in accordance with the Master Definition Agreement, the Parent Company shall allocate and change the amount of the variable liquidity reserve according to criteria agreed upon with the rating agency.

During the period under review the Parent Company and its subsidiaries have not provided any financial or other support without being obliged under the contract.

There are no cases of financial or other support to a previously non-consolidated structured entity as a result of which the structured entity was controlled by the Group.

The Group does not intend to provide financial or other support to the vehicle, nor to assist the entity in obtaining financial support.

Description of individual disposals and issuances

As part of the first Programme, in 2017 no transfer of new portfolios was carried out.

Here follows a summary of the main characteristics regarding transfers in the first Programme:

31 12 2017

Cover Pool transfer date	Type of seuritised assets	Transferor	Total value of asset transferrd (in units of €)	No. Of mortagage loans transferred	Breakdown of transferred debtors by business sectors
25 05 2010	Residential mortgage loans	Banca MPS	4,413,282,561	36,711	100% natural persons
19 11 2010	Residential mortgage loans	Banca MPS	2,400,343,585	19,058	100% natural persons
25 02 2011	Residential mortgage loans	Banca MPS	3,887,509,799	40,627	100% natural persons
25 05 2011	Residential mortgage loans	Banca MPS (ex Banca Antonveneta)	2,343,824,924	26,804	100% natural persons
16 09 2011	Residential mortgage loans	Banca MPS	2,323,368,355	27,973	100% natural persons
14 06 2013	Residential mortgage loans	Banca MPS	415,948,266	4,259	100% natural persons
18 09 2015	Residential mortgage loans	Banca MPS	1,529,531,983	15,080	100% natural persons
31 10 2016	Residential mortgage loans	Banca MPS	775,933,585	7,630	100% natural persons
22 12 2016	Residential mortgage loans	Banca MPS	237,758,336	1,903	100% natural persons
Total			**18,327,501,394**	**180,045**	

The remaining debt balance on the portfolio as at 31 December 2017 amounted to EUR 10,025.0 mln for 125,730 mortgages.

As part of the first Programme, the Parent Company completed a total of twenty-five issuances, thirteen of which had not yet matured or been repaid early for a nominal amount, as at 31 December 2017, of EUR 8,420 mln, of which EUR 5,187 mln are on the market, while EUR 3,233 mln are held by the Parent Company and by the subsidiary MPS Capital Services Banca per le Imprese S.p.A.

In 2017 no securities were issued as part of the first Programme.

For the second Programme, on 24 March 2017 a portfolio was sold of 5,799 performing residential and commercial mortgages, with no outstanding payments at the date of portfolio valuation and meeting selection criteria substantially comparable to those used for previous disposals, for an amount of EUR 789.2 mln.

Here follows a summary of the main characteristics regarding transfers in the second Programme:

31 12 2017

Cover Pool transfer date	Type of seuritised assets	Transferor	Total value of asset transferrd (in units of €)	No. Of mortagage loans transferred	Breakdown of transferred debtors by business sectors
27 04 2012	Residential mortgage loans	Banca MPS	2,384,995,478	27,047	100% natural persons
22 06 2012	Residential and commercial mortage loans	Banca MPS	2,478,270,455	13,993	Mixed
24 08 2012	Residential and commercial mortage loans	Banca MPS	1,401,965,498	17,353	Mixed
21 09 2012	Residential and commercial mortage loans	Banca MPS	2,473,677,574	9,870	Mixed
15 02 2013	Residential and commercial mortage loans	Banca MPS	1,286,740,404	9,033	Mixed
21 06 2013	Residential and commercial mortage loans	Banca MPS	2,147,692,217	12,771	Mixed
29 03 2014	Residential and commercial mortage loans	Banca MPS	1,464,170,335	5,645	Mixed
16 10 2015	Residential and commercial mortage loans	Banca MPS	977,548,353	5,671	Mixed
18 07 2016	Residential and commercial mortage loans	Banca MPS	2,010,907,198	24,162	Mixed
26 08 2016	Residential and commercial mortage loans	Banca MPS	813,253,156	7,211	Mixed
24 03 2017	Residential and commercial mortage loans	Banca MPS	789,153,182	5,799	Mixed
Total			**18,228,373,850**	**138,555**	

The remaining debt balance on the portfolio as at 31 December 2017 amounted to EUR 9,520.3 mln for 95,488 mortgages.

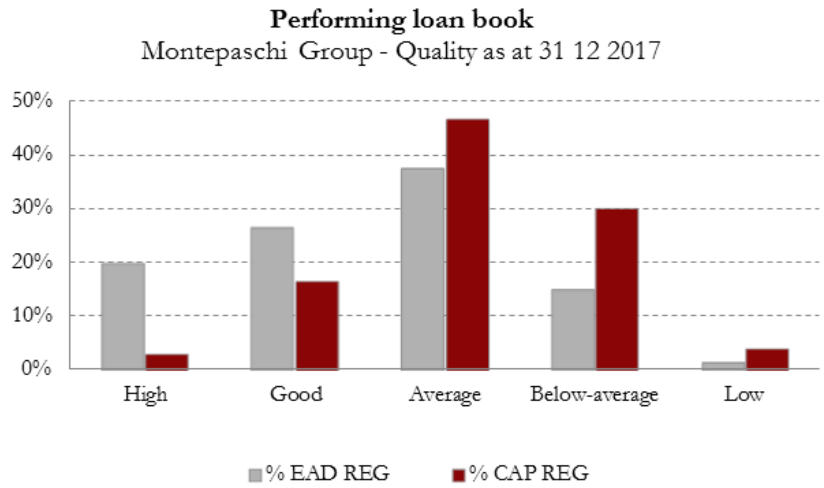
As part of the second Programme, the Parent Company completed thirty-three issuances (of which seventeen not yet matured or redeemed early), which were not intended for the market but repurchased by the Parent Company and used as collateral for refinancing transactions in the Eurosystem, for a total as at 31 December 2017 of EUR 8,900 mln.

As part of the second Covered Bond Programme, the following issues were made in 2017 as the re-opening of covered bond series no. 26 and no. 27 already outstanding:

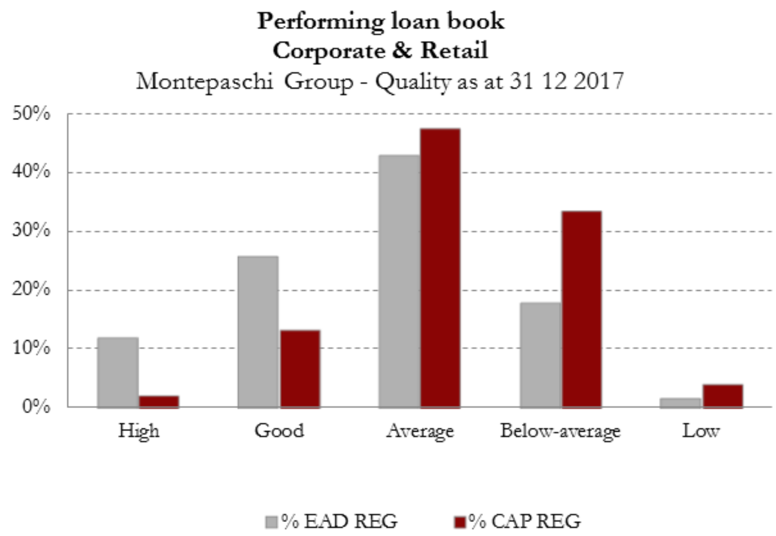
Date of issue	Notional Amount	Coupon	Frequency	Date of maturity
02 02 2017	500,000,000	3mE + 0,85%	Quarterly	january - 2021
02 02 2017	300,000,000	3mE + 0,85%	Quarterly	april - 2021
Total	**800,000,000**			

F. Banking group - Credit risk measurement models

The chart below provides a credit quality breakdown of the Group portfolio as at 31 December 2017 by Exposure to Risk (EAD REG) and Regulatory Capital (CAP REG). The following graph shows that about 46% of risk exposure is to high and good quality customers (positions in financial assets are excluded). It should be noted that the ranking below also includes exposure to banks, government agencies and non-regulated financial and banking institutions, which are not included in the AIRB approaches. As borrowers, these entities are nevertheless subject to a credit standing assessment using official ratings, if any, or appropriate benchmark values that have been determined internally.

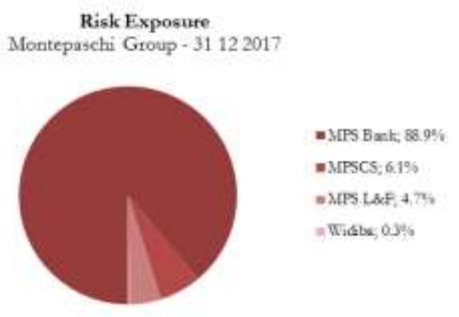


On the other hand, the following chart provides a breakdown of credit quality only for Corporate and Retail portfolios (which are largely validated by regulatory authorities for the use of internal PD and LGD models). As at 31 December 2017, high or good quality exposure accounted for approximately 38% of total exposure.



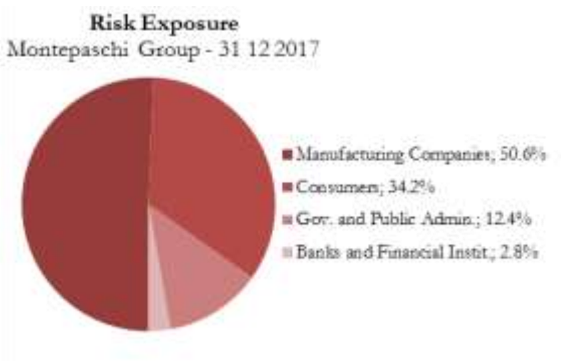
With reference to Risk Exposure, the Parent Company covers 88.9% of the Group's total, while MPS Capital Services, MPS L&F and Widiba jointly cover the remaining 11.1%:

The Regulatory Capital for credit risk is absorbed mainly by the Parent Company (78.5%), followed by MPS Capital Services (13.8%) and MPS Leasing e Factoring (7.4%).



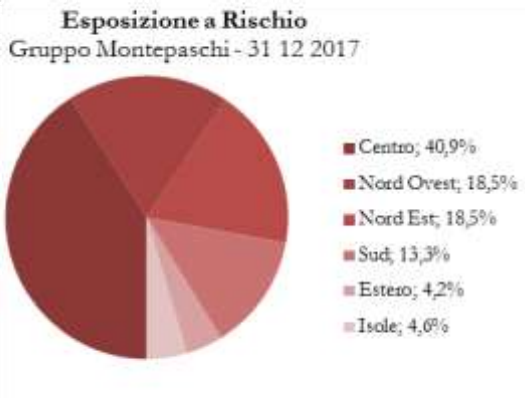
An analysis conducted at the end of 2017 shows that the Group's risk exposure is mainly toward "Manufacturing Companies" (50.6% of total loans disbursed) and "Households" (34.2%). The remaining portion is broken down between "Government and Public Administration" and "Banks and Financial Institutions", respectively at 12.4% and 2.8%.

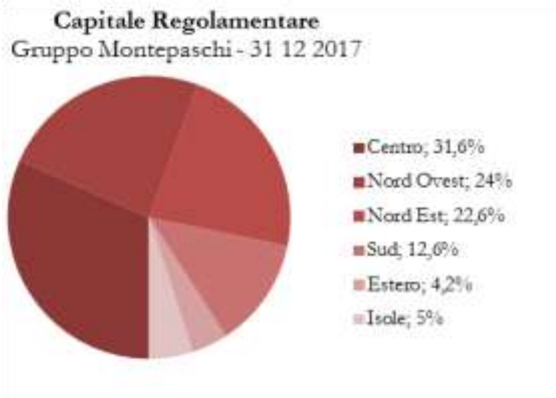
In terms of Regulatory Capital, 80.9% is absorbed by the "Manufacturing Companies" customer segment. The "Households" segment stands at 12.7%; followed by "Government and Public Administration" and "Banks and Financial Institutions" with 3.9% and 2.5% respectively:



An analysis of the geographical breakdown of Group customers shows that exposure to risk is primarily concentrated in Italy's Central regions (40.9%), followed by the North East and North West (both at 18.5%), Southern Italy (13.3%), Foreign Countries (4.2%) and Italy's Islands (4.6%):

Regulatory Capital absorption is also higher in Central Italy (31.6%), in North West Italy (24%) and North East Italy (22.6%) due to the greater concentration of loans in those areas. These are followed by Southern Italy (12.6%), Foreign Countries (4.2%) and the Islands (5%):



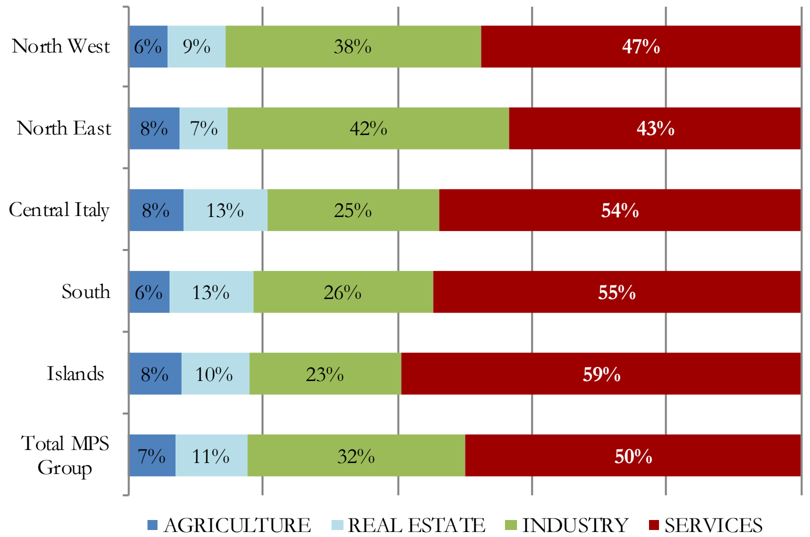


Lastly, the following graphs show, solely for Italian corporate customers, the percentage breakdown of Default Exposure by individual Geographic Area and Regulatory Capital absorption by Business Sector.

The largest share of Default Exposure for businesses in all Geographic Areas is accounted for by the "Services" sector. Out of the Group's total exposure, the share of Services accounts for 50% and is followed by Industry (32%), Building (11%) and Agriculture (7%).

Italian Corporate customers – performing loan book as at 31 12 2017

EAD REG by geography and business segment



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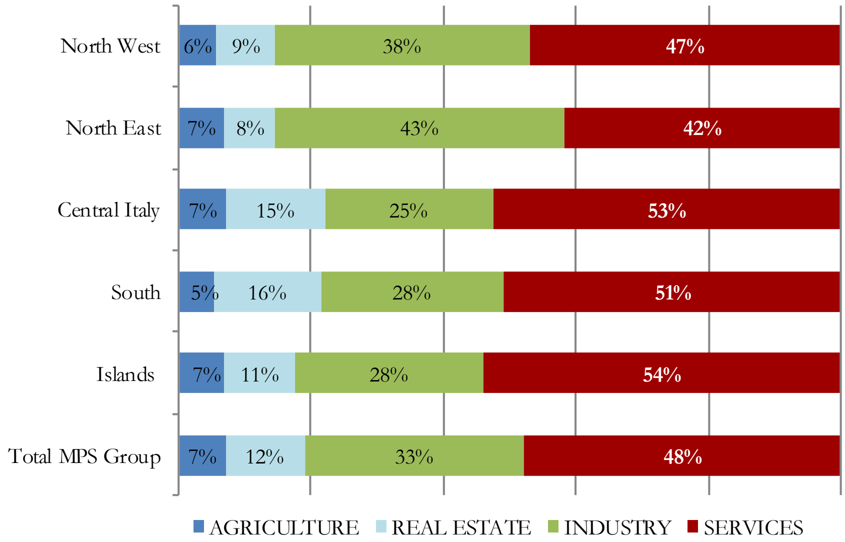
Also as regards Regulatory Capital (CAP), the greatest concentration relates to the Services sector in all Geographic Areas, with the exception of the North East:

Italian Corporate customers – performing loan book as at 31 12 2017

CAP REG by geography and business segment



The comparison between expected loss and actual loss is performed on an annual basis by the internal control function as part of PD and LGD backtesting procedures.

1.2 – Banking Group - Market risk

1.2.1 Interest rate and price risk – regulatory trading book

Market risks relating to the Trading Book

Market risk management model for the Trading Book

The Group's Regulatory Trading Portfolio (RTP), or Trading Book, is made up of all the Regulatory Trading Books managed by the Parent Company (BMPS) and MPS Capital Services (MPSCS). The Trading Portfolios of the other subsidiaries are immune to market risk. Trading in derivatives, which are brokered on behalf of customers, calls for risk to be centralised at, and managed by, MPSCS.

The market risks in the trading book are monitored in terms of Value-at-Risk (VaR) for operational purposes. The Group's Finance and Liquidity Committee is responsible for directing and coordinating the overall process of managing the Group's proprietary finance thereby ensuring that the management strategies of the various business units are consistent.

The Group's Trading Book is subject to daily monitoring and reporting by the Financial Risk Officer Area of the Parent Company on the basis of proprietary systems. VaR for management purposes is calculated separately from the operating units, using the internal risk measurement model implemented by the Risk Management function in keeping with international best practices. The Group uses the standardised methodology in the area of market risks solely for reporting purposes.

Operating limits defined for trading activities are expressed by level of delegated authority in terms of VaR, which is diversified by risk factors and portfolios, monthly and annual stop losses and Stress. Furthermore, the trading book's credit risk, in addition to being included in VaR computations and in the respective limits for the credit spread risk component, is also subject to specific operating limits for issuer and bond concentration risk which specify maximum notional amounts by type of guarantor and rating class.

VaR is calculated with a 99% confidence interval and a holding period of 1 business day. The Group adopts the method of historical simulation with daily full revaluation of all basic positions, out of 500 historical entries of risk factors (lookback period) with daily scrolling. The VaR calculated in this manner takes account of all diversification effects of risk factors, portfolios and types of instruments traded. It is not necessary to assume, a priori, any functional form in the distribution of asset returns, and the correlations of different financial instruments are implicitly captured by the VaR model on the basis of the combined time trend of risk factors. The trend-based scenarios used in the model are constructed as the daily change, in terms of the ratio, of the individual risk factors; the shock is applied to the current market level, making the VaR measure reactive to changes in market conditions.

The management reporting flow on market risks is periodically transmitted to the Risk Management Committee, the Group's Top Management and the Parent Company's Board of Directors in a Risk Management Report, which keeps Executive Management and governing bodies up to date on the overall risk profile of the Group.

The macro-categories of risk factors covered by the Internal Market Risk Model are IR, EQ, CO, FX and CS as described below:

- IR: interest rates on all relevant curves, inflation curves and related volatilities;
- EQ: share prices, indexes, baskets and relative volatilities;
- CO: commodity prices, indexes and baskets;
- FX: exchange rates and related volatilities;
- CS: credit spread levels.

VaR (or diversified or net VaR) is calculated and broken down daily for internal management purposes, even with respect to other dimensions of analysis:

- organisational/management analysis of portfolios,
- analysis by financial instrument,
- analysis by risk family.

It is then possible to assess VaR along each combination of these dimensions in order to facilitate highly detailed analyses of events characterising the portfolios.

In particular, with reference to risk factors the following are identified: Interest Rate VaR (IR VaR), Equity VaR (EQ VaR), Commodity VaR (CO VaR), Forex VaR (FX VaR) and Credit Spread VaR (CS VaR). The algebraic sum of these items gives the so-called Gross VaR (or non-diversified VaR), which, when compared with diversified VaR, makes it possible to quantify the benefit of diversifying risk factors resulting from holding portfolios on asset class and risk factor allocations which are not perfectly correlated. This information can also be analysed along all the dimensions referenced above.

The model enables the production of diversified VaR metrics for the entire Group in order to get an integrated overview of all the effects of diversification that can be generated among the Group banks on account of the specific joint positioning of the various business units.

Moreover, scenario and stress-test analyses are regularly conducted on various risk factors with different degrees of granularity across the entire tree structure of the Group's portfolios and for all categories of instruments analysed.

Stress tests are used to assess the Group's capacity to absorb large potential losses in extreme market situations, so as to identify the measures necessary to reduce the risk profile and preserve assets.

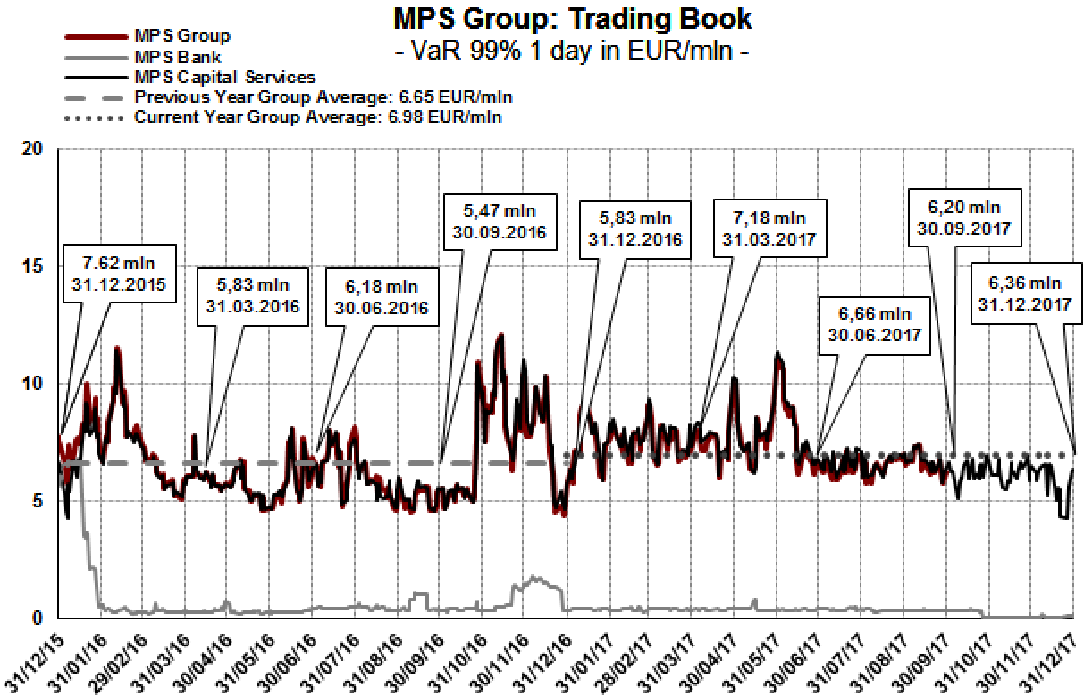
Stress tests are developed on the basis of discretionary and trend-based scenarios. Trend-based scenarios are defined on the basis of previously-registered real situations of market disruption. Such scenarios are identified based on a time frame in which risk factors were subjected to stress. No particular assumptions are required with regard to the correlation among risk factors since trend-based data for the stress period identified has been measured.

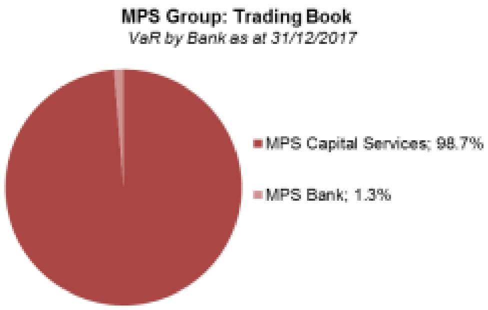
Stress tests based upon discretionary scenarios assume extreme changes occurring to certain market parameters (interest rates, exchange rates, stock indices, credit spreads and volatility) and measure the corresponding impact on the value of portfolios, regardless of their actual occurrence in the past. Simple discretionary scenarios are currently being developed (variation of a single risk factor) as are multiple ones (variation of several risk factors simultaneously). Simple discretionary scenarios are calibrated to independently deal with one category of risk factors at a time, assuming shocks do not spread to the other factors. Multiple discretionary scenarios, on the other hand, aim to assess the impact of global shocks that simultaneously affect all types of risk factors.

It should be noted that the VaR methodology described above is, for operational purposes, also applied to the portion of the Banking Book consisting of financial instruments that are similar to trading instruments (e.g. AFS bonds/Equity instruments). The measurements and charts below refer to the Regulatory Trading Portfolio only.

***

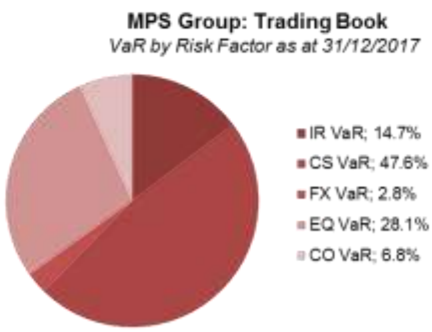
In the course of 2017, the market risks of the Group's Regulatory Trading Book showed, in terms of VaR, performance influenced by the subsidiary MPS Capital Services for proprietary trading activities as well as client driven activities (structuring and coverage of policies and other structured products) primarily in the credit spread and interest rate segments (transactions on Italian government bonds as well as derivatives, primarily long futures and interest rate future options) and to a less significant extent in the equity segment (options and equity futures on the main equity indexes). The Parent Company's contribution to total VaR was negligible during the year. Volatility in VaR measurements at the end of the year is linked to proprietary trading for trading at auction in Italian government bonds and trading in long futures of the subsidiary MPS Capital Services.





With regard to the legal entities, MPSCS accounted for 98.7% and the Parent Company for 1.3% of overall risk as at 31 December 2017.

A breakdown of VaR by risk factors shows that 47.6% of the Group's portfolio was allocated to Credit Spread risk factors (CS VaR), 28.1% was absorbed by equity risk factors (EQ VaR), 14.7% by interest rate risk factors (IR VaR), 6.8% by commodity risk factors (CO VaR) and the remaining 2.8% by foreign exchange risk factors (FX VaR).



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

	VaR	Date
End of Period	6.36	31/12/2017
Min	4.28	27/12/2017
Max	11.06	01/06/2017
Average	6.98	

In 2017, the Group's VaR in the Regulatory Trading Book ranged between a low of EUR 4.28 mln recorded on 27 December 2017 and a high of EUR 11.06 mln on 1 June 2017 with an average value registered of EUR 6.98 mln. The Regulatory Trading Book VaR as at 31 December 2017 amounted to EUR 6.36 mln.

VaR model backtesting

The Group has implemented a backtesting procedure compliant with current regulations governing Market Risk as part of its own risk management system.

Backtesting refers to a series of tests conducted on VaR model results against day-to-day changes in the trading book value, with a view on assessing the model's forecasting capacity as regards the accuracy of risk metrics generated. If the model is robust, by periodically comparing the estimated daily VaR against daily trading losses from the previous day, the result should be that actual losses greater than the VaR occur with a frequency consistent with that defined by the confidence level.

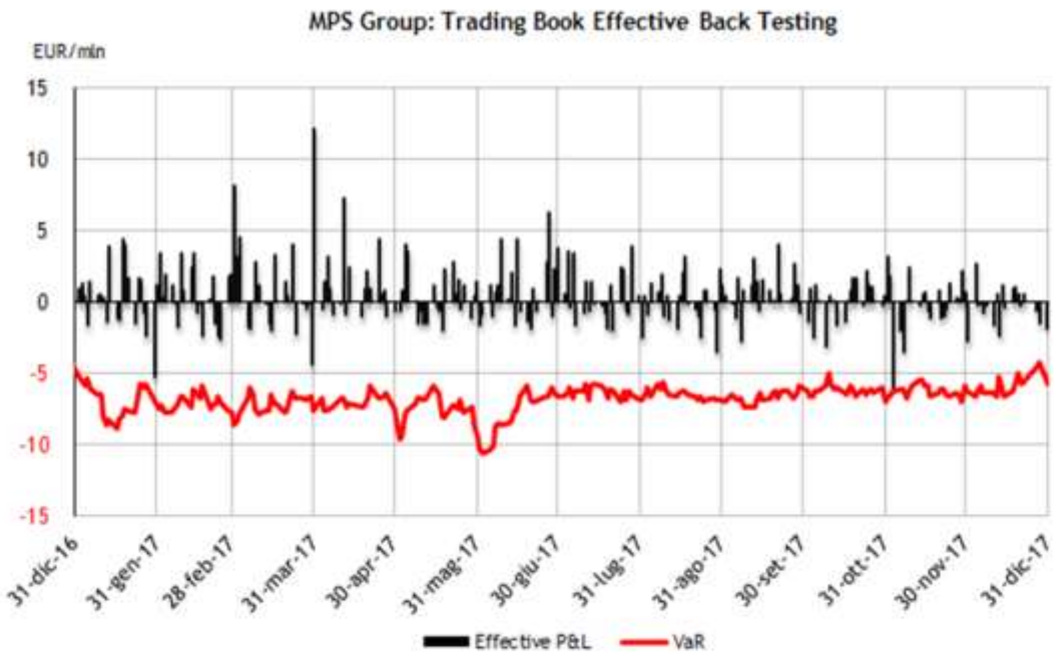
Based on current supervisory instructions, the Financial Risk Officer Area considered it appropriate to apply the theoretical and actual backtesting methods and integrate these into the Group's management reporting system.

The first type of test (**theoretical backtesting**) has a stronger statistical significance in reference to measuring the accuracy of the VaR model ("uncontaminated test").

The second type of test (**actual backtesting**) meets the need for verifying the VaR model's forecasting reliability in reference to actual Bank operations (daily trading P&L) less the effect of any interest accrued between trading days t-1 and t on the securities and less the effect of fees and commissions.

These "clean" P&L results (the "actual P&L") are compared with the previous trading day VaR. If the losses are greater than those forecast by the model an "exception" is recorded.

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:



The backtesting shows no exceptions during the year.

Structured Credit Products

Management Model

As at 31 December 2017, the Group did not have a significant portfolio of structured credit products compared to its total financial assets or its total assets. These investments are subject to risk limits set by the Board of Directors and monitored daily by Risk Management. Stop Loss, risk and nominal limits are defined for maximum exposure for major issuer categories, broken down by rating.

The data reported in this section refer to the entire Group.

Note that no Structured Credit Products considered in this disclosure have embedded credit derivatives that need to be separated from their host cost contract for IAS/IFRS purposes.

As at 31 December 2017, there were no direct or indirect exposures to US subprime mortgages, Alt-A or monoline insurers.

Positions in Securitisations of third-party issuers

As at 31 December 2017, the securities positions on structured credit products other than own securitisations had an accrued net carrying amount of EUR 264.5 mln, compared to EUR 97.6 mln as at 31 December 2016.

In terms of profit and loss, there was a positive component of EUR 0.7 mln in the "Net profit (loss) from trading - item 80".

With regard to the Regulatory classification, the positions are primarily held by the subsidiary MPS Capital Services and allocated to the Trading Portfolio (99.8% in terms of carrying amount); the residual amount is in the Banking Book of the subsidiary Monte Paschi Banque.

The underlying assets transferred as part of the securitisation transaction are predominantly residential mortgages (53.8%), loans to individuals (28.7%) and commercial mortgages (14.6%).

Geographically speaking, 64.7% of the loans transferred were granted in Italy and 19.3% in Portugal.

Overall, 99.8% of the carrying amount of the exposures consists of investment grade securities (with rating up to BBB-, inclusive).

The senior tranche accounts for 79% of the exposures in terms of carrying amount, and the mezzanine tranche for 19.4%, while the junior tranche accounts for the remaining 1.6%.

Credit Derivative Positions

All exposures analysed are standardised credit indices and synthetic tranches and single-name CDS.

As at 31 December 2017, net exposures to this type of derivatives have a carrying amount (with accounting as a CDS derivative) of EUR -22.8 mln; net of consolidation activities these financial instruments are all held by the subsidiary MPS Capital Services and are included in the Trading Book.

In terms of profit and loss, there was a negative component of EUR 14 mln in the "Net profit (loss) from trading - item 80".

Qualitative Information

A. General aspects

Each bank of the MPS Group which is relevant as a market risk-taking centre contributes to the generation of interest rate risk and price risk in the overall Trading Book.

A.1 Interest rate risk

With reference specifically to the Parent Company, the Finance, Treasury & Capital Management Area (FTCMA) is the Business Area in charge of trading. The Global Markets Division carries out trading activities for MPSCS.

The FTCMA manages a proprietary portfolio which takes trading positions on interest rates and credit. In general, interest rate positions are taken by purchasing or selling bonds, and by creating positions in listed derivatives (futures) and OTCs (IRS, swaptions). Trading is carried out exclusively on the Bank's own behalf, with objectives of absolute return, in compliance with the delegated limits of monthly and yearly VaR and Stop Loss.

In particular, the FTCMA operates in the short-term portion of the main interest rate curves, mostly through bonds and listed derivatives.

With regard to credit risk in the trading book, the equity positions are generally managed through the purchase or sale of bonds issued by companies or by creating synthetic positions in derivatives. The activity is oriented to achieve a long or short position on individual issuers, or a long or short exposure on specific commodities. The activity is carried out solely on the Bank's own behalf with objectives of absolute return and in compliance with other specific issuer and concentration risk limits approved by the Board of Directors.

A.2 Price risk

The Business Area in charge of the Parent Company's trading activity with respect to price risk is the FTCMA which manages a proprietary portfolio and takes trading positions on equities, Stock Exchange indexes and commodities. In general, positions on equity securities are taken both through the purchase/sale of equities and through the positions created in listed derivatives (e.g. futures) and OTC (e.g. options). Trading is carried out exclusively on the Bank's own behalf, with objectives of absolute return, in compliance with the delegated limits of monthly and yearly VaR and Stop Loss. Similarly, the Global Markets Division carries out trading activities for MPSCS.

B. Interest rate and price risk: operational procedures and measurement methods

With regard to the market risk management process concerning the management and methods for measuring interest rate and price risk, see the above paragraph entitled "Market risk management model for the trading book".

Quantitative Information

1. Regulatory trading book: breakdown of balance sheet financial assets/liabilities and financial derivatives by residual life (repricing date)

This table has not been prepared since an analysis of the regulatory trading book's sensitivity to interest rate risk and price risk is produced based on internal models.

2. Regulatory trading book: breakdown of exposures in equity instruments and stock indices by major countries of the listing market

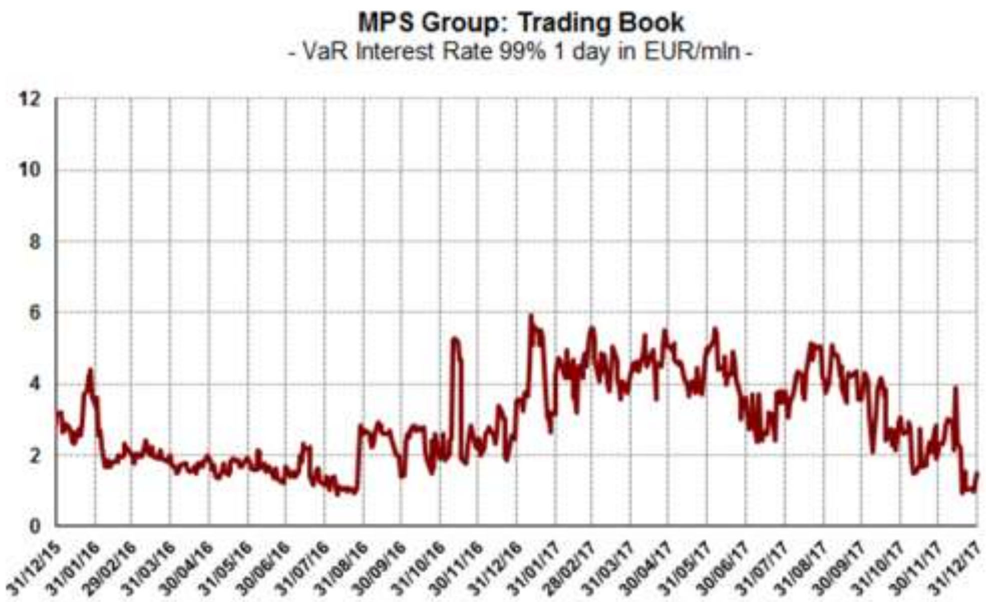
This table has not been prepared since an analysis of the regulatory trading book's sensitivity to interest rate risk and price risk is produced based on internal models.

3. Regulatory trading book: internal models and other sensitivity analysis methods

The rate and price risk of the Trading Book is monitored in terms of VaR and scenario analysis.

3.1 Interest rate risk

Each business unit within the Group operates independently on the basis of the objectives and powers it has been assigned. The positions are managed by special desks provided with specific operational limits. Each desk adopts an integrated risk management approach (covering more than rate risk, when allowed) in order to benefit from the natural hedge resulting from simultaneously holding positions on risk factors that are not perfectly correlated. The VaR by risk factor (specifically, Interest Rate VaR) has operational relevance for the purpose of risk management analyses, even though it is the global VaR diversified among risk factors and portfolios that is used by the operating units. Below is information on the Group's diversified Interest Rate VaR:



The trend in Interest Rate VaR during 2017 was influenced by the trading activities of the subsidiary MPSCS, primarily in bonds and derivatives (long futures and interest rate future options).

MPS Group: Trading Book

VaR Interest Rate 99% 1 day in EUR/mln

	VaR	Date
End of Period	1.48	31/12/2017
Min	0.94	19/12/2017
Max	5.92	11/01/2017
Average	3.80	

Simulations include the following interest rate risk scenarios:

- +100 bps parallel shift for all interest rate and inflation curves,
- -100 bps parallel shift for all interest rate and inflation curves,
- +1 point parallel shift for all volatility surfaces of all interest rate curves.

All positions related to the Trading Book are classified as HFT for accounting purposes, with changes in market value posted directly to profit and loss. Below is the overall effect of the scenario analyses.

MPS Group: Trading Book

EUR/mln

Risk Family	Scenario	Global Effect
Interest Rate	+100bp all Interest Rate Curves	42.26
Interest Rate	-100bp all Interest Rate Curves	36.49
Interest Rate	+1% all Interest Rate Volatility	0.09

The asymmetry in the +100 bps and -100 bps interest rate scenarios is mainly due to the exposure to options of the interest rate segment of the subsidiary MPSCS (primarily swaptions).

To complete the interest rate risk analysis, details are also provided on the credit spread risk of the Group's Trading Book associated with the volatility of issuers' credit spreads. The VaR by risk factor (specifically, Credit Spread VaR) has operational relevance for the purpose of risk management analyses, even though it is the overall VaR diversified among all risk factors and portfolios that is used by the operating units.

In 2017, the trend in Credit Spread VaR was mainly influenced by the trading activities of the subsidiary MPSCS, primarily in bonds and derivatives (long futures and interest rate future options).

MPS Group: Trading Book

VaR Credit Spread 99% 1 day in EUR/mln

	VaR	Date
End of Period	4.80	31/12/2017
Min	2.52	27/09/2017
Max	5.39	27/02/2017
Average	3.72	

For the purposes of sensitivity analysis, the simulation scenario is as follows:

- +1 bp parallel shift for all credit spreads.

All positions related to the Trading Book are classified as HFT for accounting purposes, with changes in market value posted directly to profit and loss. Below is the overall effect of the scenario analyses.

MPS Group: Trading Book

EUR/mln

Risk Family	Scenario	Global Effect
Credit Spread	+1bp all Curves	(-1.17)

3.2 Price risk

Each business unit within the Group operates independently on the basis of the objectives and powers it has been assigned. The positions are managed by special desks provided with specific operational limits. Each desk adopts an integrated risk management approach (covering more than price risk, when allowed) in order to benefit from the natural hedge resulting from simultaneously holding positions on risk factors that are not perfectly correlated. The VaR by risk factor (specifically, Equity VaR) has management relevance for the purpose of risk management analyses, even though it is the global VaR diversified among risk factors and portfolios that is used by the operating units.

Below is information on the Group's diversified Equity VaR.

In 2017 the Equity VaR was influenced by activities related to the structuring and coverage of policies and other structured products of the subsidiary MPSCS, and by the trading activity, also of MPSCS, mostly on options and futures with key market indexes as underlying (significant effect on the risk measurement's volatility). At the end of December, the Equity VaR came to EUR 2.83 mln, the average levels of the year.

MPS Group: Trading Book

VaR Equity 99% 1 day in EUR/mln

	VaR	Date
End of Period	2.83	31/12/2017
Min	1.50	07/02/2017
Max	5.35	17/11/2017
Average	2.85	

The simulated price scenarios are as follows:

- +1% of each equity or index price;
- -1% of each equity or index price;
- +1 point of all volatility surfaces of all equity risk factors.

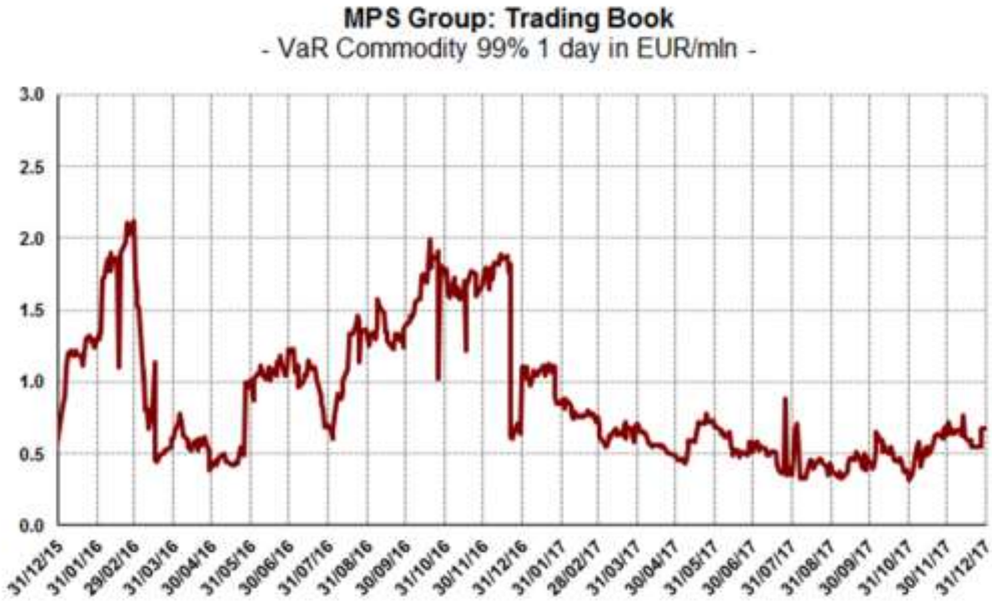
All positions related to the Trading Book are classified as HFT for accounting purposes, with changes in market value posted directly to profit and loss. Below is the overall effect of the scenario analyses for the equity component:

MPS Group: Trading Book

EUR/mln

Risk Family	Scenario	Global Effect
Equity	+1% Equity Prices (prices, indices, basket)	(0.41)
Equity	-1% Equity Prices (prices, indices, basket)	0.23
Equity	+1% Equity Volatility	(0.76)

In terms of exposure to commodity risk, in 2017 trends in the Commodity VaR were influenced by trading activities of the subsidiary MPSCS, mainly on options and futures with key commodity indexes as underlying (significant effect on the risk measurement's volatility and level). At the end of December, the Commodity VaR came to EUR 0.68 mln, in line with the average for the year.



MPS Group

VaR Commodity 99% 1 day in EUR/mln

	VaR	Date
End of Period	0.68	31/12/2017
Min	0.32	31/10/2017
Max	1.13	20/01/2017
Average	0.60	

The simulated price scenarios are as follows:

- +1% of each commodity price,
- -1% of each commodity price,
- +1 point of all volatility surfaces of all commodity risk factors.

Below is the overall effect of the scenario analyses.

MPS Group

EUR/mln

Risk Family	Scenario	Global Effect
Commodity	+1% Prezzi Commodity	0.06
Commodity	-1% Prezzi Commodity	(0.06)
Commodity	+1% Volatilità Commodity	0

1.2.2 Interest rate risk and price risk - banking book

Qualitative Information

A. General aspects, management processes and measurement methods for interest rate risk and price risk

A.1 Interest rate risk

The Banking Book consists of all exposures not included in the Trading Book and, in accordance with international best practices, identifies the set of the Group's commercial trades connected to the transformation of maturities in the assets and liabilities and ALM financial activities (treasury and risk hedging derivatives).

The strategic Banking Book rate risk choices are defined periodically in the IRRBB Strategy document approved by the Board of Directors and made operational within the Group's Finance and Liquidity Committee; these choices are based on interest rate risk measures expressed in terms of changes in economic value as well as interest margin.

With reference to the sensitivity test on economic value, the Montepaschi Group applies a predefined set of interest rate scenarios in line with the Basel guidelines, which envisage non-parallel movements of the curve aside from parallel shifts of 25, 100 and 200 bps. As interest margin analyses focus on the short term, they consider exclusively the application of parallel scenarios. The economic value sensitivity measures are determined by clearing the origination of the cash flows of the components not directly relating to interest rate risk.

The Group is committed to the continual updating of risk measurement methodologies by gradually fine-tuning the estimation models so as to include all major factors that progressively modify the interest rate risk profile of the banking book.

Risk metrics are calculated by using a model for the valuation of demand items (non-maturity deposits, NMDs) whose characteristics of stability and partial insensitivity to interest rate changes are described in the systems with a statistical approach which takes into consideration the time series of customer behaviours.

In addition, the Montepaschi Group incorporates within rate risk measurements a behavioural model which takes into account the aspect of residential mortgage prepayment (so-called prepayment risk).

The Group adopts an interest rate risk governance and management system known as the IRRBB Framework which avails itself of:

- a quantitative model, which provides the basis for monthly calculation of the exposure of the Group and the individual companies to interest rate risk in terms of risk indicators;
- risk monitoring processes, aimed at periodically verifying compliance with the operational limits (risk limits and risk tolerance) assigned to the Group overall and to the individual legal entities within the Risk Appetite Statement;
- risk control and management processes, geared toward bringing about adequate initiatives for optimising the risk profile and activating any necessary corrective actions in the case of exceptions from and/or misalignments with the IRRBB Strategy.

Within the above system, the following responsibilities are centralised in the Parent Company:

- definition of strategic and operational policies for managing the Group's Banking Book and controlling its interest rate risk;

- coordination of Group policies' implementation by the companies included in the scope;
- governance of the Group's short-, medium- and long-term rate risk position, both overall and at individual company level, through centralised operational management.

In its governance function, the Parent Company therefore defines criteria, policies, responsibilities, processes, limits and instruments for rate risk management.

The Group Companies included in the scope of application are responsible for abiding by the rate risk policies and limits defined by the Parent Company and the requirements set by the relevant Supervisory Authorities.

Within the model defined, the Finance, Treasury and Capital Management Area of the Parent Company is responsible for the operational management of the Group's overall rate and liquidity risk.

Specifically, within the FTCM Area, the Group Treasury Service manages the short-term rate risk and liquidity risk for the Group. In addition, the Area carries out hedge monitoring and management activities consistent with accounting policies, involving centralised oversight for definition of the network's internal rates (BMPS and other Group companies) for Euro and foreign currency transactions with maturities beyond the short term.

A.2 Price risk

The Group's Banking Book consists primarily of equity investments, AFS securities and UCITS. Trading in UCITS is carried out exclusively through the direct purchase of the funds/SICAVs, with no use being made of derivative contracts.

Price risk is measured on equity positions held primarily for strategic or institutional/instrumental purposes other than equity investments (AFS securities and UCITS).

Value-at-Risk (VaR), the methodology of which is described in Section 2 - "Market risks", is used to measure price risk.

Stress tests are conducted regularly as part of price risk governance strategies for the banking book in order to assess the Group's ability to absorb potential losses resulting from extreme events.

With reference to the equity investments component, the internal measurement system uses one of the metrics from the standardised Supervisory approach for the determination of the Internal Capital. This method calls for exposures to equity instruments to be assigned a risk weighting factor of 100% or 150% if high risk, unless they need to be deducted from Capital. The Capital deduction mechanisms according to current supervisory rules (CRD4/CRR) further expand the perimeter of deductions to also include non-significant investments in financial sector entities (<10%) and provide for deduction exemptions. It is worth noting that the most significant portion of the MPS Group's investment portfolio is included within the aggregate of significant investments in other financial sector entities (roughly 94% is the equity investment in the AXA Group).

B. Fair value hedging

C. Cash-flow hedging

The Group - and within it therefore the Parent Company - uses IAS compliant hedges for interest rate risk management. The main types of hedging used include:

- Micro Fair Value Hedges: hedging of non-trading assets (loans/mortgage loans), securities and bonds held;

- Macro Fair Value Hedges: hedging of non-trading assets (loans/mortgage loans) and corporate funding (time deposits);
- Micro Cash Flow Hedges: hedging of floating-rate deposits.

In addition to the above, the Group, and within it therefore the Parent Company, uses the Fair Value Option for some types of business activities. In particular, the Fair Value Option was used for (structured and fixed rate) debt securities having the following characteristics:

- the risk of fair value changes has been hedged upon issuance, with the intention of maintaining the hedge for the contractual duration and entire amount of the hedged position;
- normally for issuances in which the Group has committed to buyback at issuance spread.

Quantitative Information

1 Banking book: breakdown of financial assets and liabilities by residual life (repricing date)

This table has not been prepared since an analysis of the banking book's sensitivity to interest-rate risk and price risk is produced based on internal models.

2 Banking book: internal models and other sensitivity analysis methods

2.1 Interest rate risk

The sensitivity of the Group, at the end of 2017, 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 +175.48 mln at the end of 2017 (vs. EUR -131.16 mln for a shift of -100 bps). With respect to the previous year, as at 31 December 2017 sensitivity was favourably impacted by the transfer of doubtful loans expected to take place by the end of the first half of 2018. However, if benchmarked against Capital, these values are below the level considered as the attention threshold by the Bank of Italy.

The sensitivity of the Group's net interest income (margin sensitivity) if rates increase by 25 bps amounts to EUR +19.76 mln at the end of 2017 (EUR -22.41 mln for -25 bps).

The internal measurement system is independently developed by the Risk Control Function of the Parent Company, which periodically reports on the extent of portfolio risks and their changes over time. The results are regularly brought to the attention of the Parent Company's Risk Management Committee and governing bodies.

2.2 Price risk

Shown below is a scenario analysis which includes all directional positions assumed, based on instructions from the Board of Directors or including those that operationally fall under the Banking Book of the Parent Company's Finance, Treasury and Capital Management Area (e.g. AFS securities) which are not included in the previously-reported scenario analyses for price risk in the Trading Book.

MPS Group: Banking Book

EUR/mln

Risk Family	Scenario	Global Effect
Equity	+1% Equity Prices (prices, indices, basket)	0.97
Equity	-1% Equity Prices (prices, indices, basket)	(0.97)
Equity	+1% Equity Volatility	0

In the scenario analysis noted above, equity investments are excluded.

2.3 Foreign exchange risk

Qualitative Information

A. Foreign exchange risk: general aspects, operational processes and measurement methods.

Foreign exchange operations are mainly based on short-term trading, with the systematic balance of the transactions originated by the franchise and the retail banks which automatically feed into the Group's position.

Trading is mainly carried out by the Parent Company's Finance, Treasury & Capital Management Service; trading in the FX options segment is carried out by subsidiary MPSCS, with active management of foreign exchange risk. The foreign branches of the Parent Company maintained modest forex positions exclusively originated by funds available for commercial purposes. The turnover in cash allocated to Group portfolios and OTC derivatives for MPSCS remained stable in terms of risk, with ongoing and careful use of delegated powers. Foreign currency equity investments are typically financed by funds denominated in the same currency, with no assumption of foreign exchange risk.

For a description of stress tests used in the risk governance strategy on exchange rates and the model applied, please refer to the section "Market risk management model for the Trading Book".

B. Hedging of exchange rate risk

Quantitative Information

1. Breakdown by currency of assets, liabilities and derivatives

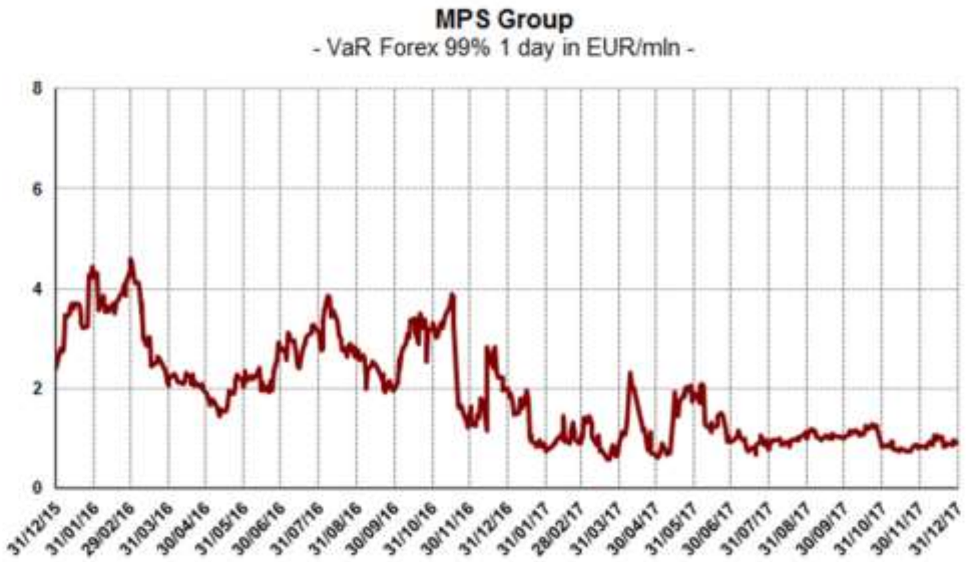
31 12 2017

Items	Currencies					
	US dollar	Pound sterling	Swiss Franc	Yen	Hong Kong dollar	Other currencies
A. Financial assets	**1,986,349**	**75,084**	**16,034**	**20,749**	**33,540**	**51,279**
A.1 Debt securities	589,058	290	1,027	-	26,661	312
A.2 Equity securities	9,377	339	146	56	328	-
A.3 Loans to banks	411,075	10,493	3,298	6,371	351	42,729
A.4 Loans to customers	976,839	63,962	11,563	14,322	6,200	8,238
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**118,538**	**2,640**	**1,541**	**331**	**3,020**	**2,712**
C. Financial liabilities	**760,318**	**43,694**	**15,438**	**3,245**	**1,685**	**16,090**
C.1 Deposits from banks	126,026	1,544	12,022	507	-	1,583
C.2 Customer accounts	576,601	42,150	3,416	2,738	1,685	14,507
C.3 Debt securities	57,691	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	**23,686**	**1,618**	**239**	**240**	**2,024**	**3,291**
E. Financial derivatives						
- Options						
+ Long positions	109,483	4,875	2,450	1,336	-	30,173
+ Short positions	289,741	-	59	1,383	-	69,872
- Other						
+ Long positions	1,495,608	174,720	30,576	16,157	-	96,988
+ Short positions	2,909,060	165,908	1,211	50,525	30,092	84,514
Total assets	**3,709,978**	**257,319**	**50,601**	**38,573**	**36,560**	**181,152**
Total liabilities	**3,982,805**	**211,220**	**16,947**	**55,393**	**33,801**	**173,767**
Difference (+/-)	**(272,827)**	**46,099**	**33,654**	**(16,820)**	**2,759**	**7,385**

2. Internal models and other methodologies for sensitivity analysis

Exchange risk is monitored in terms of VaR and scenario analysis (for the methodology see the paragraph "Market Risk Management Model for the Trading Book").

Shown below is information concerning the Group's diversified Forex VaR.



MPS Group

VaR Forex 99% 1 day in EUR/mln

	VaR	Date
End of Period	0.90	31/12/2017
Min	0.59	24/03/2017
Max	2.32	10/04/2017
Average	1.10	

The following scenarios were used for foreign exchange rate simulations:

- +1% for all foreign exchange rates to the Euro,
- -1% for all foreign exchange rates to the Euro,
- +1 point for all volatility surfaces of all foreign exchange rates.

The impact on total banking income and profit/loss for the year was estimated taking account only of HFT positions, with market value changes posted directly to Profit and Loss. The effect on equity, instead, is estimated with reference to all positions classified as AFS and related Fair Value Hedges (FVH). The total effect is the result of the algebraic sum of the two components. Below is a summary of the scenario analyses.

MPS Group

EUR/mln

Risk Family	Scenario	Impact on net interest and other banking income and net profit	Impact on shareholders' equity	Global Effect
Forex	+1% Exchange rate against EUR	0.019	0.01	0.2
Forex	-1% Exchange rate against EUR	(0.08)	(0.01)	(0.09)
Forex	+1% Forex Volatility	0.35	0.00	0.35

2.4 Derivatives

A. Financial derivatives

In the following tables, a distinction is drawn between derivatives classified in the regulatory Trading Book and derivatives included in the Banking Book, in accordance with Bank of Italy regulations for Prudential Supervision. This differs from a IAS-based classification for financial statement purposes, which distinguishes between trading derivatives and hedge accounting derivatives.

Regulatory classification is fundamental in order to more accurately discern between instruments intended for trading - and thus for generating absorption of capital for market risk - and those intended for other purposes which fall within the framework of credit risk absorption.

For the Parent Company, derivatives included in the Regulatory Trading Book correspond to those present in the regular balance-sheet trading book, with the exception of derivatives connected to instruments for which the fair value option was adopted, which are intended to hedge against market risks on fair-valued deposits and derivatives separated from or operationally connected to other financial instruments in the Banking Book.

A.1 Regulatory trading book: end of period notional amounts

Underlying asset/Type of derivative	Total 31 12 2017		Total 31 12 2016	
	Over the counter	Central counterparts	Over the counter	Central counterparts
1. Debt securities and interest rate	**223,419,492**	**-**	**509,401,108**	**-**
a) Options	31,126,667	-	367,745,504	-
b) Swaps	190,917,111	-	140,692,295	-
c) Forward	55,554	-	5,197	-
d) Futures	1,320,160	-	958,112	-
e) Other	-	-	-	-
2. Equity securities and stock indices	**12,904,376**	**350,155**	**15,980,757**	**182,243**
a) Options	12,226,942	285,250	15,324,512	140,900
b) Swaps	244,368	-	199,841	-
c) Forward	-	-	-	-
d) Futures	433,066	64,905	456,404	41,343
e) Other	-	-	-	-
3. Exchange rates and gold	**5,134,832**	**-**	**8,185,127**	**-**
a) Options	1,236,471	-	1,607,333	-
b) Swaps	1,470,272	-	1,933,598	-
c) Forward	2,428,089	-	4,644,196	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	**681,381**	**-**	**604,072**	**-**
5.Other underlying	**-**	**-**	**-**	**-**
Total	**242,140,081**	**350,155**	**534,171,064**	**182,243**

A.2 Banking book: end of period notional amounts

A.2.1 Hedging derivatives

Underlying asset/Type of derivative	Total 31 12 2017		Total 31 12 2016	
	Over the counter	Central counterparts	Over the counter	Central counterparts
1. Debt securities and interest rate	**32,005,987**	**-**	**29,034,868**	**-**
a) Options	3,727,960	-	2,885,437	-
b) Swaps	28,278,027	-	26,149,431	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equity securities and stock indices	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Exchange rates and gold	**379,809**	**-**	**412,319**	**-**
a) Options	-	-	-	-
b) Swaps	379,809	-	412,319	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**
5. Other underlying	**-**	**-**	**-**	**-**
Total	**32,385,796**	**-**	**29,447,187**	**-**

A.2.2 Other derivatives

Underlying asset/Type of derivative	Total 31 12 2017		Total 31 12 2016	
	Over the counter	Central counterparts	Over the counter	Central counterparts
1. Debt securities and interest rate	**314,805**	**-**	**358,549**	**-**
a) Options	37,000	-	37,000	-
b) Swaps	277,805	-	321,549	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equity securities and stock indices	**278**	**-**	**279**	**-**
a) Options	-	-	-	-
b) Swaps	278	-	279	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Exchange rates and gold	**2,873**	**-**	**8,046**	**-**
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forward	2,873	-	8,046	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**
5. Other underlying	**-**	**-**	**-**	**-**
Total	**317,956**	**-**	**366,874**	**-**

A.3 Financial derivatives: gross positive fair value - breakdown by products

Portfolios/Types of derivatives	Positive Fair value			
	Total 31 12 2017		Total 31 12 2016	
	Over the counter	Central counterparts	Over the counter	Central counterparts
A. Regulatory trading book	**4,389,594**	**6,806**	**5,222,140**	**2,919**
a) Options	410,561	6,806	471,333	2,919
b) Interest rate swaps	3,877,852	-	4,571,771	-
c) Cross currency swaps	16,073	-	95,162	-
d) Equity swaps	11,819	-	8,946	-
e) Forward	56,803	-	58,738	-
d) Futures	1,671	-	893	-
g) Other	14,815	-	15,297	-
B. Banking book - Hedging	**302,932**	**-**	**485,460**	**-**
a) Options	3,586	-	4,864	-
b) Interest rate swaps	299,346	-	464,805	-
c) Cross currency swaps	-	-	15,791	-
d) Equity swaps	-	-	-	-
e) Forward	-	-	-	-
d) Futures	-	-	-	-
g) Other	-	-	-	-
C. Banking book - Other derivatives	**36,519**	**-**	**38,401**	**-**
a) Options	2,338	-	3,322	-
b) Interest rate swaps	34,131	-	34,936	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forward	50	-	143	-
d) Futures	-	-	-	-
g) Other	-	-	-	-
Total	**4,729,045**	**6,806**	**5,746,001**	**2,919**

A.4 Financial derivatives: gross negative fair value - breakdown by products

Portfolios/Types of derivatives	Negative fair value			
	Total 31 12 2017		Total 31 12 2016	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading book	**2,616,836**	**2,251**	**3,433,640**	**2,096**
a) Options	536,917	2,251	664,273	2,096
b) Interest rate swaps	1,998,416	-	2,547,131	-
c) Cross currency swaps	36,836	-	88,682	-
d) Equity swaps	4,523	-	4,274	-
e) Forward	19,875	-	106,742	-
d) Futures	3,533	-	2,933	-
g) Other	16,736	-	19,605	-
B. Banking book - Hedging	**840,119**	**-**	**1,109,408**	**-**
a) Options	84,037	-	91,925	-
b) Interest rate swaps	747,320	-	970,544	-
c) Cross currency swaps	8,762	-	46,939	-
d) Equity swaps	-	-	-	-
e) Forward	-	-	-	-
d) Futures	-	-	-	-
g) Other	-	-	-	-
C. Banking book - Other derivatives	**31,337**	**-**	**38,400**	**-**
a) Options	-	-	-	-
b) Interest rate swaps	31,335	-	38,255	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	2	-	2	-
e) Forward	-	-	143	-
d) Futures	-	-	-	-
g) Other	-	-	-	-
Total	**3,488,292**	**2,251**	**4,581,448**	**2,096**

A.5 OTC financial derivatives: regulatory trading book - notional amounts, gross positive and negative fair value by counterparties - contracts not subject to netting agreements

31 12 2017

Contracts not subject to netting agreements	Governments and central banks	Other public entities	Banks	Financial Companies	Insurance Companies	Non financial companies	Other entities
1. Debt securities and interest rates							
- notional value	-	150,046	73,981	464,680	-	5,395,841	214,075
- positive fair value	-	19,050	10,147	4,661	-	195,725	3,410
- negative fair value	-	75	238	882	-	10,039	11
- future exposure	-	1,384	451	1,256	-	24,514	140
2. Equity securities and stock indices							
- notional value	23	-	36,647	5,261	-	1,815	25,693
- positive fair value	24	-	34,700	5,670	-	-	-
- negative fair value	-	-	-	-	-	29	386
- future exposure	2	-	2,202	421	-	-	-
3. Exchange rates and gold							
- notional value	181,088	-	793,193	36,271	-	2,194,753	1,821
- positive fair value	335	-	11,491	1,885	-	54,141	3
- negative fair value	1,451	-	808	107	-	14,770	67
- future exposure	1,811	-	7,932	196	-	23,807	18
4. Other underlying							
- notional value	-	-	-	-	-	214,031	-
- positive fair value	-	-	-	-	-	11,538	-
- negative fair value	-	-	-	-	-	14,652	-
- future exposure	-	-	-	-	-	21,542	-

A.6 OTC financial derivatives: regulatory trading book - notional amounts, gross positive and negative fair value by counterparties - contracts subject to netting agreements

31 12 2017

Contracts subject to netting agreements	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1. Debt securities and interest rates							
- notional value	-	-	96,313,236	120,515,599	56,793	235,244	-
- positive fair value	-	-	1,390,991	2,335,963	9,800	665	-
- negative fair value	-	-	881,286	1,197,568	-	567	-
2. Equity securities and stock indices							
- notional value	-	-	2,409,133	10,224,998	200,806	-	-
- positive fair value	-	-	83,938	187,356	-	-	-
- negative fair value	-	-	110,853	241,945	81,797	-	-
3. Exchange rates and gold							
- notional value	-	-	1,658,897	268,809	-	-	-
- positive fair value	-	-	20,984	734	-	-	-
- negative fair value	-	-	49,910	3,200	-	-	-
4. Other underlying							
- notional value	-	-	35,425	423,893	-	8,032	-
- positive fair value	-	-	-	3,178	-	3,206	-
- negative fair value	-	-	284	5,845	-	68	-

A.7 OTC financial derivatives: banking book - notional amounts, gross positive and negative fair value by counterparties - contracts not subject to netting agreements

31 12 2017

Contracts not subject to netting agreements	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1. Debt securities and interest rates							
- notional value	-	-	14,415	5,000	-	3,784	-
- positive fair value	-	-	-	11	-	58	-
- negative fair value	-	-	2,596	-	-	-	-
- future exposure	-	-	-	-	-	-	-
2. Equity securities and stock indices							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
3. Exchange rates and gold							
- notional value	-	-	-	-	-	2,873	-
- positive fair value	-	-	-	-	-	50	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
4. Other underlying	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

A.8 OTC financial derivatives: banking book - notional amounts, gross positive and negative fair value by counterparties - contracts subject to netting agreements

31 12 2017

Contracts subject to netting agreements	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1) Debt securities and interest rates							
- notional amount	-	-	30,422,364	1,875,229	-	-	-
- positive fair value	-	-	334,953	4,379	-	-	-
- negative fair value	-	-	787,773	72,324	-	-	-
2) Equity securities and stock indices							
- notional amount	-	-	278	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	2	-	-	-	-
3) Exchange rates and gold							
- notional amount	-	-	379,809	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	8,762	-	-	-	-
4) Other amounts							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-

A.9 OTC financial derivatives - residual life: notional amounts

Underlying asset/residual life	Up to 1 year	1 to 5 years	Over 5 years	Total
A. Regulatory trading book	**55,011,981**	**140,316,120**	**46,811,983**	**242,140,084**
A.1 Financial derivatives on debt securities and interest rates	44,884,149	132,541,078	45,994,267	223,419,494
A.2 Financial derivatives on equity securities and stock indices	6,097,566	5,989,095	817,716	12,904,377
A.3 Financial derivatives on exchange rates and gold	3,399,288	1,735,544	-	5,134,832
A.4 Financial derivatives on other underlying assets	630,978	50,403	-	681,381
B. Banking book	**3,470,680**	**22,441,486**	**6,791,586**	**32,703,752**
B.1 Financial derivatives on debt securities and interest rates	3,087,998	22,441,486	6,791,308	32,320,792
B.2 Financial derivatives on equity securities and stock indices	-	-	278	278
B.3 Financial derivatives on rates and gold	382,682	-	-	382,682
B.4 Financial derivatives on other underlying assets	-	-	-	-
Total 31 12 2017	**58,482,661**	**162,757,606**	**53,603,569**	**274,843,836**
Total 31 12 2016	**273,746,376**	**232,605,593**	**57,633,161**	**563,985,130**

A.10 OTC financial derivatives: Counterparty risk/Financial risk – internal models

As at today, EPE models are not used for either internal operational or reporting purposes.

A.11 OTC derivatives traded with customers for hedging purposes

The Group's trading in OTC derivatives is exclusively intended to meet customers' hedging needs and is targeted at the Group's corporate customers classified as Retail clients or Professional/Qualified investors under the MiFID directive. "Public Institutions" customers are excluded from those offered OTC derivative products and transactions, with the exception of the cases expressly set forth in Law no. 147 of 27/12/2013, art. 1, paragraph 572.

In addition to being included in the afore-mentioned categories, target customers must qualify as having the required qualitative and quantitative standing in terms of business carried out, corporate structure, assets and creditworthiness.

As at today, the catalogue of OTC derivative products on offer includes approximately 150 products and strategies.

These products are broken down into two types:

- derivatives for new hedges,
- debt-rescheduling hedges for transactions already in place.

The Catalogue is then subdivided into three classes depending on the type of underlying assets:

- interest rate hedges;
- foreign exchange hedges;

- commodity hedges.

Within each class, the products are then differentiated based on basic technical form and structure, which may involve a single, basic transaction or multiple transactions organised into strategies.

Among these products, the Parent Company's Risk Management function has identified a set of products classifiable as "plain vanilla" because of their basic structure, sensitivity to one risk factor and easy understandability. "Plain vanilla" products have been identified as the only type eligible for inclusion in the offer for Retail customers.

The class of Non Plain Vanilla products generally includes mixed, structured strategies showing more or less complex exotic features (e.g. digital payment profiles, barriers, etc.) or resulting from the combination of multiple basic financial components. This class of products is for Professional/Qualified investors.

Group trading in OTC derivatives is regulated according to the following main guidelines:

- trading in derivatives by customers is conditional upon ascertaining and monitoring that they are only used for hedging purposes. Three types of hedging relationships are possible:
    1. <u>micro hedges</u>: ie. hedging of individual, well-defined items in the customer's assets and/or liabilities held with the Group or other intermediaries;
    2. <u>macro hedges</u>: ie. hedging of a portfolio of assets and/or liabilities, or a part of it, held with the Group or other intermediaries;
    3. <u>forward transaction hedges</u>: by way of example, hedging through OTC derivatives in which the underlying is an exchange rate against future settlement of specific business transactions;
- customer trading shall not in any case have a leverage effect on hedged positions;
- trading must occur in compliance with the requirement of appropriateness (to ensure the highest level of customer protection) and adequate financial advice;
- trading under the appropriateness regime is only allowed as a marginal option for participation in tenders, for a subset of Corporate clients with proven high level of financial culture (Large Experienced Corporate of "LEC") and for Financial Institutions. The execution of transactions qualifying as inappropriate is in any case prevented.

Trading in OTC derivatives involves, first of all, the assumption of market risk by the Group, defined as potential loss that may be incurred on positions held subsequent to unfavourable variations in specific market parameters. The main risk factors this type of trading is subject to include: interest rate, foreign exchange, market index, commodities and related volatility and correlations. At the same time, the Bank also takes on the risk that the counterparty of a derivative-based transaction is in default prior to settlement (counterparty risk).

Trading in derivatives with customers involves the centralisation of the product factory and market risk monitoring in MPS Capital Services, whereas the allocation, management and monitoring of counterparty risk with customers lie with the Group's Retail Banks.

The estimation of counterparty risk on Over the Counter (OTC) derivatives with customers is based on the fair value determination of positions held.

OTC derivatives traded with customers are comprised in level 2 of the Fair Value Hierarchy on the basis of which fair value is calculated through proprietary valuation methods and assessment models fed with parameters available on the market. The models used are discussed among the Operating Units and specialised Risk Management and Quantitative Analysis functions and submitted for validation to the Parent Company's Risk Management function. These models are subject to periodic review so as to guarantee constant alignment between the model approach adopted and prevailing domestic and international best practices. Furthermore, the pricing models for OTC derivatives with customers are consistent with the methodological criteria used by the Group for the valuation of its own positions.

Group customers holding positions in OTC derivatives numbered approximately 4,600 as at 31 December 2017.

The following table reports the fair value of positions in OTC derivatives for the Group, by type of products ("Plain Vanilla" / "Non Plain Vanilla").

OTC derivatives hedging with customers

Montepaschi Group - EUR/mln of 29 12 2017

Product	Net Fair Value	of which Positive Fair Value	of which Negative Fair Value
Plain Vanilla	186.34	210.55	(24.21)
Non-plain Vanilla	52.18	55.01	(2.83)
Total	**238.52**	**265.56**	**(27.04)**

As at 31 December 2017, the net fair value of these products was, on the whole, positive for the Group and therefore negative for customers, at approx. EUR 239 mln.

B. CREDIT DERIVATIVES

B1. Credit derivatives: end of period notional amounts

Transaction categories	Regulatory trading book		Banking book	
	single name	with multiple counterparties (basket)	single name	with multiple counterparties (basket)
1. Purchases of protection				
a) Credit default products	563,793	58,815	-	-
b) Credit spread products	-	-	-	-
c) Total rate of return swap	-	-	-	-
d) Others	-	-	-	-
Total 31 12 2017	**563,793**	**58,815**	**-**	**-**
Total 31 12 2016	**1,012,952**	**38,360**	-	-
2. Sales of protection	**-**	**-**	**-**	**-**
a) Credit default products	2,321,488	3,815	-	-
b) Credit spread products	-	-	-	-
c) Total rate of return swap	-	-	-	-
d) Others	-	-	-	-
Total 31 12 2017	**2,321,488**	**3,815**	**-**	**-**
Total 31 12 2016	**3,098,678**	**13,360**	**-**	-

The end of period notional amounts is not significantly different from the average value during the year.

B2. OTC credit derivatives: gross positive fair value - breakdown by products

Portfolios/Types of derivatives	Positive Fair Value	
	Total 31 12 2017	Total 31 12 2016
A. Regulatory trading book	**11,415**	**39,929**
a) Credit default products	11,415	39,929
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
B. Banking book	**-**	**-**
a) Credit default products	-	-
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
Total	**11,415**	**39,929**

B3. OTC credit derivatives: gross negative fair value - breakdown by products

Portafogli/Tipologie derivati	Negative Fair value	
	Total 31 12 2017	Total 31 12 2016
A. Regulatory trading book	**34,211**	**48,496**
a) Credit default products	34,211	48,496
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
B. Banking book	**-**	**-**
a) Credit default products	-	-
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
Total	**34,211**	**48,496**

B.4 OTC credit derivatives: gross (positive and negative) fair value / counterparty risk - contracts not subject to netting agreements

No transactions of this nature are recorded at the reporting date.

B.5 OTC credit derivatives: gross (positive and negative) fair value / counterparty risk- contracts subject to netting agreements

31 12 2017

Contracts not subject to netting agreements	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
Regulatory trading							
1) Purchases of protection							
- notional amount	-	-	279,536	343,071	-	-	-
- positive fair value	-	-	-	4,617	-	-	-
- negative fair value	-	-	5,124	6,077	-	-	-
2) Sales of protection	-	-	-	-	-	-	-
- notional amount	-	-	288,276	1,985,248	51,778	-	-
- positive fair value	-	-	4,615	2,182	-	-	-
- negative fair value	-	-	29	22,364	616	-	-
Banking book							
1) Purchases of protection	-	-	-	-	-	-	-
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
2) Sales of protection	-	-	-	-	-	-	-
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-

B.6. Credit derivatives - residual life: notional amounts

Underlying asset/residual life	Up to 1 year	1 to 5 years	Over 5 years	Total
A. Regulatory trading book	**135,801**	**1,274,069**	**1,538,040**	**2,947,910**
A.1 Credit derivatives with qualified reference obligation	64,710	1,199,069	1,502,009	2,765,788
A.2 Credit derivatives with non-qualified reference obligation	71,091	75,000	36,031	182,122
B. Banking book	-	-	-	-
B.1 Credit derivatives with qualified reference obligation	-	-	-	-
B.2 Credit derivatives with non-qualified reference obligation	-	-	-	-
Total 31 12 2017	**135,801**	**1,274,069**	**1,538,040**	**2,947,910**
Total 31 12 2016	**1,052,236**	**1,775,740**	**1,335,374**	**4,163,350**

B.7 Credit derivatives: counterparty risk/financial risk – internal models

As at today, EPE models are not used for either internal operational or reporting purposes.

C. FINANCIAL AND CREDIT DERIVATIVES

C.1 OTC financial and credit derivatives: net fair value and future exposure by counterparty

31 12 2017

	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1) Financial derivatives, bilateral agreements							
- positive fair value	-	-	-	260,509	-	-	-
- negative fair value	-	-	3,076	-	-	-	-
- future exposure	-	-	109,497	797,435	-	-	-
- net counterparty risk	-	-	98,584	932,966	-	-	-
2) Credit derivatives, bilateral agreements							
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	4,373	-	-	-
- future exposure	-	-	-	2,200	-	-	-
- net counterparty risk	-	-	-	2,200	-	-	-
3) "Cross product" agreements							
- positive fair value	-	-	579,698	872,410	-	3,308	-
- negative fair value	-	-	585,163	139,459	72,613	70	-
- future exposure	-	-	324,688	354,839	6,003	2,354	-
- net counterparty risk	-	-	433,161	306,768	6,003	1,592	-

1.3 –Banking Group - Liquidity risk

Qualitative Information

A. Liquidity risk: general aspects, operational processes and measurement methods

In 2017, the Group updated and boosted the efficiency of its strategic and operating liquidity risk management processes, placing particular attention on the integration of the Internal Liquidity Adequacy Assessment Process (ILAAP) within company decision-making processes and the Liquidity Risk Framework. It also strengthened its oversight over data quality, in particular as regards regulatory metrics, and a more robust system of controls was developed on concentration risk, from the perspective of sources of funding and available assets.

Group Liquidity Risk Framework

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 the ratio of total loans over more-than-1-year and more-than-5-year maturity deposits and the ratio of loans to retail/corporate deposits 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 Group'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.

Within the scope of Risk Appetite Framework, the Liquidity Risk Framework identifies the tolerance thresholds for liquidity risk, that is to say the maximum risk exposure deemed sustainable in a business-as-usual scenario and under stress conditions. The short/medium and long-term liquidity risk limits derive from the setting of these risk appetite thresholds. The system of operating limits, known as Liquidity Risk Limits, is defined so as to make it possible to promptly identify approaches towards the risk tolerance threshold defined in the annual Risk Appetite Statement process.

In order to immediately identify the emergence of vulnerabilities in the liquidity position, the Group has developed a range of Early Warnings, classified as generic or specific depending on whether the individual indicator is designed to detect potential vulnerabilities in the overall economic context of reference or in the Group structure.

Operating and structural liquidity management is governed by the Parent Company's Liquidity Management Department, which is responsible for defining and implementing funding strategies in the short and medium/long-term.

With reference to the management of operating liquidity, Liquidity Management manages the Group's "liquidity reserves" so as to guarantee the Bank's capacity to deal with expected and unexpected outflows, to that end making recourse to various interbank market instruments (unsecured deposits, collateralised deposits, repos) as well as transactions with the Central Bank.

With regard to the management of structural liquidity, Liquidity Management pursues the objectives laid out in detail in the annual Funding Plan which outlines the medium/long-term strategies defined on an operational basis in the "Liquidity and Funding Strategy". The Group's Liquidity and Funding Strategy defines the funding activity guidelines of the BMPS Group in terms of risk appetite, with a three-year time horizon, in compliance with the long-term risk tolerance thresholds on operating and structural liquidity indicators, internal and regulatory, defined within the Group's Risk Appetite Statement (RAS).

In addition, to complete the Funding Plan, Liquidity Management prepares the **Contingency Funding Plan**, which represents the operational tool for liquidity risk management intended to define intervention strategies in the case of extreme liquidity tensions, laying out procedures and actions that may be promptly activated to obtain sources of funds in emergencies. The strategies to be applied are defined on a case by case basis by the Management Committee at its Liquidity Stress/Crisis session considering the type, duration and intensity of the crisis and the reference context when the crisis takes place.

Lastly, the overall internal liquidity adequacy assessment process takes place periodically as part of the strategic ILAAP consisting mainly of:

- *ILAAP Outcomes*, or quantitative (inherent risk) and qualitative (risk management and controls) assessments on risk positioning prepared by the Risk Control function for the Board of Directors;
- *Liquidity Adequacy Statement* (LAS), i.e., the summary statement of the Board of Directors which expresses its vision of liquidity adequacy management.

Liquidity position: regulatory indicators

The Group uses the following main indicators to assess its liquidity profile:

- Liquidity Coverage Ratio (LCR), which is the short-term liquidity indicator corresponding to the ratio between the amount of high quality liquid assets and the total net cash outflows in the subsequent 30 calendar days. Since October 2015, the indicator has been subject to a minimum regulatory requirement of 60% in 2015, 70% in 2016, 80% in 2017 and 100% in 2018;
- Net Stable Funding Ratio (NSFR), which is the structural 12-month liquidity indicator corresponding to the ratio between the available stable funding amount and the

compulsory stable funding amount. Although there is no minimum regulatory requirement for this indicator, it is included in supervisory reporting every quarter; and

- Loan to Deposit Ratio, representing the ratio between loans to customers and direct funding, excluding transactions with central counterparties.

Trends in these three indicators during the reference period are shown below.

	Regulatory requirement	31 December 2017	31 December 2016
LCR	80%	199%	108%
NSFR *	-	110%	88%
*Loan to Deposit Ratio ** *	-	88.4%	102.0%

(*) Note that the NSFR figure represents a calculation provided exclusively for informational purposes and is calculated in accordance with the provisions laid out in the document published by the Basel Committee in October 2014 (Basel III: The net stable funding ratio, Basel Committee on Banking Supervision), pending regulatory provisions, which could be different with reference to the aggregates to be considered as well as any weighting factors to be applied to them.

(**) Calculated as Loans to customers/(Deposits from customers + Debt securities issued + Financial liabilities designated at fair value) using data extracted from the 2017 and 2016 financial statements, respectively.

The short-term liquidity indicator, the Liquidity Coverage Ratio (LCR), was 199% as at 31 December 2017, higher than the minimum regulatory requirement of 80% for 2017, up significantly since December 2016 (108%). Moreover, please note that the quantification of the aggregates at the basis of the calculation of the liquidity indicators described above does not contain discretionary assessments by the Bank.

The medium/long-term liquidity indicator, the Net Stable Funding Ratio (NSFR), was 110% as at 31 December 2017, representing considerable growth since December 2016 (88%).

The year 2017 was characterised by a significant improvement in the liquidity position as a result of the recovery of net commercial funding and the positive contribution deriving from:

- the issue between January and March of three government guaranteed bonds (GGB), pursuant to Law Decree no. 237/2016, as converted and subsequently amended ("Decree 237"), for a total amount of EUR 11 bn (against the repayment, in March, of roughly EUR 4 billion in GGBs issued in 2012). The GGBs issued, subscribed in full by the issuer, were subsequently sold in the market or used to back financing transactions;
- the completion in August of the Parent Company's share capital increase, for a value equal to roughly EUR 3.9 billion, for the subscription of shares by the Ministry of Economy and Finance ("MEF") pursuant to the MEF decree published in Official Gazette no. 175 on 28 July 2017, relating to "Capital strengthening initiatives of Banca Monte dei Paschi di Siena, pursuant to art. 18, paragraph 3 of Law Decree no. 237 of 23 December 2016 converted, with amendments, by Law no. 15 of 17 February 2017";
- the completion of the partial voluntary public offering for exchange and settlement for holders of the ordinary shares of the Parent Company resulting from the conversion,

following the application of the new burden sharing measures laid out in Decree 237, of the subordinated bond loan named "€2.160.558.000 Tasso variabile Subordinato Upper Tier II 2008 - 2018" (ISIN IT0004352586), for an overall cash impact equal to around EUR 1.5 billion.

As at 31 December 2017 the operating liquidity position showed an unencumbered counterbalancing capacity of EUR 21.1 bn, up by roughly EUR 14.2 bn compared to the figure as at 31 December 2016 (EUR 6.9 bn).

Quantitative Information

1. Breakdown of financial assets and liabilities by residual contractual duration - Currency: Euro

31 12 2017

Account / Maturity	On demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	over 5 years	Unspecified maturity
Balance-sheet assets	18,461,512	1,437,292	1,880,584	2,046,675	4,862,321	8,785,487	7,223,367	34,940,679	36,795,631	3,629,268
A.1 Government securities	51	10	234	629	126,724	370,158	2,227,545	12,346,391	2,713,946	-
A.2 Other debt securities	483,732	453	2,903	34,515	29,954	94,676	131,016	1,170,338	962,480	8,357
A.3 Units of UCITS	156,480	-	-	-	-	-	-	-	-	-
A.4 Loans	17,821,249	1,436,829	1,877,447	2,011,531	4,705,643	8,320,653	4,864,806	21,423,950	33,119,205	3,620,911
- Banks	4,096,091	7,563	236,382	246,076	117,846	120,714	256,475	55,153	182,737	3,611,339
- Customers	13,725,158	1,429,266	1,641,065	1,765,455	4,587,797	8,199,939	4,608,331	21,368,797	32,936,468	9,572
Balance-sheet liabilities	58,717,592	4,811,857	3,094,365	4,136,525	6,599,950	5,370,469	5,015,114	27,975,631	4,896,162	293,588
B.1 Deposits and current accounts	51,842,692	208,632	401,383	718,120	2,317,783	2,415,056	1,691,675	3,014,277	27,269	-
- Banks	832,182	-	-	-	-	9,000	218,450	188,800	-	-
- Customers	51,010,510	208,632	401,383	718,120	2,317,783	2,406,056	1,473,225	2,825,477	27,269	-
B.2 Debt securities	2,273,078	1,716	1,572	2,814,111	1,466,053	1,850,004	1,169,800	7,280,905	3,524,834	293,588
B.3 Other liabilities	4,601,822	4,601,509	2,691,410	604,294	2,816,114	1,105,409	2,153,639	17,680,449	1,344,059	-
Off-balance-sheet transactions										
C.1 Financial derivatives with exchange of principal										
- long positions	352,073	718,079	206,739	379,426	2,369,981	1,779,343	590,913	1,095,325	486,764	-
- short positions	612,086	2,448,795	351,411	387,292	1,290,855	576,126	367,532	799,943	222,891	-
C.2 Financial derivatives without exchange of principal										
- long positions	3,813,913	60	-	4,366	43,558	40,871	29,516	24	-	-
- short positions	2,191,329	428	-	3,859	35,643	7,120	44,366	190	2,406	-
C.3 Deposits and borrowings to be received										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
- long positions	144,797	1,976,189	4,801	33,009	101,350	322,356	255,689	273,024	967,451	202,256
- short positions	3,897,300	195,877	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	47,537	280	607	674	9,006	5,844	19,963	84,379	66,070	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal										
- long positions	-	-	-	-	30,000	-	90,000	518,828	1,538,040	-
- short positions	-	-	-	-	30,000	-	90,000	518,828	1,538,040	-
C.8 Credit derivatives without exchange of principal										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	4,373	-	-	-	-	-	-	-	-	-

2. Breakdown of financial assets and liabilities by residual contractual duration - Currency: Other

31 12 2017

Account / Maturity	On demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	over 5 years	Unspecified maturity
Balance-sheet assets	561,028	38,862	39,437	124,480	174,751	184,263	73,604	355,380	759,856	-
A.1 Government securities	84	-	-	3	104	19	443	1,034	13,902	-
A.2 Other debt securities	26,939	-	108	151	11,739	5,677	10,825	55,576	534,022	-
A.3 Units of UCITS	1,472	-	-	-	-	-	-	-	-	-
A.4 Loans	532,533	38,862	39,329	124,326	162,908	178,567	62,336	298,770	211,932	-
- Banks	332,239	10,190	14,843	37,996	54,349	13,371	19,376	4,238	1,179	-
- Customers	200,294	28,672	24,486	86,330	108,559	165,196	42,960	294,532	210,753	-
Balance-sheet liabilities	570,973	9,841	9,049	71,130	164,693	10,152	6,063	42,091	1,474	-
B.1 Deposits and current accounts	535,285	9,841	9,049	51,867	118,318	9,651	5,227	103	-	-
- Banks	30,919	-	-	33,353	-	-	1,135	-	-	-
- Customers	504,366	9,841	9,049	18,514	118,318	9,651	4,092	103	-	-
B.2 Debt securities	-	-	-	-	13,514	336	671	41,988	-	-
B.3 Other liabilities	35,688	-	-	19,263	32,861	165	165	-	1,474	-
Off-balance-sheet transactions										
C.1 Financial derivatives with exchange of principal										
- long positions	21,596	343,919	323,300	295,481	540,079	338,869	97,698	33,736	25	-
- short positions	25,734	294,874	218,897	333,050	1,455,578	557,242	361,889	228,615	152	-
C.2 Financial derivatives without exchange of principal										
- long positions	270,157	-	-	-	-	-	-	-	-	-
- short positions	163,374	-	-	-	-	-	-	-	-	-
C.3 Deposits and borrowings to be received										
- long positions	-	-	-	33,353	336	-	-	-	-	-
- short positions	-	-	-	33,353	336	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
- long positions	33,152	127,008	32	1,424	34,291	40,270	28,260	25,370	15,665	-
- short positions	305,473	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	4	-	-	-	4	-	2	4,339	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal										
- long positions	-	-	-	-	8,171	-	7,629	700,242	-	-
- short positions	-	-	-	-	8,171	-	7,629	700,242	-	-
C.8 Credit derivatives without exchange of principal										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

Self-securitisations

The securitisation transactions whereby the Group underwrites securities issued by vehicle companies (self-securitisations) are not shown in the tables of Part E of the Consolidated Notes to the Financial Statements, section C "Asset securitisation and disposal transactions", pursuant to the provisions of Circ. 262 of the Bank of Italy.

Self-securitisations of assets are transactions aimed at improving liquidity risk management by optimising the amount of assets readily available to cover liquidity requirements.

Although the Group's direct and full underwriting of the notes issued by the vehicles does not make it possible to obtain direct liquidity from the market, it still provides the Group with securities that could be used for ECB refinancing and repo transactions on the market, thereby improving the Group's safety margin against liquidity risk.

These sale transactions had no economic impact on the financial statements: loans continue to be reported under item 70 "Loans to customers" and item 150 "Non-current assets and groups of assets held for sale and discontinued operations" on the assets side, while underwritten notes are not reported.

As at 31 December 2017, this category includes the self-securitisations entered into in December 2007 (Siena Mortgages 07–5), in March 2008 (Siena Mortgages 07-5 2nd tranche), in February 2009 (Siena Mortgages 09-6), in December 2013 (Siena Consumer), in October 2016 (Siena PMI 2016) and in December 2017 (Siena NPL 2018).

Siena Mortgages 07-5, 1st and 2nd series

On 21 December 2007, through the vehicle Siena Mortgages 07-5 S.p.a., the Parent Company finalised a securitisation of performing loans consisting of a portfolio of 57,968 residential mortgages for a total of EUR 5,162.4 mln, of which a balance of EUR 1,344.0 mln (25,075 mortgage loans) outstanding as at 31 December 2017.

In order to fund the acquisition, the Vehicle issued Residential Mortgage Backed Floating Rate Notes (RMBS) in the following classes, rated by Moody's and Fitch as at 31 December 2017:

- Class A notes (Aa2/AA) for a nominal amount of EUR 4,765.9 mln, of which EUR 3,813.9 mln redeemed;
- Class B notes (Aa2 and A), for a nominal amount of EUR 157.4 mln;
- Class C notes (B3 and B), for a nominal amount of EUR 239.0 mln.

A cash reserve was also set up to support the transaction for an amount of EUR 124.0 mln, through the issuance of class D notes, which was posted to the assets side under Item 70 "Loans to customers". The transaction reached the Protection Ratio (ratio between total Class B and C notes and total Class A, B and C notes) which allowed for the gradual reduction of the cash reserve to the target amount of EUR 38.7 mln.

The first series was followed on 31 March 2008 by a second series (Siena Mortgages 07-5 second series), collateralised by a separate pool of assets consisting of an additional sale of a portfolio of performing loans composed of 41,888 residential mortgages for a total of EUR 3,461.0 mln and with a residual life of about 20 years.

As at 31 December 2017, 14,649 loans were outstanding for a balance of EUR 997.9 mln.

In order to fund the acquisition of loans, the Vehicle (the existing Siena Mortgages 07-5 S.p.a.) issued RMBS in the following classes, rated by Moody's and Fitch as at 31 December 2017:

- Class A notes (Aa2 and AA-) for a nominal amount of EUR 3,129.4 mln, of which EUR 2,419.8 mln redeemed;
- Class B notes (Aa3 and BBB), for a nominal amount of EUR 108.3 mln;

- Class C notes (NR and B), for a nominal amount of EUR 178.3 mln.

A cash reserve was set up to support the transaction for an amount of EUR 82.1 mln, through the issuance of class D notes, which was posted under asset item 70 "Loans to customers". The transaction reached the Protection Ratio (ratio between total Class B and C notes and total Class A, B and C notes) which allowed for the gradual reduction of the cash reserve to EUR 25.1 mln.

Siena Mortgages 09-6, 1st series

On 20 February 2009 the Parent Company finalised a securitisation through the vehicle Siena Mortgages 09 – 6 Srl of a portfolio of performing mortgages in real estate and building for a total of EUR 4,436.5 mln. As at 31 December 2017, the remaining debt balance stands at EUR 1,692.3 mln, for a total of 24,695 loans.

In order to fund the acquisition of the portfolio sold, the Vehicle issued Residential Mortgage Backed Floating Rate Notes (RMBS) in the following classes, rated by Moody's and Fitch as at 31 December 2017:

- Class A notes (Aa2 and AA) for a nominal amount of EUR 3,851.3 mln, of which EUR 2,794.0 mln redeemed;
- Class B notes (NR and AA), for a nominal amount of EUR 403.7 mln;
- Class C notes (NR and B), for a nominal amount of EUR 181.4 mln.

A cash reserve was set up to support the transaction for an amount of EUR 106.7 mln, through the issuance of class D notes, which was posted under asset item 70 "Loans to customers". In July 2017, the reserve's target level was increased to EUR 145.0 mln.

Siena Consumer

In December 2013 a securitisation transaction was carried out through the sale to the vehicle Siena Consumer S.r.l. of a portfolio of approximately EUR 1,500 mln consisting of 200,542 personal loans, auto loans, and special-purpose loans originated by Consum.it S.p.A., now absorbed by Banca Monte dei Paschi di Siena S.p.A. As at 31 December 2017, the remaining debt balance amounted to EUR 178.8 mln (194,632 outstanding loans).

To fund the acquisition of the portfolio, the Vehicle issued unrated asset-backed securities in the following classes:

- Class A notes for a nominal amount of EUR 991.6 mln, redeemed in full;
- Class B notes for a nominal amount of EUR 488.3 mln, EUR 324.0 mln of which redeemed;
- Class C notes for a nominal amount of EUR 21.9 mln.

Siena PMI 2016

In 2016 the Parent Company carried out a securitisation through the vehicle named Siena PMI 2016 S.r.l. The transaction was finalised on 30 September 2016 through the sale of a portfolio of performing loans to Italian small and medium enterprises, for a total of EUR 1,739.3 mln. As at 31 December 2017, the remaining debt balance stands at EUR 1,034.1 mln, for a total of 15,764 loans.

In order to fund the acquisition of the portfolio sold, on 27 October 2016 the Vehicle issued Asset-Backed Securities (ABS) in the following classes, rated by Fitch and DBRS as at 31 December 2017:

- Class A1 notes (AA and AAA) for a nominal amount of EUR 470.0 mln, redeemed in full;
- Class A2 notes (AA and AAA) for a nominal amount of EUR 400.0 mln, of which EUR 84.3 mln redeemed;
- Class B notes (AA and AAH), for a nominal amount of EUR 150.0 mln;
- Class C notes (BBB and BBH) for a nominal amount of EUR 313.0 mln;
- Class J notes (not rated) for a nominal amount of EUR 406.3 mln, of which EUR 34.6 mln redeemed.

Siena NPL 2018

In the course of 2017, on the basis of what is set forth in the Restructuring Plan and in line with the terms of the agreements entered into with Quaestio Capital Management SGR S.p.A., the MPS Group completed the securitisation of a portfolio of doubtful loans originated by Banca Monte dei Paschi di Siena S.p.A., MPS Capital Services Banca per le Imprese S.p.A. and Monte dei Paschi di Siena Leasing & Factoring, Banca per i Servizi Finanziari alle Imprese S.p.A. The carrying amount of this portfolio as at 31 December 2017 amounts to EUR 4,579.7 mln.

The portfolio was sold on 20 December 2017 to the vehicle Siena NPL 2018 S.r.l., established for this purpose, which on 28 December 2017 issued Asset-Backed Securities (the "Securities") in the following classes:

- Senior A1 notes for a nominal amount of EUR 2683.5 mln;
- Senior A2 notes for a nominal amount of EUR 412.1 mln;
- Mezzanine notes for a nominal amount of EUR 847.6 mln;
- Junior notes for a nominal amount of EUR 565.0 mln.

The Securities were subscribed in full by the transferors and as at 31 December 2017 they are all held by the Group.

The 2017-2021 Restructuring Plan and the agreements with Quaestio also call for, by the end of the first half of 2018:

- the transfer of 95% of the mezzanine notes to the Atlante Fund managed by Quaestio (already completed on 22 December 2017, effective as of 9 January 2018);
- rating by at least two agencies of the Senior A1 Notes (and possibly of other classes of Notes);
- after obtaining an investment grade rating from at least two agencies, the request for the application of the guarantee ("GACS") from the Ministry of Economy and Finance (MEF or GACS Guarantor) pursuant to Law Decree No. 18 of 14 February 2016, converted with amendments into Law No. 49 of 8 April 2016, and in compliance with what is laid out in the relative implementing measures (including, inter alia, the MEF decree of 3 August 2016) on the Senior A1 Notes (and possibly the Senior A2 as well);
- after obtaining the GACS, the transfer of 95% of the Junior Notes to the Atlante Fund, with the simultaneous deconsolidation of the assets transferred;
- the sale of 95% of the class A2 Notes to institutional investors.

For additional details, please refer to the section "The doubtful loan disposal transaction" of the Consolidated Report on Operations.

1.4 – Banking Group - Operational risk

Qualitative Information

A. Operational risk: general aspects, operational processes and measurement methods

General information and Framework structure

By an administrative ruling dated 12 June 2008, the Bank of Italy authorised the Group to use internal models for the determination of capital requirements for credit and operational risks.

The adoption of the advanced model (AMA) calls for banks to:

1. adopt an internal organisation which defines the roles of the corporate bodies and functions involved in the operational risk management process;
2. establish a control function for data gathering and storing, capital requirement calculation, risk profile assessment and reporting;
3. perform ongoing checks on the quality of the management system and its compliance with regulatory provisions;
4. delegate the internal auditing body to perform periodic audits on the operational risk management system;
5. ensure over time that the system is actually made use of in the usual course of business (use test).

For this purpose, the Group has adopted an integrated system for operational risk management, i.e. an internal framework built around a governance model that involves all companies included in the AMA model scope of application. The approach defines the standards, methods and instruments that make it possible to measure risk exposure and the effects of mitigation by business area.

The advanced approach is designed to integrate all major qualitative and quantitative (LDA-Scenario mixed model) information sources (information or data).

The quantitative Loss Distribution Approach component is based on the collection, analysis and statistical modelling of internal and external time series of loss data (the latter supplied by the Italian Database of Operational Losses, DIPO).

The qualitative component focuses on the evaluation of the risk profile of each unit and is based on the identification of relevant scenarios. In this framework, the companies included in the AMA scope area are involved in the: identification of the processes and risks to be assessed; assessment of risks by process managers in charge; identification of possible mitigation plans; discussion of priorities and technical-economic feasibility of mitigating actions with Head Office functions.

Next is a phase for monitoring progress on the implementation of actions scheduled and compliance with objectives and deadlines.

The Framework identifies Group Operational Risk Management (ORM) as the operational risk control function (within Parent Company's Chief Risk Officer Division).

The Parent Company's ORM calculates the capital required to hedge operational risks by the use of different components of the model (internal data, external data, contextual and control factors, qualitative analyses), supports decision-making by Top Management from the standpoint of creating value by containment, mitigation and transfer of the risks detected, and as it does for other companies included in the scope, it gathers internal loss data and identifies the risks to be evaluated in qualitative analyses.

The Advanced Measurement Approach (AMA) is applied to all domestic financial and banking entities, while the foundation model is used for remaining components and foreign companies. As at 31 December 2017 internal model coverage in terms of the relevant indicator exceeded 95%.

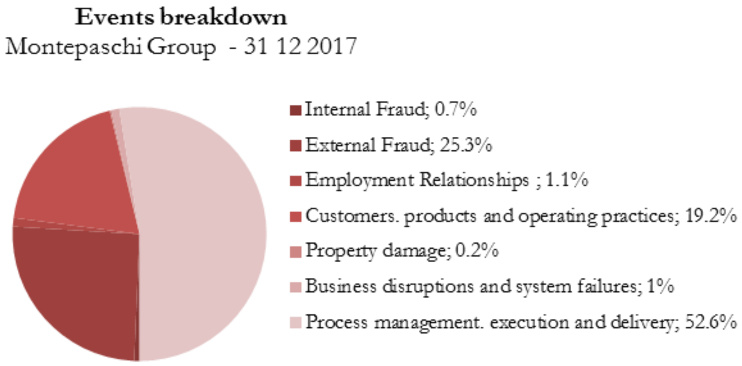
ORM has also set up a reporting system which ensures timely information on operational risks for the Top Management, which transposes the strategic principles of the management system into specific operating policies. Reports are regularly submitted to the Risk Management Committee and governing bodies.

Over time, the adoption of the AMA model has ensured better-informed management of operational risk, guaranteeing a material progressive reduction of the Group's operational risk.

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

Quantitative Information

The percentage breakdown of events and operational losses recognised in 2017 is reported below, divided into various risk classes.



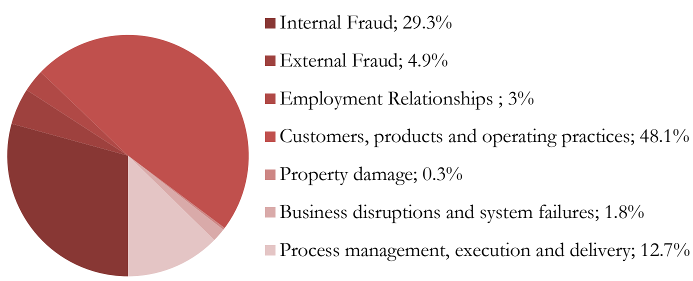
As at 31 December 2017, the number of operational risk events was down as compared to December 2016, while operational losses rose as a result of disputes with customers.

The types of event with the greatest impact on the income statement remain attributable to non-fulfilment of professional obligations with customers (under "Customers, products and operating practices": approximately 64% of the total) and operational and process management shortfalls (under "Process management, execution and delivery": 11% of the total).

With regard to "non-fulfilment of professional obligations with customers", risk events are mainly associated with disputes for past share capital increases and claims due to the application of compound interest.

By contrast, the graph below shows the breakdown of regulatory requirements by risk class:

Regulatory Capital Requirements
Montepaschi Group - 31 12 2017



The Regulatory Requirement as at 31 December 2017 was up slightly compared to the requirement of December 2016, primarily as a result of the developments in the models enacted as at 30 June 2017.

The breakdown of losses recognised in the period clearly differs from the breakdown of the capital in that the latter is calculated using a 10-year time series and the incidence of the unexpected loss component prevails.

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.

Unless specified otherwise, labour law and tax disputes or disputes relating to debt collection are briefly described in the notes included in other sections of this document and, therefore, they are not addressed in this section. 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.

The key characteristics of significant cases, by macro-category or individually, are described below:

A) Significant cases by macro-category

The cases brought against the Group belonging to sufficiently homogeneous types for which the risk has been estimated using analytical and/or statistical criteria can be grouped for the most part into macro-categories, characterised individually by a common denominator represented by alleged critical elements of products, operations, services or relationships for which or in which the Group banks played the role of disbursement or placement entities.

The main macro-categories are related to situations concerning:

1) compound interest and in general the application of interest and conditions;
2) bankruptcy rescindments;
3) the placement of bonds issued by Countries or Companies that subsequently defaulted, and financial plans.

The table below presents the data of the main macro-categories as at 31 December 2017:

Type of dispute	No. of cases	Petitum (EUR mln)	Funds (EUR mln)
Interest compounding	3,177	371	168
Claw-backs of payments received from defaulted entities	351	421	80
Defaulting obligations and financial plans	646	44	12

1) Disputes concerning compound interest, interest and conditions

Following the change in orientation by the Supreme Court of Cassation (Corte di Cassazione) on the legitimacy of the practice of capitalising on a quarterly basis the interest payable accrued on current accounts, as of 1999 there has been a progressive increase in claims for the return of interest expense resulting from quarterly compound interest. In these lawsuits, the plaintiffs also contest the legitimacy of the interest rate and the methods to determine the commissions applied to the accounts. In this regard, the interpretation introduced since 2010 by the Supreme Court on usury - according to which overlimit fees (Commissioni di Massimo Scoperto), even before Italian Law no. 2/2009 was enforced, should have been calculated on the basis of the effective global rate (Tasso Effettivo Globale - TEG), contrary to Bank of Italy guidelines - is frequently the pretext for the actions brought by customers.

The plaintiffs most often claim irregularities in current account balances; however, claims concerning compound interest are also increasingly frequent: these cases are based on the alleged illegitimacy of the so-called "French-style amortisation" in mortgage loans, and violation of Italian Law no. 108/1996 on usury in term loans. Aware that the jurisprudential interpretation is often disadvantageous (although not univocal), at least with respect to certain issues, the Group is committed to maximising the arguments in its defence - which do exist, particularly concerning the statute of limitations - identifiable in the regulatory and interpretative framework. Thinking in terms of macro-categories, the total provisions estimated for this type of disputes appear to be adequate relative to the risk.

2) Disputes concerning bankruptcy rescindments

The reform implemented from 2005 has reduced and limited the scope of bankruptcy rescindments, particularly those relating to current account remittances. For those that can still be filed, or already pending at the effective date of the reform, the Group is giving maximum emphasis to all the arguments available in defence.

3) Disputes concerning bonds issued by Countries or Companies that subsequently defaulted, and financial plans

The considerable defensive efforts made in this type of lawsuit resulted over the years in the emergence of some favourable jurisprudential orientations, at least with respect to certain specific cases, which are allowing balanced risk control. In 2015 there were some negative decisions, particularly as regards financial plans, which as things currently stand have not had tangible negative impacts, but the developments of which will be closely monitored to ensure proper oversight over any greater risk factors.

B) Individually significant cases

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 document 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 should currently be deemed remote.

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

The action was brought by the company Fatrotek against the Parent Company (and other credit institutions); the plaintiff asks the Court to recognise the alleged unlawfulness by the Parent Company and the other banks of reporting doubtful loans to the Central Credit Bureau, and claim monetary and non-monetary damages suffered by the company amounting to EUR 157.1 mln.

The plaintiff also asks that the defendant banks be found jointly liable, each proportionately to the seriousness of its behaviour. The Parent Company's defence was based on the fact that the company's extremely severe financial situation fully justified the Parent Company's initiatives.

The next hearing in scheduled for 31 May 2018, for the engagement of expert witness.

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

In 2012, Fallimento Medeghini SpA in liquidazione served a complaint on the Parent Company charging it with an alleged unlawful behaviour, in contract and in tort, in relation to accounting movements between the company, which subsequently went bankrupt, and other companies (controlled by the Medeghini family), at the time of a capital increase by Medeghini S.p.A. The claim amounts to EUR 155.0 mln.

The Bank's defence was based on various considerations in fact and in law, and was aimed at demonstrating the absolute groundlessness of the claims brought by the bankruptcy procedure due to total lack of a causal link between management acts that led to the default and the Parent Company's conduct.

During the technical appraisal ordered by the Court, the opposite party's demands that a link of causality be recognised between the capital increase and the subsequent transactions that worsened the company's financial difficulties - in which the Bank acted as a mere executor - were repeatedly and effectively rebutted by BMPS's expert witness.

During the appraisal, the Court-appointed expert witness accepted almost entirely the arguments of the defendant Parent Company, and in any case the plaintiff's claim, as formulated, appears to be groundless in terms of damages to be awarded, as no damage has been suffered.

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.

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. At the hearing on 12 February 2018 the Judge has reserved for the admission of preliminary evidence.

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

On 11 March 2017, Riscossione Sicilia objected to the above-mentioned order and requested that it be revoked and, by means of a cross-action, that the 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. The proceeding is in the initial stage and at the hearing on 9 October 2017 the Judge, having rejected the opposing party's request to join the proceedings with those lodged previously, reserved his decision with respect to the requests made by the parties during the hearing, i.e., to have the enforceability of the order declared, submitted by the Parent Company, and for the suspension of the proceedings, requested by the other party. With a ruling dated 26 January 2018 the Judge lifted the reservation, rejected the counterparty's requests and accepted the Parent Company's request for the provisional enforceability of the order for the entire sum, adjourning the case to 22 May 2018.

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.

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

The dispute was originated by 3 loan assignment transactions identifiable in bulk in accordance with Italian Law no. 130 of 30/4/1999, carried out or mediated by former BAV, following which since 2008 the assignee Elipso Finance s.r.l. has submitted complaints, invoking the guarantees given by the assignors, mainly concerning the lack of documentary evidence supporting the credit. The claim amounts to EUR 100.0 mln.

Specifically, the 3 assignments were carried out by former BAV, Antenore Finance S.p.A. and Theano Finance S.p.A. (both of which are 98% owned by former BAV, originator of the relevant loans, and subsequently merged into Banca MPS).

As a settlement could not be reached, in compliance with the arbitration clause contained in the contracts Elipso initiated the arbitration procedure at the Arbitration Chamber of Milan.

The Parent Company's defence aims to demonstrate that, in accordance with contractual provisions, even if the claim should be accepted, damages can only be awarded for positions for which Elipso can actually prove that damage has been suffered.

The Arbitration Board ordered an expert appraisal in order to verify compliance by Elipso with the contractual provisions with regard to guarantee activation methods and times, and the final defence briefs were subsequently filed.

On 17 January 2017, the partial award rejecting the counterparty's claims was issued. After the expert appraisal was completed on a sample of contested transactions and the correlated partial award was issued, the Board was asked for its opinion on the methods for continuing with the expert appraisal and, in the meantime, invited the parties to verify whether the prerequisites are met for a reconciliation.

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

The action was brought by the company CHI. DEM S.r.l. and by the other companies of the De Masi Group. Co-defendants with Bank are two other credit institutions and Bank of Italy.

Co-defendants with Parent Company are two other credit institutions and Bank of Italy. The plaintiff seeks relief for alleged damage suffered by the De Masi Group as a result of the aforesaid banks having exceeded threshold rates (with the joint liability of Bank of Italy for failure to supervise) following decision no. 46669/2011 by the Criminal Division of the Court of Cassation, which has ascertained that in certain periods the threshold rate was actually exceeded. The petitum amounts to EUR 100.0 mln or the different amount, possibly higher, that may be confirmed in the course of the proceedings and which the other party, with the brief pursuant to art. 183, paragraph VI no. 1 of the Italian Code of Civil Procedure, attempted to specify based on a reference to expert reports it presented.

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

Beyond the above-mentioned elements of proof, an element in favour of the Parent Company is the dismissal of a first request for payment of a provisional amount, which the plaintiffs applied for as a precautionary measure under article 700 of the Italian Code of Civil Procedure and/or with a request for a Court order (the dismissal was confirmed during the claim proceeding), as well as the dismissal, on 9 July 2014, of a second request for the recognition of a provisional amount which the plaintiffs again submitted. At the hearing on 20 February 2018 the Judge has reserved for the admission of preliminary evidence.

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. At the hearing, the Judge, after granting the terms pursuant to art. 163, paragraph VI of the Italian Code of Civil Procedure, adjourned the case to 14 June 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 receivership estate of 'Antonio Amato & C. Molini e Pastifici in Salerno S.p.A. in liquidazione' brought an action against the Parent Company, with the former Directors of the Company in bonis and other Creditor Banks as co-defendants, before the Court of Naples, requesting that the Court ascertain and recognise the joint liability of the defendants for their unlawful conduct. According to the plaintiff, they formed a pool that granted a loan to the company, thus worsening its state of financial distress and causing severe damage to its business and its equity and financial integrity; they therefore asked the Court to order the defendants to pay damages to the receivership estate in the amount of EUR 90 mln, i.e. the presumable difference between the estate's liabilities and assets, or a different amount that the Court should deem suitable to award upon completion of the investigative phase; as a secondary claim, the receivership estate asks that each of the defendants be found liable for the part attributable to them for the damage suffered by the company, amounting to EUR 90 mln, equal to the presumable difference between the estate's liabilities and assets.
The Parent Company rose preliminary objections and filed a motion to dismiss the case for lack of venue jurisdiction and of active legitimation; in the merits, the Bank asked the Court to dismiss the plaintiff's claims as inadmissible and/or groundless or, as a secondary request, to reduce the amount of compensation awarded in consideration of the different degree of guilt in causing the damage, in accordance with art. 2055, paragraph 2 of the Italian Civil Code.
The proceedingis is in the preliminary stage and the accounting CTU has been 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.

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.

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

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

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

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

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

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

At the hearing on 13 March 2018, the Judge reserved himself for the admission of preliminary evidence.

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 13 June 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 25 lawsuits are currently pending, brought forward by shareholders and/or former shareholders for a total claim of approximately EUR 730.5 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 (there are a total of 304 civil parties) 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 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 interim report on operations the Parent Company has received 760 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.

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

Several 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. In the proceedings in question, the Parent Company will appear before the court to present its defence.

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 488 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 financial statements, for one plaintiff proceedings are pending in the first instance with a hearing scheduled on 14 May 2018, while for the other 487 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 145 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 26 February 2018 to 26 November 2019; on the other hand, for 342 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 these financial statements, of the 487 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 are scheduled for 25 January 2019 and for 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, which the complainants objected to. At the hearing in chambers on 12 July 2017 to decide on the objection to the request for dismissal, the proceedings were deferred to 20 September 2017 due to lack of notification. At the hearing concerning the objection to the request for dismissal, the Judge withheld his decision, reporting that the decision would be made known within 5 days, when the measure would be communicated via certified email. The Siena Preliminary Investigations Judge, lifting the reservation placed at the hearing on 20 September 2017, issued an order to the Public Prosecutor for further investigations to be completed within 120 days. The measure was served upon the parties under investigation on 2 October 2017.

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

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

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

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

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

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

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

After the request for plea bargain, the Parent Company's position was closed. With the plea bargain, accepted by the Preliminary Hearing Judge on 14 October 2016, the Parent Company exits the proceedings as defendant in the administrative offence following crimes committed by its own former executives, limiting the consequences to an administrative financial penalty of EUR 0.6 mln and a confiscation, for EUR 10 mln, without exposing itself to the risk of higher penalties.

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

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

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

During the proceedings, by order of 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 interim report on operations, a total of 1,243 civil parties have acted against the Parent Company.

As things stand within the above-mentioned proceedings, the 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, in which the Parent Company is identified as the injured party, 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 will need to issue 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 file the (new) request for committal for trial against Mr Salvadori for such offence and, lastly, request 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 his removal from the proceedings ordered during 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.

The following schedule has been provided for discussions of the defence pleadings: 6, 13, 20 and 27 April 2018.

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.

In the course of 2017, during a control on the supplemental return relating to the 2012 tax period, the Revenue Agency claimed - with reference to the FRESH (Floating Rate Equity Linked Subordinated Hybrid Preferred Securities) instrument - the non-application of the withholding taxes required by law on at least part of the payments made in favour of the counterparty starting in 2008. Although the Parent Company believes that it acted correctly, also taking into account the opinion of its advisors, as well as the timing, costs and uncertainties that would arise from the initiation of litigation, it settled the potential dispute by paying a total of EUR 12.1 mln, inclusive of direct taxes, penalties and interest.

Financial risks of investment services

Foreword

The following section on financial risks of investment services was written as part of the "Operational Risk" section in line with the compulsory framework for preparation of the Notes to the Financial Statements, even though this subject presents specific characteristics and involves organisational levels of authority that are not directly traceable to operational risk management.

Wealth risk management process and methods

The 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.

Organisational responsibility at Group level for supervising financial risk measurement, monitoring and control activities and for mapping investment products/services for the purposes of MiFID adequacy is an integral part of the Group's integrated risk management responsibilities, and is assigned centrally to the Wealth Risk Management Service, within the Operating Risk Officer Area of the Parent Company's Chief Risk Officer Division. This is to ensure centralised governance of the direct and indirect risks which the Group incurs during the course of its operations.

"Wealth risk management" focuses on 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.

For the sake of simplicity, investment product risk mapping, performed with reference to individual risk macro-factors, is grouped under specific risk categories.

A special focus is given by the Bank to the monitoring and prevention of potential financial and reputational risks which investment services, particularly in contexts of financial crisis, may generate as a consequence of increased market volatility. The fast-moving and not always predictable market trends may result in rapid changes in product risks and generate potential financial losses, as well as prompting a changing attitude by customers towards their own financial investments.

Customers have regularly been informed of changes in the risk of financial instruments held, so as to ensure timely informational transparency and facilitate possible decisions aimed at rebalancing the risk profile of their investments.

Advisory services on offer, customer risk profile and risk of investment products/portfolios

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, which is aimed at verifying the suitability of the individual investments recommended in relation to the risk of the customer's investment portfolio as a whole. In this regard, the transactional adequacy model adopts a multivariate control approach to the individual risk factors, taking the risk of the customer's portfolio, including the recommended investment product, as a reference.

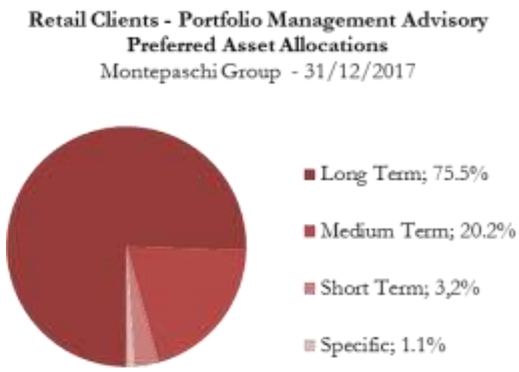
- "Advanced" advisory, which is instead aimed at verifying the suitability of the overall set of transactions, advising on them based on their impact on a suggested investment portfolio of the customer in order to obtain optimum asset allocation and maximised prospective returns over a certain time horizon, given the customer's risk profile.

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

Through the responses provided to the MiFID profiling questionnaire, the customer gives information on its characteristics and needs (particularly investment objective, knowledge, experience; time horizon), which is used to determine the customer's more general risk profile.

An analysis of the questionnaires completed at the end of 2017 shows that roughly 64% of the Group customers in the "Consumer/Retail" macro-segment, namely retail customers which represent almost the entire customer base of the Group, and which hold investment products, declared a "high" or "consistent" investment objective and the remaining 36% a positioning in lower objective classes. In addition, mainly long-term investment time horizons were preferred.

At the end of 2017, the portfolios held by Consumer/Retail customers on the basis of formalised "advanced" advisory proposals to obtain optimum asset allocation, were mainly distributed into the recommended, especially long-term, Asset Allocation macro-classes.



Part F – Information on consolidated shareholders' equity

Section 1 - Consolidated shareholders' equity

A. Qualitative information

The Group pursues strategic objectives focused on quantitative and qualitative strengthening of capital, structural rebalancing of liquidity and achievement of sustainable profitability levels. In this perspective, capital management, planning and allocation activities play a crucial role in ensuring compliance over time with the minimum capitalisation requirements set by the regulations and the supervisory authorities, as well as with the risk appetite level approved by the Group's strategic supervision body.

This is the purpose served by the Risk Appetite Framework (RAF) through which the target capitalisation levels are estimated on a yearly basis and capital is allocated to the business units according to expected development and estimated risk levels, making sure that the allocated capital is sufficient to ensure compliance with minimum requirements, under both normal and stress conditions. In the context of the RAF it is used to perform prospective capital adequacy assessments over a multiyear period, under both normal and stress conditions. The analyses are carried out both at Group level and by each individual legal entity subject to regulatory capital requirements.

The achievement of objectives and compliance with regulatory minimum requirements is constantly monitored throughout the year.

The formal corporate processes to which the RAF is applied at least on an annual basis are the budget, the risk appetite and the ICAAP.

The Group defines its targets on the basis of a Risk Adjusted Performance Measurement (RAPM), which measures profitability net of the cost of capital to be held for regulatory purposes relative to the assumed risk level.

The definitions of equity applied are those used in Supervisory Regulations: Common Equity Tier 1, Tier 1 and Capital; moreover, the RAPM metrics also include Invested Capital, i.e. the amount of Shareholders' equity needed to achieve Common Equity Tier 1 values, whether determined ex ante as target levels or realised ex post.

The Capital at Risk concepts applied are those used in the regulatory requirements and correspond to the risk weighted assets (RWA), determined on the basis of the rules set out in the supervisory regulations, and the economic capital corresponding to the maximum losses estimated on measurable risks at a predetermined confidence interval and on the basis of the Group's internal models and rules. Both measurements are used as part of RAPM metrics.

B. Quantitative Information

B.1 Consolidated shareholders' equity: breakdown by business areas

31 12 2017

Net equity items	Banking group	Insurance companies	Other companies	Consolidation cancellations and adjustments	Total	of which Group	of which minority interests
Shareholders' equity	10,329,590	304,317	217,968	(522,285)	10,329,590	10,328,618	972
Share premium	18	-	49,886	(49,886)	18	-	18
Reserves	3,864,778	340,411	68,348	(408,759)	3,864,778	3,864,821	(44)
Equity instruments	-	-	-	-	-	-	-
Treasury shares (-)	(313,710)	-	-	-	(313,710)	(313,710)	-
Valuation reserves	52,945	147,874	7,682	(155,556)	52,945	51,705	1,240
- Financial assets available for sale	(19,597)	-	-	-	(19,597)	(19,597)	-
- Tangible assets	-	-	-	-	-	-	-
- Intangible assets	-	-	-	-	-	-	-
- Hedges of foreign investments	-	-	-	-	-	-	-
- Cash flow hedges	(2,235)	-	-	-	(2,235)	(2,236)	1
- Exchange difference	2,006	-	-	-	2,006	2,006	-
- Non-current assets held for sale	104	-	-	-	104	104	-
Finacial liabilities measured at fair value with impact to profit and loss (change in own credit risk)	31,385	-	-	-	31,385	31,385	-
- Actuarial gains (losses) on defined benefit plans	(114,242)	-	(27)	27	(114,242)	(114,242)	-
- Share of valuation reserves of equity investments valued at equity	145,232	143,988	1,099	(145,087)	145,232	145,232	-
- Special revaluation laws	10,292	3,886	6,610	(10,496)	10,292	9,053	1,239
Profit (loss) for the year - Group and minority interests	(3,502,245)	91,874	6,212	(98,086)	(3,502,245)	(3,502,339)	94
Net equity	**10,431,376**	**884,476**	**350,096**	**(1,234,572)**	**10,431,375**	**10,429,096**	**2,279**

B.2 Valuation reserves for financial assets available for sale: breakdown

Asset/Amount	Banking Group		Insurance companies		Other companies		Consolidation cancellations and adjustments		TOTAL	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	294,280	(125,575)	198,649	-	-	(711)	(198,649)	711	294,280	(125,575)
2. Equity instruments	11,663	(24,011)	3,147	(24,054)	-	-	(3,147)	24,054	11,663	(24,011)
3. Units of UCITS	4,799	(37,220)	706	(34,105)	-	(98)	(706)	34,203	4,799	(37,220)
4. Loans	-	-	-	-	-	-	-	-	-	-
Total 31 12 2017	**310,742**	**(186,806)**	**202,502**	**(58,159)**	**-**	**(809)**	**(202,502)**	**58,968**	**310,742**	**(186,806)**
Total 31 12 2016	**373,752**	**(214,646)**	**257,254**	**(54,802)**	**794**	**(98)**	**(258,048)**	**54,900**	**373,752**	**(214,646)**

B.3 Valuation reserves for financial assets available for sale: annual changes

31 12 2017

	Debt securities	Equity instruments	Units of UCITS	Loans
1. Opening balance	**203,785**	**(16,048)**	**(28,631)**	**-**
2. Increases	**82,485**	**50,029**	**26,773**	**-**
2.1 Inreases in fair value	59,093	5,869	5,661	-
2.2 Reversal to profit and loss of negative reserves	18,414	44,160	21,112	-
- due to impairment	218	44,160	20,765	-
- following disposal	18,196	-	347	-
2.3 Other changes	4,978	-	-	-
3. Decreases	**117,565**	**46,329**	**30,563**	**-**
3.1 Decreases in fair value	70,575	2,532	5,331	-
3.2 impairment provisions	191	41,093	20,765	-
3.3 Reversal to profit and loss of positive reserves: followiong disposal	46,799	1,014	4,277	-
3.4 Other changes	-	1,690	190	-
4. Closing balance	**168,705**	**(12,348)**	**(32,421)**	**-**

B.4 Valuation reserves for defined benefit plans: annual changes

	Internal funds	External funds	Provisions for employees severance pay	31 12 2016
Opening balance	**(35,016)**	**(2,167)**	**(81,267)**	**(118,450)**
Remeasurement of net defined benefit liability (asset):	**(1,187)**	**706**	**4,080**	**3,599**
Return on plan assets excluding interests	(540)	(2,456)	-	(2,996)
Actuarial gains (losses) arising from changes in demographic assumptions	(3,142)	(1,035)	(48)	(4,225)
Actuarily gains (losses) arising from experience adjustments	1,563	4,324	3,811	9,698
Actuarial gains (losses) arising from changes in financial assumptions	193	124	319	636
Changes in effect of limiting net defined benefit asset to asset ceiling	739	(251)	(2)	486
Gains (losses) on settlements	-	-	-	**-**
Others	67	-	228	295
Closing balance	**(36,136)**	**(1,461)**	**(76,959)**	**(114,556)**

Section 2 – Regulatory banking capital and ratios

2.1 The regulatory framework - scope of application

The European Union’s banking supervision regulatory and institutional framework (Basel 3) in force aims to improve the ability of banks to absorb shocks arising from financial and economic stress, whatever the source, improve risk management and governance and strengthen the bank's transparency and disclosures, while taking into account developments from the financial crisis.

The approach based on three pillars aims to reinforce the quantity and quality of banks’ capital base as well as establish counter-cyclical supervisory tools and new standards for liquidity risk management and financial deleveraging.

In particular, Pillar 1 governs capital requirements to reflect the potential risk of activities as well as capital endowment requirements.

In addition to the system of capital requirements aimed at covering credit, counterparty, market and operational risk, there is a plan to introduce leverage caps (including off-balance sheet exposures) as a backstop to capital requirements based on risk and to reduce excessive leverage across the system.

“Basel 3” also includes liquidity risk monitoring requirements and tools which focus on short-term liquidity resilience (Liquidity Coverage Ratio - LCR) and longer term structural balance (Net Stable Funding Ratio - NSFR) as well as providing standards for liquidity risk management and monitoring at both individual and system-wide level.

Pillar 2 requires banks to adopt a strategy and process for controlling current and future capital adequacy, assigning the supervisory authorities with the task of verifying the reliability and consistency of results and of implementing the appropriate corrective measures, where necessary. Growing importance is attached to the corporate governance structure and internal control systems of banks as a determining factor for the stability of individual institutions and the financial system as a whole. In this area, the following have been strengthened: (i) regulatory requirements concerning the role, (ii) qualification and composition of governing bodies; (iii) awareness by these bodies and top management regarding organisational structure and risk for the Bank and banking group; (iv) corporate control functions, with a particular focus on the independence of those in positions of responsibility, the recognition of risk in off-balance sheet assets and securitisations, asset valuation and stress testing; (v) remuneration and incentive systems.

Pillar 3 – regarding the obligation of public disclosure on capital adequacy, risk exposures and general characteristics of management and control systems, with a view to promoting market discipline – establishes transparency requirements concerning securitisation exposures and detailed information on the composition of regulatory capital and the methods adopted by the Group to calculate capital ratios.

The Basel 3 framework is subject to a transition period that extends the full application of the rules to 2019 (2022 for the phase-out of certain capital instruments) and during which the new rules are applied in an increasing proportion.

Regulatory capital, an element of Pillar 1, is therefore calculated according to Basel 3 rules implemented in Europe through a comprehensive body of regulations, consisting of the Capital Requirements Regulation (CRR), European Regulation no. 575/2013, and supplements thereto, the Capital Requirements Directive (CRD IV), the Regulatory Technical Standards and the Implementing Technical Standards issued by the EBA, and the supervisory instructions issued by Bank of Italy (specifically, Circular nos. 285 and 286).

2.2 Own Funds

A. Qualitative information

Own funds are made up of the following:

- Tier 1 (T1) capital, consisting of:
  - Common equity Tier 1 (CET1);
  - Additional Tier 1 (AT1);
- Tier 2 (T2).

As with other regulatory indicators, capital is subject to specific transition rules. Therefore, there are full application requirements and requirements for the transition period.

1. Common equity Tier 1 (CET1)

Full application requirements

Common equity Tier 1 (CET1) mainly consists of:

- ordinary shares;
- share premium reserve resulting from the calculated share capital;
- retained earnings;
- valuation reserves.

The requirements for including capital instruments in CET1 are very stringent. They include the following:

- capital instruments must be classified as equity for accounting purposes;
- the nominal amount cannot be reduced except in cases of liquidation or discretionary repurchases by the issuer, with the appropriate authorization by the Supervisory Authority;
- they must have perpetual duration;
- the issuer is not obliged to distribute dividends;
- the issuer can only distribute dividends from distributable profits;
- there can be no preferential treatment in distributions, unless as a reflection of different voting rights;
- there are no caps on distribution;
- the cancellation of distributions does not result in restrictions on the issuer;
- compared to the other issued capital instruments, CET1 instruments absorb losses first and to a proportionally greater extent at the time they occur;
- they represent the most subordinated instruments in the event of the Parent Company's bankruptcy or liquidation;
- the holders have the right to the issuer's residual assets in the event of the issuer's liquidation;
- they are not subject to guarantees or contractual provisions that increase their seniority.

Profit for the period can be included in CET1 before final approval of the annual report only with the authorization by the Supervisory Authority and only if the following conditions are met: the profit must be audited by the external auditors and any dividends the Bank is going to distribute must be deducted from the profit for the period.

The CET1 calculation excludes the valuation reserve generated by cash flow hedges and the gains/losses from changes in the Bank's credit standing (fair value option liabilities and derivative liabilities).

Furthermore, CET1 includes additional value adjustments ("prudent valuation"). These adjustments are made to fair value exposures in the financial statements and must include the uncertainty of the parameters (model risk, unwinding costs, etc.) and potential future costs (operational risks, concentration risk, liquidity risk, etc.). The adjustments vary according to the financial instruments' classification as Level 1, 2 or 3.

In addition to these components, which represent the prudential filters, CET1 is subject to the following deductions:

- loss for the period;
- intangible assets, including the goodwill implicit in the equity investments under significant influence or joint control, valued according to the equity method;
- tax assets that are based on future profitability and do not derive from temporary differences (tax losses and ACE);
- deferred tax assets that depend on future profitability and derive from temporary differences (net of the corresponding deferred tax liabilities). On the other hand, deferred tax assets that do not depend on future profitability and can be transformed into tax credits as per Law no. 214/2011 are not deducted. Instead, these latter assets are included in RWA and weighted at 100%;
- deferred tax assets associated with multiple tax alignments of the same goodwill item for the portion that has not yet been transformed into current taxes;
- the surplus of expected losses on portfolio impairments validated for purposes of adopting the AIRB approach (so-called "expected loss delta");
- direct, indirect and synthetic investments in the Bank's CET1 instruments;
- non significant (<10%) direct, indirect and synthetic investments in CET1 instruments of financial institutions;
- significant (>10%) direct, indirect and synthetic investments in CET1 instruments of financial institutions;
- any deductions in excess of the AT1 instruments.

Deductions for equity investments in financial institutions and deferred tax assets are applicable only for the portions that exceed established CET1 thresholds, known as exemptions, according to the specific mechanism described below:

- insignificant investments in CET1 instruments of financial institutions are deducted, for the portion of the aggregate of insignificant investments in CET1, AT1 and T2 instruments of financial institutions that exceeds 10% of the CET1, in proportion with the CET1 instruments themselves. The portions referring to AT1 and T2 instruments are instead dedicated from the AT1 and T2 aggregates, respectively. The CET1 on which to calculate the 10% is obtained after applying the prudential filters and all deductions other than those for deferred tax assets that are dependent on future profitability and derive from temporary differences, to direct, indirect and synthetic investments in CET1 instruments of financial institutions, to any deductions in excess of the AT1 capital instruments and deductions in qualified equity investments in financial businesses;
- net deferred tax assets that depend on future profitability and derive from temporary differences are deducted for the portion that exceeds 10% of the CET1 that is obtained after applying the prudential filters and all deductions other than those for deferred tax assets that are dependent on

future profitability and derive from temporary differences, to any deductions in excess of the AT1 capital instruments and deductions in qualified equity investments in financial businesses;

- significant investments in CET1 capital instruments of financial institutions are deducted for the portion that exceeds 10% of the CET1 that is obtained after applying the prudential filters and all deductions other than those for deferred tax assets that are dependent on future profitability and derive from temporary differences, to any deductions in excess of the AT1 capital instruments and deductions in qualified equity investments in financial businesses;
- amounts not deducted as a result of the 10% exemption of significant investments in CET1 capital instruments of financial institutions and net deferred tax assets that depend on future profitability and derive from temporary differences, added together, are deducted only for the portion that exceeds 17.65% of the CET1 that is obtained after applying the prudential filters and all deductions, including investments in financial institutions and deferred tax assets, with the exception of any deductions in excess of the AT1 capital instruments.

Amounts not deducted as part of the exemptions are included in the RWA with 250% weighting.

Non-controlling interests are calculated in CET1 to the extent to which they cover the corresponding minimum capital requirements of the subsidiary. Hence, any excess cannot be calculated in the CET1.

Finally, it should be noted that from CET 1 is deducted an amount of EUR 76 mln following a specific request from the Supervisory Authority emanated in 2013.

Transition requirements

The following are the key aspects of the transition requirements:

- the losses for the period are calculated in CET1 with a progressive introduction of 20% per year (80% in 2017 and 100% from 2018); the portion temporarily not deducted from CET1 is calculated as a negative element of AT1;
- actuarial gains/losses arising from the measurement of liabilities connected with Employee benefits (staff severance pay, defined benefit pension funds, etc.) are recognised, net of tax effect, in valuation reserves and are included in CET1, with a gradual introduction (80% in 2017 and 100% in 2019);
- unrealised gains on financial instruments classified in the AFS portfolio were calculated in CET1 beginning in 2015 at 40% and then with a gradual introduction of 20% per year (80% in 2017 and 100% in 2018). Unrealised losses on financial instruments classified in the AFS portfolio are calculated in CET1 with a gradual introduction of 20% per year (80% in 2017 and 100% in 2018). With EU Reg. 2016/445 of 14 March 2016, unrealised gains and losses relating to exposures to central administrations of EU countries, classified as AFS, are treated in the same way as those deriving from AFS exposures to other types of counterparties, or with the same transition regime, without prejudice to the sterilisation of the portion not calculated in CET 1, for which the previous domestic regulations continue to apply;
- deferred tax assets that depend on future profitability and do not derive from temporary differences are deducted at 80% for 2017 (100% from 2018). These are essentially deferred financial assets associated with tax losses and the ACE benefit;
- deferred tax assets that depend on future profitability and derive from temporary differences, exceeding the exemptions referred to above, existing as at 1 January 2014 are deducted from CET1 with a gradual introduction of 10% per year beginning in 2015 (30% in 2017 and 100% in 2024);
- other deferred tax assets that depend on future profitability and derive from temporary differences, exceeding the exemptions referred to above, generated after 1 January 2014 are

deducted from CET1 with a gradual introduction of 20% per year beginning in 2014 (80% in 2017 and 100% in 2018);

- non-significant investments in CET1 instruments of financial institutions held directly, indirectly or synthetically and exceeding the above-mentioned exemptions are deducted from CET1 with a gradual introduction of 20% per year beginning in 2014 (80% in 2017 and 100% in 2018). Direct investments in financial institutions not deducted from CET1 during the transition phase are deducted at 50% from AT1 and 50% from T2. Indirect and synthetic investments are subject to capital requirements and included in RWA;
- significant investments in CET1 instruments of financial institutions held directly, indirectly or synthetically and exceeding the above-mentioned exemptions are deducted from CET1 with a gradual introduction of 20% per year beginning in 2014 (80% in 2017 and 100% in 2018). Direct investments in financial institutions not deducted from CET1 during the transition phase are deducted at 50% from AT1 and 50% from T2, while indirect and synthetic investments are subject to capital requirements and included in RWA;
- the excess of expected losses on impairments (expected loss delta) is deducted from CET1 with a gradual introduction of 20% per year beginning in 2014 (80% in 2017 and 100% in 2018). The portion not deducted from CET1 during the transition phase is deducted at 50% from AT1 and 50% from T2.

Additional impairments to assets and liabilities designated at fair value are calculated in proportion to the amount with which said assets and liabilities are calculated in CET1 during the transition period.

The following table reports the main characteristics of instruments included in Common Equity Tier 1.

31 12 2017

Features of subordinated instruments	Interest rate	Step up	Issue Date	Maturity Date	Early redemption as of	Currency	Grandfathering	Original amount in currency units	Contribution to capital (€/000)
Ordinary shares	N.A.	NO	N.A.	N.A.	N.A.	EUR	NO	10,328,618,260	10,014,908
Total Equity Instruments (Common Equity Tier 1 - CET1)									**10,014,908**

The contribution to own funds is net of treasury shares.

2. Additional Tier 1 (AT1)

Full application requirements

The main requirements for including capital instruments in AT1 are:

- the subscription and acquisition must not be financed by the Parent Company or its subsidiaries;
- they are subordinated to T2 instruments in the event of bankruptcy;
- they are not subject to guarantees that increase their seniority issued by the Parent Company, its subsidiaries or other companies with close ties to the Bank and its subsidiaries;
- they have indefinite duration and do not include incentives for repayment;
- call options may be exercised only at the issuer's discretion and, in any event, no earlier than 5 years, unless authorised by the Supervisory Authority related to specific circumstances;
- interest is paid as a function of distributable profits;
- the Parent Company has full discretion in paying interest and at any moment may decide to not pay for an unlimited period; the cancellation is not cumulative;
- cancellation of interest does not constitute issuer default;
- in the event of trigger events, the nominal value may be reduced permanently or temporarily or the instruments may be converted into CET1 instruments.

AT1 is subject to the following deductions for Montepaschi Group:

- direct, indirect and synthetic investments in the Bank's AT1 instruments;
- direct, indirect and synthetic investments in AT1 instruments of financial institutions which it owns a significant stake;
- direct, indirect and synthetic investments in AT1 instruments of financial institutions, which it does not own a significant stake; for the portion that exceeds the exemption of 10%, proportionally attributable to AT1 instruments;
- any adjustments exceeding T2.

In 2017, in accordance with the provisions of Art. 23 of Law Decree 237/2016, converted into Law on 17 February 2017, as part of the "Precautionary recapitalisation" realised by the State, the instruments in question were obligatorily converted into shares for a value of EUR 493 million.

In addition, the reclassification from CET1 to AT1 of the share of the 2008 reserved share capital increase (FRESH 2008) which was previously eligible for inclusion in AT1 has been eliminated.

Transition requirements

The following are the key aspects of the transition requirements for 2017:

- non-significant investments in AT1 instruments of financial institutions held directly, indirectly or synthetically, temporarily not deductible from AT1 due to the transition period are deducted from AT1 at 50% and from T2 at 50%;
- significant investments in CET1 and AT1 instruments of financial institutions held directly, indirectly or synthetically, temporarily not deductible from CET1 and AT1 due to the transition period, are deducted from AT1 at 50% and from T2 at 50%;
- the excess of expected losses on impairments (expected loss delta), temporarily not deductible from CET1 due to the transition period, is deducted from AT1 at 50%.

3. Additional Tier 2 (T2)

Full application requirements

The main requirements for including capital instruments in T2 are:

- the subscription and acquisition must not be financed by the Parent Company or its subsidiaries;
- they are not subject to guarantees that increase their seniority issued by the Parent Company, its subsidiaries or other companies with close ties to the Bank and its subsidiaries;
- the original duration is not less than 5 years and there are no incentives for early repayment;
- call options may be exercised only at the issuer's discretion and, in any event, no earlier than 5 years, unless authorised by the Supervisory Authority related to specific circumstances;
- interest does not vary based on the Parent Company's credit standing;
- amortisation of these instruments for purposes of inclusion in the T2 calculation is pro-rata temporis in the last 5 years.

T2 is subject to the following deductions:

- direct, indirect and synthetic investments in the Bank's T2 instruments;
- direct, indirect and synthetic investments in T2 instruments of financial institutions, which it owns a significant stake;
- direct, indirect and synthetic investments in T2 instruments of financial institutions, which it does not own a significant stake; for the portion that exceeds the exemption of 10%, proportionally attributable to T2 instruments.

In 2017, in accordance with the provisions of Art. 23 of Law Decree 237/2016, converted into Law on 17 February 2017, as part of the "Precautionary recapitalisation" realised by the State, the instruments in question were obligatorily converted into shares for a value of EUR 3,980 million.

Transition requirements

The following are the key aspects of the transition requirements for 2017:

- non significant investments in T2 instruments of financial institutions held directly are deducted from T2 at 100%; non significant investments in T2 instruments of financial institutions held indirectly or synthetically are deducted with a phase-in of 20% per year as of 2014 (80% in 2017 and 100% in 2018). Indirect and synthetic investments, not deducted during the transition phase, are subject to capital requirements and included in RWAs;
- significant investments in T2 instruments of financial institutions held directly are deducted from T2 at 100%; significant investments in T2 instruments of financial institutions held indirectly or synthetically are deducted with a phase-in of 20% per year as of 2014 (80% in 2017 and 100% in 2018). Indirect and synthetic investments, not deducted during the transition phase, are subject to capital requirements and included in RWAs;
- significant investments in CET1 and AT1 instruments of financial institutions held directly, indirectly or synthetically, temporarily not deductible from CET1 and AT1 due to the transition period, are deducted from AT1 at 50% and from T2 at 50%;
- the excess of expected losses on impairments (expected loss delta), temporarily not deductible from CET1 due to the transition period, is deducted from T2 at 50%.

Transition requirements

A gradual exclusion from the relevant capital level is envisaged for capital instruments issued previously and calculated in regulatory capital through 31 December 2013 that do not meet the requirements of the new regulatory framework.

In particular, in 2016 60% of nominal value of instruments issued and calculated in regulatory capital prior to 31 December 2011, that do not meet the requirements of the new regulatory framework. Specifically, may be included in the CET1, AT1 and T2 calculation.

As at 31 December 2017 the Group has no capital instruments subject to the gradual exclusion described above, following the mandatory coversion of such instruments ad indicated in Law Decree 237 *Burden sharing.*

B. Quantitative Information

	31 12 2017	31 12 2016
A. Tier 1 before prudential filters	**10,429,096**	**6,243,430**
of which CET1 instruments subject to transitional provisions	-	-
B. Tier I prudential filters	(80,238)	(204,241)
C. Tier I capital gross of items to be deducted (A+B)	**10,348,858**	**6,039,189**
D. Items to be deducted from Tier I	1,785,345	1,493,822
E. Transitional regime - Impact on CET1 (+/-)	387,720	808,032
F. Total Common Equity Tier 1 (CET1) (C - D +/- E)	**8,951,233**	**5,353,399**
G. Additional Tier 1 (AT1) gross of items to be deducted and transitional regime effects	-	574,403
of which AT1 instruments subject to transitional provisions	-	364,503
H. Items to be deducted from AT1	-	-
I. Transitional regime - Impact on AT1 (+/-)	-	(574,403)
L. Total additional Tier 1 (AT1) - (G - H +/- I)	**-**	**-**
M. Tier2 (T2) gross of items to be deducted and transitional regime effects	162,039	1,549,962
of which T2 instruments subject to transitional provisions	-	-
N. Items to be deducted from T2	62,214	63,173
O. Transitional regime - Impact on T2 (+/-)	12,662	(22,865)
P. Total Tier 2 (T2) (M - N +/- O)	**112,487**	**1,463,924**
Q. Total capital (F + L + P)	**9,063,720**	**6,817,323**

Unrealised losses relating to exposures to central administrations classified as AFS amount to EUR -58.5 mln and are included in the Capital calculation for EUR -46.8 mln.

The prudential filter to absorb gradually the effects of application of the new IAS 19 amounts to EUR 29.5 mln, and the values of net liabilities for defined benefits according to the rules of the old and new IAS 19 amount to EUR -40.8 mln and -114.6 mln respectively.

Compared to 31 December 2016, the CET1 rose by EUR 3,598 mln mainly as a result of:
- the share capital increase subscribed by the MEF for EUR 3,854 mln;
- the share capital increase deriving from Burden Sharing for EUR 4,473 mln, gross of treasury shares equal to EUR -314 mln;
- the recognition in a reserve of EUR 360.2 mln equal to the negative difference between the fair value of the ordinary shares assigned as a result of Burden Sharing to holders of the AT1 and T2 bond issues subject to conversion and the value of conversion into share capital (following the application of IFRIC 19);
- the loss for the year of EUR -3,502 mln;
- the increase in deferred tax assets which depend on future profitability and which do not derive from temporary differences for EUR -649 mln;
- other effects for EUR 107 mln.

Tier 2 reduced by EUR -1,351 mln primarily due to the Burden Sharing and the relative cancellation of subordinated bonds calculated (EUR -1,368 mln).

2.3 Capital adequacy

A. Qualitative information

Under the prudential regulation (art. 92 CRR), the minimum equity requirements for 2017 are as follows:

- CET1 ratio of at least 4.5% of the Group's total risk exposure;
- AT1 ratio of at least 6% of the Group's total risk exposure;
- Total Capital ratio of at least 8% of the Group's total risk exposure.

Additionally, banks must have the following reserves:

- capital conservation buffer; this reserve, consisting of CET1 capital, is aimed at conserving the minimum level of regulatory capital during difficult periods in the market, through the allocation of high quality capital in periods in which there are no market tensions. This reserve is mandatory and in 2017 must be equal to 1.25% of the Bank's total risk exposure; in 2018, the reserve must be equal to 1.875%;
- countercyclical capital buffer - aimed at protecting the banking sector in phases of excessive growth in loans. The buffer provides for the accumulation of CET1 capital during phases of rapid growth in the credit cycle, which can then be used to absorb losses in the downward phase of the cycle. As opposed to the capital conservation buffer, the countercyclical buffer is imposed only during periods of loan growth and is calculated according to pre-established criteria; in the fourth quarter of 2017, the countercyclical buffer coefficient for Italy was kept at zero percent;
- the systemic risk buffer, meant to deal with non-cyclical systemic risk in the financial sector through CET1; at the moment, no systemic risk buffer is required;
- G-SII buffer for global systemically important banks and O-SII buffer for other systemically important entities - impose higher capital requirements on those entities based on their systemic relevance, at a global or national level, which pose greater risks for the financial system and for which a crisis could have impacts on contributors. The Group is not a global systemically important bank (G-SII), but it is included among 'Other systemically important entities' (O-SII), as defined by the Bank of Italy. For each bank or banking group, this identification took into consideration the contribution of the four characteristics (size, relevance for the Italian economy, complexity and interconnection with the financial system) specified in the EBA guidelines to establish the systematic relevance of each entity at the level of individual jurisdiction. The Bank of Italy's decision established an O-SII buffer of zero percent for 2017, 0.06% for 2018, 0.13% for 2019, 0.19% for 2020 and 0.25% as of 2021.

The combination of these buffers determines the Combined Buffer Requirement (CBR).

As concerns capital requirements, for credit risks the Group uses the Advanced Internal Rating Based (AIRB) method with reference to the "Credit Exposures to Retail" and "Credit Exposures to Entities" regulatory portfolios. The scope of application of the AIRB method currently includes the Parent Company Banca MPS, MPS Capital Services and MPS Leasing & Factoring. For the remaining portfolios and Group entities, capital requirements relative to credit risks are calculated according to the standard method.

Conversely, capital requirements relative to market risk are calculated according to the standard method for all Group entities.

Capital requirements relative to the operational risk calculated according to the AMA method cover the entire Banking Group perimeter almost completely. For the remaining part of the perimeter, the base method applies.

As regards the SREP (Supervisory Review and Evaluation Process), on 19 June 2017 the ECB ordered the Parent Company 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).

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

The target ratios required by the ECB must be complied with at all times when the Authority's Decision is in force; similarly, at those times the Bank may not distribute dividends to shareholders or pay cash flows to holders of AT1 instruments.

For the sake of completeness, note that, subsequent to the credit deterioration events that occurred in 2017, the Group has largely implemented the residual differences from the credit file review that emerged following ECB's on-site inspection 1238. The ECB further acknowledged that the additional valuation differences, determined also through the application of statistical methods involving the projection of results obtained, largely overlap with the value adjustments made by the Bank in the last year as well as with the losses resulting from the disposal of the bad loans portfolio, the estimated impacts of the transition to IFRS 9 and the measures to reduce non-performing loans, as established by the Restructuring Plan.

Lastly, another relevant regulatory indicator is the Leverage Ratio, calculated with a denominator that is based on the assets and off-balance sheet elements not risk weighted at the end of the quarter. To date, the Supervisory Authorities have not yet determined the minimum Leverage Ratio thresholds.

The Group's leverage ratio was 5.97% as at 31 December 2017. Using regulatory capital calculated by applying the rules established for full implementation, the ratio stands at 5.73%.

B. Quantitative Information

Categories/Amounts	Non-Weighted amounts		Weighted amounts/requirements	
	31 12 2017	31 12 2016	31 12 2017	31 12 2016
A. RISK ASSETS				
A.1 Credit and couterparty risk	**160,946,962**	**169,998,089**	**47,712,717**	**53,520,804**
1. Standardized Approach	54,711,232	57,785,767	20,698,503	23,196,227
2. Internal rating-based (IRB) approach	106,156,157	112,174,932	27,006,454	30,317,670
2.1 Foundation	-	-	-	-
2.2 Advanced	106,156,157	112,174,932	27,006,454	30,317,670
3. Securitisations	79,573	37,390	7,760	6,907
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			**3,817,017**	**4,281,664**
B.2 Credit valuation adjustment risk			**27,650**	**38,362**
B.3 Settlement risk			**-**	**-**
B.4 Market risk			**199,411**	**243,645**
1. Standardized Approach			199,411	243,645
2. Internal models			-	-
3. Concentration risk			-	-
B.5 Operational risk			**800,923**	**678,061**
1. Foundation			11,936	15,234
2. Standardized approach			-	-
3. Advanced			788,987	662,827
B.6 Other prudential requirements			**-**	**-**
B.7 Other calculation elements			**-**	**-**
B.8 Total prudential requirements			**4,845,001**	**5,241,732**
C. RISK ASSETS AND CAPITAL RATIOS			**-**	**-**
C.1 Risk-weighted assets			**60,562,512**	**65,521,653**
C.2 CET1 capital/Risk-weighted assets (CET1 capital ratio)			**14.78%**	**8.17%**
C.3 Tier 1 capital/Risk-weighted assets (Tier1 capital ratio)			**14.78%**	**8.17%**
C.4 Total capital/Risk-weighted assets (Total capital ratio)			**14.97%**	**10.40%**

As at 31 December 2017, the CET1 ratio of 14.78% is higher than the minimum coefficient set forth in art. 92 of the CRR, as well as the target ratio set by the ECB inclusive of the Combined Buffer Requirement laid out in the regulations. Likewise, the Tier 1 ratio and the Total Capital ratio equal to 14.78% and 14.97%, respectively, are higher than the regulatory requirements.

Compared to 31 December 2016, there was an overall reduction in RWAs (around EUR -4,959.1 mln) as a result of the decrease in "credit and counterparty risk" (around EUR -5,808.1 mln) due to the decline in the performing loan portfolio. The "market risk" (around EUR -552.9 mln) and "CVA risk" (approx. EUR -133.9 mln) components were also down due to the optimisation of the respective portfolios, while the "operational risk" is increasing (around EUR 1,535.8 mln).

The significant increase in regulatory ratios compared to the previous year was therefore caused by the increase in own funds as well as the reduction in RWAs described above.

Section 3 - Insurance regulatory capital and ratios

The Group does not include exclusively or jointly controlled companies subject to insurance supervision.

Section 4 – Capital adequacy of the financial conglomerate

The MPS Group is not a financial conglomerate.

Part G – Business combinations

Section 1 – Business combinations during the period

1.1 Business combinations

No business combinations, as defined by IFRS 3, were carried out in 2017.

Section 2 - Business combinations completed after the period

There are no transactions to report.

Section 3 – Retrospective adjustments

No retrospective adjustments are reported.

Part H – Related-party transactions

1 Compensation of key management personnel

Items/Amounts	Total 31 12 2017	Total 31 12 2016
Short-term benefits	9,116	8,139
Termination benefits	-	4,533
Total compensation paid to key management personnel	**9,116**	**12,672**

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 the Directors, Statutory Auditors, the General Manager and the Deputy General Managers, but also other Key Management Personnel.

The information regarding remuneration policies is contained in the 'Remuneration Report pursuant to art. 123 ter of the Consolidated Law on Finance', available on the Parent Company's internet site, which contains the following data:

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

The previous year's amount on line 'Termination benefits' referred to the amount recognised for early termination of the employment relationship for 4 Key Management Personnel of the Parent Company, including the former General Manager, Fabrizio Viola, and another three managers, two of whom recipients of shares to be paid over a five year period and for at least 50% through the assignment of performance shares.

The total number of performance shares assigned to the three managers was calculated based on the valuation of the BMPS security at the respective dates of confirmation of the termination agreements in protected negotiations.

The total number of phantom shares - subject to the verification of malus and claw-back conditions - will be assigned in 5 annual tranches over a five year period and settled one year from the relative assignments, on the basis of the market price applicable from time to time, without adopting, in compliance with regulatory provisions, any correction aimed at neutralising or mitigating any negative effects of possible transactions on the Parent Company's capital.

2. 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 of Circular no. 263/2006, as of 31 December 2012.

Through a resolution dated 12 November 2014, the Parent Company's 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, the Parent Company 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 financing and funding transactions, mention also goes to the amount of Italian government securities recorded in the AFS portfolio, for a nominal amount of EUR 12,921.82 mln.

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

February 2017

- On 1 February 2017, the Loan Disbursement and Governance Division of the Parent Company authorised - subject to the fulfilment of certain conditions by the shareholders and the company as well as the acceptance of what is authorised by the other bank in the pool - in favour of BONAFOUS S.P.A.: (i) the extension to 31 December 2020 of a pool mortgage loan of EUR 8.7 mln and (ii) the relative bullet repayment of the residual principal at the new maturity date; (iii) the suspension of the payment of interest - including some already past due - until the new maturity date; (iv) the granting of a fixed-term credit facility (31 December 2020) for the technical management of accrued and accruing interest. On 15 June 2017, the Parent Company's Board of Directors, with the favourable opinion of the Related-Party Transactions Committee, resolved to approve participation in a Debt Restructuring Agreement (DRA) pursuant to art. 182 bis of the Bankruptcy Law, which for the Parent Company envisages: (i) when the DRA becomes effective, the write-off of EUR 4.7 mln in principal, against repayment in cash of EUR 4 mln, plus the waiver of ordinary interest accrued and accruing until the effective date of the DRA; (ii) when the DRA becomes effective, the waiver of interest on arrears accrued and accruing pursuant to the loan agreement until the effective date; (iii) when the amount of EUR 4 mln is collected, the waiver of all claims deriving from the loan and the commitment to release the collateral backing the pool mortgage loan. All of the foregoing is subject to the condition precedent of the acceptance of the proposal by the other bank participating in the pool loan and the definitive approval of the DRA by the competent Court. The transaction is governed by Consob Regulation no. 17221/2010 as BONAFOUS S.P.A. is 50% owned by CDP Immobiliare S.r.l., which in turn is a subsidiary of CASSA DEPOSITI E PRESTITI S.p.A., a direct subsidiary of the MEF which when the transaction was carried out held 4.024% of the share capital of the Parent Company.
- On 14 February 2017, the Parent Company's Credit and Credit Policies Committee authorised in favour of SOGIN S.P.A.: (i) the extension of the EUR 18.9 mln mixed credit facility usable for the issue of sureties with underlying financial obligations against VAT refunds and for the issue of letters of credit relating to the import of goods with a maximum duration of individual commitments equal to 48 months and (ii) the replacement of the previous EUR 1 mln mixed credit facility with an analogous mixed credit facility in the same amount, which may be used in full for forward currency transactions (fixed-term and flexible/advanced) that may be used only for transactions with a commercial underlying asset. The transaction is governed by Consob Regulation no. 17221/2010 as SOGIN S.P.A. is wholly owned by the MEF, which when the transaction was carried out held 4.024% of the share capital of the Parent Company.

March 2017

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

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

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

April 2017

- On 12 April 2017, with the prior favourable opinion of the Related-Party Transactions Committee, the Parent Company's Board of Directors granted, with respect to the unsecured loans granted by the Parent Company, a moratorium of 6 months in favour of MARINELLA S.p.A. and TENUTA DI MARINELLA, as well as the right to use existing short-term credit lines granted to the latter within the authorised limit of EUR 200 thousand until the end of the moratorium, all subject to the resolution for dissolution and placement in liquidation of MARINELLA S.p.A. The transaction, which amounts to EUR 23 mln, falls within the scope of application of Consob Regulation no. 17221/2010 as MARINELLA S.p.A. is subject to joint control by the Parent Company, which holds a direct stake in it of 25%, and TENUTA DI MARINELLA is wholly owned by MARINELLA S.p.A.

- On 18 April 2017, the Acting Deputy Manager of the Parent Company resolved to review and as a result renew with an increase the loan in favour of ANSALDO ENERGIA S.p.A. and, in particular, authorised granting: (i) a new credit facility of EUR 10 mln usable in full for the opening of documentary credit backed by documents not representative of goods and for the issue of financial and/or commercial sureties; (ii) a new credit facility of EUR 20 mln, guaranteed by a pledge in cash of EUR 10 mln, usable up to the maximum amount for the issue of counter-guarantees, including with unspecified maturity, in the interest of ANSALDO ENERGIA S.p.A. and (iii) a new credit facility of EUR 3 mln usable for exchange rate risk hedging transactions with the exclusion of any speculative purposes. The transaction is governed by Consob Regulation no. 17221/2010, as ANSALDO ENERGIA S.p.A. is an indirect subsidiary of the MEF, which at the time of the transaction held 4.024% of the share capital of the Parent Company. MEF holds indirect control as ANSALDO ENERGIA S.p.A. is subject to the joint control, as a result of current shareholders' agreements, of the shareholder CDP Equity S.p.A., 97.13% owned by CASSA DEPOSITI E PRESTITI S.p.A., whose majority shareholder is the MEF, which when the transaction was carried out held 4.024% of the share capital of the Parent Company.

June 2017

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

- On 30 June 2017, the Parent Company's Board of Directors, with the prior approval of the Related-Party Transactions Committee, authorised with regard to SORGENIA GROUP - as part of the restructuring agreement under article 182-bis of the Bankruptcy Law, which became fully effective following the decree of approval by the Court of Milan dated 27 March 2015 - (i) the extension until 31 July 2017 of the Moratorium and standstill agreement - and (ii) participation in the New Restructuring Agreement (the "New RA") negotiated by the parties, subject to reaching a quorum of 100% of the banks, the supervision of the contractual texts by the bank lawyers and, only for participation in the New RA, the issue of a certification of feasibility pursuant to article 182-bis of the Bankruptcy Law approved of by the banks. The total amount of the transaction with regard to the SORGENIA GROUP amounts to around EUR 560 mln. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, as it refers to the companies SORGENIA S.p.A., SORGENIA POWER S.p.A. and SORGENIA PUGLIA S.p.A., subsidiaries of NUOVA SORGENIA HOLDING S.p.A. (the SORGENIA GROUP's holding company), subject to significant influence by the Parent Company, which holds a stake of 16.67% of the share capital of the aforesaid holding company. The transaction is classified as a "transaction of greater relevance". Public disclosure on this has been issued in accordance with applicable regulations and the relative document is available at www.gruppomps.it. Note that, following completion on 1 August 2017 of the New RA which became effective following the decree of approval by the Court of Milan dated 30 November 2017, on 29 December 2017, the Credit and Credit Policies Committee confirmed a reduction of the existing credit ceiling for a total of EUR 483 mln, extending the expiry date to 30 November 2018.

August 2017

- On 2 August 2017, the Parent Company's Board of Directors, with the prior approval of the Related-Party Transactions Committee, authorised with respect to ENI S.p.A.: (i) to reduce the credit facilities granted from EUR 1,600 mln to EUR 350 mln in order to prevent the regulatory limits for exposure to the so-called "connected Bankit Parties" of 5% of the consolidated regulatory capital from being exceeded following completion of the Parent Company's precautionary recapitalisation by the MEF, with consequent application of the limits on risk assets required by prudential regulations, and (ii) to extend the internal operational limit by 3% of the consolidated regulatory capital, which exceeds and implements the previous resolution adopted by the Board of Directors on 23 March 2017 (illustrated above). The transaction in question falls within the scope of application of Consob Regulation no. 17221/2010, as ENI S.p.A. is subject to the de facto control of the MEF, which holds a direct and indirect shareholding in it through CASSA DEPOSITI E PRESTITI S.p.A., which is in turn a subsidiary of the MEF, which when the transaction was carried out held 4.024% of the share capital of the Parent Company. The subject transaction is classified as a "transaction of greater relevance". Public disclosure on this has been issued in accordance with applicable regulations and the relative document is available at www.gruppomps.it.
- On 2 August 2017, the Parent Company's Board of Directors, with the prior approval of the Related-Party Transactions Committee, authorised the rescheduling of the credit facilities provided to ENEL S.p.A. In this context, the following were approved: (i) the extension, with a reduction from EUR 600 mln to EUR 200 mln, of the mixed credit facility usable for current account overdrafts, loans in foreign currency, the issue of sureties and letters of credit, and large financial transactions; (ii) the cancellation of the EUR 30 mln credit facility, usable for interest rate, exchange rate and/or commodity hedging transactions; (iii) the extension of the internal operational limit by 3% of the consolidated regulatory capital for exposure to the so-called "connected Bankit Parties", set by resolution of the Board of Directors on 29 January 2016. The transaction in question falls within the scope of application of Consob Regulation no. 17221/2010, as ENEL S.p.A. is subject to the de facto control of the MEF, which when the transaction was carried out held 4.024% of the share capital of the Parent Company.
- On 8 August 2017, the Parent Company's Credit and Credit Policies Committee approved the renewal until 31 December 2017 of a previous framework resolution in favour of FIDI TOSCANA S.p.A. for the performance of short and medium-term credit line transactions for retail, small business and corporate customers, secured by guarantees issued by FIDI TOSCANA S.p.A., for up to a maximum of EUR 30 million. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, as the Parent Company holds a stake of 27.46% of the share capital of FIDI TOSCANA S.p.A.

September 2017

- On 7 September 2017, with the prior favourable opinion of the Related-Party Transactions Committee, the Parent Company's Board of Directors authorised: (i) the participation of the Parent Company in its role as shareholder, with the expression of a favourable vote, in the shareholders' meeting of INTERMONTE SIM S.p.A. called to resolve upon the buy-back transaction (purchase of treasury shares); (ii) acceptance, subject to the issue of the necessary authorisations by the Bank of Italy, of the offer to purchase treasury shares by INTERMONTE SIM S.p.A., which for the Parent Company entails the disposal of up to a maximum of 8,000,000 shares of the Company for a value of no less than EUR 2.5 per share; (iii) disposal to INTERMONTE SIM S.p.A. or to Intermonte Holding SIM S.p.A. of any shares that may remain in the Parent Company's portfolio following the acceptance of the buy-back at a unit price of no lower than EUR 2.5 per share. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, as the Parent Company exercises significant influence over INTERMONTE SIM S.p.A. by virtue of its investment in the share capital, with a stake of 17.41% of the shares with voting rights, and given the fact that it has designated a Board Member, a Statutory Auditor and an Alternate Auditor.

- On 26 September 2017, the Parent Company's Credit and Credit Policies Committee authorised: (i) the adhesion to the agreement signed by the Italian Banking Association and CASSA DEPOSITI E PRESTITI S.p.A. (CDP) relating to the "Central Italy Earthquake Moratorium Credit Pool" of 3 July 2017 by signing the framework loan agreement formalising acceptance of the above-mentioned agreement; (ii) the establishment of a credit pool by the Parent Company for a maximum amount of EUR 60 mln and (iii) the finalisation of agreements amending the CDP/BMPS loan drawn on the credit pool relating to the ABI/CDP agreement. 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 following the completion of the precautionary recapitalisation transaction.

October 2017

- On 10 October 2017, the Parent Company's Credit and Credit Policies Committee - as part of the restructuring agreement pursuant to art. 182-bis of the Bankruptcy Law, which become effective following the decree of approval by the Court of Siena dated 26 February 2016 - with the prior approval of the Related-Party Transactions Committee, authorised with regard to SVILUPPO E INTERVENTI IMMOBILIARI S.r.l IN LIQUIDAZIONE: (i) acceptance of the proposals received to purchase real estate with an average price variation of 15% compared to the new appraisal values, with consequent restriction of the mortgage collateral; (ii) approval of further asset disposals with a variation of up to 15% compared to the new appraisal values, for a maximum credit facility of EUR 0.6 mln until 31 December 2017 and, subject to the submission of an update to the existing restructuring plan, a further EUR 1.1 mln in the first half of 2018; (iii) not to use the contractual remedies envisaged in the restructuring agreement and (iv) confirmation of the administrative status "unlikely to pay, forborne network". Note that the total exposure of the customer group connected to SVILUPPO E INTERVENTI IMMOBILIARI S.r.l IN LIQUIDAZIONE - as at the date of the subject resolution - amounted to EUR 131.6 mln. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, as the Parent Company holds a stake of 21.8% of the share capital of SVILUPPO E INTERVENTI IMMOBILIARI S.r.l IN LIQUIDAZIONE.
- On 27 October 2017, the Parent Company's Board of Directors, with the prior approval of the Related-Party Transactions Committee, resolved the definition of the terms for renewal of the Framework Agreement relative to the joint venture between the Bank and AXA S.A., following its resolution of 30 November 2016, as indicated in the 2016 Annual Report, whereby the Board of Directors, again upon approval by the Related-Party Transactions Committee, had authorised the ten-year renewal of the bancassurance agreement (Framework Agreement) and commencement of clarification and definition of the terms for renegotiation, for the purposes of defining the contents of the amending agreement, which was then finalised on 6 November 2017. The transaction falls within the scope of application of Consob Regulation no. 17221/2010 since AXA S.A. is a related party of the Parent Company, as a result of the joint venture in place with the Parent Company under the aforesaid Framework Agreement since 2007. The transaction is classified as a "transaction of greater relevance". Public disclosure on this has been issued in accordance with applicable regulations and the relative document is available at www.gruppomps.it.

November 2017

- On 7 November 2017, the Parent Company's Board of Directors, with the prior approval of the Related-Party Transactions Committee, resolved to adopt a Framework Resolution up to a maximum amount of EUR 300 mln, valid until 6 November 2018, for completion of loans and credit facilities backed by guarantees by SACE S.p.A., to be issued in the form of: (i) insurance on export credit; (ii) financial guarantee and (iii) surety policy, exempt from the authorisation requirements due to approval of the aforementioned framework resolution up to EUR 30 mln for each individual transactions. The transaction falls within the scope of application of Consob regulation no. 17221/2010, as SACE S.p.A. is wholly owned by CASSA DEPOSITI E PRESTITI S.p.A., whose capital is 82.77% owned by the MEF, controlling shareholder of the Parent Company following the completion of the precautionary recapitalisation transaction.

- On 29 November 2017, the Parent Company's Board of Directors, with the prior approval of the Related-Party Transactions Committee, resolved with respect to CASSA DEPOSITI E PRESTITI S.p.A., in continuation of the aforementioned Framework Resolutions of 2016 and 2017, in particular, the adoption of a new Framework Agreement valid until 28 November 2018, up to a cumulative amount of EUR 1,500 mln, relative to the Parent Company's operations within the scope of the existing agreements stipulated between CASSA DEPOSITI E PRESTITI S.p.A. and the Italian Banking Association. 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 following the completion of the precautionary recapitalisation transaction. The transaction is classified as a "transaction of greater relevance". Public disclosure on this has been issued in accordance with applicable regulations and the relative document is available at www.gruppomps.it.
- On 29 November 2017, the Parent Company's Board of Directors, with the prior approval of the Related-Party Transactions Committee, resolved with respect to ENEL S.p.A., in particular, (i) the granting of a new credit facility of EUR 100 mln with a duration of 5 years, as the Parent Company's stake in a pool transaction for a total of EUR 10,000 mln, which can be used as a revolving credit facility and aimed at providing financial support to current operations, with simultaneous cancellation of the temporary credit facility of EUR 200 mln, unused, and (ii) extension of the operational limit of 3% of the consolidated regulatory capital for exposure to the so-called "connected Bankit parties", set by resolution of the Board of Directors on 5 February 2016. The transaction falls within the scope of application of Consob regulation no. 17221/2010, as ENEL S.p.A. is subject to the de facto control of the MEF, controlling shareholder of the Parent Company following the completion of the precautionary recapitalisation transaction.

December 2017

- On 5 December 2017, the Parent Company's Credit and Credit Policies Committee authorised, with the prior approval of the Related-Party Transactions Committee, in favour of IMMOBILIARE NOVOLI S.p.A.: (i) extension of the existing ordinary credit facilities subject to revocation up to 31 July 2018 for a total of EUR 50.1 mln; (ii) confirmation for a portion of EUR 7.5 mln of the syndicated building loan (total EUR 15 mln), with a maximum duration of 13 years; (iii) the granting of new syndicated credit facility subject to revocation for EUR 5 mln (total EUR 10 mln) for the issue of sureties; (iv) granting of a new temporary non-interest bearing mortgage credit facility of EUR 0.9 mln until 31 December 2022, relative to the increased interest to be calculated on the Bank's share of the syndicated building loan. The transaction falls within the scope of application of Consob Regulation no. 17221/2010, as the Parent Company holds a stake of 50% of the share capital of IMMOBILIARE NOVOLI S.p.A.

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

Following the completion of the Precautionary Recapitalisation, the MEF's investment in the share capital of the Parent Company is equal to around 52%, therefore qualifying the MEF as the controlling entity. The "MEF Scope" column highlights the balances[7] of the balance sheet and income statement items as at 31 December 2017 relating to the transactions carried out with the MEF and the companies controlled by the MEF, namely companies controlled directly or indirectly by the MEF and their associates.

2.a Related-party transactions: balance sheet items

	Value as at 31 12 2017						
	joint venture	Associated companies	Executives with strategic responsibility	Other related parties	MEF Perimeter	Total	% on consolidated
Financial assets held for trading	-	275	-	7,619	4,274,886	4,282,780	49.13%
Financial assets available for sale	-	72,720	-	-	13,231,499	13,304,219	86.11%
Lonas to banks	-	-	-	-	-	-	0.00%
Loans to customers	86,049	462,249	3,523	362,867	1,234,929	2,149,617	2.49%
Other assets	-	9	-	102	22	133	0.01%
Total assets	86,049	535,253	3,523	370,588	18,741,336	19,736,749	-
Deposits from banks	-	-	-	-	30,387	30,387	0.14%
Deposits from customers	3,762	220,677	3,042	99,450	2,719,172	3,046,103	3.96%
Debt securities issued	-	351	41	76	-	468	0.00%
Financial liabilities	-	1,910	418	879	603	3,810	0.08%
Other liabilities	9	36	-	-	278	323	0.01%
Total liabilities	3,771	222,974	3,501	100,405	2,750,440	3,081,091	-
Guaranties issued and Commitments	16,187	30,766	5	14,029	565,389	626,376	4.09%

2.b Related-party transactions: income statement items

Group Income statements

	Value as at 31 12 2017						
	joint venture	Associated companies	Executives with strategic responsibility	Other related parties	MEF Perimeter	Total	% on consolidated
Interest income and similar revenues	1,654	9,712	24	29,873	150,469	191,732	7.09%
Interest costs and similar charges	(1)	(313)	(8)	(70)	(672)	(1,064)	0.11%
Fee and commission income	300	184,577	10	311	2,416	187,614	9.84%
Fee and commission expense	-	(1,306)	(2)	(426)	(49)	(1,783)	0.52%
Net adjustments/impaiments	(11,907)	(442)	-	(28)	(16,927)	(29,304)	0.54%
Operating costs	-	(20,723)	(9,124)	(401)	(25,051)	(55,299)	1.68%

[7] The criteria to fill out the two tables are different from those of the European Securities and Markets Authority (ESMA) used for the table "Exposure to sovereign debt risk".

Part I – Share-Based Payments

Qualitative Information

Description of share-based payment agreements

Supervisory Provisions on pay and incentive policies and practices establish that at least 50% of variable remuneration provided to "key employees" should be paid in the form of shares or associated financial instruments over a period of at least 3-5 years. "Variable remuneration" refers to variable performance-linked components as well as incentives paid for the early termination of the employment relationship exceeding the amount due by law ("severance").

As the Parent Company had no treasury shares at the date on which it set up its 2017 Remuneration Policies and the legal requirements were not met to pass a resolution to purchase them, it confirmed, as part of the instruments to be used for the aforementioned purposes where necessary, the prior year's adoption of a Performance Shares Plan. The Plan, approved by the Shareholders' Meeting of the Parent Company on 12 April 2017, fulfilled regulatory requirements, while also aiming to contribute to alignment of the management's interests with those of shareholders.

As the provision of performance shares does not require the material assignment of shares, but rather the payment of an amount pegged to the share value reported over time, for accounting purposes it is considered a cash settled share based payment pursuant to IFRS 2 "Share-based payments". The corresponding cost is accounted for at the end of the year of service considering the best estimate of the amount due (fulfilment of conditions, etc.), valued at fair value taking into account the number of shares assigned from year to year and the Bank's share value.

Quantitative Information

The Plan approved in 2017 was not used during the course of the year.

With regard to the 2016 Plan, 54,676 Performance Shares were recorded, of which

- n. 21,870 assigned up front and will be settled during 2018;
- of the 32,806 deferred shares, 5,340 were assigned and will be settled during 2018. The remaining ones will be assigned - subject to the verification of pre-established malus conditions - throughout a period of five years and settled one year after the relative assignments.

The fair value of the Performance Shares assigned is determined - pursuant to art. 9, paragraph 4 of the TUIR - on the basis of the arithmetic average of the MPS share prices reported in the thirty days leading up to the assignment date.

Part L – Segment reporting

This section of the Notes to the Consolidated Financial Statements is prepared in accordance with the IAS/IFRS international accounting principles, with particular reference to IFRS8 "Operating Segments".

The aforementioned accounting standard, applied as of 1 January 2009 to replace IAS14 "Segment reporting" and the adoption of which has no effect on the valuation of balance sheet items, requires reports to be drafted in relation to operating segments on the basis of the internal reporting actually used by management to take decisions on the allocation of resources to various segments and to conduct performance analyses.

Group operations by business segment

The Montepaschi Group operates in the following business areas:

- Retail and commercial banking: includes lending activities, traditional banking services, financial advisory and digital banking services, the offering of banking and insurance products through the strategic partnership with AXA, wealth management and investment products;
- Leasing and Factoring: includes the offering of leasing and factoring packages for businesses, artisans and professionals;
- Corporate finance: mid- and long-term lending, corporate finance, capital markets and structured finance;
- Investment banking: trading and global markets;
- Foreign banking: products and services in support of market expansion and investments of Italian companies abroad.

Operations in the business areas are conducted by the following operating units of the Group:

- sales & distribution network, comprising the branches and specialised centres of Banca Monte dei Paschi di Siena;
- Banca Widiba SpA, which includes the business of the Financial Advisory Network and Digital Banking;
- product factories[8], i.e. Group banks and companies expressly dedicated to developing specialised financial instruments to be offered to the market, particularly including: MPS Capital Services (specialised in corporate finance, capital market and structured finance), MPS Leasing & Factoring (specialising in the provision of leasing and factoring services to businesses);
- foreign network, geographically present in all major financial and economic markets as well as in emerging countries with the highest rates of growth and/or key relations with Italy. It includes the foreign units of Banca Monte dei Paschi di Siena (4 operational branches, 10 representative offices) and 2 banks under foreign law (MP Belgio: 7 branches; MP Banque: 14 branches).

The Group also includes service operations dedicated to the management of IT and telecommunications (Consorzio Operativo di Gruppo).

For the purpose of identifying the Operating Segments provided for by IFRS 8, the Montepaschi Group has adopted the business approach. Income statement/balance sheet data are then aggregated based on criteria including business area and operating unit of reference, relevance and strategic importance of operations involved, and cluster of clients served.

[8] *Please recall that on 1 June 2015, the merger by incorporation of Consum.it SpA (Group consumer credit company) into Banca Monte dei Paschi di Siena SpA became effective, the accounting and tax effects of which are applicable as of 1 January 2015.*

Based on the aggregation criteria specified above, which guide reporting at the highest decision-making level, the breakdown of the Group's Operating Segments as at 31 December 2017 is therefore the following:

- Retail Banking, which includes the income statement and balance sheet results pertaining to clusters of Retail customers (Value, Premium and Small Business segments);
- Wealth Management, which includes the income statement and balance sheet results pertaining to clusters of Private Banking customers (Private Banking and Family Office segments) and the subsidiary MPS Fiduciaria;
- Corporate banking, which includes the income statement and balance sheet results pertaining to clusters of Corporate customers (SME, Entities and Top Corporate segments), Large Corporate Area, Foreign Branches and the subsidiaries MPS Capital Services, MPS Leasing & Factoring and the foreign banks MP Belgio and MP Banque;
- Banca Widiba SpA, which includes the income statement and balance sheet results pertaining to the financial advisor network and the self-service channel;
- Corporate Centre: in addition to cancellations of intragroup entries, this Operating Segment 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.

Income statement criteria by operating segment

The net operating income by operating segments was constructed based on the following criteria:

- **Net interest income**: in relation to the business centres of Banca Monte dei Paschi di Siena, it is calculated by way of contribution on the basis of internal transfer rates broken down by products and maturities. With reference to non-divisionalised entities, net interest income is the difference between "interest income and similar revenues" and "interest expense and similar charges".
- **Net fee and commission income**: determined by direct allocation of commissions to the operating segments.
- **Operating expenses**: the aggregate includes administrative expenses (after recovery of expenses) and net value adjustments to tangible and intangible assets. The operating expenses of non-divisionalised entities (mono-segments) are directly allocated to their corresponding Operating Segments while, for Banca Monte dei Paschi di Siena, they are allocated to their respective Segments of reference by using a "cost allocation" model. With regard to Other administrative expenses and Net value adjustments to tangible and intangible assets, the model allocates external and intragroup cost components to the business centres either directly or by means of specific drivers, starting from a set of previously identified and priced services. With reference, however, to "Personnel expenses", the model allocates costs to Business Centres on the basis of the unique functional position of the resources, or, if this is not possible, according to specific criteria relating to the operations performed.
- **Net impairment losses/reversals on loans**: analytically allocated to the individual operating segments

Balance-sheet criteria by operating segment

Balance sheet aggregates were developed by precisely surveying the balances on individual customers and subsequently aggregating them by service model/operating segment. Such accounts are also related to the income/expenses allocated to each segment. In particular:

- **interest-bearing loans to customers**: the interest-bearing assets used for the operations of a business segment, which are directly attributable to the segment itself;
- **deposits from customers and debt securities issued**: the interest-bearing liabilities arising from the operations of an operating segment, which are directly attributable to the segment itself.

Transactions between operating segments

Each segment's income and results include transfers between operating segments (Internal Transfer Rates). These transfers are reported in accordance with the best practices accepted by the market (i.e. the fair value method or cost method increased by a proper margin) both with respect to commercial and financial transactions.

The income of each operating segment is determined before intragroup balances and intragroup transactions are eliminated during the process of consolidation. In line with the internal reporting system used by the Montepaschi Group, balances of intragroup transactions are not shown separately.

Basis of preparation

In accordance with the recommendations of IFRS 8, the table below presents the Group's income statement and balance sheet results as at 31 December 2017, developed according to the Operating Segments defined above:

SEGMENT REPORTING	Business segments					
Primary segment	Retail banking	Wealth Management	Corporate banking	Widiba	Corporate Center	Total MPS Group
(million of Euro)	31/12/17	31/12/17	31/12/17	31/12/17	31/12/17	31/12/17
PROFIT AND LOSS AGGREGATES						
Net interest income	1,170.0	646.7	25.7	31.1	(85.1)	1,788.3
Net fee and commission income	1,285.0	340.6	129.7	13.7	(192.5)	1,576.5
Other income	40.5	51.5	0.8	(0.0)	579.3	672.1
Other operating expenses/income	1.5	(9.0)	0.1	43.6	(2.7)	(11.3)
Total Revenues	2,496.9	156.2	1,029.9	(62.6)	299.0	4,025.6
Operating expenses	(1,814.1)	(67.1)	(626.1)	(62.6)	26.9	(2,543.0)
Pre Provision Profit	682.8	89.1	403.7	(19.0)	326.0	1,482.6
Net impairment losses (reversals) on loans and financial assets	(1,912.5)	(3.8)	(3,187.9)	0.4	(356.2)	(5,460.0)
Net Operating Income	(1,229.6)	85.3	(2,784.2)	(18.6)	(30.3)	(3,977.4)
BALANCE SHEET AGGREGATES						
Interest-bearing loans to customers	40,237	547	36,152	238 0	6,167	83,341
Deposits from customers and debt securities issued	42,430	3,436	19,481	2,148 0	30,307	97,802

The following table summarises the values relating to the year 2016.

SEGMENT REPORTING	Business segments			
Primary segment	Retail banking	Corporate banking	Corporate Center	Total MPS Group
(million of Euro)	31/12/16	31/12/16	31/12/16	31/12/16
PROFIT AND LOSS AGGREGATES				
Net interest income	4,054.4	659.6	(432.0)	4,282.0
Operating expenses	(2,350.2)	(268.7)	(2.5)	(2,621.3)
Pre provision profit	1,704.2	390.9	(434.4)	1,660.7
Net impairment losses (reversals) on loans and financial assets	(2,963.1)	(1,418.3)	(119.5)	(4,500.9)
Net operating income	(1,258.9)	(1,027.4)	(553.9)	(2,840.2)
BALANCE SHEET AGGREGATES				
Interest-bearing loans to customers	65,906.0	20,792.7	9,629.0	96,327.8
Deposits from customers and debt securities issued	53,574.8	5,594.6	45,404.1	104,573.5

For a like-for-like comparison of operations between 2016-2017, see section "Segment reporting" in the Consolidated Report as at 31 December 2017.

Public disclosure pursuant to art. 89 - Communication by country of Directive 2013/36/EU ("CRD IV")

The 4th update to Bank of Italy Circular no. 285/2013, Part One (Title III, Section 2), transposes into the Italian legal framework the public disclosure set out in art. 89 - Communication by country - of Directive 2013/36/EU ("CRD IV"), which introduces the obligation to disclose information concerning banking activities, subdivided by country where each bank is based; the disclosure is to be provided in the financial statements or posted on the entity's website.

In particular, the Parent Companies of banking groups are required to provide on a consolidated basis the following information, subdivided by country:

a) Names of the companies based in the country and nature of the business

b) Turnover

c) Number of Full-time equivalent employees

d) Profit or loss before tax

e) Tax on profit or loss

f) Public subsidies received

The tables below present the required information for the Group, with reference to the situation as at 31 December 2016.

The term "Turnover" refers to the total banking income as recorded in item 120 of the consolidated income statement.

The term "Number of Full-time equivalent employees" refers to the ratio between the total number of hours worked by all employees, excluding overtime, and the total annual number of hours contractually required of full-time employees.

"Profit or loss before tax" means the sum of items 280 and 310 (the latter before taxes) of the consolidated income statement.

"Tax on profit or loss" means the sum of taxes recorded in item 290 of the consolidated income statement and income taxes on groups of assets held for sale.

The item "Public subsidies received" should indicate any grants received directly from the public administrations. This item does not include transactions performed by central banks for purposes of financial stability or transactions carried out to facilitate the monetary policy transmission mechanism. Similarly, transactions included in government aid schemes approved by the European Commission should not be taken into consideration.

31 12 2017

Country	Turnover (€/1000)	Number of FTEs	Profit or loss before tax (€/1000)	Tax on profit or loss (€/000)	Public subsidies received (€/000)
Algeria	-	1	-	-	-
Belgiuim	28,814	111	17,439	-	-
China	5,811	38	1,202	(53)	-
Egypt	-	4	-	-	-
France	40,373	233	7,324	(622)	-
Germany	-	2	-	-	-
India	-	2	-	-	-
Italy	4,073,229	22,807	(4,259,959)	606,241	124
Luxembourg	(470,688)	-	(470,767)	(93)	-
Morocco	-	3	-	-	-
Russia	-	3	-	-	-
Tunisia	-	2	-	-	-
Turkey	-	4	-	-	-
U.K.	7,256	22	3,738	(192)	-
U.S.A.	(396,670)	21	(762,168)	(401)	-
Total Group companies	3,288,125	23,253	(5,463,191)	604,880	124
Companies under significant influence valued at equity	-	-	99,417	-	-
Consolidation adjustments	631,650	-	1,139,377	117,272	-
Total Montepaschi's Group	3,919,775	-	(4,224,397)	722,152	124

List of Montepaschi Group companies by location and business type

Country	Company name	type of business	
Algeria	BANCA MONTE DEI PASCHI DI SIENA S.p.A.	Retail & Corporate banking service	Representative office in Algeria
Belgium	BANCA MONTE PASCHI BELGIO S.A.	Retail & Corporate banking service	Retail & Corporate banking service
China	BANCA MONTE DEI PASCHI DI SIENA S.p.A.	Retail & Corporate banking service	Shanghai and Hong Kong branches, representative office in Guangzhou and Beijing
Egypt	BANCA MONTE DEI PASCHI DI SIENA S.p.A.	Retail & Corporate banking service	Representative office in Cairo
France	MONTE PASCHI BANQUE S.A.	Retail & Corporate banking service	
Germany	BANCA MONTE DEI PASCHI DI SIENA S.p.A.	Retail & Corporate banking service	Representative office in Frankfurt
India	BANCA MONTE DEI PASCHI DI SIENA S.p.A.	Retail & Corporate banking service	Representative office in Mumbai
Italy	AIACE REOCO S.r.l.	Real estate	
Italy	CO.E.M. COSTRUZIONI ECOLOGICHE MODERNE SPA	Real estate	
Italy	ENEA REOCO S.r.l.	Real estate	
Italy	PERIMETRO GESTIONI PROPRIETA' IMMOBILIARI S.c.p.a.	Real estate	
Italy	MPS TENIMENTI POGGIO BONELLI E CHIGI SARACINI SOCIETA' AGRICOLA S.p.a.	Winery	
Italy	MONTE PASCHI FIDUCIARIA S.p.a.	Trust management	
Italy	G.IMM ASTOR S.r.l.	Real estate leasing	
Italy	MAGAZZINI GENERALI FIDUCIARI DI MANTOVA S.p.a.	Warehousing	
Italy	BANCA MONTE DEI PASCHI DI SIENA S.p.A.	Retail & Corporate banking service	
Italy	MPS CAPITAL SERVICES BANCA PER LE IMPRESE S.p.a.	Retail & Corporate banking service	
Italy	MPS LEASING & FACTORING BANCA PER I SERVIZI FINANZIARI	Retail & Corporate banking service	Leasing e factoring
Italy	WISE DIALOG BANK S.p.a. - WIDIBA	Retail & Corporate banking service	Banca on line
Italy	CASAFORTE S.r.l.	Financial services for business	Special Purpose Entity (SPE)
Italy	CIRENE FINANCE S.r.l.	Financial services for business	Special Purpose Entity (SPE)
Italy	MPS COVERED BOND 2 s.r.l.	Financial services for business	Special Purpose Entity (SPE)
Italy	MPS COVERED BOND S.R.L.	Financial services for business	Special Purpose Entity (SPE)
Italy	SIENA CONSUMER 2015 S.R.L.	Financial services for business	Special Purpose Entity (SPE)
Italy	SIENA CONSUMER S.r.l.	Financial services for business	Special Purpose Entity (SPE)
Italy	SIENA MORTGAGES 10-7 S.r.l.	Financial services for business	Special Purpose Entity (SPE)
Italy	SIENA LEASE 2015 2 SRL	Financial services for business	Special Purpose Entity (SPE)
Italy	SIENA MORTGAGES 07-5 S.P.A.	Financial services for business	Special Purpose Entity (SPE)
Italy	SIENA MORTGAGES 09-6 S.R.L.	Financial services for business	Special Purpose Entity (SPE)
Italy	SIENA PMI 2015 SRL	Financial services for business	Special Purpose Entity (SPE)
Italy	SIENA PMI 2016 SRL	Financial services for business	Special Purpose Entity (SPE)
Italy	CONSORZIO OPERATIVO GRUPPO MONTEPASCHI	IT Services	
Luxembourg	MONTEPASCHI LUXEMBOURG S.A.	Financial services for business	Special Purpose Entity (SPE)
Luxembourg	PATAGONIA FINANCE SA	Financial services for business	Special Purpose Entity (SPE)
Morocco	BANCA MONTE DEI PASCHI DI SIENA S.p.A.	Retail & Corporate banking service	Representative office in Casablanca
Russia	BANCA MONTE DEI PASCHI DI SIENA S.p.A.	Retail & Corporate banking service	Representative office in Moscow
Tunisia	BANCA MONTE DEI PASCHI DI SIENA S.p.A.	Retail & Corporate banking service	Representative office in Tunis
Turkey	BANCA MONTE DEI PASCHI DI SIENA S.p.A.	Retail & Corporate banking service	Representative office in Instabul
U.K.	BANCA MONTE DEI PASCHI DI SIENA S.p.A.	Retail & Corporate banking service	London branch
U.S.A.	BANCA MONTE DEI PASCHI DI SIENA S.p.A.	Retail & Corporate banking service	New York branch
U.S.A.	MPS PREFERRED CAPITAL I LLC	Financial services for business	Special Purpose Entity (SPE)
U.S.A.	MPS PREFERRED CAPITAL II LLC	Financial services for business	Special Purpose Entity (SPE)

CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ART. 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
   - effective application of administrative and accounting procedures used in the preparation of the consolidated financial statements for fiscal year 2017.

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

3. It is also certified that:

   3.1 the consolidated financial statements:
   - 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 Report on Operations includes a reliable analysis of the trends and results of operations as well as of the position of the issuer and of all entities included within the scope of consolidation, together with a description of the main risks and uncertainties they are exposed to.

Siena, 1 March 2018

Signed by
On behalf of the Board of Directors
The Chairman
Stefania Bariatti

Signed by
The Financial Reporting Officer
Nicola Massimo Clarelli

INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

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Independent auditor’s report in accordance with article 14 of Legislative Decree n. 39, dated January 27, 2010 and article 10 of EU Regulation n. 537/2014

(Translation from the original Italian text)

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Monte dei Paschi di Siena Group (the “Group”), which comprise the balance sheet as at December 31, 2017, the income statement, the statement of comprehensive income, the statement of changes in equity, the cash flows statement for the year then ended and the notes to the consolidated financial statements.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2017 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union as well as with the regulations issued for implementing art. 9 of Legislative Decree n. 38, dated February 28, 2005 and art. 43 of Legislative Decree n. 136, dated August 18, 2015.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.
We are independent of the Banca Monte dei Paschi di Siena S.p.A. (the “Bank” or the “Parent Company”) in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis paragraph

Without modifying our opinion, we draw attention to the matters described by the directors in the consolidated report on operations and in the paragraph "Going concern" of the notes to the consolidated financial statements, regarding the approval of the 2017-2021 Restructuring Plan by the European Commission, the completion of the precautionary recapitalization process, carried out pursuant to the Law Decree n. 237/2016 converted into Law n. 15/2017 and to the state of implementation of the actions envisaged by the Restructuring Plan itself.

EY S.p.A.
Sede Legale: Via Po, 32 - 00198 Roma
Capitale Sociale deliberato Euro 3.250.000,00, sottoscritto e versato Euro 3.100.000,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584 - numero R.E.A. 250904
P.IVA 00891231003
Iscritta al Registro Revisori Legali al n. 70945 Pubblicato sulla G.U. Suppl. 13 - IV Serie Speciale del 17/2/1998
Iscritta all’Albo Speciale delle società di revisione
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

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Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We identified the following key audit matters:

<table>
<tr><th>Key Audit Matter</th><th>Audit Response</th></tr>
<tr><td>Effects related to the operation of capital strengthening pursuant to Law n. 15/2017</td><td></td></tr>
<tr><td>During 2017, the Parent Company, following the approval of the 2017-2021 Restructuring Plan by the European Commission on 4 July 2017, carried out a significant capital strengthening operation for over Euro 8 billion, implementing the rules established by the Law Decree n. 237/2016 converted into Law n. 15/2017 ("Decree") which provides for:
i) the conversion of the Parent Company's subordinated financial instruments into newly issued ordinary shares, as a burden sharing measure envisaged by the Decree (so called "Burden Sharing");
ii) a capital increase reserved to the Ministry of the Economy and Finance ("MEF"), realized through the subscription by the MEF of newly issued ordinary shares of the Parent Company;
iii) a public transaction and exchange offer, realized through the purchase by the MEF, through the Parent Company, of the shares assigned in conversion to the holders of the Upper Tier II Security (IT0004253586), which became shareholders following the application of Burden Sharing.

The completion of the aforementioned transactions constituted a key audit matter, both, because the economic and equity impacts were significant for the financial statements as a whole and because they were determined by the Parent Company on the basis of the provisions of specific legislation and through the use of complex estimates to determine the unit value of the Parent Company's shares.</td><td>In relation to these matters, our audit procedures included, among other:
· analysis of the regulations underlying the aforementioned transactions;
· understanding, also through the support of our experts in corporate valuations, of the methodology used and the reasonableness of the assumptions underlying the determination of the unit value of the Parent Company’s shares for the quantification of the economic and equity effects;
· analysis of the accounting treatment of the impacts connected to the aforementioned transactions in accordance with the international accounting standards;
· analysis of the elements considered by the directors in relation to the going concern assumption, following the effects of the aforementioned transactions on the Group's capital position;
· analysis of the adequacy of the disclosure provided in the notes to the financial statements.</td></tr>
</table>

The disclosure on the effects of the above-mentioned transactions is provided by the directors within the paragraph "Assumptions adopted with respect to the provisions of Law Decree 237/2016, converted with amendments into Law n. 15 of 17 February 2017" included in the notes to the financial statements.

Key Audit Matter	Audit Response
Classification and evaluation of loans to customers	
Loans to customers, the amount of which is shown in item 70 of the balance sheet, represent, as at 31 December 2017, 62% of the total assets. The process of classifying loans to customers in the various risk categories and measuring them is relevant for the audit, both, because the value of loans is significant for the financial statements as a whole and because the value of the related impairment losses are determined by the directors through the use of estimates that have a high degree of subjectivity. Among these, the following are particularly important: the identification of objective evidence of impairment of the loans, the recoverable value of the collateral acquired, the determination of expected cash flows and their timing of collection. Furthermore, as regards to the statistical evaluations: the definition of homogeneous loan categories in terms of credit risk, the determination of the probability of default ("PD") and the related estimated loss (Loss Given Default - "LGD"), based on historical data observation for each risk class. In addition, in relation to the sale transaction described in the paragraph "Assumptions made in relation to disposal of the doubtful loans portfolio" of the notes to the financial statements that provides for the disposal, through a securitization transaction, of a portfolio of non-performing loans with a net book value of approximately Euro 4.5 billion, the Parent Company deemed the conditions for their assessment to exist on the basis of the values contained in the binding agreements signed with Quaestio Capital	In relation to these aspects, our audit procedures included, among other: · an understanding of the policies, processes and controls implemented by the Group in relation to the classification and measurement of loans to customers and the performance of compliance procedures on the controls considered key, including those relating to IT; · execution of substantive procedures aimed at verifying the correct classification and measurement of credit positions; · understanding, also through the support of our risk management and information systems expert, of the methodology used in relation to statistical evaluations and the reasonableness of the assumptions adopted as well as the performing of test of controls and substantive procedures, aimed at the analysis of the completeness of the historical databases used for the determination of the parameters of PD and LGD, relevant for the purpose of determining the impairment losses; · performing procedures for the comparative analysis of the portfolio of loans to customers and the related coverage levels, and analysis of the most significant deviations; · with reference to the portfolio of non-performing positions referred to in the aforementioned sale transaction, the procedures performed included the verification of the existence, on the basis of the provisions of IFRSs, of the

Management SGR SpA. The same portfolio of non-performing positions, by virtue of the expected finalization of the transaction within 12 months after the balance sheet date, has been classified under asset item 150 "Non-current assets and groups of assets held for sale and discontinued operations". Information on the classification and measurement of loans to customers is provided by the directors within Part A of the notes to the financial statements.	conditions for the classification of the assets held for sale and their measurement based on the agreements signed, by analyzing its contents and clauses; · analysis of the adequacy of the disclosure provided in the notes to the financial statements.

Key Audit Matter	Audit Response
Recoverability of deferred tax assets	
As at December 31, 2017, the Group recorded under item 140 "Tax assets" Euro 1,624 million of deferred tax assets ("DTA") attributable to tax losses and other deductible temporary differences, the recoverability of which depends on the availability of future taxable income. The recoverability valuation of these assets (knows as "probability test", required by the international accounting standard IAS 12) is a relevant matter for the audit both because their value is significant to the financial statements as a whole, and because the valuation is based on a model that provides for the use of assumptions and estimates that have a high degree of subjectivity. Among these, particularly important are those related to: · estimation of taxable income, which is presumed to occur during the time period considered for the recovery of the DTAs, on the basis of the business plans and the additional assumptions made by the directors in relation to their projection in the future, the growth rates used and the probability of occurrence of the same; · length of the foreseeable time frame for the recovery of the DTAs; · correct interpretation of the applicable tax legislation. The disclosure of the assessments made by directors in relation to the recoverability of deferred tax assets is included in paragraph	In relation to these matters, our audit procedures included, among other: · understanding of the Group's policy, process and controls in relation to the assessment of the recoverability of the DTAs; · analysis, also through the support of our tax experts, of the reasonableness of the assumptions and the parameters used for the development of the probability test on the basis of the tax legislation applicable to the different types of temporary deductible differences; · analysis, also through the support of our experts in business valuations, of the business plans used for the purpose of estimating the results useful for the determination of taxable income; · performance of substantive procedures on the completeness and accuracy of the data used to determine the future taxable income included in the probability test; · analysis of the adequacy of the disclosure provided in the notes to the financial statements.

14.7 of Part B of the notes to the financial statements.

Key Audit Matter	Audit Response
Evaluation of legal and litigation risks	
The legal risks and litigation assessment process, carried out by the Group with the support of its legal advisors, is a relevant aspect for the audit, both, because of the high value of the same and because the estimate of the related charges requires the directors to make use of estimates that present a high degree of subjectivity. Information regarding significant civil, administrative and administrative litigation, in which the Group is involved as well as in relation to other legal risks are provided by the directors in Part E - Information on risks and hedging policies explanatory.	In relation to these matters, our audit procedures included, among other: · understanding of the Group's policy, process and controls in relation to the assessment of legal and litigation risks; · obtaining written confirmation from the Group's legal advisors, their assessment of the evolution of existing disputes and if the disbursement of financial resources to fulfill the underlying legal obligation is believed to be “likely”; · analysis, also through the support of our legal experts, of the reasonableness of the assumptions used to estimate the provisions made; · performing of substantive procedures on the completeness and accuracy of the data used to determine the provisions for risks; · analysis of the adequacy of the disclosure provided in the notes to the financial statements.

Responsibilities of directors and Those Charged with Governance for the Consolidated Financial Statements

The directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38, dated February 28, 2005 and art. 43 of Legislative Decree n. 136, dated August 18, 2015, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

The statutory audit committee (“Collegio Sindacale”) is responsible, within the terms provided by the law, for overseeing the Group’s financial reporting process.

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; have designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- we have concluded on the appropriateness of directors’ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- we have evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- we have obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholders of Banca Monte dei Paschi di Siena S.p.A., in the general meeting held on April 21, 2011, engaged us to perform the audits of the consolidated financial statements of each year ending from December 31, 2011 to December 31, 2019.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Group in conducting the audit.

We confirm that the opinion on the consolidated financial statements included in this report is consistent with the content of the additional report to the audit committee (Collegio Sindacale) in their capacity as audit committee, prepared in accordance with article 11 of the EU Regulation n. 537/2014.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated January 27, 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated February 24, 1998

The directors of Banca Monte dei Paschi di Siena S.p.A. are responsible for the preparation of the Report on Operations and of the Report on Corporate Governance and Ownership Structure of Monte dei Paschi di Siena Group as at December 31, 2017, including their consistency with the related consolidated financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated February 24, 1998, with the consolidated financial statements of Monte dei Paschi di Siena Group as at December 31, 2017 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operations and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the consolidated financial statements of Monte dei Paschi di Siena Group as at December 31, 2017 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated January 27, 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Statement pursuant to article 4 of Consob Regulation implementing Legislative Decree n. 254, dated December 30, 2016

The directors of Banca Monte dei Paschi di Siena S.p.A. are responsible for the preparation of the non-financial information pursuant to Legislative Decree n. 254, dated December 30, 2016. We have verified that non-financial information have been approved by directors.

Pursuant to article 3, paragraph 10, of Legislative Decree n. 254, dated December 30, 2016, such non-financial information are subject to a separate compliance report signed by us.

Rome, March 14, 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.

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Independent auditor's report on the Consolidated disclosure of non-Financial Information in accordance with article 3, par 10, of Legislative Decree n. 254, dated December 30, 2016 and with article 5 of Consob Regulation adopted with resolution n. 20267

(Translation from the original Italian text)

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

We have performed a limited assurance engagement pursuant to Article 3, paragraph 10, of Legislative Decree n. 254, dated December 30, 2016 (hereinafter "Decree") and article 5 of CONSOB Regulation adopted with Resolution n. 20267, on the consolidated disclosure of non-financial information of Banca Monte dei Paschi di Siena S.p.A. (the "Bank") and its subsidiaries (the "Group") for the year ended December 31, 2017 in accordance with article 4 of the Decree presented in the specific section of the Report on Operations approved by the Board of Directors on March 1st 2018 (hereinafter "DNF").

Responsibilities of directors and Board of statutory auditors for the DNF

The directors are responsible for the preparation of the DNF in accordance with the requirements of articles 3 and 4 of the Decree and of the "Global Reporting initiative Sustainability Reporting Standards" defined in 2016 by GRI – Global Reporting Initiative (the "GRI Standards"), with reference to the selection of GRI Standards, mentioned in paragraph "*Methodological Note"* of the DNF, identified by them as a reporting standard.

The directors are also responsible, within the terms provided by law, for that part of internal control that they consider necessary in order to allow the preparation of the DNF that is free from material misstatements caused by fraud or not intentional behaviors or events.

The directors are also responsible for identifying the contents of the DNF within the matters mentioned in article 3, par. 1, of the Decree, considering the business and the characteristics of the Group and to the extent deemed necessary to ensure the understanding of the Group's business, its performance, its results and its impact.

Finally, the directors are responsible for defining the Group's management and organization business model, as well as with reference to the matters identified and reported in the DNF, for the policies applied by the Group and for identifying and managing the risks generated or incurred by the Group.

The Board of Statutory Auditors ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the compliance with the requirements of the Decree.

EY S.p.A.
Sede Legale: Via Po, 32 - 00198 Roma
Capitale Sociale deliberato Euro 3.250.000,00, sottoscritto e versato Euro 3.100.000,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584 - numero R.E.A. 250904
P.IVA 00891231003
Iscritta al Registro Revisori Legali al n. 70945 Pubblicato sulla G.U. Suppl. 13 - IV Serie Speciale del 17/2/1998
Iscritta all'Albo Speciale delle società di revisione
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

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Auditors' independence and quality control

We are independent in accordance with the ethics and independence principles of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, based on fundamental principles of integrity, objectivity, professional competence and diligence, confidentiality and professional behavior. Our audit firm applies the International Standard on Quality Control 1 (ISQC Italia 1) and, as a result, maintains a quality control system that includes documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable laws and regulations.

Auditors' responsibility

It is our responsibility to express, on the basis of the procedures performed, a conclusion about the compliance of the DNF with the requirements of the Decree and of the GRI Standards, with reference to the selection of GRI Standards mentioned in paragraph "*Methodological Note*" of the DNF. Our work has been performed in accordance with the principle of "International Standard on Assurance Engagements ISAE 3000 (Revised) - Assurance Engagements Other than Audits or Reviews of Historical Financial Information" (hereinafter "ISAE 3000 Revised"), issued by the International Auditing and Assurance Standards Board (IAASB) for limited assurance engagements. This standard requires the planning and execution of work in order to obtain a limited assurance that the DNF is free from material misstatements. Therefore, the extent of work performed in our examination was lower than that required for a full examination according to the ISAE 3000 Revised ("reasonable assurance engagement") and, hence, it does not provide assurance that we have become aware of all significant matters and events that would be identified during a reasonable assurance engagement.

The procedures performed on the DNF were based on our professional judgment and included inquiries, primarily with company's personnel responsible for the preparation of the information included in the DNF, documents analysis, recalculations and other procedures in order to obtain evidences considered appropriate.

In particular, we have performed the following procedures:

1. analysis of the relevant topics in relation to the activities and characteristics of the Group reported in the DNF, in order to assess the reasonableness of the selection process applied in accordance with the provisions of article 3 of the Decree and considering the reporting standard applied;
2. analysis and evaluation of the criteria for identifying the consolidation area, in order to evaluate its compliance with the provisions of the Decree;
3. comparison of the economic and financial data and information included in the DNF with those included in the Group's consolidated financial statements;
4. understanding of the following aspects:
    - Group's management and organization business model, with reference to the management of the topics indicated in article 3 of the Decree;
    - policies adopted by the Group related to the matters indicated in article 3 of the Decree, results achieved and related key performance indicators;
    - main risks, generated or suffered related to the matters indicated in the article 3 of the Decree.

With regard to these aspects, we obtained the documentation supporting the information contained in the DNF and performed the procedures described in item 5. a) below.

5. understanding of the processes that lead to the generation, detection and management of significant qualitative and quantitative information included in the DNF.

   In particular, we have conducted interviews and discussions with the management of the Bank and with its personnel and we have performed limited documentary evidence procedures, in order to collect information about the processes and procedures that support the collection, aggregation, processing and transmission of non-financial data and information to the management responsible for the preparation of the DNF.

   Furthermore, for significant information, considering the Group activities and characteristics we have:

   - at Group level,
     a) with reference to the qualitative information included in the DNF, and in particular to the business model, policies implemented and main risks, carried out inquiries and acquired supporting documentation to verify its consistency with the available evidence;
     b) with reference to quantitative information, we have performed both analytical procedures and limited assurance procedures to ascertain on a sample basis the correct aggregation of data.
   - for the subsidiaries (MPS Capital Services S.p.A. and MPS Leasing & Factoring S.p.A.), selected based on their activity and contribution to the consolidated performance indicators, obtained evidence about the appropriate application of the procedures and the calculation methods used to determine the indicators.

Conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the DNF of the Group for the year ended December 31, 2017 has not been prepared, in all material aspects, in accordance with the requirements of articles 3 and 4 of the Decree and of the GRI Standards, with reference to the selection of GRI Standards mentioned in paragraph "*Methodological Note*" of the DNF.

Other Information

The comparative information presented in the DNF for the year ended December 31, 2016 have not been examined.

Rome, March 14, 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

Disclosure of independent auditors' fees

With the aim of making reporting on the Parent Company's relations with its own Auditors more transparent, Consob, with its resolutions No. 15915 of 3 May 2007 and No. 15960 of 30 May 2007, implemented the delegation of authority contained in art. 160 of the Consolidated Law on Finance (Incompatibility), introducing Part III, Title VI, of the Issuers' Regulation, Part I-bis (Incompatibility) which contains articles from 149-bis to 149-duodecies.

With this amendment, Consob chose to include this disclosure in the documents accompanying the financial statements with a mandatory requirement to disclose payments received for auditing and other services supplied by the Auditors or by entities forming part of their network.

The table below shows all payments made to the Auditors and to others forming part of its network, broken down by type of service.

Disclosure of fees for the independent auditors and other entities of its network (pursuant to art. 149 duodecies of CONSOB resolution no. 15915 of 3 May 2007)

31 12 2017

Type of services	Service provider	Total
Auditing	Reconta Ernst & Young Spa	2,523
Other attest services	Reconta Ernst & Young Spa	1,658
Other services	Ernst & Young Financial Business Advisory S.p.a.	198
Total		**4,379**

Amounts are exclusive of V.A.T. and ancillary expenses.

PENSION FUNDS – Defined benefit pension funds without plan assets

Supplementary Pension Fund for personnel of former Tax Collection Agencies

Accounting statemet as at 31 12 2017	(in units of Eur)
Opening balance as at 01 01 2017	**22,543,872**
Increases	1,382,242
- provisions for the year	152,265
- Other	1,229,977
Decreases	1,791,495
- Benefit paid	1,791,495
- Other	-
Closing balance as at 31 12 2017	**22,134,619**

Supplementary Pension Fund for personnel of former Banca Operaia di Bologna

Accounting statement as at 31 12 2017	(in units of Eur)
Opening balance as at 01 01 2017	**6,138,102**
Increases	92,428
- provisions for the year	62,103
- Other	30,325
Decreases	380,248
- Benefit paid	380,248
- Other	-
Closing balance as at 31 12 2017	**5,850,282**

Supplementary Pension Fund for personnel of former Banca di Credito Popolare e Cooperativo di Reggio Emilia

Accounting statemet as at 31 12 2017	(in units of Eur)
Opening balance as at 01 01 2017	**724,059**
Increases	28,798
- provisions for the year	9,475
- Other	19,323
Decreases	38,288
- Benefit paid	38,288
- Other	-
Closing balance as at 31 12 2017	**714,569**

Supplementary Pension Fund for personnel of former Banca Popolare Veneta

Accounting statemet as at 31 12 2017	(in units of Eur)
Opening balance as at 01 01 2017	**1,107,166**
Increases	104,380
- provisions for the year	2,142
- Other	102,238
Decreases	174,970
- Benefit paid	174,970
- Other	-
Closing balance as at 31 12 2017	**1,036,576**

Supplementary Pension Fund for personnel of former General Managers

Accounting statemet as at 31 12 2017	(in units of Eur)
Opening balance as at 01 01 2017	**3,583,766**
Increases	123,493
- provisions for the year	24,084
- Other	99,409
Decreases	286,131
- Benefit paid	286,131
- Other	-
Closing balance as at 31 12 2017	**3,421,128**

Supplementary Pension Fund for personnel of former MPS Capital Services Banca per l'imprese S.p.A.

Accounting statemet as at 31 12 2017	(in units of Eur)
Opening balance as at 01 01 2017	**5,035,635**
Increases	84,288
- provisions for the year	21,352
- Other	62,936
Decreases	517,597
- Benefit paid	517,597
- Other	-
Closing balance as at 31 12 2017	**4,602,326**

Supplementary Pension Fund for personnel of former Credito Lombardo.

Accounting statemet as at 31 12 2017	(in units of Eur)
Opening balance as at 01 01 2017	**2,997,179**
Increases	239,158
- provisions for the year	20,146
- Other	219,012
Decreases	265,818
- Benefit paid	265,818
- Other	-
Closing balance as at 31 12 2017	**2,970,519**

PENSION FUNDS – defined benefit and defined contribution pension funds with plan assets

Supplementary Pension Fund for personnel of former BNA – Defined benefit section

BALANCE SHEET

(in units of Eur)

	Assets	31 12 2017	31 12 2016	Changes
10	**Direct investments**	**24,598,474**	**25,668,958**	**(1,070,483)**
	a) Deposits	389,156	339,641	49,516
	b) Receivables from repo transactions	-	-	-
	c) Securities issued by Governments and other international institutions	-	-	-
	d) Listed debt securities	24,045,600	25,187,866	(1,142,266)
	e) Listed equity securities	-	-	-
	f) Unlisted debt securities	-	-	-
	g) Unlisted equity securities	-	-	-
	h) Units of UCITS	-	-	-
	i) Options purchased	-	-	-
	l) Accrued income and prepayments	163,718	141,451	22,267
	m) Profit guarantees released to pension fund	-	-	-
	n) Other assets from financial activities	-	-	-
	o) Accrued income not yet received	-	-	-
20	**Managed investments**	-	-	-
30	**Profit guarantees on individual accounts**	-	-	-
40	**Assets from administrative activities**	-	-	-
50	**Tax receivables**	-	-	-
	TOTAL ASSETS	**24,598,474**	**25,668,958**	**(1,070,483)**
	Liabilities	**31 12 2017**	**31 12 2016**	**Changes**
10	**Liabilities from social security**	**-**	**-**	**-**
20	**Liabilities from financial activities**	**-**	**-**	**-**
30	**Profit guarantees on individual accounts**	**-**	**-**	**-**
40	**Liabilities from administrative activities**	**-**	**-**	**-**
50	**Tax payables**	**16,662**	**6,738**	**9,924**
	b) tax payables for current period	16,662	-	16,662
	a) tax credit for prior period	-	6,738	(6,738)
	TOTAL LIABILITIES	**16,662**	**6,738**	**9,924**
100	**Net assets available for payment of benefits**	**24,581,812**	**25,662,220**	**(1,080,407)**
	Net assets availabe for payment of benefits in previous year	25,662,220	26,885,253	(1,223,033)
	Changes in net assets available payment of benefits	**(1,080,407)**	**(1,223,033)**	**142,625**

INCOME STATEMENT

(in units of Eur)

		31 12 2017	31 12 2016	Changes
10	**Balance of social security management**	**(1,197,040)**	**(1,270,197)**	**(73,157)**
	a) Contributions for benefits	-	-	-
	b) Advances	-	-	-
	c) Transfers and redemptions	-	-	-
	d) Transfers to annuities	-	-	-
	e) Payments in capital	-	-	-
	f) Premiums for additional benefits	-	-	-
	g) Payments in annuities	(1,197,040)	(1,270,197)	(73,157)
	h) Other payments	-	-	-
20	**Profit (loss) from direct financial activities**	**133,294**	**53,902**	**(79,392)**
	a) Interest and profit on bondsand government securities	746,602	1,055,857	309,255
	b) Interest on cash equivalents	(613,308)	(1,001,954)	(388,647)
	c) Profits and losses from financial transactions	-	-	-
	d) Interest (expense) from repo transactions	-	-	-
	e) Pension fund profit guarantee difference	-	-	-
	f) Contingent assets	-	-	-
	g) Forfeitures charged to the participants	-	-	-
	h) Kickbacks from UCITS	-	-	-
	i) Commission expense	-	-	-
30	**Profit (loss) from indirect financial activities**	-	-	-
40	**Operating expenses**	**-**	**-**	**-**
	a) Management companies	-	-	-
	b) Custodian bank	-	-	-
	c) Insurance policy	-	-	-
	d) "State supervision" contribution	-	-	-
50	**Financial and insurance income (loss) (20+30+40)**	**133,294**	**53,902**	**(79,392)**
60	**Balance from administrative activities**	**-**	**-**	**-**
	a) General and administrative expenses	-	-	-
70	**Changesin net assets available for payment of benefits before substitute tax (10+50+60)**	**(1,063,746)**	**(1,216,295)**	**(152,549)**
80	**Substitute tax**	**(16,662)**	**(6,738)**	**9,924**
	Changes in net assets available for payment of benefits (70+80)	**(1,080,407)**	**(1,223,033)**	**(142,625)**

Supplementary Pension Fund for personnel of former Banca Toscana - Defined benefit section

BALANCE SHEET

(in units of Eur)

Assets		31 12 2017	31 12 2016	Changes
10	**Direct investments**	**97,476,737**	**106,409,341**	**8,932,604**
	a) Deposts	83,474,200	91,473,437	7,999,237
	b) Receivables from repo transactions	-	-	-
	c) Securities issued by Governments and other international institutions	-	-	-
	d) Listed debt securities	13,728,196	14,661,564	933,367
	e) Listed equity securities	-	-	-
	f) Unlisted debt securities	-	-	-
	g) Unlisted equity securities	-	-	-
	h) Units of UCITS	-	-	-
	i) Options purchased	-	-	-
	l) Accrued income and prepayments	274,340	274,340	-
	m) Profit guarantees released to pension fund	-	-	-
	n) Other assets from financial activities	-	-	-
	o) Accrued income not yet received	-	-	-
20	**Managed investments**	-	-	-
30	**Profit guarantees on individual accounts**	-	-	-
40	**Assets from administrative activities**	-	-	-
50	**Tax receivables**	-	-	-
	TOTAL ASSETS	**97,476,737**	**106,409,341**	**8,932,604**
Liabilities		**31 12 2017**	**31 12 2016**	**Changes**
10	**Liabilities from social security**	-	-	-
20	**Liabilities from financial activities**	-	-	-
30	**Profit guarantees on individual accounts**	-	-	-
40	**Liabilities from administrative activities**	-	-	-
50	**Tax payables**	-	-	-
	TOTAL LIABILITIES	-	-	-
100	**Net assets available for payment of benefits**	**97,476,737**	**106,409,341**	**8,932,604**
	Net assets availabe for payment of benefits in previous year	106,409,341	114,787,736	8,378,395
	Changes in net assets available payment of benefits	**(8,932,604)**	**(8,378,395)**	**554,209**

INCOME STATEMENT

(in units of Eur)

		31 12 2017	31 12 2016	Changes
10	**Balance of social security management**	**(8,549,425)**	**(9,165,322)**	**(615,897)**
	a) Contributions for benefits	-	-	-
	b) Advances	-	-	-
	c) Transfers and redemptions	-	-	-
	d) Transfers to annuities	-	-	-
	e) Payments in capital	-	-	-
	f) Premiums for additional benefits	-	-	-
	g) Payments in annuities	(8,549,425)	(9,165,322)	(615,897)
	h) Other payments	-	-	-
20	**Profit (loss) from direct financial activities**	**(383,179)**	**786,926**	**1,170,106**
	a) Interest and profit on bondsand government securities	550,188	550,937	749
	b) Interest on cash equivalents	(933,367)	235,989	1,169,357
	c) Profits and losses from financial transactions	-	-	-
	d) Interest (expense) from repo transactions	-	-	-
	e) Pension fund profit guarantee difference	-	-	-
	f) Contingent assets	-	-	-
	g) Forfeitures charged to the participants	-	-	-
	h) Kickbacks from UCITS	-	-	-
	i) Commission expense	-	-	-
30	**Profit (loss) from indirect financial activities**	-	-	-
40	**Operating expenses**	**-**	**-**	**-**
	a) Management companies	-	-	-
	b) Custodian bank	-	-	-
	c) Insurance policy	-	-	-
	d) "State supervision" contribution	-	-	-
50	**Financial and insurance income (loss) (20+30+40)**	**(383,179)**	**786,926**	**1,170,106**
60	**Balance from administrative activities**	**-**	**-**	**-**
	a) General and administrative expenses	-	-	-
70	**Changesin net assets available for payment of benefits before substitute tax (10+50+60)**	**(8,932,604)**	**(8,378,395)**	**554,209**
80	**Substitute tax**	-	-	-
	Changes in net assets available for payment of benefits (70+80)	**(8,932,604)**	**(8,378,395)**	**554,209**