MONTEPASCHI GROUP
CONSOLIDATED INTERIM REPORT ON OPERATIONS
AS AT 30 SEPTEMBER 2014

NOTES TO THE CONSOLIDATED INTERIM REPORT ON OPERATIONS

General

Pursuant to art. 154-ter paragraphs 5 and 6 of the Consolidated Law on Finance, the Montepaschi Group Consolidated Interim Report on Operations as at 30 September 2014 was prepared in accordance with the IAS/IFRS international accounting principles issued by the International Accounting Standards Board (IASB) including interpretations by the IFRS Interpretations Committee, as endorsed by the European Commission and effective at the time this interim report was prepared, pursuant to EC Regulation no. 1606 of 19 July 2002.

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

With reference to the classification, recognition, valuation and derecognition of the various asset, liability and equity entries, as well as the methods for recognising revenue and costs, the accounting principles used for the preparation of this Consolidated Interim Report on Operations are the same as those used for preparation of the Consolidated Financial Statements as at 31 December 2013, to which the reader is referred for more detail, with the exception of the following new accounting principles or amendments, the application of which is mandatory as of financial year 2014.

2014 has seen the first-time application of the new accounting principles **IFRS 10 "Consolidated Financial Statements"**, **IFRS 11 "Joint Arrangements"** and **IFRS 12 "Disclosure of Interests in Other Entities"**. The publication of IFRS 10 was intended to combine into a converged standard the consolidation principles previously contained in IAS 27 and SIC 12 for Special Purpose Entities; IFRS 10 requirements now apply to all entities. IFRS 10 introduces a new concept of control: an investor has control over an entity when he has exposure, or rights, to variable returns from the activities of the entity in which he has invested and has the ability to use his power over the investment to affect the amount of returns received. IFRS 10 led to the revision of IAS 27 "Consolidated and Separate Financial Statements" (reissued as IAS 27 "Separate Financial Statements"), which now sets the accounting standards and disclosure requirements for separate financial statements to be applied to investments in subsidiaries, joint ventures and associates. IFRS 11 "Joint Arrangements" replaces IAS 31 "Interests in Joint Ventures". The standard requires an entity to determine the type of joint arrangement in which it is involved by assessing its rights and obligations arising from the joint arrangement; if the entity is involved in a joint venture, it shall recognise and account for its investment in the joint venture using the equity method in accordance with IAS 28, "Investments in Associates and Joint Ventures". Proportionate consolidation is no longer permitted for joint ventures. The new standards, IFRS 10, IFRS 11 and IFRS 12, and revised standards IAS 27 and IAS 28, in conjunction with withdrawal of IAS 31, were endorsed by the European Commission with Regulation no. 1254/2012 on 11 December 2012.

With regard to the publication of the new standards on consolidation illustrated above, on 17 May 2012 the IASB published "**Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance",** which provides additional clarification on issues concerning the first-time adoption of IFRS 10, IFRS 11 and IFRS 12. Described below are the most significant clarifications set out in the Transition Guidance:

a) The date of initial application of IFRS 10 coincides with the beginning of the annual reporting period in which IFRS 10 is applied for the first time (1 January 2014 for EU entities whose financial year coincides with the calendar year);

b) At the date of initial application of IFRS 10, an entity is not required to make retrospective changes to its previous accounting for its involvement in entities which:
   i. would have been consolidated under both IFRS 10 and under IAS 27/SIC 12;
   ii. would not have been consolidated under IFRS 10 and IAS 27/SIC 12;

c) Should an investor conclude that, at the date of initial application of IFRS 10, it needs to consolidate an investee that was previously unconsolidated under IAS 27/SIC 12, IFRS 10 should be applied retrospectively, by adjusting the annual reporting period prior to the date of initial application or the initial net assets for such period if control (as defined in IFRS 10) was obtained before the beginning of the annual reporting period prior to the date of initial application;

d) Should an investor conclude that, at the date of initial application of IFRS 10, it needs to deconsolidate an investee that was previously consolidated under IAS 27/SIC 12, the interest in the (former) subsidiary should be recognised at the value at which it would have been measured had IFRS 10 been effective when the investor made the investment; When the investment was made at a date earlier than the beginning of the period immediately preceding the date of initial application, the annual reporting period prior to the date of initial application or the initial equity for such period shall be adjusted by the difference between the previously recognised amount and the carrying amount of assets, liabilities and non-controlling interests as at the date of first application;

e) Should the above requirements be impracticable (as defined in IAS 8), simplifications are in place that allow for the application of new IFRS 10 at the beginning of the earliest period in which the above requirements are practicable (which may even be the initial-application period).

The amendment was endorsed by the European Commission with Regulation 313/2013 on 4 April 2013.

In October 2012, the IASB also published **"Investment Entities"**, containing amendments to IFRS 10, IFRS 12 and IAS 27. The document introduces the definition of 'investment entity' to refer to an entity that obtains funds from third investors for the purpose of providing them with investment services, commits to its investors that its business purpose is to invest funds for returns from capital appreciation and investment income and measures the performance of substantially all of its investments on a fair value basis. An exemption from consolidation of subsidiaries is provided for these entities. In particular, the amendment requires these entities to measure their controlling interests at fair value through profit or loss in both their consolidated and separate financial statements. The document also introduces amendments to IFRS 12 and IAS 27 on information to be disclosed. The amendment is effective for annual periods beginning on or after 1 January 2014. The principle was endorsed by the European Commission with Regulation no. 1174/2013 on 20 November 2013 and is mandatorily to be applied for annual periods beginning on or after 1 January 2014.

The application of new accounting standards, IFRS 10 and IFRS 11, resulted, as of 1 January 2014, in the inclusion of three structured entities in the scope of consolidation, the full consolidation of an equity investment previously measured using the equity method and finally the valuation at equity of an investment previously accounted for under the proportional method. Impact upon the balance sheet and financial position, the income statement and regulatory capital is immaterial.

2014 has also seen the first-time application of the **amendments to IAS 32 "Offsetting Financial Assets and Financial Liabilities"**, published by the IASB in December 2011. The amendment introduces a few paragraphs in the application guidance to clarify the application of the existing requirements (under paragraph 42 of IAS 32) for offsetting financial assets and financial liabilities in the balance sheet. The amendment was endorsed by the European Commission with Regulation 1256/2012 on 13 December 2012. The application of the amendment as of 1 January 2014 will entail the net presentation of certain types of derivative instruments cleared through central counterparties; there will be no impact on the balance sheet and financial position, P&L or regulatory capital.

2014 will also see the first-time application of the **amendment to IAS 36** "**Recoverable amount disclosures for non-financial assets**", published by the IASB in May 2013. The amendment clarifies that recoverable amount disclosure for assets which have been subject to impairment loss only applies to those assets whose recoverable amount is based on fair value less costs of disposal; in this case, information is to be disclosed on fair value hierarchy, the valuation techniques used and the key assumption used to measure levels 2 and 3. The amendment was endorsed by the European Commission with Regulation 1374/2013 on 19 December 2013.

Finally, the **amendment to IAS 39** "**Novation of derivatives and continuation of hedge accounting**", published by the IASB in June 2013, will also be adopted for the first time as of 2014. The amendment clarifies that there would be no need to discontinue hedge accounting if a hedging derivative was novated to a central party as a result of laws or regulations. The amendment, endorsed by the European Commission with Regulation 1375/2013 on 19 December 2013, was issued as part of the regulatory changes which are taking place in several jurisdictions involving the novation of over-the-counter derivative trades to central parties.

The Consolidated Interim Report on Operations, which **was not subject to auditors' review**, consists of the reclassified income statement and balance sheet based on operating criteria and supplemented by notes on operating performance. It has been prepared using the Euro as the reporting currency. Amounts indicated in the schedules and the notes are expressed in millions of Euro, unless otherwise specified. The income statement and balance sheet have been reclassified based on presentation criteria that is more suitable for representing the contents of the items according to consistent operational criteria. Refer to the section "Key economic-financial indicators" for more information on the operational reclassification criteria for economic-financial data.

Scope and method of consolidation

The Consolidated Interim Report on Operations includes the balance sheet and income statement data of the Parent Company and its direct and indirect subsidiaries. In particular, the scope of consolidation, as specifically set out in the IAS/IFRS, includes all subsidiaries, irrespective of their legal status, of business activity pursued in sectors other than the Parent Company's core business, of their being going concerns or wound-up companies, or of whether the equity investment consists of a merchant banking transaction. Similarly, special purpose entities/vehicles (SPEs/SPVs) are included when the requirement of actual control recurs, even if there is no stake in the entity.
For further information on the methods of consolidation, reference should be made to the "Notes to the 2013 Consolidated Financial Statements", Part A "Accounting Policies".

The table reporting “investments in associates and joint ventures” is presented below.

Investments in associates and joint ventures (proportionate consolidation)

	Name	Registered Office	Type of relationship (*)	Ownership Relationship Held by	Ownership Relationship Shareholdin	Available votes % (**)
A	Companies					
A.0	BANCA MONTE DEI PASCHI DI SIENA S.p.A.	Siena				
	A.1 Fully consolidated companies					
A.1	MPS CAPITAL SERVICES BANCA PER LE IMPRESE S.p.a.	Florence	1	A.0	99,921	
A.2	MPS LEASING E FACTORING BANCA PER I SERVIZI FINANZIARI ALLE IMPRESE S.p.a.	Siena	1	A.0	100,000	
A.3	MONTE PASCHI FIDUCIARIA S.p.a.	Siena	1	A.0	100,000	
A.4	CONSUM.IT S.p.a.	Florence	1	A.0	100,000	
A.5	WISE DIALOG BANK S.p.a. - WIDIBA	Milan	1	A.0	100,000	
A.6	MPS TENIMENTI POGGIO BONELLI E CHIGI SARACINI SOCIETA' AGRICOLA S.p.a.	Siena	1	A.0	100,000	
A.7	MPS IMMOBILIARE S.p.a.	Siena	1	A.0	100,000	
A.8	G.IMM ASTOR S.r.l.	Lecce	1	A.0	52,000	
A.9	AIACE REOCO S.r.l.	Siena	1	A.0	100,000	
A.10	ENEA REOCO S.r.l.	Siena	1	A.0	100,000	
A.11	CONSORZIO OPERATIVO GRUPPO MONTEPASCHI	Siena	1	A.0	99,820	99,940
				A.1	0,060	
				A.2	0,030	
				A.4	0,030	
A.12	PERIMETRO GESTIONI PROPRIETA' IMMOBILIARI S.c.p.a.	Siena	1	A.0	84,662	98,689
				A.1	0,120	0,142
				A.2	0,049	0,057
				A.3	0,012	0,014
				A.4	0,022	0,025
				A.7	14,231	0,002
				A.11	0,905	1,072
A.13	MAGAZZINI GENERALI FIDUCIARI DI MANTOVA S.p.a.	Mantua	1	A.0	100,000	
A.14	CO.E.M. COSTRUZIONI ECOLOGICHE MODERNE S.p.a.	Rome	4	A.0	40,197	
A.15	BANCA MONTE PASCHI BELGIO S.A.	Bruxelles	1	A.0	99,900	100,000
				A.1	0,100	
A.16	MPS PREFERRED CAPITAL I LLC	Delaware	1	A.0	100,000	
A.17	MPS PREFERRED CAPITAL II LLC	Delaware	1	A.0	100,000	
A.18	MPS CAPITAL TRUST I	Delaware	4	0	-	
A.19	MPS CAPITAL TRUST II	Delaware	4	0	-	
A.20	MONTE PASCHI BANQUE S.A.	Paris		A.0	100,000	
20.1	MONTE PASCHI CONSEIL FRANCE SOCIETE PAR ACTIONS SEMPLIFIEE	Paris		A.20	100,000	
20.2	IMMOBILIERE VICTOR HUGO S.C.I.	Paris		A.20	100,000	
A.21	MONTEPASCHI LUXEMBOURG S.A.	Luxembourg	1	A.0	99,200	100,000
				A.20	0,800	
A.22	ANTONVENETA CAPITAL L.L.C. I	Delaware	1	A.0	100,000	
A.23	ANTONVENETA CAPITAL L.L.C. II	Delaware	1	A.0	100,000	
A.24	ANTONVENETA CAPITAL TRUST I	Delaware	1	A.0	100,000	
A.25	ANTONVENETA CAPITAL TRUST II	Delaware	1	A.0	100,000	
A.26	MPS COVERED BOND S.r.l.	Conegliano	1	A.0	90,000	
A.27	MPS COVERED BOND 2 S.r.l.	Conegliano	1	A.0	90,000	
A.28	CIRENE FINANCE S.r.l.	Conegliano	1	A.0	60,000	
A.29	MANTEGNA FINANCE II S.r.L. (under liquidation)	Conegliano	1	A.0	100,000	
A.30	CONSUM.IT SECURITISATION S.r.l.	Conegliano	1	A.0	100,000	
A.31	SIENA MORTGAGES 07-5 S.p.a.	Conegliano	4	A.0	7,000	
A.32	SIENA MORTGAGES 09-6 S.r.l.	Conegliano	4	A.0	7,000	
A.33	SIENA MORTGAGES 10-7 S.r.l.	Conegliano	4	A.0	7,000	
A.34	SIENA SME 11-1 S.r.l.	Conegliano	4	A.0	10,000	
A.35	SIENA LEASE 11-1 S.r.l.	Conegliano	4	A.0	10,000	
A.36	SIENA CONSUMER S.r.l.	Conegliano	4	A.0	10,000	
A.37	CASAFORTE S.r.l.	Rome	4	A.0	-	
A.38	PATAGONIA FINANCE S.A.	Luxembourg	4	A.0	-	
A.39	STICHTING MONTE 2008-1	Amsterdam	4	A.0	-	
A.40	CORSAIR FINANCE IRELAND n.6 LTD Serie n. 15	Dublin	4	A.0	-	

(*) Type of relationship:
1 majority of voting rights at ordinary shareholders’ meetings
2 dominant influence at ordinary shareholders’ meetings
3 agreements with other shareholders
4 other forms of control
5 unified management under art. 26.1. of Leg. Decree 87/92
6 unified management under art. 26.2. of Leg. Decree 87/92
7 joint control
(**) Voting rights are disclosed only if different from the percentage of ownership

Changes to the scope of consolidation

The application of new accounting standards IFRS 10 and IFRS 11 resulted in the inclusion of the following entities in the scope of consolidation, as of 1 January 2014:

- Patagonia Finance SA,
- Stichting Monte 2008-1,
- Nota Italia – Corsair Ireland Serie n. 15.

Consum.it Securitisation Srl was included in the scope of consolidation during the period.
It should be noted that, following application of the new standards, Costruzioni Ecologiche Moderne SpA and Marinella SpA have been otherwise classified, from associated company to subsidiary and from associated company to jointly controlled entity, respectively. Consequently, there was a change in the consolidation method applied for Costruzioni Ecologiche Moderne SpA, now consolidated on a line-by-line basis rather than using the equity method.
As a result of the above standards, there was a change in the consolidation method applied for the investee Integra S.p.A., now consolidated using the equity method rather than the proportional one.

Reclassification of financial instruments

(EUR thousands)

Type of financial instrument (1)	Portfolio prior to transfer (2)	Portfolio after transfer (3)	Book value at 30 09 2014 (4)	Fair value at 30 09 2014 (5)	Income components in the absence of		Income components reported for the	
					Value-relevance (6)	Other (7)	Value-relevance (8)	Other (9)
UCITS	Trading	Available for sale	942	942	(13)	654	(13)	12.499
Debt Securities	Trading	Lonas to banks	40.089	36.439	6.133	927	3	610
Debt Securities	Trading	Loans to customers	289.836	274.389	18.817	6.308	265	(579)
Debt Securities	Available for sale	Loans to banks	644.724	419.705	(14.219)	45.493	(328)	45.612
Debt Securities	Available for sale	Loans to customers	497.590	497.930	8.393	9.802	273	5.040
	Total		**1.473.182**	**1.229.406**	**19.111**	**63.184**	**201**	**63.182**

In addition to illustrating the book values and fair values of financial instruments reclassified in 2008 as at 30 September 2014, the table also reports (columns 6 and 7) financial results in terms of "value relevance" and "other" (realised profit/loss and interest), which the same financial instruments would have produced for the Group in the quarter had they not been transferred in 2008.
Columns 8 and 9, on the other hand, contain the profit and loss results in terms of "value relevance" and "other" (profit/loss and interest from disposal) which the Group actually posted for these instruments as at 30 September 2014.

CONSOLIDATED INTERIM REPORT ON OPERATIONS

AS AT 30 SEPTEMBER 2014

Introduction

The Interim Report on Operations as at 30 September 2014 provides a description of the activities and results which largely characterised the Montepaschi Group's operations in the first nine months of 2014, 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.

In addition, the Report incorporates non-financial information providing the details on the activities, resources, risks and relations that are significant to the Group's current and future performance. This document highlights the key developments with respect to the contents of the Report accompanying the 2013 Financial Statements, to which the reader is referred for a more complete overview of the topics.

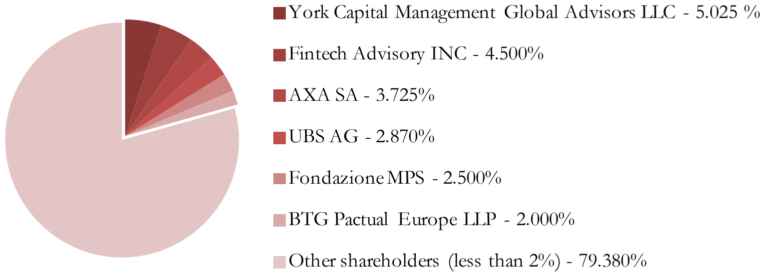
Corporate and organisational developments and significant events

Shareholders

As a result of the share capital increase of approx. EUR 5 bn completed on 4 July 2014, the BMPS share capital increased from EUR 7,484,508,171 at the end of June to EUR 12,484,206,649. The number of shares increased from 116,815,397 to 5,116,513,875.

As at 30 September, the major shareholders[1] of the Bank hold a total of 20.62% of the share capital.

Breakdown of Bmps share capital as at 30th September 2014



(*)Shareholding through Companies belonging to its Group
(**) Shareholding on own behalf or through Subsidiaries

In comparison to the share capital breakdown at the beginning of the year, the graphic shows the entrance of large institutional investors and reductions in the shareholding of Fondazione MPS, from 33.5% at the end of 2013 to 2.50%.

Organisational structure

The Parent Company carried out a significant organisational restructuring, with the aim of strengthening the sales & distribution functions as well as the integrated and coordinated supervision of governance and business support functions.
A number of initiatives were undertaken in the first quarter, concerning:

- business functions;
- governance, control and business support functions.

In the second quarter, other organisational action was taken with objectives associated with business efficiency, organisational rationalisation and compliance with legislative provisions.
The changes involved:

- Head Office units and regional coordination;
- Treasury, Finance and Capital Management Area organisation;
- Compliance.

[1] *Shareholders with shareholdings of more than 2%*

With the aim of achieving objectives of rationalisation and strengthening organisational efficiency, the following actions were taken during the third quarter:

- business control functions: the relative areas of responsibility were revised and the Coordination Committee was introduced, with control responsibilities, in implementation of new prudential supervision provisions for the internal control system, the information system and business continuity (15th Update of Circular 263/2006 of the Bank of Italy);
- the organisational structure and/or processes of certain Parent Company functions were enhanced to ensure higher levels of functionality and operating efficiency (e.g., customer complaint management with greater involvement of commercial relations management functions) or additional rationalisation of structures.

Main companies of the Group

Company	Activities
MONTE DEI PASCHI DI SIENA BANCA DAL 1472	Banca Monte dei Paschi di Siena and its subsidiaries operate in the different segments of the banking and financial industry, with activities ranging from traditional banking to special purpose loans, assets under management, bancassurance and investment banking. The Bank performs functions of direction, coordination and control over the Group's companies, as part of the more general guidelines set out by the BoD in compliance with the instructions provided by the Bank of Italy in the interest of the Banking Group's stability.
MPS CONSUM.IT	Consum.it is the Group's consumer credit company. It issues special-purpose loans, personal loans including fifth-of-salary backed loans, and credit cards (option and revolving).
MPS FIDUCIARIA	Monte Paschi Fiduciaria aims to satisfy the needs of individuals and legal entities wishing to have their assets managed with the utmost confidentiality. Monte Paschi Fiduciaria may take on the custody of assets in its capacity as a trustee and act as a protector in trusts.
MPS CAPITAL SERVICES	MPS Capital Services Banca per le Imprese provides customers with solutions to financial and credit issues, focusing its business on medium-long term credit facilities, special-purpose loans, corporate finance, capital markets and structured finance.
MPS LEASING & FACTORING	MPS Leasing & Factoring is the Group bank specialised in developing an offer of integrated leasing and factoring packages for businesses, artisans and professionals.
widiba	WIDIBA (WIse-DIalog-Banking) is the Group's direct bank that integrates a self-service offer with the competencies of MPS's network of financial advisors.
MPS CONSORZIO OPERATIVO	Consorzio Operativo is the centre for the development and management of ICT and telecommunication systems.
MPS IMMOBILIARE	MPS Immobiliare's scope of business includes the custody and management, both ordinary and extraordinary, of real estate, for which it may also purchase, sell, exchange and lease properties; activities are carried out primarily for the Companies of the Group.
MONTE PASCHI BANQUE BANCA MONTE PASCHI BELGIO	Monte Paschi Banque SA and Banca Monte Paschi Belgio SA are the Group's banks that support commercial trade and investments of Italian companies abroad.

Significant events

January

- The operations of **Fruendo Srl,** a joint venture between Bassilichi and Accenture, commenced as of 1 January 2014, when the back office services business units and the administrative and accounting activities associated with managing and providing specific services (e.g., accounts payable) were transferred to it.
- The Bank reached an agreement with **Compass** to distribute loans from Mediobanca Compass Group in its own branches. The agreement allows the Group to supplement the current range of products offered by Consum.it, the Group's consumer credit company, with additional solutions in terms of duration, amount and types of loans.
- The Parent Company sold its entire shareholding in **Sorin SpA** - equivalent to 27,458,403 ordinary shares, or approx. 5.7% of share capital – through an accelerated book-building procedure exclusively targeted to qualified investors in Italy, as defined by art. 34-ter, para. 1, letter b, of Consob Regulation no. 11971/1999, as well as foreign institutional investors.

February

- A Memorandum of understanding was stipulated between the Bank, the "**Associazioni di Piccoli azionisti Azione MPS**" (MPS Small Shareholders Associations), the "**Associazione Buongoverno MPS**" (the MPS Good Governance Association) and "**Coordinamento Nazionale delle Associazioni di Piccoli Azionisti CONAPA**" (the National Coordinating Association for Small Shareholders). The Memorandum represents a significant step toward a more productive dialogue with small shareholders through their associations, which seeks to facilitate their participation in the Bank's shareholders' meetings and render it more constructive.

March

- The Bank issued a new 5-year **senior bond** for a nominal amount of EUR 1 bn against demand for EUR 3.5 bn.

April

- The Bank issued a 7-year **covered bond** for a nominal amount of EUR 1 bn against demand for nearly EUR 4 bn.
- As part of the planned activities for restructuring the Chianti Classico transaction, which began in December 2013, the Bank acquired 92.1% of the shares with voting rights of **Perimetro Gestione Proprietà Immobiliari (PGPI)** for approx. EUR 5.1 mln. As a result, the Group now owns all of the share capital of PGPI, with advantages in terms of strengthening governance and consistency with new business strategies. The effects of this restructuring have already been reflected in the Consolidated Financial Statements as at 31 December 2013.
- The Bank's Board of Directors unanimously approved to propose to the Extraordinary Shareholders' Meeting, scheduled for 21 May, a **share capital increase** up to a maximum of EUR 5 bn, to replace the increase of EUR 3 bn approved on 28 December 2013.
- The Ordinary Shareholders' Meeting approved the Bank's **Financial Statements** as at 31 December 2013 and the **Remuneration Report** required by art. 123-ter of the Consolidated Law on Financial. Furthermore, the Extraordinary Shareholders' Meeting approved certain amendments to the Articles of Association, specifically regarding the issue of gender balance in the composition of the Board of Directors and the Board of Statutory Auditors and the increase in the minimum number of independent directors on the BoD.

May

- The **reverse split of BMPS ordinary shares** was carried out, in the ratio of 1 new share for every 100 shares owned, in execution of the resolution approved by the Extraordinary Shareholders' Meeting on 28 December 2013.

June

- The Board of Directors established the **final terms for the share capital increase**, determining the maximum number of shares to be issued (4,999,698,478), the subscription price (EUR 1 per share) and the ratio (214 newly issued shares for every 5 BMPS shares owned).
- **Moody's** upgraded the issuer's long-term rating to 'B1' from 'B2', with negative outlook.
- The rights offering to BMPS shareholders of the maximum 4,999,698,478 newly issued ordinary BMPS shares was concluded. During the rights offering period, which began on 9 June 2014 and ended on 27 June 2014, 116,636,830 option rights were exercised for the subscription of 4,992,056,324 New Shares, equivalent to 99.85% of the New Shares offered, for a total amount of EUR 4,992,056,324.

July

- The **offer on the stock market of the unexercised option rights was concluded early,** which was part of the Share capital increase.
- The Parent Company arranged the redemption of a nominal EUR 3 bn in New Financial Instruments, and payment of the 2013 interest accrued on these, through the issue and simultaneous **repayment of New Financial Instruments** for a total of approx. EUR 3.5 bn.
- **DBRS** confirmed the long-term rating as 'BBB' with negative outlook, and the short-term rating as 'R-2 (mid)' with stable outlook.
- The **share capital increase concluded successfully**, fully subscribed for a total of EUR 4,999,698,478.00. As a result of this transaction, the share capital amounts to EUR 12,484,206,649.08, represented by 5,116,513,875 ordinary shares without a nominal value.
- BMPS launched a 10-year **issue of covered bonds** for EUR 1 bn. The issue was placed with 114 institutional investors resident mainly in Germany and Austria (32%). There was significant involvement from UK investors (26%) in addition to the domestic demand component accounting for a quarter of the total (28%). This issue is the second placement this year (see April), confirming the Bank's ability to successfully access international markets, including through offerings involving long-term investments

August

- **The BoD approved the results as at 30 June 2014**;
- The Bank signed an **agreement** with trade unions **for the solidarity fund**;

September

- **WIDIBA**, the Group's new direct bank, commenced operations in the market.
- Deputy Chairman **Marco Turchi** and Director **Paola Demartini** tendered their resignations to facilitate the entrance of representatives of new shareholders resulting from the Trade union agreement.

Events after the reporting period

October

- The BoD replaced the resigning directors, co-opting as non-independent directors David Martinez Guzman, founder of Fintech Advisory Inc. and currently its Chairman and CEO, and Roberto Isolani, currently member of the Global Management Committee of BTG Pactual.
- The results of the Comprehensive Assessment were published, confirming the solidity of the Bank's capital structure, capable of absorbing the effects of the Asset Quality Review (AQR).
  During the year, and in consideration of the mitigation actions of EUR 2,139 mln (including the EUR 5 bn share capital increase, net of repayments of EUR 3 bn of State Aid in the form of NFIs, and the revaluation of the shareholding in Bank of Italy):
    - Common Equity Tier 1 (CET1) post-AQR is 9.5% as at 31 December 2013, against a threshold of 8.0%;
    - the "Base Scenario" stress test was also successful, with a CET1 of 8.8% against a threshold of 8.0%;
    - the "Adverse Scenario" stress test at 2016 was not successful, showing a deficit of EUR 2.1 bn.

  The Bank's Board of Directors appointed UBS and Citigroup as financial advisors in defining, structuring and implementing mitigation actions in relation to the Capital Plan, as well as for evaluating all strategic options available to the Bank.

November

- On 5 November, the Banca Monte dei Paschi di Siena Board of Directors approved the Capital Plan to be proposed to the competent authorities for covering the EUR 2.1 bn capital shortfall resulting from the Comprehensive Assessment and attributable to the Adverse Scenario of the Stress Test.
  The approved Capital Plan envisages that the capital shortfall is covered entirely by forms of capital reinforcements that will further improve the structure and quality of the Bank's capital, including:
  1) a share capital increase to be offered up to a maximum of EUR 2.5 bn, already supported by a pre-guarantee agreement and to be submitted for the approval of the Extraordinary Shareholders' Meeting;
  2) non-dilutive shares for shareholders, represented by additional capital management measures for approx. EUR 220 mln;
  3) the request to remedy the shortfall for an amount equivalent to the positive difference between the operating profits estimated for 2014 (the "expected pre-provision profit") and the same values estimated in the Adverse Scenario, which have a negative effect on the calculation on the capital shortfall, estimated by the Bank at approx. EUR 390 mln.

Performance and outcomes

Scenario

During the third quarter of 2014, the global economy and international trade performed at lower than expected levels While there was a consolidation of growth in the United States sustained by improvements in the real estate market, progress in the labour market and decided recovery in internal demand, there was a decline in economic activity in Japan and emerging countries.

The Eurozone experienced reductions in growth forecasts and the economic recovery lost its momentum, including in Germany, which saw a contraction in the second quarter, as weak external demand and a slowdown in investments was not sufficiently offset by a recovery in internal consumption. Risks for growth continue, with inflation at its lowest levels since 2009 and unemployment at dangerously high levels (11.5% in August).

The ECB Council decreased the cost of borrowing to its lowest historical level, 0.05%, and the deposit rate in the Eurosystem was set at -0.20%. At the same time, the Board launched targeted long-term refinancing operations (TLTROs) for banks, conditioned on granting credit to households and businesses together with a plan for at least two years of purchasing Asset-Backed Securities (ABS) and Covered Bonds, including securities with ratings lower than BBB- (Greece and Cyprus), although under certain terms and conditions.

Monetary policy measures had an immediate impact on the interbank market, with the 1M Euribor reaching new lows of 0.01% at the quarter close (average quarterly 1M Euribor was 15 bps lower than the previous quarter). The 10-year yield BTP-Bund spread closed the quarter at around 126 bps (-21 bps compared to 30/06/14).

In Italy, despite the modest recovery in household consumption, the economy began to show signs of weakness again, with GDP reflecting the continued drop in investments and, to a lesser extent, the effect of an unfavourable trend in international trade on our exports. The recovery in capital accumulation was delayed by high levels of uncertainty and the majority of businesses interviewed in the autumn survey conducted by Bank of Italy expected future expenditures for investments that are not particularly reassuring.

As regards the banking system, the performance of loans in the private sector remains weaker in Italy than in the rest of the Eurozone, although there are faint signs of improvement. Business demand remains weak, while demand for loans from households has been improving since the second half of last year. The Bank Lending Survey in the Prometeia Forecast Report (October 2014) showed that in the second quarter of the year, there emerged, for the first time since 2009, signs of a loosening in the criteria applied for approving loans to businesses and in the criteria for offers to households, which began in mid-2013 (for more information on the banking scenario, refer to the Bank of Italy Economic Bulletin of October 2014).

CONSOLIDATED REPORT ON OPERATIONS

Highlights at

INCOME STATEMENT AND BALANCE SHEET FIGURES AND KEY INDICATORS

MPS GROUP

		(*)	
INCOME STATEMENT FIGURES (EUR mln)	30/09/2014	30/09/2013	% chg
Income from banking activities	2,845.0	2,845.0	0.0%
Income from banking and insurance activities	3,136.9	3,229.5	-2.9%
Net operating income	(1,406.8)	(471.3)	n.s.
Parent company's net profit (loss) for the period	(1,149.7)	(518.0)	n.s.
BALANCE SHEET FIGURES AND INDICATORS (EUR mln)	30/09/2014	31/12/2013	% chg
Direct funding	126,610	129,836	-2.5%
Indirect funding	107,958	103,397	4.4%
of which: assets under management	*50,390*	*45,106*	*11.7%*
of which: assets under custody	*57,568*	*58,292*	*-1.2%*
Loans to customers	126,307	130,598	-3.3%
Group net equity	10,340	6,147	68.2%
KEY CREDIT QUALITY RATIOS (%)	30/09/2014	31/12/2013	Abs. chg
Net doubtful loans/Loans to Customers	7.7	6.8	0.9
Net substandard loans/Loans to Customers	8.0	5.8	2.2
PROFITABILITY RATIOS (%)	30/09/2014	31/12/2013	Abs. chg
Cost/Income ratio	64.4	71.0	-6.6
Net loan loss provisions / End-of-period loans	2.60	2.11	0.5
CAPITAL RATIOS (%)	30/09/2014	Dec 13 (BIS 3)	Dec 13 (BIS 2)
Solvency ratio	16.8	15.1	1.7
Tier 1 ratio	12.8	10.8	2.0
Tier 1 ratio	-0.80	-0.72	-0.08
INFORMATION ON BMPS STOCK	30/09/2014	31/12/2013	
Number of ordinary shares outstanding	5,116,513,875	11,681,539,706	
Price per ordinary share:	from 31/12/13 to 30/06/2014	from 31/12/12 to 31/12/13 (***)	% chg
average	1.35	1.35	-0.3%
low	1.01	0.97	4.1%
high	2.56	1.87	36.7%
OPERATING STRUCTURE	30/09/2014	31/12/2013	Abs. chg
Total head count - end of period	27,258	28,417	(1,159)
Number of branches in Italy	2,328	2,334	(6)
Number of specialised centres	283	287	(4)
Financial advisory branches	120	125	(5)
Number of branches & representative offices abroad	39	39	-

(*) 2013 balance sheet figures have been restated to reflect changes to the scope of consolidation (following the introduction of new accounting standards which came into force on 1 January 2014). 2013 P&L figures have been restated to reflect changes to the scope of consolidation (following the introduction of new accounting standards which came into force on 1 January 2014) and the reclassification of P&L items relating to the transfer of a business unit to the company Fruendo Srl, effective as of 1 January 2014.

(**) Share prices recalculated following the share capital increase that commenced on 9 June and concluded on 4 July 2014.

Results in brief

Changes in the key items of the financial statements of Montepaschi Group as at 30 September 2014 are summarised below:

- **Total funding** volumes for the Group amounted to approximately **EUR 235 bn**, down 1.4% on end of June 2014, due to the offsetting effects of a downturn in direct funding (-3.2%) and a slight increase in indirect funding (+0.7%). As compared to 31 December 2013, total funding posted an increase of 0.6%.

- Group **Loans to customers** amounted to approx. **EUR 126 bn**, down 4.9% from 30/06/2014 and 3.3% from the end of 2013, with a downturn for both the commercial components (particularly medium-long term loans) as well as repurchase agreements with institutional counterparties for the use of liquidity from the share capital increase in June 2014 to repay the NFIs. The **coverage of non-performing loans** was **41.8%**, compared to 41.6% as at 30/06/2014 (+20 bps), with substandard loan coverage (at 22.6%) up 170 bps compared to 30/06/2014.

- With regard to capital ratios, the **Common Equity Tier 1 Ratio stood at 12.8%** and the **Total Capital Ratio at 16.8%** as at 30/09/2014.

- In the first nine months of 2014, the Group's **net income from banking and insurance** totalled approx. **EUR 3,137 mln** (-2.9% on the same period of last year) with 3Q2014 contributing EUR 1,184.1 mln, up 18.9% on the previous quarter. **Net interest income** amounted to approx. **EUR 1,553 mln**, posting a reduction of 2.5% compared to the first nine months of 2013, owing to the negative impact from the price adjustment of New Financial Instruments at the end of March 2014. Excluding this effect, the Group's Net Interest Income would reflect year-on-year growth of approx. 7%, attributable to the lower average amount of said financial instruments and improvements in the funding/lending spread. **Net fee and commission income**, equivalent to approx. **EUR 1,293 mln**, was up 3.2% YoY due to higher revenues from assets under management boosted by placements (mainly Funds) as well as the non-commercial component, which particularly benefitted from the closure of the "Chianti" transaction.

- With regard to cost of credit, the ratio of the annualised impairment losses on loans over total customer loans reflects a **provisioning rate** of **260 bps**, compared to 211 bps at the end of December 2013.

- **Operating expenses** totalled approx. **EUR 2,021 mln** (-5.2% from the previous year) with an impact on the 3rd quarter of EUR 690 mln, up from 2Q2014 (+2.8%). A breakdown of the aggregate shows:
  - ✓ **Personnel expenses**, totalling approx. **EUR 1,279 mln**, were down 1.9% from the previous year, mainly due to headcount reduction;
  - ✓ **Other administrative expenses** (net of customer expense recovery) totalled approx. **EUR 577 mln**, down 19% compared to the same period last year, due to structural cutbacks in spending, particularly on rental expenses, sponsorships and events, business trips and facility management and office supplies;
  - ✓ **Net value adjustments to tangible and intangible assets** were approx. **EUR 164 mln at the end of September**, up 45.1% YoY mainly due to higher depreciation of real estate following the consolidation of Perimetro at the end of 2013.

- The consolidated net result of the period before Purchase Price Allocation (PPA) and including the profit for non-controlling interests shows a loss of EUR 1,121.7 mln (approx. EUR -487 mln as at 30/09/13). Considering the effects of PPA, the Group's **loss for the period** totalled **EUR 1,149.7 mln** (approx. EUR -518 mln as at 30/09/13).

Business Plan status

The implementation of the Business Plan focused particularly on the issues of capital strengthening, credit quality, asset revision, the sales & distribution model and overall efficiency improvements. The key initiatives for the quarter were:

- **Capital and governance** - The EUR 5 bn share capital increase was successfully completed, aimed at partial settlement of the so-called "Monti Bonds" and strengthening the Bank's capital;
- **Credit** - Roll-out of the new model for issuing and monitoring credit and of the new debt collection model have continued;
- **Sales & distribution** - As part of the re-positioning of the Bank's business model, the Online Bank project (WIDIBA) was launched, and the project to transform the Bank's distribution model (Programma Banca 2020) continued, along with planning for the redefinition of the product mix for corporate market segments (Corporate Revolution Programme) and for consumer credit (incorporation of Consum.it);
- **Operational excellence** - Implementation of the new Physical Network Security Model and planning to improve the appeal of the Bank's branches has continued; Paperless processes were consolidated.
- **Human capital** - Action has continued to align headcounts to targets and the cost of labour indicated in the Business Plan, with one-off and structural initiatives. The new talent and performance management model has become fully operational. Corporate welfare policies have been consolidated and enhanced.

Prospects and outlook on operations

Despite modest improvement, the macro-economic environment in which the Group operates is still weak with continued uncertainty regarding possible future scenarios:

- the economy reported slight signs of recovery but there are still critical issues for manufacturing activities in general, particularly small/medium-sized firms;
- labour market conditions remain difficult, with unemployment rates that are still very high, hindering consumption and savings;
- the high credit risk on banks' portfolios has not decreased while loan demand for investments remains low.

The results of the Comprehensive Assessment exercise, published on 26 October 2014, confirmed the solidity of Banca Monte dei Paschi di Siena's capital structure, able to absorb the impact of the Asset Quality Review ("AQR") due to the share capital increase carried out in June 2014 for a suitable amount. As part of the exercise, the post-AQR Common Equity Tier 1 ("CET1"), including the mitigation actions, was 9.5% as at 31 December 2013, against a threshold of 8.0%.

The "Base Scenario" stress test was also successful, with a CET1 of 8.8%[2] against a threshold of 8.0%. However, the Adverse Scenario of the stress test at 2016 was not successful, showing a deficit of EUR 2.1 bn, net of actions already taken.

To remedy the capital shortfall of EUR 2.1 bn resulting from the Comprehensive Assessment and attributable to the Adverse Scenario of the stress test, the Banca Monte dei Paschi di Siena Board of Directors approved the Capital Plan to be proposed to the competent authorities.

In the approved Capital Plan, the shortfall is covered entirely by forms of capital reinforcements that will further improve the structure and quality of the Bank's capital.

In addition to specific capital management measures, the plan includes a share capital increase to be offered up to a maximum of EUR 2.5 bn, already supported by a pre-guarantee agreement, which will be submitted for the approval of the Extraordinary Shareholders' Meeting.

In addition to the capital strengthening measures envisaged in the Capital Plan, additional planned managerial actions will be taken to improve the effectiveness of the Restructuring Plan, with particular reference to the commercial productivity of Banca Monte dei Paschi di Siena and acceleration of the Bank's profitability by improving asset quality. These measures will include specific initiatives such as further risk reductions in the financial statements, aimed at increasing Banca Monte dei Paschi di Siena's capital buffer, as well as pro-active management of doubtful loans (portfolio sales, reorganisation of processes and internal teams, commercial agreements/joint ventures with specialised platforms or operators).

With the understanding that the Capital Plan should be approved by the ECB, the Supervisory Authorities will grant Banca Monte dei Paschi di Siena the discretion to give preference to those solutions that will optimise the use of capital, including strategic options that will be identified over time.

As regards the accounting recognition of the AQR's effects, the Group's results as at 30/09/2014 include net impairments for loans subject to the Credit File Review (CFR). However, it was decided

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[2] *The capital ratios of the Base Scenario and the Adverse Scenario of the Comprehensive Assessment are calculated based on the maximum cumulative impacts during the 2014-2016 stress test period and adjusted to the Bank's capital as at 1 January 2014, post-AQR and Join-up.*

not to include the statistical projections of the CFR's results and the collective valuations calculated as part of the AQR in the accounting data. On this issue, a process was initiated to verify the necessity of updating methodologies and application parameters used to classify and measure loans for the financial statements as at 31 December 2014, in which these AQR effects will be considered. For more information, refer to the section describing the Income Statement (section dedicated to net impairment losses on loans) and the attachment "Additional disclosures pursuant to art. 114 paragraph 5 of Italian Legislative Decree no. 58/1998".

Key economic-financial indicators

Reclassified accounts

Income statement and balance sheet reclassification principles

The following accounting statements illustrate balance sheet and income statement accounts reclassified on the basis of operating criteria.

The following are the reclassifications made to the consolidated income statement as at 30 September 2014:

a) "**Net profit (loss) from trading/valuation/repurchase of financial assets/liabilities**" in the reclassified income statement includes item 80 "Net profit (loss) from trading", item 100 "Gains (losses) on disposal/repurchase of loans, financial assets available for sale or held to maturity and financial liabilities" and item 110 "Net profit (loss) from financial assets and liabilities designated at fair value". The item incorporates dividends earned on securities held in the Group's securities and derivatives portfolio (approx. EUR 20 mln).

b) "**Dividends, similar income and gains (losses) on investments**" in the reclassified income statement incorporates item 70 "Dividends and similar income" and a portion of item 240 "Gains (losses) on investments" (approx. EUR 66 mln, corresponding to the share of profit and loss for the period contributed by investments in the associate AXA, consolidated at equity). Dividends earned on securities held in the securities portfolio, as outlined under the item above, have also been eliminated from the aggregate.

c) "**Net impairment losses (reversals) on financial assets**" includes items 130b "Financial assets available for sale", 130c "Financial assets held to maturity" and 130d "Other financial transactions".

d) The income statement item "**Personnel expenses**" was reduced by around EUR 313 mln for restructuring charges, mainly related to allocations for early retirement incentives/provisions, as per the trade union agreement of 7 August 2014 (approx. EUR 309 mln) and, for the remainder, other initiatives regarding personnel. The amount was reclassified under "Restructuring costs/One-off charges".

e) "**Other administrative expenses**" in the reclassified income statement was reduced for the portion of stamp duty and client expense recovery (approx. EUR 235 mln) posted under item 220 "Other operating expenses/income". Restructuring charges (approx. EUR 9 mln), allocated against the closure of around 150 branches as part of the Business/Restructuring Plan, were also eliminated from the item.

f) The item "**Net provisions for risks and charges and other operating income (expenses)**" in the reclassified income statement, which incorporates item 190 "Net provisions for risks and charges" and item 220 "Other operating expenses (income)", excludes stamp duty and customer expense recoveries as described under item e) above ("**Other administrative expenses**").

g) The income statement item "**Restructuring costs/One-off charges**" includes one-off charges of approx. EUR 313 mln reclassified out of Personnel Expenses (see item d), as well as restructuring charges allocated against the closure of around 150 branches as part of the Business/Restructuring Plan (see item e).

h) "**Gains (losses) on investments**" was cleared of components reclassified as "Dividends and similar income" (see item b).

i) The effects of Purchase Price Allocation (PPA) posted to this specific account were reclassified out of other items (in particular "**Net interest income**" for EUR 21.1 mln and **Depreciation/amortisation** for EUR 20.7 mln, net of a theoretical tax burden of approx. EUR -14 mln that is included in the related item).

Listed below are the major reclassifications made to the consolidated **Balance Sheet**:

j) "**Tradable financial assets**" on the assets side of the reclassified balance sheet includes item 20 "Financial assets held for trading", item 30 "Financial assets designated at fair value" and item 40 "Financial assets available for sale".

k) "**Other assets**" on the assets side of the reclassified balance sheet incorporates item 80 "Hedging derivatives", item 90 "Change in value of macro-hedged financial assets", item 140 "Tax assets", item 150 "Non-current assets and groups of assets available for sale and discontinued operations" and item 160 "Other assets".

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

m) "**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 non-current assets available for sale and discontinued operations" and item 100 "Other liabilities".

Reclassified Income Statement (Euro mln)				
	30/09/2014	30/09/2013	Change	
Montepaschi Group		(*)	Abs.	%
Net interest income	1,552.5	1,592.2	(39.6)	-2.5%
Net fee and commission income	1,292.5	1,252.8	39.7	3.2%
Income from banking activities	**2,845.0**	**2,845.0**	**0.1**	**0.0%**
Dividends, similar income and gains (losses) on investments	82.1	96.9	(14.9)	-15.3%
Net profit (loss) from trading	220.9	285.7	(64.7)	-22.7%
Net profit (loss) from hedging	(11.1)	2.0	(13.1)	n.s.
Income from banking and insurance activities	**3,136.9**	**3,229.5**	**(92.6)**	**-2.9%**
Net impairment losses (reversals) on:	**(2,523.0)**	**(1,570.4)**	**(952.7)**	**60.7%**
a) loans	(2,464.4)	(1,540.0)	(924.5)	60.0%
b) financial assets	(58.6)	(30.4)	(28.2)	92.7%
Net income from financial and insurance activities	**613.9**	**1,659.2**	**(1,045.3)**	**-63.0%**
Administrative expenses:	(1,856.2)	(2,017.2)	160.9	-8.0%
a) personnel expenses	(1,279.2)	(1,304.5)	25.3	-1.9%
b) other administrative expenses	(577.0)	(712.7)	135.6	-19.0%
Net losses/reversal on impairment on property, plant and equipment / Net adjustments to (recoveries on) intangible assets	(164.4)	(113.3)	(51.1)	45.1%
Operating expenses	**(2,020.7)**	**(2,130.5)**	**109.8**	**-5.2%**
Net operating income	**(1,406.8)**	**(471.3)**	**(935.5)**	**n.s.**
Net provisions for risks and charges and other operating income (expenses)	(133.6)	(9.1)	(124.5)	n.s.
Gains (losses) on investments	161.9	(32.0)	193.9	n.s.
Restructuring costs / One-off costs	(322.0)	(17.8)	(304.2)	n.s.
Gains (losses) on disposal of investments	6.8	(0.5)	7.3	n.s.
Profit (loss) before tax from continuing operations	**(1,693.6)**	**(530.7)**	**(1,162.9)**	**n.s.**
Tax expense (recovery) on income from continuing operations	568.1	83.6	484.4	n.s.
Profit (loss) after tax from continuing operations	**(1,125.5)**	**(447.1)**	**(678.5)**	**n.s.**
Profit (loss) after tax from groups of assets held for sale and discontinued operations	-	(38.6)	38.6	n.s.
Net profit (loss) for the period including non-controlling interests	**(1,125.5)**	**(485.7)**	**(639.9)**	**n.s.**
Net profit (loss) attributable to non-controlling interests	3.8	(1.6)	5.4	n.s.
Profit (loss) for the period before PPA , impairment on goodwill, intangibles and writedown of investment in AM Holding	**(1,121.7)**	**(487.2)**	**(634.5)**	**n.s.**
PPA (Purchase Price Allocation)	(28.0)	(30.8)	2.7	-8.9%
Parent company's net profit (loss) for the period	**(1,149.7)**	**(518.0)**	**(631.8)**	**n.s.**

(*) 2013 P&L figures have been restated to reflect changes to the scope of consolidation (following the introduction of new accounting standards which came into force on 1 January 2014) and the reclassification of P&L items relating to the transfer of a business unit to the company Fruendo Srl effective as of 1 January 2014.

Earnings per share (EUR)	30/09/2014	30/09/2013
Basic	**(0.613)**	**(4.455)**
Diluted	(0.613)	(4.455)

Quarterly trend in reclassified incomen statement (Euro mln)

	2014			2013 (*)			
Montepaschi Group	3Q	2Q	1Q	4Q	3Q	2Q	1Q
Net interest income	580.6	526.2	445.8	564.0	507.3	487.2	597.7
Net fee and commission income	421.5	425.8	445.2	404.8	404.2	417.3	431.3
Income from banking activities	**1,002.1**	**952.0**	**891.0**	**968.8**	**911.5**	**904.4**	**1,029.0**
Dividends, similar income and gains (losses) on investments	32.6	23.8	25.7	32.9	31.1	38.6	27.2
Net profit (loss) from trading	147.3	28.6	45.1	(271.6)	89.6	76.5	119.5
Net profit (loss) from hedging	2.2	(8.7)	(4.6)	5.0	7.0	(0.9)	(4.0)
Income from banking and insurance activities	**1,184.1**	**995.6**	**957.2**	**735.2**	**1,039.1**	**1,018.7**	**1,171.8**
Net impairment losses (reversals) on:	**(1,296.1)**	**(735.2)**	**(491.7)**	**(1,252.8)**	**(519.3)**	**(556.5)**	**(494.5)**
a) loans	(1,256.5)	(731.4)	(476.6)	(1,209.7)	(511.0)	(544.8)	(484.2)
b) financial assets	(39.6)	(3.8)	(15.2)	(43.1)	(8.3)	(11.7)	(10.3)
Net income from financial and insurance activities	**(112.0)**	**260.4**	**465.5**	**(517.6)**	**519.8**	**462.1**	**677.3**
Administrative expenses:	(623.8)	(620.4)	(611.9)	(640.9)	(658.8)	(668.7)	(689.7)
a) personnel expenses	(427.9)	(421.9)	(429.3)	(414.3)	(429.0)	(422.6)	(452.9)
b) other administrative expenses	(195.9)	(198.5)	(182.6)	(226.6)	(229.8)	(246.1)	(236.8)
Net losses/reversal on impairment on property, plant and equipment / Net adjustments to (recoveries on) intangible assets	(65.6)	(50.2)	(48.6)	(45.4)	(38.0)	(36.0)	(39.3)
Operating expenses	**(689.5)**	**(670.7)**	**(660.5)**	**(686.3)**	**(696.9)**	**(704.7)**	**(728.9)**
Net operating income	**(801.5)**	**(410.2)**	**(195.0)**	**(1,204.0)**	**(177.1)**	**(242.5)**	**(51.7)**
Net provisions for risks and charges and other operating income (expenses)	(35.3)	(45.2)	(53.2)	(223.0)	(29.2)	11.5	8.5
Gains (losses) on investments	(13.4)	133.4	41.9	(25.9)	(0.5)	(32.6)	1.0
Restructuring costs / One-off costs	(318.2)	(2.7)	(1.1)	(6.7)	(0.2)	(17.6)	-
Gains (losses) on disposal of investments	1.7	0.4	4.7	1.9	1.2	(1.9)	0.2
Profit (loss) before tax from continuing operations	**(1,166.6)**	**(324.3)**	**(202.7)**	**(1,457.7)**	**(205.7)**	**(283.1)**	**(41.9)**
Tax expense (recovery) on income from continuing operations	374.2	155.4	38.4	563.5	89.8	31.3	(37.4)
Profit (loss) after tax from continuing operations	**(792.4)**	**(168.9)**	**(164.3)**	**(894.2)**	**(116.0)**	**(251.8)**	**(79.3)**
Profit (loss) after tax from groups of assets held for sale and discontinued operations	-	-	-	(12.6)	(12.9)	(12.9)	(12.9)
Net profit (loss) for the period including non-controlling interests	**(792.4)**	**(168.9)**	**(164.3)**	**(906.8)**	**(128.8)**	**(264.6)**	**(92.2)**
Net profit (loss) attributable to non-controlling interests	4.9	(0.6)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Profit (loss) for the period before PPA , impairment on goodwill, intangibles and writedown of investment in AM Holding	**(787.5)**	**(169.5)**	**(164.7)**	**(907.3)**	**(129.3)**	**(265.2)**	**(92.7)**
PPA (Purchase Price Allocation)	(9.2)	(9.4)	(9.4)	(9.1)	(9.2)	(13.0)	(8.5)
Parent company's net profit (loss) for the period	**(796.7)**	**(178.9)**	**(174.1)**	**(916.3)**	**(138.6)**	**(278.2)**	**(101.2)**

(*) 2013 P&L figures have been restated to reflect changes to the scope of consolidation (following the introduction of new accounting standards which came into force on 1 January 2014) and the reclassification of P&L items relating to the transfer of a business unit to the company Fruendo Srl effective as of 1 January 2014.

Reclassified balance sheet (Euro mln)

ASSETS	30/09/2014	31/12/2013 (*)	Chg vs 31/12/13 abs.	Chg vs 31/12/13 %
Cash and cash equivalents	878	877	0	0.0%
Receivables :				
a) Loans to customers	126,307	130,598	(4,291)	-3.3%
b) Loans to banks	6,884	10,485	(3,601)	-34.3%
Financial assets held for trading	41,856	42,919	(1,063)	-2.5%
Financial assets held to maturity	-	-	-	
Equity investments	1,001	970	31	3.1%
Property, plant and equipment / Intangible assets	3,934	4,046	(112)	-2.8%
of which:				
a) goodwill	*670*	*670*	-	
Other assets	9,837	8,566	1,272	14.8%
Total assets	**190,697**	**198,461**	**(7,764)**	**-3.9%**

LIABILITIES	30/09/2014	31/12/2013 (*)	Chg vs 31/12/13 abs.	Chg vs 31/12/13 %
Payables				
a) Deposits from customers and securities issued	126,610	129,836	(3,226)	-2.5%
b) Deposits from banks	29,425	37,279	(7,854)	-21.1%
Financial liabilities held for trading	13,144	16,410	(3,265)	-19.9%
Provisions for specific use				
a) Provisions for staff severance indemnities	295	261	33	12.7%
b) Pensions and other post retirement benefit obligations	59	61	(2)	-4.0%
c) Other provisions	1,024	1,066	(42)	-4.0%
Other liabilities	9,777	7,367	2,410	32.7%
Group net equity	10,340	6,147	4,192	68.2%
a) Valuation reserves	(549)	(1,056)	507	-48.0%
c) Equity instruments carried at equity	3	3	-	
d) Reserves	(451)	1,175	(1,625)	-138.4%
e) Share premium	2	-	2	
f) Share capital	12,484	7,485	5,000	66.8%
g) Treasury shares (-)	(0)	(25)	25	-100.0%
h) Net profit (loss) for the year	(1,150)	(1,434)	285	-19.8%
Non-controlling interests	24	33	(9)	-27.2%
Total Liabilities and Shareholders' Equity	**190,697**	**198,461**	**(7,764)**	**-3.9%**

(*) 2013 balance sheet figures have been restated to reflect changes to the scope of consolidation (following the introduction of new accounting standards which came into force on 1 January 2014).

Reclassified Balance Sheet - Quarterly Trend (Euro mln)							
ASSETS	30/09/2014	30/06/2014	31/03/2014	31/12/2013 (*)	30/09/2013 (**)	30/06/2013 (**)	31/03/2013 (**)
Cash and cash equivalents	878	860	823	877	785	684	697
Receivables :							
a) Loans to customers	126,307	132,770	132,677	130,598	135,564	138,082	140,510
b) Loans to banks	6,884	8,638	10,204	10,485	11,439	12,240	13,676
Financial assets held for trading	41,856	39,863	43,500	42,919	45,777	49,655	46,389
Financial assets held to maturity	-	-	-	-	-	-	-
Equity investments	1,001	952	960	970	994	971	1,029
Property, plant and equipment / Intangible assets	3,934	3,971	4,004	4,046	2,441	2,465	2,496
of which:							
a) goodwill	*670*	*670*	*670*	*670*	*670*	*670*	*670*
Other assets	9,837	9,474	8,855	8,566	9,447	9,774	10,086
Total assets	**190,697**	**196,528**	**201,022**	**198,461**	**206,446**	**213,870**	**214,883**

LIABILITIES	30/09/2014	30/06/2014	31/03/2014	31/12/2013 (*)	30/09/2013 (**)	30/06/2013 (**)	31/03/2013 (**)
Payables							
a) Deposits from customers and securities issued	126,610	130,777	128,859	129,836	132,286	137,078	135,311
b) Deposits from banks	29,425	31,810	40,991	37,279	42,377	41,741	42,753
Financial liabilities held for trading	13,144	11,718	14,630	16,410	14,909	18,630	19,571
Provisions for specific use							
a) Provisions for staff severance indemnities	295	285	273	261	282	269	291
b) Pensions and other post retirement benefit obligations	59	59	60	61	47	48	40
c) Other provisions	1,024	991	1,020	1,066	1,185	1,207	1,124
Other liabilities	9,777	9,811	8,905	7,367	8,922	8,339	9,595
Group net equity	10,340	11,048	6,251	6,147	6,435	6,555	6,195
a) Valuation reserves	(549)	(634)	(788)	(1,056)	(1,697)	(1,714)	(2,309)
c) Equity instruments carried at equity	3	3	3	3	3	3	3
d) Reserves	(451)	4,548	(274)	1,175	1,187	1,187	886
e) Share premium	2	-	-	-	-	-	255
f) Share capital	12,484	7,485	7,485	7,485	7,485	7,485	7,485
g) Treasury shares (-)	(0)	(0)	(0)	(25)	(25)	(25)	(25)
h) Net profit (loss) for the period	(1,150)	(353)	(174)	(1,434)	(518)	(380)	(101)
Non-controlling interests	24	29	34	33	3	3	3
Total Liabilities and Shareholders' Equity	**190,697**	**196,528**	**201,022**	**198,461**	**206,446**	**213,870**	**214,883**

(*) 2013 balance sheet figures have been restated to reflect changes to the scope of consolidation (following the introduction of new accounting standards which came into force on 1 January 2014).

(**) The previous year's quarterly figures have been restated to reflect changes resulting from the reclassification of the financial instrument "Fresh 2008", amounting to EUR 76 mln, from the item "Equity Instruments" to "Deposits from banks" (for further details, please refer to the Consolidate Notes to the 2013 Financial Statements) and the retrospective application of amended IAS 32 "Offsetting financial assets and financial liabilities" described in the chapter "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)".

Balance Sheet

Customer funding

As at 30 September 2014, **total funding** volumes for the Group amounted to approx. **EUR 235 bn**, down 1.4% on end of June 2014, due to the offsetting effects of the downturn in direct funding (-3.2%) and a slight increase in indirect funding (+0.7%). As compared to 31 December 2013, total funding posted an increase of 0.6%.

Background

In a context of recession for the Italian economy and with a further decline in GDP (-0.2% YoY in the second quarter of 2014), bank funding continued to fall, albeit at a slightly more modest rate than in previous months (-0.56% YoY in September). The sharp decline in bonds also continued (-10.63% YoY), while growth in current account deposits picked up (+3.77% YoY).

The average return on bank funding continued to decline (1.59% against 1.92% for the same period in the prior year) while bond yields also showed a slight deterioration (3.21%).

2014 was a year of growth for assets under management and assets under custody, exceeding EUR 1,510.4 bn in volumes as at 30 September. Open-end Italian and foreign fund assets (the market share of the latter is 70%) continued to show a good performance, with positive funding flows.

Life bancassurance volumes increased (approx. +5.3% YoY) in all product categories, with the exception of index-linked and unit-linked products.

Customer Funding (Euro mln)	30/09/2014	30/06/2014	(*) 31/12/2013	30/09/2013	Chg % vs %	Chg 31/12 %
Direct funding	**126,610**	**130,777**	**129,836**	**132,286**	**-3.2%**	**-2.5%**
Indirect funding	**107,958**	**107,215**	**103,397**	**101,378**	**0.7%**	**4.4%**
assets under management	*50,390*	*48,535*	*45,106*	*44,038*	*3.8%*	*11.7%*
Mutual Funds/Sicav	*21,354*	*20,048*	*17,361*	*16,640*	*6.5%*	*23.0%*
Individual Portfolio under Management	*6,340*	*6,194*	*6,008*	*6,048*	*2.4%*	*5.5%*
Life Insurance Policies	*22,696*	*22,293*	*21,737*	*21,350*	*1.8%*	*4.4%*
assets under custody	*57,568*	*58,680*	*58,292*	*57,340*	*-1.9%*	*-1.2%*
Total funding	**234,568**	**237,991**	**233,233**	**233,665**	**-1.4%**	**0.6%**

(*) 2013 balance sheet figures have been restated to reflect changes to the scope of consolidation (following the introduction of new accounting standards which came into force on 1 January 2014).

More specifically:

- direct funding for the Group, totalling approx. **EUR 127 bn**, was down 3.2% compared to 30/06/2014 and 2.5% compared to 31/12/2013, with a market share of 5.06% (figure updated in August 2014), essentially stable from year-end 2013. In the third quarter of 2014, volumes decreased by EUR 4 bn, due to the partial repayment of the New Financial Instruments (NFI) for EUR 3 bn and the reduction in reverse repurchase agreements (-6.4% QoQ). Funding from business customers remained essentially unchanged QoQ, as the decline in Current Accounts (-1.8% QoQ) and Bonds (-4.3% QoQ) was offset by Term Deposits (+4.7% QoQ) and the increase in large forward transactions with Corporate customers for EUR 2 bn, recognised in the item, "Other forms of direct funding" (-9.8% QoQ).

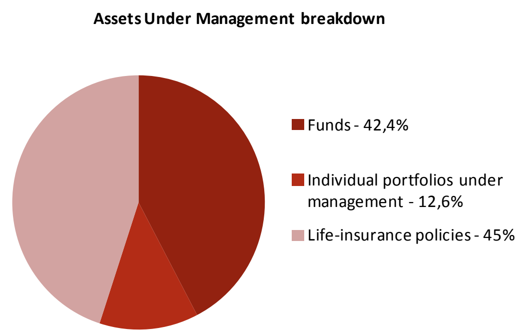
The following table shows a breakdown of major types of direct funding from customers:

Direct funding (EUR mln)								
			(*)		Change Q/Q		Change 31.12	
Type of transaction	30/09/2014	30/06/2014	31/12/2013	30/09/2013	Abs.	%	Abs.	%
Current accounts	57,014	58,042	55,076	57,264	(1,028)	-1.8%	1,937	3.5%
Time deposits	10,900	10,406	8,003	8,759	494	4.7%	2,897	36.2%
Reverse repurchase agreements	13,551	14,478	16,096	13,465	(928)	-6.4%	(2,546)	-15.8%
Bonds	34,818	36,396	39,909	42,104	(1,577)	-4.3%	(5,091)	-12.8%
Other types of direct funding (**)	10,327	11,455	10,751	10,694	(1,128)	-9.8%	(424)	-3.9%
Total	**126,610**	**130,777**	**129,836**	**132,286**	**(4,167)**	**-3.2%**	**(3,226)**	**-2.5%**

(*) 2013 balance sheet figures have been restated to reflect changes to the scope of consolidation (following the introduction of new accounting standards which came into force on 1 January 2014).

(**) The item includes the NFIs for EUR 1.321 bn, including accruals for interest earned and not paid.

- As at 30/09/2014, **indirect funding** for the Group, totalling **EUR 108 bn**, was up 0.7% in the third quarter and 4.4% from the previous year. More specifically:
  - **assets under management** closed the third quarter with volumes totalling approx. **EUR 50.4 bn**, up 3.8% on 30/06/14 and 11.7% on 31/12/2013. A breakdown of the aggregate shows:
    - the **insurance component** of **EUR 22.7 bn** (+1.8% compared to 30/06/14; +4.4% over 31/12/13), benefitting in the third quarter from insurance premiums collected for approx. EUR 1.5 bn, driven by Unit Linked products. The Group's Bancassurance market share was 6.01% (as at August 2014, latest data available);
    - **Mutual Investment Funds and UCITS**, amounting to approx. **EUR 21 bn**, up 6.5% compared to 30/06/14 (+23% over 31/12/13), as a result of net inflows in the 3rd quarter of approx. EUR 1.1 bn, concentrated in guaranteed capital instruments. The Group's market share was 3.69% (as at December 2013, latest data available);
    - **individual portfolios under management**, totalling **EUR 6.3 bn**, increased 2.4% from the end of the previous quarter (+5.5% on 31/12/2013), with a Group market share of 3.72% (as at August 2014, latest data available).



  - **assets under custody** amounting to **EUR 57.6 bn**, showed a decrease from June levels (-1.9%) and year end levels (-1.2%).

Loans to customers

As at 30/09/2014, Group **Loans to customers** amounted to approx. **EUR 126 bn**, down 4.9% from 30/06/2014 and 3.3% from the end of 2013, with a downturn for both the commercial components (especially medium-long term loans) and for repurchase agreements with institutional counterparties owing to the use of liquidity from the share capital increase in June 2014 to repay the NFIs.

Loans to business customers continued to decline in the 3rd quarter, in both the Retail and Corporate segments, with a reduction in Current Accounts (-7.9%) and Mortgages (-4.4%), reflecting the persisting recession, also seen across the banking system. The Group's market share, calculated net of repurchase agreements with institutional counterparties, stood at 7.18% (latest available figure from August 2014), down 4 bps from December 2013.

Background

Some positive signals were seen in trends for loans and bank loans to households and businesses, which, although still showing negative values, posted a smaller decrease (-2.26% YoY in September). However, since 2007 – before the crisis began - loans have increased +8.7% YoY (approx. EUR 147 bn).

The quality of bank loans continues to deteriorate, although at lower rates, principally due to continued weakness in the economic cycle. Gross doubtful loans reached EUR 174 bn in August (+22.6% YoY). The ratio of net doubtful loans over total loans is 4.41%, the highest level since the beginning of the year.

The weighted average interest rate on total loans to households and non-financial businesses is at an all-time low: in decline since the beginning of the year, it reached 3.76% in September (-6 bps since the end of last year). The average cost of new mortgages to households is down since September 2013 (3.00% in September compared to 3.68% from the same period in 2013).

Loans to customers (EUR mln)								
			(*)		Change Q/Q		Change 31.12	
Type of transaction	30/09/2014	30/06/2014	31/12/2013	30/09/2013	Abs.	%	Abs.	%
Current accounts	10,041	10,906	10,953	12,060	(865)	-7.9%	(912)	-8.3%
Mortgages	58,541	61,212	64,757	66,735	(2,672)	-4.4%	(6,216)	-9.6%
Other forms of lending	27,930	29,112	29,710	31,345	(1,182)	-4.1%	(1,780)	-6.0%
Repurchase agreements	4,113	7,664	2,737	3,384	(3,550)	-46.3%	1,377	50.3%
Securities lending	1,366	1,434	1,449	1,978	(68)	-4.7%	(83)	-5.7%
Non performing loans	24,315	22,442	20,992	20,061	1,873	8.3%	3,323	15.8%
Total	**126,307**	**132,770**	**130,598**	**135,564**	**(6,464)**	**-4.9%**	**(4,291)**	**-3.3%**

(*) 2013 balance sheet figures have been restated to reflect changes to the scope of consolidation (following the introduction of new accounting standards which came into force on 1 January 2014).

The trend in the aggregate was affected by special-purpose loan disbursements in relation to which, in the 3rd quarter:

- MPS Capital Services granted new loans for approx. EUR 103 mln, up 21.6% compared to the 2nd quarter of 2014;
- Leasing contracts amounted to approx. EUR 91 mln (-10.1% on 2Q2014), while Factoring Turnover totalled approx. EUR 1.1 bn (-7.9% over 2Q2014).

With regard to consumer credit, it should be noted that the Group signed a partnership agreement with Compass in February 2014, in implementation of the 2013-2017 Business Plan guidelines. The agreement is consistent with the Group's decision to support the offer of credit to households, even during this challenging economic cycle, and continue its plan to enhance the sales and distribution network through the placement of qualified third-party products, thereby rapidly developing business segments with high distribution value.

Special purpose loans and corporate finance (EUR mln)	30/09/2014	3Q2014	2Q2014	1Q2014	30/09/13	Chg Q/Q		Chg Y/Y	
						Abs.	%	Abs.	%
MPS Capital Services (disbursements)	256.0	103.1	84.8	68.1	524.4	18.3	21.6%	-268.4	-51.2%
MPS Leasing & Factoring	3,783.3	1,214.1	1,320.1	1,249.0	5,093.8	-106.0	-8.0%	-1,310.6	-25.7%
leases negotiated	*310.2*	*90.8*	*101.0*	*118.4*	*439.2*	*-10.3*	*-10.1%*	*-129.0*	*-29.4%*
factoring turnover	*3,473.1*	*1,123.4*	*1,219.1*	*1,130.6*	*4,654.6*	*-95.7*	*-7.9%*	*-1,181.5*	*-25.4%*

Non-performing loans

As at 30/09/14, the Group's **net exposure to non-performing loans** totalled approx. **EUR 24.3 bn**, up 8.3% compared to the end of June 2014 (+15.8% on 31/12/2013). The third quarter was characterised by an increase in doubtful loans (+21% QoQ), while non-performing loans were essentially stable (+1.8% QoQ). The increase in past-due exposures (+10.8%) was offset by the reduction in restructured loans (-16.4%).

Loans to customers										
Risk category - Net book values (EUR mln)	**30/09/2014**	**30/06/2014**	**31/12/2013**	**30/09/2013**	**weight % 30/09/2014**	**weight % 31/12/2013**	**Change Q/Q**		**Change 31.12**	
							Ass.	**%**	**Ass.**	**%**
A) Non performing loans	**24,315**	**22,442**	**20,992**	**20,061**	**19.3**	**16.1**	**1,873**	**8.3%**	**3,323**	**15.8%**
a1) Doubtful loans	9,754	9,584	8,880	8,393	7.7	6.8	170	1.8%	874	9.8%
a2) Substandard loans	10,093	8,345	7,511	7,229	8.0	5.8	1,748	21.0%	2,582	34.4%
a3) Restructured	1,637	1,958	1,683	1,476	1.3	1.3	-321	-16.4%	-47	-2.8%
a4) Past due	2,832	2,556	2,918	2,963	2.2	2.2	276	10.8%	-86	-3.0%
B) Performing loans	**101,991**	**110,328**	**109,606**	**115,502**	**81**	**84**	**-8,337**	**-7.6%**	**-7,614**	**-6.9%**
Total customer loans	**126,307**	**132,770**	**130,598**	**135,564**	**100**	**100**	**-6,464**	**-4.9%**	**-4,291**	**-3.3%**

(*) 2013 balance sheet figures have been restated to reflect changes to the scope of consolidation (following the introduction of new accounting standards which came into force on 1 January 2014).

Doubtful loan coverage amounted to **58.8%**, up 60 bps from the previous quarter and reaching the same levels as the end of 2013. **Coverage of non-performing loans** stood at **41.8%**, compared to 41.6% as at 30/06/2014 (+20 bps), with substandard loan coverage at 22.6%, up 170 bps from 30/06/2014.

Coverage ratios			
	30/09/2014	**30/06/2014**	**31/12/2013**
"provisions for NPLs " / "gross NPLs"	41.8%	41.6%	41.8%
"provisions for substandard loans" / "gross substandard loans"	22.6%	20.9%	20.4%
"provisions for doubtful loans" / "gross doubtful loans"	58.8%	58.2%	58.8%

The table below reports the figures for the Group's major companies, within which the Parent Company BMPS shows a provisioning to doubtful loans ratio of approximately 60.6% vs. 43.6% for MPS Capital Services, which specialises in medium-long term collateral-backed loans.

Npls and Net Substandard loans by business unit					
Risk category - Net values at 30/09/2014 (EUR mln)	Group	BMPS	MPS Capital Services	MPS Leasing & Factoring	Consum.it
Net doubtful loans	9,754	6,798	2,250	530	132
% of total customer loans	7.72%	6.29%	18.11%	8.74%	3.76%
"loan loss provisions" / "gross doubtful loans"	**58.8%**	**60.6%**	**43.6%**	**58.2%**	**87.8%**
Net sub standard loans	10,093	7,784	1,687	531	81
% of total customer loans	7.99%	7.21%	13.58%	8.75%	2.30%
"loan loss provisions" / "gross substandard loans"	**22.6%**	**23.3%**	**16.6%**	**25.4%**	**42.9%**

Coverage on **performing loans** was slightly above 0.5%, compared to 0.6% at the end of the previous year.

The Group's securities and derivatives portfolio

As at 30 September 2014, the Group's securities and derivatives portfolio amounts to approx. **EUR 34 bn**, essentially stable compared to 30 June 2014 (+0.9%) and down EUR 1.2 bn compared to 31 December 2013 (-3.3% YoY). The increase in the Held for Trading portfolio during the third quarter (+4.5%) is due to the activities as primary dealer of the subsidiary MPS Capital Services.
The AFS portfolio, holding steady on June-end levels, was characterised by a recovery in market values, reflected in an improvement of the net equity reserve, and by optimisation of the portfolio through the disposal of long-term positions and the partial buy-back of shorter-term securities.
Bonds recognised under L&R also remained stable.

Portfolio of treasury securities and derivatives (exact year-end figures in EUR mln)

MONTEPASCHI GROUP Type of portfolio	30/09/2014	30/06/2014	31/12/2013 (*)	30/09/2013	Chg Q/Q		Chg 31.12	
					Abs.	%	Abs.	%
Held For Trading (HFT) [1]	8,960	8,578	9,181	8,268	382	4.5%	(221)	-2.4%
Available For Sale (AFS) [2]	22,999	23,031	23,680	25,617	(31)	-0.1%	(681)	-2.9%
Loans & Receivable (L&R) [3]	2,430	2,459	2,694	2,689	(29)	-1.2%	(264)	-9.8%
Total	**34,389**	**34,067**	**35,555**	**36,573**	**322**	**0.9%**	**(1,166)**	**-3.3%**

(1) "Financial assets held for trading" excluding "Loans" and net of the value of derivatives posted to "Financial liabilities held for trading". The figure includes the technical overdrafts (uncovered short positions) classified under "Financial liabilities held for trading".
(2) "Financial assets available for sale" excluding "Loans" including equity investments.
(3) Securities classified as "Loans & Receivables" posted to "Loans to customers" and "Loans to banks".
(*) 2013 balance sheet figures have been restated to reflect changes to the scope of consolidation (following the introduction of new accounting standards which came into force on 1 January 2014).

As regards market risk in the Group's "Regulatory Trading Book", which is monitored using the Value at Risk (VaR) approach, please refer to the section "Integrated Risk and Capital Management".

Exposure to sovereign debt risk

Below is a breakdown of the Group's exposure to sovereign debt risk in government bonds, loans and credit derivatives as at 30 September 2014. The exposures are broken down by accounting categories. For securities classified as "Loans and Receivables (L&R)" and for loans, the book value (amortised cost) is also reported.

(in millions of eur)

COUNTRY	DEBT SECURITIES					LOANS	CREDIT DERIVATIVES
	Financial assets held for trading		Financial assets available for sale		L&R	L&R	Financial assets HFT
	Nominal	Fair value = book value	Nominal	Fair value = book value	Book value	Book value	Nominal
Argentine	0,4	0,2	-	-	-	-	-
Austria	(15,9)	(16,4)	-	-	-	-	0,0
Belgium	(10,0)	(10,6)	89,3	99,4	-	-	(0,0)
Bosnia	0,0	0,0	-	-	-	-	-
Brazil	0,0	0,1	-	-	-	-	-
Bulgaria	-	-	-	-	-	-	-
Canada	-	-	-	-	-	-	-
China	-	-	-	-	-	-	(3,4)
Croatia	-	-	10,0	10,6	-	-	-
Denmark	-	-	-	-	-	-	3,2
Ecuador	-	-	-	-	-	-	-
Emirati arabi Uniti	-	-	-	-	-	-	-
Filippine	-	-	-	-	-	-	-
Finland	-	-	-	-	-	-	4,0
France	(12,5)	(13,2)	-	-	-	-	(0,0)
Georgia	-	-	-	-	-	-	-
Germany	(60,1)	(65,1)	-	-	-	-	(0,0)
Greece	0,0	0,0	-	-	-	-	-
Ireland	0,0	0,0	-	-	-	-	(0,0)
Israele	-	-	-	-	-	-	-
Italy	2.914,9	2.986,0	18.886,1	21.684,8	339,8	3.178,1	689,8
Lettonia	-	-	-	-	-	-	-
Lituania	-	-	-	-	-	-	-
Mexico	0,8	1,1	-	-	-	-	-
Norway	-	-	-	-	-	-	(0,0)
Holland	0,1	0,1	-	-	-	-	4,0
Perù	-	-	-	-	-	-	-
Polony	-	-	10,0	11,0	-	-	-
Portugal	(2,5)	(2,8)	15,0	16,0	-	-	0,0
Qatar	-	-	-	-	-	-	-
United Kingdom	0,1	0,1	-	-	-	-	0,0
Romania	0,3	0,3	10,0	10,5	-	-	-
Russia	0,0	0,0	-	-	4,8	-	-
Spain	(13,1)	(13,6)	100,0	110,0	-	-	19,8
U.S.A.	0,1	0,1	-	-	-	-	-
Sud Africa	-	-	-	-	-	-	-
Turkey	(0,0)	(0,0)	10,0	10,8	-	-	-
Ukraina	-	-	-	-	-	-	-
Hungary	-	-	-	-	-	-	-
Venezuele	(0,00)	(0,00)	-	-	-	-	-
Totale 30 09 2014	**2.802,52**	**2.866,22**	**19.130,31**	**21.953,09**	**344,55**	**3.178,09**	**717,26**
Totale 31 12 2013	**3.109,06**	**3.214,46**	**20.986,63**	**22.182,56**	**359,42**	**3.298,39**	**873,87**

Details on the Group's exposure is presented taking into consideration that, according to instructions from the European Securities and Markets Authority (ESMA), "sovereign debt" is defined as bonds issued by central and local Governments and by government Entities, as well as loans disbursed to said entities.

Following are the details of Italian AFS reserves and credit derivatives (in EUR/mln):

(milion of Euro)

AFS securities: Italy	30 09 2014	31 12 2013
Book value	21,685.0	21,631.0
AFS reserve (after tax)	(467.1)	(936.5)
of which: hedging effect (after tax)	(2,140.0)	(1,598.4)

(milion of Euro)

Credit derivatives - Italy	30 09 2014	31 12 2013
Purchase of protection	-	-
Nominal	(4,146.6)	(4,626.2)
Positive fair value	534.3	773.4
Negative fair value	(3)	(0.0)
Sale of protection	-	-
Nominal	4,848.7	5,515.0
Positive fair value	3.4	0.1
Negative fair value	(640.3)	(970.3)

Interbank position

As at 30 September 2014, the Group's **net interbank position** stood at approx. **EUR 23 bn in funding**, an improvement of EUR 0.6 bn compared to the net balance recorded as at 30/06/14 and EUR 4.3 bn with respect to 31/12/13. During the quarter, Long Term Refinancing Operations with the ECB continued to be repaid (approx. EUR 6 bn), partially offset by access to the new Target Long Term Refinancing Operations for around EUR 3 bn. Loans to banks were down 20.3% compared to the figures at the end of the previous quarter and 34.3% down on the end of the previous year.

Interbank balances (end-of-period; EUR mln)

			(*)	(**)	Change Q/Q		Change 31.12	
	30/09/2014	30/06/2014	31/12/2013	30/09/2013	Abs.	%	Abs.	%
Loans to banks	6,884	8,638	10,485	11,439	(1,754)	-20.3%	(3,601)	-34.3%
Deposits from banks	29,425	31,810	37,279	42,377	(2,385)	-7.5%	(7,854)	-21.1%
Net position	**(22,540)**	**(23,172)**	**(26,793)**	**(30,938)**	**632**	**-2.7%**	**4,253**	**-15.9%**

(*) 2013 balance sheet figures have been restated to reflect changes to the scope of consolidation (following the introduction of new accounting standards which came into force on 1 January 2014).

(**) The balances as at 30/09/2013 have been restated to reflect the changes resulting from the reclassification of the "Fresh 2008" financial instruments, amounting to EUR 76 mln from the item "Equity instruments" to the item "Deposits from banks" (for further details, please see the Notes to the 2013 Consolidated Financial Statements).

As at 30/09/2014 the operating liquidity position showed an **unencumbered Counterbalancing Capacity of EUR approx. 25 bn**, a decrease compared to the end of June 2014, when the value was EUR 29 bn.

Net equity

The **Group's net equity and non-controlling interests**, totalling approx. **EUR 10 bn**, recorded a decrease of EUR 700 mln over 30/06/2014 (-6.4%) due to the loss for the period. Compared to 30/6/2014, the value of the share capital increase, originally posted under the item "Reserves" pending formal procedures with the Registry of Companies, was transferred to "Share Capital".

Valuation Reserves showed an improvement of approx. EUR 85 mln during the quarter (EUR +507 mln on the end of the year) owing to the higher value of the AFS portfolio as a result of a tighter Italian spread.

Reclassified Balance Sheet (Euro mln)

ASSETS	30/09/2014	30/06/2014	31/12/2013 (*)	30/09/2013 (**)	Chg vs 30/06/2014 Abs.	Chg vs 30/06/2014 %	Chg vs 31/12/2013 Abs.	Chg vs 31/12/2013 %
Group net equity	10,340	11,048	6,147	6,435	(708)	-6.4%	4,192	68.2%
a) Valuation reserves	(549)	(634)	(1,056)	(1,697)	85	-13.4%	507	-48.0%
c) Equity instruments carried at equity	3	3	3	3	-		-	
d) Reserves (***)	(451)	4,548	1,175	1,187	(4,999)	n.s.	(1,625)	-138.4%
f) Share capital	12,484	7,485	7,485	7,485	5,000	66.8%	5,000	66.8%
g) Treasury shares (-)	(0)	(0)	(25)	(25)	-		25	-100.0%
h) Net profit (loss) for the period	(1,150)	(353)	(1,434)	(518)	(797)	225.7%	285	-19.8%
Non-controlling interests	24	29	33	3	(5)	-16.9%	(9)	-27.2%
Total Liabilities and Shareholders' Equity	**10,364**	**11,077**	**6,181**	**6,438**	**(713)**	**-6.4%**	**4,183**	**67.7%**

(*) 2013 balance sheet figures have been restated to reflect changes to the scope of consolidation (following the introduction of new accounting standards which came into force on 1 January 2014).

(**) The figures as at 30/09/13 were restated to reflect changes resulting from the reclassification of the "Fresh 2008" financial instruments, equivalent to EUR 76 mln, from "Equity instruments" to "Deposits from banks" (for more information, see the Notes to the 2013 Consolidated Financial Statements) and the retroactive application of the amendment to IAS 32 "Offsetting Financial Assets and Financial Liabilities" illustrated in the Explanatory Notes in the section "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)".

Capital adequacy

Capital for regulatory purposes and capital ratios

The new regulatory framework (Basel 3) for calculating regulatory capital and capital requirements according to the provisions of CRR/CRD IV became effective on 1 January 2014. The new methodologies, described in detail in "Part F" of the Notes to the Financial Statements (to which the reader is referred), are summarised as follows:

- introduction of a Common Equity Tier 1 (CET1) level, with much more stringent criteria for the inclusion of capital instruments with respect to Tier 1;
- introduction within CET1 of a series of items to be deducted (e.g., delta of expected losses, financial equity investments, deferred tax assets), subject to the benefit of the exemption mechanism and, in the transition period, to a gradual application through the phase-in mechanism;
- introduction of a series of restrictions for calculating Tier 2 involving the exclusion of certain subordinated securities, the change in the calculation method of regulatory amortisation of certain securities, and the deduction of Tier 2 securities issued by financial institutions and held by the Group for an amount exceeding the exemption.

Background
Over the last years, Italian banks have strengthened their capital position through private capital.
In recent months, there has been an acceleration in the path towards a Banking Union, as a response to destabilising tendencies created by the financial crisis. The Union, in its three components (single supervision, the mechanism for resolving crises and the guarantee of deposits at European level), was designed to safeguard financial stability, protecting citizens from the real and financial costs of crises.
On 26 October, the Comprehensive Assessment (CA) exercise was completed. Coordinated by the ECB and the EBA, the CA was a precursor to the centralisation of European banking supervision under the ECB (SSM = Single Supervisory Mechanism). There were 130 banks involved, 29 of which are under restructuring plans (e.g., BMPS). The final results, applying the benefits of mitigants, showed that: - 105 banks passed the CA without any shortfalls; - 25 banks did not pass the CA, generating a capital shortfall that must be covered within 9 months, following approval from the ECB.
As of November 2014, banking supervision will be conducted at EU level by the ECB, in close cooperation with national supervisory authorities. At central level, the main operating instrument for supervision will be the Joint Supervisory Team.

The key regulatory impacts on capital requirements are associated with the following elements:

- increase in capital requirements associated with deferred tax assets (DTAs) that are not based on future profitability and that derive from temporary differences, which can be transformed into credits and therefore included in RWA with a weight of 100%;
- increase in capital requirements associated with financial equity investments and DTAs (that cannot be transformed into credits) not deducted from CET1 as a result of the exemption, and therefore included in RWA with a weight of 250%;
- increase in the capital requirements associated with the introduction of the Credit Value Adjustment (CVA) as part of counterparty risk;
- decrease of the requirement for credit risk for exposures with SMEs that, within certain limits, benefit from a discount of around 24% (SME Supporting Factor);
- elimination of the inclusion of the capital requirement associated with Basel 1 Floor as, according to the new rules, it is no longer expressed in terms of a higher requirement, but rather in terms of a restriction on regulatory capital; this minimum amount of capital to be held cannot be less than 85% of what would be necessary to have a Total Capital ratio of 8%, considering the Basel 1 requirement.

As at 30/09/2014, capital was strengthened compared to the pro-forma figure as at 31/12/2013, as a result of the share capital increase of EUR 5 bn successfully completed at the end of June 2014, the partial repayment of the New Financial Instruments (Monti Bonds) for EUR 3 bn, as well as deductions exceeding the exemption for the loss for the period.

These positive effects are partially offset by capitalised costs for the share capital increase and, in particular, the loss for the 3rd quarter.

CET1 (Common Equity Tier 1) and T1 (Tier 1) therefore stood at EUR 10,100 mln (EUR +1,174 mln compared to the pro-forma figure for 31/12/2013).

Total Capital was instead EUR 13,244 mln (EUR +811 mln compared to the pro-forma figure as at 31/12/2013) and, in addition to changes affecting CET1, also includes the negative impact of the regulatory amortisation of subordinated securities.

RWA was down (EUR -3,748 mln compared to pro-forma 31/12/2013). Specifically, absorption of credit risk declined due to the optimisation transactions on the portfolio and the decrease in performing loans, while the item for deductions for exemptions for CET1 and transformable DTAs weighted at 100%.

As a result of the above, the CET1 ratio and T1 ratio as at 30/09/2014 are equivalent to 12.8% (+200 compared to the pro-forma figure as at 31/12/2013) and the Total Capital ratio is 16.8% (+180 bps compared to the pro-forma figure as at 31/12/2013).

Regulatory Capital (Eur mln)	*BIS3*	*BIS3*	*BIS3 Proforma*		
	30/09/14	**30/06/14**	**31/12/13**	*Change vs 31/12/13*	*Chg. % vs 31/12/13*
Common Equity Tier 1	10.100	10.782	8.926	1.175	*13,2%*
Tier 1	10.100	10.782	8.926	1.175	*13,2%*
Tier 2	3.144	3.301	3.508	-364	*-10,4%*
Total Capital	**13.244**	**14.083**	**12.433**	**811**	***6,5%***
Risk Weighted Assets	**78.636**	**80.042**	**82.384**	**-3.748**	***-4,5%***
Common Equity Tier 1 Ratio	**12,8%**	**13,5%**	**10,8%**	**2,0%**	***n.s.***
Tier 1 Ratio	12,8%	13,5%	10,8%	2,0%	*n.s.*
Total Capital Ratio	16,8%	17,6%	15,1%	1,8%	*n.s.*

Income statement

Trends in operating revenues: generation of net income from banking and insurance activities

As at 30 September 2014, the Group's **net income from banking and insurance** was approx. EUR 3,137 mln (-2.9% on the same period of last year). 3Q2014 contributed EUR 1,184.1 mln, +18.9% as compared to 2Q2014.

Financial and insurance income (EUR mln)									
					(*)	Chg Q/Q		Chg Y/Y	
	30/09/2014	3°trim.14	2Q2014	1Q2014	30/09/2013	Abs.	%	Abs.	%
Net interest income	1,552.5	580.6	526.2	445.8	1,592.2	54.4	10.3%	(39.6)	-2.5%
Net fee and commission income	1,292.5	421.5	425.8	445.2	1,252.8	(4.3)	-1.0%	39.7	3.2%
Income from banking activities	**2,845.0**	**1,002.1**	**952.0**	**891.0**	**2,845.0**	**50.1**	**0.1**	**0.1**	**0.0%**
Dividends, similar income and gains (losses) on equity investments	82.1	32.6	23.8	25.7	96.9	8.8	37.1%	(14.9)	-15.3%
Net trading income (loss) / valuation of financial assets	220.9	147.3	28.6	45.1	285.7	118.7	n.s.	(64.7)	-22.7%
net profit (loss) from hedging	(11.1)	2.2	(8.7)	(4.6)	2.0	10.9	n.s.	(13.1)	-657.5%
Financial and insurance income	**3,136.9**	**1,184.1**	**995.6**	**957.2**	**3,229.5**	**188.5**	**18.9%**	**(92.6)**	**-2.9%**

(*) 2013 P&L figures have been restated to reflect changes to the scope of consolidation (following the introduction of new accounting standards which came into force on 1 January 2014) and the reclassification of P&L items relating to the transfer of a business unit to the company Fruendo Srl effective as of 1 January 2014.

A closer look at the aggregate reveals the following:

- **Net interest income** amounted to approx. **EUR 1,553 mln** as at 30/09/2014, registering a fall of 2.5% compared to the first nine months of 2013 owing to a negative impact from the price adjustment of NFIs[3] (approx. EUR 147 mln) which occurred at the end of March 2014. Excluding this impact, the Group's net interest income would reflect a year-on-year growth of approx. 7% due to the lower average amount of these same financial instruments[4] (benefit of approx. EUR 13 mln) as well as an improved funding/lending spread (approx. +49 bps), which was impacted by a lower cost of funding (average borrowing rate -42 bps, mainly with Corporate customers) and a higher average lending rate (+7 bps linked mainly to market interest rate trends.

  The 3rd quarter contributed approximately **EUR 581 mln**, up +10.3% on the previous quarter. The quarterly trend was positively impacted by the partial repayment of the NFIs and the lower cost of funding, while it was negatively affected by a reduction in interest-bearing loans (approx. EUR -2.5 bn in terms of average volumes).

- **Net fee and commission income**, totalling approx. **EUR 1,293 mln**, picked up by 3.2%YoY (EUR +40 mln) due to higher revenues from assets under management, which was boosted by placements (mainly Funds) as well as the non-commercial component, which particularly benefitted from the closure of the “Chianti” transaction. The aggregate registered a result of approx. EUR 422 mln in the 3rd quarter, which was largely in line with the previous quarter;

- **Net profit (loss) from trading-valuation-repurchase of financial assets/liabilities** as at 30/09/14 came to approximately EUR 221 mln, down from the same period of 2013 (approx. EUR -65 mln; -22.7%). A closer look at the result reveals that:

  - **Net profit (loss) from trading** showed a positive balance of approx. EUR 88 mln, almost entirely owing to income from the subsidiary MPS Capital Services, but was down on the same period of last year (approx. EUR -112 mln; -56.1%) when it had benefitted from a particularly favourable market trend;

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[3] *Note that as at 31/03/2014, the aggregate was affected by the repayment of State-subscribed securities (NFIs) adjusted to the contractual provisions governing the instruments, which bind the repayment amount to the consideration that the Monte dei Paschi di Siena Foundation communicated to have received for the sale of ordinary shares of Banca Monte dei Paschi, with a one-off negative impact on Q1 2014 of approx. EUR 143 mln. .*

4 *Note that on 28 February 2013, the MEF subscribed New Financial Instruments issued by BMPS for a total of approximately EUR 4bn,increasing the previous “Tremonti Bond” issuance by approx. EUR 2bn*

- **Disposal/repurchase of loans and available-for-sale financial assets and liabilities** stood at approx. EUR 150 mln, mainly attributable to the disposal of AFS securities as well as the sale of certain investments, including Aeroporto Toscano and SIA (with capital gains totalling around EUR 34 mln);
- **Net profit (loss) from financial assets and liabilities designated at fair value** showed a negative balance of EUR 16.2 mln (against a positive result of EUR 51.4 mln as at 30/09/2013), mainly due to the higher value of certain bond issues placed with Retail and Institutional customers due to Banca MPS's improved creditworthiness.

As for the quarterly trend, the aggregate contributed approx. EUR 147 mln, an increase on the previous quarter (EUR +118.7 mln), which had been weighted down by a loss of around EUR 13 mln from the block sale without recourse of a doubtful loans portfolio to a securitisation vehicle financed by companies belonging to Fortress Investment Group LLC.

Net trading income (loss) / valuation of financial assets (EUR mln)									
					(*)	Chg Q/Q		Chg Y/Y	
	30/09/2014	3°trim.14	2°trim.14	1Q2014	30/09/2013	Abs.	%	Abs.	%
Net profit (loss) from trading	87.5	(2.8)	46.5	43.8	199.2	(49.2)	n.s.	(111.7)	-56.1%
Gains (losses) on disposal/repurchase of loans, financial assets available for sale and financial liabilities	149.6	108.9	(6.4)	47.0	35.0	115.3	n.s.	114.6	327.7%
Net profit (loss) from financial assets and liabilities designated at fair value	(16.2)	41.1	(11.5)	(45.7)	51.4	52.7	n.s.	(67.6)	-131.4%
Net profit (loss) from trading	**220.9**	**147.3**	**28.6**	**45.1**	**285.7**	**118.7**	**n.s.**	**(64.7)**	**-22.7%**

(*) 2013 P&L figures have been restated to reflect changes to the scope of consolidation (following the introduction of new accounting standards which came into force on 1 January 2014) and the reclassification of P&L items relating to the transfer of a business unit to the company Fruendo Srl effective as of 1 January 2014.

Net income from banking and insurance activities also includes:

- **dividends, similar income and gains (losses) on investments**: totalled approx. **EUR 82 mln** (approx. EUR 97 mln as at 30/09/13) with 3Q2014 contributing approx. EUR 33 mln, up by around EUR 9 mln on the previous quarter. In the first nine months of 2014, AXA-MPS contributed with revenues (consolidated at net equity) of approx. EUR 66 mln, and approx. EUR 32 mln in 3Q2014, an increase over the previous quarter which had been affected by the one-off negative accounting effects on the value of AXA-MPS's net equity;
- **net income from hedging**: showed a negative balance of approx. **EUR 11 mln** (positive balance of EUR 2 mln as at 30/09/13) with a positive contribution of EUR 2.2 mln in 3Q2014.

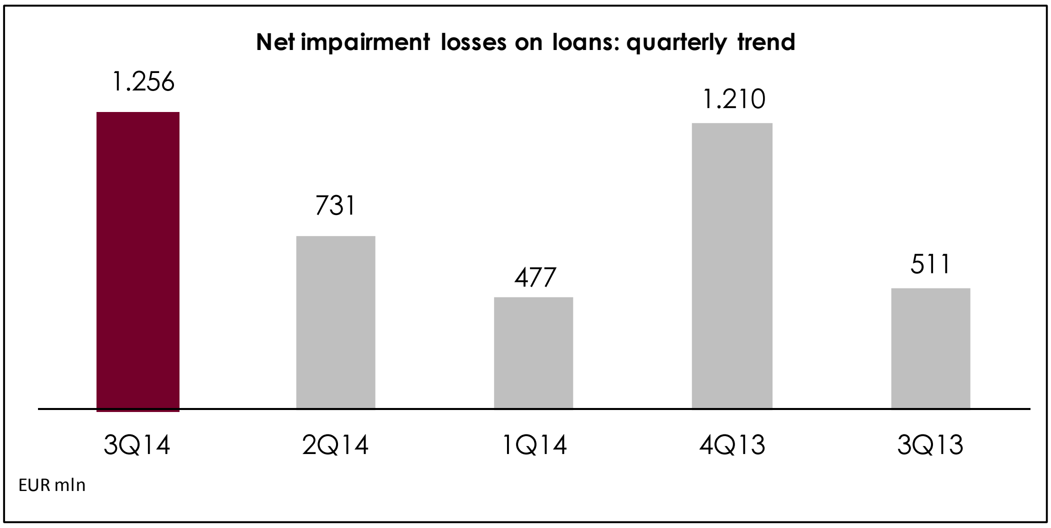
Cost of credit: net impairment losses (reversals) on loans and financial assets

As at 30 September 2014, the Group **recognised net impairment losses (reversals) on loans** for approx. EUR 2,464 mln (+60% YoY), with the third quarter contributing around. EUR 1,257 mln (+71.8% QoQ).

Net impairment losses in the first nine months of 2014 include approx. EUR 1,170 mln from exposures subject to the Credit File Review (CFR) as part of the Asset Quality Review (AQR); of these, approx. EUR 790 mln was included in the third quarter results. These impairment losses, which reflect an updated disclosure framework, result from the Group's independent assessment of exposures in the Credit File Review using the same methodological criteria applied by the Supervisory Authorities in the AQR and deemed by the Group to be largely compliant with accounting standards.

Regarding other AQR impacts, i.e., statistical projections of the CFR findings and collective provisioning, the Group decided not to include the AQR results in the accounting data in view of the fact that the projections do not meet the necessary analytical requirements and, similarly, the collective provisioning identified by the AQR was based on a methodology whose application and assumptions will be verified in the overall loan valuation process. On this issue, it should be noted that a process is underway to verify the necessity of updating methodologies and parameters applied to classify and measure loans in the financial statements as at 31 December 2014, in which these AQR impacts will also be considered.

The ratio of annualised loan loss provisions over total customer loans is expressive of a **provisioning rate of 260 bps**, compared to 211 bps at the end of 2013.



Net impairment losses (reversals) on financial assets showed a **negative balance of EUR 58.6 mln** (EUR -39.6 mln in 3Q2014; EUR -30.4 mln as at 30/09/13) due to the write-off of the investment in *Istituto per il Credito Sportivo* in the first quarter of 2014 and of *Fondo Immobiliare Socrate* and *Prelios* in the third quarter of 2014, as well as the adjustment of the contribution to the Interbank Deposit Protection Fund (*Fondo Interbancario di Tutela dei Depositi – FITD*) in favour of Banca Tercas.

As a consequence, **income from banking and insurance activities totalled approx. EUR 614 mln** (-63% YoY), with a negative impact of approx. EUR -112 mln (positive for EUR 260 mln in the second quarter of 2014).

Operating costs: operating expenses

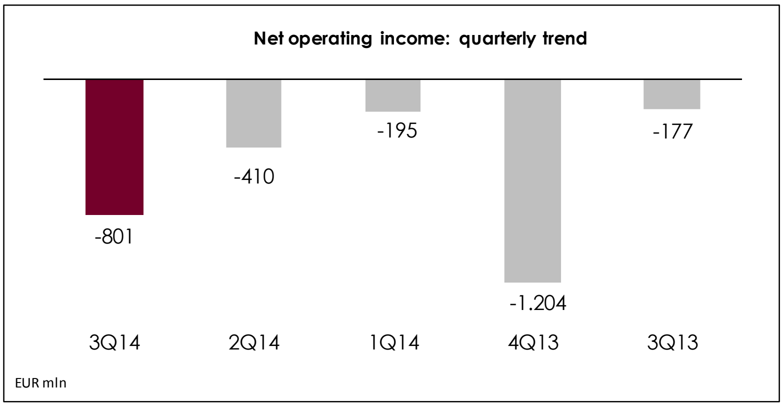
As at 30 September 2014 **operating expenses** totalled approx. **EUR 2,021 mln** (-5.2% YoY) with the third quarter accounting for EUR 690 mln, registering an increase from the second quarter of 2014 (+2.8%).

Operating expenses (EUR mln)					(*)	Chg Q/Q		Chg Y/Y	
	30/09/2014	3°trim.14	2°trim.14	1Q2014	30/09/2013	Abs.	%	Abs.	%
Personnel expenses	1,279.2	427.9	421.9	429.3	1,304.5	6.0	1.4%	(25.3)	-1.9%
Other administrative expenses	577.0	195.9	198.5	182.6	712.7	(2.6)	-1.3%	(135.6)	-19.0%
Administrative expenses	**1,856.2**	**623.8**	**620.4**	**611.9**	**2,017.2**	**3.4**	**0.5%**	**(160.9)**	**-8.0%**
Net losses/reversal on impairment on property, plant and equipment / Net adjustments to (recoveries on) intangible assets	164.4	65.6	50.2	48.6	113.3	15.4	30.6%	51.1	45.1%
Operating expenses	**2,020.7**	**689.5**	**670.7**	**660.5**	**2,130.5**	**18.8**	**2.8%**	**(109.8)**	**-5.2%**

(*) 2013 P&L figures have been restated to reflect changes to the scope of consolidation (following the introduction of new accounting standards which came into force on 1 January 2014) and the reclassification of P&L items relating to the transfer of a business unit to the company Fruendo Srl effective as of 1 January 2014.

More specifically:

- **Administrative expenses** were approx. **EUR 1,856 mln** (-8% compared to 30/09/2013) of which approx. EUR 624 mln referring to the 3rd quarter (+0.5% QoQ). A breakdown of the aggregate shows:
  - **Personnel expenses**, amounting to approx. **EUR 1,279 mln**, were down 1.9% against the previous year, mainly due to headcount reduction. The quarterly trend shows an increase in spending of approx. EUR 6 mln (+1.4% QoQ) largely due to the National Collective Labour Agreement (*Contratto Collettivo Nazionale del Lavoto – CCNL*) remuneration increases, which entered into force in June (full impact in the third quarter 2014 compared to partial impact in the previous quarter);
  - **Other administrative expenses** (net of customer expense recovery) stood at approx. **EUR 577 mln**, down 19% YoY and down 1.3% QoQ, due to structural cutbacks in spending, particularly on rental expenses, sponsorships and events, business trips and facility management and office supplies.
- **Net value adjustments to tangible and intangible assets** were in the region of **EUR 164 mln** at the end of September, up 45.1% YoY, mainly due to higher depreciation of real estate following the consolidation of Perimetro at the end of 2013. The quarterly amount, totalling approximately EUR 66 mln (+30.6% in 2Q2014) includes a write-down of around EUR 14 mln on the real estate of an equity investment.



As a result of the above factors, the **Net Operating Result** showed a negative balance of approx. EUR 1,407 mln (vs. EUR -471 mln as at 30/09/13), with a cost/income ratio of 64.4% (68.2% as at 30/06/14).

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

The **result for the period** included:

- **Net provisions for risks and charges and other operating expenses/income**, which showed a negative balance of approx. EUR 134 mln as at 30/09/14 compared to EUR -9.1 mln as at 30/09/13. The aggregate includes:
  - **net provisions for risks and charges** in the amount of EUR -119 mln (EUR -60 mln in the first nine months of 2013) with the quarter accounting for approx. EUR 37 mln;
  - **other operating expenses/income** (net of recovery expenses reclassified to Other Administrative Expenses) in the amount of EUR -14 mln (EUR +51 mln as at 30/09/2013) with the contribution for the quarter being insignificant;
- **Gains (losses) on investments** showed a net positive balance of approx. EUR 162 mln, with a negative balance of EUR 13.4 mln in the third quarter, almost entirely owing to the investment in Sansedoni;
- **Restructuring costs/**One-off charges, amounting to approx. EUR -322 mln (of which around EUR -318 mln due to early retirement incentives/provisions, as per the trade union agreement of 7 August 2014, and, for the remainder, the closure of around 150 branches envisaged in the Business/Restructuring Plan booked in the third quarter);
- **Gains on disposal of investments** showed a positive balance of approx. EUR 7 mln attributable to the capital gain from the disposal of administrative and back-office activities to Fruendo, booked in the first quarter.

As a result of the above, a **loss before tax from continuing operations** of **EUR 1,694 mln** was posted as at 30/09/14 (vs. a loss of EUR -531 mln as at 30/09/13).

Profit (loss) before tax from continuing operations (EUR mln)									
					(*)	Chg Q/Q		Chg Y/Y	
	30/09/2014	3°trim.14	2°trim.14	1Q2014	30/09/2013	Abs.	%	Abs.	%
Net operating income	**(1,406.8)**	**(801.5)**	**(410.2)**	**(195.0)**	**(471.3)**	**(391.3)**	**95.4%**	**(935.5)**	**198.5%**
Net provisions for risks and charges and other operating expenses/income	(133.6)	(35.3)	(45.2)	(53.2)	(9.1)	9.9	-21.9%	(124.5)	1363.8%
Gains (losses) from Investments	161.9	(13.4)	133.4	41.9	(32.0)	(146.8)	n.s.	193.9	-605.6%
Restructuring charges / One off charges	(322.0)	(318.2)	(2.7)	(1.1)	(17.8)	(315.4)	n.s.	(304.2)	1710.9%
Gains (losses) on disposal of investments	6.8	1.7	0.4	4.7	(0.5)	(4.2)	-90.7%	7.3	-1527.0%
Profit (Loss) before tax from continuing operations	**(1,693.6)**	**(1,166.6)**	**(324.3)**	**(202.7)**	**(530.7)**	**(842.3)**	**n.s.**	**(1,162.9)**	**219.1%**

(*) 2013 P&L figures have been restated to reflect changes to the scope of consolidation (following the introduction of new accounting standards which came into force on 1 January 2014) and the reclassification of P&L items relating to the transfer of a business unit to the company Fruendo Srl effective as of 1 January 2014.

Taxes on profit (loss) from continuing operations showed a **positive balance of approx. EUR 568 mln** (positive balance of approx. EUR 84 mln as at 30/09/13), which included around EUR 70 mln resulting from the benefits to support the economic growth (so-called ACE).

The consolidated net result of the period before Purchase Price Allocation (PPA) and including the profit for non-controlling interests shows a loss of EUR 1,121.7 mln (approx. EUR -487 mln as at 30/09/13).

Considering the effects of PPA, the Group's loss for the period totalled EUR 1,149.7 mln (approx. EUR -518 mln as at 30/09/13).

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.

Based on the Group organisational structures in place as at 30 September 2014 and the reporting criteria at the highest decision-making level, the following operating segments were identified, unchanged with respect to those illustrated in the Half-Year Report on Operations as at 30 June 2014:

- **Retail Banking**, which includes the sales activities of the Retail and Private Segments and the subsidiaries Consum.it and MPS Fiduciaria;
- **Corporate and Investment Banking**, which includes the sales activities for the Corporate segment, Key Clients, Foreign Branches and the subsidiaries MPS Capital Services Banca per le Imprese and MPS Leasing & Factoring;
- **Financial Advisory and Digital Banking**, which now includes the Financial Advisory Network (part of the Retail Banking segment until 31 December 2013) and the subsidiary WIDIBA, the Group's newco in the digital banking sector which obtained approval for the exercise of banking activities in May and will begin operations in the final quarter of 2014.
- **Corporate Centre**, which in addition to cancellations of intragroup entries, incorporates the results of the following business centres:
  - banks under foreign law (MP Banque and MPS Belgio);
  - service operations supporting the Group's business, dedicated in particular to the management and development of IT systems (MPS Group Operating Consortium) and value creation from the Group's real estate assets (MPS Immobiliare);
  - companies consolidated at equity and held for sale;
  - operating units, such as proprietary finance, ALM, Treasury and Capital Management which, individually, fall below the disclosure requirements for primary reporting.

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

Results in brief

The following table reports the main income statement and balance sheet items that characterised the Operating Segments as at 30 September 2014.

SEGMENT REPORTING Primary segment	Retail banking		Corporate banking		Financial Advisory and Digital banking		Corporate Center		Total MPS Group	
(EUR mln)	30/09/2014	Chg % Y/Y	30/09/2014	Chg % Y/Y	30/09/2014	Chg % Y/Y	30/09/2014	Chg % Y/Y	30/09/2014	Chg % Y/Y
PROFIT AND LOSS AGGREGATES										
Income from banking and insurance	2,730.5	-8.7%	1,331.0	-2.5%	24.9	5.9%	(949.5)	-17.4%	3,136.9	-2.9%
Net impairment losses (reversals) on loans and financial assets	(562.1)	6.6%	(1,930.4)	77.4%	(0.2)	n.s.	(30.3)	n.s.	(2,523.0)	60.7%
Operating expenses	(1,520.5)	-5.0%	(440.7)	-3.9%	(9.7)	-5.8%	(49.7)	-19.5%	(2,020.7)	-5.2%
Net operating income	647.9	-25.0%	(1,040.1)	n.s.	15.0	12.7%	(1,029.5)	-11.7%	(1,406.8)	n.s.
BALANCE SHEET AGGREGATES										
Interest-bearing loans to customers	52,057	-8.3%	53,761	-9.2%	116	-20.9%	10,618	-3.9%	116,553	-8.3%
Deposits from customers and debt securities issued(*)	64,755	-5.3%	25,932	6.5%	627	-5.0%	35,296	-9.3%	126,610	-4.3%
Indirect funding	64,015	9.6%	24,244	5.0%	5,309	-5.2%	14,390	0.8%	107,958	6.5%
Assets under management	*41,322*	*16.5%*	*1,240*	*-0.9%*	*4,761*	*-4.1%*	*3,067*	*29.4%*	50,390	*14.4%*
Assets under custody	*22,693*	*-1.2%*	*23,003*	*5.4%*	*549*	*-14.4%*	*11,323*	*-4.9%*	57,568	*0.4%*

(*) The figures for Retail Banking and Corporate Banking refer only to data from the Sales & Distribution Network. Note that these figures do not include intercompany balances of the legal entities related to the operating segment (typically, intragroup funding).

Note: 2013 balance sheet figures have been restated to reflect changes to the scope of consolidation (following the introduction of new accounting standards which came into force on 1 January 2014). 2013 P&L figures have been restated to reflect changes to the scope of consolidation (following the introduction of new accounting standards which came into force on 1 January 2014) and the reclassification of P&L items relating to the transfer of a business unit to the company Fruendo Srl, effective as of 1 January 2014.

Sales & Distribution segments

Retail Banking

Profit & loss and balance sheet results

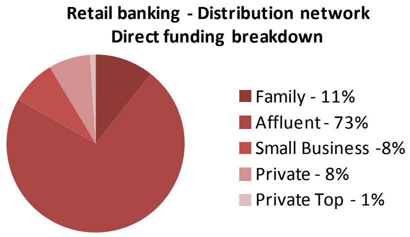
As at 30/09/2014, **total funding** for Retail Banking was approx. **EUR 129 bn**, up 3 bn from 31/12/2013, due to the sales drive that particularly characterised the first few months of the year and allowed a reversal of the unfavourable trend seen in 2013. In the third quarter, volumes remained essentially stable (+0.5% QoQ).

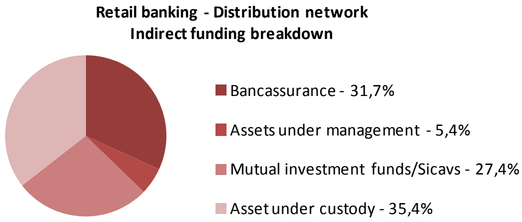
Direct funding, totalling approx. **EUR 65 bn,** reported a slight decrease during the quarter (-0.8%), due to the reduction in volumes for Family/Affluent customers, partially offset by growth from small businesses, with a shift in investments away from bonds toward products with shorter durations.

Indirect funding, amounting to approx. **EUR 64 bn**, instead rose by around EUR 1.1 bn in the quarter, due to growth in Assets under Management (driven by the Funds/UCITS segment) partially offset by a slight decline in Assets under Custody.

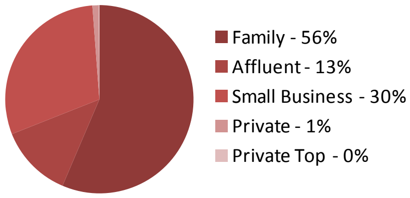
Interest-bearing loans stood at approx. **EUR 52 bn**, down approx. EUR 800 mln from 30/06/2014 (-1.6%; -5.4% from 31/12/2013), mainly attributable to the persisting recession that has made it more difficult to replace exposures falling due with medium/long-term loans.

RETAIL BANKING - BALANCE SHEET AGGREGATES							
(Eur mln)	30/09/2014	30/06/2014	31/12/2013	30/09/2013	Chg % Q/Q	Chg % 31/12	Chg % Y/Y
Deposits from customers and debt securities issued - Distribution Network	**64,755**	**65,256**	**65,635**	**68,354**	**-0.8%**	**-1.3%**	**-5.3%**
Assets under management	*41,322*	*39,641*	*36,530*	*35,454*	*4.2%*	*13.1%*	*16.5%*
Assets under custody	*22,693*	*23,264*	*23,674*	*22,962*	*-2.5%*	*-4.1%*	*-1.2%*
Indirect Funding - Distribution Network	**64,015**	**62,904**	**60,203**	**58,416**	**1.8%**	**6.3%**	**9.6%**
Total Funding - Distribution Network	**128,769**	**128,160**	**125,838**	**126,770**	**0.5%**	**2.3%**	**1.6%**
Interest-Bearing Loans to Customers	**52,057**	**52,881**	**55,031**	**56,788**	**-1.6%**	**-5.4%**	**-8.3%**





Retail banking - Distribution network
Interest-bearing loans



With regard to profit and loss, in the third quarter of 2014 Retail Banking achieved **total revenues** of approx. **EUR 2,731 mln**, down 8.7% with respect to the same period last year. The aggregate includes:

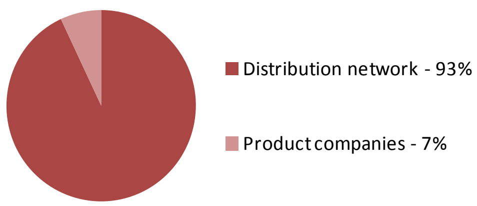
- decrease in net interest income (-12.1% YoY), due largely to the decline in margins on demand deposits (around 111 bps YoY), despite an increase in average volumes of approx. EUR 2 bn, partly offset by a related increase in the margin on demand loans (+126 bps YoY);
- increase in net fee and commission income (+4.9%), boosted by positive trends in revenues from the placement of assets under management products;
- decrease in "other revenues" (-71.9%), affected by the different allocation of "figurative" income on Securities Lending activities now included in Net Interest Income.

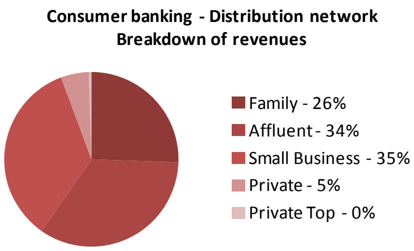
As for cost components, there was an increase in both net impairment losses (reversals) on loans and financial assets (+6.6%) and a decrease in operating expenses (-5%) with respect to the previous year.

As a result of the above components, as at 30 September 2014 Retail Banking posted a **Net Operating Income of approx. EUR 648 mln** (-25% YoY), with a **cost-to-income ratio of 55.4%**.

RETAIL BANKING - PROFIT AND LOSS AGGREGATES			
(EUR mln)	30/09/2014	30/09/2013	Chg % Y/Y
Net interest income	*1,645.9*	*1,871.8*	*-12.1%*
Net fee and commission income	*1,052.1*	*1,003.2*	*4.9%*
Other income	*32.5*	*115.3*	*-71.9%*
INCOME FROM BANKING AND INSURANCE	**2,730.5**	**2,990.3**	**-8.7%**
Net impairment losses (reversals) on loans and financial assets	*(562.1)*	*(527.0)*	*6.6%*
Operating expenses	*(1,520.5)*	*(1,599.7)*	*-5.0%*
NET OPERATING INCOME	**647.9**	**863.6**	**-25.0%**

Consumer banking
Breakdown of revenues





PERFORMANCE OF COMPANIES (net profit/loss for the period)			
(EUR mln)	**30/09/2014**	**30/09/2013**	**Chg % Y/Y**
Consum.it	0.3	(18.7)	-101.8%
MPS Fiduciaria	0.1	0.7	-82.5%

Main Retail Banking initiatives

Marketing activities for the network involved different objectives across three target markets (Family, Small Business and Affluent), with a particular focus on increasing the customer base, development of existing customers and the issue of Protection.

As regards the first two focuses, promotional and marketing initiatives were developed that resulted in the opening of over **83,700 accounts**, bringing in over **EUR 950 mln in new volumes**. These include:

- **"Un Monte di Valore"** ("A Mountain of Value"), initiated in January in order to attract new deposits in exchange for benefits in the form of expense reimbursement, commissions and stamp duties. The initiative gathered EUR 481 mln through the transfer of securities, UCITS and liquidity from other institutions;
- **"Uno di Noi"** ("One of Us"), giving employees of the Group the possibility to provide "non customers" with vouchers granting them favourable conditions for opening a bank account;
- **"Un Monte di Fedeltà"** ("A Mountain of Loyalty"), first edition, launched at the end of June and directed at loyal customers with value added, providing them the opportunity to benefit from a free credit card for life (more than 16,400 new credit card requests);
- **"Un Monte di High Tech"** (A Mountain of High Tech"), 2nd edition, launched on 22 September, offered a reward (a Samsung technology product) to all new customers that sign a contract for a current account and a time deposit for a minimum of EUR 20,000 of new liquidity, with a gross annual interest rate of 2%.

Other initiatives in progress include the **"Progetto Vetrine"** (Showcase Project), involving the Bank's main partners (AXA-MPS, Anima, Compass) in financing the investments needed to set up the Branch showcases with digital instruments.

Bancassurance

- The Auto Insurance segment continued to grow, with expansion of the geographical areas in which it is possible to activate the "Super Easy Box" black box option (a satellite device with GSM/GPS/GPRS and accelerometer that allows the Company to clearly and objectively reconstruct events if there is an accident, and allows the Customer to benefit from a lower TPL premium);
- Digitalisation of the "AXA MPS Guidare Protetti" auto policy product continued, which, from September, can be purchased directly from PasKey internet banking.

For **Savings**, developments concentrated on:

- new issues of principal-protected Unit Linked products;
- marketing of a new Class I revaluable policy, known as "AXA MPS Valore Risparmio";
- launch of a new Unit Linked policy, "Axa MPS Multi Selection" dedicated to Private and Upper Affluent customers;
- launch of a new Unit Linked policy, "Axa MPS Mosaico Evolution" dedicated to Family and Affluent customers.

Assets under management

In the first nine months of 2014, the Group's positioning was fortified through enhancements to the product range, with particular emphasis on the partnership with **Anima Sgr** and the marketing launch of the **Invesco Funds** UCITS for the Private market.

Investment advisory (MPS Advice)

- Placement flows transiting through Advice remained very high throughout the first half, and in the most recent months reached an average value of 43% of total placements for the period;
- Advanced advisory volumes at the end of September 2014 were EUR 29.94 bn, an increase of +10.4%, compared to EUR 27.11 bn at the end of September 2013;
- The number of advisory proposals at the end of September was more than 239 thousand, up significantly (+70%) on the previous year;
- In terms of **performance for the customer**, the average return on Advice portfolio for the first 8 months of the year was approx. 2.1% higher than those of portfolios administered without advisory services.

At the end of September, new supplemental advisory services reached nearly 5,000 contracts, for a total of EUR 816 mln. At the beginning of September, Advice Previdenza was opened to managers of Private and Private Top service models, thereby completing the process that began at the start of the year to extend it to the entire network.

Loans

- **Personal loans**: development of the partnership with Compass has allowed the routing of disbursements with a constant growth in monthly trends. Production in the consumer credit segment is completed by the performance of Consum.it;
- **Short-term liquidity**: "Prestiquattro" was confirmed as a useful tool to satisfy non-rotational needs associated with small business management;
- **Consumer household mortgages:** the CDP convention became active in May, further confirming the Bank's focus on social issues and aid to the consumer market.

"MPS KM ZERO" initiative

With the aim of allowing companies access to credit at a more contained cost, thereby helping to stimulate a virtuous circle as support for the relaunch of local economies, BMPS launched the "MPS KM ZERO" initiative in April. The objective of the initiative was to place three-year "Regional Bonds", with fixed-rate coupon payments (2.00% gross per annum), which would constitute funding dedicated to financing small businesses operating in said regions.

The first phase was focused on the "Antonveneta", "South Tuscany", Marche and Umbria", and "Central Italy and Sardinia" regions. The three regional bonds were placed successfully, making the sum of EUR 150 mln available to use in building a fund for the disbursement - from 1 July 2014 - of specific three-year loans dedicated to small businesses with revenues of less than EUR 2.5 mln that are resident and/or registered for business in the region in which the bonds were placed.

After this success, the Bank renewed the initiative with an additional three bonds, with a nominal amount of EUR 50 mln each, for the "North West", "South Lombardy and Emilia Romagna" and "South" regions. Loan disbursement for the second phase began in October 2014.

E-money, Payments and Collections

- Development of POS products (new and replacement installations) with new, advanced terminals that can accept contactless cards;
- Release of CUP functionality (acceptance of China Union Pay cards) on POS and the beginning of implementation to develop new value added services, with gradual release planned from the third quarter of 2014;
- Migration of CartaSi credit cards to the new Issuing platform is now more than 70% complete, with the release of new functions (e.g., sending PIN via SMS) to improve security and customer service quality;

- Development of initiatives envisaged in the preferential partnership agreement with MasterCard are underway, both for enhancements to the offer, as well as the co-marketing plan that includes important projects with leading players in the market of leisure time and services (e.g., Eataly, McArthur Glen) and the roll-out of a personalised communication programme for Bank customers holding a Carta Montepaschi Mastercard (e.g. Priceless cities).

Private Banking

In addition to the product range enhancement mentioned above, note also:

- consolidation of the sales planning approach, designed to boost asset volumes and improve retention and cross selling;
- introduction of new methodologies and tools for enhancing synergies with other business segments, particularly the SME market, with an acquisition-oriented objective (e.g. the Private-SME Community);
- promotion of advisory services, through the Advisory Specialist teams located throughout our local markets, in support of the Private Banking network;
- activation of specific advisory initiatives to support portfolio diversification, allowing eligible customers to reap the benefits in terms of overall performance (risk/return);
- use of new methods of interacting with customers, such as "Direct E-Mail Marketing" and SMS, and the release of "WEB Collaboration", an advisory methodology for customers that can also be used remotely, for more effective management of advisory services for funds and UCITS, with completely paperless operations;
- release of Advice Previdenza, operating platform to support pension advisory.

Corporate Banking

Profit & loss and balance sheet results

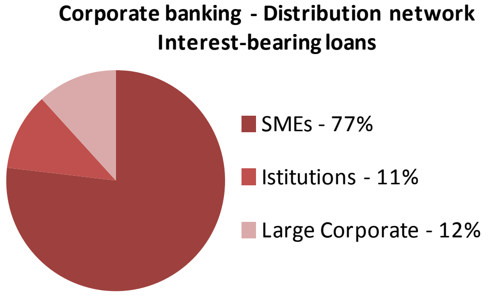
As at 30 September 2014, **total funding** from Corporate Banking stood at approx. **EUR 50 bn**, an increase from the figure for 31/12/2013 (+10.4%) but a decrease from the end of June 2014 (-2.3%). **Direct funding**, totalling approx. **EUR 26 bn**, is in line with levels as at 30/06/2014, with the third quarter characterised by the increase in sizeable forward transactions with Large Corporate customers for around EUR 2 bn, offset by an equivalent decrease in demand deposits from Institutional customers.

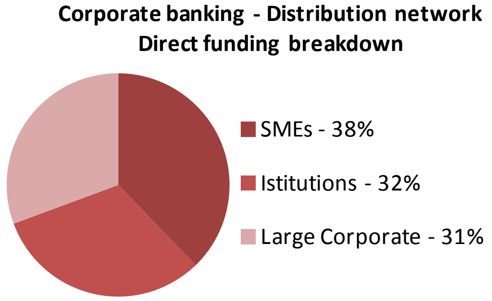
Indirect funding, consisting largely of assets under custody, stood at approx. **EUR 24 bn** as at 30/09/2014 (+2% from 31/12/2013; -3.6% as compared to 30/06/2014), which was considerably affected by changes in deposits from some of the Group's Large Corporate customers.

With regard to lending, as at 30 September 2014, **interest-bearing loans** stood at approx. **EUR 54 bn**, down from both 2013 year-end levels (-5.6%), as well as the end of the first half of 2014 (-1.7%), concentrated in medium-long term loans.

CORPORATE BANKING - BALANCE SHEET AGGREGATES

(EUR mln)	30/09/2014	30/06/2014	31/12/2013	30/09/2013	Chg % Q/Q	Chg % 31/12	Chg % Y/Y
Deposits form customers and debt securities issued - Distribution Network	**25,932**	**26,195**	**21,661**	**24,345**	**-1.0%**	**19.7%**	**6.5%**
Assets under management	*1,240*	*1,294*	*1,245*	*1,252*	*-4.2%*	*-0.3%*	*-0.9%*
Assets under custody	*23,003*	*23,847*	*22,535*	*21,827*	*-3.5%*	*2.1%*	*5.4%*
Indirect Funding - Distribution Network	**24,244**	**25,141**	**23,779**	**23,079**	**-3.6%**	**2.0%**	**5.0%**
Total Funding - Distribution Network	**50,176**	**51,335**	**45,440**	**47,424**	**-2.3%**	**10.4%**	**5.8%**
Interest-Bearing Loans to Customers	**53,761**	**54,711**	**56,921**	**59,188**	**-1.7%**	**-5.6%**	**-9.2%**

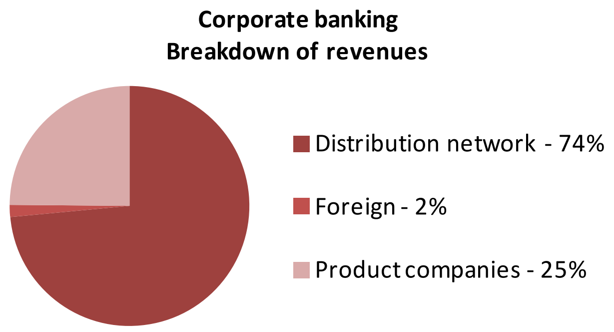


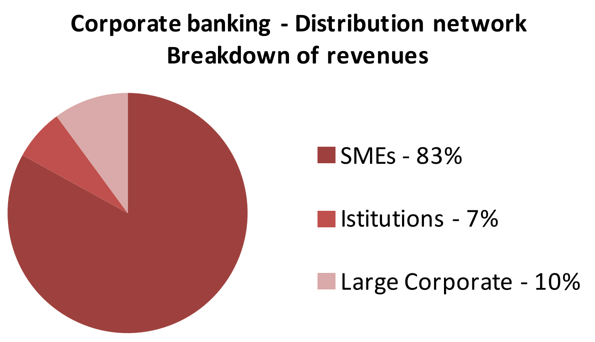


For profit and loss aggregates, in the first nine months of 2014 **total revenues** for Corporate Banking came to approx. **EUR 1,331 mln** (-2.5% compared to 30/09/13), with net interest income showing a slight increase YoY (+1.6%), whilst net fee and commission income decreased by 10.2% compared to the same period in the prior year, mainly as a result of reduced flows from lending. The contribution from other revenues declined 4.9%, mainly due to structuring of investment products and hedging of financial risks for the Group's customers by MPS Capital Services.

Net operating income was negative by approx. EUR 1,040 mln (EUR -182 mln from 30/09/13) affected by the increase in impairment losses on loans and financial assets (+77.4% YoY), partly offset by the decrease in operating expenses (-3.9% YoY). The **Corporate Banking cost-income ratio stands at 33.1%**.

CORPORATE BANKING - PROFIT AND LOSS AGGREGATES			
(EUR mln)	30/09/2014	30/09/2013	Chg % Y/Y
Net interest income	*833.2*	*820.1*	*1.6%*
Net fee and commission income	*341.2*	*379.8*	*-10.2%*
Other income	*156.7*	*164.7*	*-4.9%*
INCOME FROM BANKING AND INSURANCE	**1,331.0**	**1,364.5**	**-2.5%**
Net impairment losses (reversals) on loans and financial assets	*(1,930.4)*	*(1,088.3)*	*77.4%*
Operating expenses	*(440.7)*	*(458.6)*	*-3.9%*
NET OPERATING INCOME	**(1,040.1)**	**(182.4)**	**n.s.**





PERFORMANCE OF COMPANIES (net profit/loss for the period)			
(EUR mln)	30/09/2014	30/09/2013	Chg % Y/Y
MPS Capital Services	52.9	71.7	-26.2%
MPS Leasing & Factoring	(30.4)	(25.2)	20.7%

Main Corporate Banking initiatives

SME Market

- Strengthening of the capacity to support investments of small-medium businesses with the launch of the new "Finanziamento CDP – Ponderazione Zero" product;
- Development of synergies between the SME and Private markets, with the activation of an ad hoc reporting platform, "Community Private/PMI";
- Development of tools and services for business in the agro-food segment.

Institutions market

- Conversion of demand deposits to short/medium-term funding, also through the new 'Conto Italiano di Deposito Corporate' (CID Corporate) product;
- Lending development activities in the Third Sector and Public Utilities segments (the latter also included the development of Factoring services);
- Follow-up and coordination of activities associated with Public Tender regulations.

Foreign market

- Enhancement of support to the internationalisation process of Italian companies with development of a new support model for customers interested in expanding abroad, either commercially or through production delocalisation. Most of the new model is designed to provide answers to all possible problems of a business not sufficiently well structured to independently handle the challenges associated with international market penetration;
- Through MPS Leasing & Factoring, the release of the new product "discount without recourse" on consumer goods and short-term extended payments. The new product allows the Group entry into an operating segment until now traditionally controlled, offering applicant companies a guarantee against the risk of foreign counterparty insolvency and to benefit from an advance.

MPS Capital Services (MPSCS)

Corporate finance

Project Financing – Operations focused on the sectors of infrastructure, utilities and renewable energy.

The following initiatives are nearly complete:

- construction and management of the thermo-electric plant in Sedegliano (Udine);
- construction and subsequent management of Lines 4 and 5 of the Milan Metropolitan Railway;
- planning and completion of the Hospital in Empoli;
- construction of a wind farm in the province of Trapani.

During the third quarter, the full financing agreement for the construction and management of the vegetable biomass waste-to-energy plant in Terni (EUR 10.3 mln) was concluded.

With regard to advisory activities, 10 asseverations were defined for transactions to be carried out in the sectors of infrastructure and renewable energy (Puglia and Basilicata regions), as well as in the cemetery construction sector (Tuscany and Veneto).

Real Estate - This sector has experienced a reduction in investments as a result of the negative economic situation in Italy. However, during the quarter, a requalification transaction for part of a former FIAT – Alfa Romeo industrial area in Arese/Lainate (Milan) was completed, which envisages the construction of the new Arese Shopping Centre, by a leading Italian group in the large-scale distribution sector. The pool transaction envisages an investment by MPSCS of EUR 18.8 mln of the total EUR 193.5 mln.

Structured Finance - Activities related to medium/long-term structured financing operations continued relative to:

- construction and management of the gas distribution network in certain areas in Sardinia;
- construction of a logistics infrastructure in Southern Italy;
- implementation and management of investment plans for the Integrated Water System.

Furthermore, committed credit facilities were structured for contracts in the shipbuilding sector. Finally, support transactions for leading operators in the renewable energy production sector and participation in competitive procedures in the Integrated Water Systems and Airport Systems sectors are currently being structured.

Syndication – During the third quarter of 2014, a loan was structured for a large requalification project in Sicily in the hospitality/tourism sector promoted by a foreign investor. This loan, to be placed in the primary syndication market, constitutes the senior phase of a bridge transaction of EUR 24 mln disbursed by MPSCS in August. As regards arranging, carried out on behalf of the Parent Company, two significant transactions are in the process of being valued and structured.

Acquisition Financing - MPSCS has confirmed its competitive positioning on the acquisitions/leveraged financing market in the Mid Corporate segment, focusing on transactions with a strong industrial content and major effects on Group sales.

MPSCS, together with other leading Italian banks, performed the role of Mandated Lead Arranger for Alpha Private Equity's acquisition of Remazel Engineering, one of the most important Italian companies in the development, manufacturing and sales of equipment and components for the (offshore) petrochemical industry.

Investment banking

During the first half of the year, the Investment Banking BU of MPSCS performed the following activities in the **bond market**:

- Lead Manager in the issue of a 5-year Senior Unsecured bond and in the issue of a 7-year Covered Bond for Banca MPS;
- Lead Manager in the 15-year syndicated Italian government securities (BTPs) and Co-Lead Manager in the 10-year syndicated BTPs;
- Co-Bookrunner for the placement of EUR 80 mln in convertible bonds by Maire Tecnimont.

On the equities front in the first half, MPSCS acted as Joint Lead Manager for the institutional placement of the Fincantieri IPO, as Co-Lead Manager for the Anima Holding IPO, and was also involved in the placement of the related public offerings for both transactions.

In the third quarter, MPSCS acted as Lead Manager for a 10-year Covered Bond issue by Banca MPS for EUR 1 bn. For this issue, MPSCS also acted as Sole Manager, for a re-opening of EUR 500 mln, carried out by the Parent Company to improve the Group's counterbalancing capacity. In addition, MPSCS acted as Arranger for the issue of minibonds for a total of EUR 20 mln by SME customers of the Group, subscribed by Fondo Minibond PMI Italia.

As regards **advisory activities**, in the first half of 2014, MPSCS acted as Financial Advisor to the BoD of Meridiana SpA, in preparing the Fairness Opinion for the consistency of the all-inclusive, voluntary tender offer on ordinary shares of Meridiana SpA offered by Arly Holding SA and continued in its role as Nominated Advisor on the AIM Italia - MAC market of the Italian Stock Exchange, acquiring a new mandate from Società Poligrafici Printing.

During the third quarter, MPSCS further developed the Financial Advisor mandates for the Parent Company MPS on the disposal of the private equity portfolio and for Finanziaria Internazionale regarding investments in Fondo Minibond PMI Italia.

As regards **sales & distribution actions**, MPSCS supported its customers, consisting of small and medium-sized Italian banks, in researching and understanding the TLTRO transactions announced by the ECB in July. In addition, it collaborated with the Parent Company in carrying out a campaign for regional financial institutions for the optimal use of resources dedicated to SMEs. Finally, MPSCS continued with its **origination activities** at the Italian Ministry of the Treasury, in order to obtain a mandate on the primary market in a public transaction underway during the last quarter of the year.

Subsidised financing

- The following activities continued:
  - role as "Manager" of main national public aid for research and industrialisation on behalf of the Ministry of Economic Development and the Ministry of Education, Universities and Research (MIUR), as well as operations previously launched as part of the 'temporary consortium of companies' (RTI), created with MCC-Banca del Mezzogiorno as lead arranger to manage the Guarantee Fund for SMEs, in which MPSCS is involved in the promotion and development of subsidised financing;
  - conclusion of 20 projects included in the MIUR tenders "Cluster 2012", "Start-up 2013", "Smart Cities Nazionali 2013" and "Distretti PON Titolo III" (involving a total of 200 entities companies and government research organisations), as well as the management and distribution of a group of subsidised transactions - associated with loans from our own funds - pertaining to the "FIT (Technological Innovation Fund) negotiated procedure", established for large-scale industrial research activities and supported by important firms in various industrial sectors.

Global Markets

The third quarter of 2014 was characterised by transactions that further lowered the risk level in comparison to the first half, by reducing to minimum levels the positions designed to improve the financial scenario (hence, increase in equity positions and reduction of spread).

The key revenue drivers are linked to investment products sold in the network, in particular, bancassurance products, but positive trends in the penetration of investment certificate structured products should also be noted.

There was a slight improvement in hedging derivatives for SME customers during the quarter, particularly on exchange rates and interest rates.

Where market conditions permitted, tactical positions were taken, chiefly in regard to less benign market dynamics in the future.

MPS Leasing & Factoring

In collaboration with the Parent Company, MPS Leasing & Factoring:

- created a product for companies intending to open or expand their business beyond national borders, at a time when the Italian market trend – also due to trends in the domestic economy - is to increasingly focus on globalising the business. Specifically, the product is a short-term export loan that may be subscribed as a non-recourse credit concession and allows requesting companies to insure themselves against the risk of foreign counterparty bankruptcy, while at the same time, benefitting from an advance;

- presented a new product, "LEASIC", for Montepaschi customers. This product provides those signing vehicle leasing agreements with a GPS system and unlimited use of a web platform offering everything needed in terms of the safety, management and maintenance of their vehicles;
- launched a marketing campaign for our customers to obtain advances on receivables due from the Public Administration. As such, a new Receivable Acquisition Factoring product was created specifically for receivables due from the Public Administration, certified and guaranteed by the government through Cassa Depositi e Prestiti or other European or international financial institutions. The product is intended mainly for Parent Company customers who have receivables from the Public Administration and wish obtain advances on receivables that have been blocked, in order to increase their liquidity, thereby improving ratings and reducing capital absorption.

Financial Advisory and Digital Banking

Profit & loss and balance sheet results

As at 30 September 2014, **total funding** for the Financial Advisory and Digital Banking operating segment was approx. **EUR 6 bn**, down 5% from 31/12/2013 and essentially unchanged compared to the end of June 2014. **Direct funding**, amounting to approx. **EUR 0.6 bn**, remained essentially the same as the June 2014 and December 2013 figures. **Indirect funding**, the predominant component of which is Assets under Management, increased by 0.9% in 3Q2014 (-5% on 31/12/2013) to stand at **EUR 5.3 bn** at the end of September.

FINANCIAL ADVISORY AND DIGITAL BANKING - BALANCE SHEET AGGREGATES							
(Eur mln)	30/09/2014	30/06/2014	31/12/2013	30/09/2013	Chg % Q/Q	Chg % 31/12	Chg % Y/Y
Deposits from customers and debt securities issued - Distribution Network	**627**	**664**	**659**	**660**	**-5.5%**	**-4.9%**	**-5.0%**
Assets under management	*4,761*	*4,698*	*4,970*	*4,962*	*1.3%*	*-4.2%*	*-4.1%*
Assets under custody	*549*	*563*	*618*	*641*	*-2.6%*	*-11.2%*	*-14.4%*
Indirect Funding - Distribution Network	**5,309**	**5,262**	**5,587**	**5,603**	**0.9%**	**-5.0%**	**-5.2%**
Total Funding - Distribution Network	**5,936**	**5,925**	**6,246**	**6,263**	**0.2%**	**-5.0%**	**-5.2%**
Interest-Bearing Loans to Customers	**116**	**123**	**138**	**147**	**-5.1%**	**-15.5%**	**-20.9%**

With regard to profit and loss aggregates, as at 30 September 2014 **total revenues** for this Operating Segment amounted to approx. **EUR 25 mln** (+5.9% compared to 30/09/13), supported by growth of the primary component (Net Interest Income +12.2% YoY; Net Fee and Commission Income +37.2% YoY).

Net Operating Income was positive for approx. EUR 15 mln, with a **cost-income ratio of 39.1% for the Segment**.

FINANCIAL ADVISORY & DIGITAL BANKING - PROFIT AND LOSS AGGREGATES			
(EUR mln)	30/09/2014	30/09/2013	Chg % Y/Y
Net interest income	*14.0*	*12.5*	*12.2%*
Net fee and commission income	*11.0*	*8.0*	*37.2%*
Other income	*(0.0)*	*3.1*	*-101.2%*
INCOME FROM BANKING AND INSURANCE	**24.9**	**23.5**	**5.9%**
Net impairment losses (reversals) on loans and financial assets	*(0.2)*	*0.1*	*n.s.*
Operating expenses	*(9.7)*	*(10.3)*	*-5.8%*
NET OPERATING INCOME	**15.0**	**13.3**	**12.7%**

WIDIBA, the Group's new On-Line Bank

Following the creation of the brand from a social network perspective, WIDIBA began the process of interacting with users in both a virtual and physical environment, reaching almost 115,000 users and 700 Personal Advisors representing 100,000 customers due to its presence in social media and the proprietary management platform of the "Say&Play" community.

WIDIBA obtained approval to exercise banking activities in May and by the end of September, already had more than 2,000 requests to open current accounts with increasing inertial volumes.

Background
The number of followers of Italian banks in social networks continues to grow, doubling from last year to 1.3 mln on Facebook and nearly 70 thousand on Twitter.
The trend in volumes of global non-cash payments is interesting, as they are expected to increase +9.4% YoY, with a volume of EUR 370 bn in transactions in 2014 in the wake of sharp increases in developing markets as well as in the use of credit cards (up to 9.9% YoY) and debit cards (up to 13.4% YoY).
Another trend is the evolution of the branch as part of the distribution strategy of Retail banks, with impacts on the reduction of the "cost to serve" and efficiency savings: no longer multi-channel, intended as the overlapping of different means of access to the bank, but the full integration of the direct channels and the physical network that allows customers to choose which channel to use and how.

Banca WIDIBA's mission is to create a new service model by integrating a simple and complete self-service offer with the know-how and interpersonal skills of the network of MPS Financial Advisors.

Financial Advisory

The Financial Advisory Network was involved in initiatives that, on the one hand, aimed to acquire new customers, develop new volumes and increase cross selling, and on the other, to increase the loyalty of internal financial advisors and recruit new resources.

The main sales activities undertaken to develop new customers with a related increase in volumes include:

- "Un Monte di Valore" ("A Mountain of Value"): targeting new and existing customers with rewards for those adding new liquidity to current accounts or transferring financial instruments to their Securities Portfolios;
- "Un Monte di Hi-Tech" ("A Mountain of Hi-Tech"): in partnership with Samsung: guaranteeing receipt of a Samsung product as reward for the acquisition of new customers and related subscription to products associated with the initiative;
- "Investment of 'fresh' money and 'hot' money in Funds and UCITS": encourage acquisition of new customers and new volumes from existing customers, with particular attention to assets under management, allowing the subscription of Funds and UCITS with a discount on the standard commissions;
- Promotional campaign for subsidised redemption on "Accumulator Rendimento Top" policies. The initiative involved an increase in the policy's value, if the contracting party requests full redemption, from 1 July 2014 to 28 August 2014, with a simultaneous exemption from the costs of early redemption.

New products/services, which aim to continuously enhance the Financial Advisory product catalogue to encourage customer cross selling and investment diversification, as well as financial advisor recruitment, include:

- Inclusion of the range of investment products from the Austrian company Raiffeisen Capital

Management, considered no. 1 among the Austrian asset management companies;
- Launch of placement of UCITS from Lemanik, parent of the Lemanik Group founded in Geneva in 1971, which offers financial solutions dedicated to private and institutional investors;
- Completion of the product range of Anima Sgr, with the inclusion of 9 new window fund segments.

Technology initiatives for promoting financial advisor loyalty and recruitment of new resources include:

- "Surface Pro 2". The Group has provided new generation Microsoft tables to all its financial advisors, allowing the use of a highly innovative working tool, reducing administrative efforts on case papers due to the implementation of paperless processes, and offering more flexibility and simplicity to sales and development activities. The adoption of the Surface tablet allows advisors to relate with customers more innovatively, in line with the latest technological developments in the sector.

Of note among the activities to improve services and tools for the Financial Advisory Network are:

- Synergie project for corporate customers: to develop and improve relations between the Bank's two distribution channels (Advisory Network and Branch Network);
- The advanced advisory product mix has been upgraded with new accessory services to support a more advanced financial analysis of customer portfolios and a more effective definition of the investment path to be followed (product advice for Skandia).
- The Financial Advisory Network engagement process is under way, actively involving advisors in the creation of WIDIBA through an internal social network (Yammer) that offers direct dialogue with the head offices to express their "wish lists" for the ideal company.

The Corporate Centre

ALM and Capital Management

Objectives

Structural re-balancing of the liquidity position and implementation of strategic policies for managing interest rate risk.

Optimal management of liquidity

A growth plan for the aggregates has been initiated, maintaining financial stability in the long-term and guaranteeing compliance with liquidity requirements.

In particular, the Bank was once again able to access institutional markets in March, issuing a senior bond as part of the Euro Medium Term Notes programme, for EUR 1 bn, with a duration of 5 years. In April and July 2014, two additional Covered Bonds were issued, both for EUR 1 bn, with durations of 7 years and 10 years, respectively.

Funding activities continued on ABS/covered issues by the Bank, or securities issued by the bank with government guarantees, carried out through repos and/or collateral swaps and/or sales in the market.

The gradual exit from long-term exposures with the ECB continued. During the third quarter, an additional EUR 6 bn in LTROs were repaid and EUR 3 bn in new TLTROs were carried out, bringing the total outstanding balance of LTROs and TLTROs with the ECB to EUR 17 bn (from EUR 28 bn as at 31 December 2013).

As at 30 September 2014, the total operational liquidity position, represented by the net balance at 1 month, amounted to approximately EUR 24 bn, compared to EUR 17.5 bn at the end of December 2013. As at 30 September 2014, the unencumbered Counterbalancing Capacity stood at approximately EUR 25 bn, compared to around EUR 16 bn as at 31 December 2013.

Interest risk management

ALM policy focused on corrective actions for managing the position which aimed to maintain a stable risk profile for the Bank and to benefit from the continuing low rate levels, all in compliance with operational limits.

Equity investment management

The Group's equity investment portfolio has undergone a considerable rationalisation programme since the beginning of the year. The following is a list of the Bank's most significant transactions:

- merger by absorption of the subsidiary Monte Paschi Ireland, with legal effectiveness from 11 February 2014;
- disposal of a portion of the equity investment in Prelios SpA, equivalent to 4.05% of share capital;
- disposal of the equity investment in Società Aeroporto Toscano G. Galilei SpA, equivalent to 3.96% of share capital;
- disposal of the equity investment in Sorin Spa, equivalent to 5.74% of share capital.
- disposal of the equity investment in Acque Blu Arno Basso SpA, equivalent to 8% of share capital;
- disposal of the equity investment in Acque Blu Fiorentine SpA, equivalent to 8% of share capital;
- disposal of the equity investment in SIA SpA, equivalent to 5.78% of share capital;
- disposal of the equity investment in Oglio Po Terre d'Acqua Scrl, equivalent to 4.98% of share capital;

- disposal of the equity investment in Ombrone SpA, equivalent to 14.99% of share capital;
- acquisition of other Class A shareholders in Perimetro Gestione Proprietà Immobiliari Scpa, bringing the percentage interest at Group level to 100% of share capital;
- increase of the equity investment in Risanamento SpA from 3% to 4.48% due to the conversion of the bond loan subscribed as part of the 2011 restructuring agreement;
- increase of the equity investment in Immobiliare Novoli SpA from 8.33% to 50%, by acquiring shares from other shareholders (CR Firenze holds the other 50%). This increase in the equity investment is part of a larger series of debt and equity transactions, aimed at resolving the investee's temporary financial crisis.

Note also the conclusion of the Anima Holding SpA IPO on 10 April 2014. As part of the IPO of the issuer, whose shares were admitted to listing on the MTA Market operated by the Italian Stock Exchange from 16 April 2014, the Bank, which was already a large shareholder with 21.63% of share capital, placed 11.31% on the market. Following partial exercise of the "Greenshoe Option", the residual portion held by the Bank is 10.32% of the share capital.

Finally, in the third quarter of 2014, the subsidiary MPS Capital Services SpA:

- sold the entire equity investment in MPVENTURE SGR S.p.A., equivalent to 48% of the share capital;
- sold a portion of the equity investment in Sviluppo Imprese Centro Italia Sgr S.p.A., reducing the holding from 29% to 15%;
- subscribed the share capital increase of Terme di Chianciano SpA through conversion of debt. The shareholding acquired represents 28.99% of share capital. As the Parent Company Bank did not participate in said share capital increase, the Group's equity investment increased from 48.86% to 49.34%.

Management of non-financial strategic resources

This chapter provides an overview of the levels and trends during the first half of the year of some of the most important non-financial resources that support Group performance and value, in line with the expectations of stakeholders: customer base, human capital, operational efficiency, reputation and social responsibility.

The customer base

Our customers

The Group has 5,384,594 customers as at 30 September 2014:

- 5,253,456 customers are managed by the Bank's sales & distribution network and the Financial Advisory network;
- 131,138 customers are managed exclusively by Consum.it, the Group company specialised in consumer loans.

The number of customers managed by the sales & distribution network remained essentially unchanged from the prior quarter.

	30 09 2014	31 12 2013	30 09 2013
Branches in Italy	2,328	2,334	2,366
ATMs	3,030	3,043	3,082
Active remote banking users	971,391	922,502	910,617
Acquisition (%)*	4.2	4.0	4.1
Retention (%)*	94.9	94.0	93.8
Complaints received	8,645	10,844	8,191
Complaints-average response time (days)			
- *Simplified procedure*	14	14	14
- *Accelerated procedure*	15	17	20
- *Ordinary procedure*	29	26	28

** Annualised rates, rolling 12 months. *Data as at 30/09/2013 was restated to allow for a like-for-like comparison subsequent to the use of a new IT system as of 2013 and due to the effects of the incorporation of Banca Antonveneta in April 2013.*

Distribution channels

Customers are served through an integrated combination of “physical” and “remote” distribution channels.

Physical channels

As at 30 September 2014, the Group had a network of 2,328 branches in Italy (as reported by the Bank of Italy), including 23 specialised centres not attached to any branch (-6 unit since the start of the year).

There are a total of 283 specialised centres (down 4 from the beginning of the year): 126 dedicated to SME customers, 92 to Private/Top Private customers, and 65 to Institutions.

In addition, there are: 12 branches of the subsidiary MPS Leasing & Factoring, 624 Financial Advisors and 120 local support offices. Customers belonging to the Large Corporate segment are managed through dedicated resources distributed across the country.

There are 3,030 ATMs (down 13 from the beginning of the year).

The organisational structure of the Foreign Network remains unchanged and includes:

- 4 operational branches (London, New York, Hong Kong and Shanghai);
- 10 representative offices located in various “target areas” of the EU, Central-Eastern Europe, North Africa, India and China;
- 2 banks under foreign law: MP Belgio (8 branches in Belgium) and MP Banque (17 branches in France).

Remote channels

As at 30 September 2014, the number of active Retail clients in multi-channel services was 882,615 (+7.53% YoY), referring to 1,711,426 customers (+2.87% YoY).

The key implementations during the year were:

- Platform for postal payments (Fastbank);
- Advanced Digital Signature;
- New Internet Banking functionality (Chequebook Requests, Sale and Renewal of AXA MPS Auto Insurance, Sale of CID PasKey, Management of Deposit Accounts).

Customer Care

Management systems

Customer satisfaction is monitored and enhanced primarily through a cohesive system of tools and processes, including:

- customer relationship management in the branches;
- customer care channels for direct banking services;
- after-sales and contact centre services;
- periodic sample surveys;
- the Quality Tableau de Bord.

Customer Help Desk

The Help Desk provides assistance to customers for direct phone banking services (64,335 calls dealt with in the first nine months of 2014), sales information (35,952 calls handled) and technical assistance for Retail and Corporate internet banking (68,461 calls and over 33 thousand e-mails answered).

The Customer Help Desk also manages the toll-free number dedicated to holders of AXA policies sold via Direct Marketing and conducts outbound campaigns in support of sales initiatives for various markets/service models of the Bank as well as for customer satisfaction initiatives.

Customer satisfaction (CS) surveys

In order to improve service quality and gather information necessary to better understand customers' needs, a project was launched during 2014 to expand the relative tools:

- IVR-Instant Voice Response: the automatic telephone system that reduces the times for conducting interviews and increases the speed of customer contact was tested successfully, in terms of efficiency and effectiveness; The success was also confirmed by the appreciative comments about the IVR from customers interviewed. This new tool could therefore be appropriate in evaluating customers' experiences with the Bank;
- Distributor Scope: survey performed by AXA with colleagues in the network who are qualified to place products and services provided by AXA MPS;
- Questionnaire on the quality of the service offered the Network Help Desk;
- Survey of post-inbound call centre services of Carta Montepaschi.

CS Retail

The survey was conducted via the internet and was completed in the first quarter of 2014. Nearly 205 thousand customers were sent emails inviting them to complete an online questionnaire. The return rate was 10%.

In summary, the CS indicator was 64.9 (-5.3 points compared to the 2012 indicator).

CS Private

The telephone survey was conducted on a sample of nearly 4,500 customer and the results were published in the first quarter of 2014. Approximately 1 thousand useful questionnaires were compiled.

In summary, the CS indicator was 67.8 (-7 points compared to the 2011 indicator).

CS Corporate

The results of the customer satisfaction survey on Corporate Service Models (for SMEs and Institutions) conducted in the period January-March 2014 were published in June.

The **SME** survey was conducted via web on a sample of approximately 10,500 customers, who were invited to participate in an on-line questionnaire and resulted in the collection of 800 usable questionnaires.

Analysis of the figures shows a CS index of 70.6, recording a fairly limited decrease (of 1 point) compared to the previous survey, especially if assessed in light of the media crisis that involved the Bank in 2013.

As for the SMEs, the customer satisfaction survey for **Institutions** was carried out online.

A sample of approximately 1,600 customers was invited to participate in an online questionnaire that resulted in around 190 usable questionnaires.

Analysis of the figures shows a CS index of 70.5, down more than 5 points compared to the previous survey in 2010.

Activities to plan and conduct the annual Customer Satisfaction surveys commenced, which will involve all customer segments.

In addition, benchmarking will be carried out to verify BMPS' positioning against its primary competitors in terms of perception of the quality of service provided.

Complaints management

Since the beginning of the year, 8,645 complaints have been received, an increase of 5.5% over the first nine months of 2013.

The average complaint resolution time was below the limits set by the Bank of Italy (30 days): 14 days with the simplified procedure (or minor disputes and amounts below EUR 5 thousand), 15 days with the accelerated procedure (more complex cases and with amounts between EUR 5-10 thousand), and 29 days with the ordinary procedure. Furthermore, communications with the Network were made easier and faster for information that is required to more effectively analyse complaints.

Human capital

Headcount changes

The Group employed 27,258 people as at 30 September 2014. Since the start of the year, there have been 101 new hires (of which 10 are Executives) and 187 dismissals/other changes. Specifically, 12 Executives left, including 9 by Consensual Employment Termination and 3 Resignations.

Note also that on 1 January a total of 1,064 resources had left the Group as a result of the business unit disposal (Fruendo). The overall impact of Executives on the Group headcount is 1.3% (well below the sector average of 2.1%), with 39.1% for Middle Managers and 59.6% for other Professionals.

Redistribution of the Group's workforce in favour of customer interface units stands at 76.5% (figure does not include the international banking division), up on the 74.1% as at 31 December 2013.

	30 09 2014	31 12 2013	30 09 2013
Headcount*	**27,258**	**28,417**	**28,470**
Operational location (%)			
Head Offices	21.6	24.0	24.3
Italy Network	76.5	74.1	73.8
Foreign Network	1.9	1.9	1.9
Professional/occupational level			
Executives	1.3	1.3	1.3
Middle Managers	39.1	38.3	38.3
Other	59.6	60.4	60.4
Other indicators			
Training per capita (hours)	21	35	19
Training costs (Millions of euro)	1.2	2.1	1.2
Female staff (%)	46.6	46.2	46.1
Female executives (%)	5.6	5.6	5.7
Rate of absence (%)**	7.00	7.59	7.64

* The number of employees of the Group, as at 31/12/2013, includes 1,064 individuals in the business unit relative to administrative and auxiliary activities transferred to Fruendo effective 1/1/2014.

** Days absent due to illness or injury in relation to total days worked during the year (not including absences relative to authorised days of leave for vacations, study, maternity/paternity and other family-related leave). Low absence rates are generally linked to a positive trend in the morale of personnel and productivity.

Personnel management initiatives

Personnel management policies are designed to provide qualitative improvements in the professional skills of resources, in line with Business Plan objectives regarding operating efficiency and rationalisation of labour costs.

As such, the most significant trends in terms of professional mobility are:

- In implementing the Group's reorganisation projects, with particular regard to the planned transfer of the business unit to Fruendo, reorganisation initiatives that involved the Parent Company, the Sales & Distribution Structure of the Regional Areas and the "credit supply chain" of the Network resulted in a redefinition of specific professional roles consistent with business strategies and the resulting assignment of personnel to the newly created positions;
- The activation of job postings to search for and select internally the specialised professional skills to be assigned to Head Offices (for example, in the areas of foreign markets, risks, financial statements and tax declarations, loan restructuring, and compliance).

Geographic mobility of Network personnel sought to improve the ordinary management of employment positions in line with the business forecasts and match employees' personal needs with business requirements generated by enhanced commercial initiatives in the most attractive regions.

Human resource development and training

During the year, these activities have involved:

- development and implementation of the Group's new Talent & Performance Management system, designed to support increases in productivity and employees' level of involvement in the Group's strategic objectives, with particular attention to managing the performance evaluation process for 2013 and the roll-out of development plans in the Network;
- the Development Assessment Centre initiative, for the substitution pool of Branch Manager and middle management positions in the Head Office;
- completion of the Private Performance Building project, in partnership with the Private Banking Area, to certify the Private Banker Job Profile;
- People Roadmaps and Development Plans, with initiatives for recruiting and selecting through internal job postings to strengthen the Parent Company and WIDIBA;
- monitoring and follow-up on Networked Professional Career Paths and support for internal scouting of sales & distribution roles with a high impact on the business. Specifically, as part of planning activities to support the new credit model in Regional Areas, new role profiles were defined to assist in the internal scouting process and induction plans and career paths were developed, which were presented to the Network.

Training activity

As at 30 September 2014, an average of 20.5 hours of training was delivered to each Group employee. With regard to the Bank only, the activities involved 93% of employees (511,711 hours) with an average customer satisfaction index of 5.1 on a scale from 1 to 6.

Activities focused particularly on development of the necessary business skills and the success of key business projects inherent in commercial relations (Regata Project; Corporate Revolution), continuous updating of the Protection and Private segments, and managing problem loans.

In addition to the training required to comply with regulatory developments in the sector, activities concerned the People and Business areas.

People

- The "Skill Gym Center" was activated for all employees, gathering together and organising the training options for development of the 9 core Group DNA behaviours. The Skill Gym Center is a support tool for Talent & Performance Management, facilitating the activation of training leverage for appraisers and for all employees;
- Structured training courses in support of employment reintegration were activated, with training initiatives, on the job training and customisable multimedia tools;
- Grade induction courses were developed to train newly qualified officers;
- Continuing refresher courses (Ambrosetti network) were launched for Top Management, roles with higher levels of responsibility, and for employees chosen based on results of professional evaluations, with differentiated paths (live events, enrolment in webinars by various professional associations and unlimited access to content on the web platform).

Business

- Regata Project: Local Market Managers were involved in training that interactively covered the main objectives, contents, new methods and tools contributed to the Project. During the third quarter, specific follow-up activities were conducted regarding the Family line, to better understand the deployment of content learned on a daily basis;
- Corporate Revolution Project: the one-on-one teams were trained in June and August to support business planning in the Corporate segment;

- Specific training programmes were launched on welfare and protection, credit and problem loans.

Compliance, Security, Health and Safety

- Transparency and privacy training was provided to personnel in the Regional Areas and the Parent Bank during the quarter;
- Workshops on Companies' Administrative Liability (Italian Legislative Decree no. 231/2001) were conducted for senior managers.

Industrial relations

The Business Plan encourages communications with trade unions (TUs) in order to more effectively manage the effects on employees of the Plan objectives with a view to protecting employment and designed to consolidate the corporate welfare system, characterising the level II negotiations.

During the first nine months of 2014, the Parties met to review the effects on personnel resulting from the projects in the 2013-2017 Restructuring Plan, while the Italian Banking Association (ABI) and the national trade unions continued to discuss the renewal of the National Collective Labour Agreement for the sector.

Specifically, during the first quarter:

- procedures were initiated and completed for reporting/discussing the overall reorganisation of the Parent Company (operational from 31 March 2014) and Regional Area structures;
- agreements were signed concerning: strengthening of branch security standards, harmonisation of the welfare system following the Banca Antonveneta merger and the 2014 training plan;
- the planned information/discussion phases were carried out on various TU-related matters and issues arising from the 19 December 2012 agreement, such as verification of the new appraisal system and new internal regulations on transfers;
- the Trade Unions were also updated on developments in the Regata Project and on various job postings initiated by the Bank for the internal search for specialist roles to be assigned to Parent Company head offices;
- in verifying the final 2013 figures for the RSM (Health Policy) programme for the reimbursement of medical expenses, the new aspects introduced on preventive medicine and accident policies were reported. Given the recognised importance of corporate welfare, the Parties agreed on the need to set up a Company/Trade Union joint committee to analyse the performance of the RSM and accident policy programme to advance the task of constant improvements to welfare.

During the second quarter:

- the legal and contractual procedures were completed in relation to WIDIBA, the Bank's business unit for the Online Bank Development Area and the Financial Advisory Department;
- discussions with Trade Unions began on the remuneration components of 2014 variable salary (potential disbursement for 2015), the Company Bonus structure (VAP) and the WBO incentive system;
- information was provided on the start-up of additional Plan projects, such as the Corporate Revolution Project, divided into the Regata Corporate and Regata Credit initiatives, which, during the year, will affect all Regional Areas, together with information on the reorganisation of Regional Area structures and activities.

During the third quarter:

- important and sensitive issues were addressed, particularly those related to reducing the Group's headcount, in line with the objectives for structural cost reductions envisaged in the 2013-2017 Restructuring Plan. Specifically, on 7 August 2014, at the conclusion of negotiating procedures (article 20 and 21 of the governing Italian National Collective Labour Agreement), an agreement was signed with all of the Bank's trade unions regarding early retirement schemes and the activation of the industry-wide Solidarity Fund for the voluntary termination of approximately 1300 resources. To reach this objective, both parties worked diligently and by the end of the process, had reached the number of planned terminations, avoiding the necessity of resorting to legal procedures to reduce headcount. With the signing of the agreement, the Company and the trade unions began a new phase in industrial relations, based on dialogue and communications to search for mutually beneficial solutions to meet the operating objectives and needs;

- trade unions were informed regarding the various initiatives, including job postings, organisational measures taken in the BMPS Debt Collection Area, and the project to revise specific support activities for the Network;
- as envisaged in the governing level II negotiations, meetings were held with joint bodies operating across the business (Security, Corporate Observatory, Environmental Sustainability, Training, and Equal Opportunities) in order to enhance dialogue and make communications between the parties about workplace safety, environmental safety and, more generally, business quality standards more effective.

Operational efficiency

Cost reduction initiatives

The cost optimisation plan continued, designed to meet the objectives of the Business Plan, which expects to achieve savings in 2014 of approx. EUR 154 mln compared to the 2013 baseline, net of extraordinary transactions.

The plan is 84% complete. The primary focus areas were: Real Estate, Logistics, ICT and Security:

- for **Real Estate**, actions underway seek to optimise the use of office space, both for the Sales & Distribution Network and for the Head Office, as well as reduce rental expenses through contract renegotiations. The total savings expected for rental expenses is 19% in 2014;
- actions taken with regard to **Logistics** focused on optimising processes to achieve a "Paperless" office, and optimising service contracts, with expected savings of 4% for 2014;
- for **ICT**, initiatives underway involve simplifying the software and hardware architecture and renegotiating contracts with suppliers, with expected savings of 7% in 2014;
- a new **security** management model is being implemented, which is expected to reduce the risks of robbery and theft in the branches by 50%, as well as reduce operating expenses mainly associated with security guards in the branches. The open architecture Project may lead to other security initiatives, beginning with ATMs, and may support the development of new commercial concepts.

Real estate

- **Optimisation of the use of properties** - actions aimed at reducing the space used and related costs (rental, utilities, maintenance) through space management projects. As at 30 September 2014, 15 real estate units rented by third parties had been released, for a total of 7,360 sq. m, and cancellations to release an additional 9 leasing contracts, 5 of which were sent during the course of 2014 (for 1,050 sq. m) and 4 in 2015 (for 2,170 sq. m). The analyses for the offices in Padua, Milan, Brescia, Catania and Ancona were completed, while analyses on the offices in Rome and Siena are underway, following their new set-up. As regards Financial Advisory, activities continued to centralise offices into areas already available to the Bank, and proposals for new offices that would allow costs savings with favourable business cases were reviewed;
- **Project for closure of 150 branches** – activities to set-up the 50 merging branches have been completed (with spin-off planned for 26-27 September 2014). The release of former offices of the transferred units is underway, in accordance with the lease cancellation date. Preliminary real estate analysis was carried out for the closing of the next 106 branches. Activities are underway to set-up the merging branches (spin-off planned for 23-24 November 2014);
- **Consumption containment plan** - activities designed to contain energy consumption costs continue, in line with the overall savings plan objectives. In the first 8 months of 2014, consumption declined by -6.5% from 2013 (year-end objective -10%). The comparison between the first 8 months of 2013 and the first 8 months of 2014 shows a reduction in consumption of -9.2%, with positive economic effects. Additional savings are expected from modifications to energy supply contracts made in October.

ICT

Numerous projects to support the Business Plan have made progress in the areas of credit quality, the sales & distribution model and overall efficiency.

Credit:

- go live (on 6 October) of the New IT Debt Collection System, an essential support for revising the strategic and operating model for collection activities, as well updates to information tools for key innovations in the market (non-core functionality will be progressively related through the beginning of 2015).

Sales & Distribution:

- improvements in work quality and freeing up of commercial time through the identification of the most costly end-to-end branch processes, optimisation of said processes and the new organisation of the structures (Tempo Cliente project);
- new functionality in Paskey Internet Banking (including the sale of deposit accounts and renewal of auto policies);
- new releases on the Advice platform consultancy services with fees.

Finance:

- the two-year project (2014-2015) is underway to introduce the new Murex 3.1 platform, with a complete overhaul in terms of functionality, to support Finance (Front, Middle and Back Office, Treasury, Risk Management), Credit, the Network (for derivative transactions), MPS Capital Services and MPS Ireland.

Risk Management:

- improvements in systems oversight to support Compliance management (anti-money laundering, internal controls, privacy);
- Risk Management's Systems Evolution project: the final phase of user acceptance testing and the new model for verifying transactional adequacy on investment transactions has been launched.

Operational excellence:

- optimisation of the TCO (Total Cost of Ownership) with improved quality (service levels and performance) in the Group's IT solutions (Infrastructure Renewal project);
- OCCAM project to rationalise and optimise the server farm was launched, with the objective of reducing the number of active servers by using available resources and increasing the performance KPIs;
- roll-out began for the new disbursement and monitoring model and the new debt collection model; activities continued for the e-money, collection and payment systems, as did those to optimise branch operating processes in order to allow more time with customers, etc.

Security

The new security management model to reduce the risk of robbery is in the final testing phase and involves the following activities:

- installation of branch cash in-cash out (TARM) and video surveillance to replace security guards, in 460 branches;
- installation of branch cash in-cash out (TARM) in 140 branches;
- installation of Roller Cash in 1,000 branches (with the removal of security guards where present);
- installation of alarm systems in branches that do not currently have them and centralising the alarm systems of all branches on the single monitoring system at Bank level.

In developing the project, which is expected to be fully implemented in 2015, investments of approx. EUR 43.5 mln were envisaged, with net annual savings of around EUR 18 mln beginning in 2015 (approx. EUR 2 mln already in 2014). At the end of September, the core part of the project, installing TARM linked to video surveillance and replacing security guards, had been completed for one-third of the planned branches.

Initiatives to improve internal service quality

- As part of the management model for outsourced activities deriving from the Policy and Supervisory Instructions, services continued to be developed for the Specialised Service Areas of the business (customer personal data, reporting and surveys, accounting and IQM), through the role of the Service Manager, for processes outsourced to Fruendo;
- The Bank's project to participate in T2S continued, a service developed and managed by the Eurosystem on the TARGET2 platform, which seeks to gather, to the extent possible, the existing synergies between the two services and offer the market the opportunity to manage settlements on a single shared platform both components, securities and cash, for transactions in Euro-denominated securities, both domestic and cross-border;
- The contracts with the financial instrument Depositories (in particular, foreign depositories) that are currently used by the Group were reviewed, to achieve the challenging savings objectives (approx. EUR 400,000);
- The Polarisation Support project for the Network continued, with the objective of optimising processes for accounting and account payables, succession, and physical cash, for a total of approx. 40 resources and the simultaneous reallocation of the services to the Regional structures for their use in the functioning and administering of Human Resources;
- Development of the organisational analysis to verify the possible efficiency improvements that could be realised with the interaction of the Specialised Services Area for the Business with the Governance/Business structures of the CFO Division.

Environmental sustainability of operations

Implementation of a global Operations Sustainability Plan continued in synergy with business initiatives of cost optimisation and organisational efficiency. The environmental performance objectives for 2014 include the following: reducing electrical energy consumption by 20%, use of paper for in-house communications (-50%) and communications to customers (-40%), CO_2 emissions relating to workplace operations (-10%) and business trips (-15%); recycling 100% of waste from office activities (paper, plastic, toners).
The main initiatives underway are: Paperless project, consumption containment plan, Zero Waste project and various sustainable mobility initiatives.

Reputation and social value

Key initiatives to protect and enhance the Group's image and brands

Since the beginning of the year, the Bank's commitment to enhance its presence and visibility throughout the country was particularly strong, through meetings with local institutions, trade associations and customers. Alongside the events, a strong focus was placed on relations with the local press and with social networking, offering excellent results in terms of visibility.

The commitment to ensure the presence and visibility of the Bank and Management throughout the country was reinforced, through meetings with local institutions, trade associations and existing and prospective customers. Promotion activities have been implemented for sales initiatives or to enhance the company's strategic positioning. Projects were launched that affect the Bank's future business activities (in particular, restructuring the branches with new signage, display windows and BTL communication).

Activities to increase the access for customers and employees to the Bank's art collection have been implemented, with clear positive results in terms of image (opening of the Historical Archives Room), as well as continuing with other similar initiatives, already well-known, such as the "Back into the Light (Ritorno alla luce)", which is currently in its third edition. The initiatives together have welcomed more than 4,000 visitors.

Main awards and recognition received

- Milano Finanza Guido Carli Award for "Retail Bank of the Year".
- Milano Finanza Innovation Award in the category of financial services for businesses, for the MPSponsor Minibond product.
- In the Italy Protection Forum & Awards, the Bank was awarded "Best Bank in Protection Sales" and "AXA MPS for the Small Business Segment" was voted best project.

Social value

Apart from the economic function of credit and other typical banking activities, the Group carries out corporate citizenship activities within its sphere of influence in terms of moral duty, creating added value for society and considering short-term profit objectives as secondary.

The initiatives focused on the issues of financial education (BancAScuola project, Young Factor project, etc.) and welfare. For this purpose, numerous social initiatives were carried out in local areas, promoted by charitable organisations and civil and religious agencies, which the Bank supported in order to express its solidarity and commitment to social service, with attention on the most vulnerable categories in the communities that have been most deeply affected by the prolonged crisis. In this context, small sponsorships have been the preferred method, highlighting the role of partnership in the event, as opposed to the classic form of collecting funds from third parties (customers, employees, etc.).

Governance & Control systems

This section provides a summary of the Group's approach to governance, compliance, risk management and compensation of managers, which are important factors in ensuring sound and prudent banking and are the foundation of processes that generate value both within and outside the company.

Corporate Governance

The corporate governance policies, systems and practices and the related developments are described in the "Report on Corporate Governance and Ownership Structure". The Report is drafted in compliance with the recommendations contained in the Corporate Governance Code of listed companies issued by the Italian Stock Exchange and specific provisions from Bank of Italy.

The 2013 Report was approved by the BoD on 11 March 2014 and is available on the Bank's web site: http://www.mps.it/Investor+Relations/.

The key items during quarter relating to the Bank's corporate governance were:

- on 4 July 2014, the share capital increase approved by the Shareholders' Meeting on 21 May was successfully concluded;
- on 9 July 2014, following the share capital increase, the new composition of the Bank's share capital is: Share Capital of EUR 12,484,206,649.08, represented by 5,116,513,875 ordinary shares;
- on 18 September, Deputy Chairman Marco Turchi and Director Paola Demartini tendered their resignations to facilitate the entrance of representatives of new shareholders resulting from the Trade Union Agreement;
- on 9 October, the BoD replaced the resigning directors, co-opting as non-independent directors **David Martinez Guzman**, founder of Fintech Advisory Inc. and currently its Chairman and CEO, and **Roberto Isolani**, currently member of the Global Management Committee of BTG Pactual.

Remuneration policies

For further information on the Group's remuneration and incentive policies and practices, please refer to the "Remuneration Report", prepared under Article 123-ter of the Consolidated Law on Finance. The 2013 Report was approved by the Shareholders' Meeting on 29 April 2014 and is available on the Bank's web site: http://www.mps.it/Investor+Relations/.

After the conclusion of the Share Capital Increase in June, and the resulting repayment of the New Financial Instruments for EUR 3 bn plus interest accrued in 2013, starting from July, the remuneration of management introduced in December 2013 fell under the limit of EUR 500,000 following the approval of the 2013-2017 Restructuring Plan by the European Commission.

The compliance management system

As envisaged in the 15th update to Bank of Italy Circular no. 263, the Bank performed a self-assessment of its internal control systems, identifying the steps to be taken to achieve the necessary additional improvements. Specifically, with respect to compliance, the objective of extending controls to all business operations will be pursued through a risk-based approach appropriate for balancing the responsibilities of the central compliance department with those of any internal specialised departments, based on the relevance of each regulation (Widespread Compliance Model).

The related activities during the quarter involved, in particular:

- a thorough analysis of the regulatory requirements and related controls for areas that will be subject to specialised oversight;

- implementation of a specific technical procedure, to support the compliance process in managing the legal and regulatory inventory, carrying out controls and evaluating the status of compliance.

Improvement actions based on a specific Operating Master Plan were carried out, which include the updating of internal rules and adapting the organisational setup.

Additional initiatives during the quarter include:

- definition of a gap management process for regulatory compliance;
- mitigation initiatives, some over multiple years, included in the "Action Plan" for transparency of banking and financial services;
- assessment of the adopted model for providing investment services (sales & distribution policies, conflicts of interest, personnel incentives, etc.).

Integrated risk and capital management

Risk governance systems

The Risk Division, which reports directly to the CEO, includes a risk management department, a compliance department, an anti-money laundering department and an internal approval department. This Division therefore has the following tasks:

- guarantee the adequacy and effectiveness of the Group's risk management system and define strategic objective for loan portfolios;
- verify capital adequacy as part of the ICAAP process and the Risk Appetite Framework (RAF), as well as ensure that significant transactions are consistent with the RAF;
- absolve the duties of the Compliance Control Department and the Anti-Money Laundering Department;
- foster coordination between the Business Functions of second-level Control, with the objective of optimising the exchange of information between said functions, support the planning of control activities and facilitate the implementation of corrective actions.

Specifically, within the Risk Division:

- the Risk Management Area defines the integrated methods of risk measurement/analysis and ensures they are constantly monitored. It develops the internal risk models used for regulatory management purposes and monitors compliance with the operational limits established by the BoD;
- the Validation, Monitoring and Risk Reporting Area verifies the continuous reliability of the results of the risk measurement system and ensures they are consistent with regulatory instructions. It validates the models, including those not used for regulatory purposes. This Area also prepares the mandatory disclosures and management reporting on risks.

For more information on this topic, refer to the Consolidated Half-Year Report as at 30 June 2014, available in the Investors & Research section on the site www.mps.it.

Management models

During the third quarter of 2014, internal models continued to be developed and refined, in line with the guidelines approved for 2014. In addition, in-depth methodological and application analyses continued as required for start-up of the new international supervisory regulations ("Basel 3"), for the ECB's Comprehensive Assessment and the activities associated with implementing the 15th update to

Bank of Italy's Circular no. 263/06 regarding internal control systems, information systems and operating continuity.

An analysis of the Group's Economic Capital

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

Risk assessment models

The Risk Assessment Area regularly quantifies Economic Capital for each type of risk. The measurements models used are mainly internally developed and based on a Value-at-Risk (VaR) approach.

The table below illustrates the salient features of the individual internal models used by risk type, with the final column showing how risk integration is handled for purposes of calculating overall Economic Capital.

Risk measurement models - key features

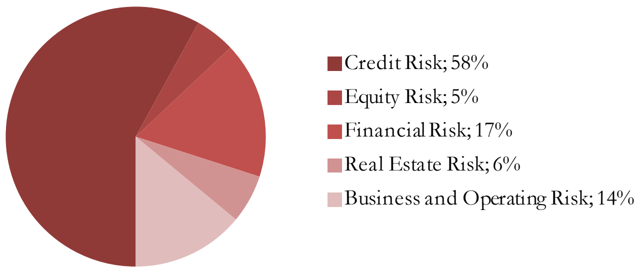
Risk type	Measure	Model	Risk factors	Correlations	Handling of Economic Capital
Performing loans	1Y VaR, 99.93%	Internal credit VaR model	PD and LGD differentiated by counterparty type, CCF differentiated by product	Correlations based on multi-variable analyses between internal default rates and macroeconomic variables	Copula t-Student
Equity investments	3M VaR, 99%	Montecarlo VaR	Volatility in comparable equity and index prices	Correlation with equity prices, Correlation with proxy indices	1Y, 99.93%, Copula t-Student
Market (Banking Book)	1Y, sensitivity shift of 25bp	Maturity Gap	Bucketing on nodes, Parallel shifts and twists in interest rates		1Y, 99.93%, Copula t-Student
Market (Trading Book)	1 day VaR, 99%	Historical simulation VaR - full revaluation	All market risk factors (IR, EQ, FX, CS, etc.)	Implicit in the full revaluation historical simulation	1Y, 99.93%, Copula t-Student
Operating	1Y VaR, 99.9%	LDA plus complete external data, and qualitative self-assessment	Frequency and severity by event type	t-student copula approach among the various event types	99.93%, Copula t-Student
Business	1Y EaR 99%	Parametric EaR	Volatility of costs and revenues	Correlation between costs and services	99.93%, Copula t-Student
Real estate	1Y VaR, 99%	Parametric VaR	Volatility of real estate indices	Correlation among proxy indices	99.93%, Copula t-Student

Other measurable risk factors of significance (e.g. Issuer Risk, UCITS risk) are included in Economic Capital, on an add-on, non-diversified basis. Their quantification for Economic Capital purposes is carried out on the basis of methodologies borrowed from the regulatory Supervisory approaches.

More information on the systems for measuring each type of risk are reported in the Explanatory Notes, Part E, of the Consolidated Financial Statements as at 30 June 2014, available in the Investors & Research section of the site www.mps.it.

Value of economic capital

Economic Diversified Capital
MPS Group - 30 09 2014



Financial Risk includes risks inherent in the trading book and the ALM Banking Book.

Information on risks

Credit risk

Description – the risk that the borrower cannot meet contractual obligations, neither at maturity nor subsequently. Credit risk is associated with an unexpected change in the creditworthiness of a lending counterparty, with whom the Bank has an exposure, which generates a corresponding unexpected change in the value of the credit position.

Risk assessment model

Credit risk is analysed using the internally developed Credit Portfolio Management Model, which has the following key characteristics:

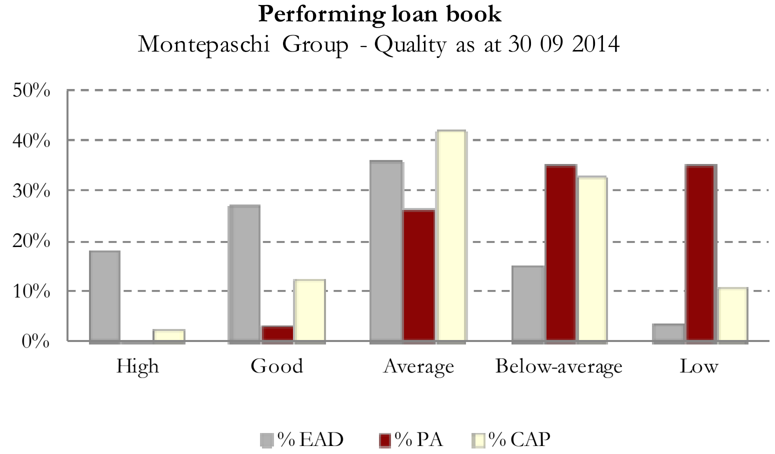
- Model type: Credit Value-at-Risk (VaR), similar to the Merton model, including intra-risk correlation based on Montecarlo simulations, where the index that expresses the counterparty's creditworthiness (Credit Worthiness Index) incorporates both a systemic component and a specific risk component;
- Confidence level: 99.93%;
- Holding period: 1 year;
- Legal entities covered: BMPS, MPS Capital Services, MPS L&F and Consum.it;
- Portfolios covered: Governments, Institutions, Supervised Intermediaries, NBFI, Corporate, and Retail;
- Primary inputs used: Probability of Default (PD), Loss Given Default (LGD), internal operational Exposure at Default (EAD), and the amount of guarantees supporting individual credit relationships;
- Key outputs produced: Expected Loss and Economic Capital (diversified and non-diversified, stressed and non-stressed).

For supervisory purposes, the Group uses the AIRB (Advanced Internal Rating Based) method, validated by Bank of Italy, with the following key characteristics:

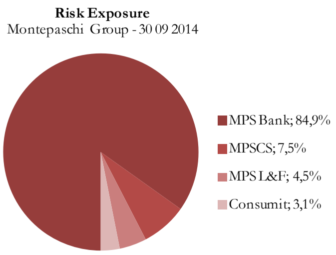
- Legal entities validated: BMPS, MPS Capital Services, and MPS L&F;
- Portfolios validated: Corporate and Retail;
- Parameters validated: PD and LGD.

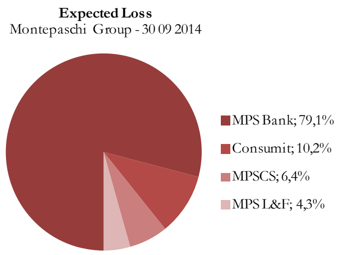
For the remaining entities/exposures, the Group adopts the standardised methodology for supervisory purposes.

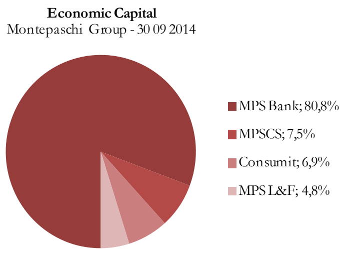
Risk exposure



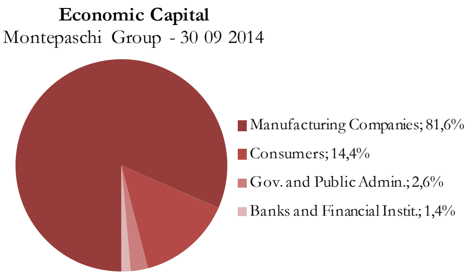
Breakdown by Company

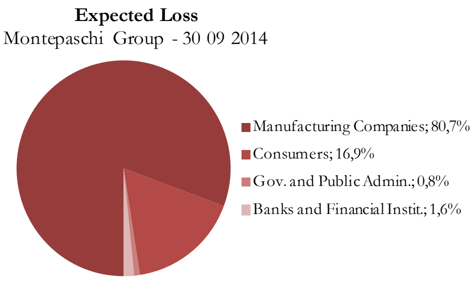


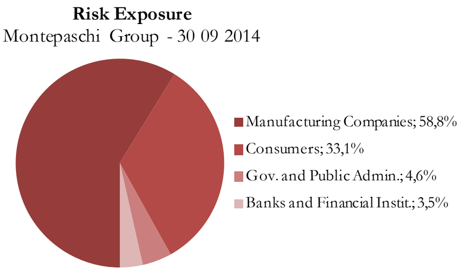




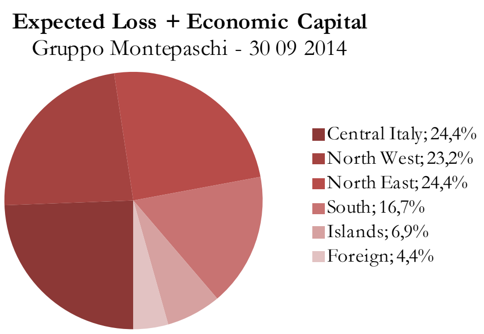
Breakdown by customer type

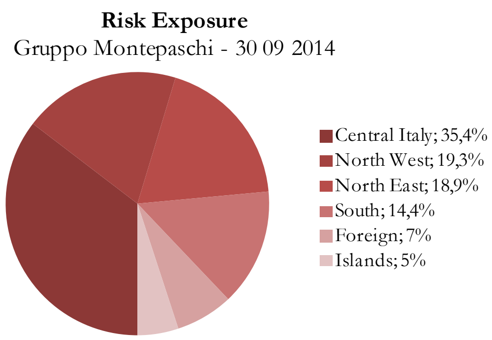




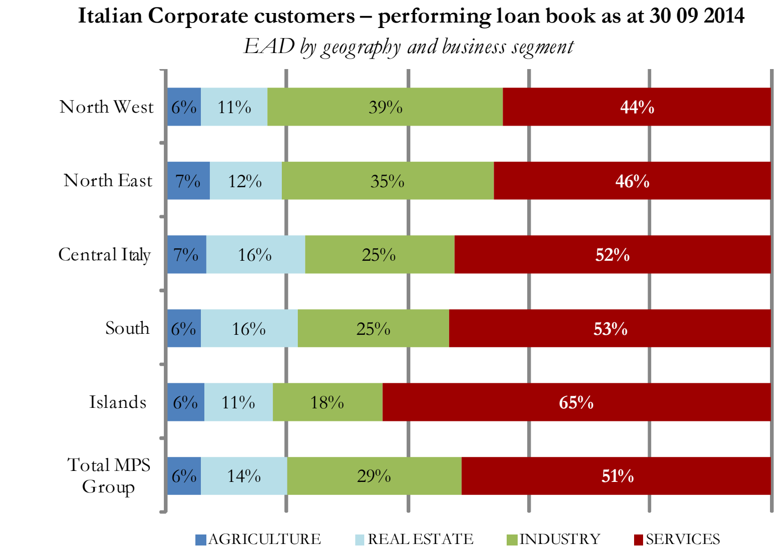


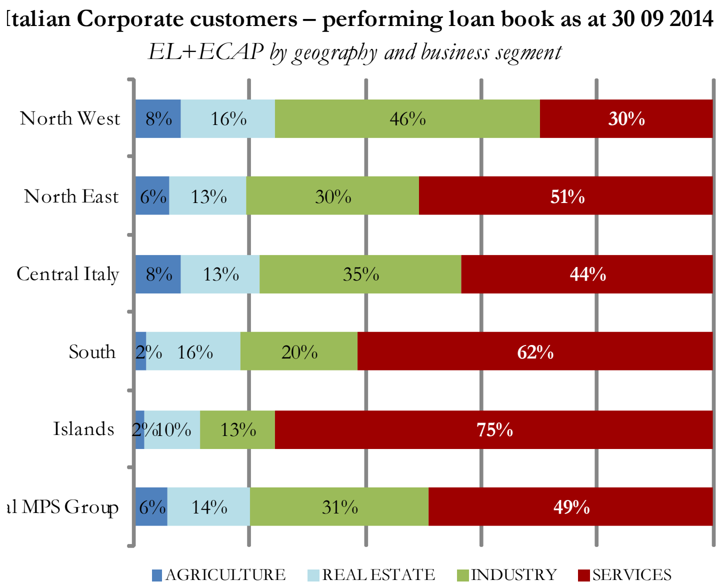
Breakdown by geographic area





Breakdown by geographic area and business segment (Corporate Italy customers only)





Market risks in the Regulatory Trading Book

Description – the risk of a loss in value of a financial instrument or a portfolio of financial instruments, caused by an unfavourable and unexpected changes in relevant market parameters (risk factors), such as interest rates, exchange rates, prices of shares, indices and baskets, credit spread, and volatility.

Risk assessment model

Market risk inherent in the Regulatory Trading Book is analysed by using the internally developed management model, which has the following key characteristics:

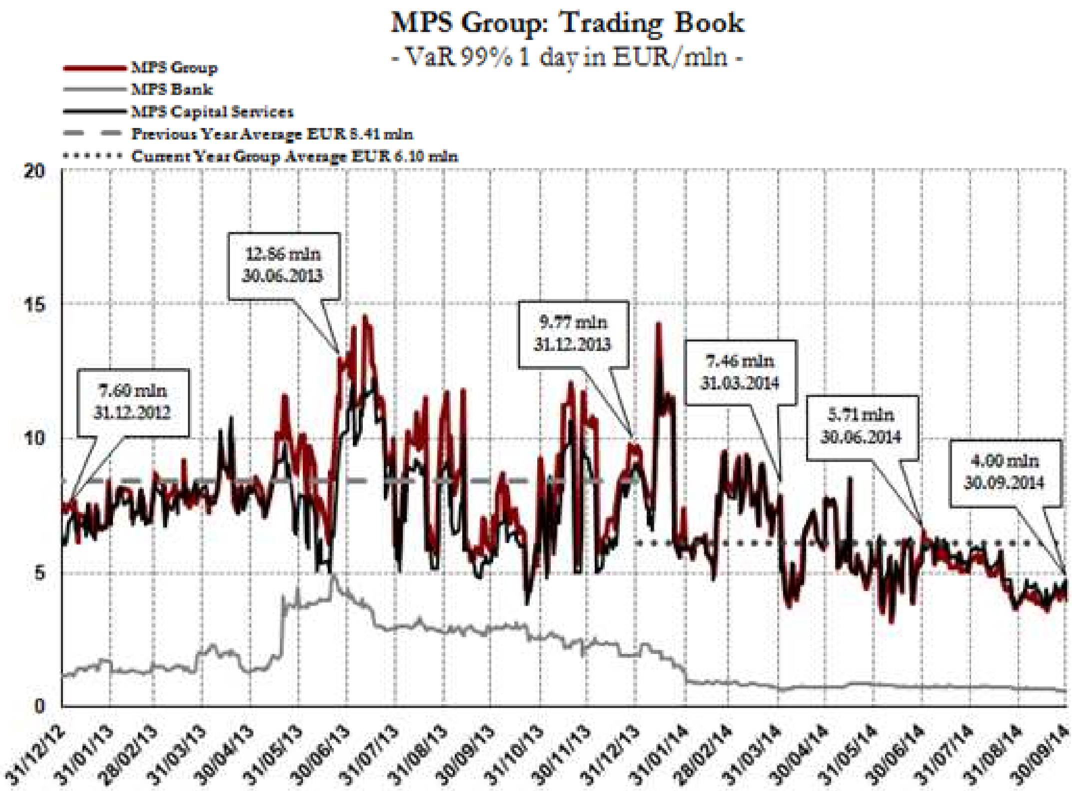
- Model type: Historical Simulation Value-at-Risk (VaR) with full revaluation of all basic positions;
- Confidence level: 99%;
- Holding period: 1 working day;

- Historical series: window of 500 days with daily scrolling;
- Perimeter: BMPS and MPS Capital Services;
- Risk measures: Diversified VaR, Conditional/Marginal VaR on individual risk factors, Mark-to-Market and Sensitivity Analysis, Stress Test & Scenario Analysis, and Theoretical and Actual Backtesting.

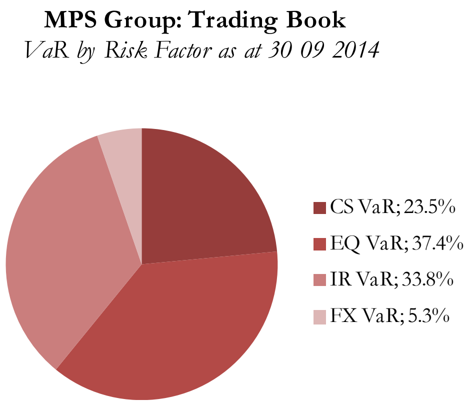
For Supervisory purposes, the Group uses the standard methodology.

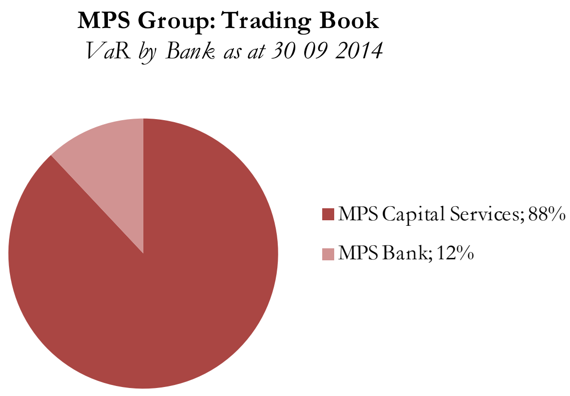
Risk exposure

In the third quarter of 2014, market risk in the Group's Regulatory Trading Book showed, on average, a decreased volatility trend in VaR against the first half of the year, standing at EUR 4 mln as at 30/09/2014. In absolute terms, VaR was affected by the IR segment of the subsidiary MPSCS due to its trading activities, primarily in Long Futures and Interest Rate Future Options and by activities associated with MPSCS structuring and hedging of policies. At the end of September, the weight of the EQ segment on overall VaR (predominantly, positioning in options and futures in the leading market indices) showed an increase.



VaR breakdown





VaR trendline

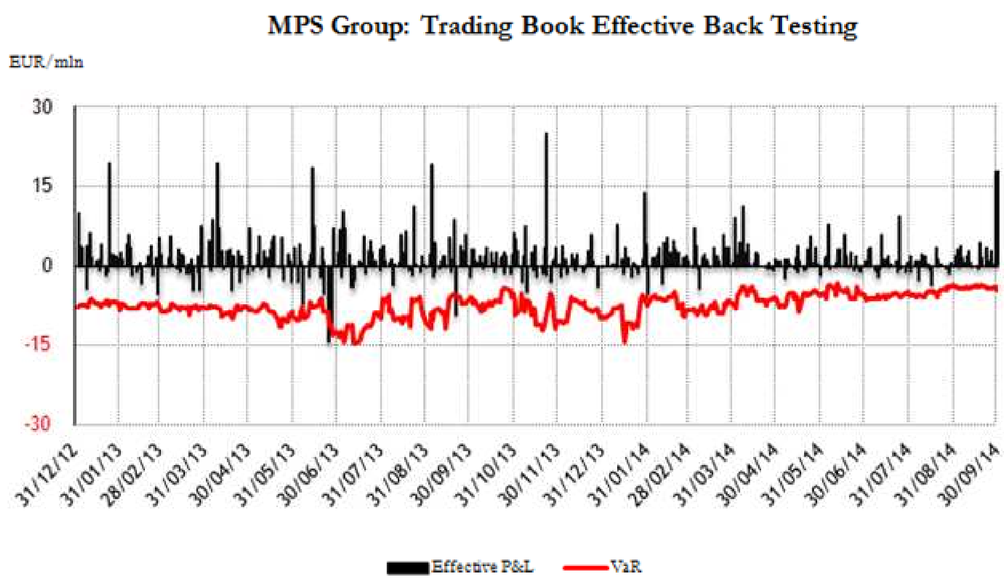
MPS Group: Trading Book

VaR 99% 1 day in EUR/mln

	VaR	Date
End of Period	4,00	30 09 2014
Min	3,18	11 06 2014
Max	14,33	14 01 2014
Average	6,10	

VaR model backtesting

The chart below shows the Actual Backtesting results of the internal Market Risks model in relation to the Group's Regulatory Trading Book for 2013 and for the first nine months of 2014:



The backtesting shows no "exceptions" in the third quarter of 2014.

Interest rate risk in the Banking Book

Description – risk of negative changes in the net interest income (and, therefore, on the forecasted profit in the short term) and/or the economic value of shareholders' equity caused by movements in interest rate curves due to mismatches in maturities and in re-pricing times of assets and liabilities. In general, all financial transactions that are not part of the Regulatory Trading Book are included in the reporting scope. Hence, for purposes of this analysis, bond receivables held for investment purposes (e.g., portfolio of Italian government securities), classified as either AFS or L&R are included.

Risk assessment model

- Model type: internal model based on the Economic Value approach;
- Risk metrics: Interest Rate Sensitivity and Stress Test;
- Behavioural models: handling of prepayment risk and modelling of demand items;
- Perimeter: BMPS, MPS Capital Services, MPS L&F, Consum.it, and MP Belgio.

Risk exposure

The sensitivity of the Group, at the end of September 2014, was indicative of exposure to rate hike risk. The amount of economic value at risk in the event of a +100 bps parallel shift of the rate curve came to EUR -746.4 mln at the end of September 2014 (EUR 536.3 mln for a shift of -100bps). However, if benchmarked against Regulatory Capital, these values are below the level considered as the attention threshold by the Bank of Italy.

Equity investment portfolio risk

Description - risk of incurring losses on equity instruments not included in the trading book, following possible unfavourable changes in securities prices.

Risk assessment model

- Model type: Value-at-Risk (VaR), Montecarlo approach;
- Confidence level: 99%;
- Holding period: 1 quarter;
- Perimeter: all equity investments held by Montepaschi Group companies in external companies.

To estimate volatility in returns, the model is based on historical market series for listed companies and historical series of sector indices for unlisted companies.

To calculate capital requirements against exposures to equity instruments, the Group uses the standardised methodology.

Risk exposure

The Group's equity investment portfolio includes approximately 214 equity investments in companies outside the Group, i.e., companies that are not consolidated either fully or proportionally. Approximately 86% of its value is concentrated in 10 investments, while the unit value of the remaining investments is rather limited (approximately 169 equity investments, valued at less than EUR 1 mln and accounting for around 2% of the overall portfolio).

The VaR of the Group's equity investment portfolio (99% and a holding period of 1 quarter) amounted to approximately 20% of the portfolio Fair Value at the end of the third quarter, with risk concentrated in the 5 most significant investments.

Liquidity risk

Description – the inability of the Bank to meet its payment commitments due to the inability to either access the necessary funds or to access them at costs higher than market rates (funding liquidity risk), or the inability to liquidate its assets without incurring capital losses due to scarce liquidity in the reference market (market liquidity risk).

Risk assessment model

The Liquidity Risk Framework adopted by the Group is a risk governance and management system that, in accordance with the provisions of the Supervisory Authority, aims to:

- Ensure the solvency of the Group and all of its subsidiaries, in both normal business conditions as well as in a crisis;
- Optimise the cost of funding in relation to current and future market conditions;
- Adopt and maintain risk mitigation tools.

The overall liquidity profile is monitored based on the quantification of imbalances, by liquidation date, of cash flows coming due, including the adoption of specific behavioural models (for example, on demand items and customer obligations). In addition, the Liquidity Risk Framework consists of a dedicated Stress Test Framework, focused on short-term liquidity, in order to quantify the liquidity reserves necessary to manage a series of adverse events. The type of choices in calibrating the scenarios, in terms of severity and time buckets, allows the periodic calculation of the internal limits system (calibration stress test) as well as the calculation of the time-to-survival measure, which is also subject to a dedicated limits system (management stress test).

Operational risk

Description – risk of incurring losses deriving from the inadequacy or the failure of procedures, human resources, and internal systems, or from external events, including legal risk.

Risk assessment model

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

- Model type: Advanced Measurement Approach (AMA) used along with AMA/BIA (Basic Indicator Approach). Mixed LDA approach / Scenario with Loss Distribution Approach (LDA) on internal and external historical series and Scenario Analyses (management evaluations of contextual and control factors and on the main operational criticalities);
- Confidence level: 99.93% for operational economic capital;
- Holding period: 1 year;
- Perimeter: all Group companies;
- Risk measures: operating losses, economic capital, and capital absorption.

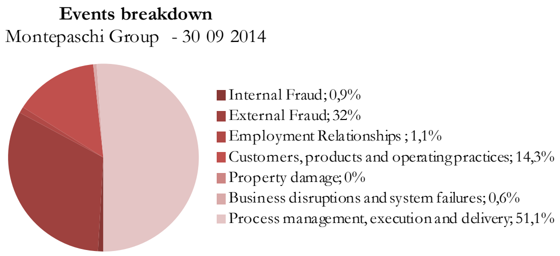
For supervisory purposes, the Group uses the same methodology described above and validated by Bank of Italy, with the sole difference that the holding period is 99.90%, as envisaged by Supervisory Instructions.

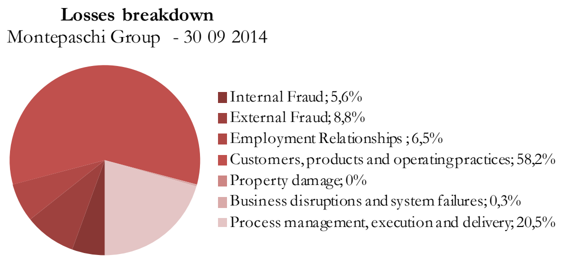
The approach defines the standards, methods and instruments that make it possible to measure risk exposure and the effects of mitigation by business area.

Risk exposure

Distribution of number of events and operating losses by risk class

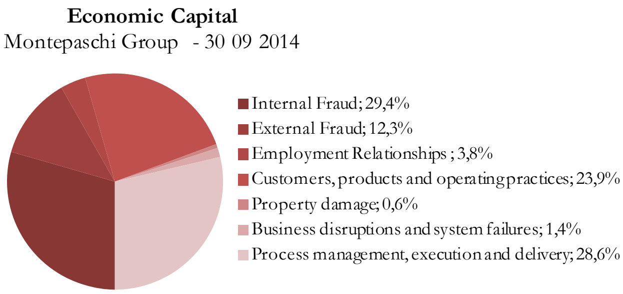
As at 30/09/2014, both the number of operational risk events and the total amount involved showed a decrease compared to the previous quarter. During the third quarter, there were no significant events.





Distribution of AMA component of Economic Capital by risk class

As at 30/09/2014, Economic Capital was substantially stable on the previous quarter.



In reference to tax risks, note that, on instructions from the Siena Public Prosecutor, the Guardia di Finanza launched an investigation on 25 June 2013 into MPS Immobiliare transactions concerning, among other items, the "Chianti Classico" transaction. On the basis of this investigation, the Guardia di Finanza initiated a tax audit for years 2008 and 2009, which was concluded on 18 September with the issue of a report on findings, in which two objections were formalised. The first objection involves a claim of approx. EUR 119 mln in corporate income tax (IRES) and possible penalties. The second objection involves a claim of approx. EUR 10 mln in value added tax (VAT) plus interest and possible penalties. After the report on findings was issued, the Italian Revenue Agency formally invited the company to provide clarifications, believing that the transactions put in place are on the whole elusive.

In reference to the "Chianti Classico" transaction, it is noted that the Italian Revenue Agency has an audit in progress for the years 2009 to 2012 of Perimetro Gestione Proprietà Immobiliari S.C.p.A., the beneficiary of the business unit transferred by MPS Immobiliare during the transaction and recently included in its scope of consolidation. The audit has not yet been completed but the Italian Revenue Agency has informally put forward a number of significant allegations that, for the years under audit, would result in a claim of approx. EUR 155 mln in taxes in addition to interest and possible penalties. The Bank maintains that the allegations are groundless.

In relation to developments in the audits described above, for which detailed briefs were submitted to the Italian Revenue Agency to support the correctness of the actions taken, the Group will evaluate any actions appropriate for defending its reasoning.

Financial risks of investment services

Description - the term "investment services" refers to operations with customers in the area of placement services; order execution, receipt and transmission; proprietary trading; portfolio management; and investment advice. Protecting customers' financial investments is the primary objective of oversight for risks inherent in investment services, together with preventing potential negative impacts for the Bank in terms of operational and reputational risks.

Banca MPS offers two types of advisory services. "Basic" transactional advisory is aimed at verifying the suitability of individual investment transactions. "Advanced" advisory is instead aimed at verifying the suitability of the overall set of transactions, advising on them based on their impact on a suggested investment portfolio of the customer in order to obtain optimum asset allocation and maximised prospective returns over a certain time horizon, given the customer's risk profile.

Risk assessment model

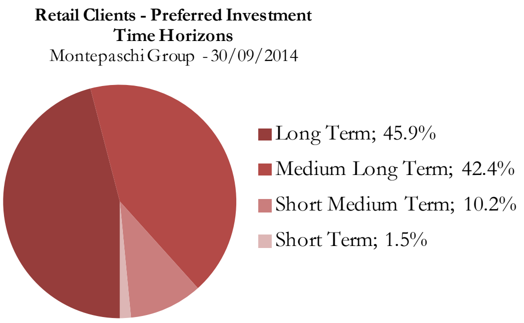
- Oversight of risks inherent in investment services focuses on the overall set of operational and management processes as well as measurement and monitoring tools/methods used to ensure overall consistency between customers' risk profiles and the risk of investment products and portfolios offered to, or held by, customers.

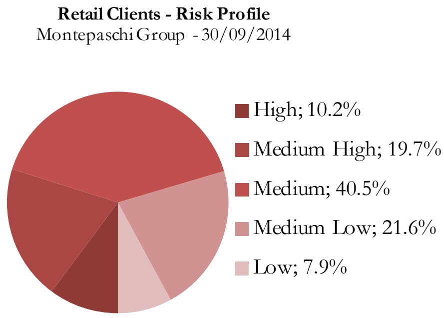
  All investment products (of the Group and third parties) included in the catalogue of products offered to Group customers are subject to a quantitative risk assessment including elements of market, credit, liquidity and overall risk.

  The mapping of the risk of investment products is pegged to specific risk classes identified with explanatory keys, which represent one of the guiding criteria according to which verifications of appropriateness and MiFID adequacy are made.
- Perimeter: the entire distribution scope of the branch network of Banca MPS and the Financial Advisory network (in addition to MPS Capital Services for the role it plays in the supply-chain process).

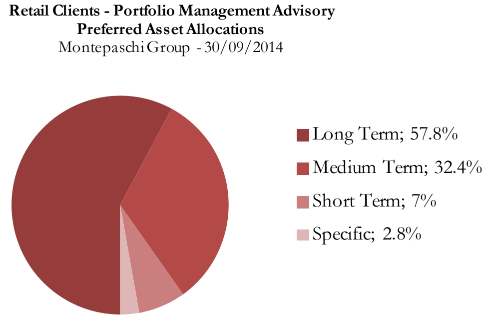
Risk exposure

At the end of September 2014, 40.5% of MIFID-profiled "Consumer" customers had an intermediate ("moderate") risk profile, with 29.5% demonstrating a substantial aversion to risk ("minimal" and limited" profiles). The investment time horizons indicated by the customer were mainly medium and long term.

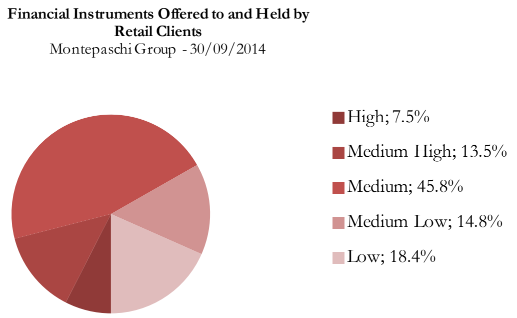




At the end of September 2014, the portfolios held by "Consumer/Retail" customers, based on formalised advanced advisory proposals to obtain optimum asset allocation, were mainly distributed into the recommended medium and especially long term asset allocation macro-classes, which is evidence of the interest of customers who turn to this type of advisory service for stable, long-term investments.



Products included in the Group's catalogue and held by "Consumer/Retail" customers showed, at the end of September 2014, a rise in the risk appetite of investors and a consequent search for higher returns. The risk profile distribution that emerges is concentrated, on average, on medium risk and medium-high risk levels with respect to the end of 2013, despite the fact that approximately one-third of products fall into the lower risk classes.



BMPS share price

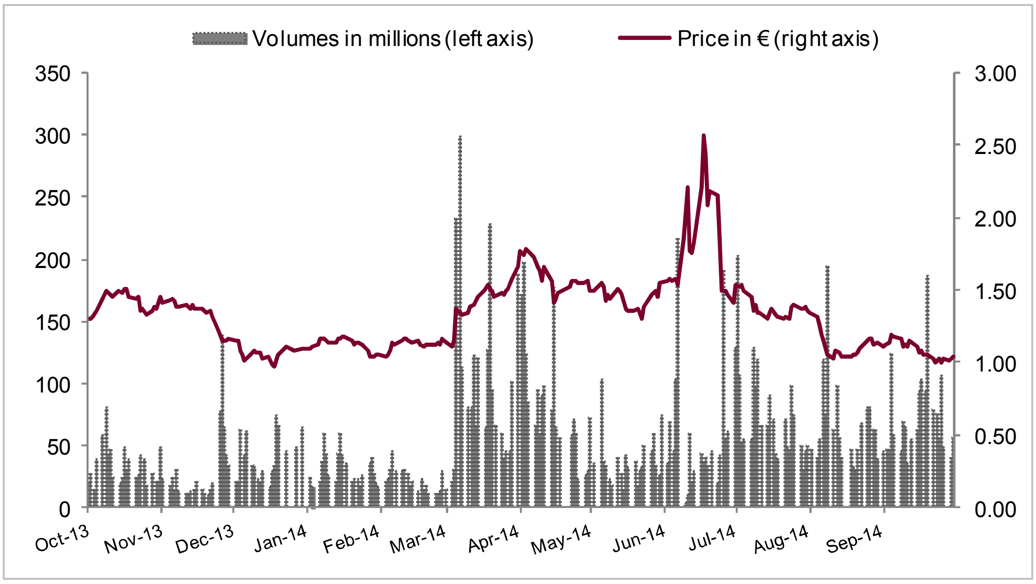
Share price and trends

During the quarter, European stock exchanges reported negative performance (Milan -1.8%, Frankfurt -3.6%, Paris -0.1%, London -1.8%, and Madrid -0.9%).

Since the beginning of the year, the Milan stock exchange posted performance of +10.1%, followed by Madrid with +9.2% and Paris with +2.8% (the only exceptions were Frankfurt -0.8% and London -1.9%). The banking sector showed an increase in the FTSE Banks index of 19.7% during the same period.

BMPS stock closed the quarter at EUR 1.044, (-4.7% since the beginning of the year).

BMPS Share Price (from 30/09/2013 to 30/09/2014)



BMPS SHARE PRICE: STATISTICAL SUMMARY (from 12/31/2013 to 09/30/2014)	
Average	1,35
Lowest	1,01
Highest	2,56

The number of BMPS shares traded during 2014 reached 11,752 mln, with a monthly minimum in February with 428 mln, and a maximum in March of 2,224 mln.

Specifically, the average daily number of trades was 61.8 mln, with a minimum of 3.3 mln on 9 June and a maximum of 299.1 mln on 6 March.

MONTHLY AVERAGE VOLUMES OF SHARES TRADED 2014 volumes summary (mln)	
January	676
February	428
March	2.224
April	1.702
May	810
June	1.287
July	1.701
August	1.334
September	1.590

BMPS SHARE RATINGS AS AT 30/09/2014	
Neutral/ positive	67%
Negative	33%

Rating

The ratings given by the rating agencies as at 30 September 2014 are summarised below.

Rating Agencies	Short-term debt	Outlook	Long-term debt	Outlook	Last update
DBRS	R-2 (mid)	Stable	BBB	Negative	03/07/14
Moody's Investors Service	NP		B1	Negative	26/06/14
Fitch Ratings	F-3		BBB	Negative	13/05/14

- On 3 July 2014, DBRS confirmed the long-term rating as ‘BBB’ with negative outlook, and the short-term rating as ‘R-2 (mid)’ with stable outlook.

Investor relations

In managing relationships with the financial community, Investor Relations diversifies its approach based on the party involved, with the objective of ensuring that the information provided to rating agencies, analysts, institutional investors, financial operators and retail investors is symmetrical and balanced. The communication strategy is based on comprehensive sharing of information with management and all price-sensitive communications are promptly transmitted to the various contacts, in order to create a direct and continual dialogue.

As part of marketing activities, since the beginning of the year top management has met with around 300 institutional investors (equity and fixed income) at the Bank, at road shows (Italy, UK, Spain, Switzerland, United States), international meetings and dedicated conference calls with investors who requested them.

The financial community focused its attention at the beginning of the quarter on the capital strengthening transaction completed by the Bank at the beginning of July. At the end of the period, interest shifted almost exclusively to the ECB's Comprehensive Assessment and the potential impacts of the Asset Quality Review and Stress Tests.

DECLARATION OF THE FINANCIAL REPORTING OFFICER

Pursuant to para. 2, article 154-bis of the Consolidated Law on Finance, the Financial Reporting Officer, Mr. Arturo Betunio, declares that the accounting information contained in this Consolidated Interim Report as at 30 September 2014 corresponds to the underlying documentary evidence and accounting records.

Siena, 12 November 2014

Arturo Betunio
Financial Reporting
Officer

ANNEXES

Additional disclosures pursuant to art. 114 paragraph 5 of Italian Legislative Decree no. 58/1998

The following information is provided following Consob's requests of 7 and 11 November 2014 pursuant to art. 114 paragraph 5 of Italian Legislative Decree no. 58/1998, with which the Supervisory Authority requested that the Consolidated Interim Report on Operations as at 30 September 2014 included the following information, in reference to the Comprehensive Assessment and, in particular, the AQR, published by the ECB on 26 October.

A. Comments on possible accounting impacts of the AQR's results, with specific reference to the following elements: (i) adjustments of loan provisions resulting from the review of sample credit positions ("Credit File Review – CFR"), of statistical projections of results ("Projection of findings") and of the review of collective loan valuation ("Collective provisioning"); (ii) adjustments for the "Fair Value Review".

In terms of the overall result, the CFR's impact was entirely included in the results as at 30 September 2014. In preparing the Consolidated Interim Report on Operations as at 30 September 2014, the Bank independently applied, on an analytical basis, the methodological criteria in the AQR Manual to the individual positions included in the CFR, and taking into consideration the disclosure framework updated from that which was available at the date the Consolidated and Separate Financial Statements as at 31 December 2013 were prepared. Subsequently, on 7 November, the Bank detailed information from the Supervisory Authority on the individual positions of the CFR and the related amounts subject to reclassification and/or higher impairments. Despite the abbreviated time frame between said date and the approval date for the Consolidated Interim Report on Operations as at 30 September 2014, the Bank promptly launched and completed an assessment process for the data that had recently been made available, including a comparison of the data developed by the Bank as part of its independent valuation of the individual positions. Given the above, and despite the fact that on an aggregate basis that were no significant differences between the overall results communicated by the Supervisory Authorities and those developed by the Bank for accounting purposes during 2014, the Bank reserves the right to make decisions on the analytical data received from the Supervisory Authority on 7 November regarding the individual positions included in the CFR. These decisions will be made once the analysis is completed, in preparing the Financial Statements as at 31 December 2014, and as a result of the process that had already been underway to internally review the methodology and criteria for classifying and measuring loans, as well as the overall valuation of the existing loan portfolio.

As regards the two other types of impacts from the AQR, or the projection of findings and the collective provisioning, the Bank has decided not to include the AQR's results in the accounting data as at 30 September 2014, in consideration of the fact that the projections, as stated by the ECB, do not meet the analytical standards to be included in accounting statements and similarly, the collective provisioning calculated for the AQR is based on a methodology whose application and assumptions will be verified in the overall loan valuation process. As such, an internal process was initiated to verify the necessity of updating methodologies and application parameters used to classify and measure loans, as a result of which the impacts of the projections of CFR findings and collective provisioning will not be incorporated simply by including the AQR's results in the financial statements as at 31 December 2014, but will be considered as part of a careful and accurate review of loan classification and measurement criteria. Consequently, the aforementioned methodology review process, which includes a possible revision of the essential phases of the credit process through changes to policies, procedures and the organisational setup, could generate effects on the income statement and balance sheet that are different from those noted in the AQR phases discussed herein.

As regards the differences that emerged during the AQR in the Fair Value Review (derivatives, real estate, equity investments and securities), those relative to positions in securities and equity investments analytically reviewed based on criteria deemed essentially consistent with accounting regulations and a disclosure framework that had been updated since the consolidated and separate financial statements as at 31 December 2013 had been prepared, were incorporated in the Consolidate Interim Report on Operations as at 30 September 2014. Differences for real estate and derivatives are currently undergoing further analysis.

B. In reference to adjustments indicated by the ECB for positions subject to the CFR, provide comments on: (i) the total allocations recognised in the Consolidated Interim Report on Operations for the third quarter of 2014, specifying if adjustments were made to opening balances as at 1 January 2014 in the balance sheet; (ii) any planned initiatives to evaluate additional allocations to be recognised in the financial statements as at 31 December 2014.

With respect to adjustments that resulted from the CFR, equivalent to EUR 1,130 mln, the Bank recognised write-downs of EUR 1,170 mln, independently applying the methodological criteria used for the AQR to positions reviewed in the CFR. Of this amount, approximately EUR 380 mln was recognised in the first two quarters of the year and EUR 790 mln in the statements as at 30 September.

Of the EUR 66 mln in adjustments resulting from the AQR for the Fair Value Review, EUR 30 mln and EUR 15 mln was recognised, respectively, in the first half and the third quarter of the year. As noted, for the remaining portion, approximately EUR 21 mln, further analysis is being conducted.

Based on available information and considering that, as part of the detailed results of the CFR made available by the Supervisory Authorities on 7 November, adjustments to individual positions will be connected to the application of new methodologies used during the AQR, it was decided that as at 30 September 2014, conditions that would justify making adjustments to balance sheet opening balances as at 1 January 2014 did not exist. However, the Bank reserves the right to make additional evaluations, after the data made available by the ECB has been analysed, and following the results of the internal review process on the methodologies and criteria for classifying and measuring loans.

As regards planned initiatives for assessing additional allocation to be recognised in the financial statements as at 31 December 2014, (point ii), refer to the comments under point A.

C. Comments on possible impacts of the classification and measurement criteria adopted in the AQR on provisioning for loans recognised in the Bank's financial statements, indicating, in particular, planned or completed initiatives for the possible revision (i) of accounting policies or parameters used in internal models to measure credit assets as well as (ii) of classification procedures, criteria and practices that the Bank intends to make in order to incorporate the new definitions of non-performing exposures (NPEs) and forbearance contained in the document, "Implementing Technical Standards" (ITS), published by the EBA on 21 October 2013, as well as the policy for valuing credit assets held.

In reference to updating methodologies and/or parameters used for measuring credit exposures, note that initiatives have been launched for:

- revision of the impairment triggers for classifying credit exposures, to take into consideration the EBA's Implementing Technical Standards and, in particular, the definition of Non-performing exposures and forborne exposures contained therein;
- revision of the haircuts for measuring guarantees received;
- revision of parameters to estimate collection times and average financial duration of expected cash flows for non-performing exposures;
- systematic use of future cash flows as the analytical valuation model for impaired exposures other than non-performing (going-concern valuation);
- revision of the parameters for statistical valuations of performing credit exposures and impaired exposures valued collectively.

D. Indications of any additional initiatives taken or planned to review the accounting policies for balance sheet items other than loans, following the results of the accounting procedures review conducted during the AQR ("PP&A – Processes, Policies and Accounting Review")

There were no particular indications received from the Supervisory Authority for balance sheet items other than loans. However, the Bank periodically reviews and updates its accounting policies, including those related to these areas of the balance sheet.

E. With regard to long-term structured repo transactions with the counterparty Nomura:

- **a description of the comments formulated by the ECB during the CA, specifying any accounting or supervisory findings formulated by said Supervisory Authority;**
- **a description of the adjustments requested by the ECB and their impact on CET1;**
- **note if the indications formulated by the ECB were considered by the Bank in calculating regulatory capital as at 30 September 2014.**

The ECB did not express any findings on the accounting treatment or reporting of transactions with the counterparty Nomura (so-called Alexandria transaction). In fact, the Supervisory Authority requested an ad hoc treatment solely for purposes of the Comprehensive Assessment.

The ECB requested that the Bank include in the CET1 as at 31 December 2013, or more accurately, the CET1 as at 1 January 2014, the entire amount of the negative reserve associated with the government securities involved in the transaction, calculated according to Basel 3 regulations. This treatment produced a negative impact of EUR 411 mln.

The following clarifications should be noted.

CET1 as at 31 December 2013 was calculated according to Basel 3 rules implemented in Europe through a comprehensive body of regulations, consisting of the Capital Requirements Regulation (CRR), European Regulation no. 575/2013, and related integrations, by the Capital Requirements Directive (CRD IV), by Regulatory Technical Standards by the Implementing Technical Standards issued by the EBA, and by supervisory instructions issued by Bank of Italy (specifically, Circular nos. 285 and 286). Hence, CET1 is not comparable with the regulatory capital reported in the 2013 financial statements, which was calculated according to Basel 2 regulations.

Basel 3 regulations, and the ability of each country to exercise discretion, allow that, during the transition period, unrealised gains on financial instruments classified in the AFS portfolio, other than those related to exposures with central governments, are calculated in CET1 beginning in 2015 at 40% and then with a gradual introduction of 20% per year (40% in 2015 and 100% in 2018). Unrealised losses on financial instruments classified in the AFS portfolio, other than those related to exposures with central governments, are calculated in CET1 with a gradual introduction of 20% per year (20% in 2014 and 100% in 2018). In addition, unrealised gains and losses for exposures with central governments (e.g., government securities) classified in the AFS portfolio may be excluded from CET1 until the endorsement of IFRS 9. The MPS Group has exercised this option. As a result of these provisions, the AFS reserve for government securities associated with the Alexandria transaction, just as for other AFS reserves for other exposures with central governments, is not included for purposes of calculating the capital reported to the Supervisory Authority and included in financial reports, until IFRS 9 has been endorsed.

However, as part of CA, as envisaged by paragraph 33 of the EU-wide Stress Test Methodological Note, unrealised gains and losses for exposures with central governments, including Italian government securities, are treated according to the general phase-in rules noted above, or are included in the calculation of capital at 0% in 2014, 40% in 2015, and 60% in 2016 for profits, and 20% in 2014, 40% in 2015 and 60% in 2016 for losses. In summary, the ECB applied a prudential treatment in the CA other than the one allowed by Bank of Italy and used for reporting purposes.

Therefore, the Alexandra transaction had a negative impact on CET1 as at 31 December 2013 assumed based on the CA of EUR 411 mln, as previously noted. This impact remained stable both for AQR purposes as well as the base scenario of the stress test. However, for the adverse scenario of the stress test, in addition to the EUR 411 mln, further negative impacts were included, calculated beginning from the difference between the haircuts on Italian and German government securities and equivalent to other exposures with the Italian government covered in asset swaps. These additional impacts, equivalent to EUR 38, 46 and 62 mln for 2014, 2015 and 2016, respectively, were not considered at 100%, but rather according to the general phase-in rules noted above.

On the whole, the fully phased-in treatment of the BTPs underlying the Alexandria transaction resulted in an additional impact on the CET1 2016 of EUR 164 mln. In fact, ordinary treatment of the AFS reserve for Italian government securities in the CA would have generated an impact as at 31 December 2016 equivalent to 60% of the AFS reserve, or EUR 247 mln, in addition to the impacts of the adverse scenario indicated above.

Finally, note that capital and capital ratios as at 30 September 2014 were calculated in line with those calculated in the other quarters of 2014 according to governing rules and not considering adjustments resulting from the CA for the Alexandria transaction or for other treatments (e.g., AFS phase-in reserve on government securities, treatment of net gains on the revaluation of the Bank of Italy equity investment).

Pro-forma statements for the accounting treatment of major long-term structured repos as synthetic derivatives

Below are the pro-forma balance sheet, income statement and statement of comprehensive income (the “Pro-forma statements") as at 30 September 2014, which report the estimated accounting effects had the Parent Company classified the "long-term structured repos" (the "Transactions") as synthetic derivatives.

The Pro-forma statements have been prepared on the basis of the financial statements for the year ending 31 December 2013 and the interim financial statements as at 30 September 2014 and 30 September 2013, by applying estimated pro-forma adjustments to the representation of transactions, should they qualify as synthetic derivatives, as required by the Bank of Italy/Consob/IVASS document no. 6 of 8 March 2013 - Bank of Italy/Consob/IVASS Coordination forum on the application of IAS/IFRS - Accounting treatment of “long-term structured repos” (the “Document”).

The Document provides that, in the case of Transactions for significant amounts, preparers of financial statements should carefully consider the need for an adequate description, including the preparation of pro-forma statements, of the effects on financial statements that would arise from a re-classification of Transactions as synthetic derivatives, after tax, as compared with previous year accounts.

The following statements summarise the balance sheet and profit and loss impacts that would result from a potential recognition of the two long-term repos “Alexandria” and “Santorini” as credit default swaps. Note that the latter transaction, closed with a settlement agreement on 19 December 2013, had no impact on the pro-forma balance sheet and profit and loss as at 30 September 2014.

For a description of the Transactions' recognition and measurement criteria used in the preparation of the Consolidated Interim Report on Operations as at 30 September 2014, please refer to details in the 2013 Financial Statements.

The Pro-forma statements are presented using the balance sheet as at 31 December 2013 and 30 September 2014, and the income statement and statement of comprehensive income as at 30 September 2013 and 30 September 2014.

Pro-forma figures were determined by making appropriate pro-forma adjustments to the historical values in the 2013 Financial Statements and the interim financial statements as at 30 September 2013 and 30 September 2014 in order to retroactively reflect the effects of recognising the Transactions as synthetic derivatives, as well as the estimated balance-sheet and profit and loss impacts arising therefrom.

Reported in the pro-forma statements below are:

- in the first column (“31 12 2013*” and ”30 09 2014”): balance sheet as at 31 December 2013 and 30 September 2014, income statement and statement of comprehensive income for 30 September 2013 and 30 September 2014;
- in the second column (“pro-forma impact of LTR classified as CDS”): pro-forma adjustments estimated to be made to the annual/interim accounts, had the Parent Company classified the Transactions as synthetic derivatives;
- in the third and final column (“31 12 2013* pro-forma” and “30 09 2014 pro-forma”): estimated pro-forma balance sheet as at 31 December 2013 and 30 September 2014, pro-forma income statement and statement of comprehensive income as at 30 September 2013 and 30 September 2014.

In the light of the above, for an accurate interpretation of the information underlying the pro-forma figures, the following aspects should be considered:

- the accounting representations are based on assumptions; therefore, pro-forma figures do not necessarily coincide with those that would have ensued, had the Transactions (and related profit & loss and balance sheet effects) in fact been entered into as at the dates considered for preparation of the pro-forma accounts;

- pro-forma data was prepared in such a way as to only represent an estimate of the identifiable and objectively measurable effects of the Transactions.

In the pro-forma accounting treatment as a synthetic derivative, the purchase of securities and its financing through a long term repo agreement are represented as a Credit Default Swap (sale of protection on the risk of the Italian government, i.e. issuer of the bonds).

In the event of issuer default, the Parent Company would incur a loss equal to the difference between the amounts to be returned to the repo counterparty and the value of the defaulted securities to be delivered to the Parent Company by the counterparty. Against this risk, the Parent Company earns a variable premium consisting in the difference between the coupons of bonds held and the interest rate paid on the repo entered into to finance the transaction.

For the purpose of pro-forma accounting, the Transactions were thus assessed in a similar way to Credit Default Swaps, using the same market parameters.

In particular, accounting treatment as a synthetic derivative determines the following pro-forma adjustments and reclassifications:

- balance sheet:
  - recognition of the CDS at Fair Value under “Financial assets held for trading” and “Financial liabilities held for trading” instead of:
    - securities classified as “Financial assets available for sale” and corresponding valuation reserves, gross of the hedge accounting component;
    - “Deposits from banks” and “Deposits from customers” which represent the liabilities associated with the long term repos;
  - reclassification of interest rate swaps from “Hedging derivatives” to “Financial liabilities held for trading”;
  - ensuing tax effects.

- income statement:
  - elimination from “Interest income and similar revenues” and “Interest expense and similar charges” respectively of: interest income from government bonds classified as “Assets available for sale” and interest expense from long term repos classified as “Deposits from banks” and “Deposits from customers”, both posted by using the actual interest rate method;
  - elimination from “Interest income and similar revenues” and “Interest expense and similar charges” of amounts accrued on interest rate hedging swaps;
  - elimination from “Net profit (loss) from hedging” of: fair value changes attributable to the interest rate risk of hedged government bonds, accounted for against the valuation reserve of assets available for sale; and fair value changes in the interest rate swaps, net of any accrued income;
  - recognition under “Net profit (loss) from trading" of: cash flows (coupons and floating spreads) paid on long term repos and fair value changes in IRSs and CDSs;
  - ensuing tax effects;
- statement of comprehensive income:
  - recognition of changes in “Financial assets available for sale” following adjustment to valuation reserves.

In brief, an estimate of transactions treated as synthetic derivatives produces significantly different impacts on the income statement by reason of changes in the fair value of Credit Default Swaps and reclassification of Interest Rate Swaps to trading.

It is noted that, by reason of the different accounting classification of individual items, the Transactions' accounting treatment as CDSs entails a modification to the scope of the two regulatory portfolios (trading book and banking book), with resulting differences, essentially of an offsetting nature, in the VAR of the individual portfolios. As a result, this different representation does not generate any differential impacts on the Group's overall VaR.

Pro-forma balance sheet

	Assets	31 12 2013*	pro-forma impact of LTR classified as CDS	31 12 2013* pro-forma	30 09 2014	pro-forma impact of LTR classified as CDS	30 09 2014 pro-forma
10	Cash and cash equivalents	877,276	-	877,276	877,643	-	877,643
20	Financial assets held for trading	19,238,566	-	19,238,566	18,856,340	376,100	19,232,440
40	Financial assets available for sale	23,680,249	(3,240,841)	20,439,408	22,999,489	(3,860,684)	19,138,805
60	Loans to banks	10,485,195	-	10,485,195	6,884,321	-	6,884,321
70	Loans to customers	130,597,727	-	130,597,727	126,306,545	-	126,306,545
80	Hedging derivatives	397,934	-	397,934	500,297	-	500,297
90	Change in value of macro-hedged financial assets (+/-)	159,889	-	159,889	177,730	-	177,730
100	Equity investments	970,378	-	970,378	1,000,943	-	1,000,943
120	Property, plant and equipment	2,883,820	-	2,883,820	2,800,069	-	2,800,069
130	Intangible assets	1,162,056	-	1,162,056	1,134,096	-	1,134,096
	of which: goodwill	669,692	-	669,692	669,692	-	669,692
140	Tax assets	5,515,357	(101,859)	5,413,498	6,026,602	2,218	6,028,820
150	Non-current assets and groups of assets held for sale and discontinued operations	80,108	-	80,108	2,955	-	2,955
160	Other assets	2,412,251	-	2,412,251	3,129,913	-	3,129,913
	Total Assets	**198,460,806**	**(3,342,700)**	**195,118,106**	**190,696,943**	**(3,482,366)**	**187,214,577**

(*) 2013 balance sheet figures have been restated to reflect changes to the scope of consolidation (following the introduction of new accounting standards which came into force on 1 January 2014).

	Liabilities and Shareholders' Equity	31 12 2013*	pro-forma impact of LTR classified as CDS	31 12 2013* pro-forma	30 09 2014	pro-forma impact of LTR classified as CDS	30 09 2014 pro-forma
10	Deposits from banks	37,278,667	-	37,278,667	29,424,608	-	29,424,608
20	Deposits from customers	85,286,115	(3,366,636)	81,919,479	90,161,029	(3,357,399)	86,803,630
30	Debt securities issued	36,561,566	-	36,561,566	33,028,953	-	33,028,953
40	Financial liabilities held for trading	16,409,678	896,530	17,306,208	13,144,367	1,269,114	14,413,481
50	Financial liabilities designated at fair value	7,988,199	-	7,988,199	3,419,617	-	3,419,617
60	Hedging derivatives	3,421,635	(750,530)	2,671,105	3,969,362	(1,269,114)	2,700,248
80	Tax liabilities	185,521	(85,450)	100,071	189,310	(13,888)	175,422
90	Liabilities associated with non-current assets held for sale and discontinued operations	17,821	-	17,821	-	-	-
100	Other liabilities	3,742,305	-	3,742,305	5,618,735	-	5,618,735
110	Provision for employee severance pay	261,390	-	261,390	294,611	-	294,611
120	Provisions for risks and charges:	1,127,312	-	1,127,312	1,082,452	-	1,082,452
140	Valuation reserves	(1,055,910)	411,116	(644,794)	(549,250)	340,431	(208,819)
160	Equity instruments	3,002	-	3,002	3,002	-	3,002
170	Reserves	1,174,651	(1,301,231)	(126,580)	(450,777)	(450,358)	(901,135)
180	Share premium	-	-	-	2,291	-	2,291
190	Share capital	7,484,508	-	7,484,508	12,484,207	-	12,484,207
200	Treasury shares (-)	(24,532)	-	(24,532)	-	-	-
210	Non-controlling interests (+/-)	33,195	-	33,195	24,163	-	24,163
220	Profit (loss) (+/-) for the period	(1,434,317)	853,501	(580,816)	(1,149,737)	(1,152)	(1,150,889)
	Total Liabilities and Shareholders' Equity	**198,460,806**	**(3,342,700)**	**195,118,106**	**190,696,943**	**(3,482,366)**	**187,214,577**

(*) 2013 balance sheet figures have been restated to reflect changes to the scope of consolidation (following the introduction of new accounting standards which came into force on 1 January 2014).

Pro-forma income statement

	Items	30 09 2013**	pro-forma impact of LTR classified as CDS	30 09 2013** pro-forma	30 09 2014	pro-forma impact of LTR classified as CDS	30 09 2014 pro-forma
10	Interest income and similar revenues	4,573,205	(194,380)	4,378,825	4,013,784	(112,206)	3,901,578
20	Interest expense and similar charges	(3,006,243)	186,554	(2,819,689)	(2,482,360)	96,538	(2,385,822)
30	**Net interest income**	**1,566,962**	**(7,826)**	**1,559,136**	**1,531,425**	**(15,668)**	**1,515,757**
40	Fee and commission income	1,567,599	-	1,567,599	1,573,675	-	1,573,675
50	Fee and commission expense	(314,822)	-	(314,822)	(281,189)	-	(281,189)
60	**Net fee and commission income**	**1,252,777**	**-**	**1,252,777**	**1,292,486**	-	**1,292,486**
70	Dividends and similar income	16,038	-	16,038	35,783	-	35,783
80	Net profit (loss) from trading	188,298	440,408	628,706	68,050	12,230	80,280
90	Net profit (loss) from hedging	1,991	1,112	3,103	(11,097)	1,722	(9,375)
100	Gains/losses on disposal/repurchase	34,971	-	34,971	149,556	-	149,556
110	Net profit (loss) from financial assets and liabilities designated at fair value	51,446	-	51,446	(16,168)	-	(16,168)
120	**Net interest and other banking income**	**3,112,483**	**433,694**	**3,546,177**	**3,050,035**	**(1,716)**	**3,048,319**
130	Net impairment losses(reversals) on	(1,570,366)	-	(1,570,366)	(2,523,032)	-	(2,523,032)
140	**Net income from banking activities**	**1,542,117**	**433,694**	**1,975,811**	**527,002**	**(1,716)**	**525,286**
180	Administrative expenses:	(2,259,767)	-	(2,259,767)	(2,413,034)	-	(2,413,034)
190	Net provisions for risks and charges	(60,171)	-	(60,171)	(119,327)	-	(119,327)
200	Net adjustments to (recoveries on) property, plant and equipment	(60,051)	-	(60,051)	(100,921)	-	(100,921)
210	Net adjustments to (recoveries on) intangible assets	(73,944)	-	(73,944)	(84,222)	-	(84,222)
220	Other operating expenses/income	275,867	-	275,867	220,567	-	220,567
230	**Operating expenses**	**(2,178,066)**	**-**	**(2,178,066)**	**(2,496,938)**	**-**	**(2,496,938)**
240	Gains (losses) on investments	59,827	-	59,827	227,684	-	227,684
260	Impairment on goodwill	-	-	-	-	-	-
270	Gains (losses) on disposal of investments	(479)	-	(479)	6,840	-	6,840
280	**Profit (loss) before tax from continuing operations**	**(576,601)**	**433,694**	**(142,907)**	**(1,735,412)**	**(1,716)**	**(1,737,128)**
290	Tax expense (recovery) on income from continuing operations	98,788	(97,341)	1,447	581,869	564	582,433
300	**Profit (loss) after tax from continuing operations**	**(477,813)**	**336,353**	**(141,460)**	**(1,153,543)**	**(1,152)**	**(1,154,695)**
310	Profit (loss) after tax from groups of assets held for sale and discontinued operations	(38,605)	-	(38,605)	-	-	-
320	**Profit (loss)for the period**	**(516,418)**	**336,353**	**(180,065)**	**(1,153,543)**	**(1,152)**	**(1,154,695)**
330	Profit (loss) for the period attributable to non-controlling interests	1,552	-	1,552	(3,806)	-	(3,806)
340	**Parent company's net profit (loss) for the period**	**(517,970)**	**336,353**	**(181,617)**	**(1,149,737)**	**(1,152)**	**(1,150,889)**

(*) 2013 P&L figures have been restated to reflect changes to the scope of consolidation (following the introduction of new accounting standards which came into force on 1 January 2014) and the reclassification of P&L items relating to the transfer of a business unit to the company Fruendo Srl effective as of 1 January 2014.

Pro-forma consolidated statement of comprehensive income

	Items	30 09 2013**	pro-forma impact of LTR classified as CDS	30 09 2013** pro-forma	30 09 2014	pro-forma impact of LTR classified as CDS	30 09 2014 pro-forma
10	**Profit (loss)for the period**	**(516,418)**	**336,353**	**(180,065)**	**(1,153,543)**	**(1,152)**	**(1,154,695)**
	Other comprehensive income after tax not recycled to profit and loss	**(9,389)**	**-**	**(9,389)**	**(21,598)**	**-**	**(21,598)**
40	Actuarial gains (losses) on defined benefit plans	(9,389)	-	(9,389)	(21,500)	-	(21,500)
60	Share of valuation reserves of equity-accounted investments	-	-	-	(98)	-	(98)
	Other comprehensive income after tax recycled to profit and loss	**643,030**	**(326,387)**	**316,643**	**528,279**	**(70,685)**	**457,594**
80	Exchange differences	(1,159)	-	(1,159)	4,525	-	4,525
90	Cash flow hedges	55,455	-	55,455	(7,922)	-	(7,922)
100	Financial assets available for sale	587,441	(326,387)	261,054	407,083	(70,685)	336,398
110	Non current assets held for sale	-	-	-	(28,786)	-	(28,786)
120	Share of valuation reserves of equity-accounted investments	1,293	-	1,293	153,379	-	153,379
130	**Total other comprehensive income after tax**	**633,641**	**(326,387)**	**307,254**	**506,681**	**(70,685)**	**435,996**
140	**Total comprehensive income (Item 10+130)**	**117,223**	**9,966**	**127,189**	**(646,862)**	**(71,837)**	**(718,699)**
150	Consolidated comprehensive income attributable to non-controlling interests	112	-	112	(3,786)	-	(3,786)
160	**Consolidated comprehensive income attributable to Parent Company**	**117,111**	**9,966**	**127,077**	**(643,076)**	**(71,837)**	**(714,913)**

(*) 2013 P&L figures have been restated to reflect changes to the scope of consolidation (following the introduction of new accounting standards which came into force on 1 January 2014) and the reclassification of P&L items relating to the transfer of a business unit to the company Fruendo Srl effective as of 1 January 2014.