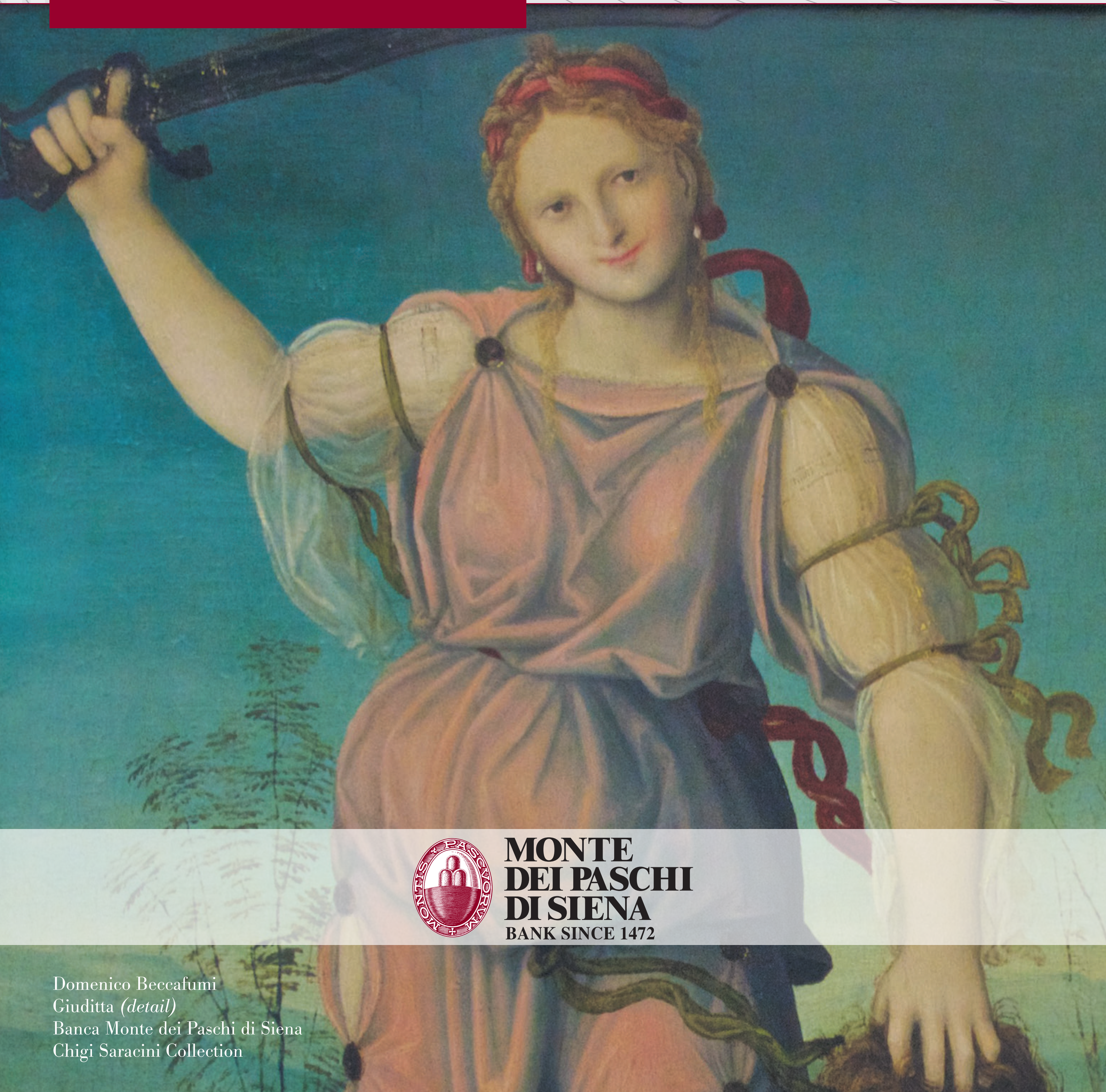
MONTE DEI PASCHI DI SIENA BANK

Consolidated Interim Report as at 31 March 2017



MONTE DEI PASCHI DI SIENA
BANK SINCE 1472

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

Consolidated Interim Report
Monte dei Paschi di Siena Group
31 March 2017

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

Share capital: EUR 7,365,674,050.07 fully paid up

Listed on the Siena Companies Register - register number and tax ID 00884060526

Adherent to the Interbank Deposit Protection Fund. Listed on the register of banks under no. 5274.

Monte dei Paschi di Siena banking group, listed on the register of Banking Groups

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Introduction

The Consolidated Interim Report on Operations as at 31 March 2017, not subject to accounts auditing, provides a snapshot of the activities and results which largely characterised the Montepaschi Group's operations in the first quarter of 2017, 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.

Subsequent to the recent amendment of the Consolidated Law on Finance (art. 154-ter of Italian Legislative Decree no. 58/1998) and of the Issuers' Regulations (art. 82-ter of Consob Resolution no. 11971/1999) in implementation of the so-called Transparency Directive II (Directive 2013/50/EU), issuers are no longer obliged to publish interim reports on operations (at 31 March and at 30 September), remitting to the issuers themselves the decision to communicate or not to the public, on a voluntary basis, the additional financial information in respect of the financial statements and the half-yearly report.

The Montepaschi Group has chosen, as its policy on periodic additional financial reporting, to publish said information on a voluntary basis at 31 March and 30 September of each period, the information elements of which consist of Consolidated Interim Reports on Operations, approved by the parent company's Board of Directors, in substantive consistency and continuity with its previous custom.

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 of the document "*Guidelines on Alternative Performance Measures*", published by the European Securities and Markets Authority (ESMA) in June 2016, in this section we give the definitions and calculation methods of the alternative performance indicators.

CONSOLIDATED REPORT ON OPERATIONS
Highlights at 31/03/2017

INCOME STATEMENT AND BALANCE SHEET FIGURES

MPS GROUP

INCOME STATEMENT FIGURES	31/03/17		31/03/16	Chg.
Net interest income	457.4	-	548.3	-16.6%
Net fee and commission income	426.3	-	456.9	-6.7%
Other operating income	49.5	-	180.1	-72.5%
Total Revenues	933.2	-	1,185.4	-21.3%
Net impairment losses (reversals) on loans and financial assets	(303.1)	-	(349.2)	-13.2%
Net operating income	2.5	-	191.1	-98.7%
Net profit (loss) for the period	(169.2)	-	93.1	n.s.
EARNING PER SHARE (EUR)	**31/03/17**		**31/03/16**	**Chg.**
Basic earnings per share	(5.770)		3.177	n.s.
Diluted earnings per share	(5.770)		3.081	n.s.
BALANCE SHEET FIGURES AND INDICATORS	**31/03/17**		**31/12/16**	**Chg.**
Total assets	148,804.6		153,178.5	-2.9%
Loans to customers	102,406.9		106,692.7	-4.0%
Direct funding	109,390.0		104,573.5	4.6%
Indirect funding	96,966.3		98,151.8	-1.2%
of which: assets under management	57,256.4		57,180.9	0.1%
of which: assets under custody	39,709.9		40,971.0	-3.1%
Group net equity	6,041.9		6,425.4	-6.0%
OPERATING STRUCTURE	**31/03/17**		**31/12/16**	**Chg.**
Total head count - end of period	25,493		25,566	-73
Number of branches in Italy	1,861		2,032	-171

CONSOLIDATED REPORT ON OPERATIONS
Highlights at 31/03/2017

ALTERNATIVE PERFORMANCE MEASURES

MPS GROUP

PROFITABILITY RATIOS (%)	31/03/17	31/12/16	Chg.
Cost/Income ratio	67.2	61.2	6.0
R.O.E.	-10.9	-40.5	29.6
Return on Assets (RoA) ratio	-0.5	-2.1	1.66
ROTE (Return on tangible equity)	-10.9	-40.5	29.6
KEY CREDIT QUALITY RATIOS (%)	**31/03/17**	**31/12/16**	**Chg.**
Net non-performing loans / Loans to Customers	19.7	19.0	0.7
Coverage non-performing loans	56.1	55.6	0.5
Net doubtful loans / Loans to Customers	10.5	9.7	0.8
Coverage doubtful loans	64.6	64.8	-0.2
Net impairment losses on loans / Loans to Customers (Provisioning)	1.20	4.22	-3.0
Texas Ratio	145.8	145.0	0.9

Cost/Income ratio: ratio between the Operating Expenses (administrative expenses and value adjustments on tangible and intangible fixed assets) and Total Revenues (for the composition of the aggregate, see reclassified Income Statement schedule)

Return On Equity (ROE): ratio between the "annualised" Net Profit for the period and the average between the Shareholders' Equity (including the profit and the valuation reserves) at the closure of the period and those at the end of the previous period.

Return On Assets (ROA): ratio between the "annualised" Net Profit for the period and the Total Assets at the closure of the period.

Return On Tangible Equity (ROTE): ratio between the "annualised" Net Profit for the period and the average between the Shareholders' Equity (including the profit and the valuation reserves, without goodwill) at the closure of the preceding period and that of the current period.

Texas Ratio: ratio between the non-performing loans and the sum, as denominator, of the tangible shareholders' equity and the provisions allocated to cover the non-performing loans.

CONSOLIDATED REPORT ON OPERATIONS
Highlights at 31/03/2017

REGULATORY MEASURES

MPS GROUP

CAPITAL RATIOS (%)	31/03/17	31/12/16	Chg.
Common Equity Tier 1 (CET1) ratio	6.5	8.2	-1.7
Total Capital ratio	8.9	10.4	-1.5
FINANCIAL LEVERAGE INDEX (5)	**31/03/17**	**31/12/16**	**Chg.**
Leverage ratio - Transitional Phase	2.8	3.2	-0.3
LIQUIDITY RATIO (%)	**31/03/17**	**31/12/16**	**Chg.**
LCR	164.1	107.7	56.4
NSFR	95.0	87.6	7.4

Executive summary

Changes in the key items of the main aggregates of the Group for the first quarter of 2017 are summarised below:

- The Group has achieved **Total revenues** of about **EUR 933 million** with a decrease of 21.3% compared to the same period of the preceding year, by effect of the fall in the interest margin and the net profit (loss) from trading and the financial assets/liabilities. The revenue dynamics is influenced by the trend of the **Interest Margin**, equal to about **EUR 457 million** (-16.6% Y/Y), which has suffered above all from the negative trend of the interest bearing assets, in particular loans to commercial counterparty clients (contraction of average volumes and fall in the related returns), the dynamics of which have been partially mitigated by the decrease in interest expense. **Net Commissions** of the first quarter of 2017, equal to about **EUR 426 million**, have fallen by 6.7% compared to the final figure of the same period of the preceding year, penalised by the accounting of the cost of the guarantee on government issues. Within the sphere of the other revenues, the **Net profit (loss) from trading/valuation of financial assets** of the quarter amounts to about **EUR 25 million**, showing a marked fall on the preceding year which had benefited from the capital gain on the liability issues posted at fair value.

- **Operating Expenses** amounted to approximately **EUR 628 million** (-2.7% Y/Y). **Personnel Expenses**, which amount to about **EUR 404 million**, have registered an annual fall of 3.2% due both to the staff reduction and to the lower allocations on the variable component in 2017 compared to the first quarter of 2016. **Other administrative expenses** of the first quarter of 2017 are about **EUR 167 million**: the 6.0% decrease compared to the same period of the preceding year is mainly due to the measures for the structural containment of the expense. **Depreciation/amortisation**, equal to about **EUR 57 million**, is higher than the corresponding value of the previous year on both tangible and intangible assets.

- **Net impairment losses (reversal) on loans, financial assets and other transactions** amount to about **EUR 303 million**, showing a decreases of 13.2% compared to the same period of the preceding year. The ratio between annualised net value adjustments for non-performing loans of the first quarter of 2017 and Loans to customers represents a **provisioning rate of 120 bps**, substantially in line with the corresponding period of 2016 (122 bps).

- As a consequence of the dynamics of the aforesaid economic aggregates, the Group has registered, in the first quarter, a **loss of about EUR 169 million** against a positive result of approximately EUR 93 million achieved in the same quarter in 2016.

- **Total funding** at the end of March 2017 was about **EUR 206 billion**, with growth of the volumes of about EUR 3.6 billion compared to the figure at 31 December 2016, thanks to the increase of the direct component, only partially offset by the fall in the indirect component.

- **Loans to customers** amounted to approximately **EUR 102 billion** at the end of March 2017, showing a decrease of EUR 4.3 billion on the figure at 31 December 2016. The contraction in the aggregate registered in the quarter is mainly concentrated in the non-commercial repurchase agreements. The Group's **net exposure in terms of non-performing loans** is **EUR 20.2 billion** at the end of March 2017 (EUR -0.1 billion compared to the beginning of the year, about EUR -3.9 billion compared to 31 March 2016), with a quarterly increase in the incidence of net non-performing loans (from 9.7% at December 2016 to 10.5% at 31 March 2017) against a substantial linearity of the incidence of the unlikely to pay (from 8.5% to 8.4%). The percentage of the **non-performing loan coverage** is **56.1%**, showing a Q/Q increase of about 51 bps. There is a slight decrease in the coverage of net non-performing loans (from 64.8% at the end of December to 64.6% for March 2017), whereas there is a slight growth in the unlikely to pay (from 40.3% of December 2016 to 40.6% at the end of March 2017).

- With regard to capital ratios, at 31 March 2017 the **Common Equity Tier 1 Ratio** stood at **6.5%** (8.2% at the end of 2016) and the **Total Capital Ratio** at **8.9%**, compared to 10.4% recorded at the end of December 2016.

Shareholders

At 31 March 2017, share capital of the parent company Banca Monte dei Paschi di Siena amounted to EUR 7,365,674,050.07, composed of 29,320,798 ordinary shares.

According to the communications received pursuant to the applicable legislation and based on other information available, the entities that, at 31 March 2017, directly and/or indirectly hold ordinary shares representing more than 3% of the issuer's share capital and which are not included in the cases of exemption set forth in art. 119-bis of the Issuers' Regulations, and on the basis of the results of the CONSOB institutional site, are as follows:

Shareholder	% of Outstanding Ordinary Shares
Ministry of Economy and Finances	4.024%
AXA S.A.*	3.170%

*Share held directly and through 12 subsidiary companies

Information on the BMPS share

Share price and trends

In the first quarter of 2017 global share indices, after an uncertain start, showed positive performance, in the wake of the expectations of the Trump's economic announcements, the only exception being Tokyo which closed at -1.1%. The positive trend in the Euro area was also influenced by the economic forecasts and the scheduled political events (elections in Holland in March and forthcoming presidential elections in France); the best performance was that of Madrid at +11.9% followed by Frankfurt +7.2%, and Milan +6.5%, Paris +5.4% and London +2.5%. The FTSE MIB trend also relates to the performance of Italian banks, with the index of the FTSE IT Banks sector which closed the quarter at +7%.

After CONSOB resolutions of 22 (no. 19833) and 23 December 2016 (no. 19840), trading in the securities issued and guaranteed by the Bank and the financial instruments for which the securities issued by BMPS are the underlying securities, was temporarily suspended by the systematic internationalisation systems. CONSOB ordered the suspension until the restoration of a correct information framework of the securities issued or guaranteed by the bank and of the financial instruments for which the underlying securities are those issued by the Bank.
In addition, after the closure of trading on Friday 17 March the BMPS security was excluded from the FTSE MIB basket subsequent to the review of the said index launched by the company FTSE Russell. This latter, in fact, with a communication of 01 March 2017, had stated that if no indication on the timing for the resumption of trading was given, it would exclude the security from the FTSE MIB index on the occasion of the March review.

Ratings

The ratings given by the rating agencies as at 31 March 2017 are provided below:

Rating Agencies	Short-term debt	Outlook	Long-term debt	Outlook	Last update
Moody's investor Service	NP	-	B	Under Review Uncertain	12/27/16
DBRS	R-5	Under Review Developing	B (low)	Under Review Developing	12/13/16
Fitch Ratings	B	Rating Watch Negative	B-	Ratign Watch Evolving	11/22/16

- On 27 December 2016 Moody's rating agency placed the BCA (Baseline Credit Assessment) rating under observation, in view of a possible rise. The long-term rating at "B3" and the short term rating at "NP" (Not Prime) have remained unchanged. The long term outlook has remained "Under Review with Direction Uncertain".
- On 13 December 2016 the DBRS rating agency lowered the long-term rating from "B (high)" to "B (low)" and the short-term rating to "R-5". The outlook was modified to "Rating UR Developing".
- On 22 November 2016 the Fitch rating agency confirmed the long-term rating of "B-" and the short-term rating of "B", while it moved the Viability Rating from "ccc" to "c". The long-term outlook is "Rating Watch Evolving".

Reference context

During the first quarter of the year the global economy has showed signs of moderate inflation, as an effect of the expansive monetary policies. The indications of confidence on the part of entrepreneurs and consumers remain at high levels and seem to be accelerating in certain areas. The IMF estimates world growth of 3.4% for the current year and 3.6% for next year, compared to 3.1% in 2016. Acceleration depends on a series of risk factors, including, in particular, the attitude of the new USA administration, and it will probably involve both the developed and the emerging countries. The latter should grow at a rhythm of 4.5% in the current year and 4.8% in 2018, thanks to a gradual normalisation of the conditions in certain countries like China and Nigeria.

In the Eurozone, recovery is expected to continue according to the analysts and the major international institutions. After 1.7% registered in 2016, growth is perceived by the consensus gathered by Bloomberg at 1.6% in both 2017 and 2018. In addition to the risk factors common to the global economy, the specific risk for the area is represented by various elections scheduled to be held during the year, especially the French presidential election.

Growth in Italy was below 1% also in 2016 and it is forecast to remain around that level for the current two-year term. The situation in our country is still conditioned by a labour market in which improvements remain marginal, and by a public finance framework which, although using all the flexibility margins available, prevents a really expansive use of tax policy.

On the financial markets front, the first quarter registered important increases for all the main share indices except that of Japan. Bond yields at ten years, after the marked increase in the second half of 2016, reached new records in the first quarter. The ten-year BTP yield closed the quarter at 2.3%, with an increase of over 50 base points compared to the end of 2016; the spread with the German securities with the same maturity has increased to reach 200 base points (+40 base points compared to the situation at the end of 2016). The increase in yields caused negative performance for government bond indices of the Euro area, especially for Italian government bonds.

In this context, the European Central Bank has not introduced further monetary policy measures; as already decided in 2016, the amount of securities purchased under the Asset Purchase Program (APP) will be reduced as of April from the current value of EUR 80 million to EUR 60 billion per month. During the quarter, certain statements of ECB members have cast a shadow on the possibility of the sequence governing the expansive monetary policy of the ECB being different from that contemplated until now, and that according to which the acquisition of the securities has to end before the adoption of a manoeuvre on the official rates. With regard to the other Central Banks, the Federal Reserve, at the FOMC meeting of March, put in place the third increase in the official rates after those of December 2015 and 2016. The USA Central Bank is expected by the market to provide for two more increases in 2017.

Significant events of the first three months of 2017

On **20 January 2017** the parent company communicated that it had received from the Ministry of Economy and Finance the decree with the provision granting State guarantees to sustain access to liquidity pursuant to Italian Decree Law no. 237/2016 and that it had promptly started up the activities preparatory to the issue of the securities with State backing.

On **25 January 2017** the parent company made two securities issues, pursuant to Italian Decree Law no. 237/2016, for a total amount of EUR 7 billion: the first issue matures on 20 January 2018, with a coupon of 0.5% and a par value of EUR 3 billion, and the second matures on 25 January 2020, with a coupon of 0.75% and a par value of EUR 4 billion. The securities, guaranteed by the State pursuant to Decree Law no. 237/2016, were entirely underwritten by the issuer and partly sold on the market and partly used as collateral to guarantee loan transactions or collateral swaps. On 31 January 2017, the DBRS rating agency assigned ratings to the two securities backed by the State issued on 25 January 2017 pursuant to Decree Law no. 237/2016. To the issue "Banca Monte dei Paschi di Siena S.p.A. 360 days 0.50% 20 January 2018 with State guarantee - ISIN IT0005240491", DBRS has assigned a short-term rating of R-1 (low). To the issue "Banca Monte dei Paschi di Siena S.p.A. 0.75% 25 January 2020 with State guarantee - ISIN IT0005240509", DBRS has assigned a long-term rating of BBB (high). The trend for both issues is assessed as "stable". In consideration of the unconditional and irrevocable guarantee of the Italian state, the ratings and the trend are aligned to those of the Italian Republic.

On **03 February 2017**, the parent company informed that it had reached a binding agreement with the Istituto Centrale delle Banche Popolari Italiane S.p.A ("ICBPI"), a leading company in the management of payment services at international level, for the transfer of the activities relating to the "Merchant Acquiring" business on the basis of an enterprise value of EUR 520 million. The transaction also contemplates that BMPS and ICBPI, through its subsidiary CartaSì S.p.A., stipulate a ten-year partnership for the development and placing, through the distribution network of the MPS Group, of products and payment services to support the present and future customers of the MPS Group. The closing of the transaction depends on certain conditions precedent that are standard for transactions of this kind, including the obligatory execution of the trade union procedure pursuant to Law and Agreement, obtaining authorisation from the Bank of Italy and from the Antitrust Authority.

On **06 February 2017**, the Fitch rating agency assigned ratings to the two securities backed by the State issued by the Bank on 25 January 2017 pursuant to Decree Law no. 237/2016. In particular, to the issue "Banca Monte dei Paschi di Siena S.p.A. 360 days 0.50% 20 January 2018 with State guarantee - ISIN IT0005240491", Fitch has assigned a short-term rating of F2. To the issue "Banca Monte dei Paschi di Siena S.p.A. 0.75% 25 January 2020 with State guarantee - ISIN IT0005240509", Fitch has assigned a long-term rating of BBB+. In consideration of the unconditional and irrevocable guarantee of the Italian state, the ratings and the trend are aligned to those of the Italian Republic. In February said securities were entirely used both in sales transactions on the market and as collateral to guarantee funding transactions.

On **17 February 2017** the Decree Law no. 237 of 23 December 2016 was converted into law, the main innovations of which regard the provisions on the deferred tax asset (DTA), modification of the conditions for the redemption of junior securities *Upper Tier II* 2008-2018 and of the value of the shares required to calculated the price of the shares to be attributed to the holder of the instruments and loans.

On **28 February 2017**, with reference to the planned transaction of the acquisition of the platform for the recovery of non-performing loans of Banca Monte dei Paschi di Siena S.p.A. (the so-called *Project Juliet*), of the binding offer presented by Cerved Group S.p.A. on 13 November 2016 and already the subject of a previous communication of 14 November 2016, Cerved Information Solutions S.p.A. (MTA: CERV), the management holding of the Cerved Group and a leading Italian operator in credit risk analysis and credit Management, and Banca Monte dei Paschi di Siena S.p.A. communicate that (i.) the conditions precedent contractually established for the conclusion of Project Juliet have not been fulfilled within the deadline of 28 February 2017 and therefore the agreement related to that project must be understood as without effect and (ii.) Cerved Information Solutions S.p.A. has expressed its willingness to extend the deadline until 30 June 2017. In this context, Cerved Information Solutions S.p.A. and Banca Monte dei Paschi di Siena S.p.A., in any case, disclose that talks are open between the parties to explore alternative forms of industrial partnership in the sector of the management of non-performing loans.

On **09 March 2017** the Board of Directors approved a preliminary Restructuring Plan that has been sent to the competent authorities to open talks aimed at finalising said plan and its approval by the authorities.

The parent company states that on **15 March 2017** it issued a security guaranteed by the State pursuant to Decree Law no. 237/2016 as successively amended by the conversion law no. 15/2017, with the following features: nominal EUR 4 billion, maturity 15/03/2020, coupon 0.75% (ISIN IT0005246423). The security, guaranteed by the State pursuant to Decree Law no. 237/2016 as successively amended by the conversion law no. 15/2017, has been entirely underwritten by the issuer and partly sold on the market and partly used as collateral to guarantee loan transactions or collateral swaps. The issue is in addition to the two issues of 25 January last for a total amount of EUR 7 billion. Banca Monte dei Paschi di Siena S.p.A. On the same date, **15 March**, the Fitch Ratings agency assigned a rating to the Bank's issue guaranteed by the State. In particular, Fitch has assigned a long-term rating of BBB+ to the issue "Banca Monte dei Paschi di Siena S.p.A. 0.75% 15 March 2020 with State guarantee - ISIN IT0005246423". Later, on **17 March 2017**, the DBRS agency also assigned a rating to the same issue, of BBB (high). In consideration of the unconditional and irrevocable guarantee of the Italian state, the rating is in line with that of the Italian Republic.

Significant events after the 1st quarter 2017

On **12 April 2017** the Board of Directors of Banca Monte dei Paschi di Siena S.p.A. appointed the independent director Massimo Egidi as a new member of the Risks Committee. Consequently the Risks committee is now composed of: Roberto Isolani (Chairman), Stefania Bariatti, Daniele Bonvicini, Antonino Turicchi and Massimo Egidi.

On **24 April 2017** Decree Law no. 50 (published in the Official Journal no. 95 of 24 April 2017 – Ord. Suppl. no. 20) which has amended, with effect as of 2017, approved the provision underlying the ACE (Aid to Economic Growth) deduction.

Under the provision in force prior to the amendment introduced by the above-mentioned Decree, the capital increases achieved since 01 January 2011 (net of decreases) were relevant for of the successive financial periods.

Art. 7 of Decree Law no. 50/2017, however, has established that the capital increases as of 01 January 2011 may be considered relevant for the calculation of the ACE deduction only in the period in which they are made and the four following periods. This means that:

- the ACE deduction relating to 2017 will be calculated considering the increases made from 01 January 2013 to 31 December 2017, while those of 2018 will be determined on the basis of the increases in 2014-2018 and so on;
- except for the deductions that matured up to 31 December 2016 under the previous law, as of the deduction due for 2017 the capital increases of 2011 and 2012 can no longer be considered;
- the assessment of the posting of the DTA (probability test) must be based on the new legislative context.

For the MPS Group the change has important impacts on the probability test and therefore on the possibility of posting the DTA.

However, being for IAS purposes a non adjusting event occurring after 31 March 2017, i.e. an unexpected and unannounced change occurring after the closure of the period of reference, the estimated impact will be posted in the second quarter, taking into account any amendments that may take place on the occasion of the conversion of the Decree Law.

Therefore, on the basis of the probability test carried out taking into account the tax law framework in force at 31 March 2017, at that date the DTA on tax losses not posted on the financial statements amount to EUR 1,146 million, with an increase of EUR 77 million on the same figure at 31 December 2016.

On the other hand, in the case of the application at 31 March 2017 of the new ACE provision, a positive different (income) would emerge equal to EUR 891 million (partial reassessment of DTA from tax losses).

Going concern

This Consolidated Interim Report has been drawn up deeming it appropriate to consider the Company under the going concern assumption, in spite of the uncertainties apparent on the financial statements at 31 December 2016, regarding:

- obtaining the necessary authorisations for access to the "Precautionary Recapitalisation" which requires the approval of the Restructuring Plan;
- the possible impacts of the On Site Inspection of the ECB to assess solvency;
- the implementation of the measures contemplated by the Restructuring Plan, for which talks are still in progress with the competent authorities for defining the activities to be carried out, such as the deconsolidation of the non-performing loans and the precautionary recapitalisation with burden sharing, aimed at meeting the capital need determined by the ECB.

Explanatory notes

The IAS/IFRS accounting standards issued by the International Accounting Standards Board (IASB) and the relative interpretations of the IFRS Interpretations Committee (IFRS IC) adopted in this Consolidated Interim Report at 31 March 2017, with reference to the phases of classification, entry, valuation and cancellation of the various asset and liabilities items, and for the methods of recognising revenues and costs, have remains substantially unchanged compared to the 2016 Financial Statements – to which we refer for a full illustration – except for the early adoption contemplated by IFRS 9 of the accounting of the profits/losses connected to its own creditworthiness in respect of the Fair Value Option (FVO) liabilities.

On 24 July 2014 the IASB published the final version of IFRS 9 – Financial Instruments. The document contains the results of the phases relative to the classification and valuation, impairment and hedge accounting of the project for the replacement of IAS 39, which began in 2008. The standard was approved by the European Commission on 22 November 2016 with Regulation no. 2016/2067 and it must be applied as of the date of the opening of the first financial period beginning an 01 January 2018 or later.

Among the innovations, we mention in particular the accounting treatment of the financial liabilities designated within the sphere of the fair value option. For such financial instruments, the change in fair value attributable to the changes in the credit risk of the liabilities is directly posted under the other comprehensive income, unless this creates or increases an accounting asymmetry in the profit (loss) for the year, in which case the entire fair value change of the liability must be posted to the income statement.

To this regard the standard establishes that an accounting asymmetry is created or increased when the presentation of the effects of the changes in the credit risk of the liabilities in the other components of the comprehensive income determines on the income statement a greater asymmetry than that which would have resulted from posting to the income statement the entire fair value of said liability.

The standard also establishes that the amount posted under the other comprehensive income statement items is not successively reversed to the income statement when the liability is settled or extinguished. At the moment of the settlement or extinction, the accumulated profit (loss) may be reclassified to other shareholders' equity components.

The standard allows for application before of 01 January 2018 only of the provisions on the presentation of the profits and losses on the financial liabilities in fair value option attributable to the changes to its own creditworthiness without the early application of the other parts of the standard. The Group has decided to take avail of this possibility.

On the basis of the facts and circumstances existing at the initial application date, the effects of the changes in the credit risk of the Group's liabilities are not compensated on the income statement by a change in the fair value of any other financial instruments valued at fair value posted under the profit (loss) for the year; consequently the presentation of the changes in its own creditworthiness on the Group's comprehensive income statement does not create an accounting asymmetry.

The Group has also take avail of the possibility of redetermining the comparative data.

The impacts connected to the changes in its own creditworthiness posted to the income statement at 31 March 2016 and at 31 December 2016 are positive and amount to EUR 79.6 million and EUR 91 million respectively.

The early adoption at 01 January 2017 of IFRS 9 for the presentation of the changes in its own creditworthiness of the liabilities in fair value option involves:

- in terms of determining the backdated impacts, the constitution, at 01 January 2017, of a positive valuation reserve of EUR 162.5 million as a contra-entry of the profit reserves, net of the related tax effect;
- the posting, at 31 March 2017, of a gross negative effect of EUR 42.6 million to the shareholders' equity instead of the income statement.

Income statement and balance sheet reclassification principles

Reclassified Income Statement

a) The item "**Interest Margin**" has been adjusted by the economic values of the Purchase Price Allocation (PPA) is moved to a specific item, for an amount of almost EUR 4 million.

b) The item "**Dividends, similar income and Profit (loss) on equity investments**" incorporates item 70 "Dividends and similar income" and a portion of item 240 "Profit (loss) on equity investments" (around EUR 21 million, corresponding to the share of profit and loss for the period contributed by investments in the associate AXA, consolidated at equity).

c) Dividends earned on securities other than equity investments have also been eliminated from the aggregate.The item "**Net profit (loss) from trading and from financial assets/liabilities**" includes item 80 "Net profit (loss) from trading", item 100 "Profit (loss) from sale or repurchase of loans, financial assets available for sale or held to maturity and financial liabilities" and item 110 "Net result from financial assets and liabilities designated at fair value". The item incorporates dividends earned on securities other than equity investments (approx. EUR 0.2 million).

d) The item "**Other operating income/charges**" includes the balance of the financial statement item 220 "Other operating income/charges" net of the recovered stamp duties and expenses due from customers that are moved to the reclassified item "Other Administrative Expenses" (EUR 89 million).

e) The item "**Other Administrative Expenses**" includes the balance of item 180b "Other Administrative Expenses" from which the following cost components have been eliminated:

- Charges, of EUR 63 million, deriving from the Community directives DGSD and BRRD for resolving the banking crises (moved to the reclassified item "Risks and charges connected to SRF, DGS and similar schemes");
- DTA fees that can be transformed into tax credit, or about EUR 18 million (moved to the reclassified item "DTA Fees").

The item also includes the portion of stamp duty and client expense recovery (approx. EUR 89 million) posted under item 220 "Other operating income/charges".

f) The item "**Net adjustments to tangible and intangible assets**" has been separated from the economic values of the Purchase Price Allocation (PPA) is moved to a specific item, for an amount of almost EUR 7 million.

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

h) The item "**Risks and charges connected to SRF, DGS and similar schemes**" includes the charges deriving from the Community directives DGSD to guarantee deposits and BRRD for the resolution of the banking crises, posted on the financial statements under item 180b "Other Administrative Expenses". For the first quarter of 2017 the charges connected to the SRF (EUR 63 million) have been posted.

i) The item "**DTA Fee**" includes the charges relating to the fees on the DTAs that can be transformed into tax credit under art. 11 of Decree Law no. 59 of 03 May 2016 converted into Law no. 119 of 30 June 2016, posted on the financial statements under item 180b "Other Administrative Expenses".

j) The item "**Profit (Losses) on equity investments**"indicates the balance of item 240 "Profit (Losses) on equity investments" without the contribution to the income statement of the portion of the profit on the connected equity investments in AXA consolidated according to the net equity method moved to the reclassified item "Dividends, similar income and profit (loss) on equity investments" (EUR 21 million).

k) The item "**Income tax for the period on current operations**" has been separated from the theoretic tax component related to the Purchase Price Allocation (PPA) and moved to a specific item, for an amount of around EUR4 million.

l) The overall negative effects of the Purchase Price Allocation (PPA) have been reclassified to the specific item, separating them from the economic items concerned (in particular **"Interest Margin"** for approximately EUR -4 million and **Net adjustments to/recoveries on tangible and intangible assets** for about EUR -7 million, net of a theoretical tax burden of EUR 4 million which integrates the item).

Reclassified Balance Sheet

m) The item **"Tradable financial assets"** on the assets side of the reclassified balance sheet includes item 20 "Financial assets held for trading" and item 40 "Financial assets available for sale".

n) The item **"Other assets"** on the assets side of the reclassified balance sheet incorporates item 80 "Hedging derivatives", item 90 "Value adjustments to financial assets subject to macro-hedging", item 140 "Tax assets", item 150 "Non-current assets held for sale and discontinued operations" and item 160 "Other assets".

o) The item **"Deposits from customers and debt securities issued"** on the liabilities side of the reclassified balance sheet includes item 20 "Deposits from customers", item 30 "Outstanding securities" and item 50 "Financial liabilities at fair value".

p) The item **"Other liabilities"** on the liabilities side of the reclassified balance sheet incorporates item 60 "Hedging derivatives", item 70 "Change in value of macro-hedged financial liabilities", item 80 "Tax liabilities", item 90 "Liabilities associated with groups of assets held for sale" and item 100 "Other liabilities".

Reclassified Consolidated Income Statement

Reclassified Consolidated Income Statement				
	31/03/17	31/03/16	Change	
Montepaschi Group			Abs.	%
Net interest income	457.4	548.3	(91.0)	-16.6%
Net fee and commission income	426.3	456.9	(30.6)	-6.7%
Income from banking activities	**883.7**	**1,005.2**	**(121.6)**	**-12.1%**
Dividends, similar income and gains (losses) on equity investments	20.5	19.3	1.2	6.3%
Net profit (loss) from trading/ valuation of financial assets	24.5	165.7	(141.2)	-85.2%
Net profit (loss) from hedging	0.2	0.1	0.1	100.0%
Other operating income (expenses)	4.3	(5.0)	9.3	n.s.
Total Revenues	**933.2**	**1,185.4**	**(252.2)**	**-21.3%**
Administrative expenses:	(570.9)	(594.7)	23.8	-4.0%
a) personnel expenses	(404.4)	(417.6)	13.2	-3.2%
b) other administrative expenses	(166.5)	(177.1)	10.6	-6.0%
Net adjustments to (recoveries on) property, plant and equipment / Net adjustments to (recoveries on) intangible assets	(56.6)	(50.3)	(6.3)	12.6%
Operating expenses	**(627.5)**	**(645.0)**	**17.5**	**-2.7%**
Pre Provision Profit	**305.6**	**540.3**	**(234.7)**	**-43.4%**
Net impairment losses (reversals) on:	**(303.1)**	**(349.2)**	**46.1**	**-13.2%**
a) loans	(308.2)	(345.9)	37.7	-10.9%
b) financial assets	5.1	(3.3)	8.4	n.s.
Net operating income	**2.5**	**191.1**	**(188.6)**	**-98.7%**
Net provisions for risks and charges	(45.6)	(5.3)	(40.3)	n.s.
Gains (losses) on investments	(4.0)	7.5	(11.4)	n.s.
Restructuring costs / One-off costs	-	-	-	
Risks and charges related to the SRF, DGS and similar schemes	(63.4)	(71.1)	7.7	-10.8%
DTA Fee	(18.0)	-	(18.0)	n.s.
Gains (losses) on disposal of investments	(0.3)	-	(0.3)	
Profit (loss) before tax from continuing operations	**(128.6)**	**122.2**	**(250.8)**	**n.s.**
Tax expense (recovery) on income from continuing operations	(33.5)	(20.7)	(12.8)	61.8%
Profit (loss) after tax from continuing operations	**(162.0)**	**101.5**	**(263.5)**	**n.s.**
Net profit (loss) for the period including non-controlling interests	**(162.0)**	**101.5**	**(263.5)**	**n.s.**
Net profit (loss) attributable to non-controlling interests	-	0.5	(0.5)	-100.0%
Profit (loss) for the period before PPA , impairment on goodwill and intangibles	**(162.0)**	**101.0**	**(263.0)**	**n.s.**
PPA (Purchase Price Allocation)	(7.1)	(7.9)	0.8	-10.3%
Net profit (loss) for the period	**(169.2)**	**93.1**	**(262.3)**	**n.s.**

Quarterly trend in reclassified consolidated income statement

	2017	2016			
Montepaschi Group	**1°Q 2017**	**4°Q 2016**	**3°Q 2016**	**2°Q 2016**	**1°Q 2016**
Net interest income	457.4	502.6	483.5	486.9	548.3
Net fee and commission income	426.3	437.0	461.7	483.8	456.9
Income from banking activities	**883.7**	**939.6**	**945.2**	**970.7**	**1,005.2**
Dividends, similar income and gains (losses) on equity investments	20.5	11.3	23.3	23.9	19.3
Net profit (loss) from trading/ valuation of financial assets	24.5	21.5	102.7	151.3	165.7
Net profit (loss) from hedging	0.2	(80.3)	(0.4)	(1.4)	0.1
Other operating income (expenses)	4.3	(27.6)	2.2	14.7	(5.0)
Total Revenues	**933.2**	**864.5**	**1,073.0**	**1,159.1**	**1,185.4**
Administrative expenses:	(570.9)	(630.6)	(595.1)	(582.1)	(594.7)
a) personnel expenses	(404.4)	(371.1)	(418.4)	(403.4)	(417.6)
b) other administrative expenses	(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	(56.6)	(61.6)	(55.2)	(51.7)	(50.3)
Operating expenses	**(627.5)**	**(692.2)**	**(650.3)**	**(633.8)**	**(645.0)**
Pre Provision Profit	**305.6**	**172.3**	**422.7**	**525.4**	**540.3**
Net impairment losses (reversals) on:	**(303.1)**	**(2,482.1)**	**(1,301.6)**	**(368.0)**	**(349.2)**
a) loans	(308.2)	(2,445.4)	(1,303.3)	(372.4)	(345.9)
b) financial assets	5.1	(36.7)	1.7	4.4	(3.3)
Net operating income	**2.5**	**(2,309.8)**	**(878.9)**	**157.4**	**191.1**
Net provisions for risks and charges	(45.6)	48.0	(27.5)	29.2	(5.3)
Gains (losses) on investments	(4.0)	2.5	1.6	0.2	7.5
Restructuring costs / One-off costs	-	(117.0)	-	-	-
Risks and charges related to the SRF, DGS and similar schemes	(63.4)	(139.1)	(31.2)	0.3	(71.1)
DTA Fee	(18.0)	53.9	(15.5)	(108.8)	-
Gains (losses) on disposal of investments	(0.3)	20.4	12.8	-	-
Profit (loss) before tax from continuing operations	**(128.6)**	**(2,441.1)**	**(938.7)**	**78.3**	**122.2**
Tax expense (recovery) on income from continuing operations	(33.5)	64.7	(203.9)	139.2	(20.7)
Profit (loss) after tax from continuing operations	**(162.0)**	**(2,376.4)**	**(1,142.6)**	**217.5**	**101.5**
Net profit (loss) for the period including non-controlling interests	**(162.0)**	**(2,376.4)**	**(1,142.6)**	**217.5**	**101.5**
Net profit (loss) attributable to non-controlling interests	-	(8.3)	0.6	0.3	0.5
Profit (loss) for the period before PPA , impairment on goodwill and intangibles	**(162.0)**	**(2,384.7)**	**(1,143.2)**	**217.2**	**101.0**
PPA (Purchase Price Allocation)	(7.1)	(7.7)	(7.5)	(8.3)	(7.9)
Net profit (loss) for the period	**(169.2)**	**(2,392.4)**	**(1,150.7)**	**208.9**	**93.1**

Trends in revenues

In the first quarter of 2017, the Group has achieved **Revenues** of about **EUR 933 million** with a decrease of 21.3% compared to the same period of the preceding year, by effect of the fall in the interest margin, the net commissions and the net profit (loss) from trading. In the comparison with the preceding quarter, Revenues increase by 7.9%, mainly for the improvement in the Net income from hedging activities and the Other Operating income/charges.

The **Interest Margin** of the first quarter of 2017 is approximately **EUR 457 million**, showing a loss of 16.6% compared to the same period of 2016, above all by effect of the negative trend of the interest bearing loans, in particular commercial loans (contracted volumes and a fall in the related returns). These dynamics are partially mitigated by the decrease in interest expense consequent to the reduction in the cost of commercial funding and the maturity of bonds issued at higher interest rates. The result of the first quarter of 2017 is lower than the previous quarter by about EUR 45 million (-9.0% Q/Q), its dynamics being influenced by the fall in yield/volumes of commercial loans, as well as the season there being fewer days in the first quarter of the year.

Items	31 03 2017	31 03 2016	Chg. Y/Y		1°Q 2017	4°Q 2016	Chg. Q/Q	
			Abs.	%			Abs.	%
Relations with customers	588.5	722.4	(134.0)	-18.5%	588.5	644.9	(56.4)	-8.8%
of which interest income on non-performing assets	*127.2*	*182.0*	*(54.8)*	*-30.1%*	*127.2*	*133.2*	*(6.0)*	*-4.5%*
Securities issued	(152.3)	(218.5)	66.2	-30.3%	(152.3)	(162.9)	10.6	-6.5%
Net Differentials on hedging derivatives	(4.4)	(2.9)	(1.5)	51.7%	(4.4)	(3.9)	(0.5)	12.8%
Relations with banks	(9.8)	(17.8)	8.0	-44.9%	(9.8)	(20.0)	10.2	-51.0%
Trading portfolios	12.2	20.3	(8.1)	-39.9%	12.2	9.9	2.3	23.2%
Portfolios designated at fair value	(17.8)	(9.9)	(7.9)	79.8%	(17.8)	(9.1)	(8.7)	95.6%
Financial assets available for sale	41.4	53.3	(11.9)	-22.3%	41.4	43.8	(2.4)	-5.5%
Other net interest income	(0.4)	1.4	(1.8)	n.s.	(0.4)	(0.1)	(0.3)	n.s.
Net interest income	**457.4**	**548.3**	**(91.0)**	**-16.6%**	**457.4**	**502.6**	**(45.2)**	**-9.0%**

Net Commissions are about **EUR 426 million** showing a reduction of 6.7% compared to 2016, penalised by the accounting of the cost of the guarantee on the government issues and by the lower income from the loan segment (for the lower volumes that the preceding year). The quarterly dynamics are also lower, by 2.4%, mainly for the same above-mentioned reasons.

Services / Values	31 03 2017	31 03 2016	Chg. Y/Y		1°Q 2017	4°Q 2016	Chg. Q/Q	
			Abs.	%			Abs.	%
Guarantees given / received	(5.4)	12.1	(17.5)	n.s.	(5.4)	9.9	(15.3)	n.s.
Collection and payment services	20.1	21.0	(0.9)	-4.1%	20.1	124.3	(104.1)	-83.8%
Current account keeping	123.0	130.5	(7.5)	-5.7%	123.0	126.6	(3.6)	-2.8%
Credit and debit cards	54.7	56.1	(1.3)	-2.4%	54.7	58.0	(3.3)	-5.7%
Commercial banking activities	**192.5**	**219.7**	**(27.2)**	**-12.4%**	**192.5**	**318.8**	**(126.3)**	**-39.6%**
Receipts and trasmission of orders	8.3	12.5	(4.2)	-33.6%	8.3	11.0	(2.7)	-24.5%
Trading activities on financial instruments and currencies	5.1	5.8	(0.7)	-12.1%	5.1	5.7	(0.6)	-10.5%
Distribution of third party services	120.2	107.7	12.5	11.6%	120.2	99.6	20.5	20.6%
Insurance services	45.5	43.7	1.8	4.1%	45.5	46.1	(0.6)	-1.3%
Placement/ offering of financial instruments and services	(6.0)	(5.3)	(0.7)	13.2%	(6.0)	(10.1)	4.1	-40.6%
Asset management	13.6	15.7	(2.1)	-13.4%	13.6	13.9	(0.3)	-2.2%
Management, brokerage and advisory services	**186.7**	**180.1**	**6.6**	**3.6%**	**186.7**	**166.2**	**20.4**	**12.3%**
Other advisory services	**47.1**	**57.1**	**(10.0)**	**-17.4%**	**47.1**	**(48.0)**	**95.2**	**n.s.**
Net fee and commission income	**426.3**	**456.9**	**(30.6)**	**-6.7%**	**426.3**	**437.0**	**(10.7)**	**-2.4%**

Dividends, similar income and profit (loss) on equity investments amount to about **EUR 21 million**, with slight growth on 31 March 2016, almost entirely due to the contribution from AXA-MPS (consolidated with the net equity method); the figure is also higher than the preceding quarter, again thanks to AXA-MPS contribution.

The **Net profit (loss) from trading/valuation of financial assets** of the first quarter amounts is positive at about **EUR 25 million**, but showing a sharp fall compared to the preceding year which benefited from the capital gain on the liability issues posted at fair value. However, it is higher than the 4th quarter of 2016 (by about EUR 3 million, +14.1%). More specifically:

- Results from trading are positive, at about EUR 13 million, although showing a sharp drop compared to the figure reached at 31 March 2016 due to a lower contribution from the subsidiary MPS Capital Services. The dynamics are also lower than the preceding quarter (about EUR -13 million).
- The FVO result is practically zero at the end of this first quarter of 2017 due to the early adoption contemplated by IFRS 9 of the accounting treatment of the profits/losses connected to its own creditworthiness of the liabilities of the fair value option; at 31 March 2016 it was positive by about EUR 83 million, whereas in the 4th quarter of 2016 it was negative at minus EUR 8 million.
- The result of sales/repurchases was positive at about EUR 12 million (essentially due to the capital gains achieved on sales of the AFS securities within the sphere of the portfolio optimisation activity), but lower than the values registered in the same period of last year (-41.3% Y/Y) although higher than the preceding quarter (EUR +8 million Q/Q).

Items	31 03 2017	31 03 2016	Chg. Y/Y		1°Q 2017	4°Q 2016	Chg. Q/Q	
			Abs.	%			Abs.	%
Held for Trading	(34.1)	16.8	(50.9)	n.s.	(34.1)	(50.0)	15.9	-31.9%
Trading liabilities	31.6	(17.6)	49.2	n.s.	31.6	61.2	(29.6)	-48.4%
Exchange rate effects	4.5	10.0	(5.5)	-55.0%	4.5	10.9	(6.4)	-58.7%
Derivatives	10.8	52.9	(42.1)	-79.6%	10.8	3.2	7.6	n.s.
Trading results	**12.8**	**62.1**	**(49.3)**	**-79.3%**	**12.8**	**25.3**	**(12.5)**	**-49.3%**
FVO Results	(0.5)	82.8	(83.3)	n.s.	(0.5)	(7.9)	7.4	-93.7%
Disposal / repurchase	12.2	20.8	(8.6)	-41.3%	12.2	4.1	8.1	n.s.
Net profit (loss) from trading	**24.5**	**165.7**	**(141.2)**	**-85.2%**	**24.5**	**21.5**	**3.0**	**14.1%**

The following items also make up the Revenue:

- **Net income from hedging activities substantially nil** (as at 31 March 2016), while the 4th quarter of 2016 (at EUR -80 million) included the negative effects connected to the ineffectiveness of the hedging of the interest rate risk on a junior issue and subsequent to the enforced conversion scheduled for 2017 according to the indications contained in Decree Law 237/2016, converted into law on 17 February 2017, within the sphere of the "precautionary recapitalisation" action by the State;
- **Other operating income/charges**, positive at about **EUR 4 million** (the balance was negative at about EUR -5 million at 31 March 2016) and showing significant growth on the last quarter of 2016, was penalised by the higher charges sustained for transaction agreements.

Operating expenses

In the first quarter of 2017 **Operating expenses** were about **EUR 628 million,** showing a reduction of 2.7% on the same period last year and of 9.3% on the 4th quarter of 2016 (the latter including EUR 37 million relating to the unsuccessful recapitalisation transaction; however, excluding that particular cost, the positive trend of Operating expenses is confirmed in the 1st quarter of 2017). More specifically:

- **Administrative expenses** are about **EUR 571 million**, which is lower than both the previous annual and quarterly figures (respectively -4.0% Y/Y and -9.5% Q/Q). Within the aggregate:
  - **Personnel Expenses**, at about **EUR 404 million**, have registered an annual fall of 3.2% (about EUR -13 million) due both to the staff reduction and to the lower allocations on the variable component in 2017 compared to the first quarter of 2016. Movements increased in the 4th quarter of 2016, which benefited from the release of the variable components allocated in the previous quarters.
  - **Other administrative expenses** were at about **EUR 167 million**: the 6.0% decrease from the first quarter of 2016 was mainly attributable to structural cost control measures (which involved, in particular, the management of the real estate/security segment) and the lower charges connected to credit recovery. The costs of the 1st quarter of 2017 are also lower than the last quarter of 2016 (about EUR -93 million), which included the expenses connected to the recapitalisation of the parent company for about EUR 37 million.
- **Amortisation/Depreciation** of the first quarter of 2017 was around **EUR 57 million**, which is higher than the values of the same period of last year (+12.6% Y/Y), on both tangible and intangible assets, and lower by 8% compared to the preceding quarter, due to lower amortisation of intangible fixed assets.

Type of transaction	31 03 2017	31 03 2016	Chg Y/Y		1°Q 2017	4°Q 2016	Chg Q/Q	
			Abs.	%			Abs.	%
Wages and salaries	(291.5)	(301.7)	10.2	-3.4%	(291.5)	(269.6)	(21.9)	8.1%
Social-welfare charges	(79.6)	(81.9)	2.3	-2.8%	(79.6)	(73.6)	(6.0)	8.2%
Other personnel expenses	(33.3)	(34.0)	0.7	-2.1%	(33.3)	(27.9)	(5.4)	19.2%
Personnel expenses	**(404.4)**	**(417.6)**	**13.2**	**-3.2%**	**(404.4)**	**(371.1)**	**(33.3)**	**9.0%**
Taxes	(70.1)	(73.8)	3.7	-5.0%	(70.1)	(63.0)	(7.1)	11.3%
Furnishing, real estate and security expenses	(45.8)	(49.3)	3.5	-7.1%	(45.8)	(43.9)	(1.9)	4.3%
General operating expenses	(53.6)	(50.8)	(2.8)	5.5%	(53.6)	(52.5)	(1.1)	2.1%
Information technology expenses	(43.3)	(44.5)	1.2	-2.7%	(43.3)	(47.1)	3.8	-8.1%
Legal and professional expenses	(26.4)	(33.7)	7.3	-21.7%	(26.4)	(98.6)	72.2	-73.2%
Indirect personnel costs	(2.5)	(3.0)	0.5	-16.7%	(2.5)	(4.7)	2.2	-46.8%
Insurance	(7.4)	(6.9)	(0.5)	7.2%	(7.4)	(7.7)	0.3	-3.9%
Advertising, sponsorship and promotions	(1.9)	(4.0)	2.1	-52.5%	(1.9)	(7.0)	5.1	-72.9%
Other	(4.1)	(6.3)	2.2	-34.4%	(4.1)	1.6	(5.7)	n.s.
Expenses recovery	88.6	95.2	(6.6)	-6.9%	88.6	63.4	25.2	39.8%
Other administrative expenses	**(166.5)**	**(177.1)**	**10.6**	**-6.0%**	**(166.5)**	**(259.5)**	**93.0**	**-35.8%**
Tangible assets	(30.8)	(26.4)	(4.4)	16.7%	(30.8)	(30.6)	(0.2)	0.7%
Intangible assets	(25.8)	(23.9)	(1.9)	8.1%	(25.8)	(31.0)	5.2	-16.6%
Amortization and impairment losses	**(56.6)**	**(50.3)**	**(6.3)**	**12.6%**	**(56.6)**	**(61.6)**	**5.0**	**-8.0%**
Operating costs	**(627.5)**	**(645.0)**	**17.5**	**-2.7%**	**(627.5)**	**(692.2)**	**64.7**	**-9.3%**

By effect of the above-described dynamics, the Group's **Gross Operating Income** was about **EUR 306 million** (whereas that of the first quarter of 2016 was about EUR 540 million), showing an increase of 77.4% on the preceding quarter, which was penalised in particular by the net income from hedging and the higher administrative expenses.

Net impairment losses (reversals) on loans and financial assets

In the first quarter of 2017 the Group registered **Net impairment losses (reversal) on loans, financial assets and other transactions** of about **EUR 303 million**, which is 13.2% below that registered in the same period of last year, benefiting above all from the fewer new cases of default and a lower cost within the sphere of the deterioration of the default cases (thanks to the increased coverage provided for in the second half of 2016). The result shows a decrease compared to the preceding quarter, which also included the changes in the credit policy relating to the updating of the haircut on real estate guarantees and the definition of the minimum coverage floor of the so-called "extended non-performing loans" (for about EUR 1,842 million). The ratio between annualised net value adjustments for non-performing loans of the first quarter of 2017 and Loans to customers represents a **provisioning rate of 120 bps**.

Reversals	31 03 2017	31 03 2016	Chg. Y/Y		1°Q 2017	4°Q 2016	Chg. Q/Q	
			Abs.	%			Abs.	%
Loans to banks	(1.6)	(0.5)	(1.1)	n.s.	(1.6)	-	(1.6)	
- Loans	(1.9)	(0.6)	(1.3)	n.s.	(1.9)	-	(1.9)	
- Debt securities	0.3	0.1	0.2	n.s.	0.3	-	0.3	
Loans to customers	(306.6)	(345.4)	38.8	-11.2%	(306.6)	(2,445.4)	2,138.8	-87.5%
- Loans	(306.6)	(345.4)	38.8	-11.2%	(306.6)	(2,444.6)	2,138.0	-87.5%
- Debt securities	-	-	-		-	(0.8)	0.8	-100.0%
Impairment losses on loans	**(308.2)**	**(345.9)**	**37.7**	**-10.9%**	**(308.2)**	**(2,445.4)**	**2,137.2**	**-87.4%**
Financial assets available for sale	(0.9)	(10.8)	9.9	-91.7%	(0.9)	(23.4)	22.5	-96.2%
Guarantees and commitments	6.0	7.5	(1.5)	-20.0%	6.0	(13.3)	19.3	n.s.
Total financial activities and other operations	**5.1**	**(3.3)**	**8.4**	**n.s.**	**5.1**	**(36.7)**	**41.8**	**n.s.**
Total	**(303.1)**	**(349.2)**	**46.1**	**-13.2%**	**(303.1)**	**(2,482.1)**	**2,179.0**	**-87.8%**

Consequently the Group's **Net Operating Profit** of the first quarter of 2017 is **positive at about EUR 3 million**, compared to a positive value of about EUR 191 million registered in the same period of the preceding year.

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

The **Result of the period** also includes:

- **Allocations to the provision for risks and charges**, with a negative balance equal to **EUR 46 million** against EUR -5 million at 31 March 2016. The quarterly dynamics of the aggregate were influenced by the allocations for causes connected to the previous capital increases and for the risk of a sanction consequent to the procedure opened by the Antitrust Authority regarding the transfer to the new SEDA (ex RID) service.
- **Income from equity investments**, negative for EUR 4 million due to write-downs on the associates Trixia and Interporto Toscano, compared to a positive figure of EUR 7 million registered in the 1st quarter of 2016, the latter due mainly to the capital gain from the sale of Fabrica Immobiliare SGR.
- **Risks and charges associated with SRF, DGS and similar schemes**, amounting to about **EUR -63 million**, represent the Group's entire annual contribution to the SRF.
- The **DTA fee**, is approximately **EUR -18 million**. This amount, determined according to the criteria of Decree Law 59/2016 converted into Law no. 119 of 30 June 2016, represents the fees on DTA (Deferred Tax Assets) which can be transformed into tax receivables relating to the 1st quarter of 2017.
- **Gains on the disposal of investments** are substantially zero, in line with the previous year. The result in the 4th quarter of 2016 was about EUR 20 million, equal to the capital gain on the sale of the COEM. property.

Due to the above-illustrated dynamics, the Group's **Profit before tax from current operations** stood at approx. **EUR -129 million**, showing a decrease on 2016 levels that registered a positive result of about EUR 122 million.

Income taxes for the year relating to current business amount to about **EUR -34 million.** Since, on the basis of the result of the probability test, practically no DTA have been entered on the tax loss emerging from the present economic situation, the said charge is essentially attributable to the reversal of DTA arising in preceding financial periods and which exceed the current taxable income net of the ACE benefit accrued in the quarter.

Considering the net effects of the PPA (about EUR -7 million), **the consolidated loss of the Group relating to the first quarter of 2017 amounts to about EUR -169 million** against a positive result of approximately EUR 93 million achieved in the same quarter in 2016.

Reclassified Consolidated Balance Sheet

Reclassified Consolidated Balance Sheet				
ASSETS	**31/03/17**	**31/12/16**	**Chg**	
			abs.	**%**
Cash and cash equivalents	879.1	1,084.5	(205.4)	-18.9%
Receivables :				
a) Loans to customers	102,406.9	106,692.7	(4,285.8)	-4.0%
b) Loans to banks	8,451.4	8,936.2	(484.8)	-5.4%
Marketable assets	26,511.8	25,929.3	582.5	2.2%
Financial assets held to maturity	-	-	-	
Equity investments	1,013.0	1,031.7	(18.7)	-1.8%
Property, plant and equipment / Intangible assets	2,894.2	2,942.9	(48.7)	-1.7%
of which:				
a) goodwill	*7.9*	*7.9*	-	
Other assets	6,648.2	6,561.2	87.0	1.3%
Total assets	**148,804.6**	**153,178.5**	**(4,373.9)**	**-2.9%**

LIABILITIES	**31/03/17**	**31/12/16**	**Chg**	
			abs.	**%**
Payables				
a) Deposits from customers and securities issued	109,390.0	104,573.5	4,816.5	4.6%
b) Deposits from banks	22,837.5	31,469.1	(8,631.6)	-27.4%
Financial liabilities held for trading	4,412.4	4,971.8	(559.4)	-11.3%
Provisions for specific use				
a) Provisions for staff severance indemnities	252.5	252.9	(0.4)	-0.2%
b) Pensions and other post retirement benefit obligations	52.5	53.6	(1.1)	-2.1%
c) Other provisions	954.2	1,054.5	(100.3)	-9.5%
Other liabilities	4,861.3	4,342.7	518.6	11.9%
Group net equity	6,041.9	6,425.4	(383.5)	-6.0%
a) Valuation reserves	7.4	47.3	(39.9)	-84.4%
c) Equity instruments carried at equity	-	-	-	
d) Reserves	(1,162.0)	2,253.6	(3,415.6)	n.s.
e) Share premium	-	-	-	
f) Share capital	7,365.7	7,365.7	-	
g) Treasury shares (-)	-	-	-	
h) Net profit (loss) for the year	(169.2)	(3,241.1)	3,071.9	-94.8%
Non-controlling interests	2.4	34.9	(32.5)	-93.1%
Total Liabilities and Shareholders' Equity	**148,804.6**	**153,178.5**	**(4,373.9)**	**-2.9%**

Reclassified Consolidated Balance Sheet - Quarterly Trend

ASSETS	31/03/17	31/12/16	30/09/16	30/06/16	31/03/16
Cash and cash equivalents	879.1	1,084.5	941.4	794.6	913.4
Receivables :					
a) Loans to customers	102,406.9	106,692.7	104,612.4	107,547.8	113,544.3
b) Loans to banks	8,451.4	8,936.2	7,669.4	7,953.1	6,856.1
Marketable assets	26,511.8	25,929.3	35,748.3	36,022.6	39,999.9
Financial assets held to maturity	-	-	-	-	-
Equity investments	1,013.0	1,031.7	910.7	948.0	934.3
Property, plant and equipment / Intangible assets	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*
Other assets	6,648.2	6,561.2	7,230.0	8,059.6	8,285.2
Total assets	**148,804.6**	**153,178.5**	**160,129.1**	**164,385.5**	**173,645.6**

LIABILITIES	31/03/17	31/12/16	30/09/16	30/06/16	31/03/16
Payables					
a) Deposits from customers and securities issued	109,390.0	104,573.5	105,461.4	112,045.2	119,507.9
b) Deposits from banks	22,837.5	31,469.1	25,282.4	19,465.8	17,524.7
Financial liabilities held for trading	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	252.5	252.9	251.3	249.9	247.7
b) Pensions and other post retirement benefit obligations	52.5	53.6	51.2	52.3	51.4
c) Other provisions	954.2	1,054.5	1,018.8	1,012.5	1,050.0
Other liabilities	4,861.3	4,342.7	5,489.2	5,750.4	5,511.9
Group net equity	6,041.9	6,425.4	8,745.6	9,928.7	9,675.3
a) Valuation reserves	7.4	47.3	(24.7)	7.7	(36.5)
c) Equity instruments carried at equity	-	-	-	-	-
d) Reserves	(1,162.0)	2,253.6	617.2	617.2	610.5
e) Share premium	-	-	-	-	6.3
f) Share capital	7,365.7	7,365.7	9,001.8	9,001.8	9,001.8
g) Treasury shares (-)	-	-	-	-	-
h) Net profit (loss) for the year	(169.2)	(3,241.1)	(848.7)	302.0	93.2
Non-controlling interests	2.4	34.9	26.5	26.0	25.7
Total Liabilities and Shareholders' Equity	**148,804.6**	**153,178.5**	**160,129.1**	**164,385.5**	**173,645.6**

Customer funding

At 31 March 2017, **total funding** volumes of the Group were at around **EUR 206 billion**, (-8.0% compared to the figure at 31 March 2016), and showing an increase on the figure of EUR 3.6 billion at the end of 2016, mainly thanks to the increase of the direct component, only partially offset by the fall in the indirect component.

Background

In the first two months of the year, direct funding showed an evolution similar to that registered in 2016. Overall, the aggregate is still continuously falling (about -1% per year), reflecting the positive dynamics of the dynamics of ordinary local customers, with growth of more than 3% (net of the repo transactions with central counterparties and the deposits connected with the sale of receivables) and the significant fall in bonds (around -16%). Regular customers therefore show a high preference for liquid instruments without risk, also with a low cost of the opportunity of detention; bank bonds, however, are penalised by their higher cost, for the issuer, compared to the liquidity offered by the ECB and the low consequent demand above all consequent to the content of the bail-in legislation (to save banks in crisis).

The average interest rate on deposits of non-financial companies and families in the 1st two months of 2017 has settled at 0.41% reached in October last year, while bond rates continue to fall (-2 pb compared to December 2016); the weighted average cost of the direct and indirect funding is confirmed at just below 1%.

Managed savings started the year with significant progress of new flows. The net deposits in investment funds reached almost EUR 10 million in the quarter (EUR 34.4 billion for the whole of last year), half of which regard bond products, as also in 2016. The result of the individual retail management has also become positive again, at EUR 1.5 billion for the first two months of 2017, after a year of net flows at practically zero. The equity managed by the open-ended funds has increased by about 2% on last December's levels, while the stock under management has remained practically stable.

Customer Funding

				Chg Q/Q		Chg Y/Y	
	31/03/17	31/12/16	31/03/16	Abs.	%	Abs.	%
Direct funding	109,390.0	104,573.5	119,507.9	4,816.5	4.6%	(10,117.9)	-8.5%
Indirect funding	96,966.3	98,151.8	104,890.6	(1,185.5)	-1.2%	(7,924.3)	-7.6%
Total funding	**206,356.3**	**202,725.3**	**224,398.5**	**3,631.0**	**1.8%**	**(18,042.2)**	**-8.0%**

Direct funding volumes, which were about **EUR 109 billion** at 31 March 2017 (EUR -10 billion compared to the values at the end of March 2016, consequent to the withdrawal of business deposits throughout 2016), but they show good growth on the figure at 31 December 2016, of EUR +4.8 billion, thanks to the recovery of the business dynamics as shown by the trend of the current accounts. The growth in the segment of Bonds/Other funding forms is the result of the issues with government backing (new issues for an overall total of EUR 11 billion which, net of the portion used for collateral swaps, is about EUR 8.4 billion, with about EUR 2 billion coming to maturity), which have simultaneously allows for the reduction of the repurchase agreements.

The Group's market share[1] of Direct Funding stood at 3.60% (last available figure at January 2017), up by 5 bps compared to the end of 2016.

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

Direct funding							
				Change Q/Q		Change Y/Y	
Type of transaction	31/03/17	31/12/16	31/03/16	Abs.	%	Abs.	%
Current accounts	46,112.0	40,972.6	51,509.1	5,139.4	12.5%	(5,397.1)	-10.5%
Time deposits	10,542.1	10,133.5	13,519.5	408.6	4.0%	(2,977.4)	-22.0%
Reverse repurchase agreements	20,398.5	25,295.8	17,501.3	(4,897.3)	-19.4%	2,897.2	16.6%
Bonds	24,864.9	23,676.3	29,089.2	1,188.6	5.0%	(4,224.3)	-14.5%
Other types of direct funding	7,472.5	4,495.3	7,888.8	2,977.2	66.2%	(416.3)	-5.3%
Total	**109,390.0**	**104,573.5**	**119,507.9**	**4,816.5**	**4.6%**	**(10,117.9)**	**-8.5%**

Indirect funding at the end of March stands at around **EUR 97 billion**, with a decrease of about EUR 1.2 billion compared to the situation at 31 December 2016, mainly on assets under custody (EUR -1.3 billion), the dynamics of which were also influenced by the net negative flows of business clientele for about EUR 0.6 billion, which is stable compared to the managed savings figure of the previous quarter. The comparison with 31 March 2016 shows a decrease in indirect funding of about EUR 8 billion, within which, however, there is an increase in managed savings (EUR +2 billion) whereas there is a considerable reduction in assets in custody (EUR -10 billion), penalised by, among other things, the effects consequent to the merger by incorporation of a large client (about EUR -6.4 billion).

With regard to **Managed Savings**, which amount to about **EUR 57 billion**, the aggregate is at the levels of December 2016. With regard to the single segments, there is growth, while asset and Bancassurance management show a slight fall. The Y/Y comparison shows growth of more than EUR 2 billion, concentrated on the aggregate of the Funds.

Indirect Funding							
				Change Q/Q		Change Y/Y	
	31/03/17	31/12/16	31/03/16	Abs.	%	Abs.	%
Assets under management	57,256.4	57,180.9	55,222.1	75.5	0.1%	2,034.3	3.7%
Mutual Funds/Sicav	*27,330.2*	*27,020.5*	*25,058.8*	*309.7*	*1.1%*	*2,271.4*	*9.1%*
Individual Portfolio under Management	*6,469.9*	*6,619.7*	*6,387.4*	*(149.8)*	*-2.3%*	*82.5*	*1.3%*
Insurance Products	*23,456.3*	*23,540.6*	*23,776.0*	*-84.3*	*-0.4%*	*-319.7*	*-1.3%*
Assets under custody	39,709.9	40,971.0	49,668.4	(1,261.1)	-3.1%	(9,958.5)	-20.0%
Total funding	**96,966.3**	**98,151.8**	**104,890.6**	**(1,185.5)**	**-1.2%**	**(7,924.3)**	**-7.6%**

Loans to customers

At 31 March 2017, the Group's **Loans to customers** amounted to about **EUR 102 billion**, a decrease of approximately EUR 11 billion compared to the end of March 2016 and of EUR 4 billion compared to 31 December 2016. The contraction of the aggregate registered in the quarter is mainly concentrated in the non-commercial repurchase agreements (EUR -3.4 billion) and only marginally in the commercial segment of mortgages (EUR -0.8 billion, where maturities have not been completely replaced by new loans); they increase along with the current accounts. There is a slight reduction in non-performing loans (about EUR -0.1 billion Q/Q) by effect of slightly increasing gross values more than offset by the increase in the provisions for adjustments.

The Group's market share[2] stood at 6.63% (last available figure: January 2017), up by 3 bps compared to the end of 2016.

Background

The growth in bank loans has consolidated in the first part of 2017, although the first indications confirm that the recovery, in line with the trend of the real economy, is slower than that of the Euro Area. The recovery is due to both the higher demand for credit and the improved offer conditions. The annual increase of the aggregate stands at about 0.9% in February, while in January, net of receivables sold, it was more than 1% (+2.4% for the UME). The gap between the dynamics of loans to families (around +2% per year) and of those to non-financial companies (below +1%), remains. The former are influenced by the albeit weak signals of recovery of available income and of the real estate market, while loans to non-financial companies could also be favoured by the tax measures to sustain investments in instrumental goods and digital technologies and by the legislative initiatives to support corporate capitalisation.

In February the interest rate on loans was stable at the 2.85% registered in December 2016, while for new transactions there was divergence between the rate for families, that had returned to above 2.1% also because of the increase in the portion of fixed rate loans out of the total of new loans, and those for non-financial companies which has fallen below 1.5%, a lower of 11 pb compared to the average registered in the 4th quarter of last year. In particular, the rates on new loans of below EUR 1 million to non-financial companies are in line with the European average at the beginning of 2017.

Non-performing loans have decreased at the beginning of the year (-2% mainly in January) above all by effect of the sale of receivables, for about EUR 3.5 billion, concluded in the first month of 2017, in addition to more than EUR 20 billion sold in 2016; net of these transactions, the annual dynamics would be around +12%. Net of provisions for adjustments, non-performing loans (which decreased by EUR 9 billion in January) now represent 4.45% of loans, having fallen from the average of 4.8% of the 2nd quarter of 2016.

Loans to customers

Type of transaction	31/03/17	31/12/16	31/03/16	Change Q/Q		Change Y/Y	
				Abs.	%	Abs.	%
Current accounts	6,808.4	6,313.2	7,921.6	495.2	7.8%	(1,113.2)	-14.1%
Mortgages	48,757.5	49,532.6	52,069.0	(775.1)	-1.6%	(3,311.5)	-6.4%
Other forms of lending	20,107.9	20,542.0	22,848.0	(434.1)	-2.1%	(2,740.1)	-12.0%
Repurchase agreements	5,429.1	8,854.6	5,576.6	(3,425.5)	-38.7%	(147.5)	-2.6%
Securities lending	1,130.7	1,130.3	1,060.4	0.4	0.0%	70.3	6.6%
Non performing loans	20,173.3	20,320.0	24,068.7	(146.7)	-0.7%	(3,895.4)	-16.2%
Total	**102,406.9**	**106,692.7**	**113,544.3**	**(4,285.8)**	**-4.0%**	**(11,137.4)**	**-9.8%**

The aggregate of the medium-long term segment in the first quarter of 2017 registered new loans for about EUR 1.3 billion, to families and companies, falling by 37.3% Y/Y.

[2] Loans to resident consumer customers, including non-performing loans and net of repo transactions with central counterparties

Non-performing loans

The Group's **Gross non-performing loans** at 31 March 2017 is equal to **EUR 46.0 billion**, with a slight increase (+0.2 billion) compared to the end of December 2016. With regard to the dynamics of the first quarter of 2017 compared to those of the same period of 2016, there is a reduction in the transfer of performing loans to non-performing and in also in the opposite direction, whereas there has been growth in collections on doubtful positions. With regard to the various aggregates of the gross non-performing segment, there was an increase of about EUR 1.1 billion in the first quarter of doubtful loans and a reduction in the unlikely to pay (EUR -0.7 billion) and in the past due non-performing exposures (EUR -0.1 billion).

At 31 March 2017 the Group's **net exposure in terms of non-performing loans** stood at EUR 20.2 billion, showing a decrease of around EUR 0.1 since the beginning of the year (EUR -3.9 billion compared to the figure at 31 March 2016). Within the aggregate, in the first quarter there was an increase in net non-performing loans (from 9.7% in December 2016 to 10.5% at 31 March 2017) against a decrease in the incidence of the unlikely to pay (-0.1%) and in the past due exposures (-0.1%).

Loans to customers		Doubtful loans	Unlikely to pay	Non performing Past due	**Non-performing exposures**	Perfoming exposures	**Total**	*- of which forbone impaired*	*- of which forborne not impaired*
31 03 17	Gross esposure	30,490.0	14,522.8	970.6	**45,983.4**	82,858.2	**128,841.6**	*9,885.3*	*2,769.1*
	Provisions	19,688.6	5,893.7	227.8	**25,810.1**	624.6	**26,434.7**	*3,819.5*	*117.1*
	Net exposure	10,801.4	8,629.1	742.8	**20,173.3**	82,233.6	**102,406.9**	*6,065.8*	*2,652.0*
	Coverage ratio	*64.6%*	*40.6%*	*23.5%*	***56.1%***	*0.8%*	***20.5%***	*0.4*	*0.0*
	% on Loans to customers	*10.5%*	*8.4%*	*0.7%*	***19.7%***	*80.3%*	***100.0%***	-	-
31 12 16	Gross esposure	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%***	*0.4*	*0.0*
	% on Loans to customers	*9.7%*	*8.5%*	*0.8%*	***19.0%***	*81.0%*	***100.0%***	-	-
31 03 16	Gross esposure	27,732.6	16,897.4	2,608.2	**47,238.2**	90,114.4	**137,352.6**	*9,723.0*	*2,931.2*
	Provisions	17,548.7	4,912.7	708.1	**23,169.5**	638.8	**23,808.3**	*2,524.3*	*78.5*
	Net exposure	10,183.9	11,984.7	1,900.1	**24,068.7**	89,475.6	**113,544.3**	*7,198.7*	*2,852.7*
	Coverage ratio	*63.3%*	*29.1%*	*27.1%*	***49.0%***	*0.7%*	***17.3%***	*0.3*	*0.0*
	% on Loans to customers	*9.0%*	*10.6%*	*1.7%*	***21.2%***	*78.8%*	***100.0%***	-	-

Change in gross exposures

	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*
31.12	abs.	1,065.6	(723.8)	(143.8)	**198.0**	(4,202.7)	**(4,004.7)**	*(22.3)*	*21.6*
	%	3.6%	-4.7%	-12.9%	**0.4%**	-4.8%	**-3.0%**	*-0.2%*	*0.8%*
Y/Y	abs.	2,757.4	(2,374.6)	(1,637.6)	**(1,254.8)**	(7,256.2)	**(8,511.0)**	*162.3*	*(162.1)*
	%	9.9%	-14.1%	-62.8%	**-2.7%**	-8.1%	**-6.2%**	*1.7%*	*-5.5%*

At 31 March 2017, **the coverage percentage** of the non-performing loans stood at 56.1%, an increase of about 51 bps compared to 31 December 2016. Examining the single anomalous loan aggregates, in the first quarter there has been a fall in the coverage of non-performing loans (equal to 64.6% at the end of March 2017 against 64.8% at 31 December 2016) whereas there is a slight increase in the coverage of the unlikely to pay (+ 0.27%) and in the past due non-performing exposures (+ 0.13%).

Change in coverage ratios

	Doubtful loans	Ulikely to pay	Non performing past due	**Non performing exposures**	Performing exposures	**Total**
31.12	*-0.20%*	*0.27%*	*0.13%*	*0.51%*	*-0.04%*	*0.83%*
Y/Y	*1.30%*	*11.51%*	*-3.68%*	*7.08%*	*0.04%*	*3.18%*

	1°Q 2017		31 12 2016		4°Q 2016		31 03 2016		Chg. Q/Q Non-performing exposures		Chg. Q/Q of which doubtful loans	
	Non-performing exposures	*of which Doubtful loans*	Non-performing exposures	*of which Doubtful loans*	Non-performing exposures	*of which Doubtful loans*	Non-performing exposures	*of which Doubtful loans*	Abs.	%	Abs.	%
Gross exposure, opening balance	**45,785.4**	***29,424.4***	**46,861.7**	***26,627.0***	**45,584.2**	***28,229.9***	**46,861.7**	***26,627.0***	***201.2***	***0.4%***	***1,194.5***	***4.2%***
Increases from performing loans	677.2	*70.5*	2,643.3	*495.5*	758.0	*282.2*	820.2	*39.4*	*(80.8)*	*-10.7%*	*(211.7)*	*-75.0%*
Transfers to performing loans	(248.0)	*(2.3)*	(810.3)	*(2.0)*	(88.6)	*(0.5)*	(370.3)	*(0.4)*	*(159.4)*	*n.s.*	*(1.8)*	*n.s.*
Collections	(560.3)	*(190.1)*	(2,289.8)	*(734.5)*	(734.2)	*(234.2)*	(479.7)	*(148.5)*	*173.9*	*-23.7%*	*44.1*	*-18.8%*
Write-offs and loss on disposal	(89.5)	*(49.9)*	(2,266.1)	*(1,753.1)*	(177.2)	*(126.6)*	(96.4)	*(65.7)*	*87.7*	*-49.5%*	*76.7*	*-60.6%*
+/- Other changes	418.6	*1,237.4*	1,646.6	*4,791.5*	443.2	*1,273.6*	502.6	*1,280.7*	*(24.6)*	*-5.6%*	*(36.2)*	*-2.8%*
Gross exposure, closing balance	**45,983.4**	***30,490.0***	**45,785.4**	***29,424.4***	**45,785.4**	***29,424.4***	**47,238.2**	***27,732.6***	***198.0***	***0.4%***	***1,065.6***	***3.6%***
Opening balance of overall adjustments	**(25,465.4)**	***(19,059.5)***	**(22,707.9)**	***(16,894.2)***	**(23,074.8)**	***(17,327.2)***	**(22,707.9)**	***(16,894.2)***	***(2,390.6)***	***10.4%***	***(1,732.3)***	***10.0%***
Adjustments / write-backs*	(302.5)	*(163.6)*	(3,743.5)	*(2,022.6)*	(1,825.1)	*(1,022.1)*	478.4	*356.2*	*1,522.6*	*-83.4%*	*858.5*	*-84.0%*
+/- Other changes	(42.2)	*(465.5)*	986.0	*(142.7)*	(565.5)	*(710.2)*	(940.0)	*(1,010.7)*	*523.3*	*-92.5%*	*244.7*	*-34.5%*
Closing balance of overall adjustments	**(25,810.1)**	***(19,688.6)***	**(25,465.4)**	***(19,059.5)***	**(25,465.4)**	***(19,059.5)***	**(23,169.5)**	***(17,548.7)***	***(344.7)***	***1.4%***	***(629.1)***	***3.3%***
Net exposure closing balance	**20,173.3**	***10,801.4***	**20,320.0**	***10,364.9***	**20,320.0**	***10,364.9***	**24,068.7**	***10,183.9***	***(146.7)***	***-0.7%***	***436.5***	***4.2%***

** Net impairment losses (reversals)on loans – Item 130 of Income Statement*

Financial assets/liabilities

At 31 March 2017 the Group's tradable financial assets amounted to about EUR 27 billion, showing increase on the levels at the end of December 2016 (EUR +0.6 billion), with growth of the tradable component relating to the subsidiary MPS Capital Services (in particular on its Italian government debt securities, for which the company acts as primary dealer), only partially offset by the fall in the AFS, influenced by the sales in the quarter. Financial liabilities held for trading have decreased by the same amount in the first quarter of 2017 (about EUR -0.6 billion).

Items	31/03/17	31/12/16	31/03/16	Chg. Q/Q		Chg. Y/Y	
				Abs.	%	Abs.	%
Tradable financial assets	26,511.8	25,929.3	39,999.9	582.5	2.2%	(13,488.1)	-33.7%
Financial assets held for trading	*10,707.4*	*9,266.2*	*22,502.2*	*1,441.2*	*15.6%*	*(11,794.8)*	*-52.4%*
Financial assets available for sale	*15,804.4*	*16,663.1*	*17,497.7*	*(858.7)*	*-5.2%*	*(1,693.3)*	*-9.7%*
Financial liabilities held for trading	4,412.4	4,971.8	20,051.0	(559.4)	-11.3%	(15,638.6)	-78.0%

Items	31 03 2017		31 12 2016		31 03 2016	
	Tradable fiancial assets	Financial liabilities held for tradig	Tradable fiancial assets	Financial liabilities held for tradig	Tradable fiancial assets	Financial liabilities held for tradig
Debt securities	22,192.6	-	20,979.4	-	26,332.4	-
Equity instruments and Units of UCITS	547.2	-	527.7	-	519.1	-
Loans	50.5	2,481.1	265.2	2,665.6	7,776.9	16,774.0
Derivatives	3,721.5	1,931.3	4,157.0	2,306.2	5,371.6	3,277.0
Total	26,511.8	4,412.4	25,929.3	4,971.8	40,000.0	20,051.0

Interbank position

At the end of March 2017 the Group's **net interbank position** amounted to EUR **14.4 billion** in funding, with a decrease of about EUR 8 billion compared with the balance recorded at 31 December 2016, mainly due to the fall in ECB/MRO auctions and to the generalised improvement of the liquidity position.

Interbank balances							
				Change Q/Q		Change Y/Y	
	31/03/17	31/12/16	31/03/16	Abs.	%	Abs.	%
Loans to banks	8,451.4	8,936.2	6,856.1	(484.8)	-5.4%	1,595.3	23.3%
Deposits from banks	22,837.5	31,469.1	17,524.7	(8,631.6)	-27.4%	5,312.8	30.3%
Net position	**(14,386.1)**	**(22,532.9)**	**(10,668.6)**	**8,146.8**	**-36.2%**	**(3,717.5)**	**34.8%**

As at 31 March 2017 the operational liquidity position showed an **unencumbered Counterbalancing Capacity of approx. EUR 16 billion**, greatly improved (by about EUR 9 billion) compared to 31 December 2016, due to the combined effect of the increase in commercial funding and the issue of the BMPS securities with government backing.

Shareholders' equity

As at 31 March 2017, the **Group's shareholders' equity and non-controlling interests** totalled around **EUR 6.0 billion**, down by about EUR 3.7 billion compared with end of March 2016 and by about EUR 416 million compared to 31 December 2016. The quarterly dynamics are essentially due to the loss of the period (EUR -169 million) and to the worsening of the AFS portfolio value (mainly due to the expansion of the BTP/Bund Spread) and the partial re-absorption of the capital gains connected to the financial liabilities issued in fair value option. There is also a Q/Q fall in the minority interests for the deconsolidation of the subsidiary COEM.

Reclassified Consolidated Balance Sheet

Equity	31/03/17	31/12/16	31/03/16	Chg Q/Q Abs.	Chg Q/Q %	Chg Y/Y Abs.	Chg Y/Y %
Group net equity	6,041.9	6,425.4	9,675.3	(383.5)	-6.0%	(3,633.4)	-37.6%
a) Valuation reserves	7.4	47.3	(36.5)	(39.9)	-84.4%	43.9	n.s.
c) Equity instruments carried at equity	-	-	-	-	-	-	
d) Reserves	(1,162.0)	2,253.6	610.5	(3,415.6)	n.s.	(1,772.5)	n.s.
e) Share premium	-	-	6.3	-	-	(6.3)	-100.0%
f) Share capital	7,365.7	7,365.7	9,001.8	-	-	(1,636.1)	-18.2%
g) Treasury shares (-)	-	-	-	-	-	-	-
h) Net profit (loss) for the period	(169.2)	(3,241.1)	93.2	3,071.9	-94.8%	(262.4)	n.s.
Non-controlling interests	2.4	34.9	25.7	(32.5)	-93.1%	(23.3)	-90.7%
Total Group Shareholder's Equity and Non-controlling interests	**6,044.3**	**6,460.3**	**9,701.0**	**(416.0)**	**-6.4%**	**(3,656.7)**	**-37.7%**

Capital adequacy

Regulatory capital and requirements

At 31 March 2017 the Group's level of capital on a transitional basis is shown in the following table:

Categories / Values	Risk Weighted Assets		Chg. 31.12	
	31 03 2017	31 12 2016	Abs.	%
OWN FUNDS				
Common Equity Tier 1 (CET1)	4,167.8	5,353.4	(1,185.6)	-22.15%
Tier 1 (T1)	4,616.1	5,353.4	(737.3)	-13.77%
Tier 2 (T2)	1,119.1	1,463.9	(344.8)	-23.55%
Total capital (TC)	**5,735.2**	**6,817.3**	**(1,082.1)**	**-15.87%**
RISK ASSETS				
Credit and Counterparty Risk	52,343.0	53,520.8	(1,177.8)	-2.20%
Credit valuation adjustment risk	406.7	479.5	(72.8)	-15.18%
Market risks	3,307.5	3,045.6	261.9	8.60%
Operational risk	8,425.8	8,475.8	(50.0)	-0.59%
Risk-weighted assets	**64,482.9**	**65,521.7**	**(1,038.8)**	**-1.59%**
CAPITAL RATIOS				
CET1 capital ratio	**6.46%**	**8.17%**	**-1.71%**	
Tier1 capital ratio	**7.16%**	**8.17%**	**-1.01%**	
Total capital ratio	**8.89%**	**10.40%**	**-1.51%**	

Compared to 31 December 2016, CET1 has decreased (by about EUR -1,186 million) mainly due (EUR -809 million) to the application of the transitional rules for 2017, which are less favourable than those of 2016; in particular:

- 40% of the loss for the 2016 financial year that the transitional rules allowed for temporarily posting under Additional Tier1 until 31 December 2016;
- the application of the phasing-in 2017 (up from the previous year);
- the major regulatory deductions for the reduction of CET1 exceptions.

The decrease in CET1 also includes the portion of the loss for the period (80% on the basis of the transitional rules and equal to EUR -135 million), the negative change in reserves on AFS securities (EUR -150 million, including phasing-in effects), the largest deductions due to the CET1 exemptions (EUR -68 million) and prudential filters as well as other residual effects for a total of EUR -23 million.

Tier1 has decreased less than CET1 (EUR -737 million) inasmuch as a positive Additional Tier 1 is reconstituted, thanks to the release of 40% of the 2016 loss that cannot be temporarily calculated in CET1.

Tier2 decreases by approximately EUR -345 million mainly due to the negative effect of the regulatory write-down of junior securities (EUR -180 million) and the worsening of the deductions from the supplementary capital (EUR -165 million).

Overall, the Total Capital level has decreased by EUR -1,082 million.

The RWA recorded a total decrease (EUR -1,039 million) as a result of the contraction of the "credit and counterparty risk" (EUR -1,178 million) due to the reduction in exposures to customers and the lower contribution of RWA to the capital due to the decrease in CET1 exemptions. In addition, the "CVA risk" (EUR -73 million) and "operational risk" (EUR -50 million) component are also reduced while the "market risk" (EUR +262 million) has increased.

In light of the above, at 31 March 2017 the capital ratios on a transitional basis are therefore down compared to 31 December 2016, remaining below the minimum thresholds required by the Supervisory Authority within the sphere of the SREP (CET1 ratio on transitional bases of 10.75%). For that matter, the CET1 ratio is less than the minimum required to cover the Capital Conservation Buffer requirement.

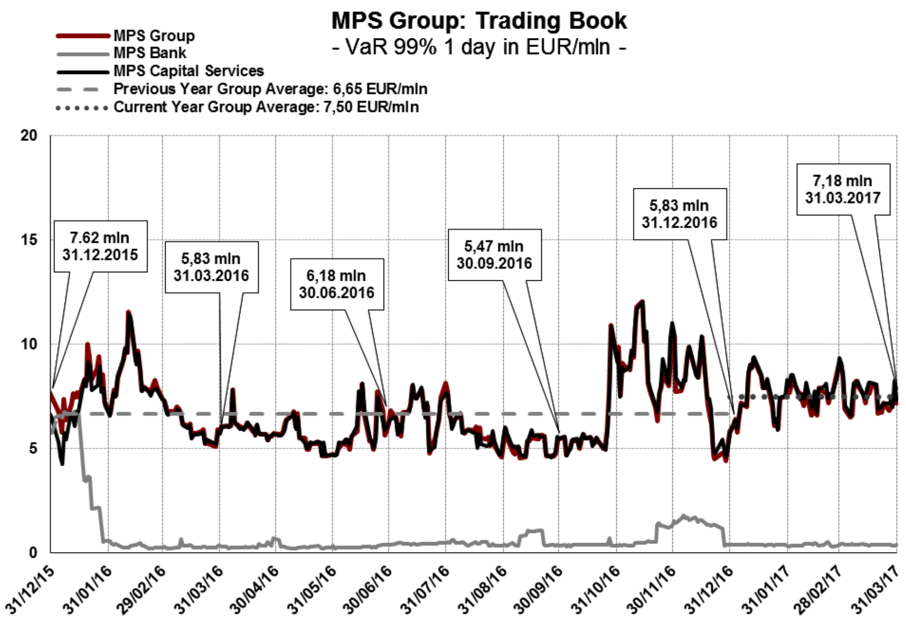
Risk Information

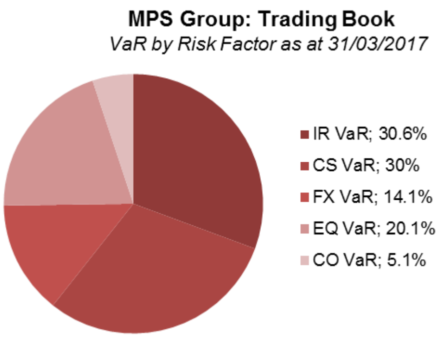
Market risks

Risk exposure

The market risk of the Group's Supervisory Trading Book, measured as VaR, showed a slight increase at 31 March 2017 compared to the end of December 2016, standing at EUR 7.18 million.

During the first quarter of the year 2017, the market risks of the Group's Supervisory Trading Book showed, in terms of VaR, a trend influenced mainly by the trading activity of the subsidiary MPSCS, both in Italian government securities in Italy and in IR derivatives, predominantly Long Futures and Interest Rate Future Options.



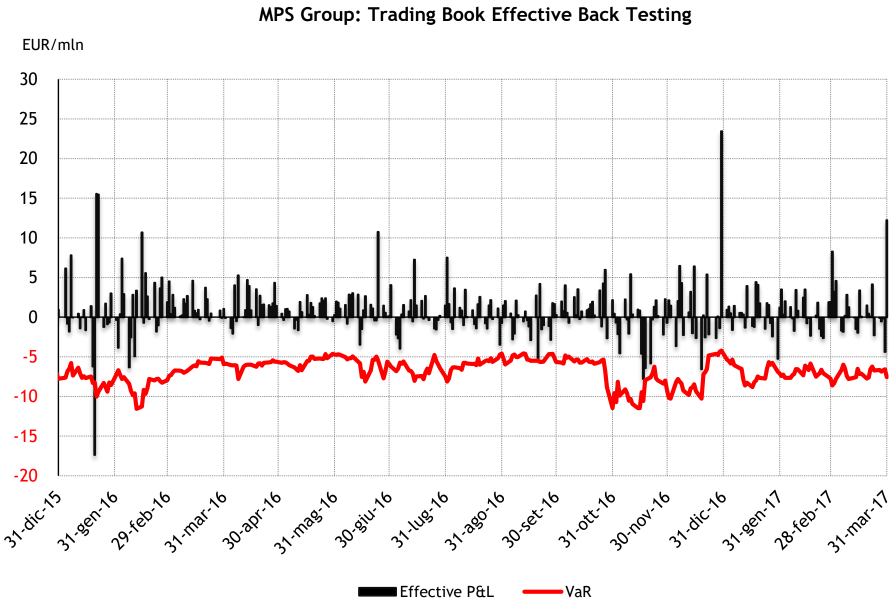


MPS Group: Trading Book
VaR 99%1 day in EUR/mln

	VaR	Date
End of Period	7.18	31/03/2017
Min	5.79	04/01/2017
Max	9.31	13/01/2017
Average	7.50	

VaR model backtesting

The chart below shows the Actual Backtesting results of the internal Market Risks model in relation to the Group's Supervisory Trading Book for 2016 and for the first three months of 2017:



There are no exceptions resulting from the retrospective test in the first quarter of 2017.

Liquidity risk

Risk exposure

The Group's liquidity reserves at the end of the quarter have improved compared to the end of 2016 with the Liquidity Coverage Ratio (LCR) at 164.1% and the Net Stable Funding Ratio (NSFR) at 95.0%.

The ratio of the balance of the Group's consolidated assets after one month is 10%.

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 so-called "business approach". Consolidated income statement and balance sheet data are broken down and re-aggregated based on criteria including: business area monitored, operating structure of reference, relevance and strategic importance of activities carried out, and customer clusters served.

At the end of 2016, the parent company's new structure was outlined within the broader objectives of the Plan and it was fully implemented at the beginning of 2017. This approach envisaged the implementation of a business organizational model specialising in three directions (Retail, Wealth Management, Corporate), each with responsibilities for the markets, segments and products of their competence. In particular, as innovative elements, we mention: the creation of the Wealth Management Department, focused on the management and development of high standing customers, and Banca Widiba SPA, which has taken on the importance of a stand-alone business segment.

Based on the Group organisational structures in place as at 31 March 2017 and the reporting criteria at the highest decision-making level, the following operating segments were identified:

- **Retail Banking**, which includes the business activities of the Retail clientele (Value, Premium and Small Business segments);
- **Corporate Banking**, which includes the commercial activities of Corporate customers (the SME, Bodies and Top Corporate segments), Large Corporate Groups, Foreign Branches and the subsidiaries MPS Capital Services, MPS Leasing & Factoring and of the foreign banks MP Belgium and MP Banque;
- **Wealth Management**, which includes the commercial activities of the Private clientele (Private and Family Office segments) and the subsidiary MPS Fiduciaria;
- **Banca Widiba SpA**, which includes the network of financial advisers and the self channel;
- **Corporate Centre**, which receives cancellations against intra-group items and 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 periods compared have been re-constructed, retrospectively, to take into account the current structure of the reporting segment.

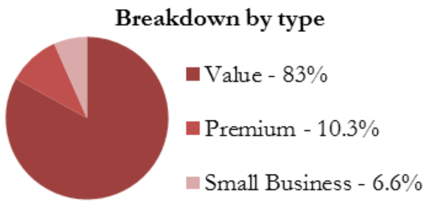
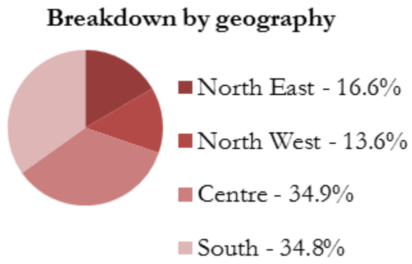
Results in brief

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

SEGMENT REPORTING	Business Segments											
Primary segment	Retail banking		Wealth Management		Corporate banking		Widiba		Corporate Center		Total MPS Group	
(EUR mln)	31/03/17	Chg % Y/Y	31/03/17	Chg % Y/Y	31/03/17	Chg % Y/Y	31/03/17	Chg % Y/Y	31/03/17	Chg % Y/Y	31/03/17	Chg % Y/Y
PROFIT AND LOSS AGGREGATES												
Total Income	666.9	-15.4%	43.7	-13.2%	307.5	-27.8%	11.7	20.1%	(96.6)	8.7%	933.2	-21.3%
Operating expenses	(451.1)	-2.8%	-16.8	-2.5%	-154.2	-2.4%	-14.4	-8.0%	8.9	-8.3%	(627.5)	-2.7%
Pre Provision Profit	215.8	-33.4%	26.9	-18.8%	153.4	-42.8%	-2.7	-54.7%	(87.7)	10.8%	305.6	-43.4%
Net impairment losses (reversals) on loans and financial assets	(158.2)	-13.8%	-0.2	-76.6%	-123.7	-17.6%	-0.1	n.s.	(20.9)	29.4%	(303.1)	-13.2%
Net Operating Income	57.5	-59.1%	26.7	-17.2%	29.7	-74.8%	-2.7	-36.4%	(108.7)	13.9%	2.5	-98.7%
BALANCE SHEET AGGREGATES												
Interest-bearing loans to customers	88,791	-9.7%	20,642.3	-10.1%	27,643.8	-31.8%	6,898.2	7.5%	62,381	-39.5%	206,356	-8.0%
Deposits from customers and debt securities issued(*)	42,395	-17.4%	2,847.7	-34.7%	13,980.0	-33.0%	1,628.3	6.9%	48,539	17.1%	109,390	-8.5%
Indirect funding	46,396	-1.3%	17,794.6	-4.4%	13,663.8	-30.5%	5,270.0	7.7%	13,842	-6.1%	96,966	-7.6%
Assets under management	*35,627*	*4.6%*	*12,307.6*	*-2.5%*	*1,710.3*	*13.5%*	*4,749.4*	*10.9%*	*2,862*	*4.1%*	57,256	*3.7%*
Assets under custody	*10,769*	*-16.8%*	*5,487.0*	*-8.3%*	*11,953.5*	*-34.1%*	*520.6*	*-14.8%*	*10,980*	*-8.4%*	39,710	*-20.0%*

(*) Relating to the values of the business segments, which are "live" gross receivables and therefore not included in the adjustment provisions.

Retail Banking

<table>
<tr><th>Business areas</th><th>Customers</th></tr>
<tr><td rowspan="3">Funding and the offer of insurance products
The issue of loans
Financial consulting services
Electronic payment services</td><td>Retail customers number about 4.8 million</td></tr>
<tr><td></td></tr>
<tr><td></td></tr>
</table>

Economic and financial results

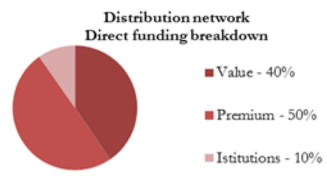
At 31 March 2017, the **Comprehensive Funding of the Retail Banking** amounted to approximately **EUR 88.8 billion**, down by about EUR 0.9 billion compared to the end of December 2016 (about EUR -9.5 billion at 31 March 2016), essentially due to the decrease in the direct component influenced by the attrition which featured the 4th quarter of 2016 due to the negative results of the recapitalization transaction, which continued, albeit with less intensity, until January, showing partial recovery in February and March. More specifically:

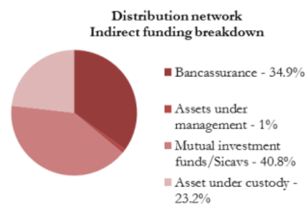
- **Direct Funding** amounted to **EUR 42.4 billion**, showing a decrease of EUR 0.9 billion Q/Q, which was also penalized by the quarterly bond maturities (a decrease of EUR -2.5 billion in the medium-long term); however, there is growth in the on demand/short-term forms. A Y/Y decrease of EUR 8.9 billion on all clientele segments was registered, mainly on the medium-long term forms.

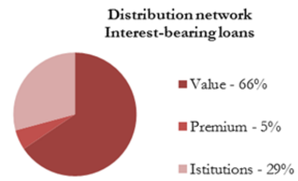
- **Indirect Funding**, amounting to approximately **EUR 46.4 billion**, is stable compared to the end of December 2016 (EUR -0.6 billion on March 2016) thanks to the positive dynamics of managed savings (EUR +0.2 billion Q/Q), offset by the decline in assets under custody (approximately EUR -0.3 billion).

"Live" loans to customers of Retail Banking went from about EUR 44.1 billion at the end of December 2016 to **EUR 43.4 billion** at 31 March 2017, down EUR 0.7 billion in the first quarter of 2017 (-1.7% Q/Q), mainly in the case of the medium-long term loans, which are affected not only by the continuation of the "run-off" of the former subsidiary Consum.it, but also by the maturity of the loans, only partially offset by the new disbursements and the transfer to doubtful loans of the period.

RETAIL BANKING - BALANCE SHEET AGGREGATES							
(Eur mln)	31/03/17	31/12/16	31/03/16	Chg Abs Q/Q	Chg % Q/Q	Chg Abs Y/Y	Chg % Y/Y
Deposits from customers and debt securities issued	**42,395**	**43,254**	**51,320**	**-859**	**-2.0%**	**-8,925**	**-17.4%**
Assets under management	*35,627*	*35,385*	*34,061*	*242*	*0.7%*	*1,566*	*4.6%*
Assets under custody	*10,769*	*11,043*	*12,936*	*-275*	*-2.5%*	*-2,167*	*-16.8%*
Indirect Funding	**46,396**	**46,428**	**46,997**	**-32**	**-0.1%**	**-601**	**-1.3%**
Total Funding	**88,791**	**89,682**	**98,317**	**-891**	**-1.0%**	**-9,526**	**-9.7%**
Interest-Bearing Loans to Customers	**43,378**	**44,122**	**47,005**	**-743**	**-1.7%**	**-3,627**	**-7.7%**







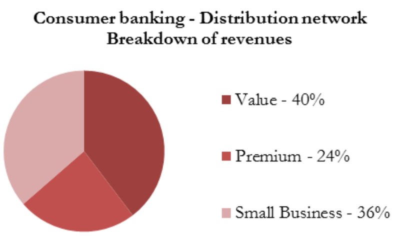
With regard to the economic results, in the first quarter of 2017 Retail Banking achieved total **Revenues** of approximately **EUR 667 million**, down by 15.4% compared to the same period of the previous year. Within the aggregate:

- the Interest Margin at 31 March 2017 amounted to about EUR 322 million, down by 26.9% on an annual basis, mainly due to the fall in the return on trading (volumes and rates), and the reduction in the contribution of the funding (essentially the effect of lower volumes of direct deposits which were EUR -8.9 billion)
- Net Commissions amounted to about EUR 328 million, down on the previous year's level (-2.5%), and in which the growth of the products component is highlighted, while the proceeds of the receivables have decreased less that commissions on services.

Considering the impact of operating expenses, which have decreased by 2.8% Y/Y, in the first quarter of 2017 Retail Banking generated a **Gross Operating Income** of about EUR 216 million (-33.4% Y/Y). Adjustments of net value for impairment of loans and financial assets decreased by 13.8% compared with the values recorded in the same period of 2016. The progressive **Net Operating Profit** as of the beginning of the year is **positive for about EUR 58 million**

The **cost-income** of the Operating Segment is **67.6%** (compared to 58.9% at the end of March 2016).

RETAIL BANKING - PROFIT AND LOSS AGGREGATES				
			Chg. Y/Y	
(EUR mln)	31/03/17	31/03/16	Abs.	%
Net interest income	*322.2*	*440.6*	*-118.4*	*-26.9%*
Net fee and commission income	*328.4*	*336.9*	*-8.5*	*-2.5%*
Other income	*10.0*	*9.8*	*0.1*	*1.4%*
Other operating expenses/income	*6.4*	*0.8*	*5.6*	*n.s.*
Total Income	**666.9**	**788.1**	**-121.2**	**-15.4%**
Operating expenses	*(451.1)*	*(463.9)*	*12.8*	*-2.8%*
Pre Provision Profit	**215.8**	**324.2**	**-108.4**	**-33.4%**
Net impairment losses (reversals) on loans and financial assets	(158.2)	(183.6)	25.3	-13.8%
Net Operating Income	**57.5**	**140.6**	**-83.1**	**-59.1%**



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 customers
- Services and products for high-standing customers in the areas of wealth management, financial planning, consulting on non-strictly financial services (tax planning, real estate, art & legal advisory),
- fiduciary and trust services (through the subsidiary MPS Fiduciaria).

</td><td>Private customers number around 38 thousand.</td></tr>
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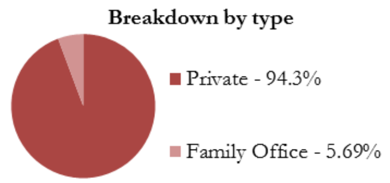

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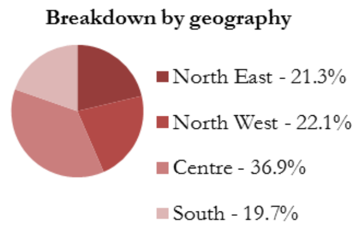

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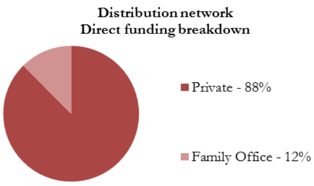
Economic and financial results

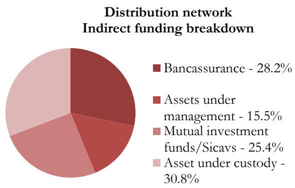
At March 31, 2017, the **Comprehensive Funding** of Wealth Management amounted to approximately **EUR 20.6 billion**, a decrease of about EUR 0.4 billion compared to the levels recorded at the end of December 2016 (about EUR -2.3 billion compared to 31 March 2016), with a quarterly trend characterized by the reduction of the indirect component and stability of the direct component, which affected the attrition phenomena of the 4th quarter of 2016, linked to the negative outcome of the recapitalization transaction which also continued in the first quarter of 2017, albeit with minor intensity. More specifically:

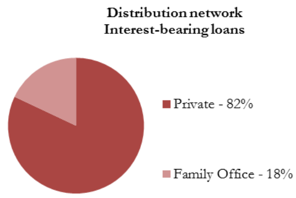
- **Direct Funding** in the 1st quarter of 2017 remained at the levels of the end of the year 2016 (after the significant reduction compared to March 2016), amounting to **EUR 2.8 billion** with a recomposition in favour of the on demand components, which compensates for the decline in the short /medium-long term components.
- **Indirect Funding**, amounting to about **EUR 17.8 billion**, decreased by EUR 0.4 billion compared to the end of December 2016 (EUR -0.8 billion on March 2016) and compared to the managed assets and the assets under custody.

"Live" loans to Wealth Management customers are essentially stable Q/Q at approximately **EUR 0.6 billion** (+ 3.1% Y/Y).

WEALTH MANAGEMENT - BALANCE SHEET AGGREGATES							
(EUR mln)	31/03/17	31/12/16	31/03/16	Chg Abs Q/Q	Chg % Q/Q	Chg Abs Y/Y	Chg % Y/Y
Deposits from customers and debt securities issued	**2,848**	**2,785**	**4,364**	**63**	**2.2%**	**-1,516**	**-34.7%**
Assets under management	*12,308*	*12,634*	*12,622*	*-326*	*-2.6%*	*-314*	*-2.5%*
Assets under custody	*5,487*	*5,609*	*5,984*	*-122*	*-2.2%*	*-497*	*-8.3%*
Indirect Funding	**17,795**	**18,242**	**18,606**	**-448**	**-2.5%**	**-811**	**-4.4%**
Total Funding	**20,642**	**21,028**	**22,970**	**-385**	**-1.8%**	**-2,328**	**-10.1%**
Interest-Bearing Loans to Customers	**598**	**590**	**580**	**8**	**1.4%**	**18**	**3.1%**







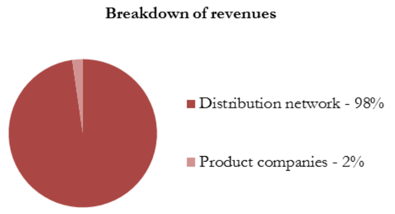
With regard to the economic results, in the first quarter of 2017 Wealth Management achieved total **Revenues** of approximately **EUR 44 million**, down by 13.2% compared to the same period of the previous year. Within the aggregate:

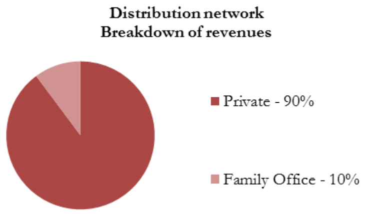
- Interest Margin at 31 March 2017 amounted to approximately EUR 9 million, down by 22.6% on an annual basis, largely affected by the fall in the direct funding contribution (mainly due to the withdrawal representing -34.7% Y/Y);
- Net Commissions for the first three months of 2017 amount to approximately EUR 34 million, which is also a fall on the previous year's level (-10.2%) as a result of the contraction of both the continuing products segment and of placement.

Considering the impact of operating expenses, which have decreased by 2.5% Y/Y, Wealth Management, in the first quarter of 2017, achieved a **Gross Operating Income** of about **EUR 27 million** (-18.8% Y/Y). Including net value adjustments for the impairment of loans and financial assets, of EUR 0.2 million, the **Net Operating Profit** from the beginning of the year was approximately **EUR 27 million**.

The **cost-income** of the Operating Segment is **38.4%** (compared to 34.2% at the end of March 2016).

WEALTH MANAGEMENT - PROFIT AND LOSS AGGREGATES				
			Chg. Y/Y	
(EUR mln)	31/03/17	31/03/16	Abs.	%
Net interest income	*9.2*	*11.9*	*-2.7*	*-22.6%*
Net fee and commission income	*34.2*	*38.1*	*-3.9*	*-10.2%*
Other income	*0.2*	*0.3*	*-0.1*	*-28.8%*
Other operating expenses/income	*0.0*	*0.0*	*0.0*	*n.s.*
Total Income	**43.7**	**50.3**	**-6.6**	**-13.2%**
Operating expenses	*(16.8)*	*(17.2)*	*0.4*	*-2.5%*
Pre Provision Profit	**26.9**	**33.1**	**-6.2**	**-18.8%**
Net impairment losses (reversals) on loans and financial assets	(0.2)	(0.9)	0.7	-76.6%
Net Operating Income	**26.7**	**32.2**	**-5.5**	**-17.2%**





Results of the main subsidiaries

- **MPS Fiduciaria**: Profit for the period was about EUR 0.1 million less than the levels recorded in March 2016 (-28.2% Y/Y).

Corporate Banking

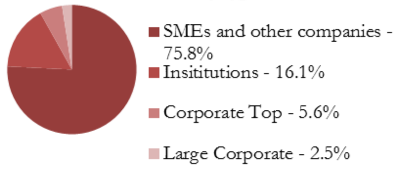
Business areas

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

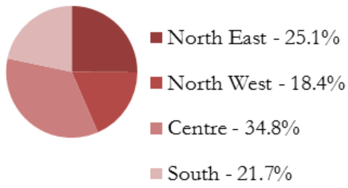
Customers

About 53,500 Corporate and Large Group customers of the parent company, directly followed by Corporate Banking.

Breakdown by type



Breakdown by geography

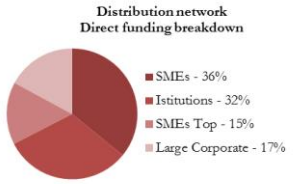


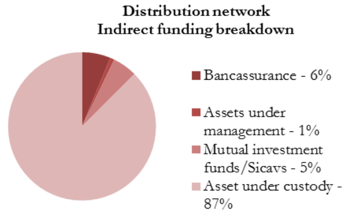
Economic and financial results

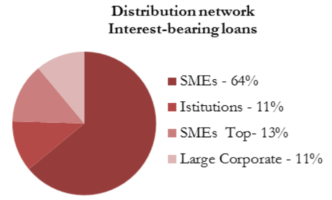
The **Comprehensive Funding** of the Corporate Banking segment increased by about EUR 2.5 billion, from EUR 25.2 billion at the end of December to **EUR 27.7 billion** 31 March 2017 (EUR -13 billion compared to 31 March 2016, of which about EUR -6.2 billion refer to the assets under custody influenced, in the 2nd quarter of 2016, by the merger by incorporation of a large customer without economic impact). The quarterly dynamics of the aggregate are due to the increase in direct funding (EUR +2.4 billion Q/Q), recorded on on-demand/short-term forms (EUR +2.6 million), only partially offset by the fall in the medium-long term component (EUR -0.2 billion).

With regard to lending, at 31 March 2017, **"live" loans to customers** of the Corporate Banking segment stood at approximately **EUR 41.6 billion** (-0.9% compared to 31 December 2016, -14.9% compared to 31 March 2016), mainly concentrated in medium-long term loans.

CORPORATE BANKING - BALANCE SHEET AGGREGATES							
(EUR mln)	31/03/17	31/12/16	31/03/16	Chg Abs Q/Q	Chg % Q/Q	Chg Abs Y/Y	Chg % Y/Y
Deposits from customers and debt securities issued	**13,980**	**11,567**	**20,863**	**2,413**	**20.9%**	**-6,883**	**-33.0%**
Assets under management	*1,710*	*1,617*	*1,507*	*93*	*5.7%*	*203*	*13.5%*
Assets under custody	*11,954*	*11,973*	*18,149*	*-19*	*-0.2%*	*-6,196*	*-34.1%*
Indirect Funding	**13,664**	**13,590**	**19,656**	**74**	**0.5%**	**-5,992**	**-30.5%**
Total Funding	**27,644**	**25,157**	**40,519**	**2,487**	**9.9%**	**-12,875**	**-31.8%**
Interest-Bearing Loans to Customers	**41,554**	**41,943**	**48,803**	**-389**	**-0.9%**	**-7,249**	**-14.9%**







From a P&L standpoint, in the first three months of 2017, Corporate Banking generated **Revenues** of around **EUR 308 million** (-27.8% Y/Y). Within the aggregate:

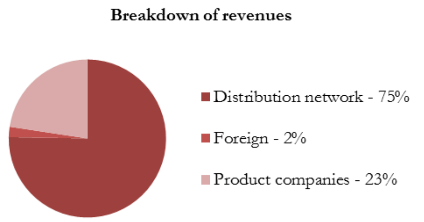
- the Interest Margin amounted to approximately EUR 179 million, showing a decrease of 30.7% on an annual basis as a result of the fall in returns on commercial assets (rates and volumes, the latter falling by around 15% Y/Y);
- Net Commissions decreased by 15.6% Y/Y to approximately EUR 100 million, penalized above all by the downward trend in revenues linked to Credit/Foreign services, which also suffered from the reduction in operating volumes;
- Other Revenues from Financial and Insurance Management amounted to approximately EUR 31 million (-44.8% Y/Y), attributable to the operations of the subsidiary MPS Capital Services.

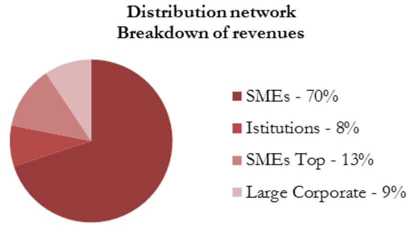
Considering the impact of operating expenses, which have decreased by 2.4% Y/Y, the Gross Operating Income amounted to about **EUR 153 million** (-42.8% Y/Y). The **Net Operating Profit** of the segment was approximately **EUR 30 million** (the result at 31 March 2016 was EUR 118 million), also due to the improvement in value adjustments due to impairment of loans and financial assets (EUR +26 million Y/Y).

The Corporate Banking **Cost Income** ratio stands at **50.1%** (at 31 March 2016 it was 37.1%).

CORPORATE BANKING - PROFIT AND LOSS AGGREGATES

			Chg. Y/Y	
(EUR mln)	31/03/17	31/03/16	Abs.	%
Net interest income	*179.0*	*258.5*	*-79.5*	*-30.7%*
Net fee and commission income	*99.8*	*118.3*	*-18.5*	*-15.6%*
Other income	*30.9*	*55.9*	*-25.0*	*-44.8%*
Other operating expenses/income	*(2.2)*	*(6.6)*	*4.4*	*n.s.*
Total Income	**307.5**	**426.1**	**-118.6**	**-27.8%**
Operating expenses	*(154.2)*	*(158.0)*	*3.8*	*-2.4%*
Pre Provision Profit	**153.4**	**268.1**	**-114.8**	**-42.8%**
Net impairment losses (reversals) on loans and financial assets	(123.7)	(150.2)	26.5	-17.6%
Net Operating Income	**29.7**	**118.0**	**-88.3**	**-74.8%**





Results of the main subsidiaries

- **MPS Capital Services**: net profit for the period of about EUR 15.1 million, down by about EUR 14 million compared with the result achieved in the first quarter of 2016 due to the contraction in revenues (especially the interest margin and the results of trading), partially offset by the decrease in net value adjustments (-87% Y/Y).

- **MPS Leasing & Factoring**: pre-tax result equal to EUR -12.6 million (EUR + 0.2 million compared to the previous year) thanks to growing revenue dynamics, the positive performance of the Interest Margin (which benefits from a lower funding cost), only partially offset by higher net value adjustments (EUR -2 million Y/Y). The net loss for the period stands at EUR -12.1 million, a decrease of EUR 4.2 million compared to the previous year, mainly due to the negative effect of the probability test applied in the calculation of taxes.

- **Foreign banks**[3]: In the first quarter of 2017, **MP Banque** sustained a net loss of EUR -0.1 million less than that of the same period of the previous year (EUR -0.7 million at 31 March 2016), thanks to decreased operating costs; with regard to **MP Belgium**, the result for the period was positive for about EUR 0.5 million, against a profit of about EUR 2.6 million recorded at 31 March 2016, representing a Y/Y decrease due to lower revenues linked to the interest margin, higher operating expenses and an increase in net value adjustments.

[3]The profit reported for foreign subsidiaries is local.

Widiba Bank

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

- Banking products and services, deposit accounts, cards and advanced payment systems; customer's transactions in self mode through the bank's digital channels or in assisted mode with the support of a Financial Advisor.
- Fully customizable on-line platform which uses a Network of 622 Financial Advisors accessible throughout the country.
- Funding, Global Consulting Service and Financial Planning through the advanced WISE platform and the expertise of the Financial Advisory Network.
- Mortgages, overdrafts and personal loans.
- Innovative interaction via PCs, smartphones, tablets, watches and TV.

</td><td>Customers at 31/03/17 number approximately 167,400, of which about 123,000 take avail of the Financial Advisers Network channel and about 44,400 use the Self Channel. About 141,200 customers are managed exclusively by Banca Widiba SpA.</td></tr>
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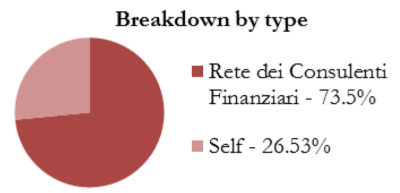

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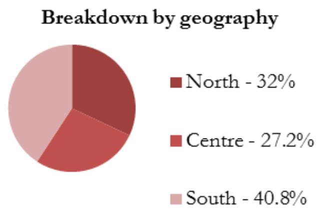

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</table>

Economic and financial results

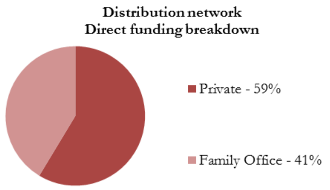
At 31 March 2017, the **Comprehensive Funding** of Widiba amounted to about **EUR 6.9 billion**, representing an increase of about EUR 0.2 billion compared to the levels recorded at the end of December 2016 (about EUR +0.5 billion compared to 31 March 2016), with a quarterly trend characterized by growth in both the Direct and Managed Savings and marked growth in the customer base in the quarter of approximately +6,100 units. More specifically:

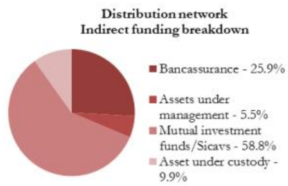
- **Direct Funding** of **EUR 1.6 billion**, after the difficult market scenario of the last quarter of 2016, recorded a recovery in volumes (+ EUR 65 million compared to the end of December 2016 and EUR +105 million on March 2016) on both current accounts and on tied lines. The main business initiatives of the quarter were: special rates reserved to new customers, and retention campaigns and the development of "fresh money" dedicated to established customers; customer development with focus on "high added value" actions; consolidation of business and customer support processes through Widiba Media Center;

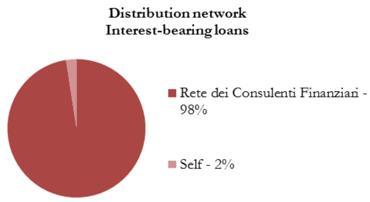
- **Indirect Funding**, amounting to approximately **EUR 5.3 billion,** increasing by EUR 0.2 billion compared to the end of December 2016 (EUR +0.4 billion on March 2016), mainly due to the positive sales performance of the Network of Financial Advisors that recorded positive net cash flows in the Indirect Funding segment. We mention, in particular, the positive dynamics of Managed Savings of the trust fund and investment company component. Within the Network of Financial Advisors, training activities continue with increasing focus on the consulting services based on the new WISE platform (the new global advisory model). Twelve new Financial Advisors were introduced during the quarter.

"Live" loans to Widiba customers increased from about EUR 44 million at the end of December 2016 to **EUR 57 million** at 31 March 2017. The growth is mainly related to the launch of Widiba's mortgage offer, with approximately EUR 13 million new loans in the quarter. The Widiba mortgage (the first 100% paperless mortgage in Italy) won two important national awards in the first quarter of 2017 (the ABI award for innovation and the AIFIN "Cerchio d'Oro" award).

WIDIBA BANK - BALANCE SHEET AGGREGATES							
(EUR mln)	31/03/17	31/12/16	31/03/16	Chg Abs Q/Q	Chg % Q/Q	Chg Abs Y/Y	Chg % Y/Y
Deposits from customers and debt securities issued	**1,628**	**1,563**	**1,524**	**65**	**4.2%**	**105**	**6.9%**
Assets under management	*4,749*	*4,557*	*4,283*	*192*	*4.2%*	*466*	*10.9%*
Assets under custody	*521*	*538*	*611*	*-18*	*-3.3%*	*-90*	*-14.8%*
Indirect Funding	**5,270**	**5,096**	**4,894**	**174**	**3.4%**	**376**	**7.7%**
Total Funding	**6,898**	**6,659**	**6,418**	**239**	**3.6%**	**481**	**7.5%**
Interest-Bearing Loans to Customers	**57**	**44**	**54**	**13**	**28.5%**	**3**	**5.8%**







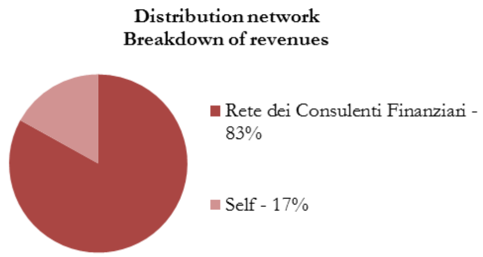
With regard to the economic results, in the first quarter of 2017 Widiba achieved total **Revenues** of approximately **EUR 12 million**, a significant increase (+ EUR 2 million; + 20.1%) on the same period of the previous year. The contribution of 1st quarter of 2017 also shows an increase on the previous quarter (EUR +2.9 million, + 33.2%), thanks to the increase in net commissions. Within the aggregate:

- the **Interest Margin** at 31 March 2017 amounts to approximately EUR 7 million, with a decrease of 7.9% on the first quarter of 2016 due to a lower interest rate on Financial Services, which was only partially offset by a lower collection cost; the contribution of the first quarter of 2017 stands at the same levels as in the previous quarter;
- **Net Commissions** of the first quarter of 2017 amount to approximately EUR 5 million, showing strong growth compared to the first quarter of 2016 and to the preceding quarter, mainly due to higher revenues from placing (thanks to the positive sales performance of the Financial Advisors' Network) and by the continuing Managed Savings products (the higher average Managed Savings volumes).

Taking into account the impact of Operating Expenses, which have decreased by 8.0% compared to the first quarter of 2016, especially thanks to cost-efficiency measures that have allowed the growth of the customer base at lower acquisition costs, in the first quarter of 2017 Widiba achieved a **gross operating income** of **EUR -2.7 million**, representing an improvement of EUR +3.2 million (+ 54.7%) compared to the first quarter of 2016.

The **Net Operating Profit** of the 1st quarter of 2017 is **negative at approximately EUR -2.7 million**, but it has improved on the previous year by EUR +1.6 million (+ 36.4%).

WIDIBA BANK - PROFIT AND LOSS AGGREGATES				
			Chg. Y/Y	
(EUR mln)	31/03/17	31/03/16	Abs.	%
Net interest income	*7.0*	*7.6*	*-0.6*	*-7.9%*
Net fee and commission income	*5.0*	*2.0*	*3.0*	*n.s.*
Other income	*0.0*	*0.0*	*0.0*	*-44.1%*
Other operating expenses/income	*(0.3)*	*0.2*	*-0.4*	*n.s.*
Total Income	**11.7**	**9.8**	**2.0**	**20.1%**
Operating expenses	*(14.4)*	*(15.6)*	*1.3*	*-8.0%*
Pre Provision Profit	**(2.7)**	**(5.9)**	**3.2**	**-54.7%**
Net impairment losses (reversals) on loans and financial assets	(0.1)	1.6	-1.6	n.s.
Net Operating Income	**(2.7)**	**(4.3)**	**1.6**	**-36.4%**



Corporate Centre

The Corporate Centre includes:

- head office units, particular 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 intra-group entries, the Corporate Centre also collects the results of companies consolidated by the equity method and those in the process of being disposed, as well as the results of operational branches that are individually below the minimum parameters for external disclosure requirements.

Prospects and outlook on operations

World growth improved in the second half of last year and forecasts show sustained growth at the beginning of 2017, in particular both advanced economies and emerging market economies (EMEs) will support growth. Tax measures to stimulate growth should strengthen business in the United States, while the gradual alleviation of the deep recession suffered by some of the major exporters of raw materials will have similar effects on EME growth. However, uncertainty remains high due to numerous factors. These include: the development of new US administration policies and the effects on the country's economy and the global fall-out of said policies; the strength of the recovery in raw material exporting countries; the gradual rebalancing of the Chinese economy; and future relations between the United Kingdom and the European Union.

The economic recovery of the Euro area is being steadily consolidated. In the fourth quarter of 2016, the real GDP in the area rose 0.4 percent on the previous period, following a similar pace to that of the third quarter. The most recent data, especially the results of the macroeconomic surveys, have increased the confidence of the ECB's Governing Council in the continuing economic expansion and consolidation. Nevertheless, economic growth in the Euro area could still be slowed down by the tardy implementation of the structural reforms and by the need for budget adjustments that persist in certain sectors.

The ECB's monetary policy measures have continued to maintain the very favourable financing conditions that are necessary to ensure that inflation rates continue to remain at low levels, although not much below 2 percent in the medium term. The transmission of these measures to family and corporate loans facilitates credit and will sustain the continued consolidation of recovery in the Euro area. Overall inflation has again increased, largely due to an increase in commodities, especially foodstuffs and energy. However, the basic inflationary pressures remain moderate. With regard to the programme for the long-term refinancing of banks at extremely advantageous conditions (the so-called "TLTRO 2"), at the end of March the fourth and final auction was held to favour the credit flow especially to companies.

With reference to the Group, Banca Monte dei Paschi di Siena has started the procedure to gain access to the "Precautionary Recapitalization" measure, for a total amount of EUR 8.8 billion, identified by ECB and related to the shortfall in the adverse scenario relating to the implementation of the relative stress-test. The "Precautionary Recapitalization" process involves the underwriting of new shares issued by the Bank by both the State and junior bondholders through enforced conversion (following the "cost-sharing" mechanism, also referred to as "Burden Sharing"), according to the indications set out in Decree 237, approved by the Council of Ministers on 23 December 2016 and then converted into law on 17 February 2017. On 09 March 2017 the parent company's Board of Directors approved a preliminary restructuring plan proposal that was submitted to the EU Commission's DG Comp. At present, the representatives of the MPS Bank and of the Antitrust Authority are liaising to reach a Agreement for the Approval of the Restructuring Plan Preparatory to the Final Precautionary Recapitalisation.

With regard to the non-performing loans portfolio, the Bank is considering alternative options aimed at total or partial deconsolidation with the aim of reducing the Group's complexity and risk profile.

With regard to the ECB's On Site Inspection, completed in February 2017, at the date of the approval of the report, the process for the communication of the final inspection results has not yet been concluded.

With regard to the letter from Consob of 08 November 2016, pursuant to art. 114, paragraph 5, of Legislative Decree 58/1998, which requested information on the state of implementation of the business plan approved on 24 October 2016, showing the differences in the final data compared to those contemplated, we point out that said Plan was suspended subsequent to the precautionary recapitalization request forwarded by the State on 23 December 2016.

DECLARATION OF THE FINANCIAL REPORTING OFFICER

Pursuant to para. 2, article 154-bis of the Consolidated Law on Financial Intermediation, the Financial Reporting Officer, Nicola Massimo Clarelli, declares that the accounting information contained in this Consolidated Interim Report as at 31 March 2017 corresponds to the underlying documentary evidence and accounting records.

Siena, 04 May 2017

The Financial Reporting Officer

Signed by

Nicola Massimo Clarelli