MONTEPASCHI GROUP Consolidated Half-Year Report as at 30 June 2014

MONTE DEI PASCHI DI SIENA
BANK SINCE 1472

Consolidated Half-Year Report
As at 30 June 2014

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

Share capital: € 12,484,206,649.08 fully paid in

Siena Companies' Register no. and tax code 00884060526

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

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

CONSOLIDATED HALF-YEAR REPORT

HALF-YEAR REPORT ON OPERATIONS

Introduction

The Half-Year Report on Operations as at 30 June 2014 provides a description of the activities and results which largely characterised the Montepaschi Group's operations in the first half of 2014, both as a whole and in the various business segments 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 (which began on 9 June 2014 and ended on 4 July 2014), fully subscribed for an amount of about EUR 5 bn, the number of BMPS shares now totals 5,116,513,875 (116,815,397 as at 30/06/14). Consequently the share capital increased from EUR 7,484,508,171 at the end of the first half of the year to EUR 12,484,206,649.

The major shareholders[1] of the Bank hold a total of 20.367% of the share capital.

Breakdown of Bmps share capital as at 29th July 2014

With respect to the share capital breakdown at the beginning of the year, there are now large institutional investors (as at 29 July 2014 the Bank's primary shareholder is York Capital Management Global Advisors) and the reduction in the shareholding of Fondazione MPS, from 33.5% at the end of 2013 to 2.50%, following a series of sales carried out on the market. In particular, on 16 May, the disposal was finalised for 6.5% of ordinary BMPS shares to Fintech Advisory (4.5%) and BTG Pactual Europe LLP (2%), implementing the shareholders' sale arrangements contained in the agreement signed on 31 March 2014 and amended on 30 April 2014.

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:

- the business functions
  - the Credit Division was strengthened by establishing a specific General Division;
  - the specialisation of control of the various business segments was increased by establishing a Retail and Network Division (for the Retail and Private segments, as well as the coordination of the Sales & Distribution Network) and the Corporate and Investment Banking Division (for the Corporate, Key Clients, International Activities and Private Equity segments);
  - financial advisory activities were added to the organisational area set up to develop the new Online Bank (Online Bank Development Area).
- the governance, control and business support function

[1] Shareholders with shareholdings of more than 2%

- the General Finance and Operations Division was established, to which the Chief Financial Officer Division and Chief Operating Officer Division will report;
- the Human Resources, Organisation and Communications Division was developed to promote effective interoperability between human resources management, business organisational structures and internal/external communications;
- the Risk Division was reorganised with the creation of more cohesive controls of the activities of validation, monitoring and risk reporting.

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:

- the Head Office units and regional coordination:
  the Regional Area Sales and Products Office is divided in to 3 separate units (Retail Sales and Products, Corporate Sales and Products and Private Sales and Products) to achieve more effective specialist control over the reference markets and greater sales control with customers.
- the Treasury, Finance and Capital Management Area organisation:
  responsibilities and efforts on risk factors and business drivers (liquidity management, strategic risk governance and capital management) have been reallocated. In particular, an internal reorganisation was arranged, refocusing the Risk Factors Area, with related strengthening of the rate risk and liquidity risk monitoring, simplification and standardisation of operating processes, with a view to greater efficiency, a clearer allocation of responsibilities and tasks between the Parent Company and MPS Capital Services, preserving the latter's sales efficiency;
- the Compliance Area:
  the Group's FATCA contact (Foreign Account Tax Compliance ACT) - the Fatca Officer - has been appointed to meet obligations relating to the reporting of US customer details to the United States tax authorities, coordinating the roles established in the Group companies and foreign branches in compliance with their related obligations.

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, asset 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 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.
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, credit cards (option and revolving).
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 FIDUCIARIA	The activity of 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 goods in its capacity as a trustee and act as a protector in trusts.
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 by reason of which it may also purchase, sell, exchange and lease properties; activities are carried out primarily for the companies of the Group.
Monte Paschi Banque SA **Banca Monte Paschi Belgio SA**	Group banks supporting business trade and investments by 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 Parent Company 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 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 Parent Company, 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 Parent Company's shareholders' meetings and render it more constructive.

March

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

April

- The Parent Company 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 Parent Company acquired 92.1% of the shares with voting rights of **Perimetro Gestione Proprietà Immobiliari (PGPI)** for 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 Parent Company's Board of Directors unanimously approved to propose to the Extraordinary Shareholders' Meeting, scheduled for 20, 21 and 22 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 Parent Company's **Financial Statements** as at 31 December 2013 and the **Remuneration Report** required by art. 123-ter of the Consolidated Law on Financial Intermediation. 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 Board of Directors.

May

- On 5 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.
- On 21 May 2014 Banca MPS's Extraordinary Shareholders' meeting, approved the proposal submitted by the Board of Directors to increase the share capital by payment of a maximum amount of 5 billion Euros, inclusive of share premium, to be executed in one or more tranches, by March 31, 2015, through the issue of ordinary shares with dividend rights, to be offered to the shareholders and to withdraw the resolution to increase the paid share capital for a total maximum amount of 3 billion Euros approved by the Extraordinary Shareholders' Meeting on December 28, 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).
- On 9 June 2014 the Parent Company reached a binding agreement for the without recourse sale of a doubtful loans portfolio to a securitisation vehicle financed by companies of the Fortress Investment Group LLC.
- On 26 June 2014 **Moody's** upgraded the issuer's long-term rating to 'B1' from 'B2', with negative outlook.
- 27 June 2014 was the closing date for the rights offering to Parent Company's shareholders of the maximum 4,999,698,478 newly issued ordinary BMPS shares. 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.

Events after the reporting period

July

- 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 EUR 3.5 bn.
- 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.
- On 8 July 2014 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 a significant involvement of UK investors (26%) in addition to the domestic demand component accounting for a quarter of the total (28%). This issue is the second covered bond placement by Banca Monte dei Paschi di Siena this year (see April), confirming the Parent Company's ability to successfully access the international market even with offerings involving long-term investments.

- On 9 July 2014 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.

August

- Following the trade union negotiations that began in July, on 7 August 2014 BMPS and all the trade unions signed an agreement regarding activation of the Solidarity Fund for 2014 with the aim of a headcount reduction of 1,334 staff.

Performance and outcomes

Scenario

The second quarter of 2014 saw a recovery in the global economic growth after the distinct deceleration at the start of the year, though in a context of higher risks associated with geopolitical tension in certain oil-producing countries. International financial market conditions have improved over the last three months, with a good stock and bond performance aided in particular by the lower risk premiums and an exceptionally limited context of volatility.

Growth in the Eurozone remains slow, discontinuous and inconsistent, a sign of an "insufficiently strong" recovery (cit. IMF). Growth-related risks maintain their downward trend, with inflation close to the lowest since 2009 (even net of the more volatile components such as energy and food), unemployment remains high (at 11.6% in May) and even Germany's industrial production has started to show the first signs of slowing.

The ECB Governing Council has introduced new measures to further slow the monetary conditions and support loan disbursement, bringing the cost of money to its all-time low of 0.15% and for the first time applying a "negative" interest rate to Eurosystem deposits as an incentive to liquidity circulation and to combat exchange rate appreciation. The Council also launched its "targeted" long-term refinancing operations (TLTROs) for banks, conditional to the disbursement of loans to households and businesses, and has announced its readiness to launch additional stimulus measures through securitisation market incentives and possibly a programme for the large scale purchases of government securities, if necessary based on medium-term inflation forecasts.

Monetary policy measures had an immediate impact on the interbank market, with the 1M Euribor touching new lows of 0.10% at the close of the half year (average quarterly 1M Euribor was 0.22%). The spreads between EU government securities and German securities have diminished overall, despite a temporary upturn in mid May induced primarily by fears over the outcome of European parliamentary elections and an unexpected deceleration of GDP in the Eurozone. The ten-year BTP-Bund spread closed the half year at 160 bps (-13 bps compared to the end of the previous quarter), after falling to almost 130 bps at the beginning of June.

In Italy, despite the improved climate in terms of business confidence, industrial production has not seen a recovery in growth, with capital accumulation still halted by widespread uncertainty over demand forecasts and by large margins of unused production capacity. The gradual return to growth presumes a favourable trend in international trade and stronger domestic demand, particularly as regards investments.

With regard to the Banking System, signs of improvement have been seen with credit terms confirmed by the lower cost of wholesale deposits and premiums on CDSs for Italian banks. Nevertheless, private sector loans continue to decrease, also affected by the weak economic situation. The cost of credit for non-financial companies in Italy is approx. 70 basis points higher than the rest of the Eurozone (for more information on the banking scenario, reference should be made to the Bank of Italy Economic Bulletin of July 2014).

CONSOLIDATED REPORT ON OPERATIONS

Highlights as at 30/06/2014

INCOME STATEMENT AND BALANCE SHEET FIGURES AND KEY INDICATORS

MPS GROUP

		(*)	
INCOME STATEMENT FIGURES (EUR mln)	30/06/2014	30/06/2013	% chg
Income from banking activities	1,843.0	1,933.5	-4.7%
Income from banking and insurance activities	1,952.8	2,190.4	-10.8%
Net operating income	(605.3)	(294.2)	105.7%
Profit (loss) for the period	(353.0)	(379.4)	-6.9%
BALANCE SHEET FIGURES AND INDICATORS (EUR mln)	30/06/2014	31/12/2013	% chg
Direct funding	130,777	129,836	0.7%
Indirect funding	107,215	103,397	3.7%
of which: assets under management	*48,535*	*45,106*	*7.6%*
of which: assets under custody	*58,680*	*58,292*	*0.7%*
Loans to customers	132,770	130,598	1.7%
Group net equity	11,048	6,147	79.7%
KEY CREDIT QUALITY RATIOS (%)	30/06/2014	31/12/2013	Abs. chg
Net doubtful loans/Loans to Customers	7.2	6.8	0.4
Net substandard loans/Loans to Customers	6.3	5.8	0.5
PROFITABILITY RATIOS (%)	30/06/2014	31/12/2013	Abs. chg
Cost/Income ratio	68.2	71.0	-2.9
Net loan loss provisions / End-of-period loans	1.82	2.11	-0.3
CAPITAL RATIOS (%)	30/06/2014	Dec 13 (BIS 3)	Dec 13 (BIS 2)
Solvency ratio	17.6	15.1	15.2
Tier 1 ratio	13.5	10.8	10.6
Return on Assets (RoA) ratio	-0.18	-0.19	0.01
INFORMATION ON BMPS STOCK	30/06/2014 (**)	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	1.42	1.35	5.3%
low	1.03	0.97	7.1%
high	2.56	1.87	36.7%
OPERATING STRUCTURE	30/06/2014	31/12/2013	Abs. chg
Total head count - end of period	27,293	28,417	(1,124)
Number of branches in Italy	2,333	2,334	(1)
Number of specialised centres	283	287	(4)
Financial advisory branches	119	125	(6)
Number of branches & representative offices abroad	39	39	-

(*) 2013 income statement and balance sheet figures have been restated to reflect the changes illustrated in the chapter "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)" following the introduction of new accounting standards which came into force as of 1 January 2014.

(**) On 30 June 2014, the BMPS outstanding ordinary shares were 116.815.39, due to the grouping of ordinary shares in the ratio of n. 1 new ordinary share for each n. 100 shares held, which took place on 5 May 2014. Following the capital increase, which began 9 June and ended 4 July 2014, fully subscribed for an amount of approximately EUR 5 billion, the number of BMPS shares is equal to 5,116,513,875 and the capital to Euro 12,484,206,649.

(***) Quotations have been recalculated following the Capital Increase began 9 June and ended 4 July 2014.

Results in brief

Changes in the key items of the Half-Year Report of Montepaschi Group as at 30 June 2014 are summarised below:

- the Group's **total funding** volumes amounted to **EUR 238 bn**, up 1.6% compared to the end of March and up 2% on the figure for the end of December 2013, due to the extended support from assets under management and a recovery in direct deposits (+1.5% QoQ), with an increase in volumes compared to 31 March 2014 of EUR 2 bn concentrated in short-term products;

- Group **loans to customers**, totalling **EUR 133 bn** and remaining essentially stable compared to 31/03/14 (+0.1%), recorded a significant 2nd quarter growth in repurchase agreements, to which most of the surplus liquidity from the share capital increase was temporarily allocated. The **coverage of non-performing loans** was confirmed **at 41.6%**, the same level as at 31/03/14, with doubtful loan coverage standing at 58.2% (58.5% as at 31/03/2014) and substandard loan coverage (at 20.9%) up 20 bps in the same period;

- with regard to capital ratios, the **Tier 1 Ratio stood at 13.5%** and the **Total Capital Ratio at 17.6%** as at 30/06/2014;

- the Group's **net income from banking and insurance activities** totalled **approximately EUR 1,953 mln** (-10.8% on the 1st half of 2013) with 2Q14 contributing EUR 996 mln, up 4% on the previous quarter. At the end of the half year **net interest income** stood at **EUR 972 mln**, down 10.4% on the same period of last year, EUR 147 mln of which due to the recalculated repayment value of the NFIs and EUR 44 mln to charges payable on the higher average amount of the financial instruments concerned. Excluding these components, net interest income would have recorded an annual growth of 6%, mainly attributable to the improved funding/lending spread (+49 bps). **Net fee and commission income**, standing at **EUR 871 mln**, was up 2.6% YoY (EUR +22.4 mln) due to the increase in income from asset management supported by placements (mainly Funds and UCITS);

- with regard to cost of credit, the ratio of the annualized impairment losses on loans over total customer loans reflects a **provisioning rate** of **182 bps**, compared to 211 bps at the end of December 2013;

- **operating expenses** totalled **EUR 1,331 mln** (-7.1% from the previous year) with an impact on the 2nd quarter of EUR 671 mln, up on 1Q14 (+1.5%). **Net provisions for risks and charges and other operating expenses/income** were negative by EUR 98 mln, compared to EUR +20.1 mln recorded as at 30 June 2013;

- The **consolidated net result** for the period before Purchase Price Allocation (PPA) shows a **loss of EUR 334.2 mln** (EUR -358 mln as at 30/06/13). Considering the effects of the Banca Antonveneta S.p.A. PPA, the Group's **loss for the period totalled EUR 353 mln** (EUR -379 mln as at 30/06/13).

Business Plan status

Implementation of the Business Plan continued, especially in relation to credit quality, asset revision, the sales and distribution model and overall business efficiency improvements.

In particular:

- **Capital and governance** - The EUR 5 bn share capital increase was successfully completed, allowing redemption of the NFIs and the strengthening of the Banca Monte dei Paschi di Siena capital;
- **Credit** - Roll-out of the new model for issuing and monitoring credit and of the new credit recovery model have continued;
- **Sales & distribution** - As part of the re-positioning of the Parent Company's business model, start-up of the Online Bank project (WIDIBA) and the project to transform the Bank's distribution model (Programma Banca 2020) have continued. Planning has commenced for the redefinition of the product mix for corporate market segments (Corporate Revolution Programme) and for consumer credit;
- **Operational excellence** - Implementation of the new Physical Network Security Model has continued and the Paperless processes have been consolidated. Projects to improve the level of reception and ease of use of branch services have been launched;
- **Human capital** - Action has continued to align headcounts to targets and the cost of labour indicated in the Business Plan. 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.

In November 2013, the European Central Bank initiated the Comprehensive Assessment covering 130 European institutions, including the Monte dei Paschi di Siena Group. These activities primarily consist of the following: a qualitative/quantitative evaluation of the intrinsic risk profile of the Bank (Supervisory Risk Assessment); an in-depth analysis of balance sheet and off-balance sheet exposures for all asset classes (Asset Quality Review); an evaluation of the Bank's capacity to absorb exogenous shocks during periods of stress (Stress Test). The Comprehensive Assessment results will be published in the second half of October after receiving ECB approval. The banks will be informed of the full final results shortly before their disclosure to the markets. In the phase prior to final disclosure, the ECB and relevant national authorities will discuss the preliminary partial outcomes with individual banks as part of supervisory dialogue, with the aim of verifying data and events and to cover methodological aspects.

Despite an environment that is still uncertain and fragile, by 2017 the Group plans to create solid foundations for long-term growth by achieving the Business Plan objectives. Among these, the recently implemented share capital increase has allowed the repayment of EUR 3 bn in nominal terms of New Financial Instruments (over EUR 126 mln of which was the higher amount repayable in accordance with NFIs governing provisions), and - in relation to interest due for 2013 - the repayment of EUR 329.6 mln in New Financial Instruments. The share capital increase also allowed capital conditions to be created to:

- provide the Parent Company with a security buffer to absorb the negative impacts that may result from the Comprehensive Assessment, therefore allowing BMPS to better meet its commitments made in the Restructuring Plan;
- align the Parent Company with Italian market best practices in terms of the Common Equity Tier 1 Ratio (phased in).

Given the above, and in view of the Group's outlook following the implementation of the Business Plan and the assessments carried out on its current and prospective level of capital adequacy, no elements exist which cast doubt on the ability of the company to continue operating as a going concern.

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 June 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 (EUR 13 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" (EUR 34 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 EUR 4 mln in restructuring charges referring to revised estimates of early-retirement incentives already put in place following the trade union agreement of 19 December 2012. The amount was reclassified under "Restructuring costs/One-off charges".

e) "**Other administrative expenses**" in the reclassified income statement was deducted of the portion of stamp duty and client expense recovery (EUR 156 mln) posted under item 220 "Other operating expenses/income".

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 for EUR 4 mln associated with revised estimates of early-retirement incentives already put in place following the trade union agreement of 19 December 2012 and reclassified out of Personnel expenses (see item d).

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 "**Interest income**" for EUR 14.3 mln and **Depreciation/amortisation** for EUR 13.8 mln, net of a theoretical tax burden of EUR 9 mln which integrates the item).

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

a) "**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".

b) "**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 held for sale and discontinued operations" and item 160 "Other assets".

c) "**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".

d) "**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 held for sale and discontinued operations" and item 100 "Other liabilities".

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The accounting statements and the comparative statements of the reclassified consolidated income statement and balance sheet are enclosed in the "Annexes" section.

Reclassified Income Statement (Euro mln)				
	30/06/14	30/06/13	Change	
Montepaschi Group		(*)	Abs.	%
Net interest income	972.0	1,084.9	(112.9)	-10.4%
Net fee and commission income	871.0	848.6	22.4	2.6%
Income from banking activities	**1,843.0**	**1,933.5**	**(90.5)**	**-4.7%**
Dividends, similar income and gains (losses) on investments	49.5	65.8	(16.3)	-24.8%
Net profit (loss) from trading	73.7	196.1	(122.4)	-62.4%
Net profit (loss) from hedging	(13.3)	(5.0)	(8.3)	n.s.
Income from banking and insurance activities	**1,952.8**	**2,190.4**	**(237.6)**	**-10.8%**
Net impairment losses (reversals) on:	**(1,226.9)**	**(1,051.0)**	**(175.9)**	**16.7%**
a) loans	(1,208.0)	(1,029.0)	(179.0)	17.4%
b) financial assets	(19.0)	(22.0)	3.1	-14.0%
Net income from financial and insurance activities	**725.9**	**1,139.4**	**(413.5)**	**-36.3%**
Administrative expenses:	(1,232.4)	(1,358.3)	125.9	-9.3%
a) personnel expenses	(851.3)	(875.5)	24.2	-2.8%
b) other administrative expenses	(381.1)	(482.8)	101.7	-21.1%
Net losses/reversal on impairment on property, plant and equipment / Net adjustments to (recoveries on) intangible assets	(98.8)	(75.3)	(23.6)	31.3%
Operating expenses	**(1,331.2)**	**(1,433.6)**	**102.4**	**-7.1%**
Net operating income	**(605.3)**	**(294.2)**	**(311.1)**	**105.7%**
Net provisions for risks and charges and other operating income (expenses)	(98.3)	20.1	(118.4)	n.s.
Gains (losses) on investments	175.3	(31.6)	206.9	n.s.
Restructuring costs / One-off costs	(3.8)	(17.6)	13.7	n.s.
Gains (losses) on disposal of investments	5.1	(1.7)	6.8	n.s.
Profit (loss) before tax from continuing operations	**(527.0)**	**(325.0)**	**(202.0)**	**62.2%**
Tax expense (recovery) on income from continuing operations	193.9	(6.1)	200.0	n.s.
Profit (loss) after tax from continuing operations	**(333.1)**	**(331.1)**	**(2.0)**	**0.6%**
Profit (loss) after tax from groups of assets held for sale and discontinued operations	-	(25.7)	25.7	n.s.
Net profit (loss) for the period including non-controlling interests	**(333.1)**	**(356.8)**	**23.7**	**-6.6%**
Net profit (loss) attributable to non-controlling interests	(1.1)	(1.0)	(0.1)	6.0%
Profit (loss) for the period before PPA , impairment on goodwill, intangibles and writedown of investment in AM Holding	**(334.2)**	**(357.9)**	**23.7**	**-6.6%**
PPA (Purchase Price Allocation)	(18.8)	(21.5)	2.7	-12.6%
Parent company's net profit (loss) for the period	**(353.0)**	**(379.4)**	**26.4**	**-6.9%**

(*) The previous year's figures have been restated to reflect the change illustrated in the chapter "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)" following the introduction of new accounting standards which came into force as 1 January 2014.

Quarterly trend in reclassified incomen statement (Euro mln)						
	2014		2013 (*)			
Montepaschi Group	2Q	1Q	4Q	3Q	2Q	1Q
Net interest income	526.2	445.8	564.0	507.3	487.2	597.7
Net fee and commission income	425.8	445.2	404.8	404.2	417.3	431.3
Income from banking activities	**952.0**	**891.0**	**968.8**	**911.5**	**904.4**	**1,029.0**
Dividends, similar income and gains (losses) on investments	23.8	25.7	32.9	31.1	38.6	27.2
Net profit (loss) from trading	28.6	45.1	(271.6)	89.6	76.5	119.5
Net profit (loss) from hedging	(8.7)	(4.6)	5.0	7.0	(0.9)	(4.0)
Income from banking and insurance activities	**995.6**	**957.2**	**735.2**	**1,039.1**	**1,018.7**	**1,171.8**
Net impairment losses (reversals) on:	**(735.2)**	**(491.7)**	**(1,252.8)**	**(519.3)**	**(556.5)**	**(494.5)**
a) loans	(731.4)	(476.6)	(1,209.7)	(511.0)	(544.8)	(484.2)
b) financial assets	(3.8)	(15.2)	(43.1)	(8.3)	(11.7)	(10.3)
Net income from financial and insurance activities	**260.4**	**465.5**	**(517.6)**	**519.8**	**462.1**	**677.3**
Administrative expenses:	(620.4)	(611.9)	(640.9)	(658.8)	(668.7)	(689.7)
a) personnel expenses	(421.9)	(429.3)	(414.3)	(429.0)	(422.6)	(452.9)
b) other administrative expenses	(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	(50.2)	(48.6)	(45.4)	(38.0)	(36.0)	(39.3)
Operating expenses	**(670.7)**	**(660.5)**	**(686.3)**	**(696.9)**	**(704.7)**	**(728.9)**
Net operating income	**(410.2)**	**(195.0)**	**(1,204.0)**	**(177.1)**	**(242.5)**	**(51.7)**
Net provisions for risks and charges and other operating income (expenses)	(45.2)	(53.2)	(223.0)	(29.2)	11.5	8.5
Gains (losses) on investments	133.4	41.9	(25.9)	(0.5)	(32.6)	1.0
Restructuring costs / One-off costs	(2.7)	(1.1)	(6.7)	(0.2)	(17.6)	-
Gains (losses) on disposal of investments	0.4	4.7	1.9	1.2	(1.9)	0.2
Profit (loss) before tax from continuing operations	**(324.3)**	**(202.7)**	**(1,457.7)**	**(205.7)**	**(283.1)**	**(41.9)**
Tax expense (recovery) on income from continuing operations	155.4	38.4	563.5	89.8	31.3	(37.4)
Profit (loss) after tax from continuing operations	**(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	**(168.9)**	**(164.3)**	**(906.8)**	**(128.8)**	**(264.6)**	**(92.2)**
Net profit (loss) attributable to non-controlling interests	(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	**(169.5)**	**(164.7)**	**(907.3)**	**(129.3)**	**(265.2)**	**(92.7)**
PPA (Purchase Price Allocation)	(9.4)	(9.4)	(9.1)	(9.2)	(13.0)	(8.5)
Parent company's net profit (loss) for the period	**(178.9)**	**(174.1)**	**(916.3)**	**(138.6)**	**(278.2)**	**(101.2)**

(*) The previous year's figures have been restated to reflect the change illustrated in the chapter "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)" following the introduction of new accounting standards which came into force as 1 January 2014.

Reclassified balance sheet (Euro mln)

ASSETS	30/06/14	31/12/13 (*)	Chg abs.	Chg %
Cash and cash equivalents	860	877	(17)	-2.0%
Receivables :	-	-	-	
a) Loans to customers	132,770	130,598	2,173	1.7%
	-	-	-	
b) Loans to banks	8,638	10,485	(1,847)	-17.6%
Financial assets held for trading	39,863	42,919	(3,056)	-7.1%
Financial assets held to maturity	-	-	-	
Equity investments	952	970	(19)	-1.9%
Property, plant and equipment / Intangible assets	3,971	4,046	(75)	-1.9%
of which:	-	-	-	
a) goodwill	*670*	*670*	-	
Other assets	9,474	8,566	909	10.6%
Total assets	**196,528**	**198,461**	**(1,933)**	**-1.0%**

LIABILITIES	30/06/14	31/12/13 (*)	Chg abs.	Chg %
Payables				
a) Deposits from customers and securities issued	130,777	129,836	941	0.7%
b) Deposits from banks	31,810	37,279	(5,469)	-14.7%
Financial liabilities held for trading	11,718	16,410	(4,691)	-28.6%
Provisions for specific use				
a) Provisions for staff severance indemnities	285	261	23	8.9%
b) Pensions and other post retirement benefit obligations	59	61	(2)	-3.2%
c) Other provisions	991	1,066	(75)	-7.0%
Other liabilities	9,811	7,367	2,443	33.2%
Group net equity	11,048	6,147	4,901	79.7%
a) Valuation reserves	(634)	(1,056)	422	-39.9%
c) Equity instruments carried at equity	3	3	-	
d) Reserves	4,548	1,175	3,373	n.s.
e) Share premium	-	-	-	
f) Share capital	7,485	7,485	-	
g) Treasury shares (-)	(0)	(25)	25	-100.0%
h) Net profit (loss) for the year	(353)	(1,434)	1,081	-75.4%
Non-controlling interests	29	33	(4)	-12.4%
Total Liabilities and Shareholders' Equity	**196,528**	**198,461**	**(1,933)**	**-1.0%**

(*) The previous year's figures have been restated to reflect the change illustrated in the chapter "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)" following the introduction of new accounting standards which came into force as 1 January 2014.

Reclassified Balance Sheet - Quarterly Trend (Euro mln)

ASSETS	30/06/14	31/03/14	31/12/13 (*)	30/09/13 (**)	30/06/13 (**)	31/03/13 (**)
Cash and cash equivalents	860	823	877	785	684	697
Receivables :						
a) Loans to customers	132,770	132,677	130,598	135,564	138,082	140,510
b) Loans to banks	8,638	10,204	10,485	11,439	12,240	13,676
Financial assets held for trading	39,863	43,500	42,919	45,777	49,655	46,389
Financial assets held to maturity	-	-	-	-	-	-
Equity investments	952	960	970	994	971	1,029
Property, plant and equipment / Intangible assets	3,971	4,004	4,046	2,441	2,465	2,496
of which:						
a) goodwill	*670*	*670*	*670*	*670*	*670*	*670*
Other assets	9,474	8,855	8,566	9,447	9,774	10,086
Total assets	**196,528**	**201,022**	**198,461**	**206,446**	**213,870**	**214,883**

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

(*) The previous year's figures have been restated to reflect the change illustrated in the chapter "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)" following the introduction of new accounting standards which came into force as 1 January 2014.

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

Balance Sheet

Direct funding

As at 30 June 2014 the Group's **total funding** amounted to **EUR 238 bn**, up 1.6% on the figure for the end of March 2014 (+2% on 31/12/2013). The second quarter saw continued growth of indirect funding (+1.8% on 31/3/2014), especially the assets under management component, and direct funding took an upturn (+1.5%) with an increase in volumes of EUR 2 bn concentrated in short-term products.

Background

The economic context continues to be strongly affected by the prolonged weakness of the economy. In the first few months of 2014 the signals that direct funding would hold steady were confirmed (-0.24% compared to the end of 2013), bolstered by deposits which compensated for the sharp decline in medium and long-term funding (bonds) (-8% YoY).

From the end of 2007 to date, direct funding has increased - in absolute terms - by almost EUR 212 bn.

The average rate on total direct bank funding stands at 1.74%, compared to 2.89% at the end of 2007. The rate applied on deposits reached 0.87%, down on the same period of 2013. Likewise, in May bond yields were also down to 3.34%.

Again in May, mutual funds returned to their 2007 levels, reaching EUR 616 bn and posted a positive result, thanks to net inflows of more than EUR 6.1 bn. Open-end funds pushed the total monthly figure for the segment to over EUR 7.1 bn, and the annual figure to over EUR 43.6 bn. In terms of total volumes, collective and portfolio management reached the new all-time record of EUR 1,428 bn.

Customer Funding (Euro mln)

	30/06/2014	31/03/2014	(*) 31/12/2013	30/06/2013	Var. Q/Q %	Var. su 31/12 %
Direct funding	**130,777**	**128,859**	**129,836**	**137,078**	**1.5%**	**0.7%**
Indirect funding	**107,215**	**105,273**	**103,397**	**104,434**	**1.8%**	**3.7%**
assets under management	*48,535*	*46,656*	*45,106*	*42,828*	*4.0%*	*7.6%*
Mutual Funds/Sicav	*20,048*	*18,509*	*17,361*	*15,780*	*8.3%*	*15.5%*
Individual Portfolio under Management	*6,194*	*6,078*	*6,008*	*6,037*	*1.9%*	*3.1%*
Bancassurance	*22,293*	*22,068*	*21,737*	*21,011*	*1.0%*	*2.6%*
assets under custody	*58,680*	*58,617*	*58,292*	*61,606*	*0.1%*	*0.7%*
Total funding	**237,991**	**234,131**	**233,233**	**241,512**	**1.6%**	**2.0%**

(*) Direct funding figures as at 31/12/13 have been restated to reflect the change illustrated in the chapter "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)" following the introduction of new accounting standards which came into force as 1 January 2014.

More specifically:

- as at 30/6/2014 the Group's **total funding** amounted to **EUR 131 bn**, returning above the levels recorded at the end of 2013 (+0.7%). In the 2nd quarter the aggregate recorded an increase in **Current Accounts** (+2% on 31/3/2014) and **Term Deposits** (+19.5%), whilst a decline was seen in **Bonds** (-4.3%). **Reverse repurchase agreements** were also up (+5.3% on 31/03/14), which are almost entirely made up of guaranteed funding on the institutional market, whilst remaining essentially stable compared to the levels at 31/03/14 (-0.1%) were the **Other forms of direct funding**, which include the New Financial Instruments (NFIs) subscribed by the Ministry of Economy and Finance[2] for EUR 4 bn.

[2]On 28 February 2013, Banca Monte dei Paschi di Siena S.p.A. completed the issue of New Financial Instruments provided for by art. 23-sexies of Law Decree no. 95 of 6 July 2012, converted with amendments into Law no. 135 of 7 August 2012, as subsequently amended (the "New Financial Instruments"). In particular, the Ministry of Economy and Finance subscribed to the New Financial Instruments issued by the Bank for a total of EUR 4.071 bn, of which EUR 1.9 bn allocated to full replacement of the Tremonti Bonds issued by the Bank in 2009 (and included, as of the end of December 2012, in "Other forms of direct funding") and EUR 0.171 bn, due on 1 July 2013, for advance payment of interest accrued on Tremonti Bonds up to 31 March 2013, in consideration of the Bank's negative results as at 31 March 2013. From a capital adequacy standpoint, although included in Direct Funding, the NFIs are included in Common Equity Tier 1 until December 2017.

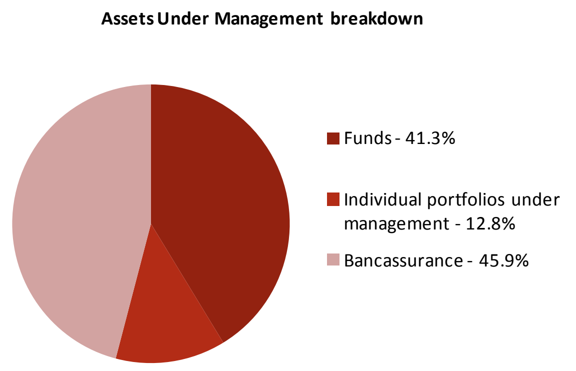
The following table shows a breakdown of major types of direct funding from customers:

Direct funding (EUR mln)			(*)		Change Q/Q		Change 31.12	
Type of transaction	30/06/14	31/03/14	31/12/13	30/06/13	Abs.	%	Abs.	%
Current accounts	58,042	56,912	55,076	57,536	1,130	2.0%	2,965	5.4%
Time deposits	10,406	8,709	8,003	8,766	1,698	19.5%	2,403	30.0%
Reverse repurchase agreements	14,478	13,749	16,096	14,868	729	5.3%	(1,618)	-10.1%
Bonds	36,396	38,022	39,909	45,958	(1,626)	-4.3%	(3,514)	-8.8%
Other types of direct funding (**)	11,455	11,466	10,751	9,950	(12)	-0.1%	704	6.5%
Total	**130,777**	**128,859**	**129,836**	**137,078**	**1,918**	**1.5%**	**941**	**0.7%**

(*) Figures as at 31/12/13 have been restated to reflect the changes illustrated in the chapter "Restatement of prior period accountsin compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)", following the introduction of new acoounting standards which came into force as of 1 januari 2014.
Moreover, compared to the values reportered in the Financial Statements at 31/12/2013, the accounting reclassification of securities in vehicle companies in Item 30 of Liabilities resulted in a decrease in "Other types of direct funding" and equal increase in "Bonds".

(**) The item icludes NFIs amounting to approx EUR 4.747 bn plus accrued interest not yet paid

- At the end of the half year the Group's **indirect funding** volumes amounted to **EUR 107 bn**, up 1.8% on the previous quarter (+3.7% growth on 31/12/2013). More specifically:
  - **assets under management** closed the first half of the year with volumes totalling **EUR 48.5 bn**, up 4% on 31/03/14 and 7.6% on 31/12/2013. A breakdown of the aggregate shows:
    - the **insurance component** of **EUR 22.3 bn** (+1% compared to 31/03/14; +2.6% over 31/12/13), in the 2nd quarter benefiting from insurance premiums collected for EUR 1.2 bn, driven by Unit Linked products. The Group's Bancassurance market share was 6.08% (as at May 2014, latest data available);
    - **mutual investment funds and UCITS**, amounting to **EUR 20 bn**, up 8.3% compared to 31/03/14 (+15.5% over 31/12/13), as a result of net inflows for the 2nd quarter of EUR 1.1 bn, concentrated in guaranteed capital instruments. The Group's market share was 3.73% (as at December 2013, latest data available);
    - **individual portfolios under management**, totalling **EUR 6 bn**, increased 1.9% from the end of the previous quarter (+3.1% on 31/12/2013) with a Group market share of 3.75% (as at June 2014, latest data available).



  - **assets under custody** amounting to EUR 58.7 bn, remained essentially stable at the March levels (+0.1%) and year end levels (+0.7%).

Loans to customers

As at 30/06/14, Group **loans to customers** amounted to **EUR 133 bn**, in line with the end of the 1st quarter (+0.1%; +1.7% on 31/12/13).

Significant growth was recorded in the 2nd quarter in repurchase agreements, to which most of the surplus liquidity from the share capital increase was temporarily allocated.

Background

Bank loans to businesses and households fell -2.94% YoY as at May. The causes can be identified in plummeting investments and GDP and in the continuing decline in the building industry as well as a more attentive focus on credit risk.

As already seen in other European countries, the tendency to diversify production system funding sources is confirmed: not only through bank lending, but also through the issue of bond loans, mini bonds and other new forms of funding.

The average amount of mortgages requested has reduced (EUR 0.114 mln) and 9.8% of those requesting mortgages in Italy are non-Italians: this figure has fallen compared to the previous survey. The most frequent reason used by non-Italians for requesting mortgages is for the purchase of their first home.

As regards forms of loans to business customers, the 2nd quarter recorded a continued decline in **Current Accounts** (-4.4%) and **Mortgages** (-2.8%), reflecting the persisting recession and also seen at systemic level. The Group's market share of total loans, calculated net of repurchase agreements with institutional counterparties, stood at 7.26% (last available figure from May 2014).

Loans to customers (EUR mln)									
			(*)			Change Q/Q		Change 31.12	
Type of transaction	30/06/14	31/03/14	31/12/13	30/06/13		Abs.	%	Abs.	%
Current accounts	10,906	11,404	10,953	12,028	-	(498)	-4.4%	(48)	-0.4%
Mortgages	61,212	62,966	64,757	69,231	-	(1,753)	-2.8%	(3,544)	-5.5%
Other forms of lending	29,112	29,474	29,710	31,807	-	(362)	-1.2%	(598)	-2.0%
Repurchase agreements	7,664	5,457	2,737	3,835	-	2,207	40.4%	4,927	180.0%
Securities lending	1,434	1,453	1,449	2,142	-	(18)	-1.3%	(15)	-1.0%
Non performing loans	22,442	21,925	20,992	19,039	-	518	2.4%	1,450	6.9%
Total	**132,770**	**132,677**	**130,598**	**138,082**		**93**	**0.1%**	**2,173**	**1.7%**

(*) Figures as at 31/12/2013 have been restated to reflect the change illustrated in the chapter "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)" following the introduction of new accounting standards which came into force as 1 January 2014.

The changes in the aggregate reflect trends in disbursements in special-purpose loans during the 2nd quarter, for which:

- MPS Capital Services granted new loans for EUR 85 mln, up 24.5% compared to the 1st quarter of 2014;
- leasing contracts amounted to EUR 101 mln (-14.7% on 1Q14), while Turnover Factoring totalled EUR 1.2 bn (+7.8% over 1Q14);
- with regard to consumer credit, it should be remembered that the Group signed a partnership agreement with Compass in February 2014, in implementation of the 2013-2017 Business Plan guidelines. This agreement is consistent with the Group's decision to support the credit offer to households during this unfavourable economic period and to continue its plan to enhance the value of the sales network through product placement with qualified third parties, thereby quickly developing business areas with high distribution value.

Special purpose loans and corporate finance (EUR mln)	30/06/14	2Q2014	1Q2014	30/06/13	Chg Q/Q		Chg Y/Y	
					Abs.	%	Abs.	%
MPS Capital Services (disbursements)	152.9	84.8	68.1	385.9	16.7	24.5%	-233.0	-60.4%
MPS Leasing & Factoring	2,569.1	1,320.1	1,249.0	3,488.3	71.1	5.7%	-919.1	-26.3%
leases negotiated	*219.4*	*101.0*	*118.4*	*290.8*	*-17.4*	*-14.7%*	*-71.4*	*-24.6%*
factoring turnover	*2,349.7*	*1,219.1*	*1,130.6*	*3,197.4*	*88.5*	*7.8%*	*-847.7*	*-26.5%*

Non-performing loans

As at 30/06/14, the Group's **net exposure to non-performing loans** totalled **EUR 22 bn**, an increase of EUR 2.4 bn compared to the end of March 2014 (+6.9% on 31/12/2013). In the 2nd quarter, a decrease in past due exposures (-16.6%) was offset by an increase in substandard loans volumes (+8.6%). Doubtful loans saw a more limited increase (+2.7%) compared to that recorded in the previous quarter (+5%), whilst restructured loans rose by 6.2% (+9.5% increase recorded in the 1st quarter).

Loans to customers										
Risk category - Net book values			(*)		weight %	weight %	Change Q/Q		Change 31.12	
(EUR mln)	30/06/14	31/03/14	31/12/13	30/06/13	30/06/14	31/12/13	Ass.	%	Ass.	%
A) Non performing loans	**22,442**	**21,925**	**20,992**	**19,039**	**16.9**	**16.1**	**518**	**2.4%**	**1,450**	**6.9%**
a1) Doubtful loans	9,584	9,332	8,880	7,987	7.2	6.8	252	2.7%	704	7.9%
a2) Substandard loans	8,345	7,685	7,511	6,872	6.3	5.8	660	8.6%	834	11.1%
a3) Restructured	1,958	1,843	1,683	1,322	1.5	1.3	115	6.2%	275	16.3%
a4) Past due	2,556	3,065	2,918	2,859	1.9	2.2	-508	-16.6%	-362	-12.4%
B) Performing loans	**110,328**	**110,753**	**109,606**	**119,043**	**83**	**84**	**-424**	**-0.4%**	**723**	**0.7%**
Total customer loans	**132,770**	**132,677**	**130,598**	**138,082**	**100**	**100**	**93**	**0.1%**	**2,173**	**1.7%**

(*) Figures as at 31/12/2013 have been restated to reflect the change illustrated in the chapter "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)" following the introduction of new accounting standards which came into force as 1 January 2014.

Doubtful loan coverage amounted to **58.2%** at the end of the period, compared to 58.5% as at 31/03/2014 (-30 bps). For a correct reading of the ratio trend, however, it has to be remembered that in June the Parent Company finalised the without recourse disposal of a doubtful loans portfolio. Considering the comparison on a like-for-like basis, doubtful loan coverage would show a QoQ increase of 40 bps.

The **coverage of non-performing loans** was confirmed **at 41.6%**, the same levels as at 31/03/14 (-20 bps compared to 31/12/2013), with substandard loan coverage (at 20.9%) up 20 bps compared to 31/03/14.

Coverage ratios				
	30/06/14	31/03/14	31/12/13	30/06/13
"provisions for NPLs " / "gross NPLs"	41.6%	41.6%	41.8%	41.1%
"provisions for substandard loans" / "gross substandard loans"	20.9%	20.7%	20.4%	20.4%
"provisions for doubtful loans" / "gross doubtful loans"	58.2%	58.5%	58.8%	58.1%

The table below reports the figures for the Group's major companies, within which Parent Company BMPS shows a provisioning to doubtful loans ratio of approximately 60.1% vs. 42.4% for MPS Capital Services, which specialises in medium-long term loan directly supported by collateral.

Doubtful and Substandard loans by business unit

Risk category - Net values at 30/06/2014 (EUR mln)	Group	BMPS	MPS Capital Services	MPS Leasing & Factoring	Consum.it
Net doubtful loans	9,584	6,672	2,233	511	120
% of total customer loans	7.22%	5.85%	17.48%	8.02%	3.12%
"loan loss provisions" / "gross doubtful loans"	**58.2%**	**60.1%**	**42.4%**	**57.8%**	**88.3%**
Net sub standard loans	8,345	6,294	1,479	479	85
% of total customer loans	6.28%	5.52%	11.58%	7.52%	2.21%
"loan loss provisions" / "gross substandard loans"	**20.9%**	**21.8%**	**13.9%**	**23.0%**	**43.4%**

With regard to **performing loans**, coverage continued to stand at 0.6%, in line with the previous year.

The Group's securities and derivatives portfolio

As at 30 June 2014, the Group's securities and derivatives portfolio amounts to **EUR 34 bn**, down EUR 2.2 bn compared to the levels as at 31 March 2014 and down EUR 1.5 bn compared to 31 December 2013 (-4.2%). The decline in the Held For Trading (HFT) portfolio in the 2nd quarter (EUR -2.2 bn) is attributable to the lower government securities exposures of the subsidiary MPS Capital Services.

The AFS portfolio, holding steady at the end of March levels, was characterised by a recovery in market values, reflected in the improvement in the reserve included under shareholders' equity and by optimisation of the portfolio through the disposal of long positions and the partial buy-back of shorter term securities.

The bonds portfolio recognised under L&R also remained stable.

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

MONTEPASCHI GROUP	30/06/14	31/03/14	31/12/13	30/06/13	Chg Q/Q		Chg 31.12	
Type of portfolio			(*)		Abs.	%	Abs.	%
Held For Trading (HFT) [1]	8,578	10,739	9,181	11,487	(2,161)	-20.1%	(604)	-6.6%
Available For Sale (AFS) [2]	23,031	23,096	23,680	26,159	(65)	-0.3%	(649)	-2.7%
Loans & Receivable (L&R) [3]	2,459	2,476	2,694	2,861	(17)	-0.7%	(235)	-8.7%
Total	**34,067**	**36,310**	**35,555**	**40,507**	**(2,243)**	**-6.2%**	**(1,488)**	**-4.2%**

(1) "Financial assets held for trading" excluding "Loans" and net of the value of derivatives posted to "Financial liabilities held for trading". The aggregate is not net of uncovered short positions classified under "Financial liabilities held for trading".

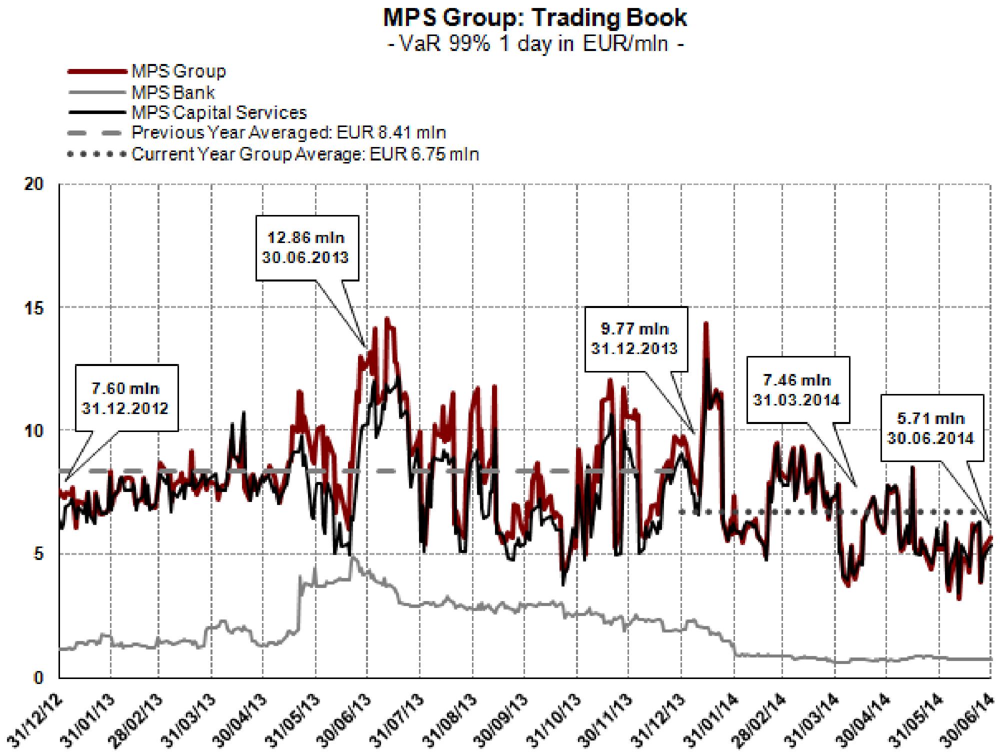
(2) "Financial assets held for sale" excluding "Loans" including equity investments.

(3) Securities classified under "Loans & Receivables" posted to "Loans to customers" and "Loans to banks".

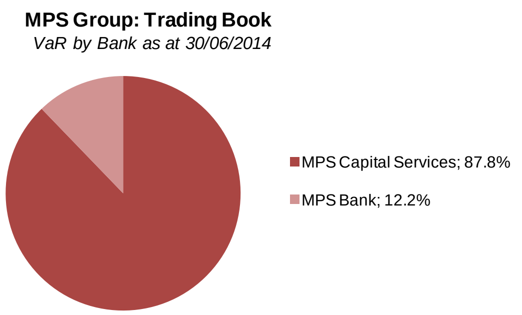
(*) Figures as at 31/12/2013 have been restated to reflect the change illustrated in the chapter "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)" following the introduction of new accounting standards which came into force as 1 January 2014.

The Group's Regulatory Trading Book

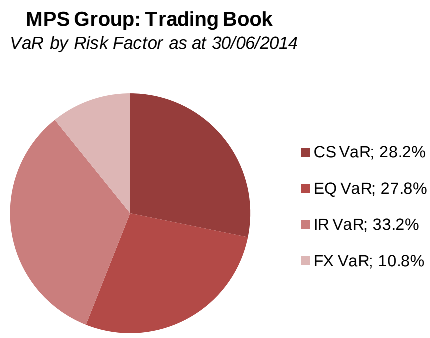
During the second quarter of 2014, market risk in the Group's Regulatory Trading Book (RTB) in terms of VaR showed a trend marked on average by a reduced level of volatility compared to the first quarter and stood at EUR 5.71 mln as at 30 June 2014. In absolute terms, VaR was affected by the IR segment 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.



VaR breakdown



MPSCS contributes 87.8% to overall risk, the Parent Company 12.2%.



28.2% of the Group's portfolio is allocated to credit spread risk factors (CS VaR), 27.8% is absorbed by equity risk factors (EQ VaR), 33.2% is absorbed by interest rate factors (IR VaR) and 10.8% by foreign exchange risk factors (FX VaR).

VaR trendline

In the first half of 2014 , the Group's VaR in the Regulatory Trading Book ranged between a low of EUR 3.18 mln recorded on 11 June 2014 and a high of EUR 14.33 mln on 14 January 2014 with an average value registered of EUR 6.75 mln.

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

	VaR	Date
End of Period	5.71	30/06/2014
Min	3.18	11/06/2014
Max	14.33	14/01/2014
Average	6.75	

Interbank position

As at 30 June 2014, the Group's net interbank position stood at EUR 23 bn in funding, an improvement of EUR 7.6 bn compared to the net balance recorded as at 31/03/14 and EUR 3.6 bn with respect to 31/12/13. The quarterly trend in the aggregate is to be seen mainly in relation to the decrease in Deposits from banks (EUR -9.2 bn, -22.4%), attributable almost entirely to the repayment of Long Term Refinancing Operations (LTROs) in 2Q14 for a total of EUR 8 bn (EUR -4 bn on average QoQ). Loans to banks were down 15.3% compared to the figures at the end of the previous quarter and 17.6% down on the end of the year.

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

			(*)	(**)	Change Q/Q		Change 31.12	
	30/06/14	31/03/14	31/12/13	30/06/13	Abs.	%	Abs.	%
Loans to banks	8,638	10,204	10,485	12,240	(1,566)	-15.3%	(1,847)	-17.6%
Deposits from banks	31,810	40,991	37,279	41,741	(9,181)	-22.4%	(5,469)	-14.7%
Net position	**(23,172)**	**(30,787)**	**(26,793)**	**(29,502)**	**7,615**	**-24.7%**	**3,621**	**-13.5%**

(*) Figures as at 31/12/2013 have been restated to reflect the change illustrated in the chapter "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)" following the introduction of new accounting standards which came into force as 1 January 2014.

(**) Figures as at 30/06/2013 have been restated to reflect the changes resulting from the reclassification of the financial instrument "Fresh 2008", amounting to EUR 76 mln, from the item Equity Instruments to the item "Deposit from Banks" (for further details, please see the 2013 Consolidated Notes to the Financial Statements).

As at 30/06/14 the operational liquidity position showed an **unencumbered Counterbalancing Capacity of EUR 29 bn**, a significant improvement compared to the end of March 2014, when the value was EUR 21 bn.

Shareholders' equity

The **Group shareholders' equity and non-controlling interests**, totalling **EUR 11 bn**, recorded an increase of EUR 4.8 bn compared to 31/03/14 (+76.2%) due to the share capital increase, the total value of which was not recognised under Capital but rather in other reserves given that, as at 30 June 2014, the declaration confirming subscription to the share capital increase had not yet been filed with the Companies Register.

The Valuation Reserve showed an improvement both on the end of the year and on the previous quarter (EUR 422 mln and EUR 153 mln, respectively) due to the recovery in value of the AFS portfolio associated with the shrinking of the Italian credit spread.

Reclassified Balance Sheet (Euro mln)

	30/06/14	31/03/14	31/12/13	30/06/13	Var. Q/Q		Var. 31.12	
ASSETS			(*)	(**)	Abs.	%	Abs.	%
Group net equity	11,048	6,251	6,147	6,555	4,797	76.7%	4,901	79.7%
a) Valuation reserves	(634)	(788)	(1,056)	(1,714)	153	-19.5%	422	-39.9%
c) Equity instruments carried at equity	3	3	3	3	-		-	
d) Reserves (***)	4,548	(274)	1,175	1,187	4,822	n.s.	3,373	n.s.
f) Share capital	7,485	7,485	7,485	7,485	-		-	
g) Treasury shares (-)	(0)	(0)	(25)	(25)	0	-10.0%	25	-100.0%
h) Net profit (loss) for the period	(353)	(174)	(1,434)	(380)	(179)	102.8%	1,081	-75.4%
Non-controlling interests	29	34	33	3	(5)	-13.5%	(4)	-12.4%
Total Liabilities and Shareholders' Equity	**11,077**	**6,285**	**6,181**	**6,558**	**4,792**	**76.2%**	**4,897**	**79.2%**

(*) Figures as at 31/12/2013 have been restated to reflect the change illustrated in the chapter "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)" following the introduction of new accounting standards which came into force as 1 January 2014.

(**) Figures as at 30/06/2013 have been restated to reflect the changes resulting from (i) reclassification of the financial instrument "Fresh 2008", amounting to EUR 76 mln, from the item Equity Instruments to the item "Deposits from banks" (for further details, please see the 2013 Consolidated Notes to the Financial Statements) and (ii) the retrospective application of amended IAS 32 "Offsetting financial assets and liabilities" described in the chapter "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)".

(***) The row Reserves include the value of the new shares, 4,992.0 million euro net of costs, subscribed by the end of the offering period, closed on 27 June 2014 pursuant to the resolution for the capital increase of the extraordinary shareholders' meeting of 21 May 2014 This amount has been recognized in the line Reserves and not Capital because it does not yet registered by 30 June, the filing of the certification of the full subscription of the capital increase at Siena Companies' Register.

Capital adequacy

Capital and regulatory requirements

The new regulatory framework (Basel 3) for calculating regulatory capital and capital requirements according to the provisions of CRR/CRD IV became effective 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:

Background
At the end of 2013 the EU's Economics and Finance Ministers reached an understanding on the characteristics of a single mechanism for resolving banking crises, due to be approved by the European Parliament by the end of the session. The mechanism will be an essential step towards completion of the Banking Union.
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 and to strengthen the institutional organisation in the Eurozone.
The ECB's Asset Quality Review has been in progress since the end of last November, ready for the stress tests that aim to verify the soundness of Europe's major banks (involving 124 banking groups accounting for almost 85% of the European banking system).
From next November banking supervision will be conducted at EU level by the ECB, in strict cooperation with the national supervisory authorities. At central level the main operating instrument for supervision will be the Joint Supervisory Team.

- 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.

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 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 30/06/2014 there was a significant capital strengthening 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 positive effect of this transaction was reduced by the impact deriving mainly from repayment of the first tranche of New Financial Instruments for EUR 3 bn, the loss recorded for the period and capitalised costs associated with the share capital increase.

CET1 (Common Equity Tier 1) and T1 (Tier 1) therefore stood at EUR 10,782 mln (EUR +1,856 mln compared to the pro-forma figure for 31/12/2013).

Total Capital was instead EUR 14,083 mln (EUR +1,650 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 amounted to EUR 80 bn, down on the start of the year (EUR -2.3 bn compared to the pro-forma figure as at 31/12/2013) due to the combined positive effect of the decrease in credit risk, attributable mainly to the portfolio optimisation process, and the negative effect of the increased 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 weighting of 250%.

As a result of the above, the CET1 ratio and T1 ratio as at 30/06/2014 are equivalent to 13.5% (+260 compared to the pro-forma figure as at 31/12/2013) and the Total Capital ratio is 17.6% (+250 bps compared to the pro-forma figure as at 31/12/2013).

Capital (EUR mln)	*BIS3*	*BIS3 Proforma*		
	30/06/14	**31/12/13**	*Abs. chg.*	*Chg. %*
Common Equity Tier 1	10,782	8,926	1,856	*20.8%*
Tier 1	10,782	8,926	1,856	*20.8%*
Tier 2	3,301	3,508	-207	*-5.9%*
Total Capital	**14,083**	**12,433**	**1,650**	***13.3%***
Risk Weighted Assets	**80,042**	**82,384**	**-2,342**	***-2.8%***
Common Equity Tier 1 Ratio	**13.5%**	**10.8%**	**2.6%**	***n.s.***
Tier 1 Ratio	13.5%	10.8%	2.6%	*n.s.*
Total Capital Ratio	17.6%	15.1%	2.5%	*n.s.*

Capital strengthening processes and alignment with EBA requirements

On 27 November 2013, the European Commission approved Montepaschi Group's Restructuring Plan, drafted under the procedure for issuance of the New Financial Instruments (NFIs) and within the European framework for State Aid. The strategic guidelines of the Plan can essentially be summarised as follows:

- quantitative and qualitative strengthening of capital;
- structural re-balancing of liquidity;
- attainment of sustainable levels of profitability.

The Group is currently carrying out the Plan, which as already mentioned included a share capital increase of EUR 5 bn during 2014.

The objective of the share capital increase is to provide the Group with additional buffer capital to absorb any negative effects of the Comprehensive Assessment so that the commitments made in the Plan can continue to be met. Furthermore, the extent of the share capital increase implemented will allow the Group to accelerate the implementation of the 2013-2017 Business Plan, by being able to better exploit the opportunities from a possible recovery in macro-economic conditions and banking activities and to potentially accelerate, based on the results of the Comprehensive Assessment, the full repayment of the New Financial Instruments with respect to the timing agreed with the European Commission.

Income statement

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

As at 30 June 2014 the Group's **net income from banking and insurance activities** totalled approximately EUR 1,953 mln (-10.8% compared to the 1st half of 2013), with 2Q14 contributing EUR 996 mln, up 4% on the previous quarter.

Financial and insurance income (EUR mln)								
				(*)	Chg Q/Q		Chg Y/Y	
	30/06/14	2Q2014	1Q2014	30/06/13	Abs.	%	Abs.	%
Net interest income	972.0	526.2	445.8	1,084.9	80.4	18.0%	(112.9)	-10.4%
Net fee and commission income	871.0	425.8	445.2	848.6	(19.4)	-4.4%	22.4	2.6%
Income from banking activities	**1,843.0**	**952.0**	**891.0**	**1,933.5**	**61.0**	**6.8%**	**(90.5)**	**-4.7%**
Dividends, similar income and gains (losses) on equity investments	49.5	23.8	25.7	65.8	(2.0)	-7.6%	(16.3)	-24.8%
Net trading income (loss) / valuation of financial assets	73.7	28.6	45.1	196.1	(16.5)	-36.7%	(122.4)	-62.4%
net profit (loss) from hedging	(13.3)	(8.7)	(4.6)	(5.0)	(4.1)	89.4%	(8.3)	n.s.
Financial and insurance income	**1,952.8**	**995.6**	**957.2**	**2,190.4**	**38.4**	**4.0%**	**(237.6)**	**-10.8%**

(*) The previous year's figures have been restated to reflect the changes illustrated in the chapter "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)", following the introduction of new accounting standards which came into force as of 1 January 2014.

A closer look at the aggregate reveals the following:

- at the end of the half year **net interest income** stood at **EUR 972 mln**, down 10.4% on the same period last year, EUR 147 mln of which due to the recalculated repayment value of the NFIs[3] and EUR 44 mln to charges payable on the higher average amount of the financial instruments concerned.[4] Excluding these components, net interest income would have recorded annual growth of 6%, mainly attributable to the improved funding/lending spread (+49 bps) affected by the decline in the cost of funding (average borrowing rate -38 bps, mainly for corporate customers) and the increase in the average lending rate (+10 bps linked mainly to the market rate trend).

  The 2nd quarter's contribution was EUR 526 mln, up on the previous quarter (+18%). Considering that in the 1st quarter of 2014 the negative effects of the previously mentioned recalculation of the NFI repayment value amounted to EUR 143 mln, and in the 2nd quarter it had a further impact of EUR 11 mln, the normalised quarterly net interest income (i.e. calculated by excluding the one-off effects of these NFIs) would show a QoQ decrease of 8.7% (EUR -51 mln) to be read mainly in relation to the following phenomena:
  - the reduction in interest-bearing assets (loans and securities) due to the continued deleveraging of business customer loans and the decrease in the securities portfolio;
  - the cost of replacing the Long Term Refinancing Operations (LTROs) repaid in 2Q2014 for EUR 8 bn (EUR -4 bn in average terms);
- **net fee and commission income**, standing at **EUR 871 mln**, was up 2.6% YoY (EUR +22.4 mln) due to the increase in income from asset management supported by placements

[3] As at 31/03/2014 the aggregate reflected the recalculation of the NFI repayment value in relation to their contractual clauses, which is linked to the amount that Fondazione Monte dei Paschi di Siena announced that it received for the sale of the ordinary shares of Banca Monte dei Paschi, with a negative one-off effect in Q1 2014 of EUR 143 mln.

[4] It should be remembered that on 28 February 2013 the MEF underwrote the New Financial Instruments issued by BMPS for a total of EUR 4 bn, increasing the previous issue of Tremonti Bonds by EUR 2 bn. Therefore the total interest expense recognised in the first half of 2014 was EUR 196 mln, up EUR 44 mln compared to the same period of 2013 (EUR 152 mln).

(mainly Funds); In the 2nd quarter the aggregate result was EUR 426 mln, down on the previous quarter (-4.4% QoQ) following a slowdown in placements, particularly in relation to bancassurance and individual portfolios under management.

- the **net profit (loss) from trading/valuation/repurchase of financial assets/liabilities** as at 30/06/14 totalled approximately EUR 74 mln, a decline compared to the same period of 2013 (EUR -122 mln; -62.4%). A closer look at the main aggregates shows:
  - **net profit (loss) from trading** positive for EUR 90 mln, almost entirely attributable to income of the subsidiary MPS Capital Services, and a decrease compared to the same period last year (EUR -31.6 mln; -25.9%) when it benefited from a particularly favourable market trend;
  - **gains (losses) on disposal/repurchase of loans, financial assets available for sale and financial liabilities** positive for EUR 41 mln, relating mainly to the disposal of securities and equity investments classified as AFS, including the loss of EUR 13 mln from the block assignment without recourse of a doubtful loans portfolio, finalised in June by the Parent Company, to a securitisation vehicle financed by companies of the Fortress Investment Group LLC;
  - **net profit (loss) from financial assets and liabilities designated at fair value** of EUR -57.3 mln, compared to the positive EUR 22.7 mln recognised as at 30/06/2013, attributable largely to the increased value of certain bond issues placed with retail and institutional customers, as a result of the considerable improvement in the Banca MPS credit rating.

With regard to the quarterly analysis, the aggregate shows a contribution of EUR 29 mln, down on the previous quarter (EUR -16.5 mln; -36.7% QoQ) due to unrepeated realised gains, partly offset by the lower impact of fair value assessments.

Net trading income (loss) / valuation of financial assets (EUR mln)								
				(*)	Chg Q/Q		Chg Y/Y	
	30/06/14	2°trim.14	1Q2014	30/06/13	Abs.	%	Abs.	%
Net profit (loss) from trading	90.3	46.5	43.8	121.9	2.7	6.0%	(31.6)	-25.9%
Gains (losses) on disposal/repurchase of loans, financial assets available for sale and financial liabilities	40.6	(6.4)	47.0	51.5	(53.4)	n.s.	(10.8)	-21.0%
Net profit (loss) from financial assets and liabilities designated at fair value	(57.3)	(11.5)	(45.7)	22.7	34.2	-74.8%	(80.0)	n.s.
Net profit (loss) from trading	**73.7**	**28.6**	**45.1**	**196.1**	**(16.5)**	**-36.7%**	**(122.4)**	**-62.4%**

(*) The previous year's figures have been restated to reflect the changes illustrated in the chapter "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)", following the introduction of new accounting standards which came into force as of 1 January 2014.

Net income from banking and insurance activities also includes:

- **dividends, similar income and gains (losses) on investments**: these amounted to **EUR 50 mln** (EUR 65.8 mln as at 30/06/13) and include the AXA-MPS contribution (consolidated using the equity method), with 2Q2014 contributing slightly less than the previous quarter;

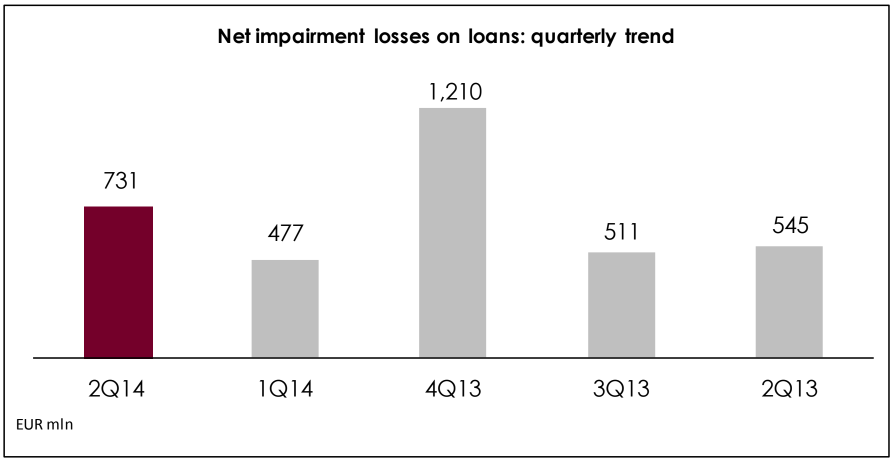
- **net profit (loss) from hedging**: negative balance of **EUR 13 mln** (negative balance of EUR 5 mln as at 30/06/13).

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

As at 30 June 2014 the Group booked **net impairment losses (reversals) on loans** for EUR 1,208 mln, an increase of EUR 179 mln with respect to the first half of last year (+17.4%). The increase recorded in the 2n quarter was EUR 255 mln (+53.5%). In addition to the details provided in the section on non-performing loans, this performance is also associated with the following aspects:

- provisions allocated to certain positions of significant amounts due to events occurred during the period;
- revised loss estimates on certain positions classified as doubtful loans, following the updated valuations of real estate collaterals (in relation to the persisting negative trend in market prices) and gaining of information relating to other sources of repayment (e.g. "piani di riparto"), performed by the Bank during the period, also for the purpose of preparing the data required for the Asset Quality Review currently being undertaken by the Supervisory Authorities.

The ratio between loan loss provisions for the year and customer loans reflects a **provisioning rate of 182 bps**, compared to 211 bps at the end of 2013.



Net impairment losses (reversals) on financial assets showed a **negative balance of EUR 19 mln** (EUR -15.2 mln in 1Q2014; EUR -22 mln as at 30/06/13), almost entirely due to the equity investment in Istituto per il Credito Sportivo included in the AFS securities portfolio and already written down in the 1st quarter.

As a result, **income from banking and insurance activities totalled EUR 726 mln** (-36.3% compared to the 1st half of 2013), with a 2nd quarter contribution of EUR 260 mln (EUR 466 mln contribution for the 1st quarter 2014).

Operating expenses

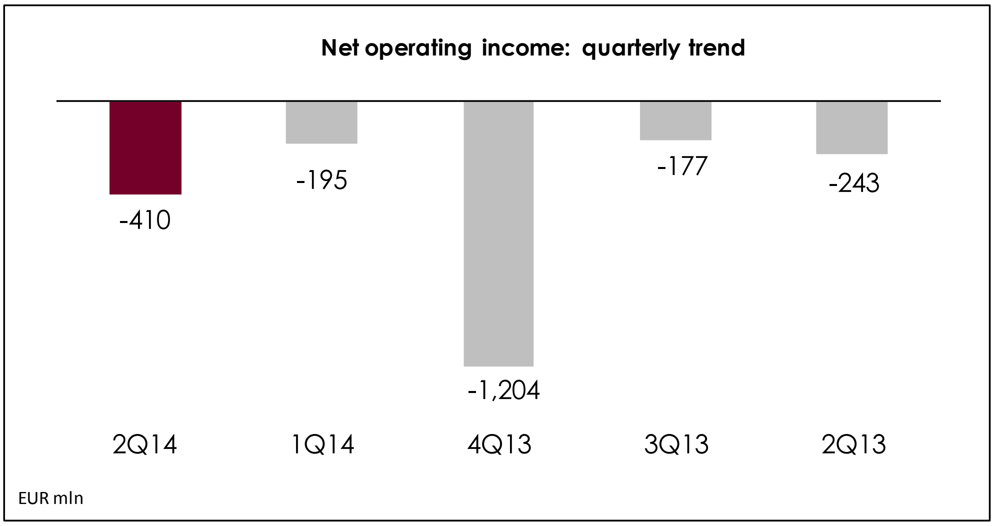
Operating expenses as at 30 June 2014 totalled **EUR 1,331 mln** (-7.1% from the previous year) with an impact on the 2nd quarter of EUR 671 mln, up on 1Q14 (+1.5%).

Operating expenses (EUR mln)								
				(*)	Chg Q/Q		Chg Y/Y	
	30/06/2014	2Q2014	1Q2014	30/06/2013	Abs.	%	Abs.	%
Personnel expenses	851.3	421.9	429.3	875.5	(7.4)	-1.7%	(24.2)	-2.8%
Other administrative expenses	381.1	198.5	182.6	482.8	15.9	8.7%	(101.7)	-21.1%
Administrative expenses	**1,232.4**	**620.4**	**611.9**	**1,358.3**	**8.5**	**1.4%**	**(125.9)**	**-9.3%**
Net losses/reversal on impairment on property, plant and equipment / Net adjustments to (recoveries on) intangible assets	98.8	50.2	48.6	75.3	1.6	3.3%	23.6	31.3%
Operating expenses	**1,331.2**	**670.7**	**660.5**	**1,433.6**	**10.1**	**1.5%**	**(102.4)**	**-7.1%**

(*) The previous year's figures have been restated to reflect the changes illustrated in the chapter "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)", following the introduction of new accounting standards which came into force as of 1 January 2014.

In particular:

- **administrative expenses** were **EUR 1,232 mln** (-9.3% compared to 30/06/2013) of which EUR 620 mln referring to the 2nd quarter (+1.4% QoQ). A breakdown of the aggregate shows:
  - **personnel expenses**, totalling **EUR 851 mln**, were down 2.8% on the previous year (and 1.7% down on the quarter), particularly due to headcount reduction and the personnel cost containment initiatives from agreements with trade unions signed at the end of 2012, together with abatement of the annual leave provision;
  - **other administrative expenses** (net of customer expense recovery) totalled **EUR 381 mln** at the end of the first half of the year, down 21.1% compared to the same period last year due to structural cutbacks in spending, particularly affecting rental expenses, sponsorships and events, business trips and facility management and office supplies. Expenses recognised in 2Q14 (EUR 198.5 mln) increased by 8.7% on the previous quarter, confirming the expected rise in the quarterly trend after the 1st quarter due to the recovery of costs associated with the provision of certain services (professional services in particular) commenced late with respect to the start of the year and with effects on the income statement also in future periods;
- **net value adjustments to tangible and intangible assets** were **EUR 99 mln**, up 3.3% compared to Q1 2014 and 31.3% compared to the same period of the previous year. This item is mainly influenced by higher amortisation of intangible assets due to the consolidation of Perimetro carried out at the end of 2013.



As a result of the above factors, **Net Operating Income** totalled EUR 605 mln (negative by EUR 294.2 mln as at 30/06/13), with a cost/income ratio of 68.2% (69% as at 31/03/14).

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**, negative by EUR 98 mln as at 30/06/14 compared to EUR +20.1 mln recorded as at 30/06/13. The aggregate consists of:
  - **net provisions for risks and charges** of EUR -82 mln, of which EUR 43 mln due to lawsuits and claw-back actions and EUR 38 mln to other provisions;
  - **other operating expenses/income**, net of expenses recoveries reclassified in Other administrative expenses, with a negative balance of EUR 16.3 mln. This was positively affected by revenues from the "fast-track facility fee" (EUR +30 mln) but negatively affected by charges in connection with lawsuit settlements and writedowns on improvements of leasehold properties;
- **Gains (losses) on investments**, showing a net positive balance of EUR 175 mln with a second quarter contribution of EUR 133 mln, mainly relating to the disposal of Anima Holding (EUR +90 mln, in part profits and part due to the recovery in value of the investment), to the earn-out of Biverbanca[5] (EUR +57 mln) and to the write-down referring to Fenice Holding S.p.A. (EUR -16 mln);
- **Restructuring costs/One-off charges**, amounting to EUR -4 mln, associated with revised early-retirement incentives put in place following the trade union agreement of 19 December 2012;
- **Gains on disposal of investments**, for EUR 5.1 mln, related to the gain on the sale of the administrative and back-office activities to Fruendo recorded in the first quarter.

As a result of the above, a **loss before tax from continuing operations** of **EUR 527 mln** was posted as at 30/06/14 (vs. a loss of EUR -325 mln as at 30/06/13).

Profit (loss) before tax from continuing operations (EUR mln)								
				(*)	Chg Q/Q		Chg Y/Y	
	30/06/2014	2Q2014	1Q2014	30/06/2013	Abs.	%	Abs.	%
Net operating income	**(605.3)**	**(410.2)**	**(195.0)**	**(294.2)**	**(215.2)**	**n.s.**	**(311.1)**	**n.s.**
Net provisions for risks and charges and other operating expenses/income	(98.3)	(45.2)	(53.2)	20.1	8.0	-15.1%	(118.4)	n.s.
Gains (losses) from Investments	175.3	133.4	41.9	(31.6)	91.4	n.s.	206.9	n.s.
Restructuring charges / One off charges	(3.8)	(2.7)	(1.1)	(17.6)	(1.6)	n.s.	13.7	-78.2%
Gains (losses) on disposal of investments	5.1	0.4	4.7	(1.7)	(4.2)	-90.7%	6.8	n.s.
Profit (Loss) before tax from continuing operations	**(527.0)**	**(324.3)**	**(202.7)**	**(325.0)**	**(121.6)**	**60.0%**	**(202.0)**	**62.2%**

(*) The previous year's figures have been restated to reflect the changes illustrated in the chapter "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)", following the introduction of new accounting standards which came into force as of 1 January 2014.

[5] This gain refers to integration of the disposal price of Biverbanca (sold by the Parent Company to Cassa di Risparmio di Asti in December 2012), corresponding to the Parent Company's portion of new Bank of Italy shares held by Biverbanca and calculated in its CET1 net of substitute tax and the effect of prudential capital requirements.

Tax expense (recovery) on income from continuing operations amounted to EUR +194 mln (EUR -6 mln as at 30/06/13).

The consolidated net result of the period before Purchase Price Allocation (PPA) shows a loss of EUR 334.2 mln (EUR -358 mln as at 30/06/13). Considering the effects of PPA, the Group's loss for the period totalled EUR 353 mln (EUR -379 mln as at 30/06/13).

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In compliance with Consob instructions, below is a reconciliation of the Shareholders' equity and the Net profit and loss for the period between the Parent Company's and the consolidated values.

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

EUR Thousands	Shareholders' equity	Net profit (loss)
Balance as per Parent Company's Accounts	9,421,611	(304,934)
including Parent Company's valuation reserves	*(806,703)*	-
Impact of line-by-line consolidation of subsidiaries	1,028,941	41,550
Impact of associates	331,572	42,081
Reversal of dividends from subsidiaries		(105,899)
Other adjustments	93,478	(25,830)
Subsidiaries' valuation reserves	172,458	-
Consolidated balance	**11,048,061**	**(353,033)**
including valuation reserves	*(634,245)*	

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 June 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 Interim Report on Operations as at 31 March 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 Center**, 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 (Consorzio Operativo di Gruppo) 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 June 2014.

SEGMENT REPORTING Primary segment	Retail banking		Corporate banking		Financial Advisory and Digital banking		Corporate Center		Total MPS Group	
(EUR mln)	30/06/14	Chg % Y/Y	30/06/14	Chg % Y/Y	30/06/14	Chg % Y/Y	30/06/14	Chg % Y/Y	30/06/14	Chg % Y/Y
PROFIT AND LOSS AGGREGATES										
Income from banking and insurance	1,863.0	-7.6%	904.8	-2.1%	17.2	10.1%	(832.2)	8.8%	1,952.8	-10.8%
Net impairment losses (reversals) on loans and financial assets	(396.1)	10.5%	(841.0)	15.6%	(0.1)	n.s.	10.3	-70.6%	(1,226.9)	16.7%
Operating expenses	(1,012.2)	-5.7%	(291.6)	-5.1%	(6.5)	-7.4%	(21.0)	-53.9%	(1,331.2)	-7.1%
Net operating income	454.7	-22.1%	(227.7)	106.1%	10.6	23.6%	(842.9)	8.6%	(605.3)	105.7%
BALANCE SHEET AGGREGATES										
Interest-bearing loans to customers	52,881	-8.4%	54,711	-8.1%	123	-22.5%	15,473	n.s.	123,187	0.5%
Deposits from customers and debt securities issued(*)	65,256	-7.5%	26,195	3.1%	664	-3.4%	38,662	16.5%	130,777	0.7%
Indirect funding	62,904	10.4%	25,141	13.1%	5,262	-5.3%	13,908	-25.4%	107,215	3.7%
Assets under management	*39,641*	*15.8%*	*1,294*	*-3.0%*	*4,698*	*-4.2%*	*2,902*	*-37.4%*	48,535	*7.6%*
Assets under custody	*23,264*	*2.4%*	*23,847*	*14.1%*	*563*	*-13.6%*	*11,006*	*-21.5%*	58,680	*0.7%*

(*) Retail Banking and Corporate Banking data refers to the Distribution Network alone. Note that these figures do not include intercompany balances for the legal entities reporting to their respective business segments (typically intragroup funding)

N.B.: Y/Y changes are in line in that 2013 income statement and balance sheet figures have been restated to reflect the changes illustrated in the chapter "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)", following the introduction of new accounting standards which came into force as of 1 January 2014.

Commercial segments

Retail Banking

Profit & loss and balance sheet results

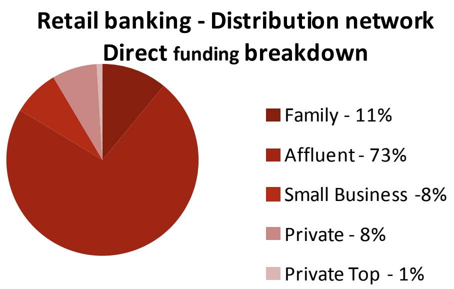
As at 30/06/14, **total funding** for Retail Banking was **EUR 128 bn**, up nearly 2 bn from 31/12/2013, due to the sales drive that especially characterised the first few months of the year and allowed a reversal of the unfavourable trend seen in 2013, heavily influenced by the media coverage related to the highly publicised legal proceedings involving the Group. In the second quarter the aggregate essentially remained stable (+0.6% QoQ).

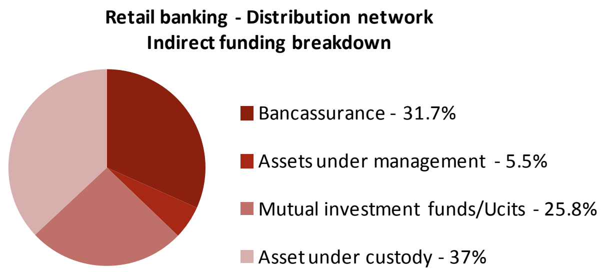
Direct funding, totalling **Euro 65 bn**, effectively remained unchanged during the half year (-0.6 compared to 31/12/2013; -0.3% to 31/03/2014), although there was a re-balancing between customers' forms of investment from bonds to short-term products.

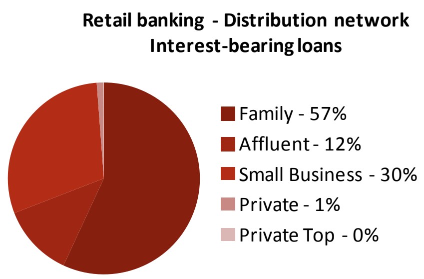
Indirect funding, amounting to **EUR 63 bn**, instead rose by EUR 3 bn compared to the end of last December (+4.5%) and EUR 1.7 bn compared to 31/3/2014 (+1.6%), due to the counterbalancing effects of a decline in assets under custody more than offset by assets under management, which benefited from the net positive funding flows, especially in mutual funds and insurance policies.

Interest-bearing loans stood at **EUR 53 bn**, down EUR 2 bn on 31/12/2013 (-3.9%; -2.5% QoQ), mainly attributable to the persisting recession that has made the replacement process for exposures falling due with medium/long-term loans more problematic.

RETAIL BANKING - BALANCE SHEET AGGREGATES							
(Eur mln)	30/06/14	31/03/14	31/12/13	30/06/13	Chg % Q/Q	Chg % 31/12	Chg % Y/Y
Deposits from customers and debt securities issued - Distribution Network	**65,256**	**65,481**	**65,635**	**70,560**	**-0.3%**	**-0.6%**	**-7.5%**
Assets under management	*39,641*	*37,844*	*36,530*	*34,234*	*4.7%*	*8.5%*	*15.8%*
Assets under custody	*23,264*	*24,085*	*23,674*	*22,727*	*-3.4%*	*-1.7%*	*2.4%*
Indirect Funding - Distribution Network	**62,904**	**61,929**	**60,203**	**56,961**	**1.6%**	**4.5%**	**10.4%**
Total Funding - Distribution Network	**128,160**	**127,410**	**125,838**	**127,521**	**0.6%**	**1.8%**	**0.5%**
Interest-Bearing Loans to Customers	**52,881**	**54,228**	**55,031**	**57,718**	**-2.5%**	**-3.9%**	**-8.4%**







With regard to profit and loss, in the second quarter of 2014 Retail Banking achieved **total revenues** of **EUR 1,863 mln**, down 7.6% with respect to the same period last year. The aggregate includes:

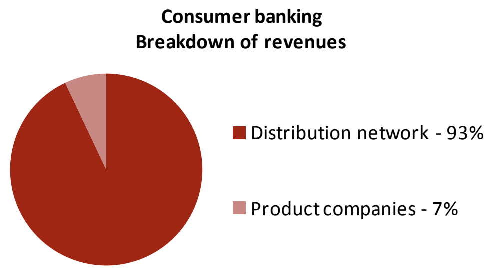
- the decrease in net interest income (-10.9% YoY), due largely to the decline in margins on demand deposits (115 bps YoY), partly offset by a related increase in the margin on demand loans (+138 bps YoY);
- an increase in net fee and commission income (+6.3%), boosted by positive trends in revenues from the placement of wealth management products;

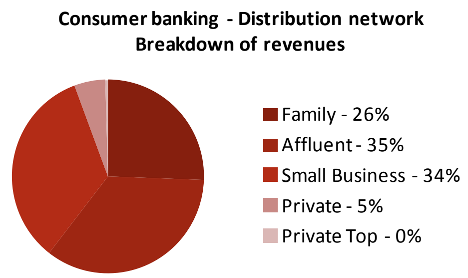
- the decrease in other revenues (-74%), affected by the different allocation of "figurative" income on securities lending activities now included in net interest income.

As for cost components, there was an increase in both net impairment losses (reversals) on loans and financial assets (+10.5%) and a decrease in operating expenses (-5.7%) with respect to the previous year.

As a result of the above components, as at 30 June 2014 Retail Banking posted a **Net Operating Income of EUR 454.7 mln** (-22.1% YoY), with a **cost-to-income ratio of 54.3%**.

RETAIL BANKING - PROFIT AND LOSS AGGREGATES			
(EUR mln)	30/06/14	30/06/13	Chg % Y/Y
Net interest income	*1,126.1*	*1,264.4*	*-10.9%*
Net fee and commission income	*716.9*	*674.5*	*6.3%*
Other income	*20.0*	*76.9*	*-74.0%*
INCOME FROM BANKING AND INSURANCE	**1,863.0**	**2,015.8**	**-7.6%**
Net impairment losses (reversals) on loans and financial assets	*(396.1)*	*(358.5)*	*10.5%*
Operating expenses	*(1,012.2)*	*(1,073.8)*	*-5.7%*
NET OPERATING INCOME	**454.7**	**583.5**	**-22.1%**





PERFORMANCE OF COMPANIES (net profit/loss for the period)			
(EUR mln)	30/06/14	30/06/13	Chg % Y/Y
Consum.it	(4.3)	2.7	n.s.
MPS Fiduciaria	0.0	0.5	-95.0%

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 **45,000 accounts** in the first half of 2014, bringing in over **EUR 620 mln in new volumes**. Note in particular:

- **"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. In the first half of 2014 the initiative gathered EUR 250 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 that allow them to have favourable conditions for opening a bank account. Through this initiative, in the first half of 2014 over 33,000 new current accounts were opened with new funding for over EUR 150 mln.

Among other initiatives in progress there is 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

With regard to **Protection**, the product mix was enhanced further with the inclusion of 3 new guarantees (Loan Loss, Cyber Risk and Renewable Energies) which complete the range of products offered by the Group to meet Private segment demand for "Personal Protection" and "Asset Protection".

For **Savings**, developments concentrated on:

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

Asset management

An excellent performance was recorded in this segment, achieving very steady net inflows on UCITS from the start of the year onwards (+15.5%).

The Group position was further strengthened through enhancement of the product mix, with particular emphasis on the partnership with **Anima Sgr** and the marketing start-up of **Raiffeisen Capital Management** UCITS, as regards Financial Advisory and **Invesco Funds** UCITS for the Private market.

Investment advisory (MPS Advice)

- The placement flows transiting through Advice remained very high throughout the half year, at the beginning of June accounting for 42.6% of the total placements for the period;
- the number of advisory proposals in June was around 170 thousand, up significantly (+89%) on the previous year;

- in terms of **performance for the customer**, the average return on Advice portfolios for the first 5 months of the year was 1.3% higher than those of portfolios administered without advisory services, with an average over-performance for the Bank on volumes with Advice 12 bps higher than those without.

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 Consum.it performance;
- **Short-term liquidity**: "Prestiquattro" was confirmed once again in the first half of 2014 as a useful tool to satisfy non-rotational needs associated with small business management. Since the start of the year the product has recorded new business of EUR 335 mln;
- **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 first phase focused on the provinces and municipalities covered by the following 3 Regional Areas of the Bank: Antonveneta, South Tuscany, Marche and Umbria, and Central Italy and Sardinia, involving a total of 40 Italian provinces.
In order to build up funding to finance small businesses, three bond loans were placed in these areas: three-year "Regional Bonds" with fixed-rate coupon payments (2.00% gross per annum), with individual nominal amounts per Regional Area of EUR 50 mln.
The placement of these three regional bonds was a complete success, 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, with amounts available from a minimum of EUR 5,000 to a maximum of EUR 50,000, in a lump sum and with spreads dedicated exclusively to this initiative.

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 implementation began on the development of new value added services with gradual release planned from 3Q2014 onwards;
- migration of CartaSi credit cards to the new Issuing platform is now more than 60% complete, with the release of new functions (e.g., sending PIN via SMS) to improve security and customer service quality. The migration of magnetic strip credit cards continues according to plan, with completion expected by the end of 3Q2014;

Private Banking

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

- 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 spread risk and reap the benefits in terms of overall performance (risk/return) through diversification.

Corporate Banking

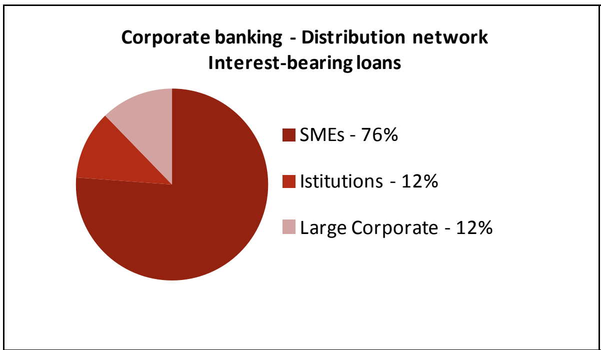
Profit & loss and balance sheet results

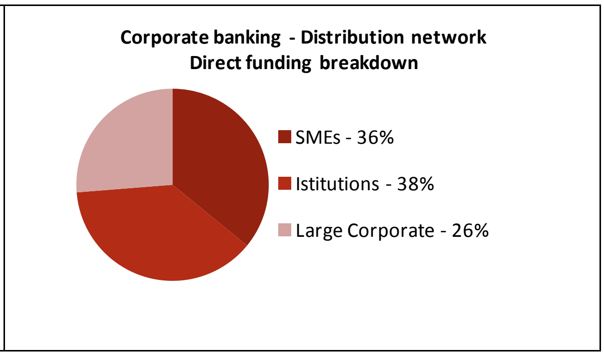
As at 30 June 2014, **total funding** from Corporate Banking stood at **EUR 51 bn**, up on the figure for 31/12/2013 (+13%) and on the end of March 2014 (+4.4%). In the first quarter **direct funding**, totalling **EUR 26 bn**, was characterised by an increase in deposits from Institutional customers, whilst in the second quarter growth was recorded in deposits on demand from Key Clients.

Indirect funding, consisting largely of assets under custody, stood at **EUR 25 bn** as at 30/06/14, (5.7% from 31/12/2013; +1.5% as compared to 31/3/2014), which was considerably affected by changes in deposits from some of the Group's Key Clients, though this was more significant in the first quarter.

With regard to lending activities, **"interest-bearing loans"** - which as at 30/06/2014 stood at **EUR 55 bn** - remained largely stable during the first quarter, whilst after March a 3.4% decrease was seen, concentrated mainly in medium/long-term lending formats.

CORPORATE BANKING - BALANCE SHEET AGGREGATES							
(EUR mln)	30/06/14	31/03/14	31/12/13	30/06/13	Chg % Q/Q	Chg % 31/12	Chg % Y/Y
Deposits form customers and debt securities issued - Distribution Network	26,195	24,435	21,661	25,404	7.2%	20.9%	3.1%
Assets under management	*1,294*	*1,247*	*1,245*	*1,334*	*3.8%*	*4.0%*	*-3.0%*
Assets under custody	*23,847*	*23,510*	*22,535*	*20,894*	*1.4%*	*5.8%*	*14.1%*
Indirect Funding - Distribution Network	25,141	24,758	23,779	22,228	1.5%	5.7%	13.1%
Total Funding - Distribution Network	51,335	49,193	45,440	47,632	4.4%	13.0%	7.8%
Interest-Bearing Loans to Customers	54,711	56,646	56,921	59,504	-3.4%	-3.9%	-8.1%

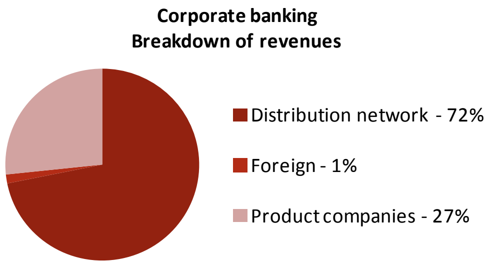


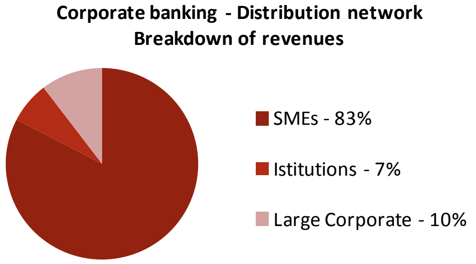


With regard to profit and loss aggregates, in the first half of 2014 **total revenues** for Corporate Banking came to **EUR 905 mln** (-2.1% compared to 30/06/13), with net interest income remaining essentially stable YoY (-0.2%), whilst net fee and commission income decreased by 10.5% compared to the first six months of 2013 mainly as a result of reduced inflows from lending. The contribution from other revenues grew 8.5%, 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 EUR 228 mln (EUR -111 mln in the first half of 2013) affected by the increase in impairment losses on loans and financial assets (+15.6% YoY), partly offset by the decrease in operating expenses (-5.1% YoY). The **Corporate Banking cost-income ratio stands at 32.2%**.

CORPORATE BANKING - PROFIT AND LOSS AGGREGATES			
(EUR mln)	30/06/14	30/06/13	Chg % Y/Y
Net interest income	*553.9*	*555.2*	*-0.2%*
Net fee and commission income	*231.9*	*259.2*	*-10.5%*
Other income	*119.1*	*109.8*	*8.5%*
INCOME FROM BANKING AND INSURANCE	**904.8**	**924.2**	**-2.1%**
Net impairment losses (reversals) on loans and financial assets	*(841.0)*	*(727.4)*	*15.6%*
Operating expenses	*(291.6)*	*(307.3)*	*-5.1%*
NET OPERATING INCOME	**(227.7)**	**(110.5)**	**n.s.**





PERFORMANCE OF COMPANIES (net profit/loss for the period)			
(EUR mln)	30/06/14	30/06/13	Chg % Y/Y
MPS Capital Services	42.6	61.6	-30.7%
MPS Leasing & Factoring	(20.0)	(14.5)	38.1%

Main Corporate Banking initiatives

SME Market

- Strengthening of the capacity to support investments of small-medium business 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”.

Institutions market

- Conversion of demand deposits to short/medium-term funding, also through the new ‘Conto Italiano di Deposito Corporate’ (CID Corporate);
- Lending development activities in the Third Sector and Public Utilities segments (the latter also included the development of factoring services).

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 the 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.

In relation to the mandates signed in 2013, the analysis and structuring activities continued on the related projects. Among these, the construction and management of the thermo-electric plant in Sedegliano (Udine) and the construction and management of a vegetable biomass waste-to-energy plant in Terni are both nearing completion.

As regards new projects, a financial advisory mandate was signed for a hospital and research facility in Sesto San Giovanni (Milan).

With regard to advisory activities, 8 asseverations were implemented for transactions to be carried out in the sectors of infrastructure and renewable energy in the Puglia and Basilicata regions.

During the second quarter of 2014 the main mandates signed were:

- structuring relating to the construction of Lines 4 and 5 of the Milan metropolitan railway for a total of EUR 1,180 mln;
- structuring relating to the planning and completion of Empoli Hospital, in addition to constructing a new building for commercial use;
- financial advisory relating to participation in auctions to create two wind farms in the provinces of Trapani and Caltanissetta.

Two loan transactions were finalised for:

- construction works on the new tram lines in Florence, a pool transaction with BIMI and CDP (with funding for the two commercial banks released entirely by CDP) for a total of EUR 166 mln, of which our share is EUR 38 mln;
- construction works for a new photovoltaic plant located in the province of Ragusa, a pool transaction with ICCREA for a total of EUR 16.6 mln, of which our share is EUR 11 mln.

Structured Finance - Structuring of medium to long-term transactions continued, in accordance with specific mandates previously signed, 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.

Syndication - The syndication of a pool transaction was initiated and structuring is underway for a loan related to a large requalification project in the hospitality/tourism sector in Sicily by a foreign investor.

As regards arranging, in the same period and on behalf of the Parent Company a pool transaction was placed on the market for an Italian company in the poultry products sector. In addition, three loans are being structured, one of which for the development of a shopping mall near Verona.

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.

Investment banking

- On the bond market, MPSCS acted as Lead Manager in the issue of a 5-year Senior Unsecured bond and a 7-year Covered Bond of Banca MPS, which represented the Parent Company's return to global markets after a long absence. The first half was also characterised in the role taken as Lead Manager in the 15-year syndicated Italian government securities (BTPs) and as Co-Lead Manager in the 10-year syndicated BTPs;
- MPSCS was Co-Bookrunner in the placement of an EUR 80 mln convertible bond by Maire Tecnimont.
- On the equities front, MPSCS acted as placing agent and Guarantor for the Moncler IPO, the Cerved, Fineco and Sisal IPOs and the institutional placement of the Fincantieri IPO as Joint Lead Manager, and as Co-Lead Manager for the Anima Holding IPO, for both transactions also involved in the placement of the related public offerings.

Lastly, activities as Placement Arranger for the 'Fondo Immobiliare Socrate' real estate fund continued and were completed in relation to reopening the sixth and final window for underwritings and reimbursements.

With regard to advisory activities, in the first half of the year MPSCS has:

- further developed the Financial Advisor mandates for the Parent Company MPS on the disposal of the private equity portfolio;
- managed the Financial Advisor mandates for Finanziaria Internazionale regarding investments in Fondo Minibond PMI Italia;
- acted as Financial Advisor to the BoD of Meridiana SpA in preparing the Fairness Opinion in relation to the consistency of the all-inclusive, voluntary tender offer on

ordinary shares of Meridiana Spa offered by Arly Holding SA;

- received an advisory and financial support assignment from a leading Italian company in the oil&gas and energy sectors for the disposal of an equity investment in a renewable energies production company.

In 2014 MPSCS continued its role as Nominated Advisor on the AIM Italia - MAC market of the Italian Stock Exchange, acquiring a new mandate from Società Poligrafici Printing.

Subsidised financing

- In the second half of the year, the completion, management and distribution phase continued on a group of subsidised transactions - associated with loans from our own funds - pertaining to the "FIT negotiated procedure", established for large-scale industrial research activities and is supported by important firms in various industrial sectors;
- The preliminary activities have been completed for the Ministry of Education, Universities and Research (MIUR) relating to 2 international research projects and to 20 projects, presented by 4 industrial districts in the "Distretti PON Titolo III" tender which also represent more than 100 entities including companies, large corporate and government research organisations;
- The final phase also continued 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).

Global Markets

The first half of 2014 was characterised by transactions that stabilised the 2013 risk levels, as a result of an extremely low risk premium and the restrictive commitments the Group made to the European Commission.

MPS Leasing & Factoring

In partnership with the Parent Company's Foreign Department, MPS Leasing & Factoring has created a product for businesses intending to open or expand their business beyond national borders, at a time when the Italian market trend - also for domestic economy reasons - is to increasingly focus on internationalising its business.

Specifically, this is a short-term export loan that may be subscribed as a non-recourse credit concession and allows requesting businesses to insure themselves against the risk of foreign counterparty bankruptcy, while at the same time, benefitting from an advance.

MPS Leasing & Factoring has also 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.

Financial Advisory and Digital Banking

Profit & loss and balance sheet results

As at 30 June 2014, **total funding** for the Financial Advisory and Digital Banking operating segment was **EUR 6 bn**, down 5.1% from 31/12/2013 and 1.5% compared to the end of March 2014. **Direct funding**, amounting to **EUR 0.7 bn**, remained essentially the same as the

December figure (+0.7%) but recorded a decrease compared to 31/3/2014 (-1.9%). **Indirect funding**, the predominant component of which is assets under management, decreased by 1.4% in 2Q14 (-5.8% on 31/12/2013) to stand at EUR 5.3 bn at the end of June. The reduction is mainly attributable to the Funds and UCITS segment.

FINANCIAL ADVISORY AND DIGITAL BANKING - BALANCE SHEET AGGREGATES							
(Eur mln)	30/06/14	31/03/14	31/12/13	30/06/13	Chg % Q/Q	Chg % 31/12	Chg % Y/Y
Deposits from customers and debt securities issued - Distribution Network	**664**	**677**	**659**	**687**	**-1.9%**	**0.7%**	**-3.4%**
Assets under management	*4,698*	*4,752*	*4,970*	*4,902*	*-1.1%*	*-5.5%*	*-4.2%*
Assets under custody	*563*	*586*	*618*	*652*	*-3.9%*	*-8.8%*	*-13.6%*
Indirect Funding - Distribution Network	**5,262**	**5,338**	**5,587**	**5,554**	**-1.4%**	**-5.8%**	**-5.3%**
Total Funding - Distribution Network	**5,925**	**6,015**	**6,246**	**6,241**	**-1.5%**	**-5.1%**	**-5.1%**
Interest-Bearing Loans to Customers	**123**	**131**	**138**	**158**	**-6.2%**	**-10.9%**	**-22.5%**

With regard to profit and loss aggregates, as at 30 June 2014 **total revenues** for this operating segment amounted to **EUR 17 mln** (+10% compared to 30/06/13), supported by growth of the primary component (net interest income +12% YoY; net fee and commission income +52.7% YoY), partly offset by the decrease in other revenues.

Net operating income was positive for EUR 11 mln, with a cost-income ratio of 37.8% for the segment.

FINANCIAL ADVISORY & DIGITAL BANKING - PROFIT AND LOSS AGGREGATES			
(EUR mln)	30/06/14	30/06/13	Chg % Y/Y
Net interest income	*9.8*	*8.8*	*12.0%*
Net fee and commission income	*7.4*	*4.9*	*52.7%*
Other income	*(0.0)*	*2.0*	*-101.5%*
INCOME FROM BANKING AND INSURANCE	**17.2**	**15.6**	**10.1%**
Net impairment losses (reversals) on loans and financial assets	*(0.1)*	*(0.0)*	*n.s.*
Operating expenses	*(6.5)*	*(7.0)*	*-7.4%*
NET OPERATING INCOME	**10.6**	**8.6**	**23.6%**

WIDIBA, the Group's new on-line bank

In line with the Business Plan, the On Line Bank Project was launched, representing one of the pillars for the relaunch and repositioning of the Group's business model.

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.

Following the creation of the brand according to social logic, WIDIBA began the process of interacting with users in both a virtual and physical environment, reaching almost 100 thousand users in just a few months through its presence in both social media and on the proprietary management platform of the "Say&Play" community.

Background

Data confirm one of the trends in the banking sector: 80% of customers are multi-channel. A recent study showed additional growth in the use of remote channels in 2013, specifically for internet banking, which is now used by nearly half of customers (48%, equivalent to 14 mln customers). In addition, the percentage of customers that use banking services through the telephone has increased, both in the so-called "telephone banking" version, as well as the "mobile banking" version with the support of smart phones (11%, 3 mln users for each channel). Moreover, the use of ATMs has increased sharply, used by 85% of customers; in particular, 33% use the self-service areas for more advanced transactions.

Substantial growth was also seen in the use of financial advisory (7% of customers state that they have taken advantage of this channel vs. 4% in 2012). We are at the beginning of a gradual evolution in the way of banking: branches may evolve toward complex systems with different types of branches to meet the specific needs of customer aggregations, in which the branches are specialised, multi-service, agile, automated or with specific forms for high impact communications. This trend is confirmed by the fact that 90% of customers continue to visit branches, but are using them for assistance and advisory rather than routine transactions.

WIDIBA obtained approval for the exercise of banking activities in May and will begin operations in the final quarter of 2014.

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.

Among the main sales activities undertaken to develop new customers with a related increase in volumes were:

- "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.

Among the new products/services, with the aim of constantly enhancing the Financial Advisory product catalogue to encourage customer cross selling and investment diversification, and also financial advisor recruitment, are:

- inclusion in the range of investment products from the Austrian company Raiffeisen Capital Management, considered no. 1 among the Austrian asset management companies;
- the placement start-up 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.

Among the technological initiatives for promoting financial advisor loyalty and the recruitment of new resources were:

- “Surface Pro 2”. The Group has provided new generation Microsoft tables to all its financial advisors, allowing the use of a strongly innovative working tool, reduce 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 Surfaces 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:

- the 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 “wishlists” 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 March, the Bank was once again able to access institutional markets, issuing a bond as part of the Euro Medium Term Notes programme, for EUR 1 bn, with a duration of 5 years. In addition, secured financing activities continued, focused on collateralised funding transactions and/or collateral swap transactions, primarily utilising ABSs that it issued, or securities that it issued with government backing, as underlying assets.

In the first half of the year a 7-year Covered Bond was issued for a total of EUR 1 bn. On 8 July 2014 BMPS also launched an additional 10-year issue of covered bonds for EUR 1 bn.

In addition, in the first half of the year EUR 8 bn of LTROs were repaid, bringing the total balance for LTROs outstanding with the ECB to EUR 20 bn.

As at 30 June 2014 the total 1-month operational liquidity position amounted to EUR 23.3 bn, compared to EUR 17.5 bn at the end of December 2013. As at 30 June 2014 the unencumbered Counterbalancing Capacity stood at EUR 28.9 bn, compared to 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 continued to rationalise its equity investment portfolio. 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 the equity investment in Prelios SpA, equivalent to 4.05% of share capital. However, as the conditions envisaged in the Convertible Bond Issue Regulation signed by the lenders were met, on 14 April 2014 the Parent Company was allocated 17,230,205 newly issued Prelios shares and therefore the percentage interest on completion of the share capital increase associated with the bond loan conversion stands at 3.40% 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% as a result of conversion of the bond loan subscribed as part of the 2011 restructuring agreement.

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.

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 5,401,166 customers as at 30 June 2014:

- 5,255,683 customers are managed by the Bank's sales & distribution network and the Financial Advisory network;
- 145,483 customers are managed exclusively by Consum.it, the Group company specialised in consumer loans.

	30 06 2014	31 12 2013	30 06 2013
Branches in Italy	2.333	2,334	2,392
ATMs	3,032	3,043	3,083
Active remote banking users	966,179	922,502	909,354
Acquisition (%)*	4.0	4.0	4.4
Retention (%)*	94.1	94.0	94.4
Complaints received	5,940	10,844	5,603
Complaints-average response time (days)			
- *Simplified procedure*	14	14	13
- *Accelerated procedure*	17	17	18
- *Ordinary procedure*	28	26	26

**Annualized rates. Data as at 30/06/2013 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.*

The number of customers managed by the sales network has remained essentially stable, with a marginal decrease associated mainly with customers without current accounts and limited/zero transactions with the Bank. The decline in exclusive Consum.it customers has also remained stable over the year as a result of company strategies.

Distribution channels

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

Physical channels

As at 30 June 2014, the Group had a network of 2,333 branches in Italy (as reported by the Bank of Italy), including 23 specialised centres not attached to any branch (-1 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 119 local support offices. Customers belonging to the Large Corporate segment are managed through dedicated resources distributed across the country.
There are 3,032 ATMs, down 11 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" (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 June 2014 the number of active multichannel services customers stood at 966,179 (+6% on 30 June 2013), of which 875,205 are retail customers (+7% on 30 June 2013).

The main action implemented during the first half of the year involved:

- platform for postal payments (Fastbank);
- new home page for PasKey Internet Banking;
- advanced Digital Signature;
- new Internet Banking functions (chequebook requests, renewal of AXA MPS motor insurance).

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

Provides assistance to customers for direct phone banking services (45,681 calls dealt with in the first half of 2014), sales information (24,261 calls handled) and the technical help desk for Retail and Corporate internet banking (48,138 calls handled in the first 6 months of the year and over 25 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.

Customer satisfaction surveys

During the second quarter of 2014 testing began on a new method for detecting customer perception through an automated telephonic tool (IVR - Instant Voice Response), with the aim of expanding the tools available for customer satisfaction surveys. The IVR offers the telephonic administration, without operator intervention, of a short questionnaire to measure satisfaction on specific aspects of Bank-Customer relations.

CS Retail

The survey was carried out on the internet. An email was sent to 205 thousand customers, requesting that they 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 survey was carried out over the telephone on a sample of 4,500 customers. One thousand useful questionnaires were collected.

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

The data show a high level of satisfaction with regards to customer relations and advisory, although it remains important to provide constant attention to customers in reference to following up with investments made over time. The virtual channels offered are highly appreciated. As evidence of the segment's distinctiveness, in which customers are more aware of competitors' proposals, there was a high percentage of multi-bank customers who, in large part, consider Banca MPS to be their reference bank, rating it above other banks.

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 processed 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 the light of a media crisis that involved the Bank in 2013.

On the timing and streamlining of procedures, in addition to comments on the economic terms, customers point out the most important gaps to be filled with respect to competitors.

In line with what has emerged on other markets, the SME customer assessments particularly appreciate the relations and advisory aspects, summarised in the role of the Account Manager. With regard to services, comments on the Collections and Payments area were appreciative, confirming the excellent levels of satisfaction already recorded in the 2010 survey.

In terms of strong use of multi-banking services, typical of the SME segment, customers tend to place most of their work through Banca MPS as regards Collections and Payments, confirming the opinions of good quality expressed for these services.

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

A sample of approximately 1,600 customers was involved, invited to participate in an online questionnaire that resulted 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.

Complaints management

In order to increase overall efficiency in complaints management and reduce response times to customers, since 2013 simplified procedures have been implemented (for minor disputes and amounts below EUR 5 thousand) and accelerated (in more complex cases and for amounts between EUR 5 thousand and EUR 10 thousand). In addition, communications with the Network were made easier and more rapid for information that is required to more effectively analyse complaints.

5,940 complaints were received during the first half of the year, up 6% on the first 6 months of 2013. The growing trend in this flow concerned banking services, whilst complaints about investment services decreased (-664). The main reasons for complaints about banking services related to:

- current accounts, particularly disputes over compound interest (a system phenomenon associated with accounts from before 2000);
- mortgages, in particular concerning contingent usury and late payment rates in the contracts.

The average complaint resolution time was below the limits set by the Bank of Italy (30 days): 14 days with the simplified procedure, 17 days with the accelerated procedure and 28 days with the ordinary procedure.

In addition, 369 petitions (363 in the first half of 2013) were filed by customers with independent bodies (Ombudsman, Consob, Bank of Italy, Arbitro Bancario Finanziario).

Human capital

Headcount changes

The Group employed 27,293 people as at 30 June 2014. Since the start of the year, there have been 75 new hires (of which 8 are executives) and 135 dismissals/other changes. Specifically, 9 executives left, including 7 by consensual employment termination and 2 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% for middle managers and 59.7% for other professionals.

	30 06 2014	31 12 2013	30 06 2013
Headcount*	**27,293**	**28,417**	**28,473**
Operational location (%)			
Head Offices	21.6	24.0	24.5
Italy Network	76.5	74.1	73.6
Foreign Network	1.9	1.9	1.9
Professional/occupational level (%)			
Executives	1.3	1.3	1.4
Middle Managers	39.0	38.3	38.2
Other	59.7	60.4	60.4
Other indicators			
Training per capita (hours)	14	35	13
Training costs (Millions of euro)	0.8	2.1	1.0
Female staff (%)	46.6	46.2	46.1
Female executives (%)	5.7	5.6	5.7
Rate of absence (%)**	7.38	7.59	7.17

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

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

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.

Human resource development and training

During the half year, development and training activities involved:

- development and implementation of the Group's new Talent & Performance Management system which aims to increase productivity and employees' involvement in the Group's strategic objectives.
- 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 Roadmap and Development Plans, with initiatives for recruiting and selecting through internal job postings;
- monitoring and follow-up on Networked Professional Career Paths and support for internal scouting of sales and distribution roles with a high impact on business.

<u>Training activity</u>

13.6 hours of training were delivered on average during the first half of the year to each Group employee. With regard to the Bank only, the activities involved 90% of employees (340,096 hours) with an average customer satisfaction index of 5.2 on a scale from 1 to 6.

Activities focused especially 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 to train newly qualified officers (5 editions during the first half of the year).

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;
- Corporate Revolution Project: the teams of one-on-one trainers for the project were formed in June;
- Specific training programmes were launched on welfare and protection, credit and problem loans.

Industrial relations

The Business Plan encourages communications with trade unions (TUs) in order to more effectively manage the relative 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 half of the year the Parties met to examine the effects on employees of the 2013-2017 Restructuring Plan projects.

In particular, in the first quarter procedures were initiated and completed for reporting/discussing the overall reorganisation of the Parent Company (operational from 31 March 2014) and the regional Area structures. Agreements were also signed concerning: the 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 for assignment to the Parent Company head offices.

In addition, when 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 so as 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 attributed to the Online Bank Development Area and the Financial Advisory Department. Discussions with the Trade Unions also 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 also provided on the start-up of additional Plan projects such as the Corporate Revolution Project, divided into the Regata Corporate and Regata Credit initiatives, that during the year will affect all Regional Areas, together with information on the reorganisation of Regional Area structures and activities.

Operational efficiency

Cost reduction initiatives

Action continued during the first half of the year on the cost reduction plan, designed to meet the objectives of the Business Plan, which net of extraordinary transactions expects to achieve savings in 2014 of EUR 154 mln compared to the 2013 baseline.

These initiatives, aiming to advance the definition of an operational model able to support cost optimisation, mainly refer to:

	30 06 2014	31 12 2013	30 06 2013
Cost/Income ratio (%)	68.2	71.0	67.0
Personnel expenses (eur mln.)	851.3	1,718.8	875.5
Other administrative expenses (eur mln.)	381.1	939.3	482.8
Accident rate*	2.347	1.737	2.317
Accident seriousness ratio*	58.411	55.094	52.637
Energy consumption (GJoule)**	**474,067**	**967,206**	**54,303**
Electricity (GJoule)	*275,002*	*625,096*	*310,101*
Natural gas (GJoule)	*168,267*	*268,917*	*178,734*
Diesel oil (GJoule)	*7,081*	*21,974*	*13,718*
Diesel cars (GJoule)	*23,233*	*50,089*	*26,403*
Gasoline cars (GJoule)	*483*	*1,131*	*617*
CO_2 emissions (T)**	11,985	20,778	13,225
Paper consumption (T)	1,189	2,954	1,556

**Accident rate = (total number of accidents/total number of worked hours) x 200,000; Accident seriousness ratio = (total work days lost as a result of an accident / total number of worked hours) x 200,000.*

These indicators monitor practices for managing the health and safety of Bank workers. Low accident rates are generally linked to a positive trend in productivity.

***The indicators/ratios measure the quality and eco-efficiency of operations. In particular, CO_2 Emissions include "scope 1" and "scope 2" greenhouse gas emissions according to the international GHG Protocol classification.*

- **Real estate** - actions underway seek to optimise the use of office space, both for the Sales Network as well as for the Head Office, as well as reduce rental expenses, through completion of the contract renegotiation initiative.
- **Security** - 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.
- **ICT** - initiatives underway involve simplifying the software and hardware architecture and renegotiating contracts with suppliers.
- **Logistics** - actions focused on efficiency improvement processes to achieve a "paperless" office, and optimising service contracts.

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 June 2014, 9 real estate units had been rented by third parties and cancellations to release an additional 11 leasing contracts were sent during 2014.
- **Project for closure of 150 branches** - preliminary real estate analysis was carried out for the closing of the first 50 branches. Activities are in progress for setup of the acquiring Branches (with spin-off planned for 26-27 September 2014).
- **Consumption containment plan** - activities continued to contain energy consumption costs, with the collaboration of maintenance companies. In the first 5 months a decrease in energy costs was recorded for EUR 7 mln.

Security

Anti-robbery security

The new security management model to reduce the risk of robbery is in the final testing phase. It will become fully operational in 2015 and involves the following activities.

- installation of branch cash in-cash out and video surveillance to replace security guards, in 500 branches;
- installation of Roller Cash in 1,000 branches with the removal of security guards where present (already installed in 114 branches);
- installation of a centralised alarm system in the branches that still do not have one, with a single monitoring system at Bank level.

Occupational safety

Further action was taken under the improvement plan for health and safety in the workplace, through:

- updating of the risk assessment for each operating unit;
- improvement of the communications, training and employee participation systems through implementation of the new ICT system;
- subjective analysis to assess job-related stress.

ICT

All of the most important ICT initiatives in support of Business Plan projects and the measures to increase the quality, security and overall efficiency of the information systems were carried out.

Specifically, during the first half of the year the new disbursement and monitoring model and the new credit recovery model were implemented; 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.

Initiatives to improve internal service quality

- A new organisational department was created, “Specialised Business Services”, to manage the administrative, accounting, ancillary and logistics processes of specialised functional services and to support business growth. The department will take advantage of all possible operational and management levers that assist in obtaining the best results in terms of effectiveness/efficiency and cost containment;
- the project to rationalise the operating management of ATMs continued, in relation to the planned changes in the channel. The objective is to improve internal service levels, comply with transformation times, and rationalise related expenses;
- the finance business support activities (middle office, risk management and internal reporting) were centralised.

Environmental sustainability of operations

The Group’s direct impact on the environment is monitored through a specific management system compliant with ISO 14001.

During the first half of the year, verifications were conducted at the head offices and many of the Bank's branches to confirm compliance with environmental regulations. In addition, 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%), CO2 emissions relating to workplace operations (-10%) and business trips (-15%); recycling 100% of waste from office activities (paper, plastic, toners).

Reduced paper consumption

Total paper consumption decreased by around 23% compared to the same period in 2013. In particular, the paperless project resulted in the saving of more than 56% of sheets of paper used in the Head Office and the dematerialisation of 5.5 million notices to customers.

Energy savings and the carbon footprint

Energy consumption and resulting greenhouses gas emissions (the so-called Carbon Footprint) are regularly monitored in relevant operational areas such as property & facility management, information technology and business travel.
During the first half of the year, 11,985 tonnes of CO_2 relative to Scope 1 and 2 of the GHG Protocol were produced (-9% compared to the same period in 2013), due to a significant decrease in energy consumption made possible by action that included:

- space management activities and the reorganisation of real estate assets;
- monitoring and automatic control of consumption;
- virtualisation of servers and of desktop work stations;
- optimisation of workstations and of air conditioning systems;
- rationalisation of the company car fleet.

Further efficiency improvement measures were implemented.

Zero Waste Project

This Project, which aims to enhance the separated collection of waste generated from office activities (toner, paper and plastic), has been implemented in most of the Bank's offices and branches in relation to toner disposal and paper waste, and separate collection has now also begun for plastic waste.

Other environmental projects

Additional initiatives completed during the first half of the year to implement the Bank's environmental policy concerned, in particular:

- office-to-office transport and home-to-work mobility, with implementation of an agreement to purchase electric bicycles, and enhancement of the company shuttle bus service in Siena;
- internal communications and employee sensitisation;
- water consumption, with start-up of an internal monitoring programme and the installation of savings devices.

Reputation and social value

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

In the first half 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. Side by side with the events, a strong focus was placed on relations with the local press and with social networking, offering excellent results in terms of visibility.

At the end of the first half, and at the same time as the Bank's share capital increase, a disclosure was issued via the press, the Internet and radio.

Promotion activities have continued for sales initiatives and to encourage the company's positioning in image terms, also through the redefinition of point of sale layout and the development of new communications channels.

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.

Financial education

Initiatives in this area concerned:

- projects carried out in collaboration with consumer associations as part of **ConsumerLab** (the workshop organised by the Group to address the more relevant issues of the bank-customer relationship); in particular, the BancAscuola Project involved 11 high schools;
- the signing of a detailed **agreement with the University of Siena** to activate the Higher Education and Research Apprenticeship, educationals, participation in project work within the Bank and for Bank Managers' involvement in teaching university courses;
- adoption of the "**Young Factor**" project to promote economic and financial awareness in high schools, in partnership with the Osservatorio Permanente Giovani Editori.

Social welfare

The Group contributes to the activities of public institutions and non-profit organisations for the protection of basic economic and social rights.

Despite the general administrative cost containment effort, during the first half of the year the Group continued to provide a direct contribution to the community with:

- sponsorship of non-profit initiatives and organisations operating in the fields of culture, solidarity, voluntary work and environmental protection (46 initiatives);
- donations towards research, medical and hospital services, social welfare and humanitarian programmes;
- contributions towards social projects promoted by local government bodies with whom the Bank has a business relationship (EUR 0.6 mln).

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 main developments in the first half of the year were:

- 29 April 2014: the Extraordinary Shareholders' Meeting approved the amendments to Articles 15 and 26 of the Articles of Association on the composition of statutory bodies. Part of these statutory amendments concern integration into the Articles of Association of clarification on gender balance in the membership of the Board of Directors and Board of Statutory Auditors, in line with Bank of Italy guidance on this subject. Other amendments refer to raising of the minimum number of independent directors which, to comply with the Bank's "Commitments" in the Restructuring Plan approved by the European Commission on 27 November 2013, is established as at least 1/3 of members of the Board of Directors;
- 16 May 2014: Following the resignation of standing auditor Paola Serpi, in accordance with the Articles of Association the alternate auditor Stefano Andreadis took over the post of the outgoing member on the BMPS Board of Statutory Auditors.

Remuneration policies

For further information on the Group's remuneration/incentive policies and practices, please refer to the "Remuneration Report", prepared under Article 123-ter of the Consolidated Law on Financial Intermediation. 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/.

The final sections of the remuneration policies for the CEO, Directors and "key employees", defined by the Board of Directors via the Appointments and Remuneration Committee and approved by the Shareholders' Meeting of 30 April 2014, state that the implementation of remuneration policies agreed in 2013 is on the basis of the main operational events that occurred, whilst for the 2014 remuneration policies they will also take into account developments in the current regulatory context. On 13 December 2013, in fact, the Bank of Italy launched a consultation on the position paper "Provisions on remuneration and incentive policies and practices in banks and banking groups", which includes the new aspects introduced by Directive 2013/36/EU (CRD 4 of 26 June 2013). With regard to the new EBA standard benchmarks for identifying "key employees", the Bank decided to bring adoption forward to this year. This has resulted in expansion in the number of "key employees" from 26 to 132 at Group level.

As a result of the 2013-2017 Restructuring Plan - approved by the BoD in October 2013 and by the European Commission on 27 November 2013 - a maximum remuneration limit for each member of top management of EUR 500,000 will be applied, with immediate effectiveness and until the completion of the share capital increase or full repayment of the New Financial Instruments. This limit was removed following the full subscription to the Bank's share capital increase with related repayment of the NFIs.

The Group's consolidated financial statements for 2013 did not allow payment of the 2013 "Working by Objectives" (WBO) incentive. However, despite this and with a view to supporting the motivation of Sales Network resources whose performance last year was exceptionally good in terms of service, commitment and excellent results achieved, an initiative was implemented to disburse a "one-off" incentive to a strict selection of persons and for very limited amounts, to reward the distinctive conduct and support continuity of action on the challenging and strategic objectives for this year. The selective nature of the initiative is well represented by the fact that it involved 6.5% of Sales Network employees.

The Board of Directors approved the activation for 2014 of the "Working by Objectives" ("WBO") system, the Group incentive tool that, inspired by the value of the team, assesses each person's contribution to the achievement of corporate goals. Disbursement will occur only if certain consolidated performance gates are achieved, with respect to the path of growth and capital strengthening undertaken by the Group.

During the first half of the year the enhancement of value for employees (in service and retired) continued with regard to corporate welfare, the company confirming investments made in previous years again for 2014. In particular, the first half of 2014 saw renewal of the Medical Expenses and Accident Policy Reimbursement Programme, with enhancement of the medical services now reimbursable and an increase in insurance coverage for accidents.

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.

For this reason, the following activities were performed during the first half of the year:

- creation of a "legal inventory" that includes both the regulations with the greatest impact as well as the additional regulations applicable to the Bank's activities;
- evaluation of the existence and status of any specialised internal controls on the non-core regulations, and the relative internal control and reporting systems in place (activities underway).

Legal proceedings

For a description of the main legal and arbitration proceedings in progress, see Part E of the Notes to the Financial Statements.

Integrated risk and capital management

The risk governance system adopted by the Group is characterised by a clear-cut distinction of roles and responsibilities of the different functions at first, second and third levels of control. In the first half of 2014, the organisational structure was further improved with a view to ensuring greater forcefulness to the Group's internal control system and to the effectiveness of the entire risk management and control process.

Policies relative to the assumption, management, coverage, monitoring and control of risks are defined by the statutory bodies of the Parent Company. In particular:

- The Parent Company Board of Directors defines and approves strategic guidelines and risk management policies and, at least once a year, quantitatively expresses the Group's overall risk appetite in terms of economic capital;
- The Board of Statutory Auditors and the Control and Risk Committee evaluate the level of efficiency and adequacy of the internal control system, with particular regard to risk control;
- The CEO/General Management is responsible for ensuring compliance with risk policies and procedures.

In addition, the Director in charge of the internal control and risk management system, appointed in compliance with the Corporate Governance Code for listed companies, is responsible for creating and maintaining an effective system of internal control and risk management.

Specific management committees responsible for risk issues have been established in order to promote efficiency and flexibility in the decision-making process and facilitate interactions between the various company departments involved.

- the Risk Committee establishes Risk Management policies and ensures overall compliance with the limits defined for the various operating levels; proposes the allocation of capital to be submitted to the BoD for approval; evaluates the risk profile reached and therefore the capital consumption (Regulatory and Economic) at both Group level and for each individual company of the Group; analyses risk-return performance indicators.
- the Finance and Liquidity Committee formulates the principles and strategic guidelines relating to proprietary finance; it resolves upon and submits proposals regarding exposure to interest rate and liquidity risk in the banking book and defines capital management actions.
- the Credit, Credit Policies and Credit Assessment Committee formulates policies in relation to credit processes and formulates an opinion, at least once per year, on credit policies by verifying their commercial sustainability and consistency with risk appetite levels; approves, at last annually, company policies pertaining to credit assessment, including for the purposes of subsequently reporting these in the financial statements.

As part of the internal control system, third-level controls are carried out by the Internal Audit Area, second-level controls by the Risk Management Division and first-level controls by the Business Control Units (BCUs).

The Internal Audit Area performs an independent and objective "assurance" and advising activity, aimed both at monitoring operations compliance and risk trends (including through on-site audits) as well as assessing the efficiency of the overall internal control system in order to improve the effectiveness and efficiency of the organisation.

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 overall functioning of the risk management system;
- oversee the capital adequacy assessment and the risk appetite definition;
- define strategic guidelines regarding the loans portfolio, perform the compliance and anti-money laundering duties envisaged in governing regulations;
- ensures the necessary reporting flows to the Group's Top Management and Governance bodies.

The organisational structure within these functions will be developed in accordance with the provisions of the 15th update of Circular 263/06 of the Bank of Italy.

In particular, the Risk Management Area within the Risk Division 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.

The outlying BCUs operating within the subsidiaries or main business areas, carry out compliance checks on the transactions for which they are responsible and are the first level of organisational supervision of transactions within the broader internal control system.

Requirements of autonomy and independence of the Risk Division

Autonomy and independence of the Risk Division are ensured by requirements which include: the appointment/revocation and definition of remuneration structure for the Head of the Risk Division by the BoD on the advice of the Director in charge of the Internal Control and Risk Management System, in agreement with the Chairman of the Board of Directors, on the favourable opinion of the Control and Risk Committee, having obtained the opinion of the Board of Statutory Auditors and with the support of the Human Resources, Organisation and Communications Division.

Activities relating to the international Regulatory framework

Pillar 1: since 2008, the Group has used internal models validated by the Bank of Italy for the measurement and management of credit risk (AIRB - Advanced Internal Rating Based) and operational risk (AMA - Advanced Measurement Approach). Over time, and in collaboration with the Supervisory Authorities, these models have been further enhanced and their scope of application extended to Group entities not originally included in the initial validation scope. In addition, activities aiming at improving internal managerial models for market and counterparty risks continued.

Pillar 2: during the year, the internal managerial models were further enhanced and certain actions were taken to improve the Group's Internal Capital Adequacy Assessment Process (ICAAP), which was disclosed to the Bank of Italy as required.

Pillar 3: public disclosure is provided on a quarterly basis through the Group's internet site www.mps.it/Investor+Relations and is continuously updated in accordance with regulatory developments.

During the first half of 2014, the in-depth methodological and application analyses continued as required for start-up of the new international supervisory regulations ("Basel III") and for the ECB's launch of the Single Supervisory Mechanism. The Group was also involved in planning activities related to implementation of the 15th update of Bank of Italy Circular no. 263/06 of 2 July 2013 on internal controls systems, information systems and business continuity.

An analysis of the Group's Economic Capital

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

Key risks for the Group

Credit risk (including concentration risk); counterparty risk; issuer risk; market risk (price, rate and foreign exchange); rate risk of the Banking Book (Asset & Liability Management - ALM); liquidity risk; equity investment risk; UCITS risk (alternative funds); operational risk; business risk; real estate risk; reputational risk.

Risks inherent in investment products/services for the Group's customers are also monitored, to protect the customer and preventing any potential repercussions in terms of reputation.

All of the types of risk mentioned above are involved in quantifying the overall Economic Capital, with the exception of liquidity and reputational risk that, instead, are mitigated through organisational policies and processes.

Risk assessment model

The Risk Management Area regularly quantifies the Group's Economic Capital for each type of risk and periodically reports these to the Risk Committee and Governing Bodies as part of the reporting flows prepared by the Risk Division.

The measurements models used are mainly internally developed and based on a Value-at-risk (VaR) approach.

In the calculation of Overall Economic Capital, the measures relating to each type of risk are standardised both in terms of time horizons (yearly holding period) and selected confidence interval – in line with the Group's target rating of the Group – and are subjected to intra-risk and inter-risk diversification processes.

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

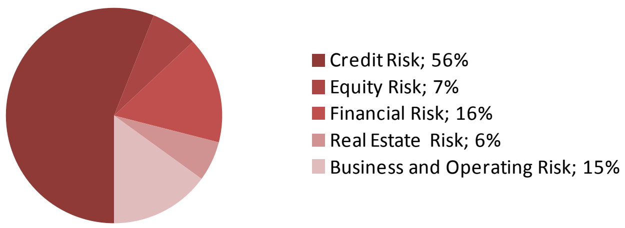
Main characteristics of models

Type of risks	Measure	Model	Risk factors	Correlation	Economic Capital Treatment
Performing loans	1Y VaR, 99.93%	Credit VaR Internal model	PD and LGD differentiated by type of counterparty, CCF differentiated by product	Correlation based on multivariate analysis between internal default macroeconomic variables	t-Student Copula
Equity investments	3MVaR, 99%	Montecarlo VaR	Volatility in stock prices and comparable indices	Correlations between Stock prices Correlation between proxy indices	1Y, 99.93%, t-Student Copula
Market (Banking Book)	1Y, shift 25bp sensitivity	Maturity Gap	Bucketing on parallel and twist shift nodes of Interest rates		1Y, 99.93%, t-Student Copula
Market (Trading Book)	1day VaR 99%	VaR hystorical simulation – full Revaluation	All market risk factors (IR, EQ, FX, CS,...)	Implicit in the full revaluation historical simulation	1Y, 99.93%, t-Student Copula
Operational	1Y VaR, 99.9%	LDA integrated with external data, in addition to qualitative self assessment	Frequency and *severity* by *event type*	T-Student Copula approach between different event type	99.93%, t-Student Copula
Business	1Y EaR 99%	Parametric EaR	Volatility of costs and revenues	Correlation between costs and revenues	99.93%, t-Student Copula
Real Estate	1Y VaR, 99%	Parametric VaR	Volatility of real estate indices	Correlation between proxy indices	99.93%, t-Student Copula

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.

Additional information on the measurement systems for each risk type is reported in Part E of the Notes to the Financial Statements.

Economic Diversified Capital
MPS Group - 30.06.2014



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

BMPS share price

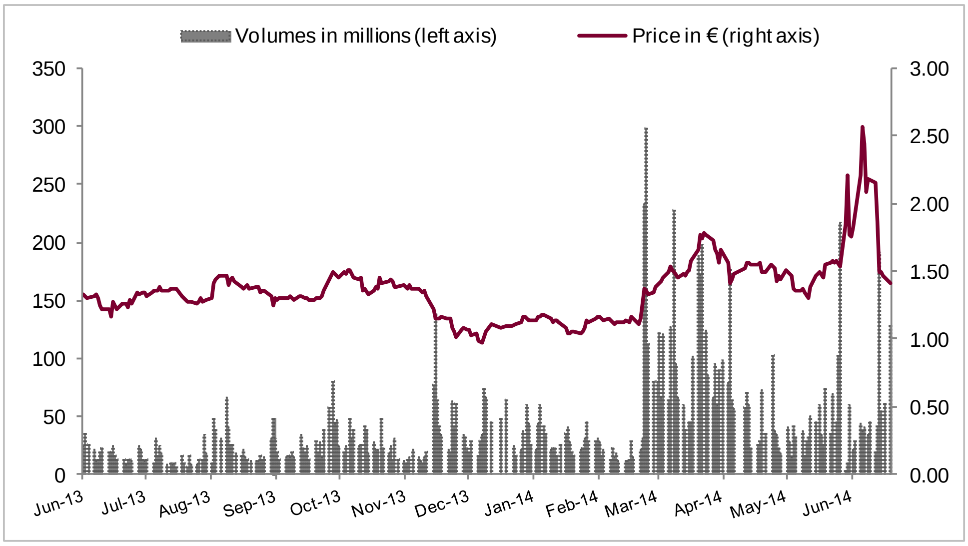
Share price and trends

The first half of 2014 consolidated the strong share price performance, with the FTSEMib in particular performing better than the major international stock markets, recording an increase of 12.2%. Madrid follows with +10.2%, Frankfurt and Paris with an upturn of +3% and London instead remaining steady at the end-of-2013 values (0.1%). The rallying of the FTSEMib was driven by the banking sector's performance, with the FTSE Banks index recording +20% in the reporting period.

The spread between Italian and German government securities continued to narrow, albeit more slowly, reaching 160 bps as at 30 June 2014 (282 bps at the end of June 2013).

BMPS stock closed the quarter at EUR 1.415, up 29% on the start of the year, compared with an average +11% for the major Italian banks listed on the Milan stock exchange.

BMPS SHARE PRICE (from 30 06 2013 to 30 06 2014)



STATISTICAL SUMMARY (from 31 12 2013 to 30 06 2014) - Eur

Average	1.42
Lowest	1.03
Highest	2.56

The number of BMPS shares traded on a daily basis during the first half of the year averaged 57.2 mln, with a peak of 299.1 mln in March and a low of 3.3 mln in June.

MONTHLY VOLUMES OF SHARES TRADED
2014 volumes summary (EUR mln)

January	676
February	428
March	2,224
April	1,702
May	810
June	1,287

BMPS SHARE RATINGS AS AT 30 06 2014

Positive/neutral rating	42%
Negative rating	58%

Rating

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

Rating Agencies	Short-term debt	Outlook	Long-term debt	Outlook	Last update
DBRS	R-2 (mid)	Under Review	BBB	Under Review	09 January 2014
Moody's Investors Service	NP		B1	Negative	26 June 2014
Fitch Ratings	F-3		BBB	Negative	13 May 2014

- On 26 June 2014 Moody's upgraded the issuer's long-term rating to 'B1' from 'B2', with negative outlook.
- 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

During the first half of the year the investor relations team organised the dialogue with retail and institutional investors, equity and fixed income analysts and with the rating agencies in order to maintain a constant flow of information to the market. Since the beginning of the year top management has met with 260 institutional investors at the Bank, at road shows (Italy, UK, Spain, Switzerland, United States), international meetings and conference calls dedicated with investors who requested them.

The financial community focused its attention on different issues depending on the type of party involved: retail investors concentrated largely on the capital strengthening transaction, whilst institutional investors and analysts kept watch on the Group's new corporate governance structure, potential impact of the Asset Quality Review and the development of capital ratios under Basel 3 rules.

Credit Structured products

Management Model

The Group allocates a part of its capital to equity investments, with the following objectives:

- attain a risk-adjusted return that is significantly higher than the cost of allocated capital so as to create value for shareholders;
- diversify risks with respect to other risks that are typical of its business;
- maintain in-depth and up-to-date knowledge of financial market trends, which inevitably affect the domestic markets in which the Group mainly operates.

Activities are supervised by an ad hoc organisational structure within the Finance, Treasury and Capital Management Area and are carried out under a broad spectrum of possible financial market areas in order diversify risk and decrease exposure to individual sectors. Investments may range from investments in government securities markets, equities and foreign exchanges to corporate bonds and credit derivatives.

In this context, investments in Credit Structured Products are made in accordance with the principle of diversification and the support of a "specialist desk" within the subsidiary, MPS Capital Services. The investment process starts with the bottom up analyses carried out by traders and is part of the overall monitoring of risk at portfolio level. As with all equity market operations, these investments are subject to risk limits set by the BoD and monitored daily by Risk Management. The Bank defines Stop Loss, risk and nominal limits for maximum exposure for major issuer categories, broken down by rating.

The data reported in this section refer to the entire Group and cover a broad category of Credit Structured Products: from investments in securities issued by special-purpose vehicles and not included in the information on consolidated "Special Purpose Entities" to structured credit derivatives. (In order to facilitate understanding, a glossary of investment types can be found at the end of the report).

In particular:

- positions in securities, mainly in the form of cash instruments, have a total book value of EUR 904.28 mln, accounting for 0.46% of consolidated assets, broken down as follows: EUR 779.62 mln (86.3%) to Item 60 "Loans to banks" and Item 70 "Loans to customers"; EUR 107.14 mln (11.9%) to Item 20 "Financial assets held for trading" and EUR 17.2 mln (1.9%) to Item 40 "Financial assets available for sale". Note that not all Credit Structured Products have embedded credit derivatives that need to be separated from their host cost contract for IAS/IFRS purposes. For this reason, they differ from the "Structured securities" reported in the Notes to the Financial Statements;
- derivative positions, held through credit derivatives on standardised indices, have a total book value of EUR 7.67 mln.

Securities Positions

As at 30/06/2014, the securities positions on structured credit products amounted to a nominal value of EUR 992.85 mln, for a total book value of EUR 904.28 mln.

In addition to market changes, compared to 31/12/2013 the difference is due to exclusion from the scope of analysis of a Leveraged Finance product which had lost its underlying structured credit risk component.

In addition, following application of the new accounting standards IFRS 10 and IFRS 11, from 1 January 2014 the inclusion of "Nota Italia - Corsair Ireland Serie n.15" in the scope of consolidation resulted in a different classification from synthetic CLN to traditional ABS, with direct reference to the underlying ABSs.

The positions are mainly allocated to the Banking Book (book value of EUR 801.15 mln; 89% of total) with a predominant portion in ABSs (67%) and, to a lesser extent, in CDOs (26%). Investments in the Regulatory Trading Book, for a book value of EUR 103.13 mln (11% of total), consist of CDOs (67%) and ABSs (33%).

Transactions in the first half of the year generated a positive income statement impact of EUR 2.7 mln.

Credit Structured product exposures - Securities positions

(values in EUR mln as at 30 06 2014)

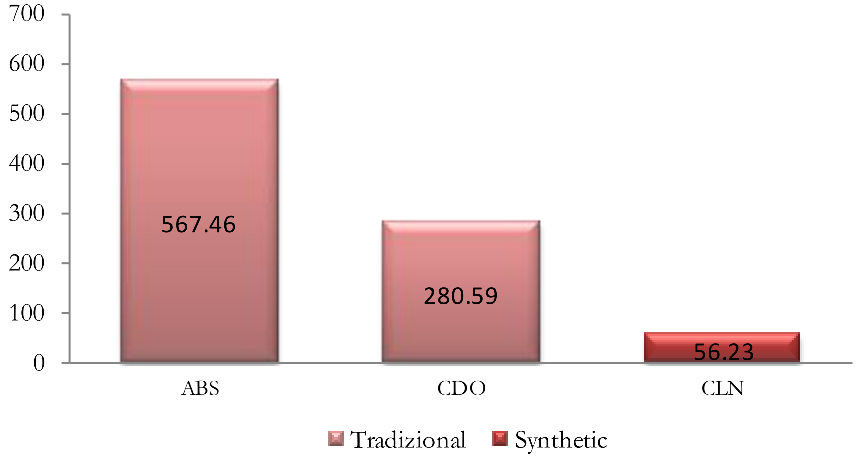
Classification	Instrument Category	Nominal	Risk Exposure	Reliese Profit/Loss	Unrealise Profit/Loss	Effect on Net Equity
Banking Book	ABS	530.51	533.50	0.27	(0.42)	0.41
	CDO	227.48	211.42	(0.28)	0.35	-
	CLN	95.00	56.23	-	(6.93)	-
	Banking Book Total	**852.99**	**801.15**	**(0.01)**	**(7.00)**	**0.41**
Trading Book	CDO	103.72	69.17	6.07	2.36	-
	ABS	36.14	33.96	1.05	0.23	-
	Trading Book Total	**139.86**	**103.13**	**7.12**	**2.59**	**-**
Structured Credit products total - 30.06.2014		**992.85**	**904.28**	**7.11**	**(4.41)**	**0.41**

The data are divided into macro categories of structured credit products, and indicate the nominal value, risk exposure and the realised and unrealised profit or loss as at 30/06/2014. In particular, the "risk exposure" of securities positions shows the book value because it is representative of the loss in case of default, with the highly conservative hypothesis of zero recovery value. "Realised Profit/Loss" consists in results from trading in the reference period. "Gains and losses recognized in the Income Statements" show the change in book value directly posted to P&L. In the case of instruments classified as Available For Sale (AFS), "Effect on Net Equity" shows the change in book value posted under net equity reserve.

Due to the limited significance of the positions in the Regulatory Trading Book, the analysis reports the details of all positions without breaking them down by supervisory criteria.

Credit Structured product exposures - Breakdown by type

(values in EUR mln as at 30 06 2014)



Traditional Structure: investments in funded structures with assets that include assigned loans.
Synthetic Structure: funded and unfunded structures that incorporate credit derivatives or a payoff originating from derivatives.
Traditional structures account for 94% and synthetic for 6% of total risk exposure.

Credit Structured product exposures - Breakdown by rating class

(values in EUR mln as at 30 06 2014)

Rating	Nominal	Risk Exposure	Reliese Profit/Loss	Unrealise Profit/Loss	Effect on Net Equity
AA+	5.00	5.00	-	-	-
AA	22.30	23.81	0.05	0.12	-
AA-	40.00	39.73	-	-	-
A+	188.39	189.36	-	-	-
A	8.60	8.52	0.20	0.02	-
A-	279.46	280.89	-	-	-
BBB+	109.03	108.98	5.74	-	-
BBB	104.21	65.01	0.76	(6.22)	-
BBB-	50.00	49.88	-	-	-
B	56.20	54.77	-	-	-
B-	1.16	1.08	-	0.11	0.05
CCC-	14.17	0.09	0.09	-	-
Not Rated	114.33	77.16	0.27	1.56	0.36
Total	**992.85**	**904.28**	**7.11**	**(4.41)**	**0.41**

81% of nominal exposures are made up by investment grade securities (with rating up to BBB-) with subinvestment grade and unrated securities making up the remaining 19%.

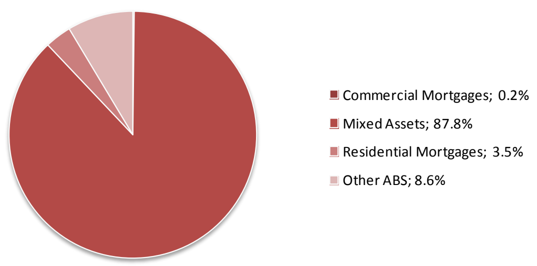
ABS Exposures

Breakdown by type and tranche seniority
(values in EUR mln as at 30 06 2014)

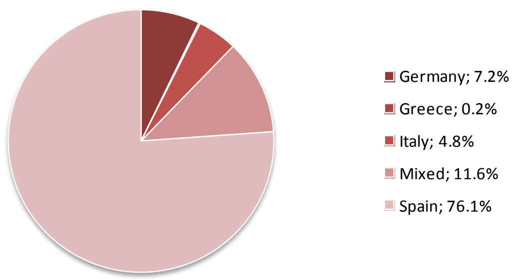
Classification	Seniority	Nominal	Risk Exposure	Reliese Profit/Loss	Unrealise Profit/Loss	Effect on Net Equity
RMBS	SENIOR	20.11	19.60	0.98	0.73	-
RMBS	MEZZANINE	-	-	0.11	-	-
CMBS	JUNIOR	2.00	1.06	-	(0.55)	-
CMBS	SENIOR	1.03	-	-	-	-
Mixed ABS	SENIOR	494.35	498.07	(0.04)	0.12	-
Other ABS	SENIOR	46.16	45.81	-	0.11	0.05
Other ABS	MEZZANINE	3.00	2.92	0.27	(0.60)	0.36
Total		**566.65**	**567.46**	**1.32**	**(0.19)**	**0.41**

Senior tranches account for approximately 99% of the entire ABS portfolio.

Breakdown of underlying assets by segment



Breakdown of underlying assets by geographic area



CDO Exposures

Breakdown by type and tranche seniority
(values in EUR mln as at 30 06 2014)

Classification	Seniority	Nominal	Risk Exposure	Reliese Profit/Loss	Unrealise Profit/Loss	Effect on Net Equity
CDO of ABS	SENIOR	222.90	207.41	(0.28)	-	-
CBO	SENIOR	102.37	69.17	-	2.36	-
CBO	JUNIOR	4.58	4.01	-	0.35	-
Managed CDO	SENIOR	-	-	6.07	-	-
Managed CDO	MEZZANINE	1.35	-	-	-	-
Total		**331.20**	**280.59**	**5.79**	**2.71**	-

The prevalent type of product is the ABS CDO, which represents 74% of the entire book value of the CDO portfolio.
Senior tranches account for approximately 98% of the entire portfolio. There are no positions with underlying assets originated by US vehicles.

CLN exposures

Breakdown by type and tranche seniority

(values in EUR mln as at 30 06 2014)

Classification	Seniority	Nominal	Risk Exposure	Reliese Profit/Loss	Unrealise Profit/Loss	Effect on Net Equity
SPE CLN	SENIOR	95.00	56.23	-	(6.93)	-
Total		**95.00**	**56.23**	-	**(6.93)**	-

Credit Derivative Positions

Credit Index Positions

(values in EUR mln as at 30/06/2014)

Index	Nominal	Risk Exposure	Profit/Loss
CDX Investment grade	32.49	(0.16)	0.20
Itrax Sovereign EMEA	0.01	(0.01)	-
Itrax Sovereing WE	(153.74)	0.68	(0.37)
Itraxx Europe	104.83	(1.59)	(1.32)
Itraxx Europe Crossover	(0.01)	(0.02)	(0.56)
Itraxx Financial Senior	(42.00)	0.70	(1.53)
Itraxx Financial Sub	9.98	(1.36)	0.12
Itraxx Hivol	-	(0.01)	-
Synthetic cdo tranche	(7.94)	9.44	(0.25)
Total	**(56.38)**	**7.67**	**(3.71)**

All exposures comprise derivatives on standardised credit indices and are all attributable to the Trading Book. Positions with a negative nominal value mitigate the overall portfolio risk since they benefit from the deterioration of creditworthiness of underlying assets, as represented by the expansion of related credit spreads. Positions with a positive nominal value are added to the securities portfolio, in terms of risk exposure. Overall, derivative exposures came to a notional amount of EUR 56.38 mln for a book value of EUR 7.67 mln as at 30/06/2014. Transactions in the first half of the year generated a loss of EUR 3.71 mln.

Glossary of terms

Term	Description	Definition
ABS	Asset Backed Security	Security which guarantees reimbursement and coupon flows based on income generated by a set of financial assets. Typically, they are broken down into RMBS and CMBS.
AFS	Available For Sale	IAS category used to classify assets available for sale
CBO	Collateralized Bond Obligation	CDO in which the portfolio of underlying positions primarily consists in bonds.
CDO	Collateralized Debt Obligation	Securities issued in differentiated risk classes with payment in order of seniority (tranches), subsequent to the securitisation of a portfolio of credit-risk embedding securities. Typically characterised by a certain degree of financial leverage.
CDO of ABS	CDO of ABS	CDO in which the portfolio of underlying positions primarily consists in ABSs.
CLN	Credit Linked Note	Security embedding a credit derivative, typically a credit default swap (CDS).
CLN Basket	Basket Credit Linked Note	a CLN which references to a basket of underlying entities (multiple single name CDSs, or one or multiple basket CDSs)
CLO	Collateralized Loan Obligation	CDO in which the portfolio of underlying positions primarily consists in loans.
CMBS	Commercial Mortage Backed Securities	ABS with underlying commercial mortgages.
CPPI	Constant Proportion Portfolio Insurance	Guaranteed capital security that incorporates a dynamic trading strategy in order to participate in the performance of a certain underlying asset
Dynamic Managed Portfolio	Dynamic Managed Portfolio	Products with dynamically managed underlying assets such as CPPI/SPI.
HFT	Held For Trading	IAS category used to classify assets and liabilities held for trading
L&R	Loans & Receivables	IAS category used to classify loans and receivables
LL	Leveraged Loan Exposure	Structured Credit Securities whose principal repayment and interest payout are conditional upon the occurrence of default events in the underlying portfolio of Leveraged Loans (loans granted to sub-investment grade businesses).
LSS	Leveraged Super Senior	CDO through which the investor becomes exposed to the entire super senior tranche through a derivative contract characterised by a leverage effect.
Managed CDO	Managed CDO	CDO in which the portfolio of underlying positions is managed.
Mixed ABS	Mixed ABS	ABS with a underlying a mixed pool of activities (residential mortgages, commercial mortgages, other activities)
Monoline insurer	Monoline insurer	Insurance companies specialised in guaranteeing payment of interests and notional of bonds in the event of issuer default. They are thus named because they generally apply to one industrial sector only.
Other ABS	Other Asset Backed Security	Security which guarantees the reimbursement and income flows based on income generated for a group of other assets: consumer and leasing loans that only include loans for consumers (for example, cars, credit cards), student loans, lease financing, etc.
RMBS	Residential Mortage Backed Securities	ABS with underlying residential mortgages.
SCDO	Synthetic CDO	CDO whose portfolio of underlying positions primarily consists in credit default swaps (CDS).
Seniority	Seniority	Level of subordination in the repayment of securities, generally broken down into Super Senior, Senior, Mezzanine and Junior.
SLCDO	Synthetic Loan CDO	CDO whose portfolio of underlying positions primarily consists in Synthetic Loan CDS.
SPE	Special Purpose Entity	corporate vehicle incorporated to attain specific objectives, primarily to isolate financial risks. Assets consist in a portfolio whose profits are used for the servicing of bond loans issued.
SPE CLN	SPE Crediti Linked Note	CLN issued by a SPE.
SPI	Synthetic Portfolio Insurance	Synthetic version of a CPPI, obtained through derivatives.
Vintage	Vintage	Commonly understood as the year of origination for the assets underlying a structured credit product.

Annexes - Reconciliation between reclassified accounts and mandatory reporting schedules

Montepaschi Group - Reconciliation between Profit and Loss Statement reclassified as at 30 June 2014 and related accounting tables

	Accounts in the Profit and Loss Statement - Montepaschi Group	Accounting	Reclassification of dividends on treasury stock transactions	Portion of profit from equity investments	Restructuring costs	Recovery of stamp duty and customers' expenses	Economic effects from allocation of BAV acquisition costs to BMPS (PPA)	Reclassified	Accounts in Reclassified Profit and Loss Statement - Montepaschi Group
10	Interest income and similar revenues	2,744.1	-	-	-	-	14.3	-	
20	Interest expense and similar charges	(1,786.4)	-	-	-	-	-	-	
30	**Net interest income**	**957.7**	**-**	**-**	**-**	**-**	**14.3**	972.0	Net interest income
40	Fee and commission income	1,052.9	-	-	-	-	-	-	
50	Fee and commission expense	(181.9)	-	-	-	-	-	-	
60	**Net fee and commission income**	**871.0**	**-**	**-**	**-**	**-**	**-**	871.0	Net fee and commission income
								1,843.0	**Income from banking activities**
70	Dividends and similar income	28.9	(13.3)	33.9	-	-	-	49.5	Dividends, similar income and gains (losses) on investments
80	Net profit (loss) from trading	77.0	13.3	-	-	-	-	-	
100	Gains/losses on disposal/repurchase of:	40.6	-	-	-	-	-	-	
	a) loans	*(13.6)*	-	-	-	-	-	-	
	b) financial assets available for sale	*54.3*	-	-	-	-	-	-	
	c) held to maturity investments	-	-	-	-	-	-	-	
	d) financial liabilities	*(0.0)*	-	-	-	-	-	-	
110	Net profit (loss) from financial assets and liabilities designated at fair value	(57.3)	-	-	-	-	-	-	
								73.7	Net profit (loss) from trading
90	Net profit (loss) from hedging	(13.3)	-	-	-	-	-	(13.3)	Net profit (loss) from hedging
120	**Net interest and other banking income**	**1,904.6**	**-**	**33.9**	**-**	**-**	**14.3**	**1,952.8**	**Income from financial and insurance activities**
130	Net impairment losses(reversals) on	(1,226.9)	-	-	-	-	-	(1,226.9)	Net impairment losses (reversals) on:
	a) loans	*(1,208.0)*	-	-	-	-	-	(1,208.0)	a) loans
	b) financial assets available for sale	*(21.4)*	-	-	-	-	-	-	
	c) held to maturity investments	-	-	-	-	-	-	-	
	d) other financial transactions	*2.5*	-	-	-	-	-	-	
								(19.0)	b) financial assets
140	**Net income from banking activities**	**677.7**	**-**	**33.9**	**-**	**-**	**14.3**	**725.9**	
150	Net premiums	-	-	-	-	-	-	-	
160	Other income/expenses (net) from insurance activities	-	-	-	-	-	-	-	
170	**Net income from financial and insurance activities**	**677.7**	**-**	**33.9**	**-**	**-**	**14.3**	**725.9**	**Net income from financial and insurance activities**
180	Administrative expenses:	(1,392.3)	-	-	3.8	156.0	-	(1,232.4)	Administrative expenses
	a) personnel expenses	*(855.1)*	-	-	3.8	-	-	(851.3)	a) Personnel expenses
	b) other administrative expenses	*(537.2)*	-	-	-	156.0	-	(381.1)	b) Other administrative expenses
200	Net adjustments to (recoveries on) on property, plant and equipment	(58.5)	-	-	-	-	-	-	
210	Net adjustments to (recoveries on) intangible assets	(54.1)	-	-	-	-	13.8	-	
								(98.8)	Net losses/reversal on impairment on property, plant and equipment / Net adjustments to (recoveries on) intangible assets
230	**Operating expenses**	**(1,504.9)**	**-**	**-**	**3.8**	**156.0**	**13.8**	**(1,331.2)**	**Operating expenses**
								(605.3)	**Net operating income**
190	Net provisions for risks and charges	(82.0)	-	-	-	-	-	-	
220	Other operating expenses/income	139.7	-	-	-	(156.0)	-	-	
								(98.3)	Net provisions for risks and charges and other operating expenses/income
240	Gains (losses) on investments	209.2	-	(33.9)	-	-	-	175.3	Gains (losses) on investments
		-	-	-	(3.8)	-	-	(3.8)	Restructuring charges
260	Impairment on goodwill	-	-	-	-	-	-	-	Impairment on goodwill
270	Gains (losses) on disposal of investments	5.1	-	-	-	-	-	5.1	Gains (losses) from disposal of investments
280	**Profit (loss) before tax from continuing operations**	**(555.1)**	**-**	**-**	**-**	**-**	**28.1**	**(527.0)**	**Profit (loss) before tax from continuing operations**
290	Tax expense (recovery) on income from continuing operations	203.2	-	-	-	-	(9.3)	193.9	Tax expense (recovery) on income from continuing operations
300	**Profit (loss) after tax from continuing operations**	**(351.9)**	**-**	**-**	**-**	**-**	**18.8**	**(333.1)**	**Profit (loss) after tax from continuing operations**
310	Profit (loss) after tax from groups of assets held for sale and discontinued operations	-	-	-	-	-	-	-	Profit (loss) after tax from groups of assets held for sale and discontinued operations
320	**Profit (loss) for the period**	**(351.9)**	**-**	**-**	**-**	**-**	**18.8**	**(333.1)**	**Net profit (loss) for the period including non-controlling interests**
330	Profit (loss) for the period attributable to non-controlling interests	(1.1)	-	-	-	-	-	(1.1)	Net profit (loss) attributable to non-controlling interests
340	**Parent company's net profit (loss) for the period**	**(353.0)**	**-**	**-**	**-**	**-**	**18.8**	**(334.2)**	**Profit (loss) for the period before PPA , impairment on goodwill, intangibles and writedown of investment in AM Holding**
		-	**-**	**-**	**-**	**-**	**(18.8)**	(18.8)	PPA (Purchase Price Allocation)
		-	**-**	**-**	**-**	**-**	**-**	-	Impairment on goodwill, intangibles and writedown of investment in AM Holding
		(353.0)	**-**	**-**	**-**	**-**	**-**	**(353.0)**	**Parent company's net profit (loss) for the period**

Montepaschi Group - Reconciliation between Profit and Loss Statement reclassified as at 30 June 2013 and related accounting tables

	Accounts in the Profit and Loss Statement - Montepaschi Group	Accounting	Reclassification of dividends on treasury stock transactions	Portion of profit from equity investments	Restructuring costs	Recovery of stamp duty and customers' expenses	Economic effects from allocation of BAV acquisition costs to BMPS (PPA)	Reclassified	Accounts in Reclassified Profit and Loss Statement - Montepaschi Group
10	Interest income and similar revenues	3,066.6	-	-	-	-	18.3	-	
20	Interest expense and similar charges	(2,000.1)	-	-	-	-	-	-	
30	**Net interest income**	**1,066.5**	**-**	**-**	**-**	**-**	**18.3**	1,084.9	Net interest income
40	Fee and commission income	1,057.9	-	-	-	-	-	-	
50	Fee and commission expense	(209.3)	-	-	-	-	-	-	
60	**Net fee and commission income**	**848.6**	**-**	**-**	**-**	**-**	**-**	848.6	Net fee and commission income
		-						**1,933.5**	**Income from banking activities**
70	Dividends and similar income	13.1	(9.6)	62.3	-	-	-	65.8	Dividends, similar income and gains (losses) on investments
80	Net profit (loss) from trading	112.3	9.6	-	-	-	-	-	
100	Gains/losses on disposal/repurchase of:	51.5	-	-	-	-	-	-	
	a) loans	*(1.7)*	-	-	-	-	-	-	
	b) financial assets available for sale	*53.3*	-	-	-	-	-	-	
	c) held to maturity investments	-	-	-	-	-	-	-	
	d) financial liabilities	*(0.1)*	-	-	-	-	-	-	
110	Net profit (loss) from financial assets and liabilities designated at fair value	22.7	-	-	-	-	-	-	
		-						196.1	Net profit (loss) from trading
90	Net profit (loss) from hedging	(5.0)	-	-	-	-	-	(5.0)	Net profit (loss) from hedging
120	**Net interest and other banking income**	**2,109.8**	**-**	**62.3**	**-**	**-**	**18.3**	**2,190.4**	**Income from financial and insurance activities**
130	Net impairment losses(reversals) on	**(1,051.0)**	**-**	**-**	**-**	**-**	**-**	(1,051.0)	Net impairment losses (reversals) on:
	a) loans	*(1,029.0)*	-	-	-	-	-	(1,029.0)	a) loans
	b) financial assets available for sale	*(18.8)*	-	-	-	-	-	-	
	c) held to maturity investments	-	-	-	-	-	-	-	
	d) other financial transactions	*(3.3)*	-	-	-	-	-	-	
		-						(22.0)	b) financial assets
140	**Net income from banking activities**	**1,058.8**	**-**	**62.3**	**-**	**-**	**18.3**	-	
150	Net premiums	-	-	-	-	-	-	-	
160	Other income/expenses (net) from insurance activities	-	-	-	-	-	-	-	
170	**Net income from financial and insurance activities**	**1,058.8**	**-**	**62.3**	**-**	**-**	**18.3**	**1,139.4**	**Net income from financial and insurance activities**
180	Administrative expenses:	(1,508.4)	-	-	17.6	132.5	-	(1,358.3)	Administrative expenses
	a) personnel expenses	*(893.1)*	-	-	17.6	-	-	(875.5)	a) Personnel expenses
	b) other administrative expenses	*(615.3)*	-	-	-	132.5	-	(482.8)	b) Other administrative expenses
200	Net adjustments to (recoveries on) on property, plant and equipment	(40.2)	-	-	-	-	-	-	
210	Net adjustments to (recoveries on) intangible assets	(48.8)	-	-	-	-	13.8	-	
		-						(75.3)	Net losses/reversal on impairment on property, plant and equipment / Net adjustments to (recoveries on) intangible assets
230	**Operating expenses**	**(1,597.5)**	**-**	**-**	**-**	**-**	**13.8**	**(1,433.6)**	**Operating expenses**
		-						**(294.2)**	**Net operating income**
190	Net provisions for risks and charges	(45.0)	-	-	-	-	-	-	
220	Other operating expenses/income	197.5	-	-	-	(132.5)	-	-	
		-						20.1	Net provisions for risks and charges and other operating expenses/income
240	Gains (losses) on investments	30.7	-	(62.3)	-	-	-	(31.6)	Gains (losses) on investments
		-	-	-	(17.6)	-	-	(17.6)	Restructuring charges
		-						-	P&L figures for branches sold
250	Net gain (losses) on tangible and intangible assets measured at fair value	-	-	-	-	-	-	-	Net result of the tangible and intangible assets measured at fair value
260	Impairment on goodwill	-	-	-	-	-	-	-	Impairment on goodwill
270	Gains (losses) on disposal of investments	(1.7)	-	-	-	-	-	(1.7)	Gains (losses) from disposal of investments
280	**Profit (loss) before tax from continuing operations**	**(393.2)**	**-**	**-**	**-**	**-**	**32.1**	**(325.0)**	**Profit (loss) before tax from continuing operations**
290	Tax expense (recovery) on income from continuing operations	4.5	-	-	-	-	(10.6)	(6.1)	Tax expense (recovery) on income from continuing operations
300	**Profit (loss) after tax from continuing operations**	**(378.3)**	**-**	**-**	**-**	**-**	**21.5**	**(331.1)**	**Profit (loss) after tax from continuing operations**
310	Profit (loss) after tax from groups of assets held for sale and discontinued operations	(25.7)	-	-	-	-	-	(25.7)	Profit (loss) after tax from groups of assets held for sale and discontinued operations
320	**Profit (loss) for the period**	**(378.3)**	**-**	**-**	**-**	**-**	**21.5**	**(356.8)**	**Net profit (loss) for the period including non-controlling interests**
330	Profit (loss) for the period attributable to non-controlling interests	(1.0)	-	-	-	-	-	(1.0)	Net profit (loss) attributable to non-controlling interests
340	**Parent company's net profit (loss) for the period**	**(379.4)**	**-**	**-**	**-**	**-**	**21.5**	**(357.9)**	**Profit (loss) for the period before PPA , impairment on goodwill, intangibles and writedown of investment in AM Holding**
		-	**-**	**-**	**-**	**-**	**(21.5)**	(21.5)	PPA (Purchase Price Allocation)
		-	**-**	**-**	**-**	**-**	**-**	-	Impairment on goodwill, intangibles and writedown of investment in AM Holding
		-	**-**	**-**	**-**	**-**	**-**	**(379.4)**	**Parent company's net profit (loss) for the period**

Balance-sheet Items - Assets	30/06/14	31/12/13	Reclassified balance-sheet items - Assets
	860	**877**	**Cash and cash equivalents**
Item 10 − Cash and cash equivalents	860	877	
			Loans and receivables
	132,770	**130,598**	**a) Loans to customers**
Item 70 − Loans to customers	132,770	130,598	
	8,638	**10,485**	**b) Loans to banks**
Item 60 − Loans to banks	8,638	10,485	
	39,863	**42,919**	**Held to maturity investments**
Item 20 − Financial assets held for trading	16,832	19,239	
Item 30 − Financial assets designated at fair value	-	-	
Item 40 − Financial assets available for sale	23,031	23,680	
	-	**-**	**Financial assets held to maturity**
Item 50 − Held to maturity investments	-	-	
	952	**970**	**Investments**
Item 100 − Equity investments	952	970	
	-	-	**Reinsurers' technical reserves**
Item 110 − Reinsurers's technical reserves	-	-	
	3,971	**4,046**	**Property, plant and equipment / Intangible assets**
Item 120 − Property, plant and equipment	2,834	2,884	
Item 130 − Intangible assets	1,137	1,162	
	9,474	**8,566**	**Other assets**
Item 80 − Hedging Derivatives	469	398	
Item 90 − Change in value of macro-hedged financial assets (+/-)	181	160	
Item 140 − Tax assets	5,622	5,515	
Item 150 − Non-current assets and group of assets held for sale and discontinued operations	6	80	
Item 160 − Other assets	3,197	2,412	
Total Assets	**196,528**	**198,461**	**Total Assets**

Balance-sheet Items - Liabilities	30/06/14	31/12/13	Reclassified balance-sheet items - Liabilities
			Deposits
	130,777	**129,836**	**a) Deposits from customers and securities issued**
Item 20 − Deposits from customers	89,322	85,286	
Item 30 − Debt securities issued	36,340	36,562	
Item 50 − Financial liabilities designated at fair value	5,115	7,988	
	31,810	**37,279**	**b) Deposits from banks**
Item 10 − Deposits from banks	31,810	37,279	
	11,718	**16,410**	**Financial liabilities held for trading**
Item 40 − Financial liabilities held for trading	11,718	16,410	
			Provisions for specific use
Item 110 − Provision for employee severance pay	285	261	
Item 120 - Provisions for risks and charges - a) post-employment benefits	59	61	
Item 120 - Provisions for risks and charges - b) other provisions	991	1,066	
	9,811	**7,367**	**Other liabilities**
Item 60 − Hedging Derivatives	3,906	3,422	
Item 70 − Change in value of macro-hedged financial liabilities (+/-)	-	-	
Item 80 − Tax liabilities	157	186	
Item 90 − Liabilities associated with non-current assets held for sale and discontinued operations	-	18	
Item 100 − Other liabilities	5,747	3,742	
	-	**-**	**Insurance reserves**
Item 130 − Insurance Reserves	-	-	
	11,048	**6,147**	**Group portion of shareholders' equity**
Item 140 − Valuation reserves	(634)	(1,056)	a) Valuation reserves
Item 150 − Redeemable shares	-	-	b) Redeemable shares
Item 160 − Equity instruments	3	3	c) Capital instruments
Item 170 − Reserves	4,548	1,175	d) Reserves
Item 180 − Share premium reserve	-	-	e) Share premium reserves
Item 190 − Share Capital	7,485	7,485	f) Share capital
Item 200 − Treasury shares (-)	(0)	(25)	g) Treasury shares (-)
Item 220 − Profit (loss) for the period (+/-)	(353)	(1,434)	h) Profit (loss) for the period
	29	**33**	**Non-controlling interests in shareholders' equity**
Item 210 − Non-controlling interests (+/-)	29	33	
Total liabilities and shareholders' equity	**196,528**	**198,461**	**Total liabilities and shareholders' equity**

HALF YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

HALF-YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS:TABLES

Consolidated Balance Sheet

(in units of EUR)

	Assets	30 06 2014	31 12 2013*
10	Cash and cash equivalents	860,050,393	877,275,504
20	Financial assets held for trading	16,831,623,067	19,238,566,108
40	Financial assets available for sale	23,030,967,706	23,680,248,891
60	Loans to banks	8,637,883,794	10,485,195,184
70	Loans to customers	132,770,370,112	130,597,727,086
80	Hedging derivatives	468,624,999	397,933,500
90	Change in value of macro-hedged financial assets (+/-)	180,879,556	159,889,125
100	Equity investments	951,750,401	970,377,916
120	Property, plant and equipment	2,834,003,006	2,883,819,678
130	Intangible assets	1,136,853,897	1,162,056,201
	of which: goodwill	669,691,855	669,691,855
140	Tax assets	5,622,225,070	5,515,357,065
	a) current	*2,073,377,142*	1,347,310,635
	b) deferred	*3,548,847,928*	4,168,046,430
	under Law 214/2011	*2,638,251,600*	3,113,519,064
150	Non-current assets and groups of assets held for sale and discontinued operations	5,558,621	80,108,168
160	Other assets	3,197,167,948	2,412,250,682
	Total Assets	**196,527,958,570**	**198,460,805,108**

**With respect to published accounts, prior period balances are reflective of changes described in the section "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)", which is referenced to for further details.*

Non-current assets and groups of assets held for disposal, as at 30.06.2014, include the investments of the subsidiary MPS Capital Services - Banca per le Imprese S.p.A.: MP Venture Sgr Spa e S.I.C.I. Sviluppo Imprese Centro Italia SGR S.p.A for a total amount of EUR 2.7 mln, as well as a number of properties owned by the subsidiary MPS Immobiliare for a total amount of EUR 2.9 mln.

(in units of EUR)

	Liabilities and Shareholders' Equity	30 06 2014	31 12 2013*
10	Deposits from banks	31,810,083,907	37,278,667,067
20	Deposits from customers	89,321,981,197	85,286,115,477
30	Debt securities issued	36,340,016,807	36,561,566,489
40	Financial liabilities held for trading	11,718,387,146	16,409,678,058
50	Financial liabilities designated at fair value	5,114,685,650	7,988,198,696
60	Hedging derivatives	3,906,491,561	3,421,634,920
80	Tax liabilities	156,814,277	185,520,835
	a) current	*15,834,023*	*26,562,057*
	b) deferred	*140,980,254*	*158,958,778*
90	Liabilities associated with non-current assets held for sale and discontinued operations	-	17,820,869
100	Other liabilities	5,747,339,024	3,742,303,599
110	Provision for employee severance pay	284,754,745	261,389,515
120	Provisions for risks and charges:	1,050,272,857	1,127,311,970
	a) post-employment benefits	*59,090,972*	*61,063,121*
	b) other provisions	*991,181,885*	*1,066,248,849*
140	Valuation reserves	(634,244,578)	(1,055,909,969)
160	Equity instruments	3,002,406	3,002,406
170	Reserves	4,547,827,816	1,174,651,079
190	Share capital	7,484,508,171	7,484,508,171
200	Treasury shares (-)	(405)	(24,532,421)
210	Non-controlling interests (+/-)	29,070,756	33,194,899
220	Profit (loss) for the period (+/-)	(353,032,767)	(1,434,316,552)
	Total Liabilities and Shareholders' Equity	**196,527,958,570**	**198,460,805,108**

**With respect to published accounts, prior period balances are reflective of changes described in the section "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)", which is referenced to for further details.*

Consolidated income statement

(in units of EUR)

Items		30 06 2014	30 06 2013**
10	Interest income and similar revenues	2,744,111,651	3,066,628,873
20	Interest expense and similar charges	(1,786,431,204)	(2,000,081,827)
30	**Net interest income**	**957,680,447**	**1,066,547,047**
40	Fee and commission income	1,052,912,190	1,057,899,500
50	Fee and commission expense	(181,913,160)	(209,309,450)
60	**Net fee and commission income**	**870,999,030**	**848,590,050**
70	Dividends and similar income	28,899,399	13,140,816
80	Net profit (loss) from trading	76,975,106	112,332,655
90	Net profit (loss) from hedging	(13,283,048)	(4,964,246)
100	Gains/losses on disposal/repurchase of:	40,643,136	51,469,431
	a) loans	*(13,634,753)*	*(1,672,050)*
	b) financial assets available for sale	*54,311,449*	*53,266,586*
	d) financial liabilities	*(33,560)*	*(125,105)*
110	Net profit (loss) from financial assets and liabilities designated at fair value	(57,278,409)	22,682,314
120	**Net interest and other banking income**	**1,904,635,661**	**2,109,798,066**
130	Net impairment losses(reversals) on	(1,226,912,838)	(1,051,020,615)
	a) loans	*(1,207,954,241)*	*(1,028,975,651)*
	b) financial assets available for sale	*(21,431,689)*	*(18,792,669)*
	d) other financial transactions	*2,473,092*	*(3,252,295)*
140	**Net income from banking activities**	**677,722,823**	**1,058,777,451**
180	Administrative expenses:	(1,392,254,310)	(1,508,425,538)
	a) personnel expenses	*(855,095,575)*	*(893,079,173)*
	b) other administrative expenses	*(537,158,735)*	*(615,346,365)*
190	Net provisions for risks and charges	(82,005,663)	(44,973,206)
200	Net adjustments to (recoveries on) property, plant and equipment	(58,514,932)	(40,228,236)
210	Net adjustments to (recoveries on) intangible assets	(54,083,209)	(48,809,289)
220	Other operating expenses/income	139,736,328	197,548,577
230	**Operating expenses**	**(1,447,121,786)**	**(1,444,887,691)**
240	Gains (losses) on investments	209,215,700	30,708,125
270	Gains (losses) on disposal of investments	5,107,423	(1,673,648)
280	**Profit (loss) before tax from continuing operations**	**(555,075,840)**	**(357,075,764)**
290	Tax expense (recovery) on income from continuing operations	203,150,280	4,470,908
300	**Profit (loss) after tax from continuing operations**	**(351,925,560)**	**(352,604,855)**
310	Profit (loss) after tax from groups of assets held for sale and discontinued operations	-	(25,736,864)
320	**Profit (loss) for the period**	**(351,925,560)**	**(378,341,719)**
330	Profit (loss) for the period attributable to non-controlling interests	1,107,207	1,044,950
340	**Parent company's net profit (loss) for the period**	**(353,032,767)**	**(379,386,669)**
		30 06 2014	**30 06 2013****
	Basic Earnings per Share (Basic EPS)	**(1.555)**	**(3.263)**
	of continuing operations	(1.555)	(3.042)
	of groups of assets held for sale and discontinued operations	-	(0.221)
	Diluted Earnings per Share (Diluted EPS)	**(1.555)**	**(3.263)**
	of continuing operations	(1.555)	(3.042)
	of groups of assets held for sale and discontinued operations	-	(0.221)

*** With respect to published accounts, prior period balances are reflective of:*

-changes described in the section "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors), which is referenced to for further details.

-changes due to the reclassification to item 310 'Profit (loss) from groups of assets held for sale and discontinued operations' of the P&L items related to the transfer of the administrative, accounting and ancillary services business unit to the company 'Fruendo Srl" effective as of 1January 2014.

-the basic and diluted earnings per share, in addition to the above changes, include also the reverse split of ordinary shares of the Parent Company according to a ratio of n. 1 new ordinary share to n. 100 owned shares that was carried out on 5 May 2014, as well as the new shares subscribed by the deadline of the offering period, concluded on 27 June 2014, in accordance with the resolution issued by the Extraordinary Shareholders' Meeting of 21 May 2014, the amount of which was not stated under Share Capital but rather under other reserves since, as at 30 June, the certification of the completed subscription of share capital increase had not yet been filed with the Register of Companies.

Consolidated statement of comprehensive income

(in units of eur)

	Items	30 06 2014	30 06 2013*
10	**Profit (loss) for the period**	**(351,925,560)**	**(378,341,719)**
	Other comprehensive income after tax not recycled to profit and loss	**(15,623,694)**	**(4,039,098)**
40	Actuarial gains (losses) on defined benefit plans	(15,531,030)	(4,039,098)
60	Share of valuation reserves of equity-accounted investments	(92,664)	-
	Other comprehensive income after tax recycled to profit and loss	**437,309,439**	**619,869,057**
80	Exchange differences	565,496	204,305
90	Cash flow hedges	(28,153,949)	41,283,105
100	Financial assets available for sale	364,049,454	581,239,821
110	Non current assets held for sale	(28,785,725)	-
120	Share of valuation reserves of equity-accounted investments	129,634,163	(2,858,174)
130	**Total other comprehensive income after tax**	**421,685,745**	**615,829,959**
140	**Total comprehensive income (Item 10+130)**	**69,760,185**	**237,488,240**
150	Consolidated comprehensive income attributable to non-controlling interests	1,127,559	1,050,600
160	**Consolidated comprehensive income attributable to Parent Company**	**68,632,626**	**236,437,640**

**With respect to published accounts, prior period balances are reflective of changes described in the section "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)", which is referenced to for further details.*

As at 30 June 2014, the Group's comprehensive income for the period amounted to EUR 68.6 mln, showing a decrease of about EUR 167.8 mln as compared to the previous period. The figure includes a loss, for the half-year, of EUR 351.9 mln and an increase in valuation reserves primarily owing to the valuation reserve for financial assets available for sale. The increase in the allocation to the valuation reserve for investment carried at equity, amounted to EUR 132.4 mln, is to be primarily attributed to the insurance entities.

Consolidated statement of changes in equity – 30 June 2014

(in units of EUR)

	Balance as at 31 12 2013*	Changes in opening balances	Balance as at 01 01 2014*	Allocation of profit from prior year		Changes during the period									Total equity as at 30 06 2014	Group equity as at 30 06 2014	Non-controlling interests as at 30 06 2014
							Shareholders' equity transactions										
				Reserves	Dividends and other payout	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Treasury shares derivatives	Stock options	Otehr changes	Total comprehensive income for 30 06 2014			
Share capital:	7,498,052,152	-	7,498,052,152	-	-	-	-	-	-	-	-	-	(161,742)	-	7,497,890,410	7,484,508,171	13,382,239
a) ordinary shares	7,498,052,152	-	7,498,052,152	-	-	-	-	-	-	-	-	-	(161,742)	-	7,497,890,410	7,484,508,171	13,382,239
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium	5,158,920	-	5,158,920	-	-	(4,942,787)	-	-	-	-	-	-	-	-	216,133	-	216,133
Reserves:	1,187,803,640	-	1,187,803,640	(1,434,297,078)	-	(82,634)	4,807,205,058	-	-	-	-	-	324,490	-	4,560,953,476	4,547,827,816	13,125,660
a) from profits	1,261,848,519	-	1,261,848,519	(1,434,297,078)	-	-	(14,966,815)	-	-	-	-	-	-	-	(187,415,374)	(200,541,034)	13,125,660
b) other	(74,044,879)	-	(74,044,879)	-	-	(82,634)	4,822,171,873	-	-	-	-	-	324,490	-	4,748,368,850	4,748,368,850	-
Valuation reserves	(1,054,690,806)	-	(1,054,690,806)	-	-	-	-	-	-	-	-	-	-	421,685,745	(633,005,061)	(634,244,578)	1,239,517
Equity instruments	3,002,406	-	3,002,406	-	-	-	-	-	-	-	-	-	-	-	3,002,406	3,002,406	-
Treasury shares	(24,532,421)	-	(24,532,421)	-	-	-	24,532,016	-	-	-	-	-	-	-	(405)	(405)	-
Net profit (loss)	(1,434,196,278)	-	(1,434,196,278)	1,434,297,078	(100,800)	-	-	-	-	-	-	-	-	(351,925,560)	(351,925,560)	(353,032,767)	1,107,207
Total equity	6,180,597,613	-	6,180,597,613	-	(100,800)	(5,025,421)	4,831,737,074	-	-	-	-	-	162,748	69,760,185	11,077,131,399	11,048,060,643	29,070,756
Group equity	6,147,402,714	-	6,147,402,714	-	-	288,229	4,831,737,074	-	-	-	-	-	-	68,632,626	11,048,060,643	-	-
Non-controlling interests	33,194,899	-	33,194,899	-	(100,800)	(5,313,650)	-	-	-	-	-	-	162,748	1,127,559	29,070,756	-	-

**With respect to published accounts, prior period balances are reflective of changes described in the section "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)", which is referenced to for further details.*

As at 30 June 2014, the net equity including non-controlling interests and result for the period amounted to EUR 11,077.1 mln, as compared to EUR 6,180.6 mln as at 31 December 2013.

The change reflecting a EUR 4,896.5 mln increase is primarily due to the rights offering for a maximum amount of EUR 5 bn, in accordance with the resolutions issued by the Extraordinary Shareholders' Meeting of 21 May 2014. At the closing date for the rights offering period, which started on 9 June 2014 and ended on 27 June 2014, option rights were exercised with a subscription of 4,992,056,324 new shares accounting for 99.85% of the new shares offered, for a total of EUR 4,992.0 mln. This amount, net of the related costs and taxes, was recognised under the other reserves item, in compliance with article 2444, paragraph 2, Italian Civil Code since, as at 30 June, the certification of the completed subscription of the share capital increase had not yet been filed with the Register of Companies.

The loss for the period amounted to EUR 351.9 mln, which included a negative balance of EUR 353.0 mln for the Group and a positive balance of EUR 1.1 mln in non-controlling interests.

Treasury shares fell by EUR 24.5 mln; profit (loss) from trading in treasury shares (- EUR 15.0 mln) is included under reserves from profits which, during this reporting period, were also affected by the capitalisation of loss recognised as at 31.12.2013, amounting to EUR 1,434.2 mln.

Valuation reserves registered an overall increase of EUR 421.7 mln, which included + EUR 364.0 mln in valuation reserves of assets "available for sale", + EUR 129.5 mln in valuation reserves for Equity investments consolidated at equity method, - EUR 15,5 mln in valuation reserves for actuarial losses arising from defined benefit plans - EUR 28.2 mln in valuation reserves for "cash flow hedges", + EUR 0.6 mln in valuation reserves for foreign exchange differences.

Non-controlling interests declined by EUR 4.1 mln due primarily to the purchase by the Parent Company, in April 2014, of 92.1% of the shares, with rights of vote, of Perimetro Gestione Proprietà Immobiliari S.C.p.A. for about EUR 5.1 mln, partially offset by the total income of the period.

Consolidated statement of changes in equity – 30 June 2013

(in units of EUR)

	Balance as at 31 12 2012*	Changes in opening balances	Balance as at 01 01 2013*	Allocation of profit from prior year		Changes during the period										Total equity as at 30 06 2013	Group equity as at 30 06 2013	Non-controlling interests as at 30 06 2013
							Shareholders' equity transactions											
				Reserves	Dividends and other payout	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Changes in equity instruments	Treasury shares derivatives	Stock options	Otehr changes	Total comprehensive income as at 30 06 2013				
Share capital:	7,485,338,511	12,354,269	7,497,692,780	-	-	-	-	-	-	-	-	-	(1,955)	-	7,497,690,825	7,484,508,171	13,182,654
a) ordinary shares	7,485,338,511	12,354,269	7,497,692,780	-	-	-	-	-	-	-	-	-	(1,955)	-	7,497,690,825	7,484,508,171	13,182,654
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium	255,310,585	-	255,310,585	(255,099,524)	-	-	-	-	-	-	-	-	-	-	211,061	-	211,061
Reserves:	4,076,945,231	(1,650,945)	4,075,294,286	(2,889,439,678)	-	(413,422)	-	-	-	-	-	-	-	-	1,185,441,186	1,174,238,696	11,202,490
a) from profits	4,150,990,110	(1,650,945)	4,149,339,165	(1,942,915,108)	-	(413,422)	-	-	-	-	-	-	-	-	2,206,010,635	2,194,808,145	11,202,490
b) other	(74,044,879)	-	(74,044,879)	(946,524,570)	-	-	-	-	-	-	-	-	-	-	(1,020,569,449)	(1,020,569,449)	-
Valuation reserves	(2,283,566,874)	-	(2,283,566,874)	(45,379,016)	-	-	-	-	-	-	-	-	-	615,829,959	(1,713,115,931)	(1,714,347,469)	1,231,538
Equity instruments	3,002,406	-	3,002,406	-	-	-	-	-	-	-	-	-	-	-	3,002,406	3,002,406	-
Treasury shares	(24,532,421)	-	(24,532,421)	-	-	-	-	-	-	-	-	-	-	-	(24,532,421)	(24,532,421)	-
Net profit (loss)	(3,189,820,999)	-	(3,189,820,999)	3,189,918,218	(97,219)	-	-	-	-	-	-	-	-	(378,341,719)	(378,341,719)	(379,386,669)	1,044,950
Total equity	6,322,676,439	10,703,324	6,333,379,763	-	(97,219)	(413,422)	-	-	-	-	-	-	(1,955)	237,488,240	6,570,355,407	6,543,482,714	26,872,693
Group equity	6,319,820,583	(12,361,350)	6,307,459,233	-	-	(414,159)	-	-	-	-	-	-	-	236,437,640	6,543,482,714	6,543,482,714	X
Non-controlling interests	2,855,856	23,064,674	25,920,530	-	(97,219)	737	-	-	-	-	-	-	(1,955)	1,050,600	26,872,693	X	-

**With respect to published accounts, prior period balances are reflective of changes described in the section "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)", which is referenced to for further details.*

** The column "Changes in opening balances" is reflective of changes as at 31.12.2012 described in the section "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)", which is referenced to for further details.*

As at 30 June 2013, the total net equity including non-controlling interests and economic result for the period amounted to EUR 6,570.4 mln, compared to EUR 6,333.4 mln as at 31 December 2013.

Reserves showed an overall decrease of EUR 2,889.9 mln, primarily due to the capitalisation of loss recognised as at 31.12.2012, amounting to EUR 3,189.8 mln.

Valuation reserves registered an overall change of + EUR 615.8 mln, which included + EUR 581.2 mln in valuation reserves of assets "available for sale" , - EUR 2.9 mln in valuation reserves for Equity investments consolidated at equity method, - EUR 4.0 mln in valuation reserves for actuarial losses arising from defined benefit plans; + EUR 41.3 mln in valuation reserves for "cash flow hedges" and + EUR 0.2 mln in valuation reserves for foreign exchange differences.

Non-controlling interests grew by approx. EUR 1.0 mln, largely as a result of comprehensive income for the period.

Consolidated cash flow statement indirect method

(in units of EUR)

A. OPERATING ACTIVITIES	30 06 2014	30 06 2013*
1. Cash flow from operations	**637,777,989**	**325,882,390**
profit (loss) (+/-) for the period	(351,925,560)	(378,341,719)
capital gains/losses on financial assets held for trading and on assets/liabilities designated at fair value (+/-)	(168,770,960)	(490,410,304)
net profit (loss) from hedging	13,283,048	4,964,246
net impairment losses/reversals	1,166,959,996	1,028,558,678
net losses/reversal on impairment on property, plant and equipment and on intangible assets (+/-)	112,598,142	89,037,525
net provisions for risks and charges and other costs/revenues (+/-)	92,762,807	55,744,687
net premiums to be collected	-	-
other insurance revenues/charges to be collected	-	-
tax espense (recovery) on income from continuing operations	(203,150,280)	(14,875,917)
net losses/reversal on impairment on proups of assets held for sale and discontinued operations, after tax (+/-)	-	-
other adjustments	(23,979,204)	31,205,194
2. Cash flow from (used in) financial assets	**2,497,753,471**	**4,085,883,458**
financial assets held for trading	2,806,314,294	850,113,293
financial assets designated at fair value	-	-
financial assets available for sale	2,193,395,619	347,882,146
sales/repayment of financial assets held to maturity	-	-
loans to banks: on demand	1,853,618,869	(1,670,483,849)
loans to banks: other	-	-
loans to customers	(3,320,367,961)	3,618,335,345
hedging derivatives	-	-
other assets	(1,035,207,350)	940,036,523
3. Cash flow from (used in) financial liabilities	**(8,475,293,825)**	**(6,215,687,771)**
deposits from banks: on demand	(5,468,583,160)	(1,657,600,347)
deposits from banks: other	-	-
depostits from customers	4,035,865,720	5,230,817,056
debt securities issued	(221,549,682)	(1,202,919,033)
financial liabilities held for trading	(4,823,306,498)	(3,294,646,427)
financial liabilities designated at fair value	(2,972,097,753)	(2,609,477,699)
hedging derivatives	-	-
other liabilities	974,377,548	(2,681,861,321)
of which technical reserves	-	-
Net cash flow from (used in) operating activities	**(5,339,762,365)**	**(1,803,921,923)**

B. INVESTMENT ACTIVITIES

1. Cash flow from:	**366,003,002**	**77,172,592**
sales of equity investments	194,596,657	-
dividends collected on equity investments	162,802,560	68,773,496
sales/repayment of financial assets held to maturity	-	-
sales of property, plant and equipment	7,069,412	7,682,900
sales of intangible assets	1,534,373	716,196
sales of subsidiaries and undertakings	-	-
2. Cash flow used in	**(44,985,200)**	**(25,373,372)**
purchase of equity investments	-	-
purchase of financial assets held to maturity	-	-
purchase of property, plant and equipment	(14,424,457)	(7,959,157)
purchase of intangible assets	(30,560,743)	(17,414,215)
purchase of subsidiaries and undertakings	-	-
Net cash flow from (used in) investment activities	**321,017,802**	**51,799,220**

C. FUNDING ACTIVITIES

issue/purchase of treasury shares	9,565,203	-
issue/purchase of equity instruments carried at equity	4,992,056,324	-
dividend distribution and other	(102,075)	2,896,620
issue of new shares	-	-
Net cash flow from (used in) funding activities	**5,001,519,452**	**2,896,620**
	-	-
NET CASH FLOW FROM (USED IN) OPERATING, INVESTMENT AND FUNDING ACTIVITIES DURING THE YEAR	**(17,225,111)**	**(1,749,226,083)**

Reconciliation

(in units of EUR)

Accounts	30 06 2014	30 06 2013*
Cash and cash equivalents at beginning of period	877,275,504	2,432,879,857
Net increase (decrease) in cash and cash equivalents	(17,225,111)	(1,749,226,083)
Cash and cash equivalents: foreign exchange effects	-	-
Cash and cash equivalents at end of period	860,050,393	683,653,774

**With respect to published accounts, prior period balances are reflective of changes described in the section "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)", which is referenced to for further details.*

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

EXPLANATORY NOTES

Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)

Foreword

2014 has seen the first-time application of the following principles (for more detailed information please refer to Part A "Accounting Policies" of these Notes to the financial statements):

a) the new accounting principles governing consolidation (**IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interest in Other Entities"**) and amendments to these standards contained in the document "**Investment Entities**",
b) the amendment to **IAS 32 "Offsetting Financial Assets and Financial Liabilities"**, which 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 entry into force of the new standards governing consolidation referred to in sub-paragraph a), with particular reference to IFRS 10 and IFRS 11, resulted in the following:

- the shareholding in Integra Spa, a jointly controlled company according to both previously applicable rules and under existing rules, has been consolidated using the equity method rather than the proportional one, in compliance with the new IFRS 11;
- the shareholding in Costruzioni Ecologiche Moderne SpA, classified as an interest subject to significant influence according to previously applicable rules and as a controlling interest under existing rules, has been consolidated on a line by line basis as opposed to using the equity method;
- the shareholding in Marinella SpA, classified as an interest subject to significant influence according to previously applicable rules and an interest subject to joint control under existing rules, has not seen any changes to the method of consolidation applied, which continues to be the equity one.
- three strucuted entities (Patagonia Finance SA, Stichting Monte 2008-1 and Nota Italia – Corsair Ireland Serie n. 15) have been included in the scope of consolidation and consolidated on a line by line basis.

Application of the new standards did not result in the deconsolidation of any entities previously consolidated under the former IAS 27/SIC 12.

Regarding the first-time adoption of the new standards on consolidation, the document **"Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance"**, issued by the IASB on 17 May 2012, clarifies that 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). The same document also clarifies that at the date the IFRS 10 is first applied, an entity is not required to make adjustments to the previous accounting statements for entities which would have been consolidated with both IFRS 10 and the previously applied IAS 27/SIC 12 or which would not have been consolidated with either IFRS 10 or IAS 27/SIC 12. As for entities included in the scope of consolidation following the entry into force of IFRS 10, the same document specifies that IFRS 10 should be applied retrospectively, by adjusting the annual reporting period prior to the date of initial application or the initial equity 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.

As at 1 January 2013, the application of the new accounting standards on consolidation resulted in a negative impact of EUR 12.4 mln on the Group's net assets and a positive impact of EUR 23.1 mln on non-controlling interests, net of tax; as at 31 December 2013, the impact, net of tax, totalled - EUR 7.9 mln on the Group's net equity and + EUR 25 mln on non-controlling interests.

The entry into force of the amendment **to IAS 32 "Offsetting financial assets and liabilities"**, referred to in sub-paragraph b), resulted in the balance sheet netting of financial assets and liabilities generated by OTC derivatives cleared through Clearing Houses, for a total of EUR 1,470.8 and EUR 628.2 mln respectively as at 1 January 2013 and 31 December 2013, with no impact on the Group's net equity.

In compliance with the provisions of IAS 1 "Presentation of financial statements" this section contains:

- balance sheet statements at the beginning and at the end of the prior year, re-stated to retrospectively reflect the changes introduced by the adjustment described in this chapter;
- the income statement as at 30 June 2013, restated to reflect the impacts from the adjustments described in this chapter.

The statement of comprehensive is not included since no adjustments have been made to the valuation reserves.

Consolidated Balance Sheet

(in units of EUR)

	Assets	01 01 2013	Impact FTA IFRS 10/11	Impact FTA offsetting	01 01 2013 Restated
10	Cash and cash equivalents	2,432,879,857	1,006	-	2,432,880,863
20	Financial assets held for trading	23,514,203,879	(76,435,165)	(1,470,782,503)	21,966,986,211
40	Financial assets available for sale	25,648,740,633	-	-	25,648,740,633
60	Loans to banks	11,224,988,612	656,573,620	-	11,881,562,232
70	Loans to customers	142,015,160,914	(689,887,434)	-	141,325,273,481
80	Hedging derivatives	551,093,100	-	-	551,093,100
90	Change in value of macro-hedged financial assets (+/-)	119,157,001	-	-	119,157,001
100	Equity investments	1,040,102,072	(17,009,720)	-	1,023,092,352
120	Property, plant and equipment	1,334,478,778	125,701,133	-	1,460,179,911
130	Intangible assets	1,191,502,071	(4,340)	-	1,191,497,732
	of which: goodwill	*669,701,061*	-	-	*669,701,061*
140	Tax assets	6,126,579,983	2,465,790	-	6,129,045,773
	a) current	*912,438,405*	*(86,404)*	-	*912,352,001*
	b) deferred	*5,214,141,578*	*2,552,194*	-	*5,216,693,772*
	under Law 214/2011	*2,796,914,621*	*(176,036)*	-	*2,796,738,586*
150	Non-current assets and groups of assets held for sale and discontinued operations	12,460,932	-	-	12,460,932
160	Other assets	3,674,725,451	4,050,160	-	3,678,775,611
	Total Assets	**218,886,073,283**	**5,455,051**	**(1,470,782,503)**	**217,420,745,831**

(in units of EUR)

	Liabilities and Shareholders' Equity	01 01 2013	Impact FTA IFRS 10/11/12	Impact FTA offsetting	01 01 2013 Restated
10	Deposits from banks	43,398,955,546	-	-	43,398,955,546
20	Deposits from customers	81,302,684,839	(77,555,042)	-	81,225,129,797
30	Debt securities issued	39,939,623,998	(50,967,801)	-	39,888,656,197
40	Financial liabilities held for trading	21,516,900,054	(2,816,746)	(1,470,782,503)	20,043,300,805
50	Financial liabilities designated at fair value	14,427,857,893	-	-	14,427,857,893
60	Hedging derivatives	5,574,797,946	125,112,515	-	5,699,910,461
80	Tax liabilities	163,229,017	6,436,197	-	169,665,214
	a) current	*114,030,305*	*1,109,442*	-	*115,139,747*
	b) deferred	*49,198,712*	5,326,755	-	*54,525,467*
90	Liabilities associated with non-current assets held for sale and discontinued operations	-	-	-	-
100	Other liabilities	4,473,432,725	(5,472,655)	-	4,467,960,070
110	Provision for employee severance pay	317,352,200	15,259	-	317,367,459
120	Provisions for risks and charges:	1,448,562,626	-	-	1,448,562,626
	a) post-employment benefits	*47,971,097*	-	-	*47,971,097*
	b) other provisions	*1,400,591,529*	-	-	*1,400,591,529*
140	Valuation reserves	(2,284,792,762)	-	-	(2,284,792,762)
160	Equity instruments	3,002,406	-	-	3,002,406
170	Reserves	4,054,772,398	(12,361,350)	-	4,042,411,048
180	Share premium	255,099,524	-	-	255,099,524
190	Share capital	7,484,508,171	-	-	7,484,508,171
200	Treasury shares (-)	(24,532,421)	-	-	(24,532,421)
210	Non-controlling interests (+/-)	2,855,856	23,064,674	-	25,920,530
220	Profit (loss) (+/-)	(3,168,236,733)	-	-	(3,168,236,733)
	Total Liabilities and Shareholders' Equity	**218,886,073,283**	**5,455,051**	**(1,470,782,503)**	**217,420,745,831**

(in units of EUR)

	Assets	31 12 2013	Impact FTA IFRS 10/11	Impact FTA offsetting	31 12 2013 Restated
10	Cash and cash equivalents	877,274,085	1,419	-	877,275,504
20	Financial assets held for trading	19,937,316,813	(70,555,430)	(628,195,275)	19,238,566,108
40	Financial assets available for sale	23,680,248,891	-	-	23,680,248,891
60	Loans to banks	9,913,983,550	571,211,634	-	10,485,195,184
70	Loans to customers	131,218,395,200	(620,668,114)	-	130,597,727,086
80	Hedging derivatives	397,933,500	-	-	397,933,500
90	Change in value of macro-hedged financial assets (+/-)	159,889,125	-	-	159,889,125
100	Equity investments	988,840,761	(18,462,845)	-	970,377,916
120	Property, plant and equipment	2,761,702,147	122,117,531	-	2,883,819,678
130	Intangible assets	1,162,055,649	552	-	1,162,056,201
	of which: goodwill	*669,691,855*	-	-	*669,691,855*
140	Tax assets	5,517,128,549	(1,771,484)	-	5,515,357,065
	a) current	*1,347,406,157*	*(95,522)*	-	*1,347,310,635*
	b) deferred	*4,169,722,392*	*(1,675,962)*	-	*4,168,046,430*
	under Law 214/2011	*3,113,718,026*	*(198,962)*	-	*3,113,519,064*
150	Non-current assets and groups of assets held for sale and discontinued operations	80,108,168	-	-	80,108,168
160	Other assets	2,411,029,349	1,221,333	-	2,412,250,682
	Total Assets	**199,105,905,787**	**(16,905,404)**	**(628,195,275)**	**198,460,805,108**

(in units of EUR)

	Liabilities and Shareholders' Equity	31 12 2013	Impact FTA IFRS 10/11	Impact FTA offsetting	31 12 2013 Restated
10	Deposits from banks	37,278,667,067	-	-	37,278,667,067
20	Deposits from customers	85,346,339,733	(60,224,256)	-	85,286,115,477
30	Debt securities issued	36,628,753,258	(67,186,769)	-	36,561,566,489
40	Financial liabilities held for trading	17,037,873,333	-	(628,195,275)	16,409,678,058
50	Financial liabilities designated at fair value	7,988,198,696	-	-	7,988,198,696
60	Hedging derivatives	3,324,710,863	96,924,057	-	3,421,634,920
80	Tax liabilities	180,447,617	5,073,218	-	185,520,835
	a) current	*26,602,524*	*(40,467)*	-	*26,562,057*
	b) deferred	*153,845,093*	5,113,685	-	*158,958,778*
90	Liabilities associated with non-current assets held for sale and discontinued operations	17,820,869	-	-	17,820,869
100	Other liabilities	3,750,932,337	(8,628,738)	-	3,742,303,599
110	Provision for employee severance pay	261,370,864	18,651	-	261,389,515
120	Provisions for risks and charges:	1,127,311,970	-	-	1,127,311,970
	a) post-employment benefits	*61,063,121*	-	-	*61,063,121*
	b) other provisions	*1,066,248,849*	-	-	*1,066,248,849*
140	Valuation reserves	(1,055,909,969)	-	-	(1,055,909,969)
160	Equity instruments	3,002,406	-	-	3,002,406
170	Reserves	1,187,240,292	(12,589,213)	-	1,174,651,079
180	Share premium	-	-	-	-
190	Share capital	7,484,508,171	-	-	7,484,508,171
200	Treasury shares (-)	(24,532,421)	-	-	(24,532,421)
210	Non-controlling interests (+/-)	8,214,073	24,980,826	-	33,194,899
220	Profit (loss) (+/-)	(1,439,043,372)	4,726,820	-	(1,434,316,552)
	Total Liabilities and Shareholders' Equity	**199,105,905,787**	**(16,905,404)**	**(628,195,275)**	**198,460,805,108**

Consolidated Income Statement

(in units of eur)

	Items	30 06 2013	Impact FTA IFRS 10/11	30 06 2013 Restated
10	Interest income and similar revenues	3,069,163,227	(2,534,354)	3,066,628,873
20	Interest expense and similar charges	(2,004,020,418)	3,938,591	(2,000,081,827)
30	**Net interest income**	**1,065,142,810**	**1,404,237**	**1,066,547,047**
40	Fee and commission income	1,057,942,768	(43,268)	1,057,899,500
50	Fee and commission expense	(209,339,121)	29,671	(209,309,450)
60	**Net fee and commission income**	**848,603,647**	**(13,597)**	**848,590,050**
70	Dividends and similar income	13,140,816	-	13,140,816
80	Net profit (loss) from trading	112,569,965	(237,310)	112,332,655
90	Net profit (loss) from hedging	(4,861,097)	(103,149)	(4,964,246)
100	Gains/losses on disposal/repurchase of:	51,469,431	-	51,469,431
	a) loans	*(1,672,050)*	-	*(1,672,050)*
	b) financial assets available for sale	*53,266,586*	-	*53,266,586*
	d) financial liabilities	*(125,105)*	-	*(125,105)*
110	Net profit (loss) from financial assets and liabilities designated at fair value	22,682,314	-	22,682,314
120	**Net interest and other banking income**	**2,108,747,885**	**1,050,181**	**2,109,798,066**
130	Net impairment losses(reversals) on	(1,051,083,718)	63,103	(1,051,020,615)
	a) loans	*(1,029,038,754)*	*63,103*	*(1,028,975,651)*
	b) financial assets available for sale	*(18,792,669)*	-	*(18,792,669)*
	d) other financial transactions	*(3,252,295)*	-	*(3,252,295)*
140	**Net income from banking activities**	**1,057,664,167**	**1,113,284**	**1,058,777,451**
180	Administrative expenses:	(1,507,621,954)	(803,584)	(1,508,425,538)
	a) personnel expenses	*(893,027,403)*	*(51,770)*	*(893,079,173)*
	b) other administrative expenses	*(614,594,551)*	*(751,814)*	*(615,346,365)*
190	Net provisions for risks and charges	(44,973,206)	-	(44,973,206)
200	Net adjustments to (recoveries on) property, plant and equipment	(38,404,487)	(1,823,749)	(40,228,236)
210	Net adjustments to (recoveries on) intangible assets	(48,811,735)	2,446	(48,809,289)
220	Other operating expenses/income	192,052,011	5,496,566	197,548,577
230	**Operating expenses**	**(1,447,759,370)**	**2,871,679**	**(1,444,887,691)**
240	Gains (losses) on investments	31,434,688	(726,563)	30,708,125
260	Impairment on goodwill	-	-	-
270	Gains (losses) on disposal of investments	(1,673,648)	-	(1,673,648)
280	**Profit (loss) before tax from continuing operations**	**(360,334,164)**	**3,258,400**	**(357,075,764)**
290	Tax expense (recovery) on income from continuing operations	6,178,473	(1,707,564)	4,470,908
300	**Profit (loss) after tax from continuing operations**	**(354,155,691)**	**1,550,836**	**(352,604,855)**
310	Profit (loss) after tax from groups of assets held for sale and discontinued operations	(25,736,864)	-	(25,736,864)
320	**Profit (loss) for the period**	**(379,892,555)**	**1,550,836**	**(378,341,719)**
330	Profit (loss) for the period attributable to non-controlling interests	86,874	958,076	1,044,950
340	**Parent company's net profit (loss) for the period**	**(379,979,429)**	**592,760**	**(379,386,669)**

It should be noted that the retrospective application of new IFRS 10 and IFRS 11 does not have a significant impact on basic and diluted earnings per share as at 30 June 2013.

Part A – Accounting policies

A.1 – General

Section 1 – Statement of compliance with international accounting principles

Pursuant to art. 154-ter paragraph 3 of the Consolidated Law on Finance, the Montepaschi Group Condensed Consolidated Half-Year Report as at 30 June 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 half-year report was prepared, pursuant to EC Regulation no. 1606 of 19 July 2002.

In particular, the Condensed Consolidated Half-Year Report as at 30 June 2014 was prepared in compliance with IAS 34 "Interim Financial Reporting" and in relation with provisions implementing art. 9 of Legislative Decree no. 38/2005. The international and accounting principles have been applied with reference to the "Framework for the preparation and presentation of financial statements" (hereinafter Framework).

The accounting principles used for the preparation of this Condensed Consolidated Half-Year Report are the same as those used for preparation of the Consolidated Full-Year Report as at 31 December 2013, which should be referred to for further details, 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 fist 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:
   a. would have been consolidated under both IFRS 10 and under IAS 27/SIC 12;
   b. 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.

Going concern

This Condensed Consolidated Half-Year Report was prepared based on a going concern assumption.

With regard to the indications contained in Document no. 4 of 3 March 2010, issued jointly by the Bank of Italy, Consob and Isvap, and following amendments, the Group reasonably expects to continue operating in the foreseeable future and has therefore prepared the condensed consolidated half-year report under a going concern assumption since the uncertainties arising from the current economic scenario do not cast doubts on to the company's ability to continue operating as a going concern.

For a description of the actions necessary to deliver the Restructuring Plan objectives, please refer to the 2013 Annual Report.

In particular, it must be noted that, with reference to the share capital increase, on 27 June 2014 the Rights Offering to the shareholders of the Parent Company of n. 4,999,698,478 newly issued ordinary shares, was completed.

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, accounting for 99.85% of the new shares offered, for a total of EUR 4,992.0 mln.

Pursuant to art. 2441, paragraph 3 of the Italian Civil Code, the Parent Company has offered on the stock exchange n. 178,555 option rights that were not exercised during the Rights Offering Period (the "Non-exercised rights"). All the Non-exercised rights were sold on the market in the first offering session held on 1 July 2014. Subsequent to the Offer on the stock exchange, a total of 7,642,154 new shares, resulting from exercising the Non-exercised rights, were subscribed.

It must be noted that on 1 July 2014, 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 EUR 3.5 bn approximately.

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

In accordance with the IFRSs, management is required to formulate assessments, estimates and forecasts which may have an influence on the application of the accounting principles as well as on the amounts of assets/liabilities and costs/revenues recognised in the financial statements. Estimates and related forecasts are based on past experience or other factors deemed reasonable in the specific circumstances and were made to estimate the carrying value of assets and liabilities that cannot be easily inferred from other sources. In particular, estimates were used in support of the carrying amounts for the most significant items posted in the Condensed Consolidated Half-Year Report as at 30 June 2014, in accordance with the aforementioned accounting principles and regulatory provisions. The making of these estimates involves the use of available information and adoption of subjective assessments. By their nature, the estimates and assumptions utilised may vary from one period to another and, therefore, it cannot be ruled out that in subsequent periods the actual amounts stated in the accounts may differ, even to a significant extent, as a result of changes in subjective assessments made. These estimates and valuations are thus difficult and bring about inevitable elements of uncertainty, even in stable macroeconomic conditions.

As for the relevant accounting choices, it should be noted that as at 30 June 2014, just as at 31 December 2013, in the AFS portfolio the new shareholdings in the Bank of Italy were included for a total of EUR 187.5 mln pursuant to a resolution approved by the Extraordinary Shareholders' Meeting of 23 December 2013, which, in application of the provisions of Law Decree 133, converted into law n. 29/2014, proceeded to cancel the old instruments and to issue new shares in accordance with the share capital increase to EUR 7.5 bn.

The accounting impact of this transaction was recognized through the income statement in 2013 (gain on disposal totalling EUR 165 mln, net of a tax effect of EUR 22.5 mln following application of a 12% substitute tax), thus meeting the conditions set forth in IAS 39 in terms of derecognition.

A different interpretation from the adopted approach, would have involved in 2013, with equal total income, the recognition of the above gains under other comprehensive income and not through the income statement.

In particular, with reference to the adopted accounting treatment, IFRS IC, at the meeting of 16-17 July, resolved not to include on the agenda this issue for the following reasons:

a. uncommon issue, given the type of transaction;
b. non significant different methods for accounting recognition among the several holders of the shares in question.

Finally, it should be noted that, by art. 4, paragraph 12, of Law Decree n. 66/2014 converted into law 23/6/2014 n. 89, the substitute tax was raised to 26%, resulting in a 14% increase, i.e. EUR 26.2 mln, recognised through the income statement as at 30 June 2014 under item 290 "Tax expense (recovery) on income from continuing operations".

For "long term structured repos" and other details, please refer to the 2013 Annual Report.

Attached to these Half-Year Condensed Consolidated Financial Statements, are the pro-forma statements as at 30 June 2014, reporting the estimated effects that would have been determined if the Parent Company had classified the "long-term structured repos" as synthetic derivatives.

Scope and method of consolidation

The Half-Year Condensed Consolidated Financial Report 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 them being going concerns or wound-up companies, or of whether the equity investment consists in 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.

Minor entities are not included in the scope if their consolidation proves immaterial for the purpose of the Consolidated Financial Statements.

For further information on the methods of consolidation, reference should be made to the Notes to the Fully-Year 2013 Consolidated Financial Statements, Part A "Accounting Policies".

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 consoldiation 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.

Monte Paschi Ireland Ltd was removed from the scope of consolidation following its merger by absorption into the Parent Company.

Events after the reporting period

Please refer to the section of Half-Year Report on Operations

Investments in associates and joint ventures

	Name	Registered Office	Type of relationship (*)	Ownership Relationship		Available votes % (**)
				Held by	Shareholding	
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	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	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	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

(**) Voting rights are disclosed only if different from the percentage of ownership

It should be noted with reference to interest in Widiba that the company, set up on November 8, 2013, has been authorized to engage in banking activities from the Bank of Italy in May 2014, as a result in the first half of 2014 the company was not operating.

A.2 The main items of the accounts

For this section, reference is made to the latest Annual Report available.

A.3 Information on portfolio transfers

A.3.1 Reclassified financial assets: book value, fair value and effect on comprehensive income

Type of financial instrument (1)	Portfolio prior to transfer (2)	Portfolio after transfer (3)	Book value at 30 06 2014 (4)	Fair value at 30 06 2014 (5)	Income components in the absence of transfers (before tax)		Income components reported for the period (before tax)	
					Value-relevance	Other (7)	Value-relevance	Other (9)
UCITS	Trading	Available for sale	19,135	19,135	811	(396)	811	1,137
Debt Securities	Trading	Lonas to banks	37,884	34,967	4,671	584	3	376
Debt Securities	Trading	Loans to customers	331,893	310,851	16,253	4,900	308	4,431
Debt Securities	Available for sale	Loans to banks	602,799	380,428	(12,939)	5,255	(306)	5,153
Debt Securities	Available for sale	Loans to customers	503,331	504,865	15,668	2,284	(286)	4,327
	Total		**1,495,042**	**1,250,246**	**24,464**	**12,627**	**530**	**15,424**

In addition to illustrating the book values and fair values as at 30.06.2014 of financial instruments reclassified in 2008, the table also reports (columns 6 and 7) profit and loss results in terms of valuation component and "other components" (profit/loss and interest from disposal), which these financial instruments would have produced for the Group in the first quarter of 2014 had they not been transferred during 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), posted for the above mentioned istruments by the Group in the first half of 2014.

A.4 – Information on fair value

A.4.1 Fair value level 2: measurement techniques and inputs use

Items	Fair value 30 06 2014						Type	Valuation technique(s)	Inputs used
	Financial assets held for trading	Financial assets available for sale	Hedging derivatives	Financial liabilities held for trading	Financial liabilities designated at fair value	Hedging derivatives			
Debt securities	304,790	132,909	X	-	3,861,274	X	Bonds	Discounted Cash Flow	Interest rate curve, CDS curve, Basi (yield), Inflation Curves
							Structured Bonds	Discounted Cash Flow	Interest rate curve, CDS curve, Basi (yield), Inflation Curves + inputs necessary to measure optional component
							Bonds	Market price*	Market price*
Equity instruments	20	66,139	X	X	X	X		Market price*	Market price*, recent transactions, appraisals, manager reports
								Discounted cash flow	Share price, beta settore, free risk rate
								Net asset adjusted	Fair value asset
Units in UCITS	12,049	160,607	X	X	X	X		Market price*	Market price*
Loans/deposits	2,116,184	-	X	X	X	X		Esternal Pricing/other methods	Periodic repricing
Deposits	X	X	X	1,537,795	-	X	from banks	Discounted Cash Flow	Curva dei tassi
				461,136	-		from customers	Discounted Cash Flow	Curva dei tassi
Financial derivatives	7,041,306	-	468,604	5,063,635	X	3,906,491	IR/Asset/Currency Swaps	Discounted Cash Flow	Interest rate curve, CDS Curve, Basi (yield), Inflation Curve, Foreign exchange rates and correlation
							Total return swaps	Discounted Cash Flow	Bond price, Interest rate curve, Foreign exchange rates
							Equity swaps	Discounted Cash Flow	Share price, Interest rate curve, Foreign exchange rates
							Forex Singlename	Option Pricing Model	Interest rate curve, Foreign exchange rates, Forex volatility
							Forex Singlename	Option Pricing Model	Interest rate curve, Foreign exchange rates, Forex volatility (Surface)
							Forex Multiname	Option Pricing Model	Interest rate curve, Foreign exchange rates, Forex volatility, Correlation
							Equity Singlename	Option Pricing Model	Interest rate curve, share price, foreign exchange rates, Equity volatility
							Equity Singlename Exotic	Option Pricing Model	Interest rate curve, share price, foreign exchange rates, Equity volatility (surface), Model inputs
							Equity Multiname Plain	Option Pricing Model	Interest rate curve, share price, foreign exchange rates, Equity volatility, Quanto Correlation, Equity/Equity correlation
							Equity Multiname Exotic	Option Pricing Model	Interest rate curve, share price, foreign exchange rates, Equity volatility (surface), Model inputs, Quanto Correlation
							Plain Rate	Option Pricing Model	Interest rate curve, inflation curve, bond prices, foreign exchange rates, Rate volatility, rate
							Spot-Forward	Market price*	Market price*, Swap Point
Credit derivatives	1,053,410	-	21	1,053,830	X	-	Credit Index	Market price*	Market price*
							Default swaps	Discounted Cash Flow	CDS curves, Interest rate curve
							Cdo tranche	Discounted Cash Flow	Market price*, Basis, CDS curves, Base correlation, interest rate curve
Total assets	**10,527,759**	**359,655**	**468,625**	X	X	X			
Total liabilities	X	X	X	**8,116,396**	**3,861,274**	**3,906,491**			

**prices for similar financial instruments listed in not active markets (IFRS 13 par. 82 lett. b)*

A.4.1 Fair value level 3: measurement techniques and inputs use

Items	Fair value 30 06 2014			Type	Valuation technique(s)	Unobservable inputs	Range (weighted average)
	Financial assets held for trading	Financial assets available for sale	Financial liabilities held for trading				
Debt securities	56,235	102,213	-	Bonds	Discounted Cash Flow	Liquidity base, Credit Correlation	200 bps; 108 bps; 107 bps
					Discounted Cash Flow	Liquidity base	2 multiplyng factor; benchmark base
					Collateral valorization	Collateral Components	0 eur/mln
Equity instruments	-	280,368	X	Equity instruments	Discounted Cash Flow	Liquidity base	0 bps
				Equity instruments	Cost/Net Equity	Market Value	0 - 15 eur/mln
Financial derivatives	640	X	9,167	Equity Exotic	Option Pricing Model	Risk Model - Smile dynamics	No dynamic/Stochastic evolution
Units in UCITS	24	65,308			Adjusted NAV	Default Probability	5%
					Externally Pricing	Offered quotes	
Total assets	**56,899**	**447,889**	**X**				
Total liabilities	**X**	**X**	**9,167**				

A.4.2 Measurement processes and sensitivity

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

The most significant changes in fair value for debt securities, with unobservable inputs consisting in Cash Flow Base and Credit Spread, essentially arise from the perpetual security EIRLES TWO TV 05/49, for a notional amount of EUR 95 mln. Conversely from the last accounting report (March 2014), a fair value measurement that would best represent the structure, based on the credit ratings alone of the two issuers involved (Deutsche Bank and France Telecom), without considering their correlation, was chosen. The classification at level 3 depends on the fact that fair value measurement is obtained by also using unobservable parameters and internal assumptions; in particular, these assumptions are about determining the credit rating of Deutsche Bank and France Telecom on the security maturity (through extrapolation) and the application of a risk premium (i.e., the price for bearing the uncertainty inherent in the cash flows) due to security's limited liquidity. The security's fair value is negatively affected by an increase of both the cash flow base used and the spread representing the credit rating of the two issuers. The fair value measurement of the security was carried out based on different combinations of non-observable parameters: a credit spread from 95 bps to 121 bps for Deutsche Bank , a credit spread from 94 bps to 121 bps (10y) for France Telecom and a 0, 100, 200 and 300 cash flow base. Fair value measurement as at 30/06/2014 was obtained by using a credit spread level of 108 bps for DB, 107 bps for FT and a 200 bps cash flow base. In consideration of the above, the worst scenario occurs in the case of the pair of credit spreads being equal to 121.12 bps and a cash flow base of 300 bps; the best scenario occurs in the case of the pair of credit spreads being equal to 95.94 and a cash flow base of 0 bps. In the first case, a negative change of EUR 11 mln would be recognised as compared to fair value as at 30 June 2014; in the latter case, the change would be positive and would amount to EUR 30 mln.

The category "Debt securities", using unobservable inputs consisting in Cash Flow Bases, include the IMPREGILO 10/15 6.526 security, the sensitivity of which, with respect to the non-observable parameter range (see Table A.4.1.b), is below EUR 0.4 mln.

The most significant changes in fair value for Debt securities, with unobservable inputs consisting in Credit Correlation, essentially arise from the security ANTHRACITE ZC 03/20. This note is valued on the basis of the vehicle's asset items (collateral) which include a claim against Lehman Brothers (the unobservable input), recognised at a nominal value of approx. EUR 3mln but which is conservatively valued at zero mln Euros for Financial Statement purposes.

Equity securities measured using the Discounted Cash Flow model mainly include the Bank of Italy shareholding. The shareholding was measured within the high range identified by the Committee of Experts in the document "Revaluation of shareholdings in the Bank of Italy". The developed valuation, based on the discounting of potential dividend flows from the new rights of shareholders in the capital of Bank of Italy, identifies the cash flow basis to be used in discount flows as the input for entity-specific assumptions . The input range was between 0% and 20% of the cash flow base, which translates into a change in value of approximately EUR 63 mln.

Equity securities valued at cost/net equity include all investments designated at fair value which could not be measured according to a market based model. These positions amount to approx. EUR 100 mln.

The category of "Financial derivatives" includes derivatives whose market value depends on unobservable inputs, particularly the volatility smile. Remeasuring these positions using models which treat the input differently, from "no volatility" (Black&Scholes) to "stochastic volatility" (Heston Model) results in a change in market value of EUR 0.5 mln .

The units of UCITS measured using an adjusted NAV consist in the real estate fund Etrusco, valued through an adjusted NAV method (published by the asset management company) to take into account the fund's probability of default (unobservable input). The default probabilities, included in the adjusted NAV method and allocated using a score assigned to the fund on the basis of certain typical characteristics, are divided into levels (1%, 5%, 10%, 20%, and 30%) with the fund currently falling into the 5% level. Sensitivity to the unobservable input is calculated by assuming a downward-sloping default probability level, generating an impact of around EUR 2.1 mln.

The units of UCITS measured with External Pricing are Hedge Fund side pockets, whose price quotes by the asset management companies are deemed non-verifiable. For this reason, the sensitivity of these positions is considered to be equal to their entire book value (approx. EUR 8 mln).

A.4.3 Fair value hierarchy

The fair value hierarchy was introduced by the IASB through the amendment to IFRS 7 "Additional disclosures" issued in March 2009 and subsequently adopted in the new IFRS 13 "Fair value measurement", issued in 2011 and subject to mandatory application as of 2013 Financial Statements.

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions.

The fair value of financial instruments listed in active markets is determined by using quoted market prices; quoted market prices for similar instruments or internal valuation models are used for other financial instruments.

Financial instruments are classified in three different levels according to the reliability of the inputs used during measurement.

The methods for classifying financial instruments in the three-level fair value hierarchy are shown below.

Level 1

This level shall include financial instruments measured using unadjusted quoted prices in active markets for identical instruments.

IFRS 13 defines an active market as a market in which transactions take place with sufficient frequency and volume to provide information on an ongoing basis. A financial instrument is quoted in a financial market when:

- the quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, authorised body or regulatory agency;
- the quoted prices represent actual and regularly occurring market transactions on an arm's length basis.

If the quoted prices meet these criteria, they represent the best estimation of fair value and must be used to measure the financial instrument.

From the definition of active market set out in IFRS 13 it is inferred that the active market concept is particular to the individual financial instrument being measured and not to the market on which it is listed; the fact that a financial instrument is quoted in a regulated market is therefore not in itself sufficient for said instrument to be defined as listed in an active market. Conversely, a financial instrument that is not traded in a regulated market may present sufficient frequency and volumes for it to be classified in level 1 of the fair value hierarchy.

Level 2 and 3

Financial instruments not listed in an active market must be classified in level 2 or 3.

Classification in level 2 rather than level 3 is determined on the basis of market observability of the significant inputs used to determine fair value. A financial instrument must be fully classified in a single level; if inputs belonging to different levels are used for the purpose of measuring an instrument, said instrument is classified based on the lowest level of input that is significant to the fair value measurement.

An instrument is classified in level 2 if all significant inputs are directly or indirectly observable on the market. An input is observable if it reflects the same assumptions used by market participants, based on independent market data.

Level 2 inputs are as follows:

a) quoted prices on active markets for similar assets or liabilities;
b) quoted prices for the instrument in question or for similar instruments on non-active markets, i.e. markets where:
   - there are few transactions;
   - the prices are not current or they vary substantially over time and between the difference market makers or
   - little information is made public;
c) observable market inputs other than quoted prices (e.g.: interest rates or yield curves observable in different buckets, volatility, credit curves, etc.);
d) inputs that derive primarily from observable market data, the reporting of which is confirmed by parameters such as correlation.

A financial instrument is classified in level 3 if the measurement techniques adopted use non-observable market inputs and their contribution to estimating fair value is deemed significant.

All financial instruments not listed in active markets are classified in level 3 where:

- despite having observable data available, significant adjustments based on non-observable data are required;
- The estimate is based on internal assumptions on future cash flows and risk adjustment of the discount curve.

It should also be noted that -regardless of whether measurement techniques adopted use non-observable market inputs- the Group deemed it appropriate and prudential to have Level 3 of the Fair Value hierarchy include any instruments not listed in active markets which are complex by their financial structure or for which there is no clear measurement method recognised as standard in the market and adjustable based on observable prices of comparable structures.

This applies, for example, to assets in the structured credit category not listed in an active market. Although, in some cases, this category could avail itself of appropriate measurement models that make use of observable market inputs (e.g. credit default swap curves) or quotations by primary counterparties, the lack of a liquid market on correlations in the wake of the financial crisis made it necessary to use subjective estimates. Given the complexity of these structures, the Group decided to classify these instruments in level 3, in the absence of an active market, regardless of the observability of input parameters significant for their mark-to-model measurement.

The processes used to measure level 3 instruments are based on a shared analysis of the types of instruments and underlying risk parameters by the Group's Business functions and Risk Management. The analysis is completed with the formulation of a pricing model and/or a model for determination of non-observable market inputs which is subject to final validation by Risk Management. At different time intervals depending on the type of instruments (though commonly on a monthly basis) on the back of directly observable market inputs, the Group's Business functions proceed with determining the non-observable market inputs and measuring instruments of level 3. The Risk Management function, based on a shared methodological approach, proceeds with the final validation of fair value. In support of this activity and with a view to ensuring an adequate level of "formalisation", assessment data sheets have been introduced and are updated on a six-monthly basis for individual instruments classified in level 3, which contain a brief description of the instrument, pricing methods adopted and details about inputs used for fair value measurement.

As for fair value transfers between different levels, it is noted that the Group has set some rules to determine whether a financial instrument is level 1 or 3; level 2 is determined by difference. When an instrument no longer meets the conditions for classification in level 1 or 3, a new level is determined.

As for OTC derivatives**,** in compliance with IFRS 13 the MPS Group calculates adjustments to values, obtained through valuation models using risk-free interest rates, to take account of the creditworthiness of the individual counterparty. This risk measure, known as Credit Value Adjustment (CVA), is estimated for all OTC derivative positions with non-collateralised institutional and retail counterparties.

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

Market-consistent probability measurements are employed in the calculation of CVAs in order to gauge market expectations resulting from CDS prices without, however, losing the historical information available within the MPS Group.

Quantitative Information

A.4.5 Fair value hierarchy

A.4.5.1 Assets and liabilities designed at fair value on a recurring basis: breakdown by fair value level

	30 06 2014				30 06 2013*			
	Level1	Level 2	Level 3	Total	Level1	Level 2	Level 3	Total
1. Financial assets held for trading	6,246,965	10,527,759	56,899	16,831,623	6,594,985	12,565,876	77,705	19,238,566
2. Financial assets designated at fair value	-	-	-	-	-	-	-	-
3. Financial assets available for sale	22,223,424	359,655	447,889	23,030,968	22,572,784	494,564	612,901	23,680,249
4. Hedging derivatives	-	468,625	-	468,625	-	397,934	-	397,934
5. Property, plant and equipment	-	-	-	-	-	-	-	-
6. Intangible assets	-	-	-	-	-	-	-	-
Total	**28,470,389**	**11,356,039**	**504,788**	**40,331,216**	**29,167,769**	**13,458,374**	**690,606**	**43,316,749**
1. Financial liabilities held for trading	3,592,824	8,116,396	9,167	11,718,387	3,173,141	13,228,152	8,385	16,409,678
2. Financial liabilities designated at fair value	1,253,412	3,861,274	-	5,114,686	-	7,988,199	-	7,988,199
3. Hedging derivatives	-	3,906,492	-	3,906,492	-	3,421,635	-	3,421,635
Total	**4,846,236**	**15,884,162**	**9,167**	**20,739,565**	**3,173,141**	**24,637,986**	**8,385**	**27,819,512**

**With respect to published accounts, prior period balances are reflective of changes described in the section " Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors) which is referenced to for further details.*

A.4.5.2 Annual changes of financial assets designated at fair value on a recurring basis (level 3)

30 06 2014

	Financial assets held for trading	Financial assets designated at fair value	Financial assets available for sale	Hedging derivatives	Property, plants and equipments	Intangible assets
1. Opening balance	**77,705**	**-**	**612,901**	**-**	**-**	**-**
2. Increases	**17,526**	**-**	**30,405**	**-**	**-**	**-**
2.1 Purchases	-	-	264	-	-	-
2.2 Profits posted to:	17,510	-	30,107	-	-	-
2.2.1 Profit and Loss	17,510	-	11,476	-	-	-
- of which capital gains	11,323	-	-	-	-	-
2.2.2 Equity	X	X	18,631	-	-	-
2.3 Transfers from other levels	-	-	-	-	-	-
2.4. Other increases	16	-	34	-	-	-
3. Decreases	**38,332**	**-**	**195,417**	**-**	**-**	**-**
3.1 Sales	3,525	-	63,822	-	-	-
3.2 Redemptions	15,000	-	4,942	-	-	-
3.3 Losses posted to:	18,207	-	98,435	-	-	-
3.3.1 Profit and Loss	18,207	-	18,008	-	-	-
- of which capital losses	6,978	-	17,529	-	-	-
3.3.2 Equity	X	X	80,427	-	-	-
3.4 Transfers to other levels	1,600	-	27,197	-	-	-
3.5. Other decreases	-	-	1,021	-	-	-
4. Closing balance	**56,899**	**-**	**447,889**	**-**	**-**	**-**

The amount shown in the column "Financial assets available for sale" under item "transfers to other levels" refers to the real estate fund Socrate which was reclassified within level 2 of the fair value hierarchy in accordance with the prices available on the Milan Exchange Stock Market.

The amount shown in the column "Financial assets held for trading" under item "transfers to other levels" refers to the bond SMPER 1F TV 07/46, reclassified from level 3 to level 2 of the fair value hierarchy.

A.4.5.3 Annual changes of financial assets designated at fair value on a recurring basis (level 3)

30 06 2014

	Financial liabilities held for trading	Financial liabilities designated at fair value	Hedging derivatives
1. Opening balance	**8,385**	**-**	**-**
2. Increases	**14,834**	**-**	**-**
2.1 Issues	-	-	-
2.2 Losses posted to:	14,796	-	-
2.2.1 Profit and Loss	14,796	-	-
- of which capital gains	13,188	-	-
2.2.2 Equity	X	X	-
2.3 Transfers from other levels	-	-	-
2.4. Other increases	38	-	-
3. Decreases	**14,052**	**-**	**-**
3.1 Redemptions	-	-	-
3.2 Repurchases	-	-	-
3.3 Profits posted to:	14,052	-	-
3.3.1 Profit and Loss	14,052	-	-
- of which capital losses	1,936	-	-
3.3.2 Equity	X	X	-
3.4 Transfers to other levels	-	-	-
3.5. Other decreases	-	-	-
4. Closing balance	**9,167**	**-**	**-**

A.5 Information on "day one profit/loss"

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

Part B – Information on the consolidated balance sheet

ASSETS

LIABILITIES

ASSETS

Section 2 – Financial assets held for trading – Item 20

2.1 Financial assets held for trading: breakdown

Items/Amounts	Total 30 06 2014				Total 31 12 2013*			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
A. Balance sheet assets								
1. Debt securities	6,124,193	304,790	56,235	6,485,218	6,428,516	290,018	77,105	6,795,639
2. Equity instruments	59,361	20	-	59,381	98,428	12	-	98,440
3. Units in UCITS	10,317	12,049	24	22,390	16,399	84,870	112	101,381
4. Loans	-	2,116,184	-	2,116,184	-	3,695,787	-	3,695,787
Total (A)	**6,193,871**	**2,433,043**	**56,259**	**8,683,173**	**6,543,343**	**4,070,687**	**77,217**	**10,691,247**
B. Derivatives								
1. Financial derivatives:	53,094	7,041,306	640	7,095,040	51,642	7,259,339	488	7,311,469
2. Credit derivatives:	-	1,053,410	-	1,053,410	-	1,235,850	-	1,235,850
Total (B)	**53,094**	**8,094,716**	**640**	**8,148,450**	**51,642**	**8,495,189**	**488**	**8,547,319**
Total (A+B)	**6,246,965**	**10,527,759**	**56,899**	**16,831,623**	**6,594,985**	**12,565,876**	**77,705**	**19,238,566**

**With respect to published accounts, prior period balances are reflective of changes described in the section " Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors) which is referenced to for further details.*

Section 4 - Financial assets available for sale – Item 40

4.1 Financial assets available for sale: breakdown by type

Items/Amounts	Total 30 06 2014				Total 31 12 2013			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
1. Debt securities	22,194,694	132,909	102,213	22,429,816	22,547,442	242,773	100,870	22,891,085
2. Equity instruments	28,229	66,139	280,368	374,736	24,682	72,257	405,191	502,130
3. Units in UCITS	501	160,607	65,308	226,416	660	179,534	106,840	287,034
4. Loans	-	-	-	-	-	-	-	-
Total	**22,223,424**	**359,655**	**447,889**	**23,030,968**	**22,572,784**	**494,564**	**612,901**	**23,680,249**

Following the publication of the new Articles of Association in the Official Gazette of 19 April 2014, the shareholding in Istituto per il Credito Sportivo (ICS) was reduced from the previous 10.8% to approx. 1.48%, for the benefit of the interest held by the Ministry of Economy and Finance. The value of the shareholding was consequently adjusted from EUR 80.8 mln to EUR 12.4 mln.

Section 6 – Loans to banks – Item 60

6.1 Loans to banks: breakdown by type

Type of transaction/Amount	Total 30 06 2014		Total 31 12 2013*	
	Book value	Total Fair Value	Book value	Total Fair Value
A. Loans to central banks	**2,257,702**	**2,257,702**	**3,746,929**	3,746,929
1. Time deposits	17,000	x	17,000	x
2. Compulsory reserve	2,240,702	x	3,729,929	x
3. Reverse repurchase agreements	-	x	-	x
4. Other	-	x	-	x
B. Loans to banks	**6,380,182**	**6,199,431**	**6,738,266**	6,530,218
1. Loans	5,357,146	5,380,431	5,494,688	5,509,389
1.1 Current accounts and demand deposits	2,197,122	x	2,542,276	x
1.2 Time deposits	195,365	x	291,964	x
1.3 Other loans:	2,964,659	x	2,660,448	x
- Reverse repurchase agreements	545,506	x	270,011	x
- Finance leases	-	x	-	-
- Other	2,419,153	x	2,390,437	x
2. Debt securities	1,023,036	819,000	1,243,578	1,020,829
Total	**8,637,884**	**8,457,133**	**10,485,195**	**10,277,147**

Loans to banks	Total 30 06 2014		Total 31 12 2013*	
	Book value	Book value	Fair Value	
Non-performing assets	28,714	X	27,238	X

**With respect to published accounts, prior period balances are reflective of changes described in the section " Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors) which is referenced to for further details*.

The portfolio of "Loans to banks" includes loans and deposits, in addition to the unrestricted part of the compulsory legal reserve with the Bank of Italy which, as at 30 June 2014, amounted to EUR 2,240.7 mln. In accordance with regulations on average maintenance levels, the end-of-period balance of the compulsory reserve may be subject to substantial changes in relation to the Group's contingent cash flow requirements.

Section 7 – Loans to customers – Item 70

7.1 Loans to customers: breakdown by type

Type of transaction Amount	30 06 2014					31 12 2013*				
	Book value				Fair value	Book value				Fair value
	Performing	Non-performing		Total	Total	Performing	Non-performing		Total	Total
		Purchased	Others				Purchased	Others		
Loans	**108,893,962**	**6,305**	**22,434,619**	**131,334,886**	**135,348,692**	**108,156,638**	**6,493**	**20,984,248**	**129,147,379**	**132,139,583**
1. Current accounts	10,905,858	449	4,535,800	15,442,107	x	10,953,417	463	4,219,995	15,173,875	x
2. Reverse repurchase agreements	7,663,628	-	-	7,663,628	x	2,736,721	-	-	2,736,721	x
3. Mortgages	61,212,404	5,711	12,731,117	73,949,232	x	64,756,588	5,863	11,708,742	76,471,193	x
4. Credit cards, personal loans and fifth-of-salary backed loans	2,438,246	-	209,359	2,647,605	x	2,754,181	-	195,939	2,950,120	x
5. Financial leasing	3,847,783	-	1,092,306	4,940,089	x	4,037,738	-	1,016,593	5,054,331	x
6. Factoring	999,637	-	131,202	1,130,839	x	1,076,438	-	138,040	1,214,478	x
7. Other transactions	21,826,406	145	3,734,835	25,561,386	x	21,841,555	167	3,704,939	25,546,661	x
of which: leased assets under construction	*178,965*	-	*41,372*	*220,337*	*x*	*182,417*	-	*50,580*	*232,997*	x
Debt securities	**1,434,248**	**-**	**1,236**	**1,435,484**	**1,485,815**	**1,449,075**	**-**	**1,273**	**1,450,348**	**1,507,853**
Total	**110,328,210**	**6,305**	**22,435,855**	**132,770,370**	**136,834,507**	**109,605,713**	**6,493**	**20,985,521**	**130,597,727**	**133,647,436**

**With respect to published accounts, prior period balances are reflective of changes described in the section " Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors) which is referenced to for further details*.

With regard to the Nomura/Alexandria transaction, line 2 “Reverse repurchase agreements” includes the repo facility for an amount of EUR 1,967.0 mln and line 7 “ Other transactions” includes EUR 1,796.8 mln in cash collateral pledged in favour of the same counterparty for the interest rate swap and long term repo transactions.

Section 10 – Equity investments – Item 100

10.1 Equity investments in entities subject to joint control (valued at equity) and under significant influence: information on shareholders' equity

Company Name	Registered Office	Ownership Relationship		Avail. % votes	Consolidated value as at (in thousand of eur)	
		Held by	Share holding %		30 06 2014	31 12 2013*
A. Jointly controlled Companies						
Integra S.p.a.	Florence	Consum.it	50.000	-	909	905
Marinella S.p.a.	Marinella di Sarzana (SP)	Banca Monte dei Paschi di Siena	25.000	-	9,546	9,546
B. Companies under significant influence						
AD.Impresa S.p.a.	Milan	Banca Monte dei Paschi di Siena	20.000	-	-	-
Aereoporto di Siena S.p.a. (in liquidazione)	Rome	Banca Monte dei Paschi di Siena	21.380	-	-	-
Alerion Cleanpower S.p.a.	Rome	Banca Monte dei Paschi di Siena	6.358	-	8,782	9,065
Anima Holding S.p.a.		Banca Monte dei Paschi di Siena	10.324	-	91,328	137,567
Antoniana Veneta Popolare Vita S.p.a.		Banca Monte dei Paschi di Siena	50.000	-	7,304	22,268
Axa Mps Assicurazioni Danni S.p.a.	Rome	Banca Monte dei Paschi di Siena	50.000	-	40,805	32,101
Axa Mps Assicurazioni Vita S.p.a.	Rome	Banca Monte dei Paschi di Siena	50.000	-	696,393	634,218
Bio Fund S.p.a.	Siena	Banca Monte dei Paschi di Siena	13.676	-	-	255
Casalboccone Roma S.p.a. (in liquidazione)	Rome	Banca Monte dei Paschi di Siena	21.750	33.675	-	-
EDI.B. S.p.a. (in liquidazione)	Gubbio (PG)	Banca Monte dei Paschi di Siena	18.052	-	-	-
Fabrica Immobiliare SGR S.p.a.		Banca Monte dei Paschi di Siena	49.990	-	4,568	5,714
Fenice Holding S.p.a.	Florence	Banca Monte dei Paschi di Siena	4.156	-	-	16,352
		MPS Capital Services S.p.a.	16.383	-	-	-
Fidi Toscana S.p.a.	Milan	Banca Monte dei Paschi di Siena	27.460	-	46,398	47,346
Industria e Innovazione S.p.a.	Milan	Banca Monte dei Paschi di Siena	7.107	-	1,066	1,066
Intermonte SIM S.p.a.	Milan	Banca Monte dei Paschi di Siena	17.410	-	15,784	15,042
Interporto Toscano A.Vespucci S.p.a. Livorno-Guasticce	Collesalvetti (LI)	Banca Monte dei Paschi di Siena	21.819	-	9,294	10,210
		MPS Capital Services S.p.a.	19.002	-	-	-
Le Robinie S.p.a.	Reggio Emilia	Banca Monte dei Paschi di Siena	20.000	-	-	-
Microcredito di Solidarietà S.p.a.	Siena	Banca Monte dei Paschi di Siena	40.000	-	580	591
NewColle S.r.l.	Colle V. Elsa (SI)	Banca Monte dei Paschi di Siena	49.002	-	-	907
Prima Holding 2 S.p.a.	Milan	Banca Monte dei Paschi di Siena	28.344	31.969	154	3,638
Realizzazioni e Bonifiche Arezzo S.p.a. (in liquidazione)	Arezzo	Banca Monte dei Paschi di Siena	19.584	-	-	-
Sansedoni Siena S.p.a.	Rome	Banca Monte dei Paschi di Siena	21.754	33.674	11,382	14,810
S.I.T. - Finanz.di Sviluppo per l'Innovaz. Tecnologica S.p.a.	Rome	Banca Monte dei Paschi di Siena	19.969	-	103	121
Terme di Chianciano S.p.a.	Chianciano T. (SI)	Banca Monte dei Paschi di Siena	48.866	-	930	930
Agricola Merse S.r.l.	Assago (MI)	MPS Capital Services S.p.a.	20.000	-	5,000	5,000
Immobiliare Centro Milano S.p.a.	Milan	MPS Capital Services S.p.a.	33.333	-	-	-
S.I.C.I. Sviluppo Imprese Centro Italia SGR S.p.a.	Milan	MPS Capital Services S.p.a.	29.000	-	1,424	2,726
Total					**951,750**	**970,378**

**With respect to published accounts, prior period balances are reflective of changes described in the section " Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors) which is referenced to for further details.*

The change in this item, amounting to EUR 18.6 mln, is primarily due to the combined effect of the following events:

- net decline in the investment in Anima Holding S.p.A for EUR 46.2 mln, resulting from a decrease in shareholding (from 21.63% to 10.32%) following a global offer aimed at the listing of the shares of the company on the Electronic Stock Market and the write back carried out in the half-year of EUR 23.7 mln and recognised under item 240, "Gains (losses) on investments", of the Income Statement;

- write-down of the investment in Fenice Holding S.p.A. for EUR 16.3 mln, recognised under item 240, "Gains (losses) on investments", of the Income Statement;
- EUR 15.0 mln decrease in the investment in Antoniana Veneta Popolare Vita S.p.A., following a decrease in the share capital of the subsidiary, through cancellation and redemption of shares;
- EUR 67.2 mln increase in the investment in Axa MPS Assicurazioni Vita S.p.A. resulting from the application of the equity method.

Section 12 - Property, plant and equipment - Item 120

12.1 Property, plant and equipment used in the business: breakdown of assets valued at cost

Asset/Amount	Total	
	30 06 2014	31 12 2013*
1. Assets owned	**2,394,830**	**2,433,887**
a) land	841,664	841,780
b) buildings	1,243,782	1,260,513
c) furniture and furnishings	164,067	166,496
d) electronic systems	63,706	75,537
e) other	81,611	89,561
2. Assets leased	-	-
a) land	-	-
b) buildings	-	-
c) furniture and furnishings	-	-
d) electronic systems	-	-
e) other	-	-
Total	**2,394,830**	**2,433,887**

**With respect to published accounts, prior period balances are reflective of changes described in the section " Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors) which is referenced to for further details.*

12.2 Property, plant and equipment held for investment: breakdown of assets valued at cost

Asset/Amount	Total 30 06 2014		Total 31 12 2013*	
	Book value	Total Fair Value	Book value	Total Fair Value
1. Assets owned	**439,173**	**469,383**	**449,933**	**481,864**
a) land	178,252	179,938	181,945	184,845
b) buildings	260,921	289,445	267,988	297,019
2. Assets leased	-	-	-	-
a) land	-	-	-	-
b) buildings	-	-	-	-
Total	**439,173**	**469,383**	**449,933**	**481,864**

**With respect to published accounts, prior period balances are reflective of changes described in the section " Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors) which is referenced to for further details.*

Section 13 – Intangible assets – Item 130

13.1 Intangible assets: breakdown by type

Asset / Amount	30 06 2014			31 12 2013*		
	Finite Life	Indefinite Life	Total	Finite Life	Indefinite Life	Total
A.1 Goodwill	**x**	**669,692**	**669,692**	**x**	**669,692**	**669,692**
A.1.1 group	x	669,692	669,692	x	669,692	669,692
A.1.2 minorities	x	-	-	x	-	-
A.2 Other intangible assets	**467,162**	**-**	**467,162**	**492,364**	**-**	**492,364**
A.2.1 Assets carried at cost:	467,162	-	467,162	492,364	-	492,364
a) Internally generated intangible assets	96,672	-	96,672	97,114	-	97,114
b) other assets	370,490	-	370,490	395,250	-	395,250
A.2.2 Assets valued at fair value:	-	-	-	-	-	-
a) Internally generated intangible assets	-	-	-	-	-	-
b) other assets	-	-	-	-	-	-
Total	**467,162**	**669,692**	**1,136,854**	**492,364**	**669,692**	**1,162,056**

**With respect to published accounts, prior period balances are reflective of changes described in the section " Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors) which is referenced to for further details*.

All of the Group's intangible assets are measured at cost and comprise goodwill, intangible assets resulting from the acquisition of former Banca Antonveneta S.p.A. and software. All intangible assets recognised in the financial statements have a finite useful life, except for goodwill.

Goodwill is not systematically amortised but tested for impairment ("Impairment Test"). The test performed did not result in any impairment losses.

Line "A.2.1 Assets carried at cost – b) Other assets" includes:

- intangible assets arising from customer relations recognised following the acquisition of former Banca Antonveneta S.p.a.:
  - core deposits totalling EUR 98.5 mln, from fair value measurement at the acquisition date of on-demand funding (current accounts and savings deposits) of the merged bank;
  - core overdrafts totalling EUR 25.9 mln, from fair value measurement at the acquisition date of non-revolving credit facilities in the current account of the merged bank;
  - assets under management and assets under custody in the amount of EUR 8.9 mln, arising from fair value measurement at the acquisition date of AUM and AUC of the merged bank.
- purchase of externally-developed software for an amount of EUR 237.2 mln.

An analysis was carried out on the variables that lie at the basis of the value of the above-mentioned intangible assets associated with customer relationships which resulted in no need for impairment testing.

Considering that line "A.2.1 assets carried at cost – a) internally generated intangible assets" includes intangible assets linked to internally generated technology in the amount of EUR 96.7 mln, the software total recognised in the consolidated balance sheet amounts to EUR 333.9 mln.

Impairment testing of Group Goodwill.

IAS 36 sets out the principles for recognition and reporting of impairment for certain types of assets, including goodwill, illustrating the principles that an entity must follow to make sure that the carrying amount of its assets is not higher than their recoverable amount.

IAS 36 defines recoverable amount as the higher of:

- Fair value less costs to sell - the amount obtainable from the sale of an asset in a regular transaction between market participants, less the costs of disposal;
- Value in use - the present value of estimated future cash flows expected to arise from the continuing use of an asset or from a cash-generating unit.

IAS 36 requires the carrying amount of goodwill to be compared with the recoverable amount whenever there is an indication that the asset may have been impaired and in any case at least once a year at the balance sheet date (impairment test).

The recoverable amount of goodwill is estimated with reference to the cash-generating unit (CGU), since goodwill is not able to generate cash flows independently from an asset.

A cash-generating unit is the smallest identifiable group of assets that generates cash inflows from continuing use which are largely independent of the cash inflows from other assets or groups of assets, which the Group is able to recognise separately in its management reporting system.

In accordance with IAS 36 and in light of the aforementioned considerations, the impairment test carried out on goodwill as shown in the Group's consolidated financial statements comprised the following activities:

1) Identification of goodwill;
2) Identification of cash-generating units and allocation of goodwill to the cash-generating units identified;
3) Determination of the recoverable value of the CGUs
4) Results from the Impairment test and sensitivity analysis

1) Identification of goodwill

The impairment test was carried out on goodwill; no other indefinite-life intangible assets are recognised in the financial statements.

2) Identification of cash-generating units and allocation of goodwill to the cash-generating units identified

According to IAS 36, each cash generating unit or group of units to which goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes and should not be larger than an operating segment as defined by IFRS 8 ("Operating Segments").

As for the impairment test at 31 December 2013, the Group's goodwill was tested by identifying those CGUs into which the Group's operations can be separated and analysing the cash flows that these will be able to generate in future years, based on an approach consistent with Segment Reporting at the balance sheet date, which is in turn reflected in Management Reporting.

For the purpose of primary reporting of profit and loss/balance-sheet data, the Group has adopted a business approach opting for results to be broken down by the business segments in which the Group operates: Corporate and Investment Banking Division (Corporate customers), Retail and Network Division divided into "Retail Banking" (Retail and Private customers) segment, "Financial Advisory and Digital Banking" segment and Corporate Center (residual central operations). The Group's performance and planning development are monitored based on a model that splits the business into these various operating segments.

Therefore, as compared to the impairment test as at 31 December 2013, in addition to the Consumer CGU and Corporate CGU, the new "Financial Advisory and Digital Banking" CGU was identified and underwent the impairment test in accordance with the approach adopted by the segment reporting of the MPS Group. The latter CGU represents the new organisation structure which includes both the Financial Advisory Network (previously included in Consumer CGU) as well as the subsidiary Widiba, the Group's newco operating in the online banking sector, which started operations in the second half of 2014.

In particular, the 3 CGUs have the following scopes of business:

1. "**CGU - Consumer**" is composed of:
   - Retail customers from BMPS, former Nuova BAV, and Consum.it branches;
   - Typically private customers of BMPS and former Nuova BAV branches as well as other private clients from other Group entities;

2. **"CGU - Corporate"**, composed of typically corporate clients of BMPS, former Nuova BAV and foreign branches, Large Corporates, MPS Leasing & Factoring and MPS Capital Services;
3. "**CGU - Financial Advisory and Digital Banking**" composed of the customers that are typical of the network of financial advisors (previously included in the Consumer CGU) and the subsidiary Widiba (the Group's newco established to relaunch the presence of MPS in direct channels and digital banking which will start operations in the second half of 2014).

As required by IAS 36, following redefinition of the scope of business of the CGUs and the consequent definition of the new Financial Advisory and Digital Banking CGU, the allocation of the goodwill, recognised on the basis of the drivers, consistent with the characteristics of the CGU, was also reassessed. This activity has entailed the reallocation to the Financial Advisory and Digital Banking CGU of a goodwill of about EUR 8 mln. Therefore, the goodwill of EUR 670 mln, subject to the impairment test is allocated to the Consumers CGU for EUR 662 mln and to the Financial Advisory and Digital Banking CGU for approximately EUR 8 mln. These figures reflect the write-downs carried out in the previous years.

Under IAS 36, if a corporate asset cannot be allocated on a reasonable and consistent basis to the cash-generating units identified, it should be tested for impairment by identifying the smallest group of cash-generating units – a sort of "higher" cash-generating unit – to which it can be allocated. In this specific case, the test focused on those corporate assets which were not included in individual CGUs' segment reporting, with a view to identifying some drivers enabling their allocation to the CGUs. Subsequent to the allocation, an estimate was made of the Montepaschi Group's overall recoverable value so as to confirm the applicability of the 'Central Residual Expenses'/Residual CGU' allocation by comparing the total value of the CGUs with the overall value of the Group. The Residual CGU was also allocated on the basis of the actions and objectives set out in the Business Plan for the different business areas.

It is noted that, since the Corporate CGU has no allocated goodwill, it does not require to be tested for impairment; its carrying value and its recoverable amount were established, as specified below, for the sole purpose of re-allocating the Residual CGU and verifying such allocation.

3) Determination of the recoverable value of the CGUs

The Group's goodwill at 30 June 2014 was tested for impairment by identifying the recoverable amount of the individual cash-generating units as the value in use. The recoverable amount of the CGUs was determined partly with the assistance of a leading consultancy firm.

The recoverable amount of the CGUs was estimated by discounting future distributable cash flows.

The 2014-2017 economic and financial projections for the identified CGUs were formulated on the basis of estimates consistent with the assumptions contained in the Group's 2013-2017 Restructuring Plan and Business Plan (approved respectively in October and November 2013), taking into account (i) some changes that have occurred since their approval, (ii) the final figures as at 30 June 2014 and (iii) the sensitivity analyses, developed by the Parent Company, of the Business Plan and the Restructuring Plan (published in the Prospectus concerning the share capital increase carried out by MPS in June 2014), in order to evaluate the possible effects from any alternative usage of the capital buffer, deriving from the capital increase that was carried out in June, taking into account the theoretical impacts resulting from the comprehensive assessments performed by the ECB.

In particular, it should be noted that the extraordinary shareholders' meeting of the Parent Company, held on 21 May 2014, approved a paid share capital increase in the maximum total amount of EUR 5 bn, inclusive of any share premiums. The reason for this increase is the opportunity:

- to provide a security buffer for the absorption of any negative impacts deriving from the *Comprehensive Assessment*, and to continue fulfilling the commitments associated with the Restructuring Plan, as well as
- to align the Bank with the best practices of the Italian market in terms of the Common Equity Tier 1 ratio.

In light of the above, and in order to evaluate any potential effects on the targets of the Restructuring Plan and Business Plan, from some changes that occurred after their approval (respectively, October and November 2013), with reference in particular to:

i. transposition of final data from 31 December 2013 to 31 March 2014;
ii. some changes of a legal and regulatory nature; and
iii. the increase in the planned amount of share capital as well as the possible actions that the Directors could undertake for the use of a greater available capital buffer as regards the purpose of the increase in the amount of the share capital,

the Parent Company has developed specific sensitivity analyses that do not constitute an organic re-processing of the data of the Business Plan and of the Restructuring Plan on the basis of changes in the scenario or to other non-determinant factors that could affect, in a positive or negative way, the forecast. Similarly, in the carried out analyses, reference is made to theoretical impacts resulting from the performance of Comprehensive Assessment by the ECB which have no forecast value, but are useful for verification of any alternative usage of the capital buffer which would be created from the planned share capital increase.

In particular, the alternative scenarios that were developed and used in setting up the procedures for the economic forecast of the CGUs, underlying the estimate of the recoverable value, can be summarised as follows:

- Scenario 1. Total usage of the capital buffer due to the negative impact of the Comprehensive Assessment, according to two alternative cases:
  - 1.a - impact with Pillar I effects: increase in the impairment losses on receivables in 2014 for approximately EUR 3 bn, with a negative impact for about EUR 2 bn on the net profit and reduction by an equal amount in the balance sheet assets. The impact of additional provisions in 2014 was estimated without changes in the administrative categories of the asset receivables (performing vs non-performing) and without changes to the value adjustments set out for the following years;
  - 1.b - impact with Pillar II effects: usage of the additional capital buffer in order to meet the capital needs of EUR 2 bn without any impact on the income statement.
- Scenario 2. No effect deriving from the Comprehensive Assessment and usage of the capital buffer for the full early repayment of the New Financial Instruments in 2014.

The recoverable amount was estimated on the basis of the following methodological steps:

1. Determination of the CGU's value in use by discounting future distributable cash flows, based on the following formula:

$$W = \sum_{t=1}^{n} \frac{F_t}{(1+i)^t} + VT_a$$

where:

F_t = cash flows distributable to shareholders over the selected time horizon based on the economic and financial projections processed in accordance with the above-described alternative scenarios, while maintaining a satisfactory level of capitalisation.

i = discounting rate represented by the cost of equity (ke).

VT_a = present terminal value ("Terminal Value") calculated as the value of a perpetual yield that is estimated according to an economically sustainable normalised cash flow consistent with the long-term growth rate ("g").

To discount cash flows distributable to shareholders, the cost of equity was used, that is the return on equity required by investors/shareholders for investments with similar risk characteristics. This rate was estimated using the Capital Asset Pricing Model ("CAPM"), based on the following formula:

$$k_e = R_f + Beta * (R_m - R_f)$$

where:

Rf = risk-free rate (factoring in the country risk) of 3.81% identified as the yearly average yield of 10-year bonds issued by the Italian government (source: Bloomberg).

Beta = correlation factor between actual share performance and overall performance of the reference market (measurement of the volatility of a stock relative to the market), equivalent to 1.19 (for BMPS beta, source: Bloomberg).

R_m - R_f = risk premium required by the market which, in line with assessment practices, is set at 5.0%.

The Terminal Value was determined based on the following formula:

$$VT = \text{normalised distributable cash flow} \; / \; / \; (k_e - g)$$

where:

g = the long-term growth rate.

The recoverable value was determined based on parameters representing the actual level of risk/return for the individual cash-generating unit. Specifically, the valuation parameters used were based on the following assumptions:

a) capital ratio: target capital coverage ratio of 8%, allowing all capital needs of the CGUs to be met;

b) cost of capital (ke): discounting rates were determined using estimates that reflect the specific risk of the CGUs (Consumer CGU and Financial Advisory CGU 9.8%, Corporate CGU 10.8%);

c) long-term growth rate (g): it was estimated at 2.0% based on forecasts by leading econometric institutions (ERC, IMF, Prometeia).

2. Allocation to the CGUs of the 'Residual CGU/Central Expenses' components, which had not previously been included in the estimate under item 1 above, based on reasonable drivers, consistent with the characteristics of the individual CGUs.
3. Determination of the MPS Group's recoverable value by discounting distributable cash flows, based on the Business Plan, a target supervisory ratio of 8%, a 9.8% ratio in line with the Group's cost of equity, according to current market parameters and a long-term growth rate of 2.0%.

The main parameters used to determine the recoverable amount of Consumer CGU, Financial Advisory and Digital Banking CGU as at 30 June 2014 are shown below.

	Measurement criteria		
	k_e	G	Capital ratio
CGU - Financial Advisory and Digital Banking CGU - Consumer	9.8%	2.0%	8.0%

4) Results from the Impairment test and sensitivity analysis

The above-described analyses, based on the projections developed for the indicated alternative scenarios, show the recoverable amounts of the Consumer CGU, the Financial Advisory and Digital Banking CGU, exceeding the respective carrying values as shown hereinafter.

	Difference of recoverable vs. carrying amount		
	Scenario 1.a	Scenario 1.b	Scenario 2
CGU - Consumer	3,535	3,746	4,253
CGU - Financial Advisory and Digital Banking	71	71	72

Furthermore, a sensitivity analysis was carried out by increasing by 100bp the cost of capital (ke) in all the alternative scenarios being considered. Also in this case, the recoverable amount of the CGUs has always exceeded the carrying amount.

In conclusion, the impairment test as at 30 June 2014 did not result in any write-downs to be carried out on the goodwill.

LIABILITIES

Section 1 – Deposits from banks – Item 10

1.1 Deposits from banks: breakdown

Items/accounts	Total 30 06 2014	Total 31 12 2013
1. Deposits from central banks	**22,530,563**	**30,681,806**
2. Deposits from banks	**9,279,521**	**6,596,861**
2.1 Current accounts and demand deposits	3,010,898	1,968,106
2.2 Time deposits	317,220	495,412
2.3 Loans	5,104,965	3,510,584
2.3.1. Repurchase agreements	2,843,079	1,649,564
2.3.2 Other	2,261,886	1,861,020
2.4 Liabilities for commitments to repurchase own equity instruments	-	-
2.5 Other liabilities	846,438	622,759
Total	**31,810,084**	**37,278,667**
Total fair value	**31,838,340**	**37,313,700**

"Deposits from central banks" include EUR 20,000 mln (EUR 28,000 mln as at 31 December 2013) for long-term refinancing operations (LTROs) carried out as part of Eurosystem financing, guaranteed by securities pledged by the Parent Company (which include a portion of the government-backed securities issued and simultaneously repurchased by the Parent Company for EUR 13,000 mln using the pooling mechanism).

Section 2 – Deposits from customers – Item 20

2.1 Deposits from customers: breakdown

Type of transaction/Amount	Total 30 06 2014	Total 31 12 2013*
1. Current accounts and demand deposits	58,041,697	55,076,435
2. Time deposits	10,406,489	8,003,472
3. Loans	19,657,366	21,029,105
3.1 Repurchase agreements	14,478,163	16,096,174
3.2 Other	5,179,203	4,932,931
4. Liabilities for commitments to repurchase own equity instruments	-	-
5. Other liabilities	1,216,429	1,177,103
Total	**89,321,981**	**85,286,115**
Total fair value	**89,536,308**	**85,310,897**

**With respect to published accounts, prior period balances are reflective of changes described in the section " Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors) which is referenced to for further details.*

The line "3.1 Repurchase agreements" includes EUR 3,361.1 mln (EUR 3,366.6 mln as at 31 December 2013) relating to the long term repo transaction entered into with Nomura.

Section 3 – Debt securities issued – Item 30

3.1 Debt securities issued: product breakdown

Type of Securities/ Amounts	Total 30 06 2014		Total 31 12 2013*	
	Book value	Fair Value	Book value	Fair Value
		Total		Total
A. Listed securities				
1. Bonds	31,280,846	31,589,289	31,920,854	31,236,213
2. Other securities	5,059,171	5,100,957	4,640,712	4,682,499
Total	**36,340,017**	**36,690,246**	**36,561,566**	**35,918,712**

**With respect to published accounts, prior period balances are reflective of changes described in the section " Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors) which is referenced to for further details.*

The amount EUR 5,059.2 mln recognised in line 2 “Other securities” includes EUR 4,747.1 mln relating to the financial instruments issued by the Bank and subscribed to by the Ministry of Economy and Finance (MEF) under Law Decree 95/2012, converted into Law no. 135 of 7 August 2012 ("New Financial Instruments").

It is noted that there was a change - during the first half of 2014 - in the estimation of future payments related to the reimbursement of the New Financial Instruments issued by the Parent Company and subscribed by the MEF on 28 February 2013. The change was due to the application of a clause in the Prospectus following the partial disposal of the investment held in the Parent Company by the Monte dei Paschi di Siena Foundation, which, under paragraph AG8 of IAS 39, resulted in a negative pre-tax impact on net interest income for the period of EUR 147.1 mln.

On 1 July, the Bank carried out the repayment of EUR 3 bn in nominal terms of New Financial Instruments (over EUR 126 mln of which was the higher amount repayable in accordance with NFIs governing provisions), and - in relation to interest due for 2013 - the repayment of EUR 329.6 mln in New Financial Instruments.

Section 4 – Financial liabilities held for trading – Item 40

4.1. Financial liabilities held for trading: breakdown

Type of transaction/ Group item	Total 30 06 2014						Total 31 12 2013*					
	NV	FV				FV*	NV	FV				FV*
		Level 1	Level 2	Level 3	Total			Level 1	Level 2	Level 3	Total	
A. Balance-sheet liabilities												
1. Deposits from banks	2,279,633	885,180	1,537,795	-	2,422,975	2,422,975	4,057,754	3,164,544	1,146,953	-	4,311,497	4,311,497
2. Deposits from customers	2,756,483	2,696,405	461,136	-	3,157,541	3,157,541	5,735,609	8,566	5,727,931	-	5,736,497	5,736,497
3. Debt securities issued	-	-	-	-	-	-	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-	-	-	-	-	-	-
3.2 Other securities	-	-	-	-	-	-	-	-	-	-	-	-
Total A	**5,036,116**	**3,581,585**	**1,998,931**	**-**	**5,580,516**	**5,580,516**	**9,793,363**	**3,173,110**	**6,874,884**	**-**	**10,047,994**	**10,047,994**
B. Derivatives												
1. Financial derivatives		11,239	5,063,635	9,167	5,084,041	-		31	5,087,564	8,385	5,095,980	-
2. Credit derivatives	-	-	1,053,830	-	1,053,830	-	-	-	1,265,704	-	1,265,704	-
Total B	**X**	**11,239**	**6,117,465**	**9,167**	**6,137,871**	**X**	**X**	**31**	**6,353,268**	**8,385**	**6,361,684**	**X**
Total (A+B)	**X**	**3,592,824**	**8,116,396**	**9,167**	**11,718,387**	**X**	**X**	**3,173,141**	**13,228,152**	**8,385**	**16,409,678**	**X**

**With respect to published accounts, prior period balances are reflective of changes described in the section " Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors) which is referenced to for further details.*

Legend
FV = *Fair value*
FV* = *Fair value calculated excluding value adjustments due to variations in the credit rating of the issuer since the date of issue*
NV = Nominal or Notional Value

Section 5 – Financial liabilities designated at fair value – Item 50

5.1 Financial liabilities designated at fair value: breakdown

Type of transaction / Amount	Total 30 06 2014						Total 31 12 2013					
	NV	FV				FV*	NV	FV				FV*
		Level 1	Level 2	Level 3	Total			Level 1	Level 2	Level 3	Total	
1. Deposits from banks	-	-	-	-	-	-	-	-	-	-	-	-
2. Deposits from customers	-	-	-	-	-	-	-	-	-	-	-	-
3. Debt securities issued	4,942,290	1,253,412	3,861,274	-	5,114,686	5,165,591	7,854,406	-	7,988,199	-	7,988,199	8,137,550
Total	**4,942,290**	**1,253,412**	**3,861,274**	**-**	**5,114,686**	**5,165,591**	**7,854,406**	**-**	**7,988,199**	**-**	**7,988,199**	**8,137,550**

Legend
FV = *Fair value*
FV* = *Fair value calculated excluding value adjustments due to variations in the credit rating of the issuer since the date of issue*
NV = Nominal or Notional Value

Section 12 – Provisions for risks and charges – Item 120

12.1 Provisions for risks and charges: breakdown

Item/Amount	Total 30 06 2014	Total 31 12 2013
1. Pensions and other post retirement benefit obligations	59,091	61,063
2. Other provisions for risks and charges	991,182	1,066,249
2.1 legal disputes	380,091	364,928
2.2 personnel charges	49,922	51,313
2.3 other	561,169	650,008
Total	**1,050,273**	**1,127,312**

Section 15 – Group equity – Items 140,160,170,180,190,200 and 220

15.2 Share capital - Parent company's number of shares: annual changes

Item/Type	30 06 2014			31 12 2013		
	Ordinary	Preferred	Savings	Ordinary	Preferred	Savings
A. Shares outstanding as at the beginning of the year	116,815,397	-	-	11,681,539,706	-	-
- fully paid	116,815,397	-	-	11,681,539,706	-	-
- not fully paid	-	-	-	-	-	-
A.1 Treasury shares (-)	544,954	-	-	54,495,378	-	-
A.2 Shares outstanding: opening balance	**116,270,443**	**-**	**-**	**11,627,044,328**	**-**	**-**
B. Increases	4,992,601,270	-	-	-	-	-
B.1 New issues	4,992,056,325	-	-	-	-	-
- against payment:	4,992,056,325	-	-	-	-	-
- business combinations	-	-	-	-	-	-
- bonds converted	-	-	-	-	-	-
- warrants exercised	-	-	-	-	-	-
- other	4,992,056,325	-	-	-	-	-
- without payment:	-	-	-	-	-	-
- to employees	-	-	-	-	-	-
- to directors	-	-	-	-	-	-
- other	-	-	-	-	-	-
B.2 Sale of treasury shares	544,945	-	-	-	-	-
B.3 Other increases	-	-	-	-	-	-
C. Decreases	**-**	-	-	-	-	-
C.1 Cancellation	-	-	-	-	-	-
C.2 Purchase of treasury share	-	-	-	-	-	-
C.3 Business transferred	-	-	-	-	-	-
C.4 Other decreases	-	-	-	-	-	-
D. Shares outstanding: closing balance	**5,108,871,713**	-	-	**11,627,044,328**	-	-
D.1 Treasury shares (+)	9	-	-	54,495,378	-	-
D.2 Shares outstanding as at the end of the year	5,108,871,722	-	-	11,681,539,706	-	-
- fully paid	5,108,871,722	-	-	11,681,539,706	-	-
- not fully paid	-	-	-	-	-	-

** The shares existing at the start of the period and the treasury shares have been recalculated in order to reflect the reverse split of the ordinary shares of the Parent Company according to a ratio of n. 1 new ordinary share to n. 100 treasury shares that was carried out on 5 May 2014, pursuant to the resolution issued by the Extraordinary Shareholders Meeting of Banca Monte dei Paschi di Siena S.p.A. held on 28 December 2013.*

*** The new issues refer to the new shares subscribed within the offering period that ended on 27 June 2014, pursuant to the resolution issued by the extraordinary shareholders' meeting of 21 May 2014, the amount of which was not recognised under Share Capital, but rather under other reserves since, as at 30 June, the certification of the completed subscription of the share capital increase had not yet been filed with the Register of Companies.*

Section 16 – Non-controlling interests - Item 210

Items/Amounts	Total 30 06 2014	Total 31 12 2013*
1) Share capital	13,382	13,544
2) Share premium reserve	216	5,159
3) Reserves	13,126	13,381
4) (Treasury shares)	-	-
5) Valuation reserves	1,240	1,219
6) Equity instruments	-	-
7) Profit (loss) for the year - Non-controlling interests	1,107	(108)
Total	**29,071**	**33,195**

**With respect to published accounts, prior period balances are reflective of changes described in the section " Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors) which is referenced to for further details.*

The decrease in non-controlling interests to EUR 4.124 mln is primarily due to the purchase by the Parent Company of 92.1% of the voting shares of Perimetro Gestione Proprietà Immobiliari S.C.p.A.

Part C – Information on the consolidated income statement

Section 1 – Interest income/expense and similar revenues/charges – Items 10 and 20

1.1 Interest income and similar revenues: breakdown

Item/Type	Debt securities	Loans	Other transactions	Total 30 06 2014	Total 30 06 2013*
1. Financial assets held for trading	43,325	13,443	42,934	99,702	163,754
2. Financial assets designate at fair value	-	-	-	-	-
3. Financial assets available for sale	334,316	-	-	334,316	427,628
4. Financial assets held to maturity	-	-	-	-	-
5. Loans to banks	12,678	11,431	-	24,109	49,763
6. Loans to customers	30,211	2,251,673	-	2,281,884	2,421,130
7. Hedging derivatives	x	x	-	-	-
8. Other assets	x	x	4,101	4,101	4,354
Total	**420,530**	**2,276,547**	**47,035**	**2,744,112**	**3,066,629**

**With respect to published accounts, prior period balances are reflective of changes described in the section " Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors) which is referenced to for further details.*

For a trend analysis of the items concerned, reference should be made to the Half-Year Report on Operations.

1.4 Interest expense and similar charges: breakdown

Item/Type	Deposits	Securities	Other transactions	Total 30 06 2014	Total 30 06 2013*
1. Deposits from central banks	(28,925)	x	-	(28,925)	(110,948)
2. Deposits from banks	(82,417)	x	-	(82,417)	(122,804)
3. Deposits from customers	(459,938)	x	-	(459,938)	(492,679)
4. Debt securities issued	x	(923,464)	-	(923,464)	(887,358)
5. Financial liabilities held for trading	(8,699)	-	(282)	(8,981)	(5,412)
6. Financial liabilities designated at fair va	-	(93,324)	-	(93,324)	(149,883)
7. Other liabilities	x	x	(2,855)	(2,855)	(3,363)
8. Hedging derivatives	x	x	(186,527)	(186,527)	(227,635)
Total	**(579,979)**	**(1,016,788)**	**(189,664)**	**(1,786,431)**	**(2,000,082)**

**With respect to published accounts, prior period balances are reflective of changes described in the section " Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors) which is referenced to for further details.*

It is noted that there was a change - during the first quarter of 2014 - in the estimation of future payments related to the reimbursement of the New Financial Instruments issued by the Parent Company and subscribed by the MEF on 28 February 2013. The change was due to the application of a clause in the Term-Sheet following the partial disposal of the investment held in the Parent Company by the Monte dei Paschi di Siena Foundation, which, under paragraph AG8 of IAS 39, resulted in a negative pre-tax impact on net interest income for the period of EUR 147.1 mln.

For a trend analysis of the items concerned, reference should be made to the Half-Year Report on Operations.

Section 2 – Fee and commission income/expense – Items 40 and 50

2.1 Fee and commission income: break down

Type of service / Amount	Total 30 06 2014	Total 30 06 2013*
a) guarantees issued	43,283	45,262
b) credit derivatives	-	-
c) management, brokerage and advisory services:	452,005	409,497
1. trading of financial instruments	8,598	10,724
2. currency trading	3,061	2,748
3. asset management	25,439	24,893
3.1 individual accounts	25,439	24,893
3.2. collective investment schemes	-	-
4. custody and administration of securities	4,325	5,468
5. custodian bank	-	-
6. placement of securities	13,981	3,391
7. client instructions	31,887	37,861
8. advisory on	1,347	62
8.1 investments	1,347	62
8.2 financial structure	-	-
9. distribution of third-party services	363,367	324,350
9.1. asset management	-	-
9.1.1 individual accounts	-	-
9.1.2 collective investment schemes	-	-
9.2 insurance products	121,222	135,681
9.3 other products	242,145	188,669
d) collection and payment services	118,887	102,477
e) servicing of securitisations	291	62
f) factoring transaction services	7,425	8,984
g) tax collection services	-	-
h) management of multilateral trade systems	-	-
i) current account keeping	289,140	330,187
j) other services	141,881	161,430
Total	**1,052,912**	**1,057,899**

**With respect to published accounts, prior period balances are reflective of changes described in the section " Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors) which is referenced to for further details.*

For a trend analysis of the items concerned, reference should be made to the Half-Year Report on Operations.

2.2 Fee and commission expense: breakdown

Type of service / Amount	Total 30 06 2014	Total 30 06 2013*
a) guarantees received	(51,863)	(51,396)
b) credit derivatives	-	-
c) management, brokerage and advisory services:	(52,200)	(55,419)
1. trading of financial instruments	(11,016)	(11,135)
2. currency trading	(31)	(69)
3. asset management:	(326)	(714)
3.1 own portfolio	(5)	(7)
3.2 third-party portfolios	(321)	(707)
4. custody and administration of securities	(4,921)	(5,010)
5. placement of financial instruments	(1)	(155)
6. off-site marketing of financial instruments, products and services	(35,905)	(38,336)
d) collection and payment services	(40,864)	(22,688)
e) other services	(36,986)	(79,806)
Total	**(181,913)**	**(209,309)**

**With respect to published accounts, prior period balances are reflective of changes described in the section " Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors) which is referenced to for further details.*

Commissions on "guarantees received" refer, for an amount of EUR 50.9 mln (the same amount as at 30 June 2013), to the guarantee issued by the Italian Government on securities issued and concurrently repurchased by the Parent Company for an amount of EUR 13,000 mln, against lending transactions in the Eurosystem.

For a trend analysis of the items concerned, reference should be made to the Half-Year Report on Operations.

Section 3 – Dividends and similar income – Item 70

3.1 Dividends and similar income: breakdown

Item/Income	30 06 2014			30 06 2013		
	Dividends	Income from units in UCITS	Total	Dividends	Income from units in UCITS	Total
A. Financial assets held for trading	2,150	11	2,161	2,145	51	2,196
B. Financial assets available for sale	17,577	9,161	26,738	6,313	4,632	10,945
C. Financial assets designated at fair value	-	-	-	-	-	-
D. Investments	-	x	-	-	x	-
Total	**19,727**	**9,172**	**28,899**	**8,458**	**4,683**	**13,141**

Section 4 – Net profit (loss) from trading – Item 80

4.1 Net profit (loss) from trading: breakdown

Transactions / P&L items	Capital Gains (A)	Trading Profit (B)	Capital Losses (C)	Trading Losses (D)	Net Profit (Loss) (A+B)-(C+D) 30 06 2014	Net Profit (Loss) (A+B)-(C+D) 30 06 2013*
1. Financial assets held for trading	203,383	205,585	(68,814)	(37,068)	303,086	(56,271)
2. Financial liabilities held for trading	594	36,770	(132,609)	(62,203)	(157,448)	16,339
3. Other financial assets and liabilities: exchange differences	x	x	x	x	12,354	15,398
4. Derivatives	2,605,753	6,207,187	(2,373,036)	(6,685,320)	(81,017)	136,867
Total	**2,809,730**	**6,449,542**	**(2,574,459)**	**(6,784,591)**	**76,975**	**112,333**

**With respect to published accounts, prior period balances are reflective of changes described in the section " Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors) which is referenced to for further details.*

Section 6 - Gains (losses) on disposal/repurchase - Item 100

6.1 Gains (losses) on disposal / repurchase: breakdown

Items / P&L items	Total 30 06 2014			Total 30 06 2013		
	Gains	Losses	Net Profit (Loss)	Gains	Losses	Net Profit (Loss)
1. Financial assets						
1. Loans to banks	838	(865)	(27)	450	(1,048)	(598)
2. Loans to customers	7,079	(20,687)	(13,608)	1,612	(2,686)	(1,074)
3. Financial assets available for sale	150,481	(96,170)	54,311	62,810	(9,543)	53,267
3.1 Debt securities issued	91,755	(94,834)	(3,079)	46,081	(8,756)	37,325
3.2 Equity instruments	56,164	(6)	56,158	13,829	(9)	13,820
3.3 Units of UCITS	2,562	(1,330)	1,232	2,900	(778)	2,122
3.4 Loans	-	-	-	-	-	-
4. Financial assets held to maturity	-	-	-	-	-	-
Total assets	**158,398**	**(117,722)**	**40,676**	**64,872**	**(13,277)**	**51,595**
1. Financial liabilities						
1. Deposits from banks	-	-	-	-	-	-
2. Deposits from customers	-	-	-	-	-	-
3. Debt securities issued	2,093	(2,127)	(34)	9,465	(9,590)	(125)
Total liabilities	**2,093**	**(2,127)**	**(34)**	**9,465**	**(9,590)**	**(125)**

The amount of EUR 20.7 mln posted to line 2 “Loans to customers” – column 'Losses', includes EUR 12.8 mln related to the sale without recourse, concluded in the month of June by the Parent Company, of a doubtful loan portfolio to a securitisation entity that is funded by companies of the Fortress Investment Group LLC.

The amount of EUR 56.2 mln, posted to line 3.2 “Financial assets available for sale - Equity instruments”, includes EUR 30.9 mln concerning the disposal of the investment accounting for 5.8% of the SIA S.p.A. share capital.

Section 7 – Net profit (loss) from financial assets and liabilities designated at fair value – Item 110

7.1 Net changes in financial assets and liabilities designated at fair value: breakdown

Transactions / P&L items	Capital Gains (A)	Gains following disposal (B)	Capital Losses (C)	Losses following disposal (D)	30 06 2014	30 06 2013
					Net Profit (Loss)	
					(A+B)-(C+D)	(A+B)-(C+D)
1. Financial assets	-	-	-	-	-	-
2. Financial liabilities	42,215	26,108	(140,800)	(497)	(72,974)	153,499
3. Financial assets and liabilities denominated in foreign currency: exchange differences	x	x	x	x	-	-
4. Credit and financial derivatives	51,907	12,106	(19,823)	(28,494)	15,696	(130,817)
Total	94,122	38,214	(160,623)	(28,991)	(57,278)	22,682

For a trend analysis of the items concerned, reference should be made to the Half-Year Report on Operations.

Section 8 – Net impairment losses (reversals) – Item 130

8.1 Net impairment losses (reversals) on loans: breakdown

Transactions / P&L items	Value adjustments			Write-back				Total 30 06 2014	Total 30 06 2013*
	Specific			Specific		Portfolio			
	Write-off	Others	Portfolio	A	B	A	B		
A. Loans to banks	-	(107)	(2,814)	41	272	-	8,916	6,308	792
- Loans	-	(107)	(2,814)	41	272	-	206	(2,402)	165
- Debt securities	-	-	-	-	-	-	8,710	8,710	627
B. Loans to customers	(10,625)	(1,790,071)	(26,200)	268,706	291,501	-	52,427	(1,214,262)	(1,029,768)
Non-performing loans purchased	-	(5,341)	-	124	4,551	-	-	(666)	(1,658)
- Loans	-	(5,341)	X	124	4,551	-	X	(666)	(1,658)
- Debt securities	-	-	X	-	-	-	X	-	-
Other receivables	(10,625)	(1,784,730)	(26,200)	268,582	286,950	-	52,427	(1,213,596)	(1,028,110)
- Loans	(10,625)	(1,784,730)	(26,200)	268,582	286,950	-	49,599	(1,216,424)	(1,027,912)
- Debt securities	-	-	-	-	-	-	2,828	2,828	(198)
C. Total	(10,625)	(1,790,178)	(29,014)	268,747	291,773	-	61,343	(1,207,954)	(1,028,976)

Legend:

A = From interest
B = Other reversals

**With respect to published accounts, prior period balances are reflective of changes described in the section " Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors) which is referenced to for further details.*

For a trend analysis of the items concerned, reference should be made to the Half-Year Report on Operations.

Section 11 – Administrative expenses – Item 180

11.1 Personnel expenses: breakdown

Type of Expense / Area	Total 30 06 2014	Total 30 06 2013**
1. Employees	(847,911)	(885,806)
a) wages and salaries	(612,314)	(633,062)
b) social-welfare charges	(167,549)	(173,033)
c) severance pay	(21,406)	(22,738)
d) social security expenses	-	-
e) provision for staff severance pay	(4,395)	(1,263)
f) pension fund and similar obligations:	(609)	(1,018)
- defined contribution	(178)	(180)
- defined benefit	(431)	(838)
g) contributions to external pension funds:	(8,864)	(11,126)
- defined contribution	(7,947)	(8,919)
- defined benefit	(917)	(2,207)
h) costs related to share-based payments	-	-
i) other employee benefits	(32,774)	(43,566)
2. Other staff	(672)	(1,512)
3. Directors and Statutory Auditors	(2,422)	(2,395)
4. Retired personnel	(4,091)	(3,366)
Total	**(855,096)**	**(893,079)**

*** With respect to published accounts, prior period balances are reflective of:*

- changes described in the section "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors), which is referenced to for further details.

- changes due to the reclassification to item 310 'Profit (loss) from groups of assets held for sale and discontinued operations" of the P&L items related to the transfer of the administrative, accounting and ancillary services business unit to the company 'Fruendo Srl' effective as of 01 january 2014.

For a trend analysis of the items concerned, reference should be made to the Half-Year Report on Operations.

11.5 Other administrative expenses: break down

Items/Amounts	30 06 2014	30 06 2013**
Stamp duties	(108,064)	(85,920)
Indirect taxes and duties	(18,348)	(18,101)
Municipal immovable property tax	(12,213)	(4,670)
Subscription and purchase of publications	(264)	(200)
Property rentals	(56,203)	(131,104)
Cleaning service contracts	(8,553)	(9,573)
Insurance	(8,317)	(10,607)
Rentals	(49,200)	(24,188)
Remuneration of external professionals	(50,795)	(40,005)
Third-party data processing	(26,546)	(29,253)
Title searches and land registry surveys	(2,099)	(1,382)
Lease of equipment	(30,185)	(42,792)
Utilities	(21,312)	(25,391)
Maintenance of movable and immovable properties (used in the business)	(13,532)	(14,494)
Data transmission rental	(12,020)	(13,036)
Postage	(19,371)	(25,195)
Advertising, sponsorships and promotions	(4,326)	(9,128)
Membership dues	(2,865)	(2,630)
Reimbursement of employee car and travel expenses	(5,363)	(4,749)
Security services	(15,251)	(18,878)
Software	(25,787)	(18,866)
Corporate entertainment expenses	(838)	(588)
Expenses for non-rented investment real estate	(296)	(652)
Printing and stationery	(3,815)	(3,494)
Telephone, telefax and telegraph	(2,983)	(3,961)
Transportation	(15,265)	(19,619)
Sundry occupancy expenses and refunds for release of immovable propert	(3,851)	(2,942)
Others	(19,497)	(53,928)
Total	**(537,159)**	**(615,346)**

*** With respect to published accounts, prior period balances are reflective of:*

- changes described in the section "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors), which is referenced to for further details.

- changes due to the reclassification to item 310 'Profit (loss) from groups of assets held for sale and discontinued operations" of the P&L items related to the transfer of the administrative, accounting and ancillary services business unit to the company 'Fruendo Srl' effective as of 01 january 2014.

For a trend analysis of the items concerned, reference should be made to the Half-Year Report on Operations.

Section 12 – Net provisions for risks and charges – Item 190

12.1 Net provisions for risks and charges: breakdown

Items/Amounts	30 06 2014				30 06 2013			
	Legal disputes	Personnel costs	Others	Total	Legal disputes	Personnel costs	Others	Total
Provisions for the year	(56,256)	(7,248)	(71,575)	(135,079)	(55,432)	(9,731)	(37,731)	(102,894)
Write-backs	12,927	6,382	33,764	53,073	9,791	1,689	46,441	57,921
Total	**(43,329)**	**(866)**	**(37,811)**	**(82,006)**	**(45,641)**	**(8,042)**	**8,710**	**(44,973)**

Section 15 – Other operating expenses (income) – Item 220

15.1 Other operating expenses: break down

Items/Amounts	Total 30 06 2014	Total 30 06 2013*
Costs of robberies	(2,538)	(3,087)
Write-downs on improvements of third-party goods recognized as "Other Assets"	(5,753)	(8,492)
Cost of financial lease transactions	(6,432)	(5,520)
Other	(77,468)	(21,369)
Total	**(92,191)**	**(38,468)**

**With respect to published accounts, prior period balances are reflective of changes described in the section " Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors) which is referenced to for further details*.

The line Other includes charges for legal proceedings, settlement agreements, penalties and contingent liabilities.

15.2 Other operating income: breakdown

Items/Amounts	Total 30 06 2014	Total 30 06 2013*
Rents from investment real estate	14,021	11,639
Other revenues from real estate (real estate inventory)	519	997
Recovery of taxes	107,839	86,468
Recovery of insurance premiums	3,500	6,737
Income from financial lease transaction	3,604	4,192
Other	102,444	125,983
Total	**231,927**	**236,016**

**With respect to published accounts, prior period balances are reflective of changes described in the section " Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors) which is referenced to for further details*.

The line Other income includes income from commission on fast-track lending procedure ("istruttoria veloce"), compensation and recovery of overheads.

Section 16 - Gains (losses) on equity investments - Item 240

16.1 Gains (losses) on equity investments: breakdown

P&L items/Sectors	Total 30 06 2014	Total 30 06 2013*
1) Jointly owned companies		
A. Income	4	15
1. Revaluations	4	5
2. Gains on disposal	-	-
3. Write-backs	-	-
4. Other income	-	10
B. Expense	-	(296)
1. Write-downs	-	(296)
2. Impairment losses	-	-
3. Losses on disposal	-	-
4. Other expenses	-	-
Net Profit (Loss)	**4**	**(281)**
2) Companies subject to significant influence		
A. Income	185,495	66,393
1. Revaluations	53,147	65,269
2. Gains on disposal	83,626	1,124
3. Write-backs	23,711	-
4. Other income	25,011	-
B. Expense	(33,283)	(35,404)
1. Write-downs	(16,917)	(9,066)
2. Impairment losses	(16,352)	(26,338)
3. Losses on disposal	(14)	-
4. Other expenses	-	-
Net Profit (Loss)	**152,212**	**30,989**
3) Subsidiaries		
A. Income	57,000	-
1. Revaluations	-	-
2. Gains on disposal	-	-
3. Write-backs	-	-
4. Other income	57,000	-
B. Expense	-	-
1. Write-downs	-	-
2. Impairment losses	-	-
3. Losses on disposal	-	-
4. Other expenses	-	-
Net Profit (Loss)	**57,000**	**-**
Total	**209,216**	**30,708**

With reference to the figures posted to line “2) Companies subject to significant influence”, the following should be noted:

- line “A.2.Gains on disposal” totalling EUR 83.6 mln includes EUR 66.2 mln related to the disposal of 11.3% of the investment held in the associate Anima Holding S.p.A., following a global sale offering aimed at the listing of ordinary shares of the Company on the Electronic Stock Market, and EUR 17.4 mln related to the disposal of the entire investment in Sorin S.p.A.;
- the amount of EUR 23.7 mln posted to line “A.3. Write-backs” refers to the associate Anima Holding S.p.A.;
- the amount of EUR 25 mln posted to line “A.4. Other income” refers to the adjustment of the disposal price paid in April to the Parent Company by the purchaser AXA Mediterranean Holding S.A. for the interests in Monte Paschi Assicurazioni Danni S.p.A and Monte Paschi Vita S.p.A. (occurring in October 2007)
- line “B.2. Impairment losses” includes the write-down of Fenice Holding S.p.A.

As regards point “3) Subsidiaries” line A.4 “Other income”, amounting to EUR 57.0 mln, refers to the integration of the disposal price of Biverbanca (sold by the Parent Company to Cassa di Risparmio di Asti in December 2012), corresponding to the Parent Company’s portion of new Bank of Italy shares held by Biverbanca and calculated in its CET1 net of substitute tax and the effect of prudential capital requirements.

Section 20 – Tax expense (recovery) on income from continuing operations – Item 290

20.1 Tax expense (recovery) on income from continuing operations: breakdown

P&L items/Sectors	Total	
	30 06 2014	30 06 2013**
1. Current tax (-)	(113,178)	(131,946)
2. Adjustments to current tax of prior years (+/-)	(14,383)	7,866
3. Reduction of current tax for the year (+)	-	-
3.bis "Reduction in current tax for the period due to tax credits under Law 214/2011	752,831	764,494
4. Changes in prepaid taxes (+/-)	(429,039)	(647,433)
5. Changes in deferred taxes (+/-)	6,919	11,490
6. Tax expense for the year (-) (-1+/-2 +3+/-4+/-5)	**203,150**	**4,471**

*** With respect to published accounts, prior period balances are reflective of:*

- changes described in the section "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors), which is referenced to for further details.

- changes due to the reclassification to item 310 'Profit (loss) from groups of assets held for sale and discontinued operations" of the P&L items related to the transfer of the administrative, accounting and ancillary services business unit to the company 'Fruendo Srl' effective as of 01 january 2014.

The higher income for taxes due for the relevant period, compared with the same figure as at 30.06.2013, is due to a higher pre-tax loss and to the income from the disposal of equity investments under the Participation Exemption ("PEX") regime within the IRES tax base but not relevant within the IRAP tax base, as well as the deduction, from the regional productivity tax IRAP, of net write-downs on loans to customers pursuant to the Stability Law for 2014.

The balance of item "Tax expense (recovery) on income from continuing operations" is also affected by some non-recurring components recognised by the MPS Group in the second quarter of 2014. In particular, the following should be noted:

- the charge of EUR 32.6 mln for the write-down of DTA IRAP following reduction (0.45% for the banks) of the IRAP statutory rate, as set forth in article 2 of Law Decree n. 66 of 24 April 2014 (converted , as amended, from the law of 23 June 2014 n. 89),
- the charge of EUR 26.2 mln for the increase (from 12% to 26%) of the substitute tax rate on the write-up of the interest in the Bank of Italy, as set forth in article 4, paragraph 12 of the above mentioned Law Decree n. 66/2014; the substitute tax on capital gains amounting to EUR 187.5 mln, calculated on shares accounting for 2.5% of the share capital of the Bank of Italy, had already been recognised at 12% (EUR 22.5 mln) in the Income Statement of 2013,
- the gain of EUR 56.1 mln for the ACE ("Aiuto alla crescita economica" – Support to the economic growth) deduction referring to the taxable periods 2012, 2013 and 2014 (first half-year). The benefit of the ACE deduction in the previous reports was prudently recognised only after the positive outcome of the appeal application with the Tax Authority for the non-application of the anti-avoidance rule pursuant to art. 10, paragraph 3, letter e) of the Decree of the Ministry of the Economy and Finance of 14/03/2012 (ACE Decree). However, the Circular issued by the Tax Authority, n. 12/E of 23/05/2014, by explicitly clarifying that the anti-avoidance rule does not apply if the absence of a duplication of the benefit within the group is not demonstrated, has highlighted the right to the ACE benefit for the MPS Group.

The increase in deferred tax assets during the year is mainly due to the new tax regime regarding losses and write-downs on loans, introduced by the above-cited Stability Law; the new regulations, which provide for the deferred deduction (over five years) of losses on loans that were previously fully deductible from corporate income tax (IRES) for a single accounting year, have immediately resulted in a larger tax base with the consequent recognition of higher deferred tax assets.

Part E – Information on risks and hedging policies

Note: The Pillar 3 Basel 2 public disclosure will be published on the Montepaschi Group's website www.mps.it/Investor+Relations.

Foreword

For an overview of how the Group's risk governance is organised, including processes and key functions, information regarding Risk Management objectives, related tasks and responsibilities as well as the means through which independence is ensured, as previously indicated please refer to the paragraph "Risk and capital management" in the Consolidated Half-Year Report on Operations.

Section 1 – Risks of the banking group

1.1 - Credit risk

Qualitative Information

1.1.1 General aspects

Within the guidelines of the Business Plan approved by the Board of Directors of the Parent Company, the Group pursues the priority objective of improving the quality of the managed loan book and consequently reducing the cost of credit.

The Group's credit activity is managed with a view to monitoring risk and enhancing growth opportunities, through the development of credit policies and systems aimed at making the most of trend data in connection with individual borrowers, against a background of in-depth knowledge and strategic management of positions.

1.1.2 Credit risk management policies

Organisational aspects

During 2012, the Parent Company's organisational review of the Head Office units led to the setting up of the Credit Division, merging under one single accountability the different functions that interface with network customers (except for funding/lending activities under centralised management - Large Corporate clients and International banking, covered by a dedicated unit) thus allowing for the achievement of scale and scope synergies that are useful to improve the quality of the Group's loan book. The model was modified in 2013 by the Parent Company's Board of Directors.

For the purpose of optimising the P&L/Balance Sheet performance of an area that has always been strategic and addressing the findings received from Supervisory Authorities. The Division is under the Deputy General Manager, Head of Credit who reports directly to the General Manager.

The main changes introduced concern:

1. the Credit Committee, with the setting up of specific theme sessions: Credit, Credit Policies, Credit Assessment;
2. strengthening of budgeting and disbursement control processes;
3. tracking of criteria for transitioning loan files to the debt collection phase in the aim to bring forward the time of acceptance for processing by the Debt Collection Area.

As its distinctive mission, the Credit Division performs activities of credit risk taking and operational monitoring of credit quality, giving guidance and support to the network in credit activities, monitoring trends in the cost of credit and ensuring coverage of the Group's major risks and financial restructuring transactions.

More specifically, the organisational model aims at improving the level of service provided by the Division to the sales & distribution network and product companies, by:

- improving risk assumption activities, which are first and foremost in the monitoring of credit quality;
- reducing response times to support Network activities with a view to optimising costs;
- monitoring the full roll-out of particularly complex operations such as corporate restructuring plans, with the use of appropriate professional skills;
- maximising debt collection activities on insolvent customers by leveraging on innovative methods;
- providing a services unit to support the division and all Head Office structures.

The Credit Division includes 4 structures (Areas) dedicated to the monitoring and management of the entire credit life cycle, from disbursement to collection in addition to a Staff unit which provides support to the Deputy General Manager, Head of Credit, performs administrative activities and facilitates the handling of cross-divisional matters.

The 'Loan Disbursement and Quality Area' exercises responsibility in matters of lending with a focus on quality, reduction in response time, management and prevention of quality deterioration. It monitors significant risk relating to credit and manages country risk.

The Problem Loan Management Area manages problem loans that require the implementation of restructuring actions. It also manages substandard loans which is the category of loans showing temporary difficulty, for which a structured solution has not yet been identified.

Particular focus was given to the operational consequences of the new debt crisis solution tools for companies introduced by recent bankruptcy law amendments. Within this framework the Loan Restructuring Service includes three regional areas dedicated to restructuring transactions with responsibility for related processes.

The Debt Collection Area has made it possible to centralise in one single unit all in-court and out-of-court debt collection activities for "non performing" loans (previously mandated to the merged entity, MPS GCB). Its "mission" is to maximise results from debt collection activities using both traditional debt collection methodologies (legal action and external companies for mass debt collection on small-ticket receivables) and more advanced methods connected with portfolio disposals or using companies specialised in debt collection. The following new roles were introduced to the Area with the aim of optimising and maximising the management of debt collection activities: a) Portfolio Manager who, from a strategic perspective and in accordance with financial methods, manages the portfolios of "clustered" loans and monitors their performance; b) Asset Manager to achieve more efficient loan management by defining and implementing the most effective recovery strategies; c) Real estate expert to safeguard the Parent Company's debt collection potential against real estate mortgage collateral).

The developments in progress will lead the area to become the point of reference for debt collection at any stage of the exposure's life cycle, regardless of loan classification.

The 'Specialised Credit Services' Area provides services to the credit supply chain to ensure operational continuity. The Area is committed to developing and upgrading credit assessment and post-disbursement monitoring processes post-disbursement services for the real-estate loan sector and servicing activities on securitisations and covered bonds. The rating assignment structure has been made to report directly to the Head of the Area and has become the single point of reference within the Group for the assignment of internal ratings to counterparties at risk.

Credit quality, which is determined in accordance with Supervisory guidance, is constantly monitored by central and outer units. Moreover, for an ever more accurate monitoring, the following initiatives have been put in place:

1. new decision-making units have been introduced in the Regional Areas, filled by the new roles of "Decision-makers in charge"
2. the loan disbursement process has seen the introduction of an automatic check for consistency of the proposed facility with credit policies in place;
3. the Credit Monitoring process originally introduced in 2012 has been strengthened/improved by expanding the scope of positions which can be mass-managed through collection and by shortening the 'arrears tolerance time' for mortgage loans;
4. the method of assessment for Retail customers has been revised to enable transition from a system based on traditional indicators (instalment-to-income ratio, LTV, Duration) assessed by "steps of risk indicator analysis" (transaction risk and customer risk) to an "integrated score" system, which introduces the concept of actual sustainability of the application;
5. the budget allocation system has been revised. Now centred around 4 credit quality indicators, it has also been extended to the sales & distribution network and rolled out to the network's daily results reporting system.

Management, measurement and control systems

Starting in 2008, statistical models aimed at creating the Internal Rating Model and rating assignment processes were authorised by the Supervisory Authority for the calculation of capital requirements using the Advanced IRB approach (AIRB).

Supervisory provisions requires the Parent Company to adopt the following credit risk measures needed to calculate regulatory capital (AIRB approach): Probability of Default (PD), Loss Given Default (LGD), and Exposure At Default (EAD). The new methodology with the greatest impact on risk measurements is "Probability of Default", which is a reflection of the borrower's rating, meaning its ability to meet obligations assumed over a time horizon of one year. Thus, a rating is a probability-based approach to risk assessment, and represents a projection of portfolio quality that forms a part of daily processes of credit facility assessment, loan management and pricing, as well as of the procedures used to determine loan loss provisions and reports used by management

The statutory adoption of risk criteria has made it possible for the Parent Company to obtain significant operational advantages, both in terms of a higher accuracy in credit budgeting forecasts and in terms of a more effective monitoring of credit aggregates: based on the risk criteria, the Group sets the process for the yearly budgeting of credit items and makes accurate and sustainable forecasts in relation to the loan book, substandard and doubtful loan flows and loan-loss provisions.

Forecast sustainability is ensured by the definition of concrete loan book actions which are communicated to the outlying networks through an internal regulatory document as well as by amending the credit disbursement and management processes and criteria.

All credit processes use the borrower rating as a decision-making driver, and they are conceived as a function of the specific nature of various customer segments in order to optimise the use of resources employed in loan management/monitoring and to achieve the right balance between the push for sales and an effective loan management system. The internal rating system, which affects the Corporate and Retail portfolios, is based on the development of several statistical models specialised by customer type with the aim of assigning a solvency rating for prospective borrowers (first-time lending models based on financial and demographic information taken from outside databases) and for existing borrowers (for which behavioural models have also been used, which incorporate internal performance data).

With a view to increasing the levels of efficiency in managing internal ratings, the current scope of activity of the Rating Agencies has been reviewed for them to become a single point of reference for all units on rating issues. The new role of the [internal] Rating Agencies will allow for a closer interaction with the Network to make assistance more effective, generate more synergies and enable a more efficient transfer of knowledge.

Credit risk is analysed using the Credit Portfolio Model, which was developed internally by the Parent Company and produces detailed outputs in the form of traditional risk measures such as Expected Loss, Unexpected Loss and intra-risk diversified Economic Capital with a representative period of one year and a confidence interval calibrated to the target rating assigned to the Group. Several inputs are considered: Probability of Default (PD), Loss Given Default (LGD) rates, number and types of guarantees supporting the credit facility, internal operational Exposure at Default (EAD).

The internal PD, LGD and EAD models for risk measurement are one of the main elements of assessment for all Group units involved in the credit industry, both at Head Office level (Risk Management, Chief Financial Officer, General Management, Risk Committee, Board of Directors) and at branch level (Credit Division, Rating agencies and Relationship Managers). The Group is currently authorised to use the Advanced Internal Rating Based (AIRB) models to determine capital requirements against credit risk on the portfolios of "exposures to businesses" and "retail exposures" of Banca Monte dei Paschi di Siena, MPS Capital Services and MPS Leasing & Factoring, and is awaiting validation of the EAD parameter and rollout of the domestic NBFI portfolio for these counterparties.

The development of the internal rating systems involved the adoption of strict and advanced statistical methodologies in compliance with the requirements set out in the regulations; at the same time, models were selected in such a way as to make results consistent with the historical experience of the Parent Company in credit management. Lastly, in order to optimise the proper use of these new instruments, the rating models were shared with a top-down approach – from Risk Management down to individual client managers. Estimation of the LGD model was based on internal data relative to capital flows, recoveries and expenses actually incurred on positions transferred to the doubtful loans portfolio. Results obtained from model application were then compared with data recorded by the Debt Collection Area which, within the Credit Division, is dedicated to the management and recovery of non-performing loans.

The main characteristics of the advanced rating systems are as follows:

- for all validated regulatory portfolios, the rating is calculated with a counterparty-based approach for each individual borrower, in line with the accepted management practice which provides for the assessment of credit risk, both in the disbursement and monitoring phases;
- ratings are based upon a Group logic: each individual counterparty is assigned a single rating at banking Group level, based on the set of information pertaining to all lending banks within the AIRB scope; the LGD is different for each company given the diversity of products issued and the type of customers to whom they are offered;
- The rating model segmentation is defined in such a way as to make the individual model clusters consistent with commercial objectives, credit processes and regulatory portfolios set out in the regulations;

- The calculation of the final rating is differentiated by type of counterparty. The credit process envisages a level of in-depth analysis proportional to counterparty risk: the assessment of loan disbursements is based on a complex multi-level structure for medium-large corporate counterparties (SME and Large Corporate (LC) segments), whose exposure and concentration risks are higher, and a simplified structure for Small Business and Retail clients;
- in line with this process, the final rating for SMEs and LC is the result of a number of different factors: statistical rating, qualitative rating, overrides and valuation of the 'economic group' which businesses belong to; for SB and Retail counterparties the rating is calculated only on the basis of statistical factors;;
- The rating has a 12-month internal validity period and is usually reviewed on a yearly basis, except for rating reviews following well-structured codified practices or that are brought forward on client managers' request or following serious counterparty deterioration.
- LGD reflects the economic (and not only the accounting) loss incurred; for this reason, LGD estimates must also include the costs incurred for the recovery process and a time factor;
- Loss given default is differentiated by type of loans and an LGD value is assigned at the level of each individual transaction; it is differentiated by geographical area since historical and current recovery rates are different among Northern Italy, Central and Southern Italy and Islands
- Loss on defaulted positions other than doubtful loans is estimated with a Cure Rate approach. With regard to counterparties whose exposures are administratively classified as Substandard, Restructured and Past Due, the percentage of exposures reverting back to a performing status was calculated and used to adjust the estimated LGD, starting from doubtful loans.

The Group has adopted a single Master Scale for all types of exposures; this enables all units involved in credit management to immediately compare the risk level associated with different counterparties or portfolios; furthermore, the probabilities of default of internal rating classes were mapped against Standard&Poor's external rating scale so as to make internal risk measurements comparable to those available on the financial market.

The development and monitoring of rating systems has been functionally assigned to Risk Management and is subject to control by the Internal Validation and Internal Control functions.

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

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

The Credit Portfolio Model developed within the Montepaschi Group uses a Merton approach to represent the insolvency of each counterparty in the portfolio. According to this approach, a counterparty becomes insolvent when a synthetic variable expressing its creditworthiness falls below a pre-determined threshold value for a representative period (normally one year). The synthetic variable expressing the creditworthiness of the counterparty is known as the Credit Worthiness Index (CWI), which consists in both the risk that is specific to a counterparty and the systemic risk. Each counterparty's creditworthiness sensitivity to changes in macroeconomic factors is estimated using an econometric model of multivariate regression between the counterparty's probability of default (PD) variable and selected credit drivers. The breakdown of losses is estimated with suitable statistical functions which approximate the breakdown of losses by counterparty through the use of conditioned default probabilities.

The portfolio model output provides detailed measures for individual positions as well as the absorbed operating capital component and indicates the extent of portfolio diversification.

The model displays the change in credit risk over time based on various combinations of the variables under analysis, by legal entity, customer type, geographical area, business area, rating class and continental areas. Other information derived from the Credit Portfolio Model concerns "what-if" analyses produced for certain discriminating variables such as probability of default, LGD rates, changes in the value of collaterals and in margins available on credit lines, in order to quantify the levels of Expected Loss and Economic Capital should the underlying (discretionary or trend-based) assumptions materialise.

In compliance with the guidelines set forth by the Basel Committee and Best Practices, new prudential supervisory provisions for banks require credit institutions to carry out adequate stress testing exercises.

The Group regularly conducts stress tests on all risk factors. Stress tests are used to assess the capacity of the Parent Company to absorb large potential losses in extreme though plausible market situations, so as to identify the measures necessary to reduce the risk profile and preserve assets.

Stress tests are developed on the basis of discretionary and trend-based scenarios.

- trend-based scenarios: assumptions are made of shocks that are due to a combination of risk factors which were historically observed in the past and whose recurrence and plausibility retain a certain degree of likelihood;
- discretionary scenarios: assumptions are made of shocks that are due to a combination of risk factors which may emerge in the near future, depending on the foreseeable environmental, social and economic developments. Simple discretionary scenarios are currently being developed (variation of a single risk factor) as are multiple ones (variation of several risk factors simultaneously). Simple discretionary scenarios are calibrated to independently deal with one category of risk factors at a time, assuming shocks do not spread to the other factors. Multiple discretionary scenarios, on the other hand, aim to assess the impact of global shocks that simultaneously affect all types of risk factors.

The Group's methodological approach to stress-testing is based upon the identification of main risk factors whose objective is to select events or combinations of events (scenarios) which reveal specific vulnerabilities at Group-level. To this end, specific stress plans have been put in place on Pillar I risks (credit, market and operational) which were then made to converge – together with stress events designed ad hoc on other risk factors – into an overall Pillar II stress test plan, aimed at determining the potential impact on the Group within the ICAAP process.

With regard to Credit risk in particular, the Group has defined a macro-economic regression model to estimate the variations in the Probability of Default as a function of changes in the main credit drivers. Credit drivers which significantly describe PD variations are identified beforehand.

On the basis of the regression model, credit driver disturbances are then estimated according to the current and prospective economic situation. The shock applied to the credit drivers determines the change in credit portfolio PD, triggering the simulation of a hypothetical counterparty downgrading, with consequent risk variations in terms of Expected Loss, Unexpected Loss and input from new Defaults.

The results from the stress test are submitted to the Top Management and Board of Directors. They are formally examined by the BoD as part of the ICAAP Annual Report approval process, with a view to providing a self-assessment of the current and prospective capital adequacy of the Group.

Credit policies

Since 2008, the credit policy definition process, fed with data input from the metrics described above, has been based on analytical portfolio estimates and has continuously been optimised and fine-tuned.

The model adopted, which is integrated in the Group's budgeting process, has among its main objectives the re-qualification of the loan book and containment of the cost of credit. Furthermore, the model provides guidance for loan book management and growth, by setting out criteria for customer selection and approaches for the identification of portfolios to be re-qualified/run off in different ways depending on customer segment, business sector, geographic area, quality of counterparties, form of lending and collateral pledged.

The process starts out from the MPS Group's strategic objectives regarding credit and any existing structural constraints and, taking into account the expected macroeconomic scenario, develops and defines the strategic guidelines within three main areas:

- **Analysis of attractiveness**: Classification of "attractiveness" of portfolio clusters (Customer Segment, Economic Sector and Regional Area, Counterparty Quality) on the basis of risk/return and scenario; sub-division of loan book into Areas of Focus (Development and Requalification) characterised by diversified lending strategies.
- **Allocation of credit production**: Formulation of loan development objectives based on the level of attractiveness and concentrated in the Area of Development.
- **Requalification actions**: Downsizing/exit strategies on riskier clusters (Area of Requalification), aimed at improving the quality of the performing loans portfolio and reducing defaults; emphasis on the monitoring of the non-performing loans portfolio.

The process culminates in the approval of the credit policy guidelines by the BoD, consequent review of the internal regulatory framework of reference and transmission of guidelines and quantitative objectives to the regional structures and individual operating units.

Loan disbursement processes

Loan disbursement processes are aimed at improving the effectiveness, efficiency and level of service in loan management with the goal of:

- standardising and automating loan proposals and risk assessment to the extent possible;
- adapting processes to the branch network's organisational and operational requirements;

- assessing creditworthiness, also through the assignment of internal ratings to individual borrowers;
- improving customer response time.

The procedure available to the branch network and the Head Office for managing all phases of the loan disbursement process consists in the Electronic Loan File (it. *Pratica Elettronica di Fido* or P.E.F.). This tool is continually optimised with the aim of improving both response time and the selection of acceptable risk.

The assessment and approval methods implemented in the P.E.F. reflect the principles and rules of the internal rating system. Thus, methods differ depending on whether the customer is an individual/consumer (retail) or a business (a corporation with revenues under € 5 million, or a corporation with revenues over € 5 million) and on whether the customer is a prospect or existing customer.

In keeping with the regulatory provisions issued by the Supervisory Authority, the P.E.F. was designed to use one single rating when borrowers have relationships with several MPS Group banks. In terms of activities aimed at complying with AIRB requirements, the assignment of decision-making authorities in the loan disbursement process based on risk-based approaches is one of the key elements in meeting the expertise requirements mandated by the Bank of Italy. These approaches, which escalate to decision-making bodies having higher levels of power in the event of higher levels of risk underlying the credit facility, made it possible to achieve regulatory and operational advantages.

In the first few months of 2014, changes were made to the credit assessment and approval processes for Retail customers. Specifically a requirement of prior authorisation (“pre-approval”) was introduced on payments in the absence of sufficient funds in the account to be debited.

Monitoring processes

The Credit Monitoring process introduced in 2012 as a single tool for the management of post-disbursement activities is an effective aid to obtain credit cost reduction by leveraging two main factors:

- identification of high insolvency risk positions ('screening');
- 'customer-type differentiated' treatment of positions (dedicated 'routing').

Identification of high insolvency risk positions

Ordinary-risk positions are scanned by a 'screening' engine which selects the highest-risk positions on a weekly basis, so as to identify the counterparties bound to become insolvent at a sufficiently early stage. Screening is based on a 'performance risk indicator' (it.: "indicatore di rischio andamentale", IRA) which summarises a set of critical elements including the worsening of leading indicators, ratings, information on related counterparties and days past due (with thresholds differentiated by customer segments and amounts used). "Customised" parameters make it possible to diversify the screening criteria for risk positions by type of customer with respect to the criteria used by the "Loan Performance Management" system.

'Customer-type differentiated' treatment of positions

This choice was based on the need for differentiating the treatment of positions by customer segments, in the conviction that a corporate client cannot be treated in the same way as a retail client and that specific client management needs should be met with 'ad hoc' processes. Ordinary-risk positions, reported as higher risk by the 'screening' engine, are routed to specific processing queues depending on the type of customer and credit facility involved:

- a 'Mass Retail' procedure for 'Retail Family' clients;
- a 'Standard Retail' procedure for Retail, Affluent and Private customers, as well as small-sized businesses with limited exposure;
- a dedicated Corporate procedure for corporate customers.

In 2013, Credit Monitoring witnessed the introduction of the following innovations:

- release of new operating events in the process flow, that allow for the detection of positions in a 'pre-bankruptcy agreement' phase;
- shortening of the time for activation of collection initiatives on mortgage loan instalments in arrears;
- wider scope for possible routing of low-amount positions to amicable debt collection processes (outsourced to external specialised operators coordinated by the Debt Collection Bureau of the Debt Collection Area).

A number of developments in the process, chiefly relating to the optimal management of specialist loan collection and requalification activities, are currently being or will be issued by the end of 2014. In particular:

- specialisation of process for management of loans under restructuring;
- centralisation to Regional Areas of a number of portfolios upon which to initiate recovery actions through external credit collectors;
- extension of the process to Large Corporate customers and Financial Advisory.

Credit risk mitigation policies

With reference to the retail and corporate loan portfolio, the Group does not apply any netting processes to the credit risk exposures with on- or off-balance sheet items with opposite sign. The Group adopts policies to reduce counterparty risk with institutional counterparties, by entering into netting agreements according to the international ISDA and ISMA standards and related collateral agreements for both derivatives and repos (repurchase agreements).

The main forms of real guarantees for credit protection used by the Group include pledges, mortgages and other collateral (insurance, guarantee funds).

As at today, the pledge of sums or the pledge of securities and mutual funds deposited with the Parent Company and mortgages on properties account for over 98% of the nominal amount of collaterals received and ensure full compliance with regulatory/legal/organisational requirements set out by the New Supervisory Regulations for the enforcement of credit risk mitigation standards.

The Group has developed one single process for the acquisition of collaterals which is at the same time a working instrument and the expression of the Group's management policies. The management of collateral is activated after loan disbursement is approved and its process is organised into a number of different stages:

- acquisition (including multiple acquisition): the controls of (formal and amount) consistency with the guarantees proposed during the authorisation phase are performed in this stage;
- adjustment/change/amendment: useful to amend the characteristics of a guarantee without interrupting loan protection;
- query: gives information about the present data and the historical trend of guarantees received;
- Repayment/Cancellation.

If the measures for monitoring collaterals on loans show operational irregularities during the acquisition phase or any inadequacies/losses of the values received as a pledge, events falling within the scope of credit monitoring policies are put in place, which trigger operational obligations of credit risk assessment.

The Group accepts different instruments to protect loans which can be summarised in the following categories:

- Guarantees (including omnibus guarantees and personal guarantees issued by third parties);
- Endorsement;
- Guarantee policy;
- Credit mandate;
- Strong/binding patronage letter;
- Negotiable instruments;
- Performance bond agreement;
- Debt delegation;
- Expromission;
- Assumption of debt;
- Personal Collateral governed by foreign law;
- Credit derivatives:
    - Credit default swaps;
    - total return swaps;
    - credit linked notes;

The main parties issuing the above credit-protection instruments are:

- Sovereign governments and central banks,
- Public sector and local agencies,
- Multilateral development banks,
- Regulated intermediaries,
- Guarantee institutions (Confidi),
- Companies and individuals.

Over 90% of personal guarantees are traceable to companies and individuals as guarantors. Only to a limited portion of these customers can an internal rating be assigned, since these guarantors are not borrowers of Group companies.

The main concentration of collaterals is linked with retail mortgage loans. However, it cannot be referred to as risk concentration by virtue of the principle of risk fragmentation which is implicit in this type of customers. The value of properties underlying real estate guarantees is updated through the measurement of the average values of the real estate market. Any information on the evaluations is provided, on a half-yearly basis, by specialised industry operators (extraordinary updates may be generated by significant variations in the very short period).

The disbursement of loans secured by collaterals is subject to specific control measures, differentiated by type of guarantee pledged, which are applied during the phase of disbursement and monitoring.

The general requirements for ensuring the legal certainty and enforceability of guarantees are verified by checking compliance with the following relevant conditions:

- binding nature of the legal obligation entered into by the parties and enforceability in the event of legal proceedings;
- documented evidence and enforceability of the instrument against third parties in all relevant jurisdictions for the purpose of its exercise and execution;
- timely liquidation in case of non-fulfilment;
- compliance with organisational requirements

With reference to compliance with organisational requirements, mitigation of risk is ensured by:

- the presence of an IT system in support of the life cycle phases of the guarantees (acquisition, valuation, management, re-valuation and enforcement);
- the existence of regulated policies for the management of guarantees (principles, practices, processes), available to all users.

Non-performing financial assets

The Credit Division oversees the process for the updating and usage of non-performing loan assessment criteria, availing itself of the Credit Assessment Staff within the Specialised Credit Services Area. Within its area of competence, the Staff ensures appropriate implementation of the operating rules and processes of assessment; it operationally coordinates the Functions involved in the various steps of the process, verifies and organises data and information received.

Quantitative Information

A. CREDIT QUALITY

A.1 Non-performing and performing loans: amounts, value adjustments, changes, breakdown by business sector and geographical area

A.1.1 Breakdown of financial assets by portfolio and credit quality (book values)

Portfolio/quality	Banking Group						Other entities		Total
	Doubtful loans	Substandard loans	Restructured	Past-due	Past-due not impaired	Other assets	Impaired	Other	
1. Financial assets held for trading	2.770	66.444	7.979	8.878	-	16.663.781	-	-	16.749.852
2. Financial assets available for sale	108	2.115	669	-	-	22.426.924	-	-	22.429.816
3. Financial assets held to maturity	-	-	-	-	-	-	-	-	-
4. Loans to banks	1.709	27.005	-	-	215	8.005.927	-	603.028	8.637.884
5. Loans to customers	9.583.539	8.344.561	1.957.837	2.556.223	6.789.050	103.388.883	-	**150.277**	132.770.370
6. Financial assets designated at fair value	-	-	-	-	-	-	-	-	-
7. Financial assets held for sale	-	-	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-	468.625	-	-	468.625
Total 30 06 2014	**9.588.126**	**8.440.125**	**1.966.485**	**2.565.101**	**6.789.265**	**150.954.140**	**-**	**753.305**	**181.056.547**
Total 31 12 2013*	**8.882.961**	**7.569.079**	**1.700.642**	**2.978.541**	**5.389.403**	**155.102.550**	**-**	**1.787.511**	**183.410.687**

**With respect to published accounts, prior period balances are reflective of changes described in the section " Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors) which is referenced to for further details.*

A.1.2 Breakdown of credit exposures by portfolio and credit quality (gross and net values)

Portfolio/quality	Non performing assets			Performing			Total (net exposure)
	Gross exposure	Specific write-downs	Net exposure	Gross exposure	Portfolio adjustments	Net exposure	
A. Banking Group							
1. Financial assets held for trading	129.420	43.349	86.071	x	x	16.663.781	16.749.852
2. Financial assets available for sale	9.416	6.524	2.892	22.426.924	-	22.426.924	22.429.816
3. Financial assets held to maturity	-	-	-	-	-	-	-
4. Loans to banks	82.312	53.598	28.714	8.013.629	7.487	8.006.142	8.034.856
5. Loans to customers	38.420.629	15.978.469	22.442.160	110.830.828	652.895	110.177.933	132.620.093
6. Financial assets designated at fair value	-	-	-	x	x	-	-
7. Financial assets held for sale	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	x	x	468.625	468.625
Total A	**38.641.777**	**16.081.940**	**22.559.837**	**141.271.381**	**660.382**	**157.743.405**	**180.303.242**
B. Other consolidated companies							
1. Financial assets held for trading	-	-	-	x	x	-	-
2. Financial assets available for sale	-	-	-	-	-	-	-
3. Financial assets held to maturity	-	-	-	-	-	-	-
4. Loans to banks	-	-	-	603.028	-	603.028	603.028
5. Loans to customers	-	-	-	150.277	-	150.277	150.277
6. Financial assets designated at fair value	-	-	-	x	x	-	-
7. Financial assets held for sale	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	x	x	-	-
Total B	-	-	**-**	**753.305**	**-**	**753.305**	**753.305**
Total 30 06 2014	**38.641.777**	**16.081.940**	**22.559.837**	**142.024.686**	**660.382**	**158.496.710**	**181.056.547**
Total 31 12 2013*	**36.289.968**	**15.158.745**	**21.131.223**	**143.625.532**	**680.126**	**162.279.464**	**183.410.687**

**With respect to published accounts, prior period balances are reflective of changes described in the section " Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors) which is referenced to for further details.*

A.1.3 Banking Group - Balance sheet exposure to banks: gross and net amounts

Type of exposure/ Amount	Gross exposure	Specific write-downs	Portfolio adjustments	Net exposure
A. Balance-sheet exposure				
a) Doubtful loans	39,587	37,770	x	1,817
b) Substandard loans	47,263	18,132	x	29,131
c) Restructured loans	-	-	x	-
d) Past due	-	-	x	-
e) Other assets	9,455,062	x	7,487	9,447,575
Total A	**9,541,912**	**55,902**	**7,487**	**9,478,523**

A.1.6 Banking Group - Balance sheet exposure to customers: gross and net amounts

Type of exposure/ Amount	Gross exposure	Specific write-downs	Portfolio adjustments	Net exposure
A. Balance-sheet exposure				
a) Doubtful loans	22,932,547	13,348,791	x	9,583,756
b) Substandard loans	10,544,352	2,199,791	x	8,344,561
c) Restructured loans	2,221,520	263,014	x	1,958,506
d) Past due	2,727,316	171,093	x	2,556,223
e) Other assets	141,255,213	x	652,895	140,602,318
Total A	**179,680,948**	**15,982,689**	**652,895**	**163,045,364**

Exposure to sovereign debt risk

(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	0.22	0.10	-	-	-	-	-
Austria	(19.18)	(20.48)	-	-	-	-	3.67
Belgium	(9.98)	(10.92)	89.25	98.91	-	-	3.66
Bosnia	0.01	0.01	-	-	-	-	-
Brazil	0.85	1.06	-	-	-	-	-
China	-	-	-	-	-	-	(3.18)
Croatia	0.15	0.16	10.00	10.60	-	-	-
Denmark	-	-	-	-	-	-	2.92
Finland	-	-	-	-	-	-	3.67
France	(15.93)	(16.59)	-	-	-	-	(0.01)
Germany	(39.68)	(43.32)	-	-	-	-	(0.01)
Greece	0.01	0.01	-	-	-	-	-
Ireland	0.00	0.00	-	-	-	-	(0.01)
Italy	2,331.40	2,403.62	19,244.06	21,722.07	332.63	3,265.58	599.39
Mexico	0.64	0.83	-	-	-	-	-
Norway	-	-	-	-	-	-	(0.01)
Holland	3.44	3.57	-	-	-	-	3.66
Polony	-	-	10.00	10.98	-	-	-
Portugal	(2.50)	(2.64)	15.00	15.90	-	-	3.67
United Kingdom	0.08	0.07	-	-	-	-	0.01
Romania	0.10	0.10	10.00	10.44	-	-	-
Russia	0.01	0.00	-	-	4.76	-	-
Spain	(13.86)	(14.42)	100.00	110.63	-	-	3.66
U.S.A.	0.11	0.12	-	-	-	-	-
Turkey	0.02	0.03	10.00	10.77	-	-	-
Hungary	0.42	0.45	-	-	-	-	-
Venezuele	0.16	0.15	-	-	-	-	-
Other Countries	-	-	-	-	-	-	3.66
Total 30 06 2014	**2,236.49**	**2,301.92**	**19,488.31**	**21,990.31**	**337.39**	**3,265.58**	**624.75**
Total 31 12 2013	**3,109.06**	**3,214.46**	**20,986.63**	**22,182.56**	**359.42**	**3,298.39**	**873.87**

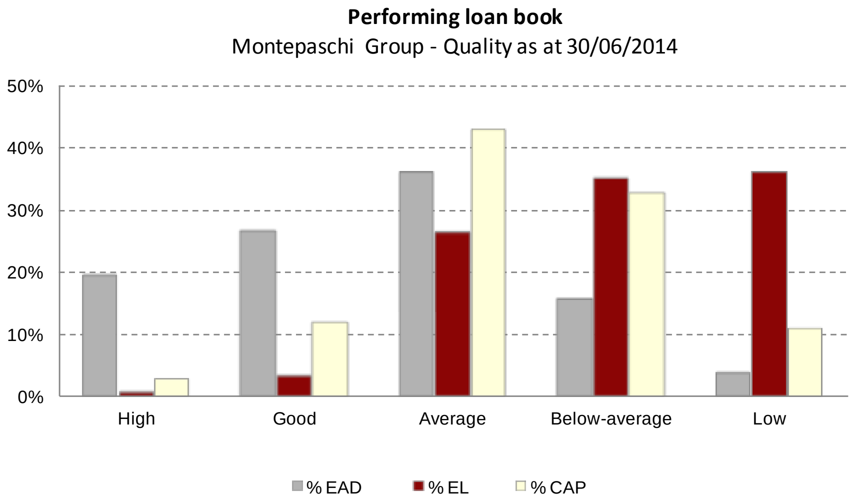
Following are the details of Italian AfS reserves and credit derivatives (in EUR/mln):

AFS securities: Italy	30 06 2014	31 12 2013
Book value	21,722.1	21,631.0
AFS reserve (after tax)	(502.0)	(936.5)
of which: hedging effect (after tax)	(2,044.9)	(1,598.4)

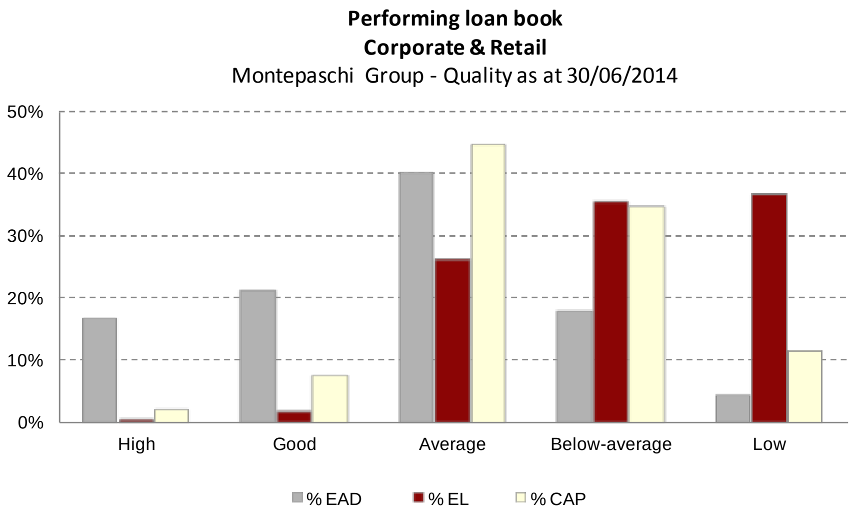
Credit derivatives - Italy	30 06 2014	31 12 2013
Purchase of protection		
Nominal	(4,408.5)	(4,626.2)
Positive fair value	688.4	773.4
Negative fair value	(3)	-
Sale of protection	-	-
Nominal	5,018.9	5,515.0
Positive fair value	3.1	0.1
Negative fair value	(825.0)	(970.3)

D. BANKING GROUP - CREDIT RISK MEASUREMENT MODELS

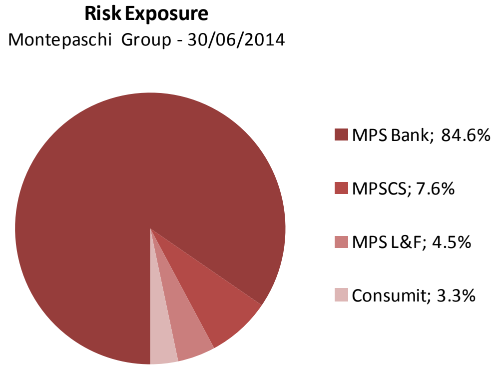
The chart below provides a credit quality breakdown of the Group portfolio as at 30.06.2014 (excluding financial asset positions). The following graph shows that about 45% of risk exposure is to high and good quality customers. It should be noted that the ranking below also includes exposure to banks, government agencies and non-regulated financial and banking institutions, which are not included in the AIRB approaches. As borrowers, these entities are nevertheless subject to a credit standing assessment using official ratings, if any, or appropriate benchmark values that have been determined internally.



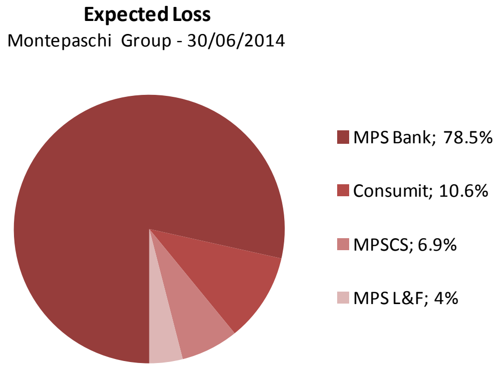
On the other hand, the following chart provides a breakdown of credit quality only for Corporate and Retail portfolios (which are largely validated by regulatory authorities for the use of internal PD and LGD models). As at 30.06.2014, high or good quality exposure accounted for approximately 38% of total exposure:



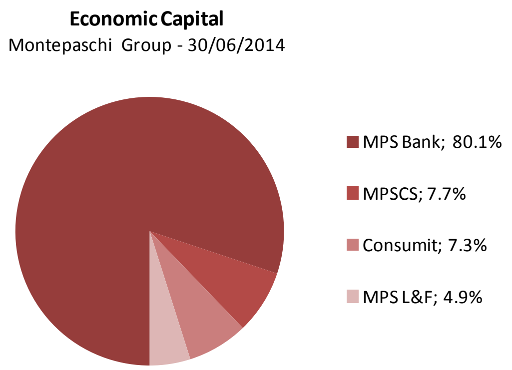
The following chart shows that the retail bank (Parent Company) contributes approximately 84.6% of the total Montepaschi Group's exposure to risk, whereas the companies MPS Capital Services, MPS L&F, and Consum.it account for the remaining 15.4%.



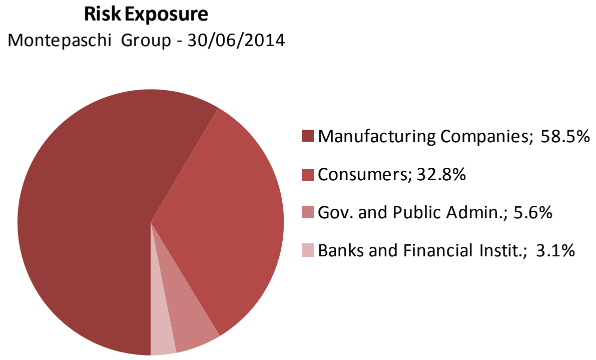
With regard to risk measures, the highest percentage of expected loss is attributable to the Parent Bank at 78.5%, followed by Consum.it and MPS Capital Services (10.6% and 6.9% respectively), while the remainder (4%) is assigned to cover the risks of MPS Leasing & Factoring.



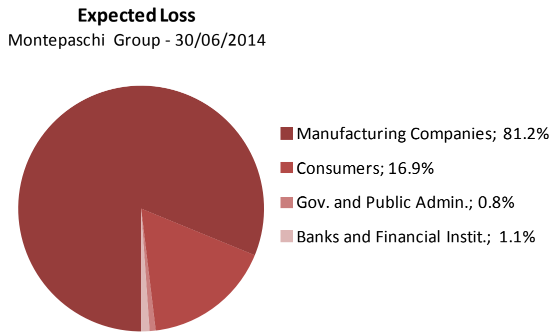
Most of the overall amount of Economic Capital to cover credit risk is absorbed by the Parent Company (80.1%), followed by MPS Capital Services (7.7%) and Consum.it (7.3%) with the remaining 4.9% absorbed by MPS Leasing & Factoring.

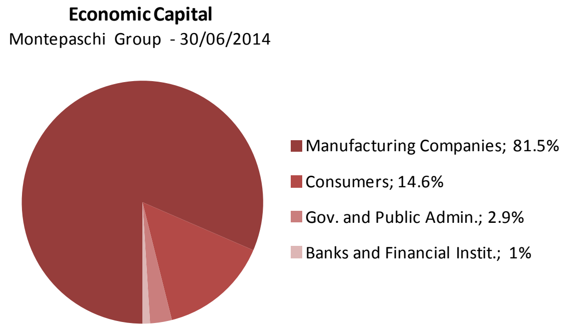


An analysis conducted at the end of the first quarter of 2014 shows that the Group's risk exposure is mainly toward “Manufacturing Companies” (58.5% of total loans disbursed) and “Households” (32.8%). The remaining portion is broken down between "Government and Public Administration" and "Banks and Financial Institutions", respectively at 5.6% and 3.1%.

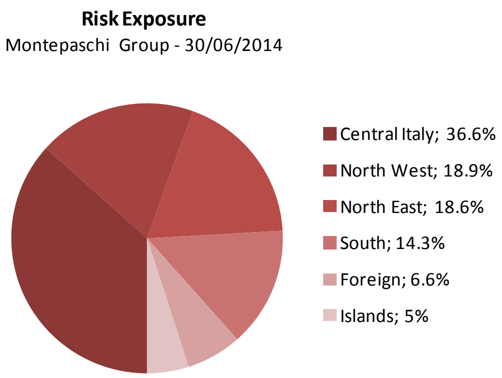


In terms of risk measures, the analysis reveals that Manufacturing Companies account for 81.2% of the Expected Loss and 81.5% of the Economic Capital. The portion for “Households” comes to 16.9% for Expected Loss and 14.6% for Economic Capital respectively.

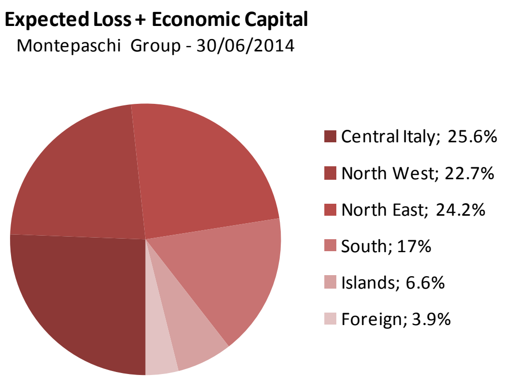




An analysis of the geographical breakdown of Group customers shows that exposure to risk is primarily concentrated in Italy’s Central regions (36.6%), followed by the North West and North East (18.9% and 18.6%), Southern Italy (14.3%), foreign countries (6.6%) and Italy's islands (5%):

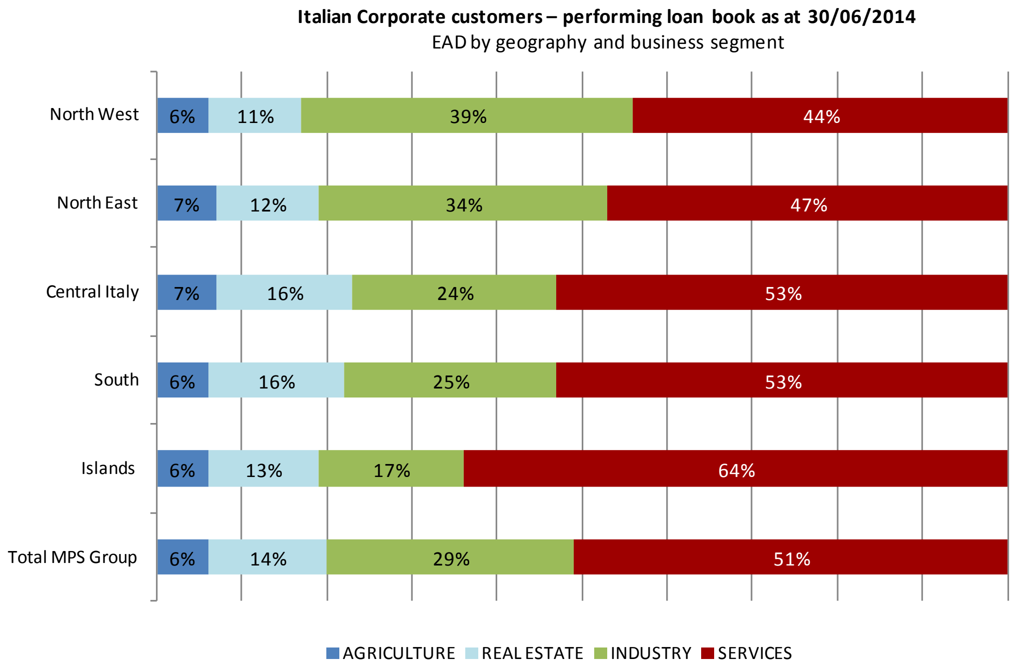


Overall risk measures (expected loss + economic capital) are also higher in Central Italy (25.6%) in North West Italy (22.7%) and North East Italy (24.2%) due to the greater concentration of loans in those areas. These are followed by Southern Italy (17%), the Islands (6.6%) and Foreign Countries (3.9%).

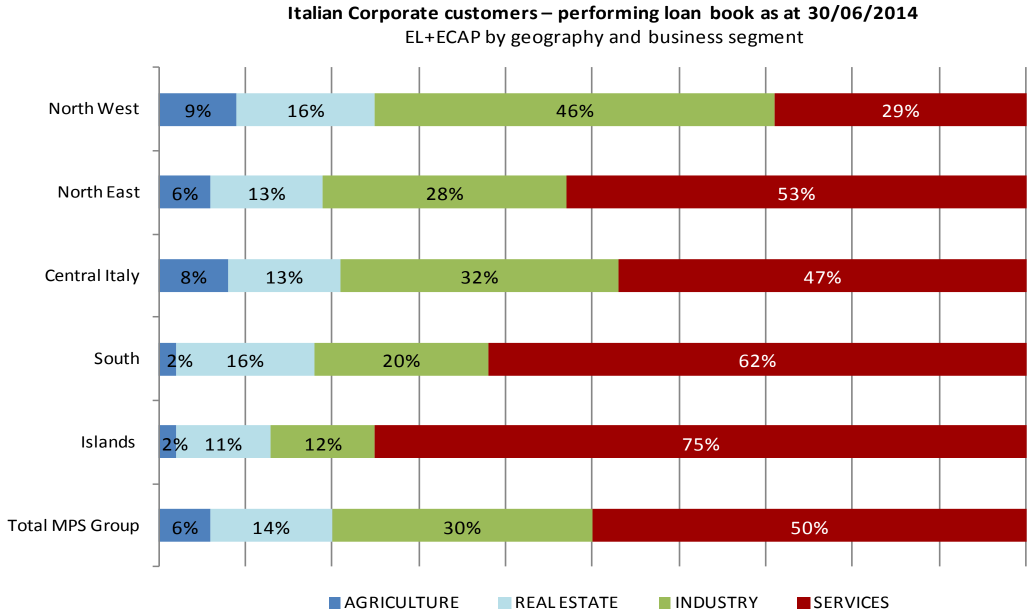


Lastly, the following graphs show a percentage breakdown for Italian corporate customers of Default Exposure and overall risk measures (Expected Loss + Economic Capital) by Geographic Areas and Business Sectors.

The largest share of Default Exposure for businesses in all Geographic Areas is accounted for by the "Services" sector. Out of the Group's total exposure, the share of Services accounts for 51% and is followed by Industry (29%), Building (14%) and Agriculture (6%).



Overall risk measures, defined as the sum of Expected Loss and Economic Capital, are also higher for the Services business sector in all Geographic Areas, with the exception of the North West of Italy where the Industrial sector accounts for the largest share (46%).



The comparison between expected loss and actual loss is performed on an annual basis by the internal control function as part of PD and LGD backtesting procedures.

1.2 - Market risk

1.2.1 Interest rate and price risk – regulatory trading book

Market risk management model for the Trading Book

The Group's Regulatory Trading Portfolio (RTP), or Trading Book, is made up of all the Regulatory Trading Books managed by the Parent Bank (BMPS) and MPS Capital Services (MPSCS). The Trading Portfolios of the other subsidiaries are immune to market risk. Trading in derivatives, which are brokered on behalf of customers, calls for risk to be centralised at, and managed by, MPSCS.

The market risks in the trading book of both the Parent Company and the other Group entities (which are relevant as independent market risk taking centres), are monitored in terms of Value-at-Risk (VaR) for operational purposes. The Group's Finance and Liquidity Committee is responsible for directing and coordinating the overall process of managing the Group's proprietary finance thereby ensuring that the management strategies of the various business units are consistent.

The Group's Trading Book is subject to daily monitoring and reporting by the Risk Management Area of the Parent Company on the basis of proprietary systems. VaR for management purposes is calculated separately from the operating units, using the internal risk measurement model implemented by the Risk Management function in keeping with international best practices.

Operating limits to trading activities, which are established by the Board of Directors of the Parent Company, are expressed by level of delegated authority in terms of VaR, which is diversified by risk factors and portfolios, monthly and annual stop losses and Stress. Furthermore, the trading book's credit risk, in addition to being included in VaR computations and in the respective limits for the credit spread risk component, is also subject to specific operating limits for issuer and bond concentration risk which specify maximum notional amounts by type of guarantor and rating class.

VaR is calculated with a 99% confidence interval and a holding period of 1 business day. The Group adopts the method of historical simulation with daily full revaluation of all basic positions, out of 500 historical entries of risk factors (lookback period) with daily scrolling. The VaR calculated in this manner takes account of all diversification effects of risk factors, portfolios and types of instruments traded. It is not necessary to assume, a priori, any functional form in the distribution of asset returns, and the correlations of different financial instruments are implicitly captured by the VaR model on the basis of the combined time trend of risk factors.

The management reporting flow on market risks is periodically transmitted to the Risk Committee, the Group's Top Management and the Board of Directors of the Parent Company in a Risk Management Report, which keeps Executive Management and governing bodies up to date on the overall risk profile of the Group.

The macrocategories of risk factors covered by the Internal Market Risk Model are IR, EQ, FX and CS as described below:

- IR: interest rates on all relevant curves, inflation curves and relative volatilities;
- EQ: share prices, indexes, baskets and relative volatilities;
- FX: exchange rates and relative volatilities;

- CS: credit spread levels.

VaR (or diversified or net VaR) is calculated and broken down daily for internal management purposes, even with respect to other dimensions of analysis:

- organisational/management analysis of portfolios,
- analysis by financial instrument,
- analysis by risk family.

It is then possible to assess VaR along each combination of these dimensions in order to facilitate highly detailed analyses of events characterising the portfolios.

With particular reference to *risk factors*, the following are identified: Interest Rate VaR (IR VaR), Equity VaR (EQ VaR), Forex VaR (FX VaR) and Credit Spread VaR (CS VaR). The algebraic sum of these items gives the so-called Gross VaR (or non-diversified VaR), which, when compared with diversified VaR, makes it possible to quantify the benefit of diversifying risk factors resulting from holding portfolios on *asset class* and *risk factor* allocations which are not perfectly correlated. This information can also be analysed along all the dimensions referenced above.

The model enables the production of diversified VaR metrics for the entire Group in order to get an integrated overview of all the effects of diversification that can be generated among the various banks on account of the specific joint positioning of the various business units.

The Group does not currently use the VaR-based internal model in its calculation of capital requirements on market risk. However, the Group uses the standardised methodology in the area of market risks solely for reporting purposes.

Moreover, scenario and stress-test analyses are regularly conducted on various risk factors with different degrees of granularity across the entire tree structure of the Group's portfolios and for all categories of instruments analysed.

Stress tests are used to assess the capacity of Parent Company to absorb large potential losses in extreme though plausible market situations, so as to identify the measures necessary to reduce the risk profile and preserve assets.

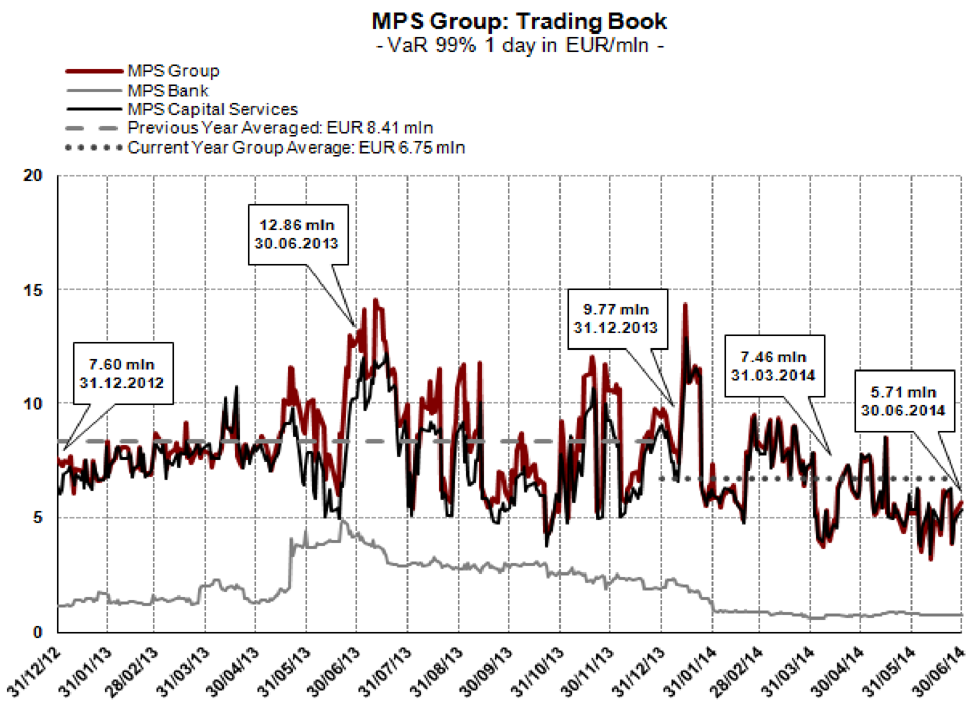
Stress tests are developed on the basis of discretionary and trend-based scenarios. Trend-based scenarios are defined on the basis of previously-registered real situations of market disruption. Such scenarios are identified based on a timeframe in which risk factors were subjected to stress. No particular assumptions are required with regard to the correlation among risk factors since trend-based data for the stress period identified has been measured.

Stress tests based upon discretionary scenarios assume extreme changes occurring to certain market parameters (interest rates, exchange rates, stock indices, credit spreads and volatility) and measure the corresponding impact on the value of portfolios, regardless of their actual occurrence in the past. Simple discretionary scenarios are currently being developed (variation of a single risk factor) as are multiple ones (variation of several risk factors simultaneously). Simple discretionary scenarios are calibrated to independently deal with one category of risk factors at a time, assuming shocks do not spread to the other factors. Multiple discretionary scenarios, on the other hand, aim to assess the impact of global shocks that simultaneously affect all types of risk factors.

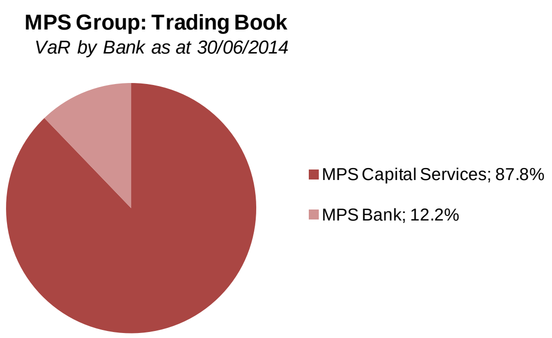
It should be noted that the VaR methodology described above is, for operational purposes, also applied to the portion of the Banking Book consisting of financial instruments that are similar to trading instruments (eg. AF bonds/Equity instruments).

***

In the second quarter of 2014, market risk in the Group's Regulatory Trading Book showed a decreased volatile trend in VaR against the first quarter, standing at EUR 5.71 mln as at 30.06.2014. In absolute terms, VaR was influenced by: the IR segment of the subsidiary MPSCS due to its trading activities, primarily in Long Futures and Interest Rate Future Options; activities by MPSCS relating to the structuring and hedging of policies; changes in market risk factors (credit spreads and interest rates).



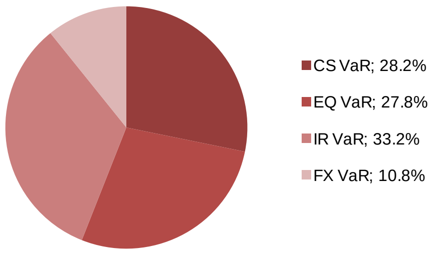
With regard to legal entities, the Group's market risks are concentrated on MPSCS and the Parent Company.



MPSCS accounted for 87.8% of overall risk, the Parent Company accounted for 12.2%.

A breakdown of VaR by risk factors as at 30.06.2014 shows that approx. 28.2% of the Group's portfolio was allocated to risk factors such as Credit Spread (CS VaR), 27.8% was absorbed by equity risk factors (EQ VaR), 33.2% was absorbed by interest rate risk factors (IR VaR) and the remaining 10.8% by foreign exchange risk factors (FX VaR).

MPS Group: Trading Book
VaR by Risk Factor as at 30/06/2014



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

	VaR	Date
End of Period	5.71	30/06/2014
Min	3.18	11/06/2014
Max	14.33	14/01/2014
Average	6.75	

In the first half of 2014, the Group's Var in the Regulatory Trading Book ranged between a low of EUR 3.18 mln recorded on 11.06.2014 and a high of EUR 14.33 mln on 14 January 2014 with an average value registered of EUR 6.75 mln. The Group's VaR in the Regulatory Trading Book stood at EUR 5.71 mln as at 30.06.2014.

VaR model backtesting

The Group has implemented a backtesting procedure compliant with current regulations governing Market Risk as part of its own risk management system.

Backtesting refers to a series of tests conducted on VaR model results against day-to-day changes in the trading book value, with a view to assessing the model's forecasting capacity as regards the accuracy of risk metrics generated. If the model is suitable in quality terms, by periodically comparing the estimated daily VaR against daily trading losses from the previous day, the result should be that actual losses greater than the VaR occur with a frequency consistent with that defined by the confidence level.

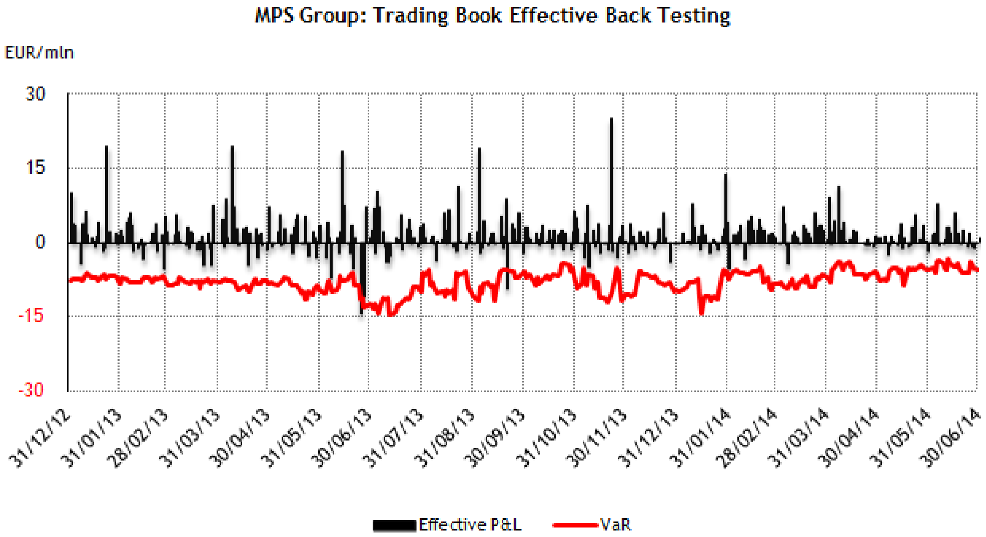
Based on supervisory instructions (Bank of Italy Circular 263/06, as amended), the Risk Management Area considered it appropriate to apply the theoretical and actual backtesting methods and integrate these into the Group's management reporting system.

The first type of test (theoretical backtesting) has a stronger statistical significance in reference to measuring the accuracy of the VaR model ("uncontaminated test").

The second type of test (actual backtesting) meets the need for verifying the VaR model's forecasting reliability in reference to actual Parent Company operations (daily trading P&L) less the effect of any interest accrued between trading days t-1 and t on the securities and less the effect of fees and commissions.

These "clean" P&L results (the "actual P&L") are compared with the previous trading day VaR (VaR t-1). If the losses are greater than those forecast by the model an "exception" is recorded.

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



The backtesting shows no exception in the first half of 2014.

Qualitative information

A. General

Each bank of the MPS Group which is relevant as a market risk-taking centre contributes to the generation of interest rate risk and price risk in the overall Trading Book.

A.1 Interest rate risk

With reference specifically to the Parent Bank, the Finance, Treasury & Capital Management Area (FTCMA) within the CFO division is the Business Area in charge of trading. The Global Markets Division carries out trading activities for MPSCS.

The FTCMA manages a proprietary portfolio which takes trading positions on interest rates and credit. In general, interest rate positions are taken by purchasing or selling bonds, and by creating positions in listed derivatives (futures) and OTCs (IRS, swaptions). Trading is carried out exclusively on the Bank's own behalf, with objectives of absolute return, in compliance with the delegated limits of monthly and yearly VaR and Stop Loss.

In particular, the FTCMA operates in the short-term portion of the main interest rate curves, mostly through bonds and listed derivatives

With regard to credit risk in the trading book, the equity positions are generally managed through the purchase or sale of bonds issued by companies or by creating synthetic positions in derivatives. The activity is oriented to achieving a long or short position on individual issuers, or a long or short exposure on specific commodities. The activity is carried out solely on the Bank's own behalf with objectives of absolute return and in compliance with other specific issuer and concentration risk limits approved by the Board of Directors.

A.2 Price risk

The Business Area in charge of the Parent Bank's trading activity with respect to price risk is the FTCMA which manages a proprietary portfolio and takes trading positions on equities, Stock Exchange indexes and commodities. In general, positions on equity securities are taken both through the purchase/sale of equities and through the positions created in listed derivatives (futures) and OTC (options). Trading is carried out exclusively on the Bank's own behalf, with objectives of absolute return, in compliance with the delegated limits of monthly and yearly VaR and Stop Loss. Similarly, the Global Markets Division carries out trading activities for MPSCS.

B. Interest rate and price risk: operational procedures and measurement methods

With regard to the market risk management process concerning the management and methods for measuring interest rate and price risk, see the above paragraph entitled "Market risk management model for the trading book".

Quantitative Information

1. Regulatory trading book: breakdown of balance sheet assets/liabilities and financial derivatives by residual life (repricing date)

This table has not been prepared since an analysis of the regulatory trading book's sensitivity to interest rate risk and price risk is produced based on internal models.

2. Regulatory trading book: breakdown of exposures in equity instruments and stock indices by major countries of the listing market

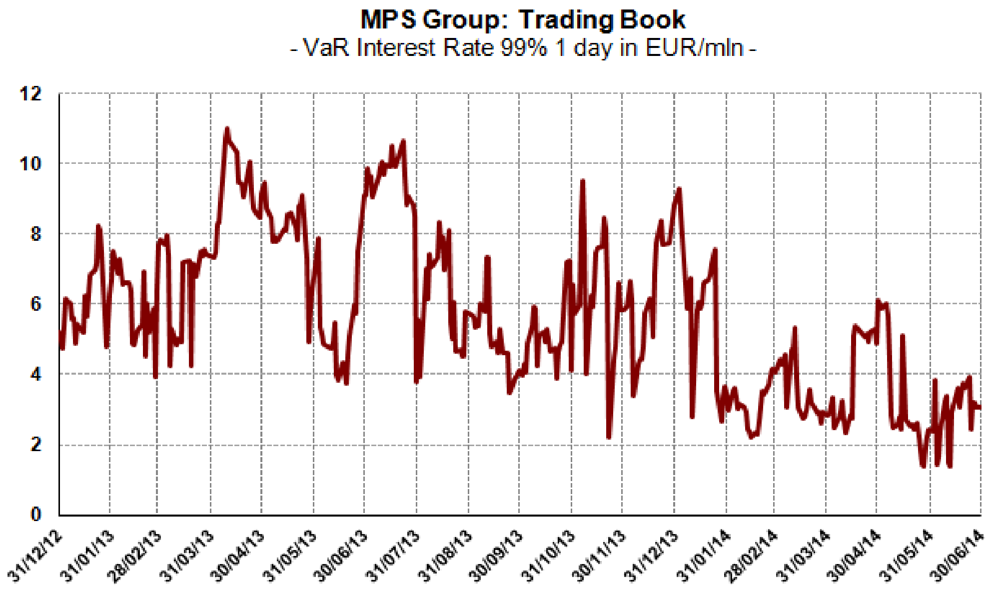
This table has not been prepared since an analysis of the regulatory trading book's sensitivity to interest rate risk and price risk is produced based on internal models.

3. Regulatory trading book: internal models and other methodologies for sensitivity analysis

The rate and price risk of the Trading Book is monitored in terms of VaR and scenario analysis.

3.1 Interest rate risk

Each business unit of the Group operates independently on the basis of the objectives and powers it has been assigned. Positions are managed by special desks provided with specific operational limits. Each desk adopts an integrated risk management approach (covering more than rate risk, when allowed) in order to benefit from the natural hedge resulting from simultaneously holding positions on risk factors that are not perfectly correlated. The VaR by risk factor (specifically, Interest Rate VaR) has operational relevance for the purpose of risk management analyses, even though it is the global VaR diversified among risk factors and portfolios that is used by the operating units. Below is information on the Group's diversified Interest Rate VaR:



The trend in Interest Rate VaR during the second quarter of 2014 was influenced by the trading activities of the subsidiary MPSCS, primarily in long futures and interest rate future options.

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

	VaR	Date
End of Period	3.09	30/06/2014
Min	1.39	12/06/2014
Max	9.29	02/01/2014
Average	3.75	

Simulations include four interest rate risk scenarios:

- +100 bp parallel shift for all interest rate and inflation curves,
- -100 bp parallel shift for all interest rate and inflation curves,
- +1% parallel shift for all surfaces of volatility of all interest rate curves.

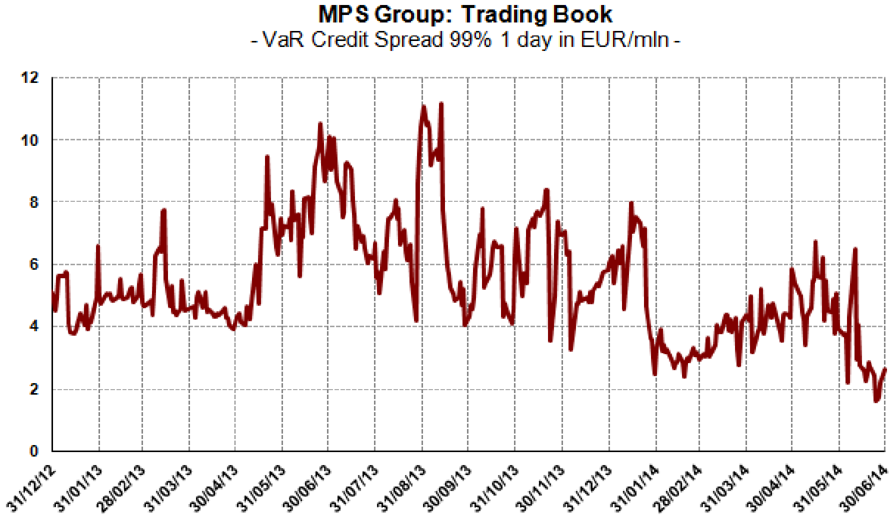
All positions related to the Trading Book are classified as HFT for accounting purposes, with changes in market value posted directly to profit and loss. Below is the overall effect of the scenario analyses.

MPS Group: Trading Book
EUR/mln

Risk Family	Scenario	Global Effect
Interest Rate	+100bp all Interest Rate Curves	19.24
Interest Rate	-100bp all Interest Rate Curves	-90.58
Interest Rate	+1% all Interest Rate Volatility	0.06

The asymmetry in the interest rate scenarios +100bp and -100bp is due to the effect of the floor applied to the curves owing to the low level in interest rates reached in the Euro area.

To complete the interest rate risk analysis, details are also provided on the credit spread risk of the Group's Trading Book associated with the volatility of issuers' credit spreads. The VaR by risk factor (specifically, Credit Spread VaR) has operational relevance for the purpose of risk management analyses, even though it is the overall VaR diversified among all risk factors and portfolios that is used by the operating units.



The trend in Credit Spread VaR, which fell in the second quarter of 2014, was largely influenced by the trading activities of the subsidiary MPSCS in long futures and interest rate future options.

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

	VaR	Date
End of Period	2.62	30/06/2014
Min	1.61	24/06/2014
Max	8.00	14/01/2014
Average	4.17	

For the purposes of sensitivity analysis, the simulation scenario is as follows:

- +1 bp parallel shift for all credit spreads.

All positions related to the Trading Book are classified as HFT for accounting purposes, with changes in market value posted directly to profit and loss. Below is the overall effect of the scenario analyses.

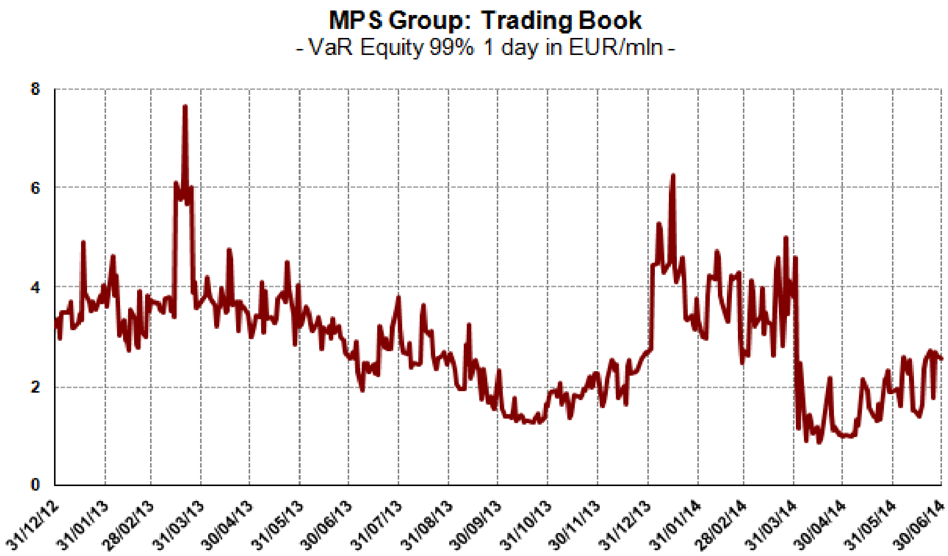
MPS Group: Trading Book

EUR/mln

Risk Family	Scenario	Global Effect
Credit Spread	+1bp all Curves	-0.7

3.2 Price risk

Each business unit within the Group operates independently on the basis of the objectives and powers it has been assigned. The positions are managed by special desks provided with specific operational limits. Each desk adopts an integrated risk management approach (with scope exceeding price risk, when allowed) in order to benefit from the natural hedge resulting from simultaneously holding positions on risk factors that are not perfectly correlated. The VaR by risk factor (specifically, Equity VaR) has management relevance for the purpose of risk management analyses, even though it is the global VaR diversified among risk factors and portfolios that is used by the operating units. Below is information on the Group's diversified Equity VaR.



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

	VaR	Date
End of Period	2.58	30/06/2014
Min	0.89	15/04/2014
Max	6.29	15/01/2014
Average	2.81	

There are three simulated price scenarios:

- +1% of each equity, commodity, index or basket price,
- -1% of each equity, commodity, index or basket price,
- +1% of all volatility surfaces of all equity and commodity risk factors.

All positions related to the Trading Book are classified as HFT for accounting purposes, with changes in market value posted directly to profit and loss. Below is the overall effect of the scenario analyses.

MPS Group: Trading Book

EUR/mln

Risk Family	Scenario	Global Effect
Equity	+1% Equity Prices (prices, indices, basket)	0.98
Equity	-1% Equity Prices (prices, indices, basket)	-1.01
Equity	+1% Equity Volatility	0.09

1.2.2 Interest rate and price risk in the banking book

Qualitative Information

A. General aspects, management processes and measurement methods for interest rate risk and price risk

A.1 Interest rate risk

In accordance with international best practices, the Banking Book refers to all of the commercial operations of the Parent Company in relation to the transformation of maturities with respect to balance-sheet assets and liabilities, Treasury, foreign branches and hedging derivatives of reference. The definition of the scope of the Banking Book and the ALM centralisation process are set out in a resolution by the Board of Directors of the Parent Company in compliance with the framework described in the regulatory provisions (Bank of Italy Circ. 263). The framework sets the rules for the centralisation of Asset & Liability Management under the Parent Company's Finance, Treasury and Capital Management Area (FTCMA) and the definition and monitoring of operating limits for interest rate risk in the Group's Banking Book. The Banking Book also includes bond receivables held for investment purposes, classified as either AFS or L&R.

The operational and strategic choices for the Banking Book, adopted by the Finance and Liquidity Committee and monitored by the Risk Committee of the Parent Company, are based first on exposure to interest rate risk for a variation in the economic value of the assets and liabilities of the Banking Book by applying a parallel shift of 25 bps, 100 bps and 200 bps, the latter in accordance with the requirements set out in the "second pillar" of the Basel Accord.

Risk metrics for the Group's retail banks are calculated by using, among other things, a model for the valuation of demand items or core deposits, whose characteristics of stability and partial insensitivity to interest rate changes are described in the systems with a statistical/predictive model (replicating portfolio), which takes into consideration an extensive time series of past customer behaviours. In addition, the Montepaschi Group's ALM model includes, within rate risk measurements, a behavioural model which takes into account the aspect of mortgage prepayment (so-called prepayment risk).

The Montepaschi Group is committed to the continual updating of risk measurement methodologies by gradually fine-tuning the estimation models so as to include all major factors that progressively modify the interest rate risk profile of the banking book.

The Group adopts an interest rate risk governance and management system which, in accordance with the provisions of the Supervisory Authority, avails itself of:

- a quantitative model, which provides the basis for calculation of risk indicators for the interest rate risk exposure of the Group and Group companies/entities;

- risk monitoring processes, aimed at verifying compliance with the operational limits assigned to the Group overall and to the individual business units;
- risk control and management processes, geared toward bringing about adequate initiatives for optimising the risk profile and activating any necessary corrective actions.

Within the above system, the following responsibilities are centralised in the Parent Bank:

- definition of policies for managing the Group's Banking Book and controlling its interest rate risk;
- coordination of Group policies' implementation by the companies included in the scope;
- governance of the Group's short-, medium- and long-term rate risk position, both overall and at individual company level, through centralised operational management.

In its governance function, the Parent Bank therefore defines criteria, policies, responsibilities, processes, limits and instruments for rate risk management.

The Group Companies included in the scope of application are responsible for abiding by the rate risk policies and limits defined by the Parent Bank and the capital requirements set by the relevant Supervisory Authorities.

Within the model defined, the Finance, Treasury and Capital Management Area of the Parent Company is responsible for the operational management of the Group's overall rate and liquidity risk.

Specifically, within the FTCM Area, the Group Treasury Service manages the short-term rate risk and liquidity risk for the Group. The ALM & Capital Management Service, instead, manages structural rate risk and maturity transformation risk (structural liquidity) for the Group. In addition, the Area carries out hedge monitoring and management activities consistent with accounting policies, involving centralised oversight for definition of the network's internal rates (BMPS and other Group companies) for Euro and foreign currency transactions with maturities beyond the short term.

The Group -and within it therefore the Parent Company - uses IAS compliant hedges for interest rate risk management. The main types of hedging used include:

- Micro Fair Value Hedges: hedging of non-trading assets (loans/mortgage loans), securities and bonds held;
- Macro Fair Value Hedges: hedging of non-trading assets (loans/mortgage loans);
- Micro Cash Flow Hedges: hedging of floating-rate deposits.

In addition to the above, the Group and, and within it therefore the Parent Company, uses the Fair Value Option for some types of business activities. In particular, the Fair Value Option was used for (structured and fixed rate) debt securities having the following characteristics:

- risk of fair value changes has been hedged upon issuance, with the intention of maintaining the hedge for the contractual duration and entire amount of the hedged position;

- normally for issuances in which the Group has committed to buyback at issuance spread.

A.2 Price risk

The price risk in the MPS Group's Banking Book is measured in relation to equity positions mostly held for strategic or institutional/instrumental purposes. For such purposes, the portfolio is primarily made up of equity investments, alternative funds (hedge funds) and AFS securities. Trading in UCITs is carried out exclusively through the direct purchase of the funds/SICAVs, with no use being made of derivative contracts.

The instrument used to measure the price risk of the equity investments portfolio is Value-at-Risk (VaR), which represents the loss that the portfolio in question, valued at Fair Value, could experience in the timeframe of one quarter (holding period), considering a confidence interval of 99%. The VaR model used (unlike the one used for the Trading Book) is a simulation model which uses the Monte Carlo approach, based on series of market yields for listed companies and time series of sector-based indices for unlisted ones.

Moreover, the above-mentioned model makes it possible to measure the marginal risk contribution of each equity investment and to disaggregate the measurement made from the Group's perspective with respect to the investment stakes held by each Legal Entity.

Stress tests are conducted regularly as part of price risk governance strategies for the banking book. Stress tests consist in generating Monte Carlo scenarios in order to assess the Group's ability to absorb potential losses resulting from extreme events.

With reference to the alternative funds component, the internal measurement system uses one of the metrics from the Supervisory approach for the determination of the Economic Capital.

The internal measurement system is independently developed by the Risk Management Area of the Parent Company, which periodically reports on the extent of portfolio risks and their changes over time. The results are regularly brought to the attention of the Parent Bank's Risk Committee and governing bodies.

Quantitative Information

1. Banking book: breakdown of financial assets and liabilities by residual life (repricing date)

This table has not been prepared since an analysis of the banking book's sensitivity to interest-rate risk and price risk is produced based on internal models.

2. Banking book: internal models and other sensitivity analysis methods

2.1 Interest rate risk

The sensitivity of the Group, at the end of June 2014, was indicative of exposure to rate hike risk. The amount of economic value at risk in the event of a +100 bp parallel shift of the rate curve came to - EUR 767.7 mln at the end of June 2014 (vs. EUR 734.8 mln for a shift of -100bp). However, if benchmarked against the Regulatory Capital, these values are below the level considered as the attention threshold by the Bank of Italy. The internal measurement system is independently developed by the Risk Management Area of the Parent Company, which periodically reports on the extent of portfolio risks and their changes over time. The results are regularly brought to the attention of the Parent Bank's Risk Committee and governing bodies.

2.2 Price risk

The Group's equity investment portfolio includes approximately 217 equity investments in companies outside the Group, ie. companies that are not consolidated either fully or proportionally. Approximately 84% of its value is concentrated in 10 investments while the unit value of the remaining investments is rather limited (approximately 168 equity investments, in fact, are valued at less than EUR 1 mln, 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 at year-end to approximately 24% of the portfolio Fair Value, with risk concentrated in the 5 most significant investments.

Shown below is a scenario analysis which includes all equity investments, hedge funds and other directional positions assumed, based on instructions by the Board of Directors or including those that operationally fall under the Banking Book of the Parent Bank's Finance, Treasury and Capital Management Area (e.g. AFS securities) and which are not included in the previously-reported scenario analyses for price risk in the Trading Book.

MPS Group: Banking Book

EUR/mln

Risk Family	Scenario	Global Effect
Equity	+1% Equity Prices (prices, indices, basket)	12.18
Equity	-1% Equity Prices (prices, indices, basket)	-12.18
Equity	+1% Equity Volatility	0

The impact of the equity investments portfolio on the scenario analysis total is approximately 79%.

1.2.3 Foreign exchange risk

Qualitative Information

General information, operational processes and measurement methods

Foreign exchange operations are mainly based on short-term trading, with the systematic balance of the transactions originated by the franchise and the retail banks which automatically feed into the Group's position.

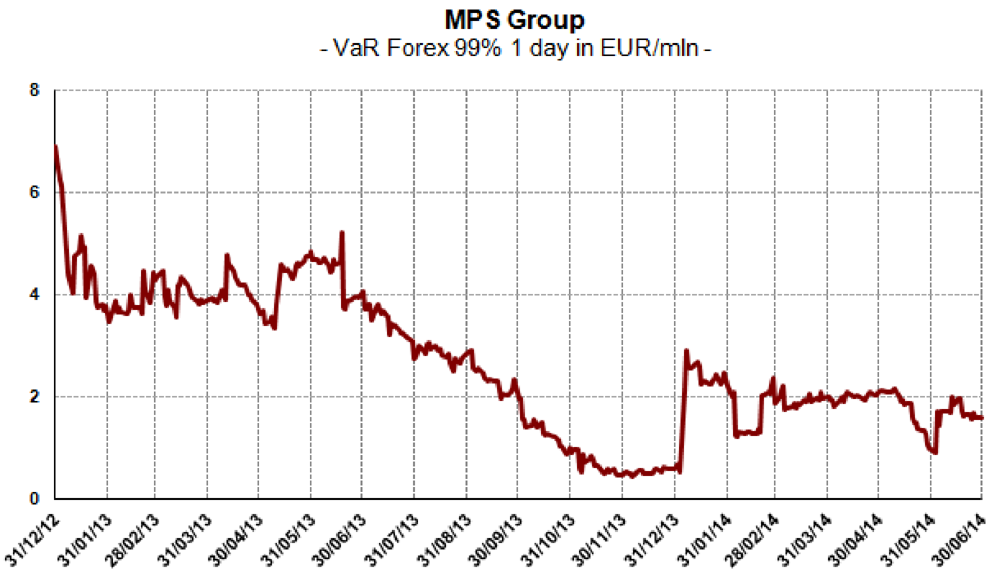
Trading is mainly carried out by the Group Treasury Service of the Finance, Treasury & Capital Management Area of the Parent Company; trading in the FX options segment is carried out by MPSCS, with active management of foreign exchange risk. The foreign branches of the Parent Company maintained modest forex positions exclusively originated by funds available for commercial purposes. The turnover in cash allocated to Group portfolios and OTC derivatives for MPSCS remained stable in terms of risk, with ongoing and careful use of delegated powers. Foreign currency equity investments are typically financed by funds denominated in the same currency, with no assumption of foreign exchange risk.

For a description of stress tests used in the risk governance strategy on exchange rates and the model applied, please refer to the section "Market risk management model for the Trading Book".

Quantitative Information

Internal models and other methodologies for sensitivity analysis

Exchange risk is monitored in terms of VaR and scenario analysis (for the methodology see the paragraph "Market Risk Management Model for the Trading Book"). Shown below is information relative to the Group's diversified Forex VaR.



MPS Group

VaR Forex 99% 1 day in EUR/mln

	VaR	Date
End of Period	1.59	30/06/2014
Min	0.53	03/01/2014
Max	2.92	07/01/2014
Average	1.88	

The following scenarios were used for foreign exchange rate simulations:

- +1% for all foreign exchange rates with respect to the Euro,
- -1% for all foreign exchange rates with respect to the Euro,
- +1% for all volatility surfaces of all foreign exchange rates.

The impact on total banking income and profit/loss for the year was estimated taking account only of HFT positions, with market value changes posted directly to Profit and Loss. The effect on equity, instead, is estimated with reference to all positions classified as AFS and related Fair Value Hedges (FVH). The total effect is the result of the algebraic sum of the two components. Below is a summary of the scenario analyses.

MPS Group

EUR/mln

Risk Family	Scenario	Impact on net interest and other banking income and net profit	Impact on shareholders' equity	**Global Effect**
Forex	+1% Exchange rate against EUR	0.73	0.01	**0.74**
Forex	-1% Exchange rate against EUR	-0.67	-0.01	**-0.68**
Forex	+1% Forex Volatility	0.03	0	**0.03**

1.3 – Liquidity risk

Qualitative Information

As part of the regular revision process of models and processes, the Group has revised its approach for the identification, measurement and management of Liquidity Risk (*Group Liquidity Risk Framework*).

Group Liquidity Risk Framework

The **Group's Liquidity Risk Framework** is intended as the set of tools, methodologies, organisational and governance setups which ensures both compliance with national and international regulations and adequate liquidity risk governance in the short and medium/long term, under business as usual and stress conditions.

Management of the Group's **Operating Liquidity** is intended to ensure the Group is in a position to meet cash payment obligations in the short term. The essential condition for a normal course of business in banking is the maintenance of a sustainable imbalance between cash inflows and outflows in the short term. The benchmark metric in this respect is the difference between net cumulative cashflows and Counterbalancing Capacity, i.e. reserve of liquidity in response to stress conditions over a short time horizon.

Management of the Group's **Structural Liquidity** is intended to ensure the structural financial balance by maturity buckets over a time horizon of more than one year, both at Group and individual company level. Maintenance of an adequate dynamic ratio between medium/long term assets and liabilities is aimed at preventing current and prospective short-term funding sources from being under pressure. The benchmark metrics, mitigated by specific internal operating limits set by the BoD, include *gap ratios* which measure both the ratio of total loans over more-than-1-year and more-than-5-year maturity deposits and the ratio of loans to retail/corporate deposits regardless of their maturities.

The liquidity position is monitored under both business-as-usual conditions and under specific and/or system-wide **stress scenarios**. The exercises have the twofold objective of timely reporting the Parent Company's major vulnerabilities in exposure to liquidity risk and allowing for prudential determination of the required levels of Counterbalancing Capacity (*liquidity buffer*).

The **Contingency Funding Plan**, drafted by the Finance, Treasury & Capital Management Area, is the document which describes the set of tools, policies and processes to be enforced under stress or liquidity crisis conditions.

Liquidity limits

As part of the overall budgeting process and particularly within the scope of Risk Appetite, the Liquidity Risk Framework identifies the tolerance thresholds for liquidity risk, that is to say the maximum risk exposure deemed sustainable in a business-as-usual scenario and under stress conditions. The short/medium and long-term liquidity risk limits derive from the setting of these risk appetite thresholds.

The short-term limit system is organised into three different levels that provide for a timely reporting of proximity to the operating limits, i.e. the maximum liquidity risk appetite set within the annual *Risk Tolerance* process.

In order to immediately identify the emergence of vulnerabilities in the Bank's position, the Group has developed a range of **Early Warnings**, classified as generic or specific depending on whether the individual indicator is designed to detect potential vulnerabilities in the overall economic context of reference or in the Group structure. The triggering of one or more early warning indicators is a first level of alert and contributes to the overall assessment of the Group's short-term level of liquidity position.

1.4 – Operational risk

Qualitative Information

Operational risk: general information, operational procedures and measurement methods

General information and Framework structure

By an administrative ruling dated 12.06.2008, the Bank of Italy authorised the Group to use internal models for the determination of capital requirements for credit and operational risks.

The adoption of the advanced model (AMA) calls for banks to:

1. adopt an internal organisation which defines the roles of the corporate bodies and functions involved in the operational risk management process;
2. establish a control function for data gathering and storing, capital requirement calculation, risk profile assessment and reporting;
3. perform ongoing checks on the quality of the management system and its compliance with regulatory provisions;
4. delegate the internal auditing body to perform periodic audits on the Operational Risk management system;
5. ensure over time that the system is actually made use of in the usual course of business (use test).

For this purpose, the Group has adopted an integrated system for operational risk management, i.e. an internal framework built around a governance model that involves all companies included in the AMA model scope of application. The approach defines the standards, methods and instruments that make it possible to measure risk exposure and the effects of mitigation by business area.

The advanced approach is designed to integrate all major qualitative and quantitative (LDA-Scenario mixed model) information sources (information or data).

The quantitative Loss Distribution Approach component is based on the collection, analysis and statistical modelling of internal and external time series of loss data (the latter supplied by the Italian Database of Operational Losses, DIPO).

The qualitative component focuses on the evaluation of the risk profile of each unit and is based on the identification of relevant scenarios. In this framework, the companies included in the AMA scope area are involved in the: identification of the processes and risks to be assessed; assessment of risks by process managers in charge; identification of possible mitigation plans; discussion of priorities and technical-economic feasibility of mitigating actions during scenario-sharing sessions with Head Office functions.

Next is a phase for monitoring progress on the implementation of actions scheduled and compliance with objectives and deadlines.

The Framework identifies Group Operational Risk Management (ORM) as the operational risk control function (within Parent Bank Risk Management).

The Parent Bank's ORM calculates the capital required to hedge operational risks by the use of different components of the model (internal data, external data, contextual and control factors, qualitative analyses), supports decision-making by Top Management from the standpoint of creating value by containment, mitigation and transfer of the risks detected, and as it does for other companies included in the scope, it gathers internal loss data and identifies the risks to be evaluated in qualitative analyses.

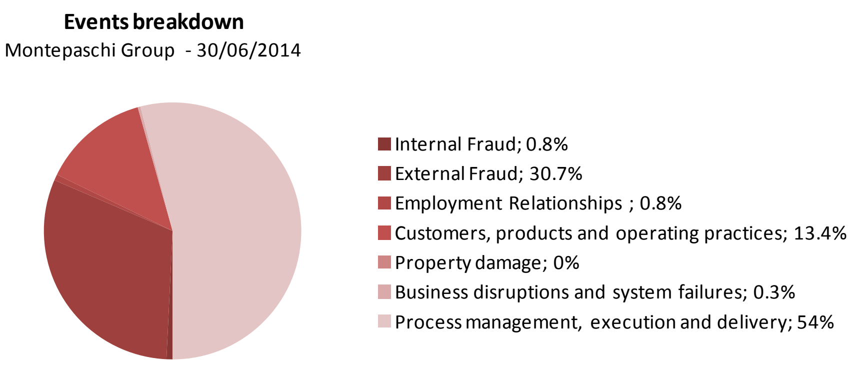
The Advanced Measurement Approach (AMA) is applied to all domestic financial and banking entities, while the foundation model is used for remaining components and foreign companies. As at 30.06.2014 internal model coverage in terms of total banking income exceeded 95%.

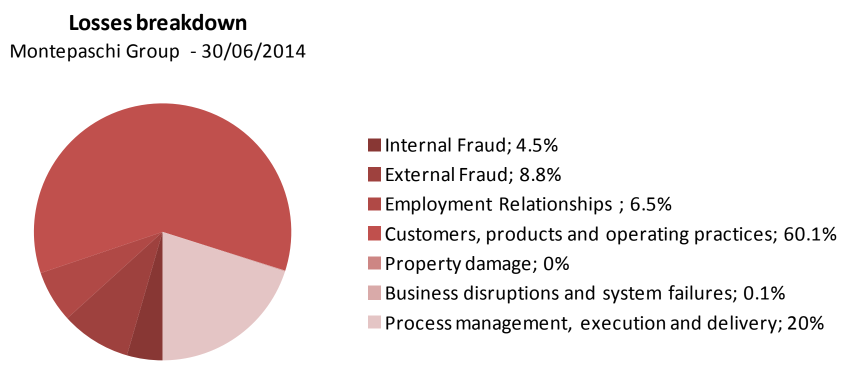
ORM has also set up a reporting system which ensures timely information on operational risks for the Top Management, which transposes the strategic principles of the management system into specific operating policies. Reports are regularly submitted to the Risk Committee and governing bodies.

Over time, the adoption of the AMA model has ensured better-informed management of operational risk, guaranteeing a material progressive reduction of the Group's operational risk.

Quantitative Information

The percentage breakdown of events and operational losses recognised in the first half of 2014 is reported below, divided into various risk classes.



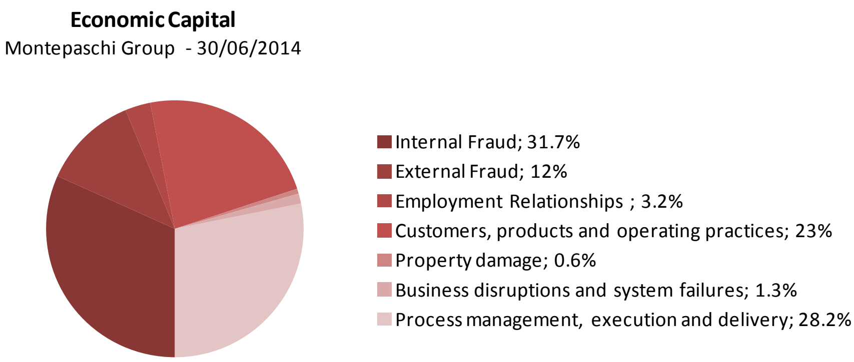


As at 30/06/2014, the number and amounts of operational risk events remain largely stable as compared to the first quarter of 2014, while total loss registered a decrease.

The types of event with the greatest impact on the profit and loss statement remain attributable to non-fulfilment of professional obligations with customers" (under "Customers, products and operating practices, which accounts for 60.1% of the entire amount of losses) and operational and process management shortfalls (under "Process management, execution and delivery, 20.0% of total).

With regard to "non-fulfilment of professional obligations with customers", risk events are mainly associated with claims (legal actions and complaints) due to the application of compound interest and, to a lesser degree, the sale of financial plans (For You and My Way) and bonds issued by countries or companies later in default (Argentina, etc).

The following graph reports the breakdown of the AMA-share of the Economic Capital by class of risk.



As at 30.06.2014, the Economic Capital was substantially stable on the previous quarter.

The breakdown of losses recognised in the period obviously differs from the breakdown of the economic capital in that the latter is calculated using a 5-year time series and the incidence of the unexpected loss component prevails.

Main types of legal action

The cases brought against the Monte Paschi Group for the most part can be grouped into sub-categories, characterised individually by a common denominator represented by alleged critical elements of products, operations, services or relationships for which or in which the companies played the role of disbursement or placement entities.

The main sub-categories refer to claims regarding compound interest and the management of loan positions and, to a lesser extent, the placement of financial plans and bonds issued by Countries or Companies which later defaulted.

These subcategories account for the largest share of total loss from legal actions. In dealing with these cases, the Group continues to pursue dispute settlement solutions.

Major pending cases

Civil lawsuit brought before the Court of Milan

The action, taken by the Extraordinary Administrators of a company against the former directors, statutory auditors and (direct and indirect) shareholders of the same company (including Banca MPS), seeks the assessment of liabilities for damages, not yet quantified, allegedly caused by the appearing parties to the company. The action is grounded on intricate and complex corporate matters which saw the involvement of the company from 1999 to

2009 and which, as far as the Bank and other appearing parties are concerned, pivot around the company's demerger in 2003. The case is still in the initial phase.

Lawsuit brought by the Extraordinary Administration of plaintiff company before the Court of Rome

The civil lawsuit was initiated by the Extraordinary Administration of plaintiff company against the directors and statutory auditors of said company (a financially sound business) and against the independent auditing firm and other banks in the pool. The plaintiff seeks to obtain compensation for alleged damages arising from restructuring deals and syndicated lending agreements. The case is still in the initial phase.

Civil lawsuit brought before the Court of Salerno

This case, where BMPS is sued together with other credit institutions and companies, seeks the assessment of alleged damage suffered by the plaintiff, as a result of an alleged unlawful report filed with the Italian Central Credit Register. The case is currently under preliminary investigation.

Civil lawsuit brought before the Court of Brescia.

The lawsuit concerns a claim for compensation for alleged damages brought before the Court by the Trustee in Bankruptcy due to banking transactions completed as part of the capital increase of the company which then failed. The case is currently under preliminary investigation.

Arbitration proceeding brought before the Arbitration Chamber in Milan

The case is an arbitration proceeding involving a claim for damages due to alleged documentary irregularities or shortcomings in relation to loans originated and sold by a Bank merged with the plaintiff company. The jurisdiction of the Arbitration Chamber stems from a clause in the disposal agreements. The arbitration is currently in progress.

Appeal lodged with the Regional Administrative Court of Lazio

The appeal was lodged against the Bank with the Regional Administrative Court of Lazio by associations of consumers and users seeking annulment of deeds relating to the procedure for the issuance of New Financial Instruments for the Bank. The Regional Administrative Court of Lazio and the Italian State Council rejected all petitions for precautionary measures submitted by the parties. In its closed session on 3 April 2013, the Regional Administrative Court adjourned the hearing indefinitely.

Civil lawsuit brought before the Court of Palmi

This case, where BMPS is sued together with other credit institutions, seeks the assessment of alleged damage suffered by the plaintiff, as a result of purported usury-like interest. The case is under preliminary investigation.

Risks from tax disputes

The Parent Company and the main Group companies are involved in several tax-related proceedings. In addition, investigations are under way that have not yet resulted in findings or claims.

With reference to the Parent Company, in the previous first quarterly report 2014, it was already pointed out that in April 2014, the Parent Company agreed to settle a claim raised by the Revenue Agency regarding the disposal of an equity investment held by the Parent Company, for which the State Tax Authority challenged the applicability of the "pex" (participation exemption) regime to the capital gain realised from the disposal in question. The claim amounted to EUR 100 mln in taxes and penalties and was settled with a total payment of EUR 38.5 mln.

With reference to other Group companies, it is to be mentioned the investigation performed under court order by the Guardia di Finanza into a real estate transaction performed by MPS Immobiliare in 2011 and consisting in contributing a property complex located in Rome to a closed-end real estate fund and the subsequent disposal of units held in that same fund. In relation to that transaction, on 16 September 2013 the Guardia di Finanza served an official tax audit report challenging MPS Immobiliare's ability to use the tax regime applied to the contribution in question and subsequent failure to pay VAT of around EUR 27 mln and direct taxes of approximately EUR 4 mln. The Italian Revenue Agency has not yet served any assessment notice but has formally invited the company to provide clarifications, believing that the transactions put in place are on the whole elusive: assisted by its advisors, the company has prepared and filed its own observations. According to MPS Immobiliare, supported by the opinion of its consultants, the risk of losing the case associated with these findings is unlikely.

MPS Immobiliare is currently subject to an investigation for which at present no formal tax audit report or claim has been served. On instructions from the Siena Public Prosecutor, on 25 June 2013 the Guardia di Finanza launched an investigation into MPS Immobiliare operations which, in addition to the aforementioned transaction transferring a property complex to a closed-end real estate fund, also included the "Chianti Classico" transaction. On the basis of this investigation, the Guardia di Finanza has recently initiated a tax audit for years 2008 and 2009. Although the audit has not yet been completed, in its daily reporting processes the Guardia di Finanza has formulated a number of significant assumptions concerning both the Chianti transaction (the potential dispute would lead to a EUR 119 tax claim in addition to interest and the possible imposition of penalties) and other matters (potential disputes would result in a claim of approx. EUR 26 mln in taxes in addition to interest and the possible imposition of penalties). It is believed that these significant allegations are groundless and that, based also on the opinion of reliable advisors, the risk of subsequent disbursements is merely possible.

Again 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 which, for the years under audit, would result in a claim of EUR 155 mln in taxes in addition to interest and the possible imposition of penalties. It is believed that these significant allegations are groundless and, supported by the opinion of reliable consultants, that the risk of subsequent disbursements is merely possible.

Considering the significance of allegations made in relation to both companies, the Group has submitted a counter-argument to the tax auditing bodies, aiming to demonstrate that the correct tax treatment was applied on the transactions in question.

In the light of the above, if the auditing bodies do not change their opinion based on the counter-arguments presented by the Group, it is possible that the outcome of the current tax audits on MPS Immobiliare and Consorzio Perimetro could lead to formal proceedings. In this case, taking also account of possible new evidence to support such claims, the Group reserves the right to assess any further actions to be taken in order to defend its position.

Financial risks of investment services

Foreword

The following section on financial risks of investment services was written as part of "Section 4 - Operational Risk" in line with the compulsory framework for preparation of the Notes to the Financial Statements, even though this subject presents specific characteristics and involves organisational levels of authority that are not directly traceable to operational risk management.

Wealth risk management process and methods

The term "investment services" refers to operations with customers in the area of placement services; order execution, receipt and transmission; proprietary trading; portfolio management; investment advice.

The risks associated with investment services are directly or indirectly reflective of the risks incurred by customers. Therefore, the control of these risks is particularly aimed at achieving the twofold objective of protecting customers and preventing any potential repercussions on the Group in terms of operational and reputational risk.

The organisational responsibility for overseeing Group-wide measurement, monitoring and control activities relative to the financial risks inherent in investment products is an integral part of the scope of responsibility of Group integrated Risk Management. This is to ensure centralised governance of the direct and indirect risks which the Group incurs during the course of its operations. Within the Risk Management Area of Banca MPS' Risk Division, this task is allocated group wide to the Wealth Risk Management service.

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

The regulatory framework for investment services and verifications of appropriateness is provided for by European Miffed regulations and the Consob Regulation on Intermediaries no. 16190/2007. With regard to the third-level regulatory framework, Communication no. 9019104/2009 ("Level 3 - Illiquid financial products") and subsequent inter-association guidelines on illiquid financial products also play an important role. Finally, the regulatory framework includes the ESMA guidelines on suitability requirements issued in June 2012, subsequent Consob communication no. 12084516/2012 and ABI Guidelines for the application of ESMA guidelines of 5 March 2014.

All investment products (both Group and third-party), included in the catalogue of products offered to Group customers are subject, within a codified product management/development and distribution process, to a specific quantitative risk assessment, including, market, credit and liquidity risk factors. The same risk assessment has also been extended to financial instruments purchased directly by customers and managed in portfolios under custody.

Mapping the risk of investment products is carried out on the basis of macro market, credit and liquidity risk factors/complexity and consequently pegged to specific risk classes. Identified with explanatory keys, the risk classes are made available to customers in information brochures regarding securities placed and which therefore represent one of the guiding criteria on the basis of which the verifications of appropriateness and suitability are made.

A special focus is given by the Parent Company to the monitoring and prevention of potential financial and reputational risks which investment services, particularly in a context of financial crisis such as the one experienced over the last few years, may generate as a consequence of increased market volatility. The fast-moving and not always predictable market trends may result in both a potentially rapid change in product risk and generate potential financial losses and prompt a changing attitude by customers towards their own financial investments.

For increased protection of customer investments, the Wealth Risk Management function monitors the list of highest-risk issuers/entities (a.k.a. Money Laundering List or MLR) with the objective of identifying companies undergoing a temporary critical phase, associated primarily with specific macroeconomic, corporate and/or sector-related situations or a lack of sufficient market information. Inclusion in the MLR list makes the financial instruments issued by these issuers/entities inappropriate and impossible to be offered on an advisory basis.

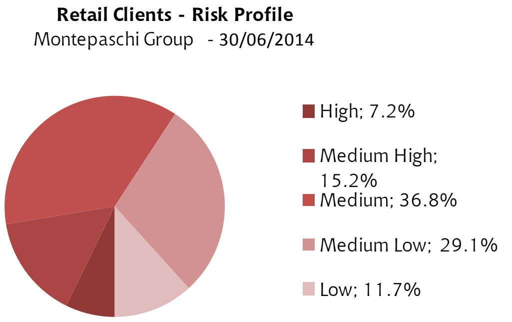
Advisory services on offer, customer risk profile and risk of investment products/portfolios

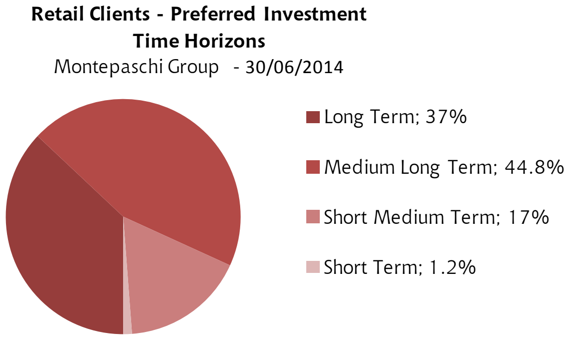
The strategic choice of the Parent Company MPS is to combine the placement of financial products with advisory so as to ensure the highest level of protection for the investor and, at the same time, enhance the role played by relationship managers. Again, with a view to protecting customers, the obligation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

Two types of advisory service are offered by the Parent Company MPS: 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 so as to obtain optimum asset allocation and maximised prospective returns over a certain time horizon, given the customer's risk profile.

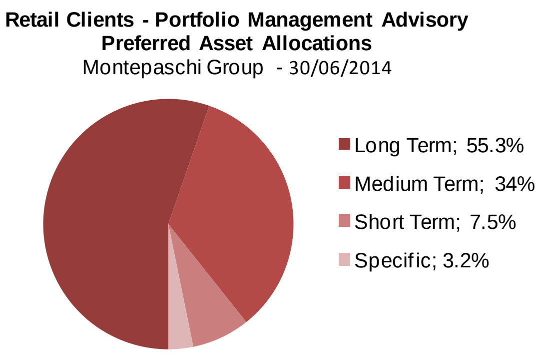
The activities described in this section cover the entire distribution scope of the branch network of the Parent Company MPS and the Financial Advisory network (in addition to MPS Capital Services for the role it plays in the supply-chain process).

The results of questionnaires filled out by Group customers confirm a very conservative approach to financial investments. Group customers in the "Consumers" macro-segment, namely retail customers representing almost the entire customer base of the Group, have long shown a substantially risk-averting investment propensity. At the end of June 2014, 41% of these MIFID-profiled customers continued to be concentrated in largely conservative (minimum and limited investment) profiles, primarily over medium and long time horizons.





At the end of the first half of 2014, the portfolios held by Consumer/Retail customers on the basis of formalised advanced advisory proposals to obtain optimum asset allocation, were mainly distributed into the recommended medium and especially long term Asset Allocation (AA) macro-classes, with a low percentage of assets allocated over specific time horizons. This testifies to the interest of customers who turn to this type of advisory service for stable and long-lasting investments.



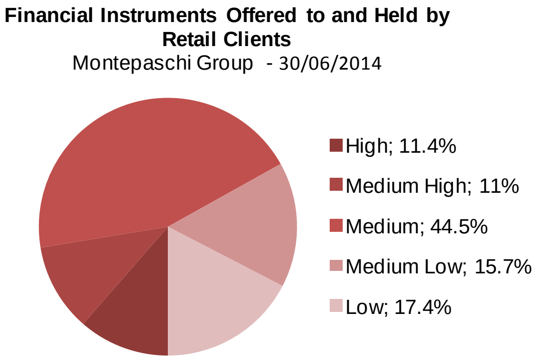
As for risk mapping on investment products, the first half of 2014 confirmed the results already seen in the first quarter of the current year and especially during 2013, i.e. a key risk factor trend which was on the whole positive following the difficulties encountered at the height of the financial crisis, particularly in 2010-2012. Conditions on the international and Euro area financial markets gradually improved, favouring an upturn in financial investments by customers.

Credit risk continues to be the most significant component in determining the overall risk of investment products, despite showing a gradual decline particularly in the area of financial and corporate bonds following a decrease in the level of risk premiums on the sovereign debt of EU countries (including Italy), which had been strongly affected by the 2010-12 financial crisis in Europe.

This situation has had obvious repercussions on the risk of customers' investment products that are particularly sensitive to volatility in the main risk factors.

The experience in recent years, however, requires greater caution when interpreting market signs and investor behaviours. In the current circumstances, rapid changes in monetary policy, the perception of sound financial systems and investor behaviour can have violent repercussions on risk factors and on the investments of customers.

In line with the market trends and consequent impacts on macro risk factors, particularly issuer risk, products included in the Group's catalogue and held by "Consumer/Retail" customers showed, at the end of June 2014, a rise in the risk appetite of investors and a consequent search for higher returns: the risk profile distribution which 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.



Customers have regularly been informed of changes in the risk of financial instruments held, so as to ensure timely informational transparency and facilitate possible decisions aimed at rebalancing the risk profile of their investments.

Part F – Information on consolidated shareholders' equity

Section 1 - Consolidated shareholders' equity

The prudential supervisory provisions for banks and banking groups became operational as of 1 January 2014 with the aim of aligning national regulations with the changes introduced to the international regulatory framework, particularly the European Union's new regulatory and institutional framework for banking supervision.

The new regulatory framework aims to improve the ability of banks to absorb shocks arising from financial and economic stress, whatever the source, improve risk management and governance and strengthen the bank's transparency and disclosures, while taking into account developments from the financial crisis. The reforms have two types of focus: microprudential, involving regulation at individual bank level; macroprudential, addressing systemic risk, amplified by the interconnection between financial institutions.

The three-pillars based approach has been maintained. This was also the basis of the previous capital accord known as "Basel 2", which has been integrated and strengthened with measures that increase the quantity and quality of banks' capital base as well as introduce counter-cyclical supervisory tools and new standards for liquidity risk management and financial deleveraging.

More specifically, Pillar 1 has been strengthened through a more harmonised definition of capital as well as higher capital requirements. In the face of more stringent capital requirements that more accurately reflect the potential risk of certain activities (e.g. securitisations and trading book), a definition of higher quality capital has been added, essentially focused on common equity. Capital reserves are added to this definition, which function to conserve primary capital, provide counter-cyclical buffers, and hedge against greater losses for systemically important financial institutions. These reserves are envisaged at the discretion of Supervisory Authorities, net of the mandatory capital conservation buffer of 2.5%.

In addition to the system of capital requirements aimed at covering credit, counterparty, market and operational risk, there is now a plan to introduce leverage caps (including off-balance sheet exposures) as a backstop to capital requirements based on risk and to reduce excessive leverage across the system.

"Basel 3" also introduces new liquidity risk monitoring requirements and tools which focus on short-term liquidity resilience (Liquidity Coverage Ratio - LCR) and longer term structural balance (Net Stable Funding Ratio - NSFR) as well as providing standards for liquidity risk management and monitoring at both individual and system-wide level.

Pillar 2 requires banks to adopt a strategy and process for controlling current and future capital adequacy, assigning the supervisory authorities with the task of verifying the reliability and consistency of results and of implementing the appropriate corrective measures, where necessary. Growing importance is attached to the corporate governance structure and internal control systems of banks as a determining factor for the stability of individual institutions and the financial system as a whole. To this end, regulatory requirements have been strengthened concerning: the role, qualification and composition of governing bodies; the awareness by these bodies and top management regarding organisational structure and risks for the Parent Company and banking group; corporate control functions, with a particular focus on the independence of those in positions of responsibility; the recognition of risk in off-balance sheet assets and securitisations, asset valuation and stress testing; and remuneration and incentive systems.

Pillar 3 – regarding the obligation of public disclosure on capital adequacy, risk exposures and general characteristics of management and control systems, with a view to promoting market discipline – was revised to also include transparency requirements concerning securitisation exposures and further information on the composition of regulatory capital and the methods adopted by the Parent Bank to calculate capital ratios.

The introduction of Basel 3 regulations is subject to a transition period that extends the full application of the rules to 2019 (2022 for the phase-out of certain capital instruments) and during which the new rules will be applied in an increasing proportion,

Regulatory capital, an element of Pillar 1, is therefore calculated according to Basel 3 rules implemented in Europe through a comprehensive body of regulations, consisting of the Capital Requirements Regulation (CRR), European Regulation no. 575/2013, and related integrations, by the Capital Requirements Directive (CRD IV), by Regulatory Technical Standards and Implementing Technical Standards issued by the EBA, and by supervisory instructions issued by Bank of Italy (specifically, Circular nos. 285 and 286).

In reference to defining regulatory requirements, in June 2008, the Group was authorised to use advanced internal rating-based (AIRB) systems for the determination of capital requirements for credit risk in relation to retail and corporate portfolios and Advanced Measurement Approaches (AMA) for operational risks.

B. Quantitative information

B.1 Consolidated shareholders' equity: breakdown by business areas

30 06 2014

Net equity items	Banking group	Insurance companies	Other companies	Consolidation cancellations and adjustments	Total
Shareholders' equity	7,497,890	315,317	240,904	(556,221)	7,497,890
Share premium	216	-	105,838	(105,838)	216
Reserves	4,560,954	236,462	(39,407)	(197,055)	4,560,954
Equity instruments	3,002	-	-	-	3,002
Treasury shares (-)	-	-	-	-	-
Valuation reserves	(633,005)	201,539	8,546	(210,085)	(633,005)
- Financial assets available for sale	(499,066)	-	3,929	(3,929)	(499,066)
- Tangible assets	-	-	-	-	-
- Intangible assets	-	-	-	-	-
- Hedges of foreign investments	-	-	-	-	-
- Cash flow hedges	(227,383)	-	-	-	(227,383)
- Exchange difference	(3,836)	-	-	-	(3,836)
- Non-current assets held for sale	-	-	-	-	-
- Actuarial gains (losses) on defined benefit plans	(110,814)	-	(21)	21	(110,814)
- Share of valuation reserves of equity investments valued at equity	195,567	197,647	(1,972)	(195,675)	195,567
- Special revaluation laws	12,527	3,892	6,610	(10,502)	12,527
Profit (loss) for the period - Group and minority interests	(351,926)	33,052	5,819	(38,871)	(351,926)
Net equity	**11,077,131**	**786,370**	**321,700**	**(1,108,070)**	**11,077,131**

Section 2 - Capital and capital ratios

2.1 Capital

A. Qualitative Information

The Bank's capital is made up of the following:

- Tier 1 (T1) capital, consisting of:
    - Common equity Tier 1 (CET1);
    - Additional Tier 1 (AT1);
- Tier 2 (T2).

As with other regulatory indicators, capital is subject to specific transition rules. Therefore, there are full application requirements and transition requirements..

Common equity Tier 1 (CET1)

Full application requirements

Common equity Tier 1 (CET1) mainly consists of

- Share capital;
- Share premium reserve resulting from the calculated share capital;
- Retained earnings;
- Valuation reserves.

The requirements for including capital instruments in CET1 are very stringent. They include the following :

- Capital Instruments must be classified as equity for accounting purposes;
- the nominal amount cannot be reduced except in cases of liquidation or discretionary repurchases by the issuer, with the appropriate authorisation by the Supervisory Authority;
- they must have perpetual duration;
- the issuer is not obliged to distribute dividends;
- the issuer can only distribute dividends from distributable profits;
- there can be no preferential treatment in distributions, unless as a reflection of different voting rights;
- there are no caps on distribution;
- cancellation of distributions does not result in restrictions on the issuer;
- with respect to issued capital instruments, CET1 instruments absorb firstly, and a proportionally greater amount of, the losses in the moment that they are incurred;
- they represent more subordinated instruments in the event of the Parent Company's bankruptcy or liquidation;
- the holders have the right to the issuer's residual assets in the event of the issuer's liquidation;
- they are not subject to guarantees or contractual provisions that increase their seniority.

The CET1 calculation excludes the valuation reserve generated by cash flow hedges and the gains/losses from changes in the Bank's credit standing (fair value option liabilities and derivative liabilities).

Furthermore, CET1 includes additional value adjustments (so-called "prudent valuation"). These adjustments are made to fair value exposures in the financial statements and must include the uncertainty of the parameters (model risk, cost of closure, etc.) and potential future costs (operating risks, concentration risk, liquidity risk, etc.). The adjustments vary according to the financial instruments' classification as Level 1, 2 or 3.

In addition to these components, which represent the prudential filters, CET1 is subject to the following deductions:

- loss for the period;
- intangible assets, including the goodwill implicit in the equity investments under significant influence or joint control, valued according to the equity method;
- tax assets that are based on future profitability and do not derive from temporary differences (tax losses);
- deferred tax assets that depend on future profitability and derive from temporary differences (net of the corresponding deferred tax liability). On the other hand, deferred tax assets that do not depend on future profitability and can be transformed into tax credits as per Law no. 214/2011 are not deducted. Instead, these latter assets are included in RWA and weighted at 100%;
- deferred tax assets associated with multiple tax alignments of the same goodwill item for the portion that has not yet been transformed into current taxes;
- the surplus of expected losses on portfolio impairments validated for purposes of adopting the AIRB internal rating system (so-called "expected loss delta");
- direct, indirect and synthetic investments in the Bank's own CET1 instruments;
- insignificant (<10%) direct, indirect and synthetic investments in CET1 instruments of financial institutions;
- significant (>10%) direct, indirect and synthetic investments in CET1 instruments of financial institutions;
- any deductions in excess of the AT1 instruments.

Deductions for equity investments in financial institutions and deferred tax assets are applicable only for the portion that exceed established CET1 thresholds, known as exemptions, according to the specific mechanism described below:

- insignificant investments in CET1, AT1 and T2 instruments of financial institutions are deducted for the portion that exceeds 10% of the CET1 that is obtained after applying the prudential filters and all deductions other than those for deferred tax assets that are dependent on future profitability and derive from temporary differences, to direct, indirect and synthetic investments in CET1 instruments of financial institutions, to any deductions in excess of the AT1 capital instruments and deductions in qualified equity investments in financial businesses
- net deferred tax assets that depend on future profitability and derive from temporary differences are deducted for the portion that exceeds 10% of the CET1 that is obtained after applying the prudential filters and all deductions other than those for deferred tax assets that are dependent on future profitability and derive from temporary differences, to any deductions in excess of the AT1 capital instruments and deductions in qualified equity investments in financial businesses;
- significant investments in CET1 capital instruments of financial institutions are deducted for the portion that exceeds 10% of the CET1 that is obtained after applying the prudential filters and all deductions other than those for deferred tax assets that are dependent on future profitability and derive from temporary differences, to any deductions in excess of the AT1 capital instruments and deductions in qualified equity investments in financial businesses;

- amounts not deducted as a result of the 10% exemption of significant investments in CET1 capital instruments of financial institutions and net deferred tax assets that depend on future profitability and derive from temporary differences, added together, are deducted only for the portion that exceeds 17.65% of the CET1 that is obtained after applying the prudential filters and all deductions, including investments in financial institutions and deferred tax assets, with the exception of any deductions in excess of the AT1 capital instruments.

Amounts not deducted as part of the exemptions are included in the RWA with 250% weighting.

Non-controlling interests are calculated in CET1 to the extent to which they cover the corresponding minimum capital requirements of the subsidiary. Hence, any excess cannot be included in the CET1 calculation.

Finally, note that Bank of Italy announced the adoption of specific provisions against Banca Monte dei Paschi di Siena under articles 53 and 67 of Legislative Decree no. 385/93 for regulatory treatment of the transaction known as Fresh 2008. This resulted in the exclusion from the CET1 calculation of the share of Fresh notes falling under the indemnity issued by the Parent company to Bank of New York S.A. The negative impact on CET1 as at 31 March 2014 amounted to EUR 76 mln, unchanged with respect to 31 December 2013.

Transition requirements

The following are the key aspects of the transition requirements:

- actuarial gains/losses arising from the measurement of liabilities connected with employee benefits (staff severance pay, defined-benefit pension funds, etc.) are recognised, net of tax effect, in valuation reserves and are included in CET1, with a gradual introduction of 20% per year (20% in 2014 and 100% in 2018);
- 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);
- the option to exclude from CET1 the unrealised profits and losses on exposures with central governments classified in the AFS portfolio, until approval by the European Commission of the IFRS that replaces IAS 39, as a result of the introduction of the CRR according to each country's discretion established as part of the transition requirements by Bank of Italy. In January 2014, MPS Group exercised this right, as provided for in Circular 285 of 17 December 2013:
- deferred tax assets that depend on future profitability and do not derive from temporary differences are deducted at 20% for 2014 (100% in 2018). These are essentially deferred financial assets associated with tax losses**;**
- deferred tax assets that depend on future profitability and derive from temporary differences existing at 1 January 2014 are deducted from CET1 with a gradual introduction of 10% per year beginning in 2015 (10% in 2015 and 100% in 2024);
- other deferred tax assets that depend on future profitability and derive from temporary differences, generated after 1 January 2014, are deducted from CET1 with a gradual introduction of 20% per year beginning in 2014 (20% in 2014 and 100% in 2018);

- insignificant investments in CET1 instruments of financial institutions held directly, indirectly or synthetically are deducted from CET1 with a gradual introduction of 20% per year beginning in 2014 (20% in 2014 and 100% in 2018). Direct investments in financial institutions not deducted from CET1 during the transition phase are deducted at 50% from AT1 and 50% from T2. Indirect and synthetic investments are subject to capital requirements and included in RWA;
- significant investments in CET1 instruments of financial institutions held directly, indirectly or synthetically are deducted from CET1 with a gradual introduction of 20% per year beginning in 2014 (20% in 2014 and 100% in 2018). Direct investments in financial institutions not deducted from CET1 during the transition phase are deducted at 50% from AT1 and 50% from T2. Indirect and synthetic investments are subject to capital requirements and included in RWA;
- the excess of expected losses on impairments (expected loss delta) are deducted from CET1 with a gradual introduction of 20% per year beginning in 2014 (20% in 2014 and 100% in 2018). The portion not deducted from CET1 during the transition phase are deducted at 50% from AT1 and 50% from T2.

Additional impairments to assets and liabilities designated at fair value are calculated in proportion to the amount with which said assets and liabilities are calculated in CET1 during the transition period. For example, since unrealised gains and losses on exposures to central governments classified in the AFS portfolio are not at this time included in the CET1 calculation, any additional corresponding impairments are not recognised.

The New Financial Instruments (NFIs), considered state aid, are included in CET1 until 31 December 2017.

New Financial Instruments and 2014 capital increase

The NFIs were issued by Banca Monte dei Paschi di Siena S.p.A. on 28 February 2013 pursuant to article 23-sexies of Law Decree no. 95 of 6 July 2012, converted, with amendments, into Law no.135 of 7 August 2012, as subsequently amended. In particular, the Ministry of Economy and Finance subscribed to the NFIs issued by the Bank for a total of EUR 4,071 mln, of which EUR 1,900 mln allocated to full repayment of the Tremonti Bonds already issued by the Bank in 2009, and EUR 171 mln, due on 1 July 2013, for advance payment of interest accrued on Tremonti Bonds up to 31 December 2012, in consideration of the Bank's negative results as at 31 December 2012.

The characteristics of the New Financial Instruments include:

- the NFIs are financial instruments which may be converted into ordinary shares by the issuer BMPS and are characterised by subordination pari passu with ordinary shares, in the event of both voluntary liquidation or bankruptcy proceedings and under going concern assumptions. In particular, on a going-concern basis, the NFIs absorb losses that reduce the capital ratio to below 8% in the same proportion with respect to the share capital and reserves, by reducing the nominal value;
- the NFIs are perpetual instruments and the Parent Company has the right to redeem them subject to the prior authorisation by the Bank of Italy; repayment of the instruments will occur at the greater of the following values:
    - an increasing percentage of the nominal value over time (100% by 30 June 2015, then increased by 5% every two years up to a maximum of 160%);
    - the product of shares underlying the NFIs and the price paid in the event of a takeover bid on BMPS after the subscription date;

    - the product of shares underlying the NFIs and the price received by the MPS Foundation in the event that over 10% of its shareholding is sold over a period of 12 months.
- the NFIs have no rights under art. 2351 of the Civil Code and are convertible into shares upon the request of the issuer (art. 23-decies para.1); in particular, in the event of conversion, the MEF is to be assigned a number of shares equal to the ratio between the nominal value of the NFIs and the Theoretic Ex Rights Price (TERP) discounted by 30%; the TERP is positively related to the market value of BMPS shares;
- interest on NFIs is paid in cash up to the amount of net profit for the year gross of the same interest, tax effect and net of provisions for statutory reserves;
- any interest in excess of this threshold is paid through the issue of new shares at market value or, for 2013 interest, through the issue of additional NFIs for the equivalent nominal value;
- with regard to interest payment on NFIs:
    - interest on NFIs is calculated on a pro rata basis by applying a fixed rate of 9% to the nominal value for the first year (2013) with a subsequent step up of half a point every 2 years until the 15% cap is reached;
    - subject to the exceptions provided for in 2013 and 2014, interest that is not covered by net profit (loss) for the year is to be paid through the allocation of a number of shares equal to the number of shares in issue multiplied by the ratio between interest due and market capitalisation of the Bank (average of 10 days prior to the date of the BoD which approved the financial statements) net of the same interest;
    - in the event of loss for the year, no dividends shall be paid out under any circumstances.

The issuance of the NFIs is consequential to the shortfall revealed by the exercise conducted by the EBA on the capital requirements of Europe's major banks in the second half of 2011. The exercise revealed the Group's need for temporary and provisional capital strengthening in the amount of EUR 3,267 mln aimed at achieving a 9% (EBA) Core Tier 1 by the end of June 2012. In determining this target value, the exercise also included the lower valuation -as at 30 September 2011 - of exposures to sovereign issuers so as to take account of market concerns over sovereign debt risk.

Consequently, the Group developed a plan of actions aimed at strengthening capital, which led to determining an overall shortfall of EUR 2,000 mln, net of Tremonti bonds. Identified actions, aimed at further strengthening the Group's capital, lie at the basis of the Restructuring Plan approved by the BoD on 7 October 2013 and by the European Commission on 27 November 2013.

On 21 May 2014, the Extraordinary Shareholders' Meeting approved the proposal submitted by the Board of Directors to increase share capital by payment of a maximum amount of EUR 5 billion. The capital increase is aimed at providing the financial resources necessary to:

- redeem a nominal value of EUR 3 bn of New Financial Instruments (in addition to EUR 126 mln as the highest amount payable at the time of redemption pursuant to provisions governing the NFIs), and – in relation to interest due for 2013 – repay EUR 329.6 mln of New Financial Instruments;
- provide MPS Group with a security buffer to absorb the negative impacts that may result from the Comprehensive Assessment, and therefore, allow the Group to better meet the commitments made in the Restructuring Plan; and

- align the Bank with best-in-class market standards in terms of the Common Equity Tier 1 ratio (phased in).

As a result of the decision taken by the Shareholders' Meeting, the Parent Company launched a rights offering in June for a maximum amount of EUR 5 bn. At the end of the offering period, which began on 9 June 2014 and closed on 27 June 2014, rights had been exercised for the subscription of 4,992,056,324 new shares, accounting for 99.85% of total new shares available and amounting to a total of EUR 4,992 mln. On the basis of this outcome and the authorisations received by the Bank of Italy and the Ministry of Economy and Finance by the 30 June 2014, on 1 July 2014 the Parent Company redeemed a nominal value of EUR 3 bn of New Financial Instruments as well as New Financial Instruments relating to interest accrued for the financial year 2013 and issued at the same time, for a total consideration of EUR 3,455.6 mln, which includes the effects from the terms and conditions of the NFIs following the sale of shares by Monte dei Paschi di Siena Foundation.

As a result of these events and in application of the rules of prudential supervision, as at 30 June 2014 CET 1 included the shares subscribed and regulated at this date, ie. EUR 4,992 mln di euro net of costs of the transaction amounting to EUR 170 mln, and excluded the EUR 3 bn of NFIs authorised for repayment. Thus Common Equity T1 as at 30 June 2014 includes EUR 1,071 mln of NFIs.

On 1 July, all unexercised rights, totalling 178,555, were sold on the market for EUR 7.6 mln. The impact will be recognised in subsequent quarters.

Additional Tier 1 (AT1)

Full application requirements

The main requirements for including capital instruments in AT1 are:

- the subscription and acquisition must not be financed by the Parent Company or its subsidiaries;
- they are subordinated to T2 instruments in the event of bankruptcy;
- they are not subject to guarantees that increase their seniority issued by the Parent Company, its subsidiaries or other companies with close ties to the Bank and its subsidiaries;
- they have indefinite duration and do not include incentives for repayment;
- call options may be exercised only at the issuer's discretion and, in any event, no earlier than 5 years, unless authorised by the Supervisory Authority related to specific circumstances;
- interest is paid as a function of distributable profits;
- the Parent Company has full discretion in paying interest and at any moment may decide to not pay for an unlimited period; the cancellation is not cumulative
- cancellation of interest does not constitute issuer default;
- in the event of trigger events, the nominal value may be reduced permanently or temporarily or the instruments may be converted into CET1 instruments

AT1 is subject to the following deductions for GMPS:

- direct, indirect and synthetics investments in the Bank's AT1 instruments;
- direct, indirect and synthetics investments in AT1 instruments of financial institutions;
- any adjustments exceeding T2.

As a result of certain provisions, some instruments issued in previous years by GMPS do not meet the requirements to be included in AT1.

Transitional requirements

The following are the key aspects of the transition requirements for 2014:

- insignificant investments in AT1 instruments of financial institutions held directly, indirectly or synthetically, temporarily not deductible from CET1 due to the transition period are deducted from AT1 at 50% and from T2 at 50%;
- significant investments in AT1 instruments of financial institutions held directly, indirectly or synthetically, temporarily not deductible from CET1 due to the transition period, are deducted from AT1 at 50% and from T2 at 50%;
- the excess of expected losses on impairments (expected loss delta), temporarily not deductible from CET1 due to the transition period, are deducted from AT1 at 50%.

Tier 2 (T2)

Full application requirements

The main requirements for including capital instruments in T2 are:

- the subscription and acquisition must not be financed by the Parent Company or its subsidiaries;
- they are not subject to guarantees that increase their seniority issued by the Parent Company, its subsidiaries or other companies with close ties to the Bank and its subsidiaries;
- the original duration is not less than 5 years and there are no incentives for early repayment
- call options may be exercised only at the issuer's discretion and, in any event, no earlier than 5 years, unless authorised by the Supervisory Authority related to specific circumstances;
- interest does not vary based on the Parent Company's credit standing;
- amortisation of these instruments for purposes of inclusion in the T2 calculation is temporarily pro-rated in the last 5 years;

T2 is subject to the following deductions:

- direct, indirect and synthetics investments in the Bank's T2 instruments;
- direct, indirect and synthetics investments in T2 instruments of financial institutions;

Transitional requirements

The following are the key aspects of the transition requirements for 2014:

- insignificant investments in T2 instruments of financial institutions held directly are deducted from T2 at 100%; insignificant investments in T2 instruments of financial institutions held indirectly or synthetically are deducted with a phase-in of 20% per year as of 2014 (20% 2014 and 100% in 2018). Indirect and synthetic investments, not deducted during the transition phase, are subject to capital requirements and included in RWAs;
- significant investments in T2 instruments of financial institutions held directly are deducted from T2 at 100%; significant investments in T2 instruments of financial institutions held indirectly or synthetically are deducted with a phase-in of 20% per year as of 2014 (20% 2014 and 100% in 2018). Indirect and synthetic investments, not deducted during the transition phase, are subject to capital requirements and included in RWAs;

- the excess of expected losses on impairments (expected loss delta), temporarily not deductible from CET1 due to the transition period, is deducted from T2 at 50%.

Grandfathering

A gradual exclusion from the relevant capital level is envisaged for capital instruments issued previously and calculated in regulatory capital through 31 December 2013 that do not meet the requirements of the new regulatory framework. Specifically, 80% of the nominal value in circulation in 2014 may be included in the CET1, AT1 and T2 calculation, decreasing 10% per year until its full exclusion in 2022, for those instruments issued or calculated in the regulatory capital prior to 31 December 2011 that do not meet the new requirements.

Minimum capital requirements

The following capital requirements are envisaged for 2014:

- CET1 ratio of at least 4.5% of the Group's total risk exposure;
- AT1 ratio of at least 5.5% of the Group's total risk exposure; in 2015 the threshold will increase to 6%;
- Total Capital ratio of at least 8% of the Group's total risk exposure.

In addition, the Parent Company must have additional CET1 reserves

More specifically, the new regulations envisage that banks must have the following reserves:

- capital conservation buffer - aimed at conserving the minimum level of regulatory capital during difficult periods in the market, through the allocation of high quality capital in periods in which there are no market tensions. This reserve is mandatory and must be at least 2.5% of the Bank's total risk exposure. The reserve consists of CET1 capital;
- countercyclical capital buffer - aimed at protecting the banking sector in phases of excessive growth in loans. The buffer provides for the accumulation of CET1 capital during phases of rapid growth in the credit cycle, which can then be used to absorb losses in the downward phase of the cycle. As opposed to the capital conservation buffer, the countercyclical buffer is imposed only during periods of loan growth and is calculated according to pre-established criteria. Supervisory Authorities have not yet defined the amount of this reserve;
- G-SII buffer for global systemically important banks and O-SII buffer for other systemically important entities - impose higher capital requirements on those entities based on their systemic relevance, at a global or national level, which pose greater risks for the financial system and for which a crisis could have impacts on contributors. The Group falls under the Basel Committee's definition of systemically important banks, required to publish indicators according to the established times and methods. Hence, from 2016, the Group will be subject to additional loss absorbency requirements, the extent of which will be defined by the Bank of Italy.

Liquidity and leverage ratios

In reference to the Liquidity Coverage Ratio, the observation period by the Supervisory Authorities began in March 2014, which precedes the official introduction of this ratio in January 2015. In addition, 31 March 2014 is the start date for the observation period for the Net Stable Funding Ratio. These two ratios and the associated minimum requirements will become effective 1 January 2018, upon authorisation of the European Council and Parliament.

The Leverage Ratio is calculated with a denominator that is based on the assets not risk weighted at the end of the quarter. The Leverage Ratio will come into effect in 2018. The transition observation phase will last from 2014 to the end of December 2017. At this time, the Supervisory Authorities have not yet established the minimum thresholds for the Leverage Ratio.

Schematically, the Leverage Ratio is calculated as follows:

$$\frac{\text{TIER 1}}{(\text{Fuori Bilancio} * \text{Credit Convertion Factor} + \text{Derivati} + \text{Securities Financing Transaction}) + \text{Altri attivi di Bilancio} - \text{Regulatory Adjusment})}$$

The exposures must be reported net of regulatory adjustments envisaged in the T1 calculation in order to avoid double counting. In fact, items fully deducted from capital do not contribute to the Leverage Ratio and are deducted to the extent of the exposure.

B. Quantitative information

	30 06 2014	31 12 2013
A. Common Equity Tier 1 (CET1) before the application of prudential filters	11,926,850	9,907,048
of which CET1 instruments subject to transitional provisions*	1,071,000	4,071,000
B. CET1 prudential filters (+/-)	145,934	87,958
C. CET1 gross of elements to be deducted and transitional regime effects (A+/-B)	**12,072,784**	**9,995,006**
D. Elements to be deducted from CET1	2,981,176	3,669,993
E. Transitional regime - Impact on CET1 (+/-)	1,689,945	2,600,577
F. Total Common Equity Tier 1 (CET1) (C - D +/- E)	**10,781,553**	**8,925,590**
G. Additional Tier 1 (AT1) gross of elements to be deducted and transitional regime effects	538,420	539,127
of which AT1 instruments subject to transitional provisions	321,347	321,347
H. Elements to be deducted from AT1	-	-
I. Transitional regime - Impact on AT1 (+/-)	(538,420)	(539,127)
L. Total Additional Tier 1 (AT1) (G - H +/- I)	**-**	**-**
M. Tier 2 (T2) gross of elements to be deducted and transitional regime effects	3,805,393	4,307,820
of which T2 instruments subject to transitional provisions	-	-
N. Elements to be deducted from T2	66,558	216,616
O. Transitional regime - Impact on T2 (+/-)	(437,729)	(583,412)
P. Total Tier 2 (T2) (M - N +/- O)	**3,301,106**	**3,507,792**
Q. Total capital (F + L + P)	**14,082,659**	**12,433,382**

The data as at 31 December 2013 are shown, for comparison purposes only, according to the regulatory framework in effect from 1 January 2014.

**The aggregate as at 30 June 2014 and at 31 December 2013 refers to the New Financial Instruments*

As at 30 June 2014, "CET1 before the application of prudential filters" increased by approx. EUR 2,019.8 mln, totalling EUR 11,926.9 mln, compared to EUR 9,907.1 mln at the end of 2013.

At the same date, AT1 was EUR 538.4 mln, compared to EUR 539.1 mln as at 31 december 2013.

T2 decreased by EUR 206.7 mln, totalling EUR 3,301.1 mln, compared to EUR 3,507.8 mln, pro-forma, at the end of 2013.

As at 31 December 2013, the official data - calculated according to the previous regulatory framework - for T1, T2 and regulatory capital was EUR 8,973 mln, EUR 3,865 mln and EUR 12,838 mln, respectively.

2.3 Capital adequacy

A. Qualitative Information

Qualitative information regarding the Group's capital adequacy assessment process is included in Section 1 of this Part F.

B. Quantitative information

Categories/Values	Unweighted amounts		Weighted amounts/requirements	
	30 06 2014	31 12 2013*	30 06 2014	31 12 2013*
A. RISK ASSETS				
A.1 Credit risk and counterparty risk	**199,846,271**	**205,451,000**	**64,344,136**	**66,666,988**
1. Standardised approach	83,555,404	83,719,780	34,486,993	34,680,012
2. IRB approach	116,014,603	120,915,000	28,726,397	30,843,700
2.1 Foundation (F-IRB)	-	-	-	-
2.2 Advanced (A-IRB)	116,014,603	120,915,000	28,726,397	30,843,700
3. Securitisations	276,264	816,220	1,130,746	1,143,276
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit risk and counterparty risk			**5,147,531**	**5,333,359**
B.2 Credit valuation adjustment risk			**111,529**	**93,313**
B.3 Settlement risk			**-**	**-**
B.4 Market risk			**483,101**	**504,621**
1. Standardised approach			483,101	504,621
2. IRB approach			-	-
3. Concentration risk			-	-
B.5 Operational risk			**661,195**	**659,407**
1. Foundation approach			29,327	29,343
2. Standardised approach			-	-
3. Advanced approach			631,868	630,064
B.6 Other prudential requirements			**-**	**-**
B.7 Other calculation elements			**-**	**-**
B.8 Total prudential requirements			**6,403,356**	**6,590,700**
C. RISK ASSETS AND CAPITAL RATIOS			**-**	**-**
C.1 Risk-weighted assets			**80,041,950**	**82,383,750**
C.2 Common Equity Tier 1/Risk-weighted assets (CET1 capital ratio)			**13.47%**	**10.83%**
C.3 Total capital/Risk-weighted assets (Total capital ratio)			**17.60%**	**15.09%**

The data as at 31 December 2013 are shown, for comparison purposes only, according to the regulatory framework in effect from 1 January 2014.

The new key elements in terms of capital adequacy include: the re-calculation of market risks, the capital absorption of exposures to central counterparties and the quantification of credit valuation adjustment (CVA) risk. The RWA resulting from the introduction of the new capital rules (refer to preceding section) was quantified by applying the transition requirements.

As at 30 June 2014, CET1 and T1 were 13.47%, while the Total Capital ratio was 17.60%. As at 31 December 2013, the data shows CET1 ratios of 10.83% and a Total Capital ratio of 15.09%.

The historical data as at 31 December - calculated according to the previous regulatory framework - shows a T1 ratio of 10.62% and a Total Capital ratio of 15.19%

Furthermore, on 23 October 2013 the ECB announced that it would perform, in collaboration with the national competent authorities responsible for the supervision of banks, a system-wide Comprehensive Assessment, pursuant to the regulations on the Single Supervisory Mechanism (EU Regulation no. 1024/2013 of the European Council on 15 October 2013), which became effective on 3 November 2013. The exercise, which commenced on 18 November 2013 with a data collection phase, will take approximately 12 months to complete and will involve the major European credit institutions, including MPS.

The Comprehensive Assessment has three main goals: transparency (to enhance the quality of information available on the condition of banks), repair (to identify an implement necessary corrective actions, if and where needed) and confidence building (to assure all stakeholders that banks are fundamentally sound and trustworthy).

The assessment consists of three elements: (i) a supervisory risk assessment to review, quantitatively and qualitatively, key risks in the credit portfolio (*supervisory risk assessment*); (ii) an asset quality review (AQR) to enhance the transparency of bank exposures by reviewing the qulity of banks' assets, including the adequancy of asset and collateral valuation and related provisions; and (iii) a stress test to examine the resilience of banks' balance sheet to stress scenarios (assessed over the three-year period 2014-2016).

As specified by the ECB, the Asset Quality Review is a prudential exercise and, as such, will not introduce additional requirements with respect to the applicable accounting standards for preparing financial statements. The objectives of the Asset Quality Review include: i) assessment of adequate provisioning for for credit exposures; (ii) determination of the appropriate valuation of collateral for credit exposures; and (iii) assessment of the valuation of complex instruments and high-risk assets on banks' balance sheets.

Based on and to supplement the Asset Quality Review, the EBA, in close collaboration with the ECB, will perform a Stress Test to assess the resilience of European banks to hypothetical negative economic conditions (shocks) and the related solvency in the event of any stress situations attributable to certain restrictive conditions. On 29 April 2014, the EBA published the definitive methodology for the Stress Tests and the macroeconomic scenarios to be applied (base scenario and adverse scenario, developed by the European Systemic Risk Board).

In February 2014, the first phase of the Asset Quality Review was completed, during which, on the basis of data collected, the portfolios of assets currently being analysed were selected and a "loan tape" was sent to the Bank of Italy. On 11 March 2014, the ECB published the "Phase 2 Manual", containing a detailed description of the methodology to be used in the second phase of the Asset Quality Review. The second phase began in March 2014 and includes the review of internal policies and procedures in order to ensure that the Group rigorously and correctly applies the accounting rules for the most important estimated items in the financial statements (loans and other financial instruments), the validation of the integrity of the data provided by the Group and the performance of a series of audits. Subsequently, and in particular reference to loans, analysis began of exposures (with a sample from the loan portfolio appropriately stratified and representative of the various risk classes identified), of the related guarantees, including the valuation of real estate, and of the amount of related impairments, both analytic and collective (according to the specific methodologies in the Phase 2 Manual). The results of the analysis of sample exposures represents the basis for projecting the effects across the selected portfolios.

The Asset Quality Review could result in the finding of valuation gaps affecting the items under review, with the necessity of either booking adjustments in the year ending 31 December 2014 and possibly earlier, during the preparation of the financial report as at 30

September 2014 (Pillar I) or, based on the nature of the differences found, of an additional capital requirement (as input for the Stress test phase) (Pillar II).

The Asset Quality Review will result in the recalculation of the Common Equity Tier 1 ratio - according to CRD IV and CRR I parameters - that cannot be less than 8%.

At the same time as the Asset Quality Review, the Stress Test phase was launched. The conclusion of this phase will also result in the recalculation of the Common Equity Tier 1 ratio by the EBA. In the adverse scenario, or the most critical scenario for the issuer, it is expected that the recalculated Common Equity Tier 1 ratio cannot be lower than the threshold of 5.5% (8.0% threshold for the base scenario).

The Comprehensive Assessment also provides that any capital shortfalls will be expected to be covered within six months for those identified in the AQR or the baseline stress test scenario and within nine months for those identified in the adverse stress test scenario.

If the results of the Comprehensive Assessment reveal that the Parent Company does not meet the capital benchmarks set by the EBA, the Supervisory Authority may require new capitalisation measures to fill the capital shortfall identified in the Comprehensive Assessment; furthermore, if, for this purpose, the Parent Company is unable to generate sufficient resources from structural growth or from the sale of non-strategic assets, deviations, even significant ones, may emerge with respect to Restructuring Plan objectives and therefore be compelled to (i) submit a new restructuring plan; and/or (ii) convert the New Financial Instruments outstanding at this time; and/or (iii)require further capital injections; and/or (iv) make use of new forms of State aid, where possible.

As announced by the ECB in its press release of 17 July 2014, the results of the Comprehensive Assessment will be published in the second half of October, following approval by the ECB. Banks will be informed of final results shortly before their disclosure to the markets. In the phase prior to final disclosure, the ECB and the national competent authorities will discuss the partial preliminary results with individual banks as part of a supervisory dialogue, intended to verify data and facts and deal with the methodological aspects.

Finally, with respect to disclosure requirements for global systemically important banks (Global Systemically Important Banks- "G-SIBs") noted that all of the information that contributed to the determination of the 12 indicators used in the assessment methodology as at 31 /12/2013, are available on the Bank's website at: http://b.mps.it/go/gsibsfd13

Part G – Business combinations

Section 1 – Business combinations during the period

No business combinations were completed as at 30 June 2014 pursuant to IFRS 3.

1.1.2 Transactions within the Group (business combinations of entities under common control)

Business combinations under common control include the merger by absorption of Monte dei Paschi Ireland Limited in the Parent Company on 11 February 2014.

Section 2 - Business combinations completed after the period

There are no transactions to report.

Part H – Related- party transactions

1. Compensation of key management personnel

items/Amounts	Total 30 06 2014	Total 30 06 2013
Short-term benefits	2,468	3,555
Post-retirement benefits	-	-
Other long-term benefits	-	-
Termination benefits	-	1,140
Share-based payments	-	-
Other compensation	-	-
Total compensation paid to key management personnel	**2,468**	**4,695**

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

For more information regarding remuneration policies, pursuant to art. 123 ter of the Consolidated Law on Finance, please refer to the documents "Report on Corporate Governance and Ownership Structure – Remuneration Report.

2. Related-party transactions

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

This regulatory framework combines into a new and comprehensive set of Regulations all principles regarding prompt and periodic disclosure obligations; it implements articles 114 and 154-ter of the Consolidated Law on Finance, supersedes the rules previously set out by Consob's Issuer Regulations and implements the provisions under Article 2391-bis of the Civil Code.

In its meeting of 10 November 2010, the Board of Directors established the Parent Company's Committee of Independent Directors which, as of 18 July 2013, has been renamed "Committee on Related-Party Transactions"; as at today, the Committee is composed solely of independent directors pursuant to the principles and criteria of the Corporate Governance Code of listed companies (latest version: December 2011), which BMPS adhered to by its resolution of 20 December 2012, and the Consolidated Law on Finance.

On 25 November 2010, the Board of Directors of the Parent Company resolved to approve "Group Directive on related-party transactions", which sets out the model for related-party transactions establishing roles and responsibilities of internal relevant functions and related implementing processes. The Directive was subsequently updated and renamed "Group Directive on BMPS Related Parties and Group Associated Parties", with reference to "Associated Parties" as governed by the Bank of Italy in its 9th update of Circular no. 263/2006. The update was in implementation of art. 53 of the Consolidated Law on Banking and in compliance with resolution no. 277 of the Interministerial Committee for Credit and Savings (ICRC) of 29 July 2008, to govern regulations concerning risk assets and conflicts of interest in relation to the Associated Parties of the Group. The regulatory framework of the Bank of Italy (which applies to: banks authorised to operate in Italy, on an individual basis; and banking groups, on a consolidated basis) entered into force on 31 December 2012 and regards both compliance with prudential individual or consolidated limits and the application of deliberative procedures for risk assets and conflicts of interest in relation to Associated Parties.

In this regard, by resolution of the Board of Directors of the Parent Company of 26 June 2012 and in compliance with regulatory provisions, approval was given to the "Deliberative Procedures governing transactions with Associated Parties" and, at the same time, the decision was made to review the "Procedures governing transactions with Related Parties"; both translate the contents of the Directive into practice and illustrate the organisational choices and solutions identified by the MPS Group for alignment with existing regulations.

The Procedures were published on the Parent Company's website and are therefore available in full-text version at the following links:

http://www.mps.it/Investor+Relations/Corporate+Governance/Procedura+in+materia+di+operazioni+con+parti+correlate.htm

http://www.mps.it/Investor+Relations/Corporate+Governance/Procedure+in+materia+di+operazioni+con+soggetti+collegati.htm

Information is provided below regarding related-party transactions carried out by the MPS Group in the first half of 2014, which deserve specific mention and were conducted based on reciprocal assessments of economic advantages.

February 2014

- On 7 February 2014, the General Manager authorised the extension and increase of the ordinary credit lines for a total of EUR 26.8 mln for ALERION CLEAN POWERS S.P.A. This was an ordinary transaction of minor relevance, subject to related party procedures pursuant to Consob Regulation no. 17221/2010, as BMPS exercises significant influence over said company, due to the shareholders' agreement signed with other large shareholders in Alerion Clean Power S.p.A.

- On 20 February 2014, the Executive Committee resolved in favour of signing a debt moratorium agreement through 30 June 2014 for the principal and interest on all outstanding loans amounting to EUR 106.507 mln for SANSEDONI SIENA SPA and EUR 109.351 mln for SVILUPPO ED INTERVENTI IMMOBILIARI SRL. The transaction is subject to related party procedures pursuant to Consob Regulation no.17221/2010, in consideration of the significant influence exercised by BMPS on Sansedoni Siena S.p.A. due to the equity investment of 21.75% of its share capital, which in turn, controls 100% of Sviluppo ed Interventi Immobiliari Srl.

- On 20 February 2014, the Board of Directors authorised an update to the Framework Agreement with AXA Group, through the signing of agreements with certain companies within AXA Group, regarding the arrears for the price adjustment resulting from the sale to AXA of 50% of the share capital of AXA MPS Assicurazioni Vita S.p.A. and of AXA MPS Assicurazioni Danni S.p.A., and relative to the acquisition by BMPS of 100% of the share capital of AXA SIM S.p.A., for which AXA paid BMPS a total of EUR 40 mln. This transaction of minor relevance is included in the application of Consob Regulation no. 17221/2010, as the counterparties to the agreement, AXA SA, AXA Mediterranean Holding SA and AXA Assicurazioni Italia

S.p.A., are related parties given the joint bancassurance venture between MPS Group and AXA Group. Under the agreements reached and notwithstanding the provisions of the Framework Agreement, AXA was granted authorisation for the distribution of insurance products (via third-party banking networks) through subsidiary companies 100% owned by AXA rather than through the companies AXA MPS Assicurazioni Vita S.p.A. and AXA MPS Assicurazioni Danni S.p.A. On the basis of this authorisation, AXA also granted a call option on 50% minus one share of the share capital of the new companies which will be specifically set up for this purpose. The price of the call option will be determined on the basis of the policies outstanding at the time of disposal, without taking into account goodwill.

- On 20 February 2014, the Executive Committee resolved in favour of granting a transitional credit line for EUR 46 mln to ANIMA HOLDING S.P.A. (as the participation share of the syndicated medium-term long for a total of EUR 185 mln) and the resulting release of guarantees. This is an ordinary transaction of minor relevance that falls within the scope of application of Consob Regulation no. 17221/2010, insofar as the company is subject to significant influence from BMPS due to the equity investment of 21.63% of the share capital.

June 2014

- On 4 June 2014, the Credit Committee approved the extension as at 01/04/2015 of an advance of EUR 18.5 mln granted in favour of MARINELLA SPA in 2011 and a further credit facility of EUR 4 mln against the Company's commitment to channel revenues from the sale of certain assets, for the same amount, to the Lender in order to repay the credit facility granted. The validity of this resolution is subject to the condition precedent of approval of the financial statements as at 31.12.2013. This is an ordinary transaction of minor relevance, agreed upon at market-equivalent or standard conditions, that falls within the scope of application of Consob Regulation no. 17221/2010, insofar as the company is subject to significant influence from BMPS due to the equity investment of 25 % of the share capital.

- On 17.06.2014, the Credit Committee granted a new credit facility of EUR 380 thousand in favour of LE ROBINIE SPA and an extension of a EUR 2 mln ordinary loan subject to revocation with subsequent conversion to loan maturity and repayment by 31.12.2020. Regarding the mortgage loans outstanding, the Committee also resolved to extend the pre-amortisation period to 31.12.2016 and the amortisation period to 20 years. The validity of the resolution is subject to the Parent Company assuming an "equity commitment" for a total of EUR 2.9 mln as well as the approval of the financial statements as at 31.12.2013. This is an ordinary transaction of minor relevance, agreed upon at market-equivalent or standard conditions, that falls within the scope of application of Consob Regulation no. 17221/2010, insofar as the company is subject to significant influence from BMPS due to the equity investment of 20 % of the share capital.

2.a Associates companies

30 06 2014

items/Amounts	Amounts	% on Consolidated
Total financial assets	1,230,128	0.67%
Total other assets	2,583	0.08%
Total financial liabilities	459,377	0.26%
Total other liabilities	500,893	0.00%
Guaranties issue	54,723	-
Guaranties riceived	1,086,297	-

2.b Transactions involving Key Management Personnel and other related parties

30 06 2014

items/Amounts	Executives with strategic responsibility	Other related parties	% on consolidated
Total financial assets	1,458	30,310	0.02%
Total financial liabilities	1,621	377,444	0.21%
Total functioning costs	2,468	-	
Guarantees issued	-	8,577	
Guarantees received	1,803	36,621	

Part I – Share-based payments

Qualitative information

Description of share-based payment agreements

The remuneration and incentive policies adopted by the Group - as approved by the Parent Company's Shareholders Meeting in April 2011 - provide that the variable component of compensation for all employees whose professional activity has or may have considerable impact on the company's risk profiles (a.k.a. "key employees") should meet the prescribed requirements in terms of maximum potential value as a percentage of fixed compensation (Gross Annual Salary), disbursement timing (at least 50% of the bonus should be paid after three years), disbursement methods (at least 50% of both the up-front and the deferred portions should be awarded in Bank shares).

In March, the Board of Directors of the Parent Company approved the 2014 incentive system, WBOs ("Work by Objectives"). The system is intended for all Group resources with the exception of medium-to-high level management (CEO/Divisional Heads/Parent Company Area and Regional Area Heads, General Manager and Deputy General Managers of Group companies). Subsequently, at the Ordinary Shareholders' Meeting in April, the scope of "key employees" was revised on the basis of new EBA standards. Approximately 40 names, included under "key employees" but excluded from medium-to-high level management, will benefit from the 2014 WBOs. Thus, in the case of bonus payments (to be verified in 2015) these persons will receive a bonus according to the combined deferral/financial instruments method described above. The number of these persons is also limited as a consequence of the fact that Group remuneration policies do not provide for the payment of bonuses under the methods cited to earners with fixed salaries of < EUR 120,000, where generally the variable component is limited.

Part L – Segment reporting

This section of the consolidated Explanatory Notes is prepared in accordance with the IAS/IFRS international accounting principles, with particular reference to IFRS8 "Operating Segments".

The aforementioned accounting standard, applied as of 1 January 2009 to replace IAS14 "Segment reporting" and the adoption of which has no effect on the valuation of balance sheet items, requires reports to be drafted in relation to operating segments on the basis of the internal reporting actually used by management to take decisions on the allocation of resources to various segments and to conduct performance analyses.

Group operations by business segment

The Group operates in the following areas of business:

- *Retail and commercial banking*: includes lending activities, traditional banking services, the offering of banking and insurance products through the strategic partnership with AXA, financial advisory services, wealth management and investment products;
- *Leasing and Factoring*: includes the offering of leasing and factoring packages for businesses, artisans and professionals;
- *Consumer credit*: special purpose loans, personal loans, option and revolving credit cards;
- Corporate finance: mid- and long-term lending, corporate finance, capital markets and structured finance;
- *Investment banking*: trading and *global market*s;
- *Foreign banking*: products and services in support of market expansion and investments of Italian companies abroad.

Operations in the business areas are conducted by the following operating units of the Group:

- distribution network, comprising the branches and specialised centres of the Parent Company;
- product factories, i.e. Group banks and companies expressly dedicated to developing specialised financial instruments to offer on the market, particularly including: Consum.it (consumer credit company), MPS Capital Services (specialised in corporate finance, capital markets and structured finance), MPS Leasing & Factoring (specialised in leasing and factoring services for businesses);
- foreign network, geographically present in all major financial and economic markets as well as in emerging countries with the highest rates of growth and/or key relations with Italy. It includes the foreign units of the Parent Company (4 operational branches, 10 representative offices) and 2 banks under foreign law (MP Belgium: 8 branches, MPS Banque: 17 branches).

The Group also includes service operations dedicated to the management of IT and telecommunications (Group Operating Consortium), and value creation from the Group's real estate assets (MPS Immobiliare).

For the purpose of identifying the Operating Segments provided for by IFRS 8, the Group has adopted the business approach. Profit & loss/balance sheet data is then aggregated based on criteria including business area and operating unit of reference, relevance and strategic importance of operations involved, and cluster of clients served. These aggregation criteria, into which reporting for the highest decision-making levels is organised, enabled the identification of the following Operating Segments as at 30 June 2014. These Segments reflect the organisational changes made by the Group in the 1st quarter of 2014. More specifically:

- *Retail Banking*: includes the P&L/balance sheet results of the Family, Affluent, Small Business, and Private client clusters of the Parent Company; results of trust and consumer credit services provided respectively by MPS Fiduciaria and Consum.it;
- Financial Advisory and Digital Banking: consists of the results of the Financial Advisory Network as well as the subsidiary WIDIBA, the Group's newco in the digital banking sector, who has been authorized to carry out banking in May and will start its operations in the last quarter of 2014;
- *Corporate Banking*: includes the P&L/balance sheet results of the Corporate, Institutional and Public Administration customers of the Parent Company; results of the corporate finance business of MPS Capital Services and the business of MPS Leasing & Factoring. The results of Banca Monte dei Paschi di Siena's foreign branches are also included in this Operating Segment.
- *Corporate Centre*: in addition to cancellations of intragroup entries, this Operating Segment 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.

In 2001 the Group introduced and gradually implemented Value Based operational management instruments, with the objective of monitoring profitability by business areas and units. The Value Based Management system adopted by the Group proved appropriate to manage the criteria for the identification of business segments and the review of segment reporting principles set out by existing regulations, as well as to meet regulatory requirements for the reconciliation of internal management reporting with data used for external reporting.

Income statement criteria by operating segment

The net operating income by operating segments was constructed based on the following criteria:

- **Net interest income**: in relation to the business centres of Banca Monte dei Paschi di Siena, it is calculated by way of contribution on the basis of internal transfer rates broken down by products and maturities. With reference to non-divisionalised entities, net interest income is the difference between "interest income and similar revenues" and "interest expense and similar charges".
- **Net fee and commission income** is determined by direct allocation of commissions to the operating segments.
- **Net impairment losses/reversals on loans** are allocated to the operating segments which generated them.

- **Operating expenses** include Administrative Expenses (after recovery of expenses) and net value adjustments to tangible and intangible assets. The operating expenses of non-divisionalised entities (mono-segments) are directly allocated to their corresponding Operating Segments while, for Banca Monte dei Paschi di Siena, they are allocated to their respective Segments of reference by using a "cost allocation" model. With regard to Other administrative expenses and Net value adjustments to tangible and intangible assets, the model allocates external and intragroup cost components to the business centres either directly or by means of specific drivers, starting from a set of previously identified and priced services. With reference, however, to "Personnel costs", the model allocates costs to Business Centres on the basis of the unique functional position of the resources, or, if this is not possible, according to specific criteria relating to the operations performed.

Balance-sheet criteria by operating segment

Balance-sheet aggregates were defined by using the internal reporting system as a starting point in order to identify the accounts directly attributable to the segments. Such accounts are related to the income/expenses allocated to each segment. In particular:

- **Interest-bearing loans to customers** are the assets used for the operations of a business segment, which are directly attributable to the segment itself;
- **Deposits from customers and debt securities issued** are the liabilities arising from the operations of an operating segment, which are directly attributable to the segment itself.

Transactions between operating segments

Each segment's income and results include transfers between operating segments. These transfers are reported in accordance with the best practices accepted by the market (i.e. the fair value method or cost method increased by a proper margin) both with respect to commercial and financial transactions.
The income of each operating segment is determined before intragroup balances and intragroup transactions are eliminated during the process of consolidation. If intragroup transactions are made between entities belonging to the same operating segment, the respective balances are eliminated within such segment. In line with the internal reporting system used by the Group, balances of intragroup transactions are not shown separately.

Basis of preparation

In accordance with the recommendations of IFRS 8, the table below presents the Group's income statement and balance sheet results as at 30 June 2014, developed according to the Operating Segments defined above:

SEGMENT REPORTING	Business segments				
Primary segment	Retail banking	Corporate banking	Financial advisory and digital banking	Corporate Center	Total MPS Group
(million of Euro)	30/06/14	30/06/14	30/06/14	30/06/14	30/06/14
PROFIT AND LOSS AGGREGATES					
Income from banking and insurance	1,863.0	904.8	17.2	(832.2)	1,952.8
Net impairment losses (reversals) on loans and financial assets	(396.1)	(841.0)	(0.1)	10.3	(1,226.9)
Operating expenses	(1,012.2)	(291.6)	(6.5)	(21.0)	(1,331.2)
Net operating income	454.7	(227.7)	10.6	(842.9)	(605.3)
BALANCE SHEET AGGREGATES					
Interest-bearing loans to customers	52,881	54,711	123	15,473	123,187
Deposits from customers and debt securities issued	65,934	27,626	664	36,554	130,777

Figures for the previous year reflect the changes described in the section "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)" following the introduction of new accounting principles effective as of 1 January.

SEGMENT REPORTING	Retail & Corporate Banking division				
Primary segment	Retail banking	Corporate banking	Promozione Finanziaria e Digital banking	Corporate Center	Total MPS Group
(million of Euro)	30/06/13	30/06/13	30/06/13	30/06/13	30/06/13
PROFIT AND LOSS AGGREGATES					
Income from banking and insurance	2,015.8	924.2	15.6	(765.2)	2,190.4
Net impairment losses (reversals) on loans and financial assets	(358.5)	(727.4)	(0.0)	34.9	(1,051.0)
Operating expenses	(1,073.8)	(307.3)	(7.0)	(45.5)	(1,433.6)
Net operating income	583.5	(110.5)	8.6	(775.8)	(294.2)
BALANCE SHEET AGGREGATES					
Interest-bearing loans to customers	57,718	59,504	158	5,231	122,611
Deposits from customers and debt securities issued	72,998	39,542	687	16,608	129,836

For a like-for-like comparison of operations between the first half of 2014 and the same period of 2013, see section "*Segment reporting*" in the Half-Year Report on Operations as at 30 June 2014.

CERTIFICATION OF THE HALF-YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ARTICLE 81-TER OF CONSOB REGULATION NO. 11971 OF 14 MAY 1999, AS SUBSEQUENTLY AMENDED AND SUPPLEMENTED

1. The undersigned, Alessandro Profumo, as Chairman of the Board of Directors, and Arturo Betunio, as Financial Reporting Officer, of Banca Monte dei Paschi di Siena S.p.A., having regard to Article 154-bis, paragraphs 3 and 4 of Italian Legislative Decree no. 58 of 24 February 1998, do hereby certify the:
   - appropriateness with respect to the company's profile, and
   - factual application of administrative and accounting procedures for preparation of the condensed consolidated financial statements for the first half of 2014.

2. The verification of the adequacy and effective application of administrative and accounting procedures for the preparation of the half-year condensed consolidated financial statements as at 30 June 2014 was based on methods defined by the MPS Group in line with the COSO model, and for the IT component, COBIT, which constitute the reference framework for the internal control system generally accepted internationally.

3. It is also certified that:

   3.1 the half-year condensed consolidated financial statements as at 30 June 2014:

   - were prepared in accordance with the international accounting standards recognised by the European Union pursuant to European Parliament and Council Regulation No. 1606/2002/EC of 19 July 2002;
   - are consistent with the underlying documentary evidence and accounting records;
   - are suitable to provide a true and fair representation of the capital, economic and financial situation of the issuer and group of companies included within the scope of consolidation.

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

Siena, 7 August 2014

On behalf of Board of Directors	*The Financial Reporting Officer*
The Chairman	*Arturo Betunio*
Alessandro Profumo	

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Auditors' review report on the half-year condensed consolidated financial statements
(Translation from the original Italian text)

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

1. We have reviewed the half-year condensed consolidated financial statements as of June 30, 2014, comprising the balance sheet, the income statement, the statement of comprehensive income, the changes in shareholders' equity and the statement of cash flows and the related explanatory notes, of Banca Monte dei Paschi di Siena S.p.A. and its subsidiaries (the "Montepaschi Group"). The Directors of Banca Monte dei Paschi di Siena S.p.A. are responsible for the preparation of the half-year consolidated financial statements in compliance with the International Financial Reporting Standards applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to issue this review report based on our review.

2. We conducted our review in accordance with review standards recommended by Consob (the Italian Stock Exchange Regulatory Agency) in its Resolution no. 10867 of July 31, 1997. Our review consisted mainly of obtaining information on the accounts included in the half-year condensed consolidated financial statements and the consistency of the accounting principles applied, through discussions with management, and of applying analytical procedures to the financial data presented in these consolidated financial statements. Our review did not include the application of audit procedures such as tests of compliance and substantive procedures on assets and liabilities and was substantially less in scope than an audit conducted in accordance with generally accepted auditing standards. Accordingly, we do not express an audit opinion on the half-year condensed consolidated financial statements as we express on the annual consolidated financial statements.

   The half-year condensed consolidated financial statements include, for comparative purposes, the corresponding figures of the consolidated financial statements of the prior year and of the half-year condensed consolidated financial statements of the corresponding period of the prior year. As described in the explanatory notes, management restated comparative data related to the consolidated financial statements of the prior year and to the half-year condensed consolidated financial statements of the corresponding period of the prior year, on which we issued our auditors' report and our auditors' review report on April 2, 2014 and August 9, 2013 respectively. We have examined the criteria applied to restate the comparative financial data and the information presented in the explanatory notes in this respect, for the purpose of issuance of our review report.

3. Based on our review, nothing has come to our attention that causes us to believe that the half-year condensed consolidated financial statements of the Montepaschi Group as of June 30, 2014 are not prepared, in all material respects, in compliance with the International Financial Reporting Standards applicable to interim financial reporting (IAS 34) as adopted by the European Union.

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4. In the half-year Report on Operations and in the explanatory notes the Directors inform about the completion of the capital increase of Euro 5 billion, approved by the Shareholders' Extraordinary Meeting on May 21, 2014. The capital increase allowed the redemption on July 1, 2014 of a nominal amount of Euro 3 billion of New Financial Instruments and provides an additional capital buffer to absorb potential negative outcomes of the *Comprehensive Assessment*, in compliance with the commitments undertaken in the Restructuring Plan approved by the European Commission.

Milan, August 8, 2014

Reconta Ernst & Young S.p.A.
Signed by: Massimiliano Bonfiglio, Partner

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

ANNEXES

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 June 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 half-year financial statements as at 30 June 2014 and 30 June 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 which 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 June 2014

For a description of the Transactions' recognition and measurement criteria used in the preparation of the half-year financial report as at 30 June 2014, please refer to details in the 2013 Annual Report.

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

Pro-forma figures were determined by making appropriate pro-forma adjustments to the historical values in the 2013 Annual Report and the half-year financial statements as at 30 June 2013 and 30 June 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 06 2014"): balance sheet as at 31 December 2013 and 30 June 2014, income statement and statement of comprehensive income for 30 June 2013 and 30 June 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 06 2014 pro-forma"): estimated pro-forma balance sheet as at 31 December 2013 and 30 June 2014, pro-forma income statement and statement of comprehensive income as at 30 June 2013 and 30 June 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 Bank 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 as 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 06 2014	pro-forma impact of LTR classified as CDS	30 06 2014 pro-forma
10	Cash and cash equivalents	877,276	-	877,276	860,050	-	860,050
20	Financial assets held for trading	19,238,566	-	19,238,566	16,831,623	132,300	16,963,923
40	Financial assets available for sale	23,680,249	(3,240,841)	20,439,408	23,030,968	(3,702,987)	19,327,981
60	Loans to banks	10,485,195	-	10,485,195	8,637,884	-	8,637,884
70	Loans to customers	130,597,727	-	130,597,727	132,770,370	-	132,770,370
80	Hedging derivatives	397,934	-	397,934	468,625	-	468,625
90	Change in value of macro-hedged financial assets (+/-)	159,889	-	159,889	180,880	-	180,880
100	Equity investments	970,378	-	970,378	951,750	-	951,750
120	Property, plant and equipment	2,883,820	-	2,883,820	2,834,003	-	2,834,003
130	Intangible assets	1,162,056	-	1,162,056	1,136,854	-	1,136,854
	of which: goodwill	669,692	-	*669,692*	669,692	-	*669,692*
140	Tax assets	5,515,357	(101,859)	5,413,498	5,622,225	30,503	5,652,728
150	Non-current assets and groups of assets held for sale and discontinued operations	80,108	-	80,108	5,559	-	5,559
160	Other assets	2,412,251	-	2,412,251	3,197,168	-	3,197,168
	Total Assets	**198,460,806**	**(3,342,700)**	**195,118,106**	**196,527,959**	**(3,540,184)**	**192,987,775**

**With respect to published accounts, prior period balances are reflective of changes described in the section "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)", which is referenced to for further details.*

Pro-forma balance sheet

	Liabilities and Shareholders' Equity	31 12 2013*	pro-forma impact of LTR classified as CDS	31 12 2013* pro-forma	30 06 2014	pro-forma impact of LTR classified as CDS	30 06 2014 pro-forma
10	Deposits from banks	37,278,667	-	37,278,667	31,810,084	-	31,810,084
20	Deposits from customers	85,286,115	(3,366,636)	81,919,479	89,321,981	(3,361,078)	85,960,903
30	Debt securities issued	36,561,566	-	36,561,566	36,340,017	-	36,340,017
40	Financial liabilities held for trading	16,409,678	896,530	17,306,208	11,718,387	1,117,804	12,836,191
50	Financial liabilities designated at fair value	7,988,199	-	7,988,199	5,114,686	-	5,114,686
60	Hedging derivatives	3,421,635	(750,530)	2,671,105	3,906,492	(1,117,804)	2,788,688
80	Tax liabilities	185,521	(85,450)	100,071	156,814	(12,679)	144,135
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	5,747,339	-	5,747,339
110	Provision for employee severance pay	261,390	-	261,390	284,755	-	284,755
120	Provisions for risks and charges:	1,127,312	-	1,127,312	1,050,273	-	1,050,273
140	Valuation reserves	(1,055,910)	411,116	(644,794)	(634,245)	346,281	(287,964)
160	Equity instruments	3,002	-	3,002	3,002	-	3,002
170	Reserves	1,174,651	(1,301,231)	(126,580)	4,547,828	(450,358)	4,097,470
190	Share capital	7,484,508	-	7,484,508	7,484,508	-	7,484,508
200	Treasury shares (-)	(24,532)	-	(24,532)	-	-	-
210	Non-controlling interests (+/-)	33,195	-	33,195	29,071	-	29,071
220	Profit (loss) (+/-) for the period	(1,434,317)	853,501	(580,816)	(353,033)	(62,350)	(415,383)
	Total Liabilities and Shareholders' Equity	**198,460,806**	**(3,342,700)**	**195,118,106**	**196,527,959**	**(3,540,184)**	**192,987,775**

**With respect to published accounts, prior period balances are reflective of changes described in the section "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)", which is referenced to for further details.*

Pro-forma income statement

	Items	30 06 2013**	pro-forma impact of LTR classified as CDS	30 06 2013** pro-forma	30 06 2014	pro-forma impact of LTR classified as CDS	30 06 2014 pro-forma
10	Interest income and similar revenues	3,066,629	(99,096)	2,967,533	2,744,112	(74,449)	2,669,663
20	Interest expense and similar charges	(2,000,082)	90,905	(1,909,177)	(1,786,431)	64,174	(1,722,257)
30	**Net interest income**	**1,066,547**	**(8,191)**	**1,058,356**	**957,680**	**(10,275)**	**947,406**
40	Fee and commission income	1,057,899	-	1,057,899	1,052,912	-	1,052,912
50	Fee and commission expense	(209,309)	-	(209,309)	(181,913)	-	(181,913)
60	**Net fee and commission income**	**848,590**	**-**	**848,590**	**870,999**	-	**870,999**
70	Dividends and similar income	13,141	-	13,141	28,899	-	28,899
80	Net profit (loss) from trading	112,333	363,097	475,430	76,975	(83,157)	(6,182)
90	Net profit (loss) from hedging	(4,964)	(560)	(5,524)	(13,283)	581	(12,702)
100	Gains/losses on disposal/repurchase	51,469	-	51,469	40,643	-	40,643
110	Net profit (loss) from financial assets and liabilities designated at fair value	22,682	-	22,682	(57,278)	-	(57,278)
120	**Net interest and other banking income**	**2,109,798**	**354,346**	**2,464,144**	**1,904,636**	**(92,851)**	**1,811,785**
130	Net impairment losses(reversals) on	(1,051,021)	-	(1,051,021)	(1,226,913)	-	(1,226,913)
140	**Net income from banking activities**	**1,058,777**	**354,346**	**1,413,123**	**677,723**	**(92,851)**	**584,872**
180	Administrative expenses:	(1,508,426)	-	(1,508,426)	(1,392,254)	-	(1,392,254)
190	Net provisions for risks and charges	(44,973)	-	(44,973)	(82,006)	-	(82,006)
200	Net adjustments to (recoveries on) property, plant and	(40,228)	-	(40,228)	(58,515)	-	(58,515)
210	Net adjustments to (recoveries on) intangible assets	(48,809)	-	(48,809)	(54,083)	-	(54,083)
220	Other operating expenses/income	197,549	-	197,549	139,736	-	139,736
230	**Operating expenses**	**(1,444,888)**	**-**	**(1,444,887)**	**(1,447,122)**	**-**	**(1,447,122)**
240	Gains (losses) on investments	30,708	-	30,708	209,216	-	209,216
260	Impairment on goodwill	-	-	-	-	-	-
270	Gains (losses) on disposal of investments	(1,674)	-	(1,674)	5,107	-	5,107
280	**Profit (loss) before tax from continuing operations**	**(357,076)**	**354,346**	**(2,730)**	**(555,076)**	**(92,851)**	**(647,927)**
290	Tax expense (recovery) on income from continuing	4,471	(116,565)	(112,094)	203,150	30,501	233,651
300	**Profit (loss) after tax from continuing operations**	**(352,605)**	**237,781**	**(114,824)**	**(351,926)**	**(62,350)**	**(414,276)**
310	Profit (loss) after tax from groups of assets held for sale and discontinued operations	(25,737)	-	(25,737)	-	-	-
320	**Profit (loss)for the period**	**(378,342)**	**237,781**	**(140,561)**	**(351,926)**	**(62,350)**	**(414,276)**
330	Profit (loss) for the period attributable to non-controlling interests	1,045	-	1,045	1,107	-	1,107
340	**Parent company's net profit (loss) for the period**	**(379,387)**	**237,781**	**(141,606)**	**(353,033)**	**(62,350)**	**(415,383)**

**With respect to published accounts, prior period balances are reflective of changes described in the section "Restatement of prior period accounts incompliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)", which is referenced to for further details.*

Pro-forma consolidated statement of comprehensive income

	Items	30 06 2013**	pro-forma impact of LTR classified as CDS	30 06 2013** pro-forma	30 06 2014	pro-forma impact of LTR classified as CDS	30 06 2014 pro-forma
10	**Profit (loss)for the period**	**(378,342)**	**237,781**	**(140,561)**	**(351,926)**	**(62,350)**	**(414,276)**
	Other comprehensive income after tax not recycled to profit and loss	**(4,039)**	**-**	**(4,039)**	**(15,624)**	**-**	**(15,624)**
40	Actuarial gains (losses) on defined benefit plans	(4,039)	-	(4,039)	(15,531)	-	(15,531)
60	Share of valuation reserves of equity-accounted investments	-	-	-	(93)	-	(93)
	Other comprehensive income after tax recycled to profit and loss	**619,869**	**(267,859)**	**352,010**	**437,309**	**(64,835)**	**372,474**
80	Exchange differences	204	-	204	566	-	566
90	Cash flow hedges	41,283	-	41,283	(28,154)	-	(28,154)
100	Financial assets available for sale	581,240	(267,859)	313,381	364,049	(64,835)	299,214
110	Non current assets held for sale	-	-	-	(28,786)	-	(28,786)
120	Share of valuation reserves of equity-accounted investments	(2,858)	-	(2,858)	129,634	-	129,634
130	**Total other comprehensive income after tax**	**615,830**	**(267,859)**	**347,971**	**421,685**	**(64,835)**	**356,850**
140	**Total comprehensive income (Item 10+130)**	**237,488**	**(30,078)**	**207,410**	**69,759**	**(127,185)**	**(57,426)**
150	Consolidated comprehensive income attributable to non-controlling interests	1,051	-	1,051	1,127	-	1,127
160	**Consolidated comprehensive income attributable to Parent Company**	**236,437**	**(30,078)**	**206,359**	**68,632**	**(127,185)**	**(58,553)**

**With respect to published accounts, prior period balances are reflective of changes described in the section "Restatement of prior period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)", which is referenced to for further details.*

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