MONTE DEI PASCHI DI SIENA BANK

Consolidated Half-Year Report as at 30 06 2016

MONTE DEI PASCHI DI SIENA
BANK SINCE 1472

Consolidated Half-Year Report
Monte dei Paschi di Siena Group
30 June 2016

Banca Monte dei Paschi di Siena S.p.a.
Share capital: € 9,001,756,820.70 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

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CONSOLIDATED HALF-YEAR REPORT ON OPERATIONS

Results in brief

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

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

CONSOLIDATED REPORT ON OPERATIONS
Highlights at 30/06/2016

INCOME STATEMENT AND BALANCE SHEET FIGURES

MPS GROUP

INCOME STATEMENT FIGURES	30/06/16		30/06/15 (*)	Chg.
Net interest income	1,035.2	-	1,160.7	-10.8%
Net fee and commission income	940.7	-	927.1	1.5%
Other operating income	368.6	-	540.4	-31.8%
Total Revenues	2,344.5	-	2,628.3	-10.8%
Net impairment losses (reversals) on loans and financial assets	(717.2)	-	(982.4)	-27.0%
Net operating income	348.5	-	335.2	4.0%
Net profit (loss) for the period	302.0	-	328.9	-8.2%
EARNING PER SHARE (EUR)	**30/06/16**		**30/06/15 (*)**	**Chg.**
Basic earnings per share	0.103		0.627	-0.524
Diluted earnings per share	0.103		0.591	-0.488
BALANCE SHEET FIGURES AND INDICATORS	**30/06/16**		**31/12/15**	**Chg.**
Total assets	164,385.5		169,012.0	-2.7%
Loans to customers	107,547.8		111,366.4	-3.4%
Direct funding	112,045.2		119,274.6	-6.1%
Indirect funding	97,708.6		106,171.8	-8.0%
of which: assets under management	55,517.3		55,515.7	0.0%
of which: assets under custody	42,191.4		50,656.1	-16.7%
Group net equity	9,928.6		9,596.5	3.5%
OPERATING STRUCTURE	**30/06/16**		**31/12/15**	**Chg.**
Total head count - end of period	25,697		25,731	-34
Number of branches in Italy	2,048		2,133	-85

(*) Book values at 30 June 2015 were restated in order to reflect the changes described in the section "Restatement of previous period accounts and changes in estimates in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)" of the 2015 financial statements to which reference should be made.

The significant decrease in profit per base share and diluted compared with the first six months of 2015 is to be attributed to the increase in the weighted average number of share in issue, due, in turn, to the increase of the share capital, finalised in June 2015.

CONSOLIDATED REPORT ON OPERATIONS
Highlights at 30/06/2016

ALTERNATIVE PERFORMANCE MEASURES

MPS GROUP

PROFITABILITY RATIOS (%)	30/06/16	31/12/15	Chg.
Cost/Income ratio	54.5	50.4	4.1
R.O.E.	6.2	5.1	1.1
Return on Assets (RoA) ratio	0.37	0.23	0.14
KEY CREDIT QUALITY RATIOS (%)	**30/06/16**	**31/12/15**	**Chg.**
Net non-performing loans / Loans to Customers	21.9	21.7	0.2
Coverage non-performing loans	48.0	48.5	-0.45
Net doubtful loans / Loans to Customers	9.8	8.7	1.1
Coverage doubtful loans	61.2	63.4	-2.23
Net impairment losses on loans / End loans (Provisioning)	1.34	1.79	-0.45

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

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

Return On Asset (ROA): Ratio of the annualised net profit for the period to the total assets at the end of the period

CONSOLIDATED REPORT ON OPERATIONS
Highlights at 30/06/2016

REGULATORY MEASURES

MPS GROUP

CAPITAL RATIOS (%)	30/06/16	31/12/15	Chg.
Common Equity Tier 1 (CET1) ratio	12.1	12.0	0.1
Total Capital ratio	15.6	16.0	-0.4
FINANCIAL LEVERAGE INDEX (5)	**30/06/16**	**31/12/15**	**Chg.**
Leverage ratio - Transitional Phase	5.3	5.2	0.1
LIQUIDITY RATIO (%)	**30/06/16**	**31/12/15**	**Chg.**
LCR	170.8	222.0	-51.2
NSFR	98.3	100.8	-2.6

Executive summary

Changes in the key items of the main aggregates of Montepaschi Group for the first half of 2016 are summarised below:

- The Group recorded **Total revenues** of approximately **EUR 2,345 mln,** down by 10.8% compared to the same period of the previous year which had benefited from the restatement effects of the "Alexandria" transaction (impact of approximately EUR+202 mln, as at 30 June 2015), net of which the aggregate would have shown an approximate 3% decrease. This trend is affected by the change in **Net interest income,** which amounted to **EUR 1,035 mln** (-10.8% Y/Y) due to the negative performance of interest bearing assets (decrease in the average volumes and decrease in the related performances) partially attenuated by lower interest expenses following the decrease in the cost of corporate funding and repayment of the NFIs. **Net fee and commission income**, which is also impacted by the decrease in the cost of the State guarantee on the so-called "Monti Bond" (about EUR 10 mln) totalling approximately **EUR 941 mln**, up by 1.5% on an annual basis. Under other revenues, **Net profit (loss) from trading/valuation of financial assets** amounted to approximately **EUR 317 mln**, down compared with the 1st H2015 (approximately EUR -128 mln) which had benefited from the positive effects of the restatement of the "Alexandria" transaction.

- **Operating expenses** amounted to approximately **EUR 1,279 mln** (-2.4% versus 1st H2015). **Personnel expenses,** amounting to approximately **EUR 821 mln**, recorded a 1.5% decrease versus 1st H2015 due primarily to the one-off benefits in Q2 2016 resulting from the second-level Bargaining Agreement of 24 December 2015. **Other administrative expenses** closed the half year with approx. **EUR 356 mln,** down by 5.1% versus 1st H2015 thanks primarily to the implementation of structural cost control measures. **Amortisation/Depreciation**, amounting approximately to EUR **102 mln,** are in line with the same figure of the previous year.

- **Net impairment losses (reversals) on loans, financial assets and other transactions** amounted to approximately **EUR 717 mln,** down by 27% from those recorded in the same period of the previous year, which has benefited mainly from the slow-down in the flows of non-performing loans. The ratio of annualised net impairment losses on loans for the 1st H2016 to total customer loans reflects a **Provisioning Rate of 134 bps**, compared to 179 bps at the end of 2015.

- **Net profit attributable to the Parent Company** stood at approx. **EUR 302 mln**, including - inter alia - the entire annual contribution by the Group to the Single Resolution Fund (SRF), amounting to approx. EUR -71 mln; the fee related to the year 2015 and the 1st half of 2016 on DTA of about EUR -109 mln and the benefits from taxes of about EUR 134 mln due to the positive outcome of the appeal filed by the Parent Company with the Tax Authority, related to the "Alexandria" transaction. This result compares with a profit of EUR 329 mln recorded in the first six months of 2015 (of which approx. EUR 135 mln related to the positive effects of the restatement of the "Alexandria" transaction and of approx. EUR 120 mln referring to the capital gain recorded against the transfer to Poste Italiane of the shareholding investment in Anima Holding SpA).

- **Total funding** at the end of June 2016 amounted to approximately **EUR 210 bn** (-7% versus 31 December 2015) with a decline of direct funding of about EUR 7 bn, concentrated in the second six month period and to be attributed to the decrease in repurchase agreements with market counterparties. As regards the indirect funding, the aggregate recorded an 8% reduction in assets compared with the same figure at the end of 2015; the change in the aggregate was mainly concentrated in assets under custody which, besides being subject to negative changes in the financial markets, were affected by a merger by incorporation of a major client which was reflected in the management of its assets without impacts on the Income Statement.

- As at 30 June 2016, **Loans to customers** amounted to about **EUR 108 bn**, down by approximately EUR 3.8 bn as compared to 31 December 2015 (-3.4%), due mainly to a decrease in repurchase agreements with market counterparties. The **Group's net exposure to non-performing loans** stood at EUR 23.6 bn, showing a EUR 0.6 bn decline from the beginning of the year. **Gross non-performing loans** amounted to **EUR 45.3 bn**, down by more than EUR 1.5 bn as compared with the same figure as at 31 December 2015. This change was affected by the partial write off of late-payment interest on doubtful loans (EUR 1.4 bn) as well as the transfer without recourse of receivables pertaining to the former subsidiary Consum.it (about EUR 0.3 bn). **Non-performing loan coverage** ratio was **48.0%**, down by 104 bps as compared to the Q1 2016. This change is entirely attributable by the said partial write-off of late-payment interest (already completely covered by provisions), net of which the coverage of doubtful loans would have been up by 60 bps. As regards the decline in the coverage of the past-due exposures, the change is impacted by the sale of exposures characterised by a high level of coverage.

- With regard to capital ratios, as at 30 June 2016 the **Common Equity Tier 1 Ratio** stood at **12.1%** (12.0% at the end of 2015) and the **Total Capital Ratio** at **15.6%**, compared to 16.0% recorded at the end of December 2015.

Shareholders

As at 30 June 2016, the Parent Company Banca Monte dei Paschi di Siena's share capital amounted to EUR 9,001,756,820.70, broken down into 2,932,079,864 ordinary shares.

According to the communications received pursuant to the applicable legislation and based on other information available, the entities that, as at 30 June 2016, directly and/or indirectly hold significant shareholdings in the Parent Company and which do not fall under the cases of exemption set forth in art. 119-bis of the Issuers' Regulation, are as follows:

Shareholder	% of Outstanding Ordinary Shares*
Fintech Advisory Inc.**	4.50%
Ministry of Economy and Finances	4.02%
AXA S.A.***	3.17%
Classic Fund Management AG	2.01%

*Situation related to the size of the share capital as at 30 June 2016 amounted to Euro 9,001,756,820.70
**Share held through companies in its Group
***Share held directly and through 12 subsidiary companies

Compared with the breakdown of the share capital as at 31 March 2016, no changes were recorded.

As for the payment to the Ministry of Economy and Finance of the interest accrued on the New Financial Instruments (NFIs) redeemed on 15 June 2015, the same occurred on 1 July 2016 in a monetary form and not through the assignment of shares.

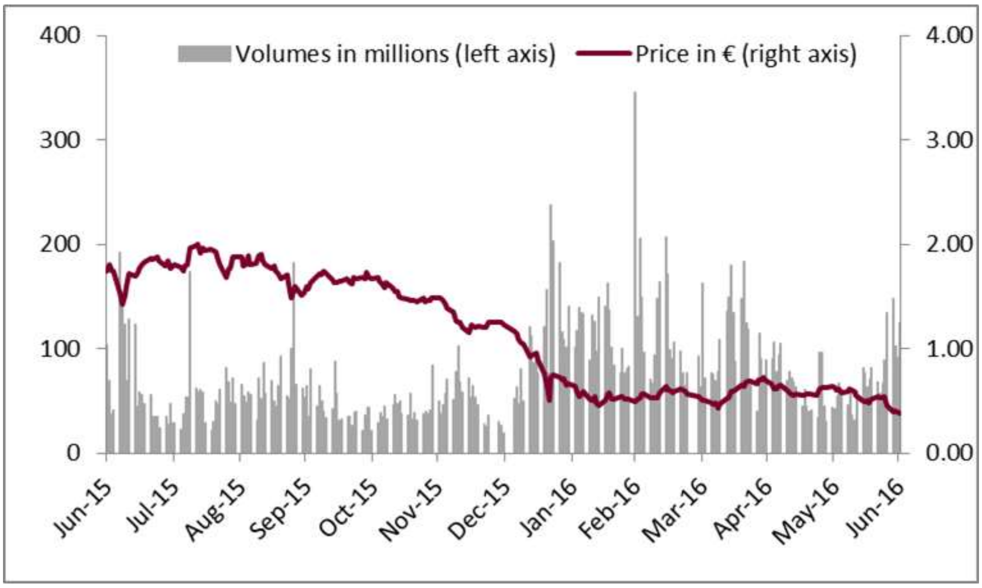
Information on the BMPS share

Share price and trends

The 1st H2016 closed with an increasing uncertainty felt by the financial markets amplified by the shock in the stock markets triggered by Brexit on 24 June. The results of the British referendum hit, with no exceptions, all the European financial markets, exacerbating even further the already negative performances recorded from the beginning of the year (Frankfurt -9.9%; Paris -8.6%; Madrid -14.5%). The London index showed an opposite trend (+4.2%). Milan, with a negative change of 24.4%, is significantly affected by the difficulties encountered in the Italian banking sector (FTSE Italian Banks, -53.4%).

BMPS stock closed the half year at EUR 0.38, with a negative 69.2% performance since the start of the year.

BMPS SHARE PRICE (from 30/06/2015 to 30/06/2016)

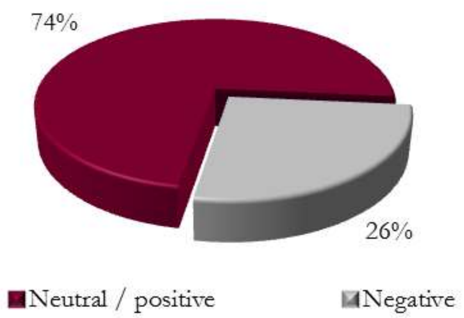


BMPS SHARE PRICE: STATISTICAL SUMMARY (from 12/31/2015 to 06/30/2016)	
Average	0.61
Lowest	0.38
Highest	1.17

In the first half of 2016, the number of BMPS shares traded on a daily basis averaged about 99 million units.

MONTHLY VOLUMES OF SHARES TRADED 2016 volumes summary (mln)	
January	2,228
February	2,609
March	2,433
April	2,220
May	1,444
June	1,666

BMPS SHARE RATINGS AS AT 30/06/2016



Ratings

The ratings given by the rating agencies as at 30 June 2016 are provided below:

Rating Agencies	Short-term debt	Outlook	Long-term debt	Outlook	Last update
DBRS	R-4	Stable	BB	Negative	06/07/2016
Fitch Ratings	B	-	B-	Stable	04/20/2016
Moody's Investors Service	NP	-	B3	Negative	04/22/2015

- On 7 June 2016 the rating agency DBRS downgraded the long term rating to "BB" from "BB(high)", keeping a negative outlook, while it upgraded the short term rating to "R-4" from "R-3", revising the outlook from negative to stable. At the same time, DBRS lowered the Intrinsic Assessment (IA) to "BB".

- On 20 April 2016, the Fitch rating agency confirmed the long-term rating of the Parent Company as a "B-", the short-term rating as a "B" and the Viability Rating (VR) as a "B-". The outlook remains stable.

- On 22 April 2015, following publication of the new rating criteria and the downgrade of the systemic support provided to banks of countries involved in the single mechanism for settling bank crises, Moody's downgraded the long-term rating from 'B1' to 'B3', with negative outlook. The individual rating (Baseline Credit Assessment - BCA) was instead confirmed at "CAA2".

Subsequent to the half year closing, the following changes in the BMPS rating should be noted:

- The DBRS rating agency, on 12 July 2016 placed the MPS ratings under observation, with negative implications
- The Moody's rating agency, on 15 July 2016 downgraded the individual rating (Baseline Credit Assessment – BCA) to CA from CAA2.

Reference context

The first half of 2016 was characterised by a continuation of the positive market trend.

In the Eurozone, in the first quarter of the year, the GDP was up by a strong 0.5% compared with the previous quarter and it is expected to increase at a pace only slightly lower in the second quarter.

In Italy, the growth in the first quarter was 0.3%, slightly above the 0.2% recorded in the second half of 2015. As in the rest of the Eurozone, inflation remains at very low levels; the harmonised index, except for the month of January, remained in negative territory during the first half of the year, standing, in June, at a yearly -0.3%. Several factors make the scenario difficult for the second half of the year. The outcome of the June referendum on the Great Britain exit from the European Union is, at this time, the main external risk factor, to which the health of the domestic banking sector should be added.

Within this context, the European Central Bank (ECB) proceeded to strengthen its non-traditional instruments, expanding its purchase programme to corporate securities, under investment grade conditions, and launching a new refinancing programme of the banking system (TLTRO 2) under particularly advantageous conditions. As regards rates, the refinancing rate reached 0% while the deposit rate was cut to -0.4%.

The many measures implemented by the ECB in the last few years have revamped the credit channel of the Eurozone. In our country, credit growth remains low, with a yearly change in loans to companies that, on average, was negative in the first half of the year (-2%), while the corresponding figure for loans to households was around +3.4%.

The performance of financial markets reflected an environment dominated by uncertainty factors. Among the main stock indexes, only S&P500 is, at the half year, in positive territory (+2.7%) while the main European indexes show more or less significant losses, except for the FTSE100 index of the United Kingdom. The Euro Stoxx has lost in the first half of the year about 11% and the FTSEMIB about 22%. The Italian index was dragged down by the performance of the banking sector (-57%) which did not benefit from the several measures implemented to support it (GACS, Atlante Fund).

As regards the bond market, the ECB measures, combined with a low inflation, generated a reduction in government yields in all areas, with the German 10 year yield in negative territory, together with an increasing number of government bonds showing a performance below zero. Italian government bonds benefited from the ECB purchase programme which contributed to keep the Btp compressed in terms of performance (1.25% at half year, after reaching the maximum 1.7% in February) and to limit the widening of the spread on the German bonds, even in the most turbulent periods of the market.

Significant events in the first half

A new securitization of lease receivables portfolio for EUR 1.6 bn was successfully finalised on 21 January 2016.

On 15 April 2016, the Board of Directors of the Parent Company gave a mandate to the CEO to purchase 50 units of the Atlante Fund, for a total investment of EUR 50 mln.

By Decree dated 18 April 2016, the MEF ordered Banca Tercas to return to the Interbank Deposit Protection Fund (IDPF) the contributions received at the time in compliance with the decision of the European Commission which ruled that the support received in 2014 by Tercas constitutes government aid and is therefore incompatible with the internal market regulations. Consequently, at the end of April, the IDPF repaid the amounts pertaining to each consortium and at the same time, the Voluntary Scheme, purposely established within the IDPF itself, charged the single participants in the Scheme a recalculated amount that was equal to the amount of the original intervention. The impact of the transaction was essentially neutral for the Group.

On 23 June 2016, a transfer agreement without recourse for a non-performing loan portfolio to Kruk Group, a debt collection agency active in the European market of non-performing loans, was executed. The sold portfolio consists of more than 40,000 positions with a gross book value of roughly EUR 290 mln (about EUR 350 mln including late payment interest accrued and/or other charges that are transferred along with the principal amount). The sold non-performing loans, of an unsecured nature, are consumer credits, personal loans and credit cards originated by the former Consum.it (incorporated since 2015 into the Parent Company). The sale resulted in a slightly positive financial impact and did not have significant effects on the capital ratios of the Group.

On 30 June 2016, Law Decree no. 59/2016 was converted into Law (no.119), upon approval by the Council of Ministers (Cabinet) issued on 29 April, which sets forth, inter alia, provisions applicable to deferred tax receivables. This provision sets forth that in order to continue to hold the right to exploit the laws on the convertibility of the DTAs that are relevant as tax credits (see article 2, paragraph 55 et seq. of Law Decree no. 225/2010) and, consequently, benefit from the possibility to fully include said DTAs in the determination of the regulatory capital, it is necessary that an irrevocable option, providing for the payment of an annual fee until 2029, i.e. 1.5% of the difference between deferred tax assets and paid taxes, is exercised. Upon exercising this option, the Group recorded, as at 30 June 2016, both the entire fee pertaining to the year 2015 and the pro-rata amount estimated for 2016.

Significant events after the first half

On 1 July 2016, the Parent Company paid to the Ministry of Economy and Finance, in a monetary form, the interest accrued in 2015 on the New Financial Instruments redeemed on 15 June 2015 for an amount of roughly EUR 46.0 mln. This payment had no effect on the levels of capitalisation of the Group.

Upon authorisation obtained from the Public Prosecutor office, on 2 July 2016, Banca Monte dei Paschi di Siena, filed a plea bargaining petition referring to the pending criminal trial before the Preliminary Hearing Judge of Milan, as regards the claims filed against the Bank pursuant to Legislative Decree no. 231 / 2001 in terms of the entities' administrative liability resulting from the offence. Predicate offences with administrative liability of the Bank consist of false corporate communications, market abuse and obstruction to supervision and are charged exclusively to the former senior management for the period from 2009 to 2012. With the plea bargain, if accepted, the Bank exits the proceedings as defendant in the administrative offence following crimes committed by its own former executives, limiting the consequences to an administrative financial penalty or EUR 0.6 mln and a confiscation, for EUR 10 mln, without exposing itself to the risk of higher penalties. Within the same proceedings, the Bank is also bringing a civil action against its former Directors and executives who were in office when said events took place.

On 19 July 2016, the Interbank Deposit Protection Fund disclosed the amount, pertaining to the Bank, of approx. EUR 19 mln, concerning the intervention, within the Voluntary Scheme, in favour of Cassa di Risparmio di Cesena

On 21 July 2016, the Bank received from the Revenue Agency a favourable answer to the appeal filed in April about the tax relevance of some components of the restatement of the "Alexandria" transaction, recognised in the Financial Statements of 2015. To this regard, it must be noted that the restatement carried out in the Financial Statements of 2015, although with an overall pre-taxation neutral financial effect, entailed a different distribution of the income items related to the transaction within the 2009-2015 time frame, compared with the original accounting and that, in the 2015 Financial Statements (see chapter Balance Adjustments - IAS 8), the taxation effect of the restatement was estimated in consideration of the non-relevance, for tax purposes, of some negative income components, due to an initial and restrictive interpretation of the Reveue Agency Circular 31/2013. Due to the positive response to such appeal, the Bank has recognised in the Income Statement of this half-year report (in the income tax line item) the corresponding gain, of EUR 133.9 mln, primarily as a balancing entry of deferred tax assets.

On 29 July 2016, the EBA EU-wide stress test results were published, showing a hefty CET1 ratio decrease in the adverse scenario (fully loaded at – 2.4%). The 2016 Stress Test does not have a success/failure threshold, instead it was designed to provide significant information within the 2016 supervision process. Therefore, the results will be used by the competent authorities to assess the capacity of the bank to comply with the regulatory constraints in stressed scenarios on the basis of common methodologies and assumptions. The adverse stress scenario was designed by ECB/ESRB and covers a three-year horizon (2016-2018) under the assumption of a static financial statements starting from December 2015; therefore, it does not take into account future changes in business strategies and the restructuring plan currently underway providing for further developments in the next two years or other measures the Bank may take.

Still on 29 July 2016 the Board of Directors of the Parent Company approved the guidelines of a transaction consisting in a combination of closely connected contextual transactions to be considered as strictly related elements of an overall plan aimed at deconsolidating the whole doubtful loan portfolio ("sofferenze") - (gross EUR 27.7 billion, net EUR 10.2 billion as at 31 March 2016) and at recapitalizing the Bank for a maximum estimated amount of EUR 5 billion.

HALF-YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheet

	Assets	30 06 2016	31 12 2015
10	Cash and cash equivalents	794.6	1,188.8
20	Financial assets held for trading	18,596.2	18,017.4
40	Financial assets available for sale	17,426.4	17,191.2
60	Loans to banks	7,953.1	8,242.1
70	Loans to customers	107,547.8	111,366.4
80	Hedging derivatives	576.6	556.4
90	Change in value of macro-hedged financial assets (+/-)	204.3	139.6
100	Equity investments	948.0	908.4
120	Property, plant and equipment	2,686.9	2,741.7
130	Intangible assets	372.9	400.1
	of which: goodwill	*7.9*	*7.9*
140	Tax assets	4,801.8	5,542.5
	a) current	*1,351.2*	*2,229.1*
	b) deferred	*3,450.6*	*3,313.4*
	under Law 214/2011	*2,350.6*	*2,389.5*
150	Non-current assets and groups of assets held for sale and discontinued operations	30.4	29.3
160	Other assets	2,446.5	2,688.1
	Total Assets	**164,385.5**	**169,012.0**

follow: Consolidated Balance Sheet

	Liabilities and Shareholders' Equity	30 06 2016	31 12 2015
10	Deposits from banks	19,465.8	17,493.1
20	Deposits from customers	83,118.6	87,806.3
30	Debt securities issued	27,273.2	29,394.4
40	Financial liabilities held for trading	15,854.7	15,921.7
50	Financial liabilities designated at fair value	1,653.4	2,073.9
60	Hedging derivatives	1,136.0	1,205.3
80	Tax liabilities	95.6	91.5
	a) current	*5.1*	*28.6*
	b) deferred	*90.5*	*62.9*
100	Other liabilities	4,518.8	4,039.9
110	Provision for employee severance pay	249.9	246.2
120	Provisions for risks and charges:	1,064.8	1,116.9
	a) post-employment benefits	*52.3*	*49.4*
	b) other provisions	*1,012.5*	*1,067.5*
140	Valuation reserves	7.7	(21.8)
170	Reserves	617.2	222.1
180	Share premium	-	6.3
190	Share capital	9,001.8	9,001.8
210	Non-controlling interests (+/-)	26.0	26.3
220	Profit (loss) (+/-)	302.0	388.1
	Total Liabilities and Shareholders' Equity	**164,385.5**	**169,012.0**

Consolidated Income statement

	Items	30 06 2016	30 06 2015*
10	Interest income and similar revenues	1,748.4	2,117.6
20	Interest expense and similar charges	(723.6)	(975.1)
30	**Net interest income**	**1,024.8**	**1,142.5**
40	Fee and commission income	1,091.3	1,104.1
50	Fee and commission expense	(150.6)	(176.9)
60	**Net fee and commission income**	**940.7**	**927.2**
70	Dividends and similar income	11.9	14.2
80	Net profit (loss) from trading	117.5	325.3
90	Net profit (loss) from hedging	(1.3)	16.1
100	Gains/(losses) on disposal/repurchase of:	128.6	132.7
	a) loans	*(6.8)*	*(27.2)*
	b) financial assets available for sale	*89.3*	*161.0*
	d) financial liabilities	*46.1*	*(1.1)*
110	Net profit (loss) from financial assets and liabilities designated at fair value	68.4	(18.1)
120	**Net interest and other banking income**	**2,290.6**	**2,539.9**
130	Net impairment (losses)/reversals on	(717.2)	(982.4)
	a) loans	*(718.3)*	*(984.0)*
	b) financial assets available for sale	*(16.1)*	*(3.2)*
	d) other financial transactions	*17.2*	*4.8*
140	**Net income from banking activities**	**1,573.4**	**1,557.5**
180	Administrative expenses:	(1,550.6)	(1,389.5)
	a) personnel expenses	*(821.0)*	*(834.4)*
	b) other administrative expenses	*(729.6)*	*(555.1)*
190	Net provisions for risks and charges	23.9	(48.6)
200	Net adjustments to/recoveries on property, plant and equipment	(53.0)	(60.8)
210	Net adjustments to/recoveries on intangible assets	(62.8)	(55.1)
220	Other operating expenses/income	203.9	193.0
230	**Operating expenses**	**(1,438.6)**	**(1,361.0)**
240	Gains (losses) on investments	41.5	182.7
270	Gains (losses) on disposal of investments	-	1.0
280	**Profit (loss) before tax from continuing operations**	**176.3**	**380.2**
290	Tax (expense)/recovery on income from continuing operations	126.5	(50.4)
300	**Profit (loss) after tax from continuing operations**	**302.8**	**329.8**
320	**Profit (loss)**	**302.8**	**329.8**
330	Profit (loss) attributable to non-controlling interests	0.8	0.8
340	**Parent company's net profit (loss)**	**302.0**	**329.0**

		30 06 2016	30 06 2015*
	Basic Earnings per Share (Basic EPS)	**0.103**	**0.627**
	of continuing operations	0.103	0.627
	Diluted Earnings per Share (Diluted EPS)	**0.103**	**0.591**
	of continuing operations	0.103	0.591

**The balances of the previous period were restated reflecting the changes described in the section "Restatement of previous period accounts and changes in estimates in compliance with IAS 8 (Accounting policies, changes in estimates and errors)" of the 2015 financial statements which is referenced to for further details.*

Consolidated statement of comprehensive income

	Items	30 06 2016	30 06 2015*
10	**Profit (loss)**	**302.8**	**329.8**
	Other comprehensive income after tax not recycled to profit and loss	**(4.2)**	**15.6**
40	Actuarial gains (losses) on defined benefit plans	(4.0)	15.6
60	Share of valuation reserves of equity-accounted investments	(0.2)	-
	Other comprehensive income after tax recycled to profit and loss	**33.7**	**(31.4)**
80	Exchange differences	(2.3)	5.2
90	Cash flow hedges	26.6	14.7
100	Financial assets available for sale	(31.4)	(76.7)
110	Non current assets held for sale	(19.6)	0.3
120	Share of valuation reserves of equity-accounted investments	60.4	25.1
130	**Total other comprehensive income after tax**	**29.5**	**(15.8)**
140	**Total comprehensive income (Item 10+130)**	**332.3**	**314.0**
150	Consolidated comprehensive income attributable to non-controlling interests	0.8	0.8
160	**Consolidated comprehensive income attributable to Parent Company**	**331.5**	**313.2**

** The balances of the previous period were restated reflecting the changes described in the section "Restatement of previous period accounts and changes in estimates in compliance with IAS 8 (Accounting policies, changes in estimates and errors)" of the 2015 financial statements which is referenced to for further details.*

Consolidated statement of changes in equity – 30 June 2016

	Balance as at 31 12 2015	Changes in opening balances	Balance as at 01 01 2016	Allocation of profit from prior year		Change during the period									Total Equity as at 30 06 2016	Group equity as at 30 06 2016	Non-controlling interest as at 30 06 2016
							Shareolder's equity transactions										
				Reserves	Dividends and other payout	Changes in reserves	Issue of new share	Purchase of treasury share	Extraordinary distribution of dividends	Changes in equity instruments	Treasury shares derivatives	Stock options	Changes in equity investments	Total Comprehensive income for 30 06 2016			
Share capital	9,015.2	-	9,015.2	-	-	-	-	-	-	-	-	-	-	-	9,015.2	9,001.8	13.4
a) ordinary shares	9,015.2	-	9,015.2	-	-	-	-	-	-	-	-	-	-	-	9,015.2	9,001.8	13.4
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium	6.5	-	6.5	(6.3)	-	-	-	-	-	-	-	-	-	-	0.2	-	0.2
Reserves:	231.7	-	231.7	396.2	-	(0.3)	-	-	-	-	-	-	-	-	627.6	617.3	10.3
a) from profits	440.1	-	440.1	307.4	-	-	-	-	-	-	-	-	-	-	747.5	737.2	10.3
b) other	(208.4)	-	(208.4)	88.8	-	(0.3)	-	-	-	-	-	-	-	-	(119.9)	(119.9)	-
Valuation reserves	(20.6)	-	(20.6)	-	-	-	-	-	-	-	-	-	-	29.5	8.9	7.7	1.2
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net profit (loss)	389.9	-	389.9	(389.8)	(0.1)	-	-	-	-	-	-	-	-	302.8	302.8	302.0	0.8
Total equity	9,622.7	-	9,622.7	-	(0.1)	(0.3)	-	-	-	-	-	-	(0.1)	332.3	9,954.5	9,928.8	25.9
Group equity	9,596.4	-	9,596.4	-	-	(0.3)	-	-	-	-	-	-	1.0	331.5	9,928.6	9,928.8	X
Non-controlling interests	26.3	-	26.3	-	(0.1)	-	-	-	-	-	-	-	(1.0)	0.8	26.0	X	25.9

As at 30 June 2016 the Group's net equity, including non-controlling interests and result for the period, amounts to EUR 9,954.6 mln, as compared to EUR 9,622.7 mln as at 31 December 2015, with a total increase of EUR 331.9 mln.

The most significant phenomena impacting net equity, in addition to the profit for the period of EUR 302.8 mln were:

1. The profit of 2015, amounting to EUR 389.9 mln, for the portion attributed to the Parent Company was used to cover negative reserves, in compliance with the resolution issued by the Shareholders' Meeting on 14 April 2016;
2. The column "Changes in equity investments" includes the decrease in non-controlling interests referring to the upward change of the investment held by the Parent Company in the subsidiary MPS Capital Services S.p.A., in execution of its share capital increase finalised in February 2016;
3. The column "Changes in reserve" corresponding to the row "Reserves - Other " includes primarily the decrease in a shareholding investment in a subsidiary;
4. Valuation reserves show overall a positive change amounting to EUR 29.5 mln, the details of which are available in the Consolidated statement of comprehensive income;
5. Non-controlling interests is down by EUR 0.3 mln, largely as a result of the combination of what was discussed at point 2 and the comprehensive income for the period.

Consolidated statement of changes in equity – 30 June 2015

	Balance as at 31 12 2014	Changes in opening balances*	Balance as at 01 01 2015	Allocation of profit from prior year		Change during the period									Total Equity as at 30 06 2015	Group equity as at 30 06 2015	Non-controlling interest as at 30 06 2015
						Changes in reserves	Shareolder's equity transactions							Total Comprehensive income for 30 06 2015**			
				Reserves	Dividends and other payout		Issue of new share	Purchase of treasury share	Extraordinary distribution of dividends	Changes in equity instruments	Treasury shares derivatives	Stock options	Changes in equity investments				
Share capital	12,497.6	-	12,497.6	(6,718.7)	-	-	2,993.2	-	-	-	-	-	-	-	8,772.1	8,758.7	13.4
a) ordinary shares	12,497.6	-	12,497.6	(6,718.7)	-	-	2,993.2	-	-	-	-	-	-	-	8,772.1	8,758.7	13.4
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium	2.5	-	2.5	(2.3)	-	-	4.0	-	-	-	-	-	-	-	4.2	4.0	0.2
Reserves:	(483.0)	(563.5)	(1,046.5)	1,366.8	-	-	154.3	-	-	-	-	-	-	-	474.6	465.9	8.7
a) from profits	(187.4)	(563.5)	(750.9)	1,190.3	-	0.5	-	-	-	-	-	-	-	-	439.9	431.2	8.7
b) other	(295.6)	-	(295.6)	176.5	-	(0.5)	154.3	-	-	-	-	-	-	-	34.7	34.7	-
Valuation reserves	(684.2)	423.1	(261.1)	(45.8)	-	0.2	-	-	-	-	-	-	-	(15.8)	(322.5)	(323.7)	1.2
Equity instruments	3.0	-	3.0	(3.0)	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net profit (loss)	(5,347.3)	(55.8)	(5,403.1)	5,402.9	0.1	-	-	-	-	-	-	-	-	194.5	194.4	193.6	0.8
Total equity	5,988.7	(196.1)	5,792.4	-	0.1	0.3	3,151.4	-	-	-	-	-	-	178.7	9,122.9	9,098.5	24.3
Group equity	5,965.0	(196.1)	5,768.8	-	-	0.5	3,151.4	-	-	-	-	-	-	177.9	9,098.6	9,098.5	X
Non-controlling interests	23.6	-	23.6	-	0.1	(0.2)	-	-	-	-	-	-	-	0.8	24.3	X	24.3

** The column "Changes in opening balances" is reflective of changes as at 31.12.2014 described in the section "Restatement of previous period accounts and changes in estimates in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)" in the Financial Statements of 2015, which is referenced to for further details.*
*** The column of Comprehensive income as at 30 June 2015 was restated in order to reflect the changes described in the section "Restatement of previous period accounts and changes in estimates in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)" of the 2015 financial statements to which reference should be made.*

As at 30 June 2015 the Group's net equity, including non-controlling interests and result for the period, amounts to EUR 9,258.2 mln, as compared to EUR 5,792.4 mln as at 31 December 2014, with a total increase of EUR 3,465.8 mln.

The most significant phenomena impacting the net equity, in addition to the EUR 329.8 mln profit for the period, were:

1. in April 2015, the Ordinary Shareholders' Meeting of the Parent Company resolved to cover the 2014 loss for the year and the losses carried forward from previous years, for a total of EUR 7,320.1 mln, as follows:
   - for EUR 601.4 through the use of available reserves;
   - for the remainder of the loss, namely EUR 6,718.7 mln, the Extraordinary Shareholders' Meeting resolved to reduce capital, pursuant to article 2446 of the Italian Civil Code.

   After covering the losses, the Parent Company's share capital amounted to EUR 5,765.5 mln.
2. in June 2015, the share capital increase was completed, for EUR 2,993.2 mln, resulting in:
   - an increase in the "Share capital" item for the same amount;
   - a decrease in the item "Reserves - other" for EUR 88.8 mln, due to costs incurred for the transaction, net of the relative taxes;
   - an increase in the item "Share premium reserve" for EUR 4.0 mln, relating to the proceeds, net of taxes, on the sale of 1,054,573 option rights not exercised during the offering period and which were subsequently sold in the market.

   The "Share capital" item of the Parent Company as at 30 June 2015 amounted to EUR 8,758.7 mln following the two events mentioned above.
3. as implementation of the resolution adopted by the Board of Directors of the Parent Company on 21 May 2015, an additional capital increase was completed in July 2015 for EUR 243.1 mln, used exclusively for the payment in shares of the interest accrued as at 31 December 2014 on the New Financial Instruments, in favor of the Ministry of Economy and Finance, pursuant to the regulations governing them. In application of IAS 32.11 and considering that, as at the date of Condensed consolidated half-year Report, the certification pursuant to article 2444 of the Italian Civil Code had not yet been filed with the Register of Companies, this amount as at 30 June 2015 was recognised under "Reserves - other".
4. "Valuation reserves" show overall a negative change amounting to EUR 15.8 mln, the details of which are available in the Consolidated statement of comprehensive income.

Non-controlling interests grew EUR 0.7 mln, largely as a result of comprehensive income for the period.

Consolidated cash flow statement – indirect method

A. OPERATING ACTIVITIES	30 06 2016	30 06 2015*
1. Cash flow from operations	**717.3**	**617.7**
profit (loss) (+/-)	302.8	329.8
capital gains/losses on financial assets held for trading and on assets/liabilities designated at fair value (+/-)	(124.7)	(503.6)
net profit (loss) from hedging	1.3	(16.1)
net impairment losses/reversals	556.5	711.6
net losses/reversal on impairment on property, plant and equipment and on intangible assets (+/-)	115.8	115.9
net provisions for risks and charges and other costs/revenues (+/-)	(16.5)	56.2
tax espense (recovery) on income from continuing operations	(126.5)	16.8
other adjustments	8.6	(92.9)
2. Cash flow from (used in) financial assets	**4,364.6**	**9,505.1**
financial assets held for trading	(518.1)	370.4
financial assets available for sale	187.2	7,336.7
loans to banks: on demand	288.5	(605.4)
loans to customers	3,262.9	1,539.4
other assets	1,144.1	864.0
3. Cash flow from (used in) financial liabilities	**(5,487.8)**	**(13,348.4)**
deposits from banks: on demand	1,972.7	(8,816.8)
deposits from customers	(4,687.8)	(1,753.1)
debt securities issued	(2,121.2)	(1,307.7)
financial liabilities held for trading	(85.0)	1,379.2
financial liabilities designated at fair value	(338.6)	(268.0)
other liabilities	(227.9)	(975.1)
Net cash flow from (used in) operating activities	**(405.9)**	**(3,225.6)**

** The balances of the previous period were restated reflecting the changes described in the section "Restatement of previous period accounts and changes in estimates in compliance with IAS 8 (Accounting policies, changes in estimates and errors)" of the 2015 financial statements which is referenced to for further details.*

B. INVESTMENT ACTIVITIES	30 06 2016	30 06 2015*
1. Cash flow from	**69.2**	**201.3**
sales of equity investments	13.4	-
dividends collected on equity investments	54.7	197.3
sales of property, plant and equipment	0.7	3.8
sales of intangible assets	0.4	0.2
2. Cash flow used in	**(57.4)**	**(68.5)**
purchase of property, plant and equipment	(23.2)	(25.5)
purchase of intangible assets	(34.2)	(43.1)
Net cash flow from (used in) investment activities	**11.8**	**132.8**

C. FUNDING ACTIVITIES		
issue/purchase of treasury shares	-	2,908.3
dividend distribution and other	(0.1)	(0.1)
Net cash flow from (used in) funding activities	**(0.1)**	**2,908.2**

NET CASH FLOW FROM (USED IN) OPERATING, INVESTMENT AND FUNDING ACTIVITIES DURING THE YEAR	**(394.2)**	**(184.6)**

Reconciliation

Accounts	30 06 2016	30 06 2015*
Cash and cash equivalents at beginning of period	1,188.8	1,006.6
Net increase (decrease) in cash and cash equivalents	(394.2)	(184.6)
Cash and cash equivalents at end of period	794.6	822.0

* *The balances of the previous period were restated reflecting the changes described in the section "Restatement of previous period accounts and changes in estimates in compliance with IAS 8 (Accounting policies, changes in estimates and errors)" of the 2015 financial statements which is referenced to for further details.*

EXPLANATORY NOTES

Accounting policies

General accounting standards

The Condensed consolidated half-year Financial Statements as at 30 June 2016 provides a description of the activities and results which largely characterised the Montepaschi Group's operations in the first half of 2016, both as a whole and in the various business segments into which consolidated operations are carried out.

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

In addition, the Condensed consolidated half-year financial statements incorporates non-financial company information providing the details on the activities, capital, risks and relations that are significant to the Group's current and future performance. This document highlights the key developments with respect to the contents of the 2015 Financial Statements, to which the reader is referred for a more complete overview of the topics.

Statement of compliance with international accounting principles

Pursuant to financial disclosure requirements set forth in art. 154-ter paragraph 3 of the Consolidated Law on Finance, the Condensed consolidated half-year Financial Statements as at 30 June 2016 of the Monte dei Paschi di Siena Group, is prepared in accordance with the IAS/IFRS international accounting principles issued by the International Accounting Standards Board (IASB) including interpretations by the IFRS Interpretations Committee (IFRIC), as endorsed by the European Commission and effective at the time this half-year report was prepared, pursuant to EC Regulation no. 1606 of 19 July 2002. The international accounting principles were applied following the indications set forth in the "Framework for the preparation and presentation of financial statements" (the Framework).

The Condensed consolidated half-year Financial Statements, prepared using the Euro as the reporting currency, drawn up succinctly and in compliance with the IAS 34 standard "Interim financial reporting" comprises the Consolidated Balance Sheet, the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement and the Explanatory Notes; the tables of the Condensed Consolidated Half-Year Financial Statements and the Explanatory Notes, unless otherwise noted, are prepared in millions of Euro.

In addition, the "Reconciliation between the reclassified income statement and balance sheet and the related statutory accounts" and the "Pro-forma statements for the representation of the so-called "Alexandria" transaction in "open balances", following the previous statements", are herewith attached.

The Condensed consolidated half-year Financial Statements provide information concerning the first half-year of 2016, which represents the interim period for financial reporting, pursuant to IAS 34; the data, provided on a quarterly basis, represents additional information of an operational nature.

The accounting standards used for the preparation of these Condensed Consolidated Half-Year Financial Statements, with reference to the classification, recognition, valuation and derecognition of the various asset, liability and equity entries, as well as the methods for recognising revenue and costs, are the same as those used for the preparation of the Consolidated financial statements as at 31 December 2015, to which the reader is referred for more detail, with the exception of the following new accounting principles or amendments, the application of which is mandatory as of the financial year 2016.

The Condensed consolidated half-year Financial Statement show, in addition to the amounts pertaining to the relevant period, also the corresponding comparison data of the first half-year of 2015 for the Income Statement and 31 December 2015 for the Balance Sheet.

Following are the accounting standards, the mandatory application of which, for the Group, started on 1 January 2016.

In November 2013, the IASB published the amendment to **IAS 19 "Employee contributions to defined benefit plans".** The amendment clarifies the accounting of contributions from employees (or third parties) to defined benefit plans. More specifically, it outlines the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service, with a view to simplifying the accounting of contributions which are not dependent on the number of years of service, but which, for example, are determined as a fixed percentage of salary. The amendment was endorsed by the European Commission with Regulation no. 2015/29 on 17 December 2014 and is mandatorily to be applied for annual periods beginning on or after 1 February 2015.

On 12 December 2013 the IASB issued a set of amendments to the IFRSs as part of the project "**Improvements to international accounting standards, 2010-2012 cycle**", relating to the topics briefly summarised below:

a) **IFRS 2 "Share-based payments".** The definitions of "vesting condition" and "market condition" were amended and definitions of "performance condition" and "service condition" (which were previously part of the definition of "vesting condition") were added.

b) **IFRS 3 "Business combinations".** The amendment clarifies that contingent consideration that is classified as asset or a liability shall be measured at fair value at each reporting date subsequent to first-time recognition.

c) **IFRS 8 "Operating segments".** The amendment requires an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments.

d) **IFRS 13 "Fair value measurement".** The amendment clarifies that amending IAS 39 and IFRS 9 following the publication of IFRS 13 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting if the effect of discounting is immaterial.

e) **IAS 16 "Property, plant and equipment".** The amendment clarifies that when an item of property, plant and equipment is revalued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the net carrying amount.

f) **IAS 24 "Related party disclosures".** The amendment clarifies that an entity providing key management personnel services to the reporting entity is a related party of the reporting entity.

g) **IAS 38 "Intangible assets".** The amendment clarifies that when an intangible asset is revalued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.

The document was endorsed by the European Commission with Regulation no. 2015/28 on 17 December 2014 and is mandatorily to be applied for annual periods beginning on or after 1 February 2015.

On 6 May 2014, the IASB issued some amendments to IFRS 11 **"Joint Arrangements"** regarding accounting for the acquisition of a joint operation if such operation possesses a business. The amendments require the application of IFRS 3 Business Combinations relating to the recognition of the effects of a business combination to recognise the acquisition of a joint operation in which the activity constitutes a business. The document was endorsed by the European Commission on 24

November 2015 with Regulation no. 2015/2173 and is mandatorily to be applied for annual periods beginning on or after 1 January 2016. Early application is permitted.

On 12 May 2014, the IASB published "**Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)**", in order to clarify that a revenue-based amortisation method is not considered to be appropriate as it only reflects the revenue generated by the asset and not the method of consumption of economic benefits incorporated in the asset.
The European Commission endorsed the amendment with Regulation 2015/2231 on 2 December 2015. The new standards apply as of 1 January 2016, but early adoption is permitted.

On 25 September 2014, the IASB issued the document **"Annual Improvements to IFRSs: 2012-2014 Cycle"** regarding the topics briefly summarised below:

a) **IFRS 5 Non-current Assets Held for Sale and Discontinued Operations:** the amendment regards specific cases in which an entity reclassifies an asset (or a disposal group) from held for sale to held for distribution or vice versa, or when an asset can no longer be classified as held for distribution. The amendments clarify that:
   - these reclassifications should not be considered a change in a plan to sell or a distribution plan, and the same classification and measurement criteria remain in force;
   - assets that no longer fulfil held-for-distribution classification criteria should be treated in the same way as assets for which held-for-sale accounting is discontinued.

b) **IFRS 7 Financial Instruments: Disclosure**: the amendment provides additional guidance to clarify the following aspects:
   - whether a servicing contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required;
   - offsetting disclosures are not explicitly required for all interim financial statements, although they could be necessary to comply with the requirements established by IAS 34 if this information is significant.

c) **IAS 19 Employee Benefits:** high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid. The depth of the market for high quality corporate bonds should be assessed at currency level.

d) **IAS 34 Interim Financial Reporting:** if the required disclosure is presented in the interim financial report but outside of the interim financial statements, the disclosure must be incorporated in the interim financial statements by cross-reference to other parts of the interim financial report. This document is provided to users of financial statements in the same manners and with the same timing as the interim financial statements.

The document was endorsed by the European Commission with Regulation no. 2015/2343 on 15 December 2015 and is mandatorily to be applied for annual periods beginning on or after 1 January 2016. Early application is permitted.

On 18 December 2014 the IASB issued **"Amendments to IAS 1: Disclosure Initiative"** which has the clear objective of encouraging the use of professional judgement in determining the information to be included in the disclosure.

The following aspects are clarified in that document:

- as regards the materiality of information, the disclosure should not be compromised by aggregation or the presentation of irrelevant information; the assessment of materiality applies to the entire financial statements and prevails even when a specific disclosure is required by a standard.

- in the income statement, statement of comprehensive income and statement of financial position, specific items may be separated and combined as a pertinent and additional guide to the statement subtotals;
- the entity may define the order of presentation of the notes in order to facilitate understanding and comparison.

The IASB also eliminated the instructions and examples for identifying significant accounting policies.

The document was endorsed by the European Commission with Regulation no. 2015/2406 on 18 December 2015 and is mandatorily to be applied for annual periods beginning on or after 1 January 2016. Early application is permitted.

On 12 August 2014, the IASB issued the document **"Equity Method in Separate Financial Statements - Amendments to IAS 27",** which introduces the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. As a result, an entity may recognise such investments in its separate financial statements based on one of the following methods:

- at cost; or
- according to IFRS 9 (or IAS 39); or
- using the equity method.

The document was endorsed by the European Commission with Regulation no. 2015/2441 on 18 December 2015 and is mandatorily to be applied for annual periods beginning on or after 1 January 2016. Early application is permitted.

The application of the above mentioned new accounting rules did not produce any significant impacts on this Condensed consolidated half-year Financial Statements.

Going concern

As known, the Group has started from time initiatives to deal with the non-performing exposures (NPE) also through specific sale transactions. In this context it should be interpreted the request contained in the draft decision of the ECB of 23 June 2016, that has requested to meet specific objectives for the reduction of the doubtful loans portfolio, whose main content has been communicated to the market on 4 July 2016.

In addition, the results of the EBA EU-wide stress test of 2016 released on 29 July 2016 has shown for the Group a strong reduction of CET1 in the adverse scenario applied. The 2016 Stress Test does not have a threshold for success/failure, but is instead designed as an informative element relevant for the 2016 supervision process (SREP). The results will then be used by the competent authorities to assess the capacity of the bank to meet the regulatory requirements in stressed scenarios on the basis of common methodologies and assumptions.

In any case, with reference to prudential requirements, at the request of the ECB the Parent Company is currently obliged to meet on a consolidated basis target ratios of Total Capital and Common Equity Tier1 of 10.9% and 10.2% respectively. From 31 December 2016, the target ratio of CET 1 is raised to 10,75%. The target ratios required by the ECB must be met in every moment in which the decision of the Authority is in force; similarly in this period, the parent company may not distribute dividends to shareholders nor transfer cash flows to holders of additional Tier 1 equity instruments. On 30 June 2016 the CET 1 amounted to 12.11%, a level, therefore, considerably higher than the current limits imposed.

In this context and with particular reference to the risk profile of the Group and to the stock of impaired exposures, the Board of Directors of the parent company on 29 July approved the guidelines of a complex transaction, described in paragraph "Plan for the disposal of doubtful loans, the reduction of the risk profile and the strengthening of the capital base" of the explanatory notes. In this regard it is noted that:

- The ECB has authorized the Bank to completely neutralize the impacts on LGD models deriving from the derecognition of the doubtful loans portfolio subject to the full execution of the project;
- A memorandum of understanding has been entered into with Quaestio Capital Management SGR S.p.A. on behalf of the Atlante Fund;
- A pre-underwriting agreement has been entered into for the capital increase, with a group of banks.

The finalization of the Transaction will allow BMPS:

- To meet the doubtful loans portfolio reduction requirements made in the draft letter of the ECB, the main content of which was communicated to the market on 4 July 2016;
- To reduce the risk profile of the Bank;
- To significantly improve the future profitability of the Bank for the benefit of all stakeholders.

The Transaction will also enable the bank to remove the critical factors emerged in the EBA EU-wide stress of 2016.

As required by the accounting principles and with reference to the indications given in the context of document n.4 of 3 March 2010 issued jointly by the Bank of Italy, Consob and IVASS and subsequent updates, the Group, having assessed the status of realization of the Transaction, the residual uncertainties related to the fulfillment of the conditions for its implementation and subject to its actual completion, has concluded to have a reasonable expectation to continue in operational existence for the foreseeable future and it has therefore prepared its half-year condensed consolidated financial statements under the going concern assumption.

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

In accordance with the IFRSs, management is required to formulate assessments, estimates and forecasts which may have an influence on the application of the accounting principles as well as on the amounts of assets/liabilities and costs/revenues recognised in the financial statements. Estimates and related forecasts are based on past experience or other factors deemed reasonable in the specific circumstances and were made to estimate the carrying value of assets and liabilities that cannot be easily inferred from other sources. In particular, estimates were used in support of the carrying amounts for the most significant items posted in the Condensed consolidated half-year Financial Statements as at 30 June 2016, in accordance with the aforementioned accounting principles and regulatory provisions. Production of these estimates involves the use of available information and adoption of subjective assessments. By their nature, the estimates and assumptions utilised may vary from one period to another and, therefore, it cannot be ruled out that in subsequent periods the actual amounts stated in the accounts may differ, even to a significant extent, as a result of changes in subjective assessments made. These estimates and valuations are thus difficult and bring about inevitable elements of uncertainty, even in stable macroeconomic conditions.

For details about risks and uncertainties related to the use of estimates, see the Financial Statements 2015.

Scope and methods of consolidation

Investments in subsidiaries

	Name	Headquarters	Registered Office	Type of relationship (*)	Ownershp Relationship		Available votes % (**)
					Held by	areHolding	
A	**Companies**						
A.0	BANCA MONTE DEI PASCHI DI SIENA S.p.A.	Siena	Siena				
	A.1 Companies consolidated on a line-by-line						
A.1	MPS CAPITAL SERVICES BANCA PER LE IMPRESE S.p.a.	Florence	Florence	1	A.0	99.977	
A.2	MPS LEASING E FACTORING BANCA PER I SERVIZI FINANZIARI ALLE IMPRESE S.p.a.	Siena	Siena	1	A.0	100.000	
A.3	MONTE PASCHI FIDUCIARIA S.p.a.	Siena	Siena	1	A.0	100.000	
A.4	WISE DIALOG BANK S.p.a. - WIDIBA	-	Milan	1	A.0	100.000	
A.5	MPS TENIMENTI POGGIO BONELLI E CHIGI SARACINI SOCIETA' AGRICOLA S.p.a.	Castelnuovo Berardenga (SI)	Castelnuovo Berardenga (SI)	1	A.0	100.000	
A.6	G.IMM ASTOR S.r.l.	Lecce	Lecce	1	A.0	52.000	
A.7	AIACE REOCO S.r.l.	Siena	Siena	1	A.0	100.000	
A.8	ENEA REOCO S.r.l.	Siena	Siena	1	A.0	100.000	
A.9	CONSORZIO OPERATIVO GRUPPO MONTEPASCHI	Siena	Siena	1	A.0	99.790	
					A.1	0.060	
					A.2	0.030	
					A.4	0.030	
						99.910	
A.10	PERIMETRO GESTIONI PROPRIETA' IMMOBILIARI S.c.p.a.	Siena	Siena	1	A.0	98.914	98.716
					A.1	0.120	0.142
					A.2	0.049	0.057
					A.3	0.012	0.014
					A.9	0.905	1.072
						100.000	
A.11	MAGAZZINI GENERALI FIDUCIARI DI MANTOVA S.p.a.	Mantua	Mantua	1	A.0	100.000	
A.12	CO.E.M. COSTRUZIONI ECOLOGICHE MODERNE S.p.a.	Rome	Rome	4	A.0	40.197	
A.13	BANCA MONTE PASCHI BELGIO S.A.	Brussells	Brussells	1	A.0	99.900	
					A.1	0.100	
						100.000	
A.14	MPS PREFERRED CAPITAL I LLC	New York	Delaware	1	A.0	100.000	
A.15	MPS PREFERRED CAPITAL II LLC	New York	Delaware	1	A.0	100.000	
A.16	MPS CAPITAL TRUST I	New York	Delaware	4			
A.17	MPS CAPITAL TRUST II	New York	Delaware	4			
A.18	MONTE PASCHI BANQUE S.A.	Paris	Paris	1	A.0	100.000	
18.1	MONTE PASCHI CONSEIL FRANCE SOCIETE PAR ACTIONS SEMPLIFIEE	Paris	Paris		A.18	100.000	
18.2	IMMOBILIERE VICTOR HUGO S.C.I.	Paris	Paris		A.18	100.000	
A.19	MONTEPASCHI LUXEMBOURG S.A.	Luxembourg	Luxembourg	1	A.0	99.200	
					A.18	0.800	
						100.00	
A.20	ANTONVENETA CAPITAL L.L.C. I	New York	Delaware	1	A.0	100.000	
A.21	ANTONVENETA CAPITAL L.L.C. II	New York	Delaware	1	A.0	100.000	
A.22	ANTONVENETA CAPITAL TRUST I	New York	Delaware	1	A.0	100.000	
A.23	ANTONVENETA CAPITAL TRUST II	New York	Delaware	1	A.0	100.000	
A.24	MPS COVERED BOND S.r.l.	Conegliano	Conegliano	1	A.0	90.000	
A.25	MPS COVERED BOND 2 S.r.l.	Conegliano	Conegliano	1	A.0	90.000	
A.26	CIRENE FINANCE S.r.l.	Conegliano	Conegliano	1	A.0	60.000	
A.27	CONSUM.IT SECURITISATION S.r.l.	Conegliano	Conegliano	1	A.0	100.000	
A.28	SIENA MORTGAGES 07-5 S.p.a.	Conegliano	Conegliano	4	A.0	7.000	
A.29	SIENA MORTGAGES 09-6 S.r.l.	Conegliano	Conegliano	4	A.0	7.000	
A.30	SIENA MORTGAGES 10-7 S.r.l.	Conegliano	Conegliano	4	A.0	7.000	
A.31	SIENA CONSUMER S.r.l.	Conegliano	Conegliano	4	A.0	10.000	
A.32	SIENA CONSUMER 2015 S.r.l.	Conegliano	Conegliano	4	A.0	10.000	
A.33	SIENA PMI 2015 S.r.l.	Milan	Milan	4	A.0	10.000	
A.34	SIENA LEASE 2016 2 S.r.l.	Conegliano	Conegliano	4	A.0	10.000	
A.35	CASAFORTE S.r.l.	Rome	Rome	4	A.0	-	
A.36	PATAGONIA FINANCE S.A.	Luxembourg	Luxembourg	4	A.0	-	

(*) Type of relationship:

1. = majority of voting rights at ordinary shareholders' meetings
2. = dominant influence at ordinary shareholders' meetings
3. = agreements with other shareholders
4. = other forms of control
5. = unified management under art. 26, paragraph 1, of Leg. Decree 87/92
6. = unified management under art. 26 paragraph 2 of Leg. Decree 87/92

(**) Votes available in the ordinary shareholders' meeting, distinguishing between actual and potential

The Condensed Consolidated half-year Financial Statements 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 Bank's core business, of their being going concerns or wound-up companies, or of whether the equity investment consists of a merchant banking transaction. The scope of consolidation includes all types of entities, regardless of nature, for which the new concept of control introduced by IFRS 10 applies. Structured entities are also consolidated when the requirement of actual control recurs, even if there is no stake in the entity.
For further information on the methods of consolidation, reference should be made to the Notes to the Full-Year 2015 Consolidated Financial Statements, Part A "Accounting Policies".

During the reference period, no changes occurred in the consolidation area among the companies that were consolidated line-by-line.

Income statement and balance sheet reclassification principles

As regards the approach adopted for the Financial Statements 2015, also confirmed in the Interim Report on Operations as at 31 March 2016, the reclassified income statement was amended by introducing the new item "DTA fee". The DTA (Deferred Tax Assets) fee, that can be converted into tax credit, as set forth in art. 11 of Law Decree no. 59 of 3 May 2016, converted into Law no. 119 of 30 June 2016, recognised as a counter entry under the item of the Income Statement 180b "Other administrative expenses", is recognised under said item.

It must also be noted that in the statements with financial and economic reclassified data, the comparison figures of 2015 are restated (and therefore differ from those published in the half-year financial report as at 30 June 2015) in order to guarantee an accurate report for the public as regards the representation criteria of the impacts of the "Alexandria" transaction. For additional information, please refer to the section "Restatement of previous period accounts and changes in estimates in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)", in the consolidated notes to the financial statements of 2015.

Reclassified income statement

a) The item "**Net profit (loss) from trading/valuation/repurchase of financial assets/liabilities**" includes item 80 "Net profit (loss) from trading", item 100 "Gains (losses) on disposal/repurchase of loans, financial assets available for sale or held to maturity and financial liabilities" and item 110 "Net profit (loss) from financial assets and liabilities designated at fair value". The item incorporates dividends earned on securities other than equity investments (approx. EUR 2.5 mln).

b) The item "**Dividends, similar income and gains (losses) on investments**" incorporates the item 70 "Dividends and similar income" and a portion of item 240 "Gains (losses) on investments" (around 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 other than equity investments, as outlined above, have also been eliminated from the aggregate.

c) The item "**Other operating expenses (income)"** includes the balance of item 220 of the financial statements "Other operating expenses (income)" net of the recovery of stamp duty and customer expenses, which are stated under the reclassified item "Other administrative expenses".

d) The item "**Other administrative expenses**" includes the balance of item 130b of the financial statements "Other administrative expenses", reduced by the following cost items:

    a. Expenses, amounting to EUR 71 mln, resulting from EU BRRD directives for the resolution of bank crises (posted under the reclassified item "Risks and charges associated with SRF, DGS and similar schemes");

    b. DTA fee, convertible into tax credit, for a total amount of EUR 109 mln (posted to the reclassified item "DTA fee").

    This item includes also the portion of stamp duty and client expenses recovery (approx. EUR 194 mln) posted under item 220 "Other operating expenses/income".

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

f) The item "**Risks and charges associated with SRF, DGS and similar schemes**" includes the expenses deriving from the EU directives DGSD for deposit guarantee and BRRD for the resolution of bank crises, posted in the financial statements under item 180b "Other administrative expenses". As at 30 June 2016, only the expenses related to SRF are recognised.

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

h) The item **"Gains (losses) on investments"** includes the balance of item no. 240 "Gains (losses) on investments" after deducting the portion of profit for the period contributed by investments in the associate AXA, consolidated at equity and posted under the reclassified item "Dividends, similar income and gains (losses) on investments".

i) The overall negative effects of Purchase Price Allocation (PPA) posted to this specific account were reclassified out of other items (in particular "**Interest income**" for EUR 10.4 mln and **Depreciation/amortisation** for EUR 13.8 mln, net of a theoretical tax burden of EUR -8 mln which integrates the item).

Reclassified balance sheet

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

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

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

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

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

Reclassified consolidated income statement

Reclassified Consolidated Income Statement				
	30/06/16	30/06/15	Change	
Montepaschi Group		(*)	Abs.	%
Net interest income	1,035.2	1,160.7	(125.5)	-10.8%
Net fee and commission income	940.7	927.1	13.6	1.5%
Income from banking activities	**1,975.9**	**2,087.9**	**(112.0)**	**-5.4%**
Dividends, similar income and gains (losses) on equity investments	43.2	66.3	(23.2)	-34.9%
Net profit (loss) from trading/ valuation of financial assets	317.0	445.2	(128.2)	-28.8%
Net profit (loss) from hedging	(1.3)	16.1	(17.4)	-108.1%
Other operating income (expenses)	9.7	12.7	(3.0)	-23.7%
Total Revenues	**2,344.5**	**2,628.3**	**(283.8)**	**-10.8%**
Administrative expenses:	(1,176.8)	(1,208.6)	31.8	-2.6%
a) personnel expenses	(821.0)	(833.8)	12.8	-1.5%
b) other administrative expenses	(355.8)	(374.8)	19.0	-5.1%
Net adjustments to (recoveries on) property, plant and equipment / Net adjustments to (recoveries on) intangible assets	(102.0)	(102.1)	0.1	-0.1%
Operating expenses	**(1,278.8)**	**(1,310.7)**	**32.0**	**-2.4%**
Pre Provision Profit	**1,065.7**	**1,317.5**	**(251.8)**	**-19.1%**
Net impairment losses (reversals) on:	**(717.2)**	**(982.4)**	**265.2**	**-27.0%**
a) loans	(718.3)	(984.0)	265.7	-27.0%
b) financial assets	1.1	1.7	(0.6)	-33.8%
Net operating income	**348.5**	**335.2**	**13.3**	**4.0%**
Net provisions for risks and charges	23.9	(48.6)	72.5	-149.2%
Gains (losses) on investments	7.7	125.1	(117.4)	-93.8%
Restructuring costs / One-off costs	-	(0.6)	0.6	n.s.
Risks and charges related to the SRF, DGS and similar schemes	(70.8)	-	(70.8)	n.s.
DTA Fee	(108.8)	-	(108.8)	n.s.
Gains (losses) on disposal of investments	-	1.0	(1.0)	-100.0%
Profit (loss) before tax from continuing operations	**200.5**	**412.2**	**(211.7)**	**-51.4%**
Tax expense (recovery) on income from continuing operations	118.5	(61.0)	179.5	n.s.
Profit (loss) after tax from continuing operations	**319.0**	**351.2**	**(32.1)**	**-9.2%**
Net profit (loss) for the period including non-controlling interests	**319.0**	**351.2**	**(32.1)**	**-9.2%**
Net loss (profit) attributable to non-controlling interests	(0.8)	(0.8)	(0.0)	2.3%
Profit (loss) for the period before PPA , impairment on goodwill and intangibles	**318.2**	**350.4**	**(32.2)**	**-9.2%**
PPA (Purchase Price Allocation)	(16.2)	(21.4)	5.2	-24.4%
Net profit (loss) for the period	**302.0**	**328.9**	**(26.9)**	**-8.2%**

(*) Book values as at 30 June 2015 were restated in order to reflect the changes described in the section "Restatement of previous period accounts and changes in estimates in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)" of the 2015 financial statements to which reference should be made.

Quarterly trend in reclassified consolidated income statement						
	2016		2015			
Montepaschi Group	2Q	1Q	4Q	3Q (*)	2Q (*)	1Q (*)
Net interest income	486.9	548.3	541.1	556.8	554.0	606.7
Net fee and commission income	483.8	456.9	451.6	431.2	484.2	443.0
Income from banking activities	**970.7**	**1,005.2**	**992.6**	**988.0**	**1,038.2**	**1,049.7**
Dividends, similar income and gains (losses) on equity investments	23.8	19.3	4.8	28.7	42.0	24.3
Net profit (loss) from trading/ valuation of financial assets	151.3	165.7	133.6	459.0	163.5	281.7
Net profit (loss) from hedging	(1.4)	0.1	4.3	(6.3)	0.2	15.9
Other operating income (expenses)	14.6	(4.9)	(17.8)	0.4	11.3	1.4
Total Revenues	**1,159.0**	**1,185.5**	**1,117.6**	**1,469.7**	**1,255.2**	**1,373.0**
Administrative expenses:	(582.0)	(594.7)	(602.2)	(601.8)	(603.7)	(604.9)
a) personnel expenses	(403.4)	(417.6)	(396.2)	(422.7)	(414.4)	(419.4)
b) other administrative expenses	(178.7)	(177.1)	(205.9)	(179.1)	(189.2)	(185.5)
Net adjustments to (recoveries on) property, plant and equipment / Net adjustments to (recoveries on) intangible assets	(51.8)	(50.2)	(59.4)	(54.4)	(53.7)	(48.4)
Operating expenses	**(633.8)**	**(645.0)**	**(661.6)**	**(656.3)**	**(657.4)**	**(653.3)**
Pre Provision Profit	**525.2**	**540.5**	**456.0**	**813.4**	**597.8**	**719.7**
Net impairment losses (reversals) on:	**(368.0)**	**(349.2)**	**(575.4)**	**(435.3)**	**(528.1)**	**(454.2)**
a) loans	(372.4)	(345.9)	(577.2)	(429.8)	(515.8)	(468.2)
b) financial assets	4.4	(3.3)	1.8	(5.5)	(12.3)	14.0
Net operating income	**157.2**	**191.3**	**(119.4)**	**378.1**	**69.7**	**265.5**
Net provisions for risks and charges	29.2	(5.3)	(58.7)	43.2	(18.8)	(29.8)
Gains (losses) on investments	0.2	7.5	(7.1)	1.5	124.9	0.2
Restructuring costs / One-off costs	-	-	(14.6)	(2.2)	(0.3)	(0.2)
Risks and charges related to the SRF, DGS and similar schemes	0.3	(71.1)	(140.9)	(54.6)	-	-
DTA Fee	(108.8)	-	-	-	-	-
Gains (losses) on disposal of investments	0.0	(0.0)	1.0	0.9	0.6	0.4
Profit (loss) before tax from continuing operations	**78.2**	**122.3**	**(339.8)**	**366.9**	**176.1**	**236.1**
Tax expense (recovery) on income from continuing operations	139.2	(20.7)	152.0	(102.5)	18.1	(79.1)
Profit (loss) after tax from continuing operations	**217.5**	**101.6**	**(187.7)**	**264.4**	**194.2**	**157.0**
Net profit (loss) for the period including non-controlling interests	**217.5**	**101.6**	**(187.7)**	**264.4**	**194.2**	**157.0**
Net loss (profit) attributable to non-controlling interests	(0.3)	(0.5)	(0.5)	(0.5)	(0.3)	(0.5)
Profit (loss) for the period before PPA , impairment on goodwill and intangibles	**217.1**	**101.1**	**(188.2)**	**263.9**	**193.9**	**156.5**
PPA (Purchase Price Allocation)	(8.3)	(7.9)	(8.4)	(8.2)	(8.7)	(12.8)
Net profit (loss) for the period	**208.8**	**93.2**	**(196.6)**	**255.7**	**185.2**	**143.7**

(*) The items of the first three quarters of 2015 were restated, in line with the 2015 Financial Statements, reflecting the changes described in the section "Restatement of previous period accounts and changes in estimates in compliance with IAS 8 (Accounting policies, changes in estimates and errors)" of the 2015 financial statements which is referenced to for further details.

Trends in revenues

In the 1st H2016, the Group recorded **Total revenues** of approximately **EUR 2,345 mln,** down by 10.8% compared to the same period of the previous year; this decrease was concentrated in the net interest income and in the trading activity, the latter, in 2015, benefited from the restatement effects of the "Alexandria" transaction (impact of approx. EUR +213 mln as at 30 June 2015). Compared with the Q1 2016, in Q2 2016 **Revenues** are slightly lower, due primarily to the downward trend of the net interest income partially offset by an increase in net fee and commission income.

In the first six months of 2016, **Net interest income** amounted to approx. **EUR 1,035 mln**, down by 10.8% compared to the first six months of 2015 due mainly to the negative trend of interest-bearing assets (reduction in average volumes and decline in the related returns), partly offset by lower interest expenses resulting from lower cost of deposits and the repayment of NFIs. The contribution of the Q2 2016 amounted to approx. EUR 487 mln, down by 11.2% compared with the previous quarter, to be attributed, also in this case, primarily to a negative trend of the interest bearing assets and to the decrease in the related returns (also impacted by the effect of alignment to market parameters).

Items	30 06 2016	30 06 2015*	Chg. Y/Y		2°Q 2016	1°Q 2016	Chg. Q/Q	
			Abs.	%			Abs.	%
Relations with customers	1,369.5	1,617.4	(247.9)	-15.3%	647.0	722.5	(75.4)	-10.4%
of which non-performing assets	*347.1*	*411.3*	*(64.2)*	*-15.6%*	*165.1*	*182.0*	*(16.9)*	*-9.3%*
Securities issued	(427.5)	(561.3)	133.8	-23.8%	(209.0)	(218.5)	9.6	-4.4%
Net Differentials on hedging derivatives	(1.0)	(29.8)	28.8	-96.6%	1.9	(2.9)	4.9	n.s.
Relations with banks	(32.4)	(45.8)	13.4	-29.3%	(14.6)	(17.8)	3.3	-18.3%
Trading portfolios	44.0	53.6	(9.6)	-18.0%	23.7	20.3	3.4	16.5%
Portfolios designated at fair value	(22.9)	(36.3)	13.4	-36.9%	(13.0)	(9.9)	(3.2)	32.3%
Financial assets available for sale	103.1	158.5	(55.4)	-34.9%	49.8	53.3	(3.5)	-6.6%
Other net interest income	2.4	4.5	(2.1)	-46.7%	1.0	1.4	(0.3)	-23.1%
Net interest income	**1,035.2**	**1,160.7**	**(125.5)**	**-10.8%**	**486.9**	**548.3**	**(61.3)**	**-11.2%**

(*) The values include the restatement effect of the "Alexandria" transaction.

Net fee and commission income, amounting to **EUR 941 mln**, is up compared with the figures of the 1st H2015 (+1.5% Y/Y) benefiting from an improvement, on an annual basis, in non-trading components which were affected by the reduction in the cost of the State guarantee on the so-called "Monti Bonds" (about EUR 10 mln). Commercial income is substantially stable, more specifically the commissions for services are up, while commissions from product placements shows a decrease due also to the down turn in the financial markets. Q2 2016, amounting to EUR 484 mln, is up by 5.9% compared with the figures of the Q1 of the year, mainly thanks to a recovery of placement activities and the continued growth in services; conversely, the commissions from Credit and Foreign services show a decrease.

Services / Values	30 06 2016	30 06 2015	Chg. Y/Y		2°Q 2016	1°Q 2016	Chg. Q/Q	
			Abs.	%			Abs.	%
Guarantees given / received	22.0	16.2	5.8	35.9%	9.9	12.1	(2.2)	-18.5%
Collection and payment services	41.2	49.6	(8.4)	-16.9%	20.1	21.1	(0.9)	-4.5%
Current account keeping	262.1	267.6	(5.5)	-2.0%	131.6	130.5	1.2	0.9%
Credit and debit cards	115.0	103.3	11.7	11.3%	58.9	56.1	2.9	5.1%
Commercial banking activities	**440.3**	**436.6**	**3.7**	**0.8%**	**220.6**	**219.7**	**0.9**	**0.4%**
Receipts and trasmission of orders	22.6	30.0	(7.4)	-24.6%	10.1	12.5	(2.4)	-19.1%
Trading activities on financial instruments and currencies	13.5	9.2	4.3	46.9%	7.7	5.8	1.9	33.1%
Distribution of third party services	240.7	240.2	0.5	0.2%	133.0	107.7	25.3	23.4%
Insurance services	88.5	120.1	(31.6)	-26.3%	44.8	43.7	1.1	2.4%
Placement/ offering of financial instruments and services	(12.3)	(32.6)	20.3	-62.3%	(7.0)	(5.3)	(1.8)	33.5%
Asset management	31.0	28.2	2.8	9.8%	15.3	15.7	(0.3)	-2.1%
Management, brokerage and advisory services	**384.0**	**395.0**	**(11.0)**	**-2.8%**	**203.9**	**180.1**	**23.7**	**13.2%**
Other advisory services	**116.4**	**95.5**	**20.9**	**21.9%**	**59.3**	**57.1**	**2.3**	**4.0%**
Net fee and commission income	**940.7**	**927.1**	**13.6**	**1.5%**	**483.8**	**456.9**	**26.9**	**5.9%**

Dividends, similar income and gains (losses) on investments amounted to approx. **EUR 43 mln** (compared with EUR 66.3 mln in the first six months of 2015) and are mainly attributable to the contribution from AXA-MPS (consolidated using the equity method), down compared with the previous year (about EUR -24 mln) and the dividend from the shareholding investment held in Bankit (stable Y/Y).

Net profit (loss) from trading/valuation of financial assets in the 1st H2016 stood at around **EUR 317 mln**, down over the same period of the previous year (approx. EUR -128.2 mln) as a result of the positive effects of the "Alexandria" transaction (impact of approx. EUR +213 mln as at 30 June 2015). An analysis of the main aggregates show the following:

- positive trading results amounting approx. to EUR 120 mln, down compared with those of the 1st H2015, positively affected by the restatement of the "Alexandria" transaction. In Q2 2016, the aggregate remains substantially stable compared with the previous quarter;
- positive FVO result for about EUR 68 mln due to the reduction in the value of liabilities, valued at fair value. Compared to the same period of last year, the change amounts to EUR +87 mln. In the Q2 2016, these liabilities were revalued and consequently they generated a negative impact of about EUR 14 mln;
- disposal/repurchase are in positive territory with approx. EUR 129 mln, just slightly below the levels of the 1st H2015. The change in the aggregate is positively affected by the contribution, in the Q2 2016, of approx. EUR 108 mln (EUR +87 mln versus Q1 2016) benefiting, especially, from capital gains (EUR 38 mln) realised from the sale of the AFS security portfolio, the sale of the investment held by Banca Monte dei Paschi di Siena in VISA Europe (EUR 24 mln), the repurchase of financial liabilities (EUR 42 mln) and the transfer of receivables (EUR 4 mln, including the positive marginal effect concerning the sale without recourse of unsecured non-performing loans originated by the former subsidiary Consum.it).

Items	30 06 2016	30 06 2015*	Chg. Y/Y		2°Q 2016	1°Q 2016	Chg. Q/Q	
			Abs.	%			Abs.	%
Financial assets held for trading	26.2	(47.7)	73.9	n.s.	9.4	16.8	(7.4)	-44.2%
Financial liabilities held for trading	(17.6)	68.8	(86.4)	-125.6%	0.1	(17.7)	17.7	-100.4%
Exchange rate effects	22.8	19.0	3.8	20.2%	12.8	10.0	2.8	27.7%
Derivatives	88.6	290.7	(202.1)	-69.5%	35.7	52.9	(17.3)	-32.7%
Trading results	**120.0**	**330.7**	**(210.8)**	**-63.7%**	**57.9**	**62.1**	**(4.2)**	**-6.8%**
Net profit (loss) from financial assets and liabilities designated at FV	68.4	(18.1)	86.5	n.s.	(14.4)	82.8	(97.1)	-117.4%
Disposal / repurchase	128.5	132.7	(4.2)	-3.1%	107.6	20.9	86.8	n.s.
Net profit (loss) from trading	**316.8**	**445.2**	**(128.4)**	**-28.8%**	**151.2**	**165.7**	**(14.6)**	**-8.8%**

(*) The values include the restatement effect of the "Alexandria" transaction.

The following items make up the Revenues:

- **Net profit (loss) from hedging** amounting to EUR -1.3 mln (positive by about EUR 16 mln in the first six month of 2015);
- Positive **Other operating income/expenses** for about **EUR 10 mln** (positive balance of about EUR 13 mln in the first six months of 2015) with a positive contribution of about EUR 15 mln in Q2 2016, to be almost entirely attributed to the current transaction with CartaSì, concerning the VISA Europe operation.

Operating expenses

In the 1st H2016, **Operating expenses** amounted to approx. **EUR 1,279 mln,** down compared with the same period of the previous year on all aggregates. Q2 recorded approx. EUR 634 mln, a 1.7% drop compared to Q1 of 2016 due especially to a decrease in Personnel expenses.

Administrative expenses stood at approx EUR **1,177 mln** (-2.6% compared with the 1st H2015), of which EUR 582 mln pertaining to Q2 2016, with a drop of two percentage points compared with the previous quarter. A breakdown of the aggregate shows:

- **Personnel expenses**, which amounted, during the period, to roughly **EUR 821 mln**, show an annual decrease of EUR 12.8 mln (-1.5%) attributable primarily to "una-tantum" benefits recorded in the Q2 2016 (which is reduced by more than EUR 14 mln compared with the previous quarter, -3.4% Q/Q) related to the second-level bargaining agreement executed on 24 December 2015.
- **Other administrative expenses** ended the half-year standing at about **EUR 356 mln,** down by 5.1% from the same period of 2015, this is to be mainly attributable to structural cost control measures which involved, in particular, the management of the real estate/security segment. The expenses posted in Q2 2016, amounted approx. to EUR 179 mln thus confirming substantially the same levels of the previous quarter (+0.9% Q/Q).

Amortisation/Depreciation in the first six months of 2016 amounted to **EUR 102 mln,** in line with the figures recorded in the same period of last year (-0.1%), with a Y/Y decline in the tangible assets component and an equal increase in the intangible assets component. The portion of Q2 2016 was higher than in the previous quarter (+3%) due primarily to greater amortisation related to the development of IT platforms.

Type of transaction	30 06 2016	30 06 2015	Chg Y/Y		2°Q 2016	1°Q 2016	Chg Q/Q	
			Abs.	%			Abs.	%
Wages and salaries	(588.1)	(602.9)	14.8	-2.5%	(286.4)	(301.7)	15.4	-5.1%
Social-welfare charges	(162.9)	(166.5)	3.6	-2.2%	(81.0)	(81.9)	0.8	-1.0%
Other personnel expenses	(70.0)	(64.4)	(5.6)	8.7%	(35.9)	(34.0)	(1.9)	5.6%
Personnel expenses	**(821.0)**	**(833.8)**	**12.8**	**-1.5%**	**(403.3)**	**(417.6)**	**14.3**	**-3.4%**
Taxes	(150.2)	(153.1)	2.9	-1.9%	(76.4)	(73.8)	(2.5)	3.4%
Furnishing, real estate and security expenses	(95.1)	(100.3)	5.2	-5.2%	(45.8)	(49.3)	3.5	-7.0%
General operating expenses	(101.0)	(103.6)	2.6	-2.5%	(50.2)	(50.8)	0.7	-1.3%
Information technology expenses	(91.0)	(92.1)	1.1	-1.2%	(46.5)	(44.5)	(2.0)	4.6%
Legal and professional expenses	(74.2)	(68.4)	(5.8)	8.5%	(40.5)	(33.7)	(6.8)	20.2%
Indirect personnel costs	(6.5)	(5.4)	(1.1)	19.7%	(3.5)	(3.0)	(0.6)	18.6%
Insurance	(15.1)	(12.0)	(3.1)	25.5%	(8.2)	(6.9)	(1.4)	19.9%
Advertising, sponsorship and promotions	(7.1)	(6.6)	(0.5)	7.2%	(3.1)	(4.0)	1.0	-24.4%
Other	(9.8)	(13.5)	3.8	-27.8%	(3.5)	(6.3)	2.8	-44.7%
Expenses recovery	194.2	180.3	13.9	7.7%	99.0	95.2	3.9	4.1%
Other administrative expenses	**(355.7)**	**(374.8)**	**19.0**	**-5.1%**	**(178.6)**	**(177.1)**	**(1.5)**	**0.9%**
Tangible assets	(53.0)	(60.8)	7.7	-12.7%	(26.7)	(26.3)	(0.4)	1.6%
Intangible assets	(49.0)	(41.4)	(7.6)	18.4%	(25.1)	(23.9)	(1.1)	4.7%
Amortization and impairment losses	**(102.0)**	**(102.1)**	**0.1**	**-0.1%**	**(51.8)**	**(50.2)**	**(1.5)**	**3.1%**
Operating costs	**(1,278.7)**	**(1,310.7)**	**32.0**	**-2.4%**	**(633.8)**	**(645.0)**	**11.2**	**-1.7%**

As a result of these factors, the Group's **Gross Operating Income** totalled approximately **EUR 1,066 mln** (EUR 1,318 mln in the 1st H2015).

Net impairment losses (reversals) on loans and financial assets

In the first six months of 2016, the Group booked **net impairment losses (reversals) on loans, financial assets and other transactions** for approx. **EUR 717 mln,** down by 27% compared with the same period of last year benefiting mostly from a slow down in the flow of non-performing loans. In Q2 2016, net value adjustments, amounting to approx. EUR 368 mln, were up compared with the previous quarter (+5.4%); this change was positively affected by a further reduction in non-performing loans versus performing loans, following an increase in the coverage of the impaired component (net of the cancellation of late payment interest).

The ratio of the annualised net adjustments for impairment losses on loans for the first H2016 to total customer loans reflects a **Provisioning Rate of 134 bps**, compared to 179 bps at the end of 2015 (122 pbs in Q1 2016).

Reversals	30 06 2016	30 06 2015	Chg. Y/Y		2°Q 2016	1°Q 2016	Chg. Q/Q	
			Abs.	%			Abs.	%
Loans to banks	(0.4)	(1.0)	0.5	-54.8%	0.1	(0.5)	0.6	-115.9%
- Loans	(0.5)	(1.1)	0.6	-52.5%	0.1	(0.6)	0.7	-114.8%
- Debt securities	0.1	0.2	(0.1)	-39.6%	(0.0)	0.1	(0.1)	-109.6%
Loans to customers	(717.9)	(983.1)	265.2	-27.0%	(372.5)	(345.4)	(27.1)	7.9%
- Loans	(718.0)	(982.4)	264.5	-26.9%	(372.6)	(345.4)	(27.3)	7.9%
- Debt securities	0.1	(0.7)	0.7	-110.0%	0.1	(0.0)	0.1	n.s.
Impairment losses on loans	**(718.3)**	**(984.0)**	**265.7**	**-27.0%**	**(372.4)**	**(345.9)**	**(26.5)**	**7.7%**
Financial assets available for sale	(16.1)	(3.2)	(12.9)	n.s.	(5.3)	(10.8)	5.5	-51.0%
Guarantees and commitments	17.2	4.8	12.4	n.s.	9.7	7.5	2.2	30.0%
Total financial activities and other operations	**1.1**	**1.7**	**(0.6)**	**-33.8%**	**4.4**	**(3.3)**	**7.8**	**n.s.**
Total	**(717.2)**	**(982.4)**	**265.2**	**-27.0%**	**(368.0)**	**(349.2)**	**(18.8)**	**5.4%**

Consequently, in the first six months of 2016, the **Net operating income** of the Group stood at approx. **EUR 349 mln**, up by 4% compared with the same period of last year which, however, included also the positive effects from the restatement of the "Alexandria" transaction.

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

The **result for the period** included the following items:

- **Net provisions for risks and charges** posted a positive balance of approx. **EUR 24 mln** which was affected mainly by the release of some provisions allocated for risks that ceased to exist or that manifested themselves to a lesser extent than initially expected (in particular, in the tax and legal segments). This change generated an improvement in the aggregate both on an annual basis and compared with Q1 2016.
- **Gains on investments**, amounting to approx. **EUR 8 mln** (about EUR 125 mln as the profit realised in the 1st H2015) to be attributed mainly to the capital gains realised from the transfer of Fabrica Immobiliare SGR, occurring in Q1 2016.
- **Risks and charges associated with SRF, DGS and similar schemes**, standing at approx. **EUR -71 mln**, concerning the entire contribution due by the Group to the Single Settlement Provision, calculated by the Single Settlement Committee for 2016, already recognised in Q1 of the year.
- **DTA Fee**, amounting to approx. **EUR -109 mln**. This amount, determined according to the criteria set forth in Law Decree 59/2016, converted into Law no. 119 of 30 June 2016, represents the fee on DTA, that can be converted into a tax credit due for the year 2015 (about EUR 73 mln) and for the year 2016 (estimated to be about EUR 72 mln, on an annual basis, and accounted for pro-rata until 30 June 2016 for about EUR 36 mln).

Due to the changes discussed above, in the first six months of 2016, the Group's **Profit before tax from continuing operations** stood at approx. **EUR 201 mln** (about EUR 78 mln contributed by Q2 of 2016, -36% Q/Q), substantially on the same levels as those of 1st H2015 after deducting the positive impact from the restatement of the "Alexandria" transaction (for about EUR 202 mln).

Tax expense (recovery) on income from continuing operations contributed with a positive amount of approx. **EUR 119 mln** against a negative amount of approx. EUR 61 mln referring to the same period of the previous year. The aggregate includes the income of EUR 133.9 mln following the positive effect of an appeal filed by Banca Monte dei Paschi di Siena with the Tax Authority aimed at obtaining clarifications about the correct tax treatment to be applied to some income components (overall negative) related to the "Alexandria" transaction, subject to restatement in the financial statements of 2015.

Considering the net effects of PPA (about EUR -16 mln) and the profit of non-controlling interests (EUR 0.8 mln), the **Group's consolidated profit for the 1st half of 2016 amounted to roughly EUR 302 mln** (of which EUR 209 mln pertaining to Q2 2016) against a positive result of about EUR 329 mln recorded in the first six months of 2015 (of which approx. EUR 135 mln related to the positive effects from restating the "Alexandria" transaction and about EUR 120 mln in capital gains realised following the transfer to Poste Italiane of the shareholding in Anima Holding SpA).

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

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

	Shareholders' equity	Net profit (loss)
Balance as per Parent Company's Accounts	8,717.9	284.2
including Parent Company's valuation reserves	*(254.8)*	-
Impact of line-by-line consolidation of subsidiaries	211.0	42.1
Impact of associates	348.6	34.6
Reversal of dividends from subsidiaries	-	(54.9)
Other adjustments	388.6	(4.0)
Subsidiaries' valuation reserves	262.5	-
Consolidated balance	**9,928.6**	**302.0**
including valuation reserves	*7.7*	

Reclassified Consolidated balance sheet

Reclassified Consolidated Balance Sheet				
ASSETS	30/06/16	31/12/15	Chg abs.	Chg %
Cash and cash equivalents	794.6	1,188.8	(394.2)	-33.2%
Receivables :				
a) Loans to customers	107,547.8	111,366.4	(3,818.6)	-3.4%
b) Loans to banks	7,953.1	8,242.1	(289.0)	-3.5%
Marketable assets	36,022.6	35,208.6	814.0	2.3%
Financial assets held to maturity	-	-	-	
Equity investments	948.0	908.4	39.6	4.4%
Property, plant and equipment / Intangible assets	3,059.8	3,141.8	(82.0)	-2.6%
of which:				
a) goodwill	*7.9*	*7.9*	-	
Other assets	8,059.6	8,955.9	(896.3)	-10.0%
Total assets	**164,385.5**	**169,012.0**	**(4,626.5)**	**-2.7%**

LIABILITIES	30/06/16	31/12/15	Chg abs.	Chg %
Payables				
a) Deposits from customers and securities issued	112,045.2	119,274.6	(7,229.4)	-6.1%
b) Deposits from banks	19,465.8	17,493.1	1,972.7	11.3%
Financial liabilities held for trading	15,854.7	15,921.7	(67.0)	-0.4%
Provisions for specific use				
a) Provisions for staff severance indemnities	249.9	246.2	3.7	1.5%
b) Pensions and other post retirement benefit obligations	52.3	49.4	2.9	5.9%
c) Other provisions	1,012.5	1,067.5	(55.0)	-5.2%
Other liabilities	5,750.4	5,336.7	413.7	7.8%
Group net equity	9,928.6	9,596.5	332.1	3.5%
a) Valuation reserves	7.7	(21.8)	29.5	n.s.
c) Equity instruments carried at equity	-	-	-	
d) Reserves	617.2	222.1	395.1	n.s.
e) Share premium	-	6.3	(6.3)	
f) Share capital	9,001.8	9,001.8	-	
g) Treasury shares (-)	-	-	-	
h) Net profit (loss) for the year	302.0	388.1	(86.1)	-22.2%
Non-controlling interests	26.0	26.3	(0.3)	-1.1%
Total Liabilities and Shareholders' Equity	**164,385.5**	**169,012.0**	**(4,626.5)**	**-2.7%**

Reclassified Consolidated Balance Sheet - Quarterly Trend						
ASSETS	**30/06/16**	**31/03/16**	**31/12/15**	**30/09/15 (*)**	**30/06/15 (*)**	**31/03/15 (*)**
Cash and cash equivalents	794.6	913.4	1,188.8	812.2	822.0	682.3
Receivables :						
a) Loans to customers	107,547.8	113,544.3	111,366.4	112,513.2	117,436.3	123,139.0
b) Loans to banks	7,953.1	6,856.1	8,242.1	6,432.2	8,327.2	7,855.7
Marketable assets	36,022.6	39,999.9	35,208.6	36,296.5	32,989.5	37,633.5
Financial assets held to maturity	-	-	-	-	-	-
Equity investments	948.0	934.3	908.4	959.6	907.7	947.0
Property, plant and equipment / Intangible assets	3,059.8	3,112.4	3,141.8	3,090.1	3,122.4	3,139.0
of which:						
a) goodwill	*7.9*	*7.9*	*7.9*	*7.9*	*7.9*	*7.9*
Other assets	8,059.6	8,285.2	8,955.9	10,022.4	10,596.3	10,453.0
Total assets	**164,385.5**	**173,645.6**	**169,012.0**	**170,126.2**	**174,201.4**	**183,849.5**

LIABILITIES	**30/06/16**	**31/03/16**	**31/12/15**	**30/09/15 (*)**	**30/06/15 (*)**	**31/03/15 (*)**
Payables						
a) Deposits from customers and securities issued	112,045.2	119,507.9	119,274.6	122,717.4	122,890.5	128,160.9
b) Deposits from banks	19,465.8	17,524.7	17,493.1	17,804.9	18,830.9	22,519.3
Financial liabilities held for trading	15,854.7	20,051.0	15,921.7	11,475.8	14,533.8	18,268.5
Provisions for specific use						
a) Provisions for staff severance indemnities	249.9	247.7	246.2	245.2	246.4	268.2
b) Pensions and other post retirement benefit obligations	52.3	51.4	49.4	50.5	50.3	52.1
c) Other provisions	1,012.5	1,050.0	1,067.5	1,086.9	1,106.1	1,103.7
Other liabilities	5,750.4	5,511.9	5,336.7	6,989.7	7,285.1	7,291.0
Group net equity	9,928.6	9,675.3	9,596.5	9,730.4	9,234.1	6,161.7
a) Valuation reserves	7.7	(36.5)	(21.8)	(84.7)	(323.6)	(13.9)
c) Equity instruments carried at equity	-	-	-	-	-	3.0
d) Reserves	617.2	610.5	222.1	222.3	466.1	(6,457.6)
e) Share premium	-	6.3	6.3	6.3	4.0	2.3
f) Share capital	9,001.8	9,001.8	9,001.8	9,001.8	8,758.7	12,484.2
g) Treasury shares (-)	-	-	-	-	-	-
h) Net profit (loss) for the year	302.0	93.2	388.1	584.7	328.9	143.7
Non-controlling interests	26.0	25.7	26.3	25.5	24.3	24.1
Total Liabilities and Shareholders' Equity	**164,385.5**	**173,645.6**	**169,012.0**	**170,126.2**	**174,201.4**	**183,849.5**

(*) Restated values following the changes described in the section "Restatement of previous period accounts and changes in estimates in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)" of the 2015 financial statements to which reference should be made.

Customer funding

As at 30 June 2016, **total funding** of the Group amounted to **EUR 210 bn** (-7% compared with 31 December 2015) with a drop in total volumes concentrated in Q2 2016 (EUR -15 bn) and characterised by a positive trend in the commercial/core components and a drop in institutional counterparties (repo transaction agreements at EUR -7.5 bn Q/Q) and the decline in the assets under custody affected by a merger by incorporation operation that was reflected in the asset management of a major client without any impact on the Income Statement.

Background

In Q1 2016, total direct funding showed a decline compared with the same figure as at December (about EUR -20 bn) standing at EUR 2,015 bn (April data). The changes in deposits remained positive and in the first 4 months of 2016, they were up, on an annual basis, by almost 3% (excluding the repo transactions with central counterparties), in particular the demand deposits of households (main component of the aggregate) were positive. The decrease in bond funding continued (more than EUR 42 bn less from the end of 2015), penalised by the poor cost-efficiency in terms of pricing and by the entry into force of the new European regulations on banking crises "bail-in").

The downward trend of interest rates also continued on deposits of non-financial companies and households, denominated in Euro, with a rate on balances that, in April, stood at 0.47%, down by almost 6 bps compared with the same figure at the end of 2015. The bank bond rate also declined, standing at 2.9% in April. The evolution of interest rates payable reflected the liquidity provided by the ECB based on its monetary policy.

Asset management is supported by a reallocation of the portfolios of households (Assogestione source) which have decreased investments in government and bank bonds. After a brilliant first quarter, the renewed volatility of the financial markets has impacted the recomposition process.

Customer Funding

	30/06/16	31/03/16	31/12/15	(*) 30/06/15	Chg Q/Q %	Chg 31/12 %	Chg Y/Y %
Direct funding	112,045.2	119,508.0	119,274.7	122,890.5	-6.2%	-6.1%	-8.8%
Indirect funding	97,708.6	104,890.6	106,171.8	108,286.2	-6.8%	-8.0%	-9.8%
Total funding	**209,753.8**	**224,398.6**	**225,446.5**	**231,176.7**	**-6.5%**	**-7.0%**	**-9.3%**

(*) Direct funding as at 30 June 2015, was restated reflecting the changes described in the section "Restatement of previous period accounts and changes in estimates in compliance with IAS 8 (Accounting policies, changes in estimates and errors)" of the 2015 financial statements which is referenced to for further details.

The volumes of **Direct funding**, which at the end of the six months stood at approx. **EUR 112 bn** (EUR -7 bn compared with the figure at the end of 2015) recorded, in Q2 2016, a decline exceeding EUR 7 bn in repurchase agreements with market counterparties versus a small growth in the funding from business customers, concentrated in current accounts. The afore mentioned trend in repurchase agreements is to be related to the concomitance of different phenomena among which are the reduction in used repo transactions, the increase in funding from banks (about EUR +1.5 bn TLTRO 2 versus TLTRO) and the reallocation of the liquidity generated by the decrease in Loans to customers.

The Group's market share[1] on Direct funding was 4.53% (figure updated in April 2016), down by 26 bps compared to the end of 2015.

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

Direct funding										
				(*)	Change Q/Q		Change 31.12		Change Y/Y	
Type of transaction	30/06/16	31/03/16	31/12/15	30/06/15	Abs.	%	Abs.	%	Abs.	%
Current accounts	52,923.5	51,509.1	54,574.8	55,585.3	1,414.4	2.7%	(1,651.3)	-3.0%	(2,661.8)	-4.8%
Time deposits	13,233.4	13,519.5	14,342.9	13,122.3	(286.1)	-2.1%	(1,109.5)	-7.7%	111.1	0.8%
Reverse repurchase agreements	9,957.5	17,501.3	10,575.0	14,214.4	(7,543.8)	-43.1%	(617.5)	-5.8%	(4,256.9)	-29.9%
Bonds	28,726.0	29,089.2	31,246.1	31,199.9	(363.2)	-1.2%	(2,520.1)	-8.1%	(2,473.9)	-7.9%
Other types of direct funding (**)	7,204.8	7,888.9	8,535.9	8,768.6	(684.1)	-8.7%	(1,331.1)	-15.6%	(1,563.8)	-17.8%
Total	**112,045.2**	**119,508.0**	**119,274.7**	**122,890.5**	**(7,462.8)**	**-6.2%**	**(7,229.5)**	**-6.1%**	**(10,845.3)**	**-8.8%**

(*) Book values as at 30 June 2015 were restated in order to reflect the changes described in the section "Restatement of previous period accounts and changes in estimates" in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)" of the 2015 financial statements to which reference should be made.

Indirect funding stood, at the end of the six months, at EUR **98 bn** down by EUR 8.5 bn compared with 31 December 2015 and EUR 7 bn compared with 31 March 2016, a decrease concentrated in assets under custody which was primarily impacted by the merger by incorporation operation of a major client (EUR -6.4 bn) with no impact in the income statement, to which the negative market effect, comprehensively recognised from the beginning of the year, must be added.

As regards **Assets under management,** standing at approx. **EUR 56 bn**, the aggregate was stable at the end of 2015 while it showed a slight growth compared with March 2016. The net flows, from the beginning of the year, are positive and are offset by the negative market effect. Within the assets under management, the single aggregates did not record significant changes and therefore remain quite stable compared with the same figures at December 2015 and at March 2016.

Indirect Funding							
	30/06/16	31/03/16	31/12/15	30/06/15	Change % Q/Q	Change % 31.12	Change % Y/Y
Assets under management	55,517.3	55,222.1	55,515.7	54,969.0	0.5%	0.0%	1.0%
Mutual Funds/Sicav	*25,359.1*	*25,058.8*	*25,493.0*	*25,033.2*	*1.2%*	*-0.5%*	*1.3%*
Individual Portfolio under Management	*6,466.3*	*6,387.4*	*6,306.9*	*6,305.2*	*1.2%*	*2.5%*	*2.6%*
Insurance Products	*23,691.8*	*23,776.0*	*23,715.7*	*23,630.6*	*-0.4%*	*-0.1%*	*0.3%*
Assets under custody	42,191.4	49,668.4	50,656.1	53,317.3	-15.1%	-16.7%	-20.9%
Total funding	**97,708.6**	**104,890.6**	**106,171.8**	**108,286.2**	**-6.8%**	**-8.0%**	**-9.8%**

Loans to customers

As at 30 June 2016, the Group's **Loans to customers** amounted to about **EUR 108 bn**, a decline of approximately EUR 3.8 bn compared to the same figure at the end of 2015 and EUR 6 bn compared to the same figure as at 31 March 2016. The change that was recorded in Q2, which absorbed the most relevant portion of the aggregate reduction, is to be related to a drop in repurchase agreements with market counterparties for more than EUR 4 bn while the decrease in the trading portion (about EUR -1.7 bn) was affected by expiry dates concentrated at the end of the six month period. To be noted, as a positive element, is that within the drop in trading, the declining trend in net non-performing loans, with a EUR 504 mln drop during the quarter, continues.

The Group's market share[2] stood at 6.95% (last available figure from April 2016), up by 10 bps compared to the end of 2015.

Background

The gradual recovery of credit, favoured by monetary policy measures, is going through a stagnant phase despite overall positive funding conditions. In the first 4 months of 2016, the flows of loans disbursed to households for the purchase of real estate properties and those issued for new consumer credit operations continued to record double digit increases (on a trend basis) while the new disbursements of loans to non-financial companies are contracting again. In terms of amounts, in April the loans to households and companies exceeded EUR 1,402 bn (EUR -11 bn compared with December 2015), with loans to companies registered for business purposes, that declined by about EUR 10 bn while the household component remained substantially stable (at EUR 619 bn in April).

From the beginning of the year, the cost of loans to non-financial companies remained relatively stable, with an approx. 1.92% rate applied to new transactions in April (this figure does not include the current accounts). In the same month, the rate applied to new loans for the purchase of homes was 20 points below the level at the end of 2015; the rate applied to new consumer loans fluctuated under 7% in the first 4 months of the year.

The improvement in the cyclical scenario which, however, will have to absorb the Brexit effect, was favourably reflected in the trend of non-performing loans (the growth rate of which in the first part of the year was down to 3.5%), but the volume of doubtful loans remains critical and is declining at a too slow of a pace: in April 2016, the gross doubtful loans exceeded EUR 198 bn, only EUR 3 bn less than at the end of 2015, with a ratio of total doubtful loans to current loans above 10%. The recent establishment of the Atlante Fund, supplied by private capital and aimed at supporting future capital increases by banks and contributing to the disposal of non-performing loans - along with previous Government measures designed to reduce receivable payment time (currently almost double the European average) could accelerate the closure of outstanding positions and revive the secondary market, which could also benefit from approval of the warranty scheme contained in Law Decree no. 18/2016.

Loans to customers

Type of transaction	30/06/16	31/03/16	31/12/15	30/06/15	Change Q/Q		Change 31.12		Change Y/Y	
					Abs.	%	Abs.	%	Abs.	%
Current accounts	7,627.3	7,921.6	7,650.4	8,178.6	(294.3)	-3.7%	(23.1)	-0.3%	(551.3)	-6.7%
Mortgages	51,510.8	52,069.0	52,453.4	54,510.6	(558.2)	-1.1%	(942.6)	-1.8%	(2,999.8)	-5.5%
Other forms of lending	22,382.5	22,848.1	21,379.8	25,460.9	(465.6)	-2.0%	1,002.7	4.7%	(3,078.4)	-12.1%
Repurchase agreements	1,419.2	5,576.6	4,686.0	4,649.0	(4,157.4)	-74.6%	(3,266.8)	-69.7%	(3,229.8)	-69.5%
Securities lending	1,043.2	1,060.4	1,043.0	938.2	(17.2)	-1.6%	0.2	0.0%	105.0	11.2%
Non performing loans	23,564.8	24,068.6	24,153.8	23,699.0	(503.8)	-2.1%	(589.0)	-2.4%	(134.2)	-0.6%
Total	**107,547.8**	**113,544.3**	**111,366.4**	**117,436.3**	**(5,996.5)**	**-5.3%**	**(3,818.6)**	**-3.4%**	**(9,888.5)**	**-8.4%**

During the half, the aggregate was supported by new disbursements in the medium-long term segment for over EUR 4.1 bn, higher by approx. +3.8% than recorded in the same period of last year, which concerned both households and businesses.

[2] Loans to resident consumer customers, including NPLs and net of repo transactions with central counterparties

Non-performing loans

As at 30 June 2016, the **net exposure to non-performing loans** of the Group stood at EUR 23.6 bn recording a EUR 0.6 bn decrease since the beginning of the year (EUR -0.5 bn compared with 31 March 2016). Within the aggregate, in Q2, the impact of doubtful loans increased (from 9% in March 2016 to 9.8% as at 30 June 2016) against a modest overall decline of both the "unlikely to pay" and of the non-performing past-due and overdue exposures.

Loans to customers in Risk category

Risk category - Net book values	**Inc. %**	**Inc. %**	**weight %**	**weight %**
	30/06/16	31/03/16	**31/12/15**	**30/06/15**
A) Non performing loans	**21.9**	**21.2**	**21.7**	**20.2**
a1) Doubtful loans	9.8	9.0	8.7	7.7
a2) Unlikely to pay	10.6	10.6	11.1	10.2
a3)Past due and overdue exposures	1.5	1.7	1.9	2.2
B) Performing loans	**78.1**	**78.8**	**78.3**	**79.8**
Total customer loans	**100.0**	**100.0**	**100.0**	**100.0**

Types of exposures / values	Gross exposure	Provisions	Net exposure 30 06 16	Net exposure 31 03 16	Net exposure 31 12 15	Net exposure 30 06 15	Chg. Q/Q		Chg. 31.12		Chg. Y/Y	
							Abs.	%	Abs.	%	Abs.	%
Cash exposures												
Non performing loans	45,321.8	21,756.9	23,564.9	24,068.6	24,153.8	23,699.0	(503.8)	-2.1%	(589.0)	-2.4%	(134.2)	-0.6%
a) Doubtful loans	27,261.7	16,689.9	10,571.7	10,183.9	9,732.8	9,047.8	387.9	3.8%	838.9	8.6%	1,523.9	16.8%
b) Unlikely to pay	15,963.3	4,615.0	11,348.3	11,984.7	12,325.5	12,036.8	(636.4)	-5.3%	(977.2)	-7.9%	(688.5)	-5.7%
c) Past due and overdue exposures	2,096.9	452.0	1,644.8	1,900.1	2,095.6	2,614.4	(255.2)	-13.4%	(450.7)	-21.5%	(969.5)	-37.1%
Performing loans	84,621.2	638.2	83,983.0	89,475.7	87,212.6	93,737.2	(5,492.7)	-6.1%	(3,229.6)	-3.7%	(9,754.2)	-10.4%
Total customer loans	129,943.0	22,395.2	107,547.8	113,544.3	111,366.4	117,436.3	(5,996.5)	-5.3%	(3,818.5)	-3.4%	(9,888.4)	-8.4%
- of which non performing forborne exposures	9,601.3	2,486.0	7,115.3	7,198.8	7,113.1	6,243.5	(83.5)	-1.2%	2.2	0.0%	871.8	14.0%
- of which performing forborne exposures	2,907.1	87.4	2,819.7	2,852.7	2,901.3	3,115.9	(33.0)	-1.2%	(81.6)	-2.8%	(296.2)	-9.5%

The Group's **exposure to gross non-performing loans** as at 30 June 2016 stood at **EUR 45.3 bn**, down, in Q2 2016, by EUR 1.9 bn, due primarily to the partial write-off of late-payment interest on doubtful loans for approx. EUR 1.4 bn, the transfer without recourse of receivables pertaining to the former subsidiary Consum.it for about EUR 0.3 bn, while an additional EUR 0.2 bn of a Q/Q decrease is the result of positive trends in the management of non-performing loans. These operations include, inter alia, the decrease in inflows from performing to non-performing, the maintenance at high levels of the cure of defaulted loans and the increase in collections of doubtful loans net of disposals.

Types of exposures / values	Gross exposure 30 06 16	Gross exposure 30 06 15	Gross exposure 31 12 15	Gross exposure 30 06 15	Chg. Q/Q		Chg. 31.12.2015		Chg. Y/Y	
					Abs.	%	Abs.	%	Abs.	%
Cash exposures										
Non performing loans	45,322	47,238	46,862	46,245	(1,916)	-4.1%	(1,540)	-3.3%	(923)	-2.0%
a) Doubtful loans	27,262	27,733	26,627	25,357	(471)	-1.7%	635	2.4%	1,904	7.5%
b) Unlikely to pay	15,963	16,897	17,400	17,500	(934)	-5.5%	(1,437)	-8.3%	(1,537)	-8.8%
c) Past due and overdue exposures	2,097	2,608	2,834	3,388	(511)	-19.6%	(737)	-26.0%	(1,291)	-38.1%
Performing loans	84,621	90,114	87,904	94,537	(5,493)	-6.1%	(3,283)	-3.7%	(9,916)	-10.5%
Total customer loans	129,943	137,353	134,766	140,782	(7,410)	-5.4%	(4,823)	-3.6%	(10,839)	-7.7%

	2°Q 2016		1°Q 2016		1°H 2015		Chg. Q/Q Non-performing exposures		Chg. Q/Q of which doubtful loans	
	Non-performing exposures	*of which Doubtful loans*	Non-performing exposures	*of which Doubtful loans*	Non-performing exposures	*of which Doubtful loans*	Abs.	%	*Abs.*	*%*
Gross exposure, opening balance	**47,238.3**	***27,732.6***	**46,861.7**	***26,627.0***	**45,324.8**	***24,330.5***	**376.5**	**0.8%**	***1,105.6***	***4.2%***
Increases from performing loans	496.0	*75.9*	820.2	*39.4*	3,432.3	*432.1*	(324.2)	-39.5%	*36.5*	*92.6%*
Transfers to performing loans	(304.8)	*(0.6)*	(370.3)	*(0.4)*	(1,166.8)	*(7.3)*	65.5	-17.7%	*(0.2)*	*50.0%*
Collections	(584.4)	*(161.4)*	(479.6)	*(148.5)*	(1,198.3)	*(317.2)*	(104.8)	21.9%	*(12.9)*	*8.7%*
Write-offs and loss on disposal	(1,906.0)	*(1,560.8)*	(96.4)	*(65.7)*	(1,369.9)	*(1,276.5)*	(1,809.6)	1877.2%	*(1,495.1)*	*n.s.*
+/- Other changes	382.8	*1,175.9*	502.6	*1,280.8*	1,223.1	*2,195.6*	(119.9)	-23.8%	*(104.9)*	*-8.2%*
Gross exposure, closing balance	**45,321.8**	***27,261.7***	**47,238.3**	***27,732.6***	**46,245.2**	***25,357.2***	**(1,916.4)**	**-4.1%**	***(471.0)***	***-1.7%***
Opening balance of overall adjustments	**23,169.6**	***17,548.8***	**22,707.9**	***16,894.2***	**22,185.6**	***15,888.9***	**461.7**	**2.0%**	***654.6***	***3.9%***
Adjustments / write-backs	391.9	*405.7*	358.9	*262.6*	1,051.3	*285.7*	32.9	9.2%	*143.1*	*54.5%*
+/- Other changes	(1,804.5)	*(1,264.6)*	102.8	*392.0*	(690.7)	*134.8*	(1,907.3)	-1856.1%	*(1,656.5)*	*n.s.*
Closing balance of overall adjustments	**21,756.9**	***16,689.9***	**23,169.6**	***17,548.8***	**22,546.2**	***16,309.4***	**(1,412.7)**	**-6.1%**	**(858.8)**	***-4.9%***
Net exposure closing balance	**23,564.9**	***10,571.7***	**24,068.6**	***10,183.9***	**23,699.0**	***9,047.8***	**(503.8)**	**-2.1%**	**387.9**	***3.8%***

As at 30 June 2016, the **coverage percentage** of non-performing loans was 48.0%, down by 104 bps compared to Q1 of 2016. This trend was totally affected by the partial write-off of late-payment interest as discussed above (fully covered by provisions), which affects also the coverage of doubtful loans, net of which the total coverage of the aggregate would be an increase by approx. 60 bps. As regards the reduction in coverage of past-due exposures, the trend is affected by the disposals of exposures having a high level of coverage.

Coverage ratios of Non-performing loans					Change Q/Q	Change 31.12	Var. Y/Y
	30/06/16	31/03/16	31/12/15	30/06/15	Abs.	Abs.	Ass.
Provisions for Impaired Loans / Gross Impaired Loans	48.0%	49.0%	48.5%	48.8%	-1.04%	-0.45%	-0.75%
Provisions for Doubtful loans/Gross Doubtful loans	61.2%	63.3%	63.4%	64.3%	-2.06%	-2.23%	-3.10%
Provisions for Unlikely To Pay Loans / Gross Unlikely To Pay Loans	28.9%	29.1%	29.2%	31.2%	-0.16%	-0.26%	-2.31%
Provisions for Past Due Positions / Gross Past Due Positions	21.6%	27.2%	26.1%	22.8%	-5.59%	-4.51%	-1.28%

Financial assets/liabilities

As at 30 June 2016, the tradable financial assets of the Group stood at approx. EUR 36 bn, down by approx. 4 bn in Q2 2016, a decline that is totally attributable to the financial assets held for trading by the subsidiary MPS Capital Services. Within this aggregate the combined decrease in the securities and repurchase agreements segments has affected, contextually, also the negotiable financial liabilities which decreased in Q2 2016 by more than EUR 4 bn (repo transactions segment).

Items	30 06 2016	31 03 2016	31 12 2015	30 06 2015*	Chg. Y/Y		Chg. 31.12	
					Abs.	%	Abs.	%
Tradable financial assets	36,022.6	39,999.9	35,208.6	32,989.3	(3,977.3)	-9.9%	814.0	2.3%
Financial assets held for trading	*18,596.2*	*22,502.2*	*18,017.4*	*16,959.0*	*(3,906.0)*	*-17.4%*	*578.8*	*3.2%*
Financial assets available for sale	*17,426.4*	*17,497.7*	*17,191.2*	*16,030.3*	*(71.3)*	*-0.4%*	*235.2*	*1.4%*
Financial liabilities held for trading	15,854.7	20,051.0	15,921.6	14,533.8	(4,196.3)	-20.9%	(66.9)	-0.4%

(*) Book values as at 30 June 2015 were restated in order to reflect the changes described in the section "Restatement of previous period accounts and changes in estimates in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)" of the 2015 financial statements to which reference should be made.

Items	30 06 2016		31 03 2016		31 12 2015		30 06 2015*	
	Tradable fiancial assets	Financial liabilities held for tradig	Tradable fiancial assets	Financial liabilities held for tradig	Tradable fiancial assets	Financial liabilities held for tradig	Tradable fiancial assets	Financial liabilities held for tradig
Debt securities	23,708.9	-	26,332.4	-	23,995.0	-	22,229.2	-
Equity instruments and units of UCITS	550.2	-	519.0	-	509.6	-	558.8	-
Loans	6,695.9	12,711.2	7,776.9	16,774.0	5,284.8	12,548.0	3,235.1	9,042.6
Derivatives	5,067.6	3,143.5	5,371.6	3,277.0	5,419.2	3,373.6	6,966.2	5,491.2
Total	36,022.6	15,854.7	39,999.9	20,051.0	35,208.6	15,921.6	32,989.3	14,533.8

(*) Book values as at 30 June 2015 were restated in order to reflect the changes described in the section "Restatement of previous period accounts and changes in estimates in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)" of the 2015 financial statements to which reference should be made.

Information on portfolio transfers

Type of financial instrument	Portfolio prior to transfer	Portfolio after transfer	Book value as at 30 06 2016	Fair value as at 30 06 2016	Income components in the absence of transfers (before tax)		Income components reported for the period (before tax)	
					Value-relevance	Other	Value-relevance	Other
UCITS	Financial assets held for trading	Financial assets available for sale	1.0	1.0	-	-	-	-
Debt securities	Financial assets held for trading	Loans to bank	46.2	44.1	6.6	0.6	-	0.6
Debt securities	Financial assets held for trading	Loans to customers	134.7	129.7	(1.7)	1.5	(0.3)	1.5
Debt securities	Financial assets available for sale	Loans to bank	688.9	562.8	37.8	(3.0)	(0.4)	(2.8)
Debt securities	Financial assets available for sale	Loans to customers	211.1	182.4	(4.2)	2.8	(0.5)	2.7
	Total		**1,081.9**	**920.0**	**38.5**	**1.9**	**(1.2)**	**2.0**

Interbank position

At the end of June 2016, the **net interbank position** of the Group stood at **EUR 11.5 bn** in funding, up by approx. EUR 1 bn compared with the balance as at 31 March 2016, to be attributed to the total repayment of TLTRO (about EUR -8.5 bn) and the simultaneous demand of TLTRO2 for a total amount of EUR 10 bn.

Interbank balances

	30/06/16	31/03/16	31/12/15	30/06/15	Change Q/Q		Change 31.12		Change Y/Y	
					Abs.	%	Abs.	%	Abs.	%
Loans to banks	7,953.1	6,856.1	8,242.1	8,327.2	1,097.0	16.0%	(289.0)	-3.5%	(374.1)	-4.5%
Deposits from banks	19,465.8	17,524.7	17,493.1	18,830.9	1,941.1	11.1%	1,972.7	11.3%	634.9	3.4%
Net position	**(11,512.7)**	**(10,668.6)**	**(9,251.0)**	**(10,503.7)**	**(844.1)**	**7.9%**	**(2,261.7)**	**24.4%**	**(1,009.0)**	**9.6%**

As at 30 June 2016 the operational liquidity position showed an unencumbered **Counterbalancing Capacity of approx. EUR 20.9 bn**, up by approximately EUR 2.5 bn compared with the same figures as at 31 March 2016

Information on fair value

Assets and liabilities measured at fair value on a recurring basis: breakdown by fair value level

Asset and liabilities measured at fair value	30 06 2016				31 12 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
1. Financial assets held for trading	6,559.8	12,036.4	-	18,596.2	7,103.5	10,913.9	-	18,017.4
2. Financial assets designated at fair value	-	-	-	-	-	-	-	-
3. Financial assets available for sale	16,791.0	316.5	318.9	17,426.4	16,412.5	518.4	260.3	17,191.2
4. Hedging derivative	-	576.6	-	576.6	-	556.4	-	556.4
5. Property, plant and equipment	-	-	-	-	-	-	-	-
6.Intangible assets	-	-	-	-	-	-	-	-
Total assets	**23,350.8**	**12,929.5**	**318.9**	**36,599.2**	**23,516.0**	**11,988.7**	**260.3**	**35,765.0**
1. Financial liabilities held for trading	3,136.3	12,718.3	0.1	15,854.7	2,964.3	12,957.2	0.1	15,921.6
2. Financial liabilities designated at fair value	1,091.8	561.6	-	1,653.4	1,098.3	975.7	-	2,074.0
3. Hedging derivative	-	1,136.0	-	1,136.0	-	1,205.3	-	1,205.3
Total liabilities	**4,228.1**	**14,415.9**	**0.1**	**18,644.1**	**4,062.6**	**15,138.2**	**0.1**	**19,200.9**

The financial instruments measured at fair value and classified in level 3 of the hierarchy consist of instruments not listed in active markets, valued using the mark-to-model approach, for which input data include, inter alia, non-observable market data significant for measurement purposes or observable market data that require significant adjustment based on non-observable data, or that require internal assumptions and estimations of future cash flows.

During the first six months of 2016, some financial assets registered a deterioration from fair value level 1 to fair value level 2; the variation in the fair value level was generally due to the deterioration in the liquidity conditions in the market for said securities. This trend concerned the bond securities of the subsidiary MPS Capital Services S.p.A., within the trading portfolio, for a total amount of EUR 5.8 mln.

On the other hand, it should be noted the transfer of some financial assets from fair value level 2 to fair value level 1, amounting to a total of EUR 218.9 mln in bond securities of the Parent Company (EUR 210.5 mln) and of subsidiary MPS Capital Services S.p.A. (EUR 8.4 mln). The change in the fair value level in the first half of 2016 is essentially linked to the improvement in the securities' liquidity conditions (measured in terms of bid-ask spread of the listed price) which, in accordance with the Group's policy on the valuation of financial instruments, allowed this level transfer.

As for OTC derivatives, in compliance with IFRS 13 the MPS Group calculates adjustments to values, obtained through valuation models using risk-free interest rates, to take account of the creditworthiness of the individual counterparties. This adjustment, known as Credit Value Adjustment (CVA), is estimated for all positions in OTC derivatives with non-collateralized institutional and commercial counterparties and with counterparties having a Credit Support Annex (CSA) not in line with market standards.

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

Market-consistent probability measurements are employed in the calculation of CVAs in order to gauge market expectations resulting from CDS taking also into consideration the historical information available within the MPS Group.

As at 30 June 2016 the CVA had a negative balance of approx. EUR 100.2 mln.

The MPS Group calculates the value adjustment of OTC derivatives in a specular manner and on the same perimeter to take into account its creditworthiness, Debit Value Adjustment (DVA). As at 30 June 2016 the DVA is positive and amounts to a total of EUR 17.2 mln.

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

30 06 2016

	Financial assets available for sale
1. Opening balance	**260.3**
2. Increases	**80.1**
2.1 Purchase	31.2
2.2 Profit posted to:	5.5
2.2.1 Profit and Loss	0.2
- of which capital gains	-
2.2.2 Equity	5.3
2.3 Transfers from other levels	41.8
2.4 Other increases	1.6
3. Decreases	**21.6**
3.1 Sales	5.9
3.2 Redemptions	-
3.3 Losses posted to:	5.4
3.3.1 Profit and Loss	2.3
- of which capital losses	2.3
3.3.2 Equity	3.1
3.4 Transfers to other levels	10.3
3.5 Other decreases	-
4. Closing balance	**318.8**

The amount shown in the column “Financial assets available for sale” under item “2.3 Transfers from other levels” totalling EUR 41.8 mln consists of convertible bond and an investments, the fair value of which, at the date of these Condensed consolidated half-year Financial Statements, have been determined using measurement techniques that are not market oriented, but are based on other non-market values (cost, equity, etc.), according to what is set forth in the internal policy on the matter.

The amount shown in the same column, under item “3.4 Transfers to other levels” amounting to EUR 10.3 mln is mainly to be attributed to investments that have been subject to a reversed valuation change compared with what has been previously reported.

The purchases under item 2.1, stood at EUR 31.2 mln and refer primarily (EUR 29.7 mln) to the shares of Atlante Fund.

Half-year changes in financial liabilities designated at fair value on a recurring basis (level 3)

No changes in the financial liabilities designated at fair value on a recurring basis (level 3) have occurred.

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

Fair value level 2: measurement techniques and inputs used

Items	Fair value 30 06 2016 Financial assets held for trading	Financial assets available for sale	Hedging deivatives	Financial liabilities held for trading	Financial liabilities designated at fair value	Hedging deivatives	Type	Valuation technique(s)	Inputs used
Debt securities	348.6	165.7	X	-	561.6	X	Bonds	Discounted Cash Flow	Interest rate curve, CDS curve, Basi(yield), Inflation Curves
							Structured bonds	Discounted Cash Flow	Interest rate curve, CDS curve, Basi(yield), Inflatio n Curves + inputs necessary to measure optional component
							Bonds	Market price*	Market price*
Equity instruments	-	21.5	X	X	X	X	Share/Equity Instruments	Market price*	Market price*, recent transactions, appraisals, manager reports
							Equity Instruments	Discount cash flow	Share price, beta sector, free risk rate
							Equity Instruments	Net asset adjusted	Fair value asset
Units of UCITS	3.1	129.3	X	X	X	X	Funds/PE	Market price*	Market price*
Loans/Deposits	6,695.9	-	X	X	X	X	Repo Trade	Discontinued Cash flow	Interest rate curve
Deposits	X	X	X	342.1 9,233.0	- -	X	from banks from customers		
Financial Derivatives	4,919.0	-	576.6	3,087.2	X	1,136.0	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, Foreing exchange rates
							Forex Singlename Plain	Option Pricing Model	Interest rate curve, Foreing exchange rates, Forex volatility
							Forex Singlename Exotic	Option Pricing Model	Interest rate curve, Foreing exchange rates, Forex volatility (Surface)
							Forex Multiname	Option Pricing Model	Interest rate curve, Foreing exchange rates, Forex volatility, Correlation
							Equity Singlename Plain	Option Pricing Model	Interest rate curve, share price, foreign exchange rates, Equity volatility
							Equity Singlename Exotic	Option Pricing Model	Interest rate curve, share price, foreign exchange rates, Equity volatility (surface), Model inputs
							Equity Multiname Plain	Option Pricing Model	Interest rate curve, share price, foreign exchange rates, Equity volatility, Quanto Correlation, Equity/Equity correlation
							Equity Multiname Exotic	Option Pricing Model	Interest rate curve, share price, foreign exchange rates, Equity volatility (surface),Model inputs,Quanto correlation, Equity/Equity correlation
							Plain Rate	Option Pricing Model	Interest rate curve, inflation curves,bond prices,foreign exchange rates, Rate volatility, rate correlations
							Spot-Forward	Market price*	Market price*, Swap Point
Credit derivatives	69.7	X	-	56.0	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	12,036.3	316.5	576.6	X	X	X			
Total liabilities	X	X	X	12,718.3	561.6	1,136.0			

*prices for identical financial instruments listed in non-active markets (IFRS 13 par.82 lett.b)

Fair value level 3: measurement techniques and inputs used

Items	Fair value 30 06 2016 Financial assets available for sale	Fair value 30 06 2016 Financial liabilities held for trading	Type	Valuation techinque(s)	Unobservable inputs	Range (weighted average)
Equity instruments	208.6	X	Investments	Discontinued Cash Flow	Liquidity base/ Equity Risk Premium/Beta	20%/>7%/>0.4
			Investments	Cost/Net Equity	Fair value asset	0 - 13.5 eur/mln
			Convertible Bond	Credit Model	Fair Value asset	22.1 €/mln
Financial derivatives	X	0.1	Exotic Derivatives	Option Pricing Model	Risk Model - Smile dynamics	No Dynamic/stochastic evolution
Units of UCITS	38.3	X	Side Pocket	External Pricing	NAV	0-5.5 eur/mln
			Closed-end Fund	Cost	NAV	29,7 €/mln
Total Assets	318.9	X				
Total liabilities	X	0.1				

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

Equity securities valued according to the Credit Model method, include essentially the convertible bond issued by Sorgenia S.p.A. following the restructuring of its original debit position toward the Parent Company. The bond is valued according to the credit models and the value obtained is not verifiable through market results and for this reason the sensitivity of this position is considered to be equal to the entire book value (EUR 22 mln).

Equity securities measured using the Discounted Cash Flow model mainly include the Bank of Italy shareholding (EUR 187.5 mln). This equity investment was measured on the basis of an internal model similar to that used in 2013 by the Bank of Italy's Committee of Experts in the document "Revaluation of shareholdings in the Bank of Italy" and keeping into account the amount by which the increase of share capital in 2013 was carried out. This document not only details the valuation techniques adopted to reach the end result, but identified in the market beta, on the equity risk premium and in the cash flow base to be used for cash flow discounting, the parameters on which to make entity specific assumptions. The measurement of that investment is also confirmed in recent market transactions involving some banks. During valuation, the intervals of the possible values that can be assigned to these parameters cause the following changes in value: roughly EUR -30 mln for every 100 bps increase in the equity risk premium, around EUR -50 mln for every 10 percentage point increase in the market beta and roughly EUR -30 mln for every 10 percentage point increase in the cash flow base.

Equity securities valued at cost/net equity include all investments designated at fair value that could not be measured according to a market-based model. These positions amount to approx. EUR 72 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 8.6 mln). This category includes also the shares of Atlante Fund for a countervalue of EUR 29.7 mln.

The category "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" (Libor MM ATM) to "stochastic volatility" (Libor MM Stochastic Vol), does not result in a significant change in market value, given also the short residual life of the product.

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis

Financial asset/liabilities not measured at fair value or measured at fair value on a non - recurring basis	30 06 2016		31 12 2015	
	Book value	Total Fair value	Book value	Total Fair value
2. Loans to banks	7,953.1	7,822.7	8,242.1	8,099.7
3. Loans to customers	107,547.8	110,828.0	111,366.4	115,217.5
4. Property, plant and equipment held for investment	427.8	472.3	431.3	496.5
5. Non-current assets and groups of assets held for sale	30.4	30.4	29.3	22.2
Total	**115,959.1**	**119,153.4**	**120,069.1**	**123,835.9**
1. Deposits from banks	19,465.8	19,469.0	17,493.1	17,502.6
2. Deposits from customers	83,118.6	83,123.3	87,806.3	87,810.7
3. Debt securities issued	27,273.2	26,791.6	29,394.4	28,843.5
Total	**129,857.6**	**129,383.9**	**134,693.8**	**134,156.8**

For non-performing loans classified in fair value hierarchy level 3, it is assumed that the book value represents a reasonable approximation of fair value. This assumption is based on the circumstance that the fair value calculation is significantly influenced by recovery expectations, as subjectively assessed by the management; the discounting rate applied is that set forth in the contract, as the low liquidity and competition of the non-performing loans market does not make it possible to survey observable market premiums.

Likewise, the fair value of performing loans, also mostly classified in level 3, is based on models that use predominantly non-observable inputs (e.g., internal risk parameters).

Therefore, and also due to the absence of a secondary market, the fair value recognised in the financial statements for disclosure purposes only could vary significantly from sale prices.

With reference to para. 93 lett. (i) of IFRS 13, the Group does not hold any non-financial assets designated at fair value on a recurring and non-recurring basis.

With reference to para. 96 of IFRS 13, the Group does not apply the portfolio exception provided for in para. 48 of IFRS 13.

Shareholders' equity

As at 30 June 2016, the **Group shareholders' equity and non-controlling interests** amounts to EUR **10 bn**, up by EUR 332 mln compared to the same figure at the end of 2015 and by EUR 254 mln compared to the same figure as at 31 March 2016. The quarterly changes are to be attributed to the profit for the period and the revaluation of the reserves.

Reclassified Consolidated Balance Sheet										
	30/06/16	31/03/16	31/12/15	30/06/15	Chg Q/Q		Chg 31/12		Chg Y/Y	
Equity				(*)	Abs.	%	Abs.	%	Abs.	%
Group net equity	9,928.6	9,675.3	9,596.5	9,234.1	253.3	2.6%	332.1	3.5%	694.5	7.5%
a) Valuation reserves	7.7	(36.5)	(21.8)	(323.6)	44.2	-121.1%	29.5	-135.3%	331.3	-102.4%
c) Equity instruments carried at equity	-	-	-	-	-		-		-	
d) Reserves	617.2	610.5	222.1	466.1	6.7	1.1%	395.1	177.9%	151.1	32.4%
e) Share premium	-	6.3	6.3	4.0	(6.3)	-100.0%	(6.3)	-100.0%	(4.0)	-100.0%
f) Share capital	9,001.8	9,001.8	9,001.8	8,758.7	-		-		243.1	2.8%
g) Treasury shares (-)	-	-	-	-	-		-		-	
h) Net profit (loss) for the period	302.0	93.2	388.1	328.9	208.8	224.0%	(86.1)	-22.2%	(26.9)	-8.2%
Non-controlling interests	26.0	25.7	26.3	24.3	0.3	1.2%	(0.3)	-1.1%	1.7	7.0%
Total Group Shareholder's Equity and Non-controlling interests	**9,954.6**	**9,701.0**	**9,622.8**	**9,258.4**	**253.6**	**2.6%**	**331.8**	**3.4%**	**696.2**	**7.5%**

(*) The items, as at 30 June 2015, were restated reflecting the changes described in the section "Restatement of previous period accounts and changes in estimates in compliance with IAS 8 (Accounting policies, changes in estimates and errors)" of the 2015 financial statements which is referenced to for further details.

Capital adequacy
Regulatory capital and requirements

On 25 November 2015 the ECB informed the Parent Company of the results of the Supervisory Review and Evaluation Process (SREP), based on which the Group was asked, with effect from 31 December 2016, to reach and maintain in the long term a minimum Common Equity Tier 1 Ratio threshold of 10.75%, based on transitional measures. Until that date, the CET1 threshold to be observed remains 10.2%, announced on 10 February 2015.

As at 30 June 2016 the Group's level of capital on a transitional basis was as shown in the following table:

Categories / Values	Risk Weighted Assets		Chg. 31.12	
	30 06 2016	31 12 2015	Abs.	%
OWN FUNDS				
Common Equity Tier 1 (CET1)	8,595.9	8,503.1	92.8	1.09%
Tier 1 (T1)	9,147.5	9,101.4	46.1	0.51%
Tier 2 (T2)	1,914.5	2,196.3	(281.8)	-12.83%
Total capital (TC)	**11,062.0**	**11,297.7**	**(235.7)**	**-2.09%**
RISK ASSETS				
Credit and Counterparty Risk	58,663.0	57,804.3	858.7	1.49%
Credit valuation adjustment risk	625.0	806.3	(181.3)	-22.48%
Settlement risk	-	-	-	
Market risks	3,215.0	3,431.9	(216.9)	-6.32%
Operational risk	8,480.0	8,786.3	(306.3)	-3.49%
Other prudential requirements	-	-	-	
Other calculation elements	-	-	-	
Risk-weighted assets	**70,983.9**	**70,828.5**	**155.4**	**0.22%**
CAPITAL RATIOS				
CET1 capital ratio	**12.11%**	**12.01%**	**0.10%**	**n.s**
Tier1 capital ratio	**12.89%**	**12.85%**	**0.04%**	**n.s**
Total capital ratio	**15.58%**	**15.95%**	**-0.37%**	**n.s**

Compared to 31 December 2015, CET1 increased slightly (approximately EUR +93 mln). The positive impact of net profit generated in the period is greater than the negative effects caused mainly by the increase in the phase-in percentage of the deduction items (which was up from 40% in 2015 to 60% in 2016) and the greater DTA not dependent on temporary differences.
The Tier 1, increased (about EUR +46 mln) since the positive effect produced by CET1, is partially offset by a lower grandfathering percentage, compared with 31 December 2015, applied to the instruments of Additional Tier 1, which reduces the contribution to the capital.
The Tier 2 decreased by about EUR -282 mln due to the regulatory amortisation of subordinated securities set forth in Basel 3, partially offset by the recovery of the excess of allocations toward the projected loss.
Overall, the Total Capital level was down by EUR -236 mln.
The RWA showed a modest increase (about EUR +155 mln) due to the increase recorded in the "credit risk component" (increase in the standard portfolio above the reduction in the Airb portfolio); the components "market risk" and "operational risk" declined.
In light of the above, as at 30 June 2016 the capital ratios on a transitional basis, except for Total Capital Ratio, are up compared to 31 December 2015, thus confirming their exceeding of the minimum thresholds as required by the Supervisory Authority as part of the SREP.

Disclosure on risks

Risk Governance

Risk governance strategies are defined in line with the Group business model, medium-term Business Plan objectives and external regulatory and legal requirements.

Policies relating to the assumption, management, coverage, monitoring and control of risks are defined by the Board of Directors of the Parent Company. Specifically, the Board of Directors periodically defines and approves strategic risk management guidelines and quantitatively expresses the Group's overall risk appetite, in line with the annual budget and multi-year projections.

For the year 2016, the Board of Directors of Banca Monte Paschi di Siena SpA approved the "Group Risk Appetite Statement 2016" (RAS 2016) in December 2015. The Risk Control Department is specifically assigned the task of conducting the quarterly monitoring of indicators, drawing up a periodic report for the Board of Directors and implementing the escalation/authorisation processes in the event of overdrawn amounts. The first monitoring of the RAS 2016 began in March 2016.

The RAS 2016 is an important evolutionary step compared to the prior system, in terms of indicators as well as breakdown by Business Unit/Legal Entity (the so-called cascading down of the Risk Appetite). Its objective is to increase the Group's Risk Culture and fully instil accountability in all relevant Business Units with regard to respect and pursuit of the risk appetite objectives, as required by the regulations and recommended by best practices.

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

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

In 2016, the Group engaged in several risk management system improvement projects, especially with regard to credit risk, liquidity risk, and implementation of the ILAAP and Recovery risk processes, as required under the reference European regulations, resulting in the implementation of methodologies and applications within the risk management, reporting, planning and disclosure systems.

The MPS Group is one of the Italian banks subject to the ECB's Single Supervisory Mechanism. In 2016, the Parent Company has continued to actively support interaction with the ECB-Bank of Italy Joint Supervisory Team (JST).

For additional information, see the Consolidated Report on Operations as at 31 December 2015, available in the Investors & Research section at www.mps.it.

Internal Capital

Risk assessment models

With regard to the methods used to estimate Internal Capital, which 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, there are some methodological changes in the internal models used to estimate Internal Capital with regard to Market Risk and Interest Rate Risk of the Banking Book, compared to what was outlined in the 2015 Notes to the Consolidated Financial Statements.

Specifically, the internal model to estimate Internal Capital for Market Risk does not include the Interest Rate Risk factor of AFS positions, while the internal model to estimate Internal Capital for Interest Rate Risk of the Banking Book includes such positions.

Moreover, the new assessment method for the internal capital requirement against Business/Strategic Risk was introduced, adopted as part of the Internal Capital Adequacy Assessment Process (ICAAP) and described below.

The approach used to quantify risks-to-capital with regard to which the Group is exposed is known in the literature as Pillar 1 Plus. This approach envisages that the Pillar 1 requirements for Credit and Counterparty Risk, which already include those relating to Issuer Risk on the Banking Book, Equity Investment Risk, Real Estate Risk and Operational Risk, be increased by the requirements from internal models relating to Market Risks, both Trading Book and Banking Book, Banking Book Interest Rate Risk (Financial Risks), Concentration Risk and Business/Strategic Risk.

Overall Internal Capital is calculated without considering the inter-risk diversification, therefore by directly adding together the internal capital contributions of the individual risks (Building Block). This approach tends to incorporate the indications in the SREP (Supervisory Review and Evaluation Process) Guidelines published by the EBA in December 2014.

Risk exposure

In order to make the risk exposure percentages as at 30 June comparable to those as at 31 December 2015, the values referring to the latter period were recalculated and stated to include the methodological changes that took place on the internal models in 2016.

The MPS Group also manages liquidity risk on an ongoing basis (risk-to-liquidity, as defined within the SREP Guidelines), along with other risks that are difficult to quantify (e.g., reputational risks and risks on investment services), also through the issuance of internal regulations of an organisational nature.

Credit risks

Risk assessment model

With regard to the credit risk measurement methods, there are no significant changes to report with respect to what was indicated in the 2015 Notes to the Consolidated Financial Statements. The MPS Group analyses credit risk using the metrics set forth by the Pillar 1 method. The Group is currently authorised to use advanced internal rating-based systems (AIRB and slotting criteria for Specialised Lending exposures) to determine the capital requirements in respect of credit risk based on the following perimeter:

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

For the remaining entities/portfolios, the Group adopts the standardised methodology.

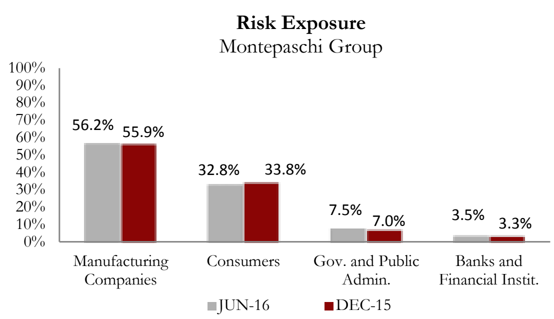
The MPS Group also uses the same metrics for the following internal operating and management purposes:

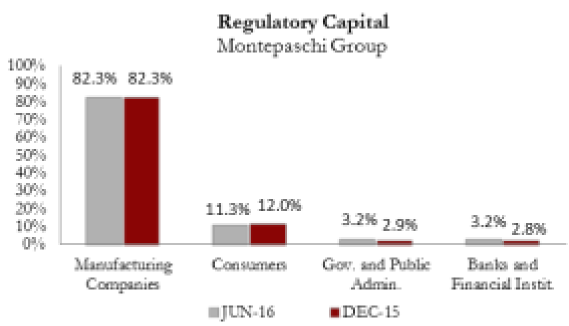
- measurement of internal capital for credit risk;
- calculation of risk-adjusted performance and measurement of value creation;
- risk-adjusted pricing processes;
- credit direction processes;
- in all credit processes (disbursement, review, management and follow-up).

Risk exposure

The charts below provide a credit quality breakdown of the MPS Group's portfolio (BMPS, MPS Capital Services, MPS L&F and Widiba) as at 30 June 2016 compared to the end of 2015 for Regulatory Exposure at Default (REG EAD) and Regulatory Capital (REG CAP) of the performing Corporate and Retail portfolios.

The charts below show the distribution of the MPS Group's REG EAD and REG CAP by type of client as at 30 June 2016 compared to the end of 2015.





Counterparty risk

Risk assessment model

With regard to the counterparty risk measurement methods, there are no significant changes to report compared to 2015.

- As envisaged by the regulatory provisions, the MPS Group, in measuring exposure to counterparty risk, used the regulatory market value approach to determine Exposure at Default (EAD) for OTC (Over The Counter) transactions and LST (Long Settlement Transactions), and the equity approach to determine the EAD for SFTs (Securities Financing Transactions).
- The counterparty risk measurement perimeter comprises all Group banks and subsidiaries, with regard to positions held in the Banking Book and Trading Book.
- The capital requirement for the Credit Value Adjustment (CVA) accompanies the insolvency requirement to cover unforeseen losses recorded in the OTC Derivatives segment following a change in creditworthiness of the counterparties, excluding central counterparties and EMIR counterparties. The MPS Group calculates the CVA requirement using the standardised method envisaged by the Basel III regulatory framework.

Exposure to sovereign debt risk

Below is a breakdown of the Group's exposure to sovereign debt risk in government bonds, loans and credit derivatives as at 30 June 2016.

The exposures are broken down by accounting categories. For securities classified as 'Loans and Receivables (L&R)' and "Loans", the book value (amortised cost) is also reported.

COUNTRY	DEBT SECURITIES					LOANS	CREDIT DERIVATIVES
	Financial assets held for trading		Financiale 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	0.5	0.3	-	-	-	-	-
Austria	0.1	0.1	-	-	-	-	-
Belgium	(5.9)	(6.1)	51.8	55.8	-	-	-
Brazil	(0.1)	(0.1)	-	-	-	-	-
China	-	-	-	-	-	-	25.7
France	(5.7)	(5.8)	3.5	4.3	-	-	74.0
Germany	(70.7)	(77.4)	20.0	21.3	-	-	25.0
Hong kong	-	-	29.0	29.0	-	-	-
Italy	3,074.3	3,028.8	13,984.4	15,739.6	516.9	2,981.9	2,293.8
Lithuania	-	-	9.0	9.9	-	-	-
Holland	(5.8)	(6.0)	-	-	-	-	-
Poland	0.1	0.2	10.0	10.4	-	-	-
Portugal	0.4	0.4	44.0	46.9	-	-	-
United Kingdom	-	0.1	-	-	-	-	-
Romania	0.1	0.2	-	-	-	-	-
Spain	1.6	1.7	241.0	265.2	-	-	(3.2)
United States	0.2	0.2	-	-	-	-	-
Hungary	0.4	0.5	-	-	-	-	-
Total 30 06 2016	**2,989.5**	**2,937.1**	**14,392.7**	**16,182.4**	**516.9**	**2,981.9**	**2,415.3**
Total 31 12 2015	**3,743.1**	**3,780.2**	**14,704.5**	**16,494.9**	**513.2**	**2,850.1**	**3,022.1**

Market risks

Risk assessment model

With regard to the Market Risk measurement methods for the Regulatory Trading Book, there are no significant changes to report compared to what was outlined in the 2015 Notes to the Consolidated Financial Statements. The analysis is conducted by using an internally developed management model, which has the following key characteristics:

- Model type: Historical Simulation Value-at-Risk (VaR) with full revaluation of all basic positions;
- Confidence level: 99%;
- Holding period: 1 business day;
- Historical series: window of 500 days with daily scrolling;
- Scope: BMPS, MPS Capital Services;
- Risk measures: Diversified VaR, Conditional/Marginal VaR on individual risk factors, Mark-to-Market and Sensitivity Analysis, Stress Test & Scenario Analysis, and Theoretical and Actual Backtesting.

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

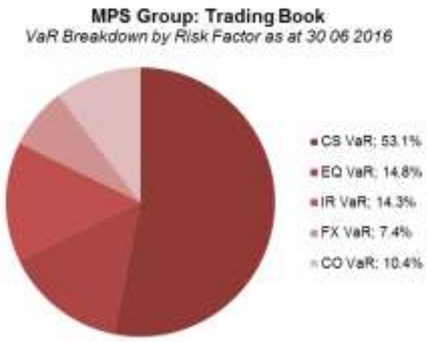
For Supervisory purposes, the Group uses the standard methodology.

Risk exposure

The market risk of the Group's Regulatory Trading Book, measured as VaR, was stable as at 30 June 2016 compared to the end of December 2015, amounting to EUR 6.2 mln.

The volatility of the Group's VaR in the first half of 2016 was largely influenced by changes in market parameters and by the trading activities of the subsidiary MPS Capital Services.

The EUR 260 mln position of Cds Italy maturing in 2040 was closed in January, arising from the transactions following the closure of the "Alexandria" transaction, which took place in September 2015, classified as *Held for Trading*. In June, there was a temporary increase in the risk measures due to the Brexit scenario, lasting only until the end of the half-year (widening of the credit spread on Italian government bonds, predominantly short-term, and reduction of interest rates).

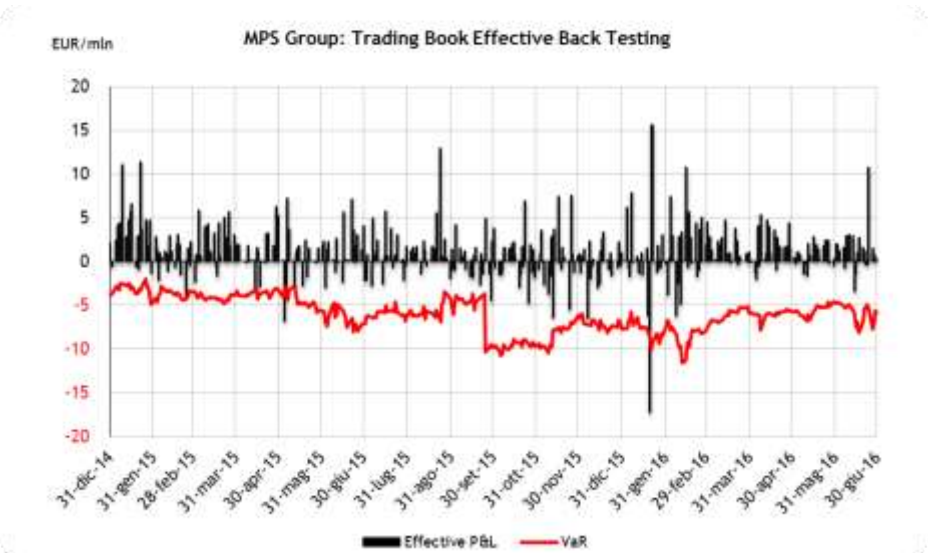


MPS Group: Trading Book
VaR 99% 1 day in EUR/mln

	VaR	Date
End of Period	6.18	30 06 2016
Min	4.63	27 05 2016
Max	11.55	11 02 2016
Average	6.64	

VaR model backtesting

The chart below shows the Actual Backtesting results of the internal Market Risks model in relation to the Group's Regulatory Trading Book for 2015 and for the first six months of 2016:



The backtesting shows one exception during the first half of the year on the Group trading book, details of which are as follows:

- 20 January 2016: negative day for the market (negative shift in the market parameters, particularly FTSEMIB Index -4.8% and CDS BMPS Senior 5Y + 43%) with a significant impact on the portfolio of subsidiary MPS Capital Services.

Credit structured products

As at 30 June 2016, the securities positions on structured credit products of the MPS Group amounted to a nominal amount of EUR 77.8 mln (compared to a nominal EUR 63.8 mln as at 31 December 2015).

Interest rate risk in the Banking Book

Risk assessment model

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

Risk exposure

The sensitivity of the Group, at the end of June 2016, features a profile of risk exposure due to a rate hike. The amount of economic value at risk in the event of a +100 bp parallel shift of the rate curve came to EUR -172.3 mln at the end of June 2016 (compared to EUR 226.6 mln for a shift of -100bp), down compared to the end of 2015. However, if benchmarked against Own Funds, these values are below the level considered as the attention threshold by the regulatory provisions.

Strategic risk

Risk assessment model

With regard to the internal model used to estimate the business/strategic risk, defined as the current and/or prospective risk of incurring unforeseen losses generated by high business volatility (business risk), incorrect strategic decisions and/or low reactivity to changes in the competitive context (strategic risk), the MPS Group has introduced quantification method for the internal capital requirement (like Value-at-Risk) that combines an "earnings volatility" approach with an "expert-layer" assessment. The requirement is calculated on a current as well as prospective basis and in normal business conditions as well as stressed conditions.

This approach considers the historic volatility of the business margin (earnings volatility approach), calculated for the Group and for the main legal entities, considering the following items of the profit and loss: net interest income, net fee and commission income, other administrative expenses, personnel expenses.

The Value-at-Risk approach used envisages the following methodological assumptions:

- normal distribution of the percent variations of the business margin;
- confidence interval of 99.9%;
- holding period: 1 year.

To estimate the internal capital requirement even under stressed conditions, the Group verifies the adequacy of the measurement obtained with the Value-at-Risk approach, quantifying the impacts of any failure of specific hypotheses included within the Business Plan in the profit and loss.

Risk exposure

As at 30 June 2016, the internal capital requirement for the MPS Group with regard to business/strategic risk was essentially unchanged compared to the same figure recorded as at 31 December 2015.

Concentration risk

Risk assessment model

The Group, in accordance with Article 81 of Directive 2013/36/EU (CRD IV), defines Concentration Risk as the risk of incurring significant losses from exposure to counterparties, groups of related counterparties and counterparties of the same business sector or exercising the same business or belonging to the same geographical area.

Concentration Risk may therefore arise in relation to two different components:

- concentration by individual borrower or groups of connected borrowers (single name concentration)
- geo-sectoral concentration (sector concentration)

As a method to calculate the internal capital requirement against single name concentration risk, the simplified algorithm recommended by the Italian benchmark regulation is used (Bank of Italy circular no. 285/2013).

With regard to the estimate of geo-sectoral risk, reference is made to the method proposed by the ABI Concentration Risk Laboratory.

Risk exposure

As at 30 June 2016, the internal capital requirement for the MPS Group with regard to concentration risk was essentially unchanged compared to the same figure recorded as at 31 December 2015.

Liquidity risk

Risk assessment model

- The Liquidity Risk Framework adopted by the Group is a liquidity risk governance and management system that, in accordance with the provisions of the Supervisory Authority, aims to:
  - ✓ ensure the solvency of the Group and all of its subsidiaries, in both normal business conditions as well as in a crisis;
  - ✓ optimise the cost of funding in relation to current and future market conditions;
  - ✓ adopt and maintain risk mitigation tools.
- The overall liquidity profile is monitored on the basis of the quantification of imbalances, by liquidation date, of cash flows falling due, including the adoption of specific behavioural models (for example, on demand items and customer obligations).
- The Liquidity Risk Framework consists of a dedicated Liquidity Stress Test Framework that analyses short-term liquidity, in order to quantify the liquidity reserves necessary to handle a series of adverse events, as well as the medium/long-term liquidity, in order to assess the resilience of the Funding Strategy with respect to partial achievement of the measures envisaged and in relation to the structural capacity risk. For the short-term, the type of choices in calibrating the scenarios, in terms of severity and time buckets, allows the periodic calculation of the internal limits system (calibration stress test) as well as the calculation of the time-to-survival measure, which is also subject to a dedicated limits system (management stress test).
- Starting from 2016, the Liquidity Risk Framework also includes an additional series of metrics, introduced in order to provide the supervisory authorities with a comprehensive overview of the liquidity risk profile through an additional disclosure that differs from what is provided by the indicators, based on the quantification of imbalances of cash flows falling due. These new metrics include the analysis of time deposits, of the concentration of funding and of the concentration of counterbalancing.

Risk exposure

The Group's Liquidity Reserves at the end of the half-year were particularly high, with the Liquidity Coverage Ratio (LCR) at 170.8%, and the Group's structural equilibrium was adequate with a Net Stable Funding Ratio (NSFR) of 98.3%.

The ratio of 1-month balance to consolidated assets of the Group is 11%, down compared to the end of 2015 (12%).

Operational risks

Risk assessment model

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

- Model type: Advanced Measurement Approach (AMA) used along with AMA/BIA (Basic Indicator Approach). Mixed LDA Approach/Scenario with Loss Distribution Approach (LDA) on internal and external historical series and Scenario Analysis (management evaluations of contextual and control factors and on the main operational criticalities);
- Confidence level: 99.90%;
- Holding period: 1 year;
- Scope: all Group companies;
- Risk measures: operating losses and capital absorption.

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

Risk exposure

As at 30 June 2016, the operating losses and number of operational risk events confirm the downward trend observed in 2015. The Regulatory Requirements as at 30 June 2016 were essentially stable compared to December 2015.

Main types of legal action

The risks associated with or connected to legal disputes – i.e. disputes brought before judicial authorities and arbitrators – are kept under specific and careful review by the Group.

In case of disputes for which the disbursement of financial resources to perform the underlying legal obligation is believed to be "likely" and the relevant amount can be reliably estimated, allocations are made to the Provisions for Risks and Charges using statistical or analytical criteria.

For the most significant disputes, see the disclosure in the 2015 financial statements for any cases not illustrated below.

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

The action, taken by the Extraordinary Administrators of SNIA S.p.A. against the former Directors, Statutory Auditors and (direct and indirect) Shareholders of the same company (including Parent Company BMPS), seeks the assessment of the defendants' liabilities for damages, originally not quantified, allegedly caused 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 Parent Company and other appearing parties are concerned, pivot around the company's demerger in 2003. The relief sought against the Parent Company and other defendants, which originally could not be determined, was (partially) specified during the claim quantification stage and amounts to EUR 572.0 mln plus additional alleged damages, still undetermined.

The Ministry of the Environment and for Protection of the Land and Sea and the Ministry of Economy and Finance intervened in the dispute, to support the claims of the plaintiff (regarding the alleged environmental damage).

With regard to the claims for compensation against the Parent Company, jointly and severally – among others – the direct shareholder and the other "indirect shareholders" of SNIA, the defence focused, apart from the expired statute of limitations, on the groundlessness of the factual and legal elements that could warrant compensation for the alleged damages, with regard to the alleged damage from the so-called distractive demerger (quantified at "*Euro 572,000,000.00 or Euro 388,000,000.00, or other amount to be quantified during the dispute also on an equitable basis pursuant to Art. 1226 of the Italian civil code*.") as well as to the alleged environmental damage (confirmed and reported by the Ministry of the Environment, against SNIA and its subsidiary Caffaro, for "*Euro 3,423,257,403.60*" and "*Euro 1,922,070.00*") regarding Caffaro's various production sites in Torviscosa (near the Grado and Marano lagoon), Brescia and Colleferro (within the Sacco River Valley).

With ruling no. 1795/2016 of 10 February 2016, the Court of Milan, having declared - among other things - the inadmissibility of the measures by the Ministry of the Environment and of the Economy, rejected the claims of the Extraordinary Administrators against the various parties, including the Parent Company, ordering the plaintiff to pay for the court costs.

With separate appeals, notified in March, the Ministries on the one hand and the Extraordinary Administrators on the other filed an appeal against the first instance ruling, repeating the grounds for the appeal and the arguments already expressed before the Court. The initial hearings are respectively set for 15 July and 4 October 2016.

At the hearing of 15 July held on 19 July, regarding the appeal submitted by the Ministries, the Court of Appeal - having acknowledged the parallel ruling by SNIA - adjourned the discussion to 4 October 2016 in order to examine both appeals.

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

The extraordinary administration procedure of Antonio Merloni S.p.A. brought an action against the Directors and Statutory Auditors of the company, together with the pool of lenders and the companies that audited the financial statements, claiming that they are jointly responsible for causing the company's financial difficulties and requesting compensation for alleged damages of EUR 322.0 mln.

The Parent Company's defence aims to demonstrate the total groundlessness of the claim, the extraordinary administrators' lack of the interest and legitimacy to bring the action, and that the cause of action is past the statute of limitations.

The proceeding is still in the initial stage.

As at the date of this half-year financial report, a settlement agreement is in an advanced state of definition, envisaging, among other things, abandonment of the ruling by the Procedure.

In October 2011, the extraordinary administration procedure of the company Antonio Merloni S.p.A. also brought a legal action against the Parent Company before the Court of Ancona requesting the return, as part of a bankruptcy rescindment, of EUR 53.8 mln as to the primary claim and EUR 17.8 mln as a secondary claim, for remittances occurred on the company's current accounts during the suspected period.

The judge issued a first instance ruling, rejecting the plaintiff's claim and sentencing the latter to repay legal expenses.

The plaintiff filed an appeal.

As at the date of this half-year financial report, a settlement agreement is in the advanced state of definition, envisaging, among other things, abandonment of the ruling by the Procedure.

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

On 15 July 2016, Riscossione Sicilia S.p.A. served a complaint on the Bank before the Court of Palermo, asking the Court to order it to pay a total amount of EUR 106.8 mln.

The claim of Riscossione Sicilia S.p.A. falls within the realm of the complex dealings between the Bank and the plaintiff, originated from the disposal to Riscossione Sicilia S.p.A. (pursuant to Law Decree 203/05, converted into Law 248/05) of the stake held by the Bank in Monte Paschi Serit S.p.A. (later Serit Sicilia S.p.A.).

Specifically, Riscossione Sicilia, in relation to the contractual provisions involved in said disposal, now asks the Bank be ordered to pay, under its contractual liability, for alleged contingent liabilities of Monte Paschi Serit S.p.A./Serit Sicilia S.p.A.

As at the date of this document, the relative risk assessments are underway with regard to the overall credit dealings between the Bank and Riscossione Sicilia.

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

In July 2015, Arnaldo Marangoni sued the Parent Company before the Court of Milan, claiming to have purchased shares of BMPS between 2008 and 2013, during subscription of the capital increase in 2008 as well as on the Electronic Stock Market for approximately EUR 0.075 mln. As the basis for his claims, the plaintiff alleged that the Parent Company, during the time period 2008-2013, unlawfully provided a false representation of its capital, economic, financial, profit and management situation, with the effect of misleading the plaintiff.

On 29 March 2016, through voluntary intervention, another 124 individuals came forward. The interveners allege to have purchased shares of BMPS both during the capital increases of 2008 and 2011, as well as on the Electronic Stock Market.

The case is aimed at obtaining compensation for all material and non-material damage, quantified at approximately EUR 97 mln, claimed by the Interveners in relation to the investments made in BMPS shares based on allegedly incorrect information contained in the prospectuses, in the financial statements and in all price-sensitive communications issued by the Parent Company that resulted in misleading the Interveners.

Banca Monte dei Paschi di Siena S.p.A. vs. Coop Centro Italia s.c.p.a

On 26 July 2016, Coop Centro Italia s.c.p.a. served a complaint on the Bank, together with Consob, before the Court of Florence, Section specialised in corporate matters, for the hearing of 20 January 2017.

The plaintiff, after describing its participation in the Bank's capital increases in 2008, 2011 and 2014, and the events of the Bank during the period 2008-2015, is requesting total damages of EUR 85.5 mln, essentially claiming the false nature of the prospectuses relative to the aforementioned capital increases. Specifically, the counterparty is claiming damages of EUR 20.3 mln for the capital increase of 2008 and EUR 9.2 mln for the capital increase of 2011, for contractual liability pursuant to Art. 1218 of the Italian Civil Code, as well as Art. 94, paragraph 8 of Legislative Decree no. 58/98 or Art. 2049 of the Civil Code in relation to the actions of its then representatives and employees, also pursuant to Art. 1218 of the Italian Civil Code, as well as Art. 94, paragraph 8 of Legislative Decree no. 58/98, for EUR 56.0 mln, jointly and severally – or alternatively each to the extent applicable – with Consob called upon to respond pursuant to Articles 2043 and 2049 for the actions of the Authority and those of its commissioners and officials, with regard to the 2014 capital increase, regarding the capital losses sustained, as well as the profit losses to be determined during the course of the dispute.

Banca Monte dei Paschi di Siena S.p.A. vs. Coofin s.r.l.

On 26 July 2016, Coofin s.r.l. served a complaint on the Bank, together with Consob, before the Court of Florence, Section specialised in corporate matters, for the hearing of 20 January 2017.
The plaintiff, after describing its participation in the Bank's capital increases in 2008, 2011 and 2014, and the events of the Bank during the period 2008-2015, is requesting total damages of EUR 51.6 mln, essentially claiming the false nature of the prospectuses relative to the aforementioned capital increases. Specifically, the counterparty is claiming damages of approximately EUR 11.5 mln for the capital increase of 2008 and EUR 6.1 mln for the capital increase of 2011, for contractual liability pursuant to Art. 1218 of the Italian Civil Code, as well as Art. 94, paragraph 8 of Legislative Decree no. 58/98 or Art. 2049 of the Civil Code in relation to the actions of its then representatives and employees, also pursuant to Art. 1218 of the Italian Civil Code, as well as Art. 94, paragraph 8 of Legislative Decree no. 58/98, for EUR 34.0 mln, jointly and severally – or alternatively each to the extent applicable – with Consob called upon to respond pursuant to Articles 2043 and 2049 for the actions of the Authority and those of its commissioners and officials, with regard to the 2014 capital increase, regarding the capital losses sustained, as well as the profit losses to be determined during the course of the dispute.

Other disputes: Banca Monte dei Paschi di Siena S.p.A vs. (former) BMPS Shareholders and Investors

This disclosure is provided in consideration of the fact that an additional 12 lawsuits are currently pending, brought forward by shareholders and/or former shareholders for a total claim of approximately EUR 49 mln, in which the plaintiffs claim to have purchased shares during the capital increases of 2008, 2011 and 2014 and/or on the electronic market based on allegedly incorrect information contained in the prospectuses and/or financial statements and/or in the price sensitive information issued by the Parent Company during the period 2008/2013.

These legal proceedings originate in an extraordinary and exceptional context also connected to the criminal investigations launched by the courts and the legal issues involving the Parent Company during the years 2012 and 2013, which mainly refer to the financial transactions to acquire resources to purchase Banca Antonveneta and to a number of financial transactions carried out by BMPS, including the transactions connected to the "Santorini" and "Alexandria" transactions, to the prior capital increases carried out by the Parent Company in 2008 and 2011 and to the FRESH 2008 transaction.

The lawsuits filed by investors could increase, even significantly, with regard to the number and amount of claims, compared to those already submitted as of the date of this half-year report, also as a result of the results of criminal proceeding 29634/14 r.g.n.r. (*General Criminal Records Registry*) pending at the Court of Milan and involving BMPS and which so far involves 353 civil parties.

Out-of-court claims for the repayment of sums and/or compensation for damages by (former) Shareholders and Investors of BMPS

For complete disclosure, note that, in relation to the increases in capital and the allegedly incorrect information contained in the prospectuses and/or in the financial statements and/or in the price sensitive information issued by BMPS since 2008, the Parent Company has received 476 requests, for a total of approximately EUR 118 mln in quantified claims, aimed at obtaining reimbursement of the amounts invested and/or compensation for material and non-material damages following the alleged losses suffered. Of said claims, 75 names, which has quantified the amount in approximately EUR 69 mln out of court, filed civil suits (the majority of which in the case filed by Marangoni Arnaldo + 124 as mentioned above).

These claims – brought individually or collectively, through professionals or consumer associations – although as regards their heterogeneity, are mostly justified by generic references to the Parent Company's alleged violation of the industry legislation governing disclosure, were rejected as they were considered generic, unfounded, not backed by the suitable documentary evidence and in certain cases, prescribed.

Banca Monte dei Paschi di Siena S.p.A. vs. Fruendo

Following the transfer of the back office business unit to Fruendo in January 2014, involving 1,069 resources, 634 workers (later reduced to 603 due to waivers and deaths) initiated legal proceedings before the Courts of Siena, Rome, Mantua and Lecce to demand the continuation of the employment relationship with the BMPS Parent Company, upon the declaration of ineffectiveness of the transfer agreement entered into with Fruendo.

At the reporting date of this half-year financial report, of the 603 plaintiffs, a first instance ruling has already been handed down for 396 (245 at the Court of Siena, 147 at the Court of Rome and 4 at the Court of Lecce) after a hearing on the full merits, while for the remaining 207 (117 at the Court of Lecce, 89 at the Court of Mantua and 1 at the Court of Siena), the rulings are still pending.

As things currently stand, 288 workers are entitled to rehiring (i.e., the plaintiffs in the cases at the Court of Siena and the Court of Rome, limited, for the latter, to the cases decided in favour of the plaintiffs).

An appeal has already been lodged against the Court of Siena decisions at the Florence Court of Appeals, and the relative hearings for the initial discussion of the case have been scheduled for between June and October 2016; at the hearing of last 16 June, during the first case in the hearing, the Court of Appeals postponed the proceedings to 18 October 2016, pre-announcing that all of the appeals would be moved to said date.

The unfavourable rulings by the Court of Rome were appealed before the Rome Court of Appeals. At the present time, a hearing for initial discussion has been set for only one of these (April 2018).

The unfavourable sentences by the Court of Lecce will be appealed within the appropriate time frames.

For the sake of full disclosure, note that both the Bank and Fruendo have submitted a request before the Court of Appeals of Rome and Florence for assignment of the case to the European Court of Justice.

For their part, the workers who were unsuccessful in the case decided by the Court of Rome lodged an appeal and relative hearing has been set for December 2016.

With regard to the overall situation, to date and while the current scenario remains unchanged, no economic impact on the Parent Company is envisaged. Indeed, as the Fruendo employees retained the pay they had been receiving from the BMPS when the business unit was transferred, they would not be due any back pay if the unfavourable rulings (for the Parent Company) were to be enforced.

Given the above, the Parent Company, jointly with Fruendo, is analysing the matters arising from the rulings of the Court of Siena, Court of Rome and Court of Lecce, in order to identify the best solutions.

Dispute between Banca Monte dei Paschi di Siena S.p.A. and Nomura in relation to the transaction known as "Alexandria" and the Santorini, Fresh 2008 and Chianti Classico financial transactions – Legal actions with the Court of Milan

After the early termination of the agreements in relation to the transaction known as "Alexandria", as agreed in the out-of-court settlement executed with Nomura on 23 September 2015 (see the annual report as of 31 December 2015), the damages caused to BMPS by the execution of such agreements are definitively "crystallized". In particular, BMPS concentrated its claim for damages on an amount not lower than EUR 866.3 mln (in comparison with an initial civil claim of one billion euro approx.).

With reference to the criminal proceedings in relation to "Alexandria" (as already mentioned in the annual report as of 31 December 2015), after the service of the order of closing of the preliminary investigations, the Office of the Public Prosecutor at the Court of Milan sought the committal for trial of the former Top Management of the Bank and two members of the Management of Nomura concerning false accounting and market manipulation offences.

As regards the offences allegedly committed by the above-mentioned individuals, the Prosecuting Attorney also sought the committal for trial of BMPS and Nomura in relation to the administrative offences pursuant to Legislative Decree 231/2001.

In March 2016 such proceeding was combined with the other legal proceedings pending with the Court of Milan in relation to the investigations concerning the Santorini, FRESH 2008 and Chianti Classico transactions (see the annual report as of 31 December 2015).

By an order of 13 May 2016, the Preliminary Hearing Judge (in Italian, the "GUP") authorized the lodging and admissibility of the claims for damages of the offended parties against the entities already part of the proceedings as the defendants pursuant to Legislative Decree 231/2001.

On 2 July 2016, with the approval of the Prosecuting Attorney, BMPS filed a request for plea bargain in the criminal proceedings, in relation to the objections made against the Bank in compliance with Legislative Decree 231/2001.

After the request for plea bargain, the Bank's position was closed and, consequently, at the moment BMPS is not civilly liable for its former Top Management, now accused. The Bank can be civilly liable in the course of the hearing (if any), as a result of a specific order of admission by the Court, at the request of the current and future offended parties, and its ensuing service in due and proper form.

If the request for plea bargain is accepted, the Bank intends to stop participating in the trial as the defendant of the administrative offences resulting from the crimes of its former Top Management, and limit the consequences to an administrative pecuniary sanction of EUR 600,000 and a seizure in the amount of EUR 10 million, without the risk of higher sanctions. The request for plea bargain - which determined the closing of the position of BMPS in the preliminary hearing under way – is expected to be enforced by the Preliminary Hearing Judge (GUP) of Milan in September 2016, if decided by the Court which will debate its possible acceptance.

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In relation to the notices received from Anima Holding and BPM regarding the activation of the compensation procedure (established at the time of the transfer of equity investments for the creation of the alliance in the asset management segment) due to a tax audit undertaken with regard to Anima Asset Management Ltd. and a correlated official tax audit report issued against the latter, in-depth assessments are currently underway with regard to the Bank's position in light of the possibility of an agreement between the Anima Group and Tax Authority.

Risks from tax disputes

Among the cases associated with tax disputes which regard the Group, those in which the risk of losing is considered likely are limited in number and adequate provisions have been made to the Provisions for risks and charges.

On 1 October 2015, the Siena Guardia di Finanza (Tax Police Department) began a tax audit on the Bank in order to verify, for tax periods from 2010 to 2015, the proper fulfilment of tax application obligations (application of withholding tax on interest expense) with reference to Tier 1 capital strengthening structures put into place, starting in 2000, with the specific, formal authorisation of Bank of Italy. Although the audit is still under way, the Bank has received - with reference only to the 2010 tax period - an official tax audit report and, subsequently on 22 December 2015, an assessment notice and a penalty notification. The total amount claimed for 2010 is EUR 15.7 mln.

The findings set forth are based, extremely briefly, on the re-classification of financial instruments that gave rise to the payment of such interest expense by the Bank (which do not require the application of withholding taxes) as different financial instruments (which, instead, require the application of withholding tax).

With regard to the notices received, the Bank submitted a petition for a tax assessment settlement and statement of defence in order to provide the Revenue Agency with reasonable arguments to defend the appropriateness of its actions. Following the relative discussions and based on the opinions of its advisors and on the significant benefits arising from the admission of the defensive arguments by the Revenue Agency, including full cancellation of all contested sanctions, on 18 May 2016, the Bank signed a tax assessment settlement. As a result, the final tax payable was determined to be approximately EUR 2.9 mln in total.

Continuing the assessment, on 30 May 2016, the Guardia di Finanza served a daily tax audit report against the Bank, through which the same arguments raised for the year 2010 were repeated for the years 2011 to 2013; in this case, confirming the defensive arguments already shared by the Revenue Agency during the settlement agreement for 2010, the claims indicated a failure to pay withholdings on an interest expense amount of approximately EUR 57.3 mln. With regard to said amounts, the Board of Directors authorised settlement of the tax disputes identified, at the same conditions as per the year 2010 assessment, with a consequent total outlay, solely for the omitted withholdings, of approximately EUR 11.5 mln.

Moreover, the same daily tax audit report, in relation to a separate financing transaction with foreign counterparty, claimed omitted withholdings on an interest expense amount of approximately EUR 53 mln. The amount of withholdings potentially applicable varies from 12% to 20%, depending on the year and on whether the conventional rate is applicable. The Bank is conducting the relative assessments.

To be mentioned is an investigation performed under court order by the Guardia di Finanza into a real estate transaction performed by MPS Immobiliare in 2011 and consisting of 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 the 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 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: as mentioned in prior reports, the Company, assisted by its advisors, has prepared and filed its own observations. The risk of losing associated with these issues is considered unlikely.

Lastly, note that on 27 April 2016, the Guardia di Finanza, Tax Police Unit of Siena, began and has not yet completed as an assessment of subsidiary Consorzio Operativo Gruppo Montepaschi, with regard to direct taxes, IVA and IRAP, for the period from 1 January 2011 to 27 April 2016.

Financial risks of investment services

The financial risks regarding investment services, for the Group, are a direct and indirect result of the risks incurred by customers in relation to the performance of services and investment activities. Consequently, governance of these risks is aimed at protecting customers and, simultaneously, preventing any potential negative impacts on the Group in terms of operational and reputational risk.

Risk assessment model

- The monitoring of risks inherent in investment services focuses on the overall set of operational and management processes as well as the measurement and the monitoring tools/methods used to ensure overall consistency between customers' risk profiles and the risk of investment products and portfolios offered to, or held by, customers.
  The investment products (of the Group and of third parties), whether or not included in the overall offering to the Group's Customers, are mapped for risk on the basis of quantitative measurements of market and credit risk factors; liquidity and complexity assessments are also conducted on these products. Product mapping is one of the guiding criteria for carrying out investment adequacy checks as part of the consulting service offered.
- The strategic choice of the MPS Group is to systematically combine the placement of financial products with advisory so as to ensure the highest level of protection for the investor and, at the same time, enhance the role played by relationship managers. The advisory service is offered on the basis of two different methods:
  - ✓ "Basic" transactional advisory is aimed at verifying the suitability of the individual investments recommended in relation to the risk of the customer's investment portfolio as a whole, by adopting a multi-variable control approach to the individual risk factors.
  - ✓ "Advanced" advisory is instead aimed at verifying the suitability of the overall set of transactions, advising on them based on their impact on an investment portfolio of the customer in order to obtain optimum asset allocation and maximised prospective returns over a certain time horizon, given the customer's risk profile.

Risk exposure

The graphs below provide a percent comparison between June 2016 and December 2015 of the Indicators issued by customers in compiling the MiFID questionnaire (Investment Horizon and Time Horizon).

At the end of June 2016, the portfolios held by Consumer/Retail customers on the basis of formalised "advanced" advisory proposals to obtain optimum asset allocation, were mainly distributed into the recommended, especially long-term, Asset Allocation macro-classes.

Results by operating segment

Identification of operating segments

For the purpose of identifying the Operating Segments provided for by IFRS 8, the Group has adopted the 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 2016 and the reporting criteria at the highest decision-making level, the following operating segments were identified:

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

Compared with the situation published in the Half-Year Report as at 30 June 2015, the "Financial Promotion and Digital Banking" operating segment has been removed and the relevant results (including those of the subsidiary Banca Widiba SpA) have been channelled into the "Retail Banking" segment, in line with the approach already adopted in the 2015 Financial Statements and confirmed in the Interim Report on Operations as at 31 March 2016.

Results in brief

The following table reports the main income statement and balance sheet items that characterised the Group's Operating Segments as at 30 June 2016.

SEGMENT REPORTING	Business Segments							
Primary segment	Retail banking		Corporate banking		Corporate Center		Total MPS Group	
	30/06/16	Chg % Y/Y	30/06/16	Chg % Y/Y	30/06/16	Chg % Y/Y	30/06/16	Chg % Y/Y
PROFIT AND LOSS AGGREGATES								
TOTAL REVENUES	2,158.1	-7.5%	399.5	-8.6%	(213.0)	51.6%	2,344.5	-10.8%
Operating expenses	(1,164.0)	-2.7%	(132.9)	-1.0%	18.1	-10.9%	(1,278.8)	-2.4%
PRE PROVISION PROFIT	994.1	-12.4%	266.5	-11.9%	(194.9)	62.2%	1,065.7	-19.1%
Net impairment losses (reversals) on loans and financial assets	(578.5)	-29.2%	(108.9)	-30.9%	(29.7)	n.s.	(717.2)	-27.0%
NET OPERATING INCOME	415.5	30.9%	157.6	8.7%	(224.6)	76.5%	348.5	4.0%
BALANCE SHEET AGGREGATES								
Interest-bearing loans to customers (*)	71,087.0	-7.0%	22,676.5	-5.0%	3,212.6	-60.2%	96,976.1	-10.5%
Deposits from customers and debt securities issued(**)	67,794.9	-8.8%	10,500.0	-23.9%	33,750.4	-3.0%	112,045.2	-8.8%
Indirect funding	72,627.5	-3.2%	10,044.3	-46.1%	15,036.8	2.8%	97,708.6	-9.8%
Assets under management	*51,946.1*	*0.9%*	*763.0*	*-1.8%*	*2,808.1*	*3.0%*	55,517.3	*1.0%*
Assets under custody	*20,681.3*	*-12.3%*	*9,281.3*	*-48.0%*	*12,228.7*	*2.8%*	42,191.4	*-20.9%*

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

(**) The figures for Retail Banking consist of values of the Sales Network of BMPS and of the balances of Banca Widiba SpA. In addition to the BMPS Sales Network figures, the Corporate Banking figure also includes the balances of the foreign banks (MP Banque and MPS Belgio).

It should be noted that the comparison values for 30 June 2015 include, at the overall level, the effects of the restatement of the "Alexandria" transaction and were also recalculated to incorporate the different segmentation of operating results as set forth above, as well as the effects of the following events:

- different allocation of a position originally classified in Corporate Banking;
- different allocation of the results of foreign banks MP Banque and MP Belgio.

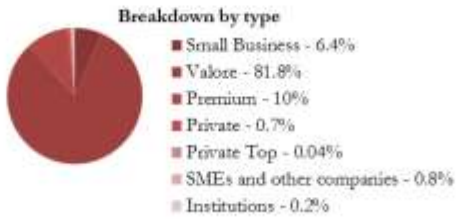
Retail Banking

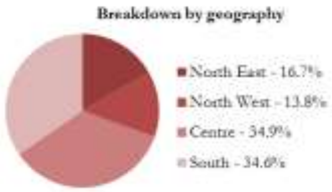
Business areas

- Funding, lending, provision of insurance products, financial and non-financial services to Retail customers.
- Electronic payment services (issuing and acquiring).
- Services and products for high-standing customers in the areas of wealth management, financial planning, consultancy on non-strictly financial services (tax planning, real estate, art & legal advisory), fiduciary and trust services (through the subsidiary MPS Fiduciaria).
- Digital services and self service enriched by the skills of the financial advisors network (through its subsidiary Banca Widiba)

Customers

Retail customers numbered around 5.2 million, of which over EUR 0.12 mln managed exclusively by Banca Widiba SpA.





Income statement and balance sheet results

As at 30 June 2016, **Total Funding** for Retail Banking amounted to approximately **EUR 140 bn** (EUR -7.5 bn compared to the end of 2015), just below the levels as at 31 March 2016 (EUR -0.4 bn), which includes, in 2Q 2016, growth in direct funding, offset by a drop in Assets under Custody, which was also impacted by the negative market effect. More specifically:

- **Direct Funding**, which in 1Q 2016 recorded a decrease in volumes of approximately EUR 5 bn, increased by EUR 0.6 bn in 2Q 2016, amounting to **EUR 68 bn**. The quarterly trend was characterised by growth in deposits on demand from retail customers;
- **Indirect Funding**, equal to approximately **EUR 73 bn**, declined by about EUR 1 bn compared to 31 March 2016 (EUR -2.2 bn against December 2015), particularly with regard to assets under custody, impacted by the negative market trends and the negative inflows in 2Q 2016. Assets under management, on the other hand, remained at the same levels as at 31 December 2015, growing by other EUR 0.2 bn compared to 1Q 2016, thanks to Funds/UCITS.

Interest-bearing loans to customers of Retail Banking decreased from EUR 73.4 bn at the end of 2015 to **EUR 71 bn** on 30 June 2016, with a decline in volumes of EUR 1.8 bn in 2Q 2016, mainly in the medium/long-term segment (aggregate also impacted by the run-off of former subsidiary Consum.it).

RETAIL BANKING - BALANCE SHEET AGGREGATES

	30/06/16	31/03/16	31/12/15	30/06/15	Chg Abs Q/Q	Chg % Q/Q	Chg Abs 31/12	Chg % 31/12	Chg Abs Y/Y	Chg % Y/Y
Deposits from customers and debt securities issued	**67,794.9**	**67,210.7**	**73,022.0**	**74,310.3**	**584.2**	**0.9%**	**-5,227.1**	**-7.2%**	**-6,515.4**	**-8.8%**
Assets under management	*51,946.1*	*51,719.4*	*51,979.8*	*51,465.1*	*226.7*	*0.4%*	*-33.7*	*-0.1%*	*481.0*	*0.9%*
Assets under custody	*20,681.3*	*21,914.3*	*22,888.6*	*23,572.3*	*-1,233.0*	*-5.6%*	*-2,207.3*	*-9.6%*	*-2,891.0*	*-12.3%*
Indirect Funding	**72,627.5**	**73,633.7**	**74,868.4**	**75,037.5**	**-1,006.3**	**-1.4%**	**-2,241.0**	**-3.0%**	**-2,410.0**	**-3.2%**
Total Funding	**140,422.3**	**140,844.4**	**147,890.4**	**149,347.8**	**-422.1**	**-0.3%**	**-7,468.1**	**-5.0%**	**-8,925.4**	**-6.0%**
Interest-Bearing Loans to Customers	**71,087.0**	**72,882.7**	**73,377.9**	**76,449.0**	**-1,795.8**	**-2.5%**	**-2,290.9**	**-3.1%**	**-5,362.0**	**-7.0%**

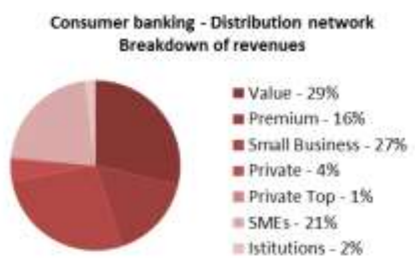
With regard to profit and loss, in the first half of 2016 Retail Banking achieved **Total Revenues** of approx. **EUR 2,158 mln**, down 7.5% compared to the same period of the previous year, principally due to a decline in Net Interest Income (-11.5% YoY) as a result of a reduction in returns on commercial assets (volumes and rates).

Considering the impact of operating expenses, which decreased by 2.7% YoY, Retail Banking generated a **Gross Operating Income** of about **EUR 994 mln** in the first half of 2016 down by 12.4% compared to the same period of the previous year. With regard to net impairment losses (reversals) on loans and financial assets, the aggregate recorded a significant decline compared to the figures in the corresponding period of 2015 (-29.2% YoY), with a significant benefit on the **Net Operating Income** which therefore amounted to approximately **EUR 416 mln** (+30.9% YoY).

The **cost-income** ratio of the Operating Segment is **53.9%** (54.6% at the end of March 2016).

RETAIL BANKING - PROFIT AND LOSS AGGREGATES

	30/06/16	30/06/15	Chg % Y/Y
Net interest income	*1,203.5*	*1,360.0*	*-11.5%*
Net fee and commission income	*928.1*	*925.5*	*0.3%*
Other income	*30.2*	*34.6*	*-12.7%*
Other operating expenses/income	*(3.7)*	*12.0*	*n.s.*
TOTAL REVENUES	**2,158.1**	**2,332.0**	**-7.5%**
Operating expenses	*(1,164.0)*	*(1,196.9)*	*-2.7%*
PRE PROVISION PROFIT	**994.1**	**1,135.1**	**-12.4%**
Net impairment losses (reversals) on loans and financial assets	(578.5)	(817.7)	-29.2%
NET OPERATING INCOME	**415.5**	**317.5**	**30.9%**



Results of the main subsidiaries

The results of the main subsidiaries, with regard to the Retail Banking operating segment, were as follows:

- **Banca WIDIBA***:* Loss for the period of EUR -4.8 mln, significantly improved compared to the result of the first six months of 2015 (when the loss was EUR -7.9 mln) due to revenue growth and a reduction in operating expenses. Increased direct funding volumes compared to the end of 2015, with the customer base amounting to 150,000 units, while there was a slight reduction in assets under custody and under management, also impacted by negative market effects;
- **MPS Fiduciaria**: Profit for the period of approximately EUR 0.2 mln, slightly below the levels observed in the 1st half of 2015.

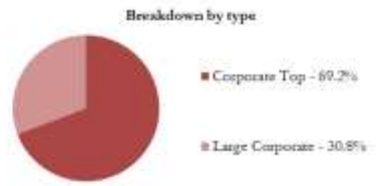
Corporate Banking

<table>
<tr><th>Business areas</th><th>Customers</th></tr>
<tr><td rowspan="3">
• Lending and offering financial products and services to businesses, including through strategic partnerships with trade associations and Confidi, credit guarantee consortia, with Guarantee Institutions (including public) and Institutional Entities, through which funding is acquired at favourable terms.

• Offer of integrated leasing and factoring packages for businesses, artisans and professionals (through the subsidiary MPS Leasing & Factoring).

• Corporate finance - medium-long term credit facilities, corporate finance, capital markets and structured finance also through the subsidiary MPS Capital Services.

• Products and services issued by the Bank's foreign branches to support business expansion and investments by Italian companies abroad. Activities abroad are also supported by the operations of foreign subsidiaries MP Banque and MP Belgio.

• Custody and deposit services for dairy products on behalf of third parties (through the subsidiary Magazzini Generali Fiduciari di Mantova S.p.A., which is also authorised to issue documents of title to the merchandise, providing for easier access to bank lending).
</td><td>About 4,200 Top Corporate customers and large groups of the parent company, directly followed by Corporate Banking</td></tr>
<tr><td>
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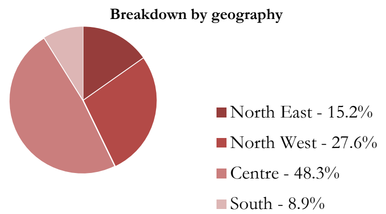
<tr><td>
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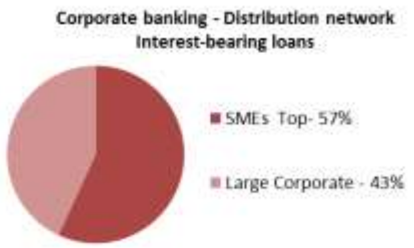
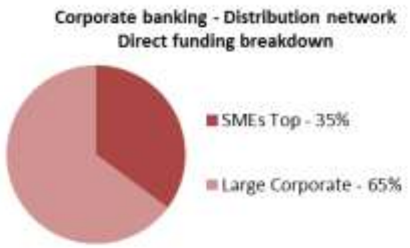
Income statement and balance sheet results

Total Funding from Corporate Banking in the 1st half of 2016 fell by approximately EUR 11 bn, amounting to **EUR 20.5 bn** as at 30 June 2016. The decrease in volumes recorded in 2nd quarter 2016 (EUR -6.8 bn) is almost exclusively due to the decline in Assets under Custody (EUR -6.5 bn QoQ), which was entirely impacted by the merger by incorporation of a large customer with no impact on the profit and loss (the negative impact on volumes was approximately EUR -6.4 bn).

With regard to lending, as at 30 June 2016, Corporate Banking **interest-bearing loans to customers** stood at approximately **EUR 23 bn** (-1.2% on 31 December 2015; -3.7% on 31 March 2016), mainly concentrated in medium/long-term loans.

CORPORATE BANKING - BALANCE SHEET AGGREGATES										
	30/06/16	31/03/16	31/12/15	30/06/15	Chg Abs Q/Q	Chg % Q/Q	Chg Abs 31/12	Chg % 31/12	Chg Abs Y/Y	Chg % Y/Y
Deposits from customers and debt securities issued	**10,500.0**	**10,860.0**	**14,506.1**	**13,789.3**	**-360**	**-3.3%**	**-4,006**	**-27.6%**	**-3,289**	**-23.9%**
Assets under management	*763.0*	*753.9*	*759.9*	*777.0*	*9*	*1.2%*	*3*	*0.4%*	*-14*	*-1.8%*
Assets under custody	*9,281.3*	*15,765.4*	*16,394.8*	*17,851.6*	*-6,484*	*-41.1%*	*-7,114*	*-43.4%*	*-8,570*	*-48.0%*
Indirect Funding	**10,044.3**	**16,519.3**	**17,154.7**	**18,628.6**	**-6,475**	**-39.2%**	**-7,110**	**-41.4%**	**-8,584**	**-46.1%**
Total Funding	**20,544.3**	**27,379.4**	**31,660.8**	**32,417.9**	**-6,835**	**-25.0%**	**-11,116**	**-35.1%**	**-11,874**	**-36.6%**
Interest-Bearing Loans to Customers	**22,676.5**	**23,559.5**	**22,945.1**	**23,860.4**	**-883**	**-3.7%**	**-269**	**-1.2%**	**-1,184**	**-5.0%**





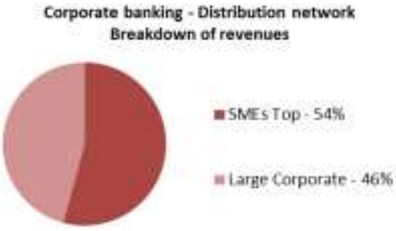
For profit and loss aggregates, in the first six months of 2016, Corporate Banking **revenues** came to approximately **EUR 400 mln** (-8.6% YoY), in which:

- Net Interest Income was approximately EUR 209 mln, down 11.1% annually due to the decrease in returns on commercial assets (volumes and rates);
- Net fee and commission income decreased by 8.9% YoY, amounting to approximately EUR 81 mln during the half year, mainly penalised by the downward trend in proceeds from Credit/Foreign services, also impacted by the reduction in operating volumes;
- Other Revenue from banking and insurance business amounted to approximately EUR 112 mln (-2.4% YoY).

The segment's **Net Operating Income** therefore amounts to approximately **EUR 158 mln,** with an annual increase of 8.7%, affected by a YoY reduction in value adjustments for impairment of receivables and financial assets (-30.9%) and a decrease in operating expenses (-1% YoY).

The Corporate Banking **cost-income** ratio stands at **33.3%** (33.7% as at 31 March 2016).

CORPORATE BANKING - PROFIT AND LOSS AGGREGATES			
	30/06/16	30/06/15	Chg % Y/Y
Net interest income	*208.5*	*234.4*	*-11.1%*
Net fee and commission income	*81.4*	*89.4*	*-8.9%*
Other income	*111.9*	*114.7*	*-2.4%*
Other operating expenses/income	*(2.4)*	*(1.7)*	*39.2%*
TOTAL REVENUES	**399.5**	**436.8**	**-8.6%**
Operating expenses	*(132.9)*	*(134.2)*	*-1.0%*
PRE PROVISION PROFIT	**266.5**	**302.6**	**-11.9%**
Net impairment losses (reversals) on loans and financial assets	(108.9)	(157.7)	-30.9%
NET OPERATING INCOME	**157.6**	**144.9**	**8.7%**



Results of the main subsidiaries

The results of the main subsidiaries, with regard to the Corporate Banking operating segment, were as follows:

- **MPS Capital Services**: profit for the period of approximately EUR 49.5 mln, up by around EUR 8 mln compared to the first half of 2015, mainly due to the reduction in the cost of credit (approximately EUR -44 mln);
- **MPS Leasing & Factoring**: loss for the period of EUR -15.3 mln, improved from the first six months of 2015 (loss of EUR -18 mln), mainly due to a reduction in non-performing loan impairments (approximately -EUR 15 mln);
- **Foreign banks[3]:** in the first six months of 2016 **MP Banque** recorded a loss of EUR -1.3 mln (compared to an essential break-even recorded in the corresponding period last year); with regard to **MP Belgio**, the profit for the period amounted to EUR 3.2 mln, compared to a profit of EUR 6.1 mln in the 1st half of 2015.

Corporate Centre

The Corporate Centre includes:

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

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

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

Prospects and outlook on operations

Within the global economy, the United States and the other developed countries continue their expansion, whereas emerging countries continue to pose risks for the world growth.

In the euro zone, cyclical expansion sustained by domestic demand continues, however exports remain weak and risks linked to the uncertain geopolitical situation and to the Brexit vote, which negatively affected financial markets increase. Inflation values are insignificant and are expected to remain low in the medium term also due to large margins of unused production and employment capacity.

The Governing Council of the ECB strengthened the monetary stimulus with a complex package of expansionary measures consisting in increasing size and composition of securities purchase, in further decreasing official rates and in new longer term refinancing measures for the banks on extremely favourable terms (the so-called "TLTRO 2") to foster credit to households and companies.

Several factors make the situation in the euro zone difficult for the second half of 2016. Brexit results are at the moment the main external risk, to which the need of reducing non-performing loans in the banking industry has to be added, on ECB instructions and driven by financial markets. This issue has also involved the Governing Bodies at domestic level which are developing a set of workable solutions liaising with the authorities and the European partners.

Plan for the disposal of doubtful loans, the reduction of the risk profile and the strengthening of the capital base

With reference to the situation of the Group and in particular to the stock of impaired loans, the Board of Directors of the Parent Company approved on 29 July 2016 the guidelines of a transaction involving the derecognition of the entire portfolio of doubtful loans of the Group (EUR 27.7 billion gross and EUR 10.2 billion net at 31 March 2016). The project as a whole determines a capital need that, on the basis of a preliminary estimate, is equal to a maximum of EUR 5 billion.

The completion of the transaction is subject, inter alia, to the obtaining of all regulatory and supervisory approvals. The Bank shall submit to the ECB for approval as soon as possible a capital plan providing all actions, including the capital increase, aimed at the achievement of a more than adequate capital base. In this regard it is noted that the ECB has authorized the Bank to completely neutralize the impacts on LGD models deriving from the derecognition of the doubtful loans portfolio subject to the full execution of the project

The transaction, which is unprecedented in its structure and size on the Italian market, represents a fundamental step for BMPS and, upon its completion, will reaffirm it between the leading institutions of the Italian banking system, with a robust capital position, a reduced risk profile, a credit quality significantly improved and a renewed growth potential of profitability for the benefit of all stakeholders.

The transaction should be considered as a "whole transaction" meaning that no phase can be executed without the execution of all the others.

In particular, the doubtful loans portfolio of BMPS will be entirely transferred to a securitization vehicle set up under Italian Law (Law 130/1999). It is envisaged that this transfer will take place at a price equal to EUR 9.2 billion (i.e., 33% of the gross value). Following appropriate due diligence and structuring it is assumed that the financing of the vehicle would be structured as follows:

- Senior notes up to EUR 6.0 billion, which will be placed on the market with the potential assistance of GACS (Garanzia Cartolarizzazione Sofferenze) for the investment grade component;
- Mezzanine notes for an amount up to about EUR 1.6 billion subscribed by the Atlante Fund;
- Junior tranche for an amount up to about EUR 1.6 billion assigned to the shareholders of BMPS, in order to obtain the simultaneous derecognition of the portfolio of doubtful loans

by BMPS. It is also expected that the financial instrument to be assigned to the current shareholders of BMPS will be listed, under certain assumptions in order to provide for an easier marketability mechanism.

According with the timeline for the entire transaction, which involves the set-up of the capital increase by the end of the current financial year and the simultaneous derecognition of the doubtful loans portfolio, if, within the date on which the guarantee contract for the capital increase will be signed, the timing does not allow the implementation of a structure of a securitisation involving the issuance of long-term notes, it is envisaged that a bridge financing will be activated which could be supported by BMPS by providing a residual senior mezzanine financing, so as not to jeopardize the derecognition of the doubtful loans portfolio; this structure will allow anyway to proceed with the assignment of the junior tranches to the existing BMPS shareholders.

Quaestio Capital Management SGR S.p.A., on behalf of the Atlante Fund, entered into a Memorandum of Understanding with BMPS that defines the phases and the conditions for the investment of the Atlante Fund, provided simultaneously with the conclusion of the capital increase for a maximum amount of EUR 1.6 billion, through the subscription of the Mezzanine Notes. In the framework of the Memorandum it is provided that Quaestio will appoint a Co-Arranger for securitization and the Master Servicer of the portfolio of doubtful loans. Moreover, Quaestio will coordinate the definition of the Business Plan for the recovery of the doubtful loans, which will be assigned to several Special Servicers, selected through a competitive bid. The project for the divestiture of the loans recovery platform of BMPS is confirmed, which could manage a third of the portfolio to be securitized.

It is also envisaged that the Atlante Fund be assigned warrants, with underlying newly issued shares of the Bank equal to 7 % of the fully diluted share capital after the completion of the capital increase and having the following main characteristics:

- Exercise price equal to the sum of (i) the issue price of new shares issued at the service of the capital increase and (ii) the weighted average of the volumes of the price of the option rights;
- Exercisable at any time within 5 years from the issue date;
- Not transferable to third parties or to be used for the setting up of synthetic coverage structures.

The Board of Directors of BMPS will convene a shareholders' meeting for the approval of (i) a divisible capital increase, offered in option to the shareholders of BMPS, for a maximum amount of EUR 5 billion in order to restore a robust capital base as a result of the transaction, (ii) a share capital increase with no option rights, at the service of the warrants to be assigned to the Atlante Fund, (iii) the constitution and simultaneous reduction of the share premium reserve for the purposes of the assignment of the junior tranche to the shareholders of BMPS.

J.P. Morgan and Mediobanca, with the role of Joint Global Coordinators and Joint Bookrunners and Banco Santander, BofA Merrill Lynch, Citigroup, Credit Suisse, Deutsche Bank, Goldman Sachs International, with the role of Co-Global Coordinators and Joint Bookrunners, have signed a pre-underwriting agreement having as its object the commitment - subject to conditions in line with the market practice for similar operations as well as, inter alia, to the good outcome of the derecognition of the entire portfolio of doubtful loans and of the marketing activity with investors - to sign a guarantee agreement for the subscription of the newly issued shares, which will eventually remain unsold at the end of the auction for the unexercised rights, for a maximum amount of EUR 5 billion.

The successful finalization of the Transaction will allow BMPS:

- To meet the doubtful loans stock reduction requirements requested in the draft letter of the ECB, the main content of which was communicated to the market on 4 July 2016;
- To reduce the risk profile of the Bank;
- To significantly improve the future profitability of the Bank for the benefit of all stakeholders.

The Transaction will also enable the bank to remove the critical factors emerged in the EBA EU-wide stress test of 2016.

The derecognition of the entire portfolio of doubtful loans will enable the Bank to boast a credit quality among the best of the Italian market as well as to reduce the complexity and the risk profile of the Group and to achieve an improvement in the liquidity position and a better financial stability of the Bank.

For these purposes, the Bank will consider in the coming months possible amendments to the loan valuation policies.

It is expected, finally, upon completion of the operation, that the reduction of risk will have a positive impact on the profitability perspectives, in particular in terms of reduction of the cost of risk and the cost of funding, allowing both to accelerate the return to levels of sustainable profitability and to take advantage of further opportunities for growth.

The current shareholders of BMPS will retain the opportunity to participate to the potential upside deriving from the recovery of doubtful loans transferred to the vehicle via the assignment of the junior tranche mentioned previously.

With regard to the timing of completion of the transaction, it is expected that: by the end of the month of September 2016 the Board of Directors to call upon the shareholders' meeting of BMPS and to approve the Business Plan of the Bank that will be presented to the financial community. The shareholders' meeting for approval of the transaction is scheduled for the months of October/November, with the aim of completing the capital increase and the derecognition of the portfolio of doubtful loans before the end of 2016.

It is finally worth noting that the economic effects of the transaction, with particular reference to writedowns and losses on disposal of loans that might derive, are closely connected with the implementation of the latter and that the same provides for various stages (as identified above) which are mutually conditional upon and therefore the conditions required by the accounting principles to recognize these losses/writedowns in whole or in part in the half-year condensed consolidated financial statements are not satisfied. Moreover, the effects arising from the sale of doubtful loans portfolio as well as any further impacts on the remaining portfolio of impaired loans will be specifically assessed, also for the purposes of the possible updating of internal policies, taking account of the significant size of the doubtful loans portfolio subject of derecognition and of the unique circumstances that characterize the same.

Other information

As of the end of June, Decree-Law no.59 of 3 May 2016 was converted into Law no.199. This included, inter alia, the provisions in relation to deferred tax assets ("DTA") on the basis of which the companies can continue applying the current rules in relation to the conversion of deferred tax assets into tax credit, provided that - once exercised the option - they pay an annual fee with reference to each one of the financial years starting from 2015 and afterwards, if appropriate, until 2029. With reference to the Group, the impact on 2016 is estimated at EUR 72 mln approx. (EUR 73 mln in 2015), including the tax effect (the fee can be deducted for the purpose of income tax and IRAP – regional tax on productive activity) and will gradually reduce and come to an end in 2029.

In July 2016, the tensions in the financial markets which involved the banking system in particular produced a slight reduction of the volumes of the Group Commercial Direct Funding in comparison with the situation as of 30 June 2016. This trend, considerably lower than the data recorded in January 2016 (concentrated on Corporate customers and Large Positions), implied a modest reduction of the levels of Counterbalancing Capacity which is much higher than the "Contingency Level" and the "Operational Limit for operating purposes".

Related-party transactions

Compensation of key management personnel

Items/Amounts	Total 30 06 2016	Total 30 06 2015
Short-term benefits	3.8	4.0
Post-retirement benefits	-	-
Other long-term benefits	-	-
Termination benefits	-	-
Share-based payments	-	-
Other compensation	-	-
Total	**3.8**	**4.0**

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 detailed information regarding remuneration policies, pursuant to art. 123 ter of the Consolidated Law on Finance, please refer to the document "Report on Corporate Governance and Ownership Structure – Remuneration Report" which contains data reported in the past financial statements, including:

- a detailed breakdown of compensation paid to the Governing and Control bodies, General Management and, in aggregate form, to Key Management Personnel, as well as stock option plans reserved for members of the Governing and Control bodies, the General Management and Key Management Personnel;
- details and developments regarding stock option plans for Key Management Personnel;
- the shares of the Parent Company and its subsidiaries held by members of the Governing and Control bodies, General Management, Key Management Personnel and other related parties.

The following tables summarise the Group's relationships with its associates, key management personnel and other related parties as at 30 June 2016, as well as the economic effects of operations during the year. In calculating the shares of total, note that:

- financial assets had the total of items 10 to 80 on the Assets side of the Balance Sheet (balance-sheet financial assets) as their denominator;
- financial liabilities had the total of items 10 to 60 on the Liabilities side of the Balance Sheet (balance-sheet financial liabilities) as their denominator;
- for other assets and liabilities, the denominator reflected the items “Other assets” and “Other liabilities” in the Balance Sheet;
- for revenues and costs, the denominator is represented by the Group’s “Profit (loss) before tax from continuing operations”.

Transactions with associates and joint ventures

30 06 2016

Items	Amounts	% on Consolidated
Total financial assets	1,032.1	0.68%
Total other assets	-	0.00%
Total financial liabilities	484.1	0.33%
Total other liabilities	0.4	0.01%
Guaranties issued	125.6	
Guaranties received	452.4	

Transactions with key management personnel and other related parties

30 06 2016

Items/Amounts	Executives with strategic responsibility	Other related parties	% on consolidated
Total financial assets	1.2	11.1	0.01%
Total financial liabilities	1.6	49.7	0.03%
Total functioning costs	3.8	-	
Guarantees issued	-	-	
Guarantees received	1.1	8.6	

Related-party transactions

"Regulations containing provisions relating to transactions with related parties" was adopted by Consob with Resolution no. 17221 of 12 March 2010 and later amended by Resolution no. 17389 of 23 June 2010.

In its meeting of 10 November 2010, the Board of Directors established the Committee of Independent Directors which, as of 18 July 2013, has been renamed "Committee on Related-Party Transactions"; the Committee is currently composed solely of independent directors pursuant to the principles and criteria of the Corporate Governance Code of listed companies, which BMPS adhered to, and the Consolidated Law on Finance.

The Bank of Italy, 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, updated Circular no. 263/2006 (9th update) as of 31 December 2012 to govern regulations concerning risk assets and conflicts of interest in relation to the Associated Parties of the Group.

Through a resolution dated 12 November 2014, the Parent Company's Board of Directors approved – in accordance with regulatory provisions and having obtained the prior favourable opinions of the Committee on Related-Party Transactions and of the Board of Statutory Auditors, the "Global Policy on transactions with related parties and associated parties, obligations of the Banking entities" (hereinafter the "Global Policy"), which includes in a single document the Group's provisions on conflicts of interest in transactions with related parties in accordance with the above referenced Consob Regulation no. 17221/2010 and with Associated Parties in accordance with Bank of Italy Circular no. 263/06, Title V- Section 5, as well as those on the obligations of banking representatives, in accordance with art. 136 of the Consolidated Law on Banking (TUB), and also contains rules for subsidiaries.

The Global Policy dictates the principles and rules to be adhered to in order to control the risk arising from situations of possible conflict of interest with certain entities close to the Bank's decision-making centres, and supersedes the "Procedure for Related-Party Transactions" - adopted on 25 November 2010 and updated on 24 June 2012 - and the "Deliberative Procedures governing transactions with Associated Parties" – adopted on 24 June 2012.

The Global Policy was published on the Bank's web site and is therefore available in full-text version at the following link:

https://www.mps.it/investors/corporate-governance/sistema-di-governance-e-policy/Sistema%20di%20governance%20e%20policy/Operazioni_con_parti_correlate_e_soggetti_%20collegati,_obbligazioni_degli_esponenti_bancari.pdf

In May 2016, the Parent Company's Board of Directors resolved to approve inclusion of the MEF and of the relative directly and indirectly controlled companies within the scope of related parties, on a discretional basis pursuant to the provisions of the Global Policy, excluding the prudential regulation.

The Parent Company has availed itself of the exemption envisaged by paragraph 25 of IAS 24 on the disclosure of transactions and balances of existing transactions with government-related entities. Among the main transactions carried out with the MEF and with its subsidiaries, in addition to the financing and funding transactions, mention also goes to the amount of Italian government securities recorded in the HFT and AFS portfolio (respectively for a nominal amount of EUR 3,074.30 and EUR 13,984.40 mln).

Information is provided below regarding related-party transactions carried out by the Bank during the first half of 2016, which deserve specific mention and were conducted based on reciprocal assessments of economic advantages.

February 2016

- On 25 February 2016, the Board of Directors' resolution of 10 September 2015 in favour of INTERMONTE SIM SPA was implemented, regarding renewal with increase of the credit lines, for the portion relative to extension of the transitional credit line of EUR 150.0 mln from 31 December 2015 to 13 December 2016. The transaction falls within the scope of application of CONSOB Regulation no. 17221/2010, as the Bank exercises significant influence in virtue of its investment in the share capital of INTERMONTE SIM SPA, with a stake of 17.41% of the shares with voting rights, and given the fact that it has designated a Board Member, a Statutory Auditor and an Alternate Auditor.

March 2016

- On 14 March 2016, the Board of Directors, with the favourable opinion of the Committee on Related-Party Transactions, authorised signing of the distribution agreement of insurance policies between BMPS and a new company to be established on a joint venture basis between AXA ASSICURAZIONI SPA (related party of BMPS as it is directly controlled by AXA S.A.) and RBM Salute S.p.A. The transaction, amounting to a total of EUR 131.0 mln, falls within the scope of application of CONSOB Regulation no. 17221/2010 since, even though the counterparty to the agreement is not a related party of BMPS, as the content of said agreement will be an integral part of the Joint Venture agreement already in existence between the Bank and AXA S.A., which is a related party of the Bank as a result of said Joint Venture.

April 2016

- On 7 April 2016, the Board of Directors, with the favourable opinion of the Committee on Related-Party Transactions, authorised the Bank's participation in the restructuring agreements pursuant to Art. 182-*bis* of the Bankruptcy Law, with a total exposure of EUR 11.3 mln, regarding the companies Una S.p.A., Euro S.r.l., Il Forte S.p.A. and Immobiliare Ferrucci S.r.l., all belonging to the FENICE GROUP; these companies fall under the category of related parties pursuant to CONSOB Regulation no. 17221/2010 as they are subject to significant influence by BMPS as a result of the investment held by the MPS Group in the holding company of the Fenice Group (FENICE HOLDING SPA) with a total stake of 20.54%, of which 4.16% by BMPS and 16.38% by MPS CAPITAL SERVICES SPA, which is in turn a subsidiary 99.92% owned by BMPS;
- on 7 April 2016, the Board of Directors resolved the granting of a new credit line to SAIPEM SPA, in addition to restoration of previously granted partial credit line, for a total amount of EUR 95.0 mln. SAIPEM SPA became a related party of BMPS, as it is indirectly controlled by the Ministry of Economy and Finance (MEF) through ENI SPA, both of which have become related parties of the Bank;
- also on 7 April 2016, the Board of Directors, with prior favourable opinion by the Committee on Related-Party Transactions, resolved to authorise signing of the loan restructuring agreement with regard to MARINELLA SPA in liquidazione, as well as signing of the framework agreement for the reorganisation of MARINELLA SPA. The transaction, amounting to a total of EUR 26.9 mln, falls within the scope of application of CONSOB Regulation no. 17221/2010, as MARINELLA SPA is subject to joint control by BMPS, which directly owns 25%, together with the company Sviluppo Progetto Marinella S.p.A., which owns the remaining 75%;
- on 26 April 2016, in implementation of the restructuring agreements already resolved by the Board of Directors in 2015 and following the entry into force of the relative decree by the Court and consequent registration, the Credit and Credit Policies Committee authorised conversion of the loan with regard to SANSEDONI SIENA SPA and subsidiary SVILUPPO

ED INTERVENTI IMMOBILIARI SPA, for a total amount of EUR 25.9 mln, into equity instruments. The transaction falls within the scope of those governed by CONSOB Regulation no. 17221/2010, as the aforementioned companies are subject to significant control by BMPS, which holds 21.75% of the share capital of SANSEDONI SIENA SPA, which in turn controls SVILUPPO ED INTERVENTI IMMOBILIARI SPA.

May 2016

- On 8 May 2016, the Credit and Credit Policies Committee, with the prior favourable opinion by the Committee on Related-Party Transactions, resolved in favour of IMMOBILIARE NOVOLI SPA: (i) extension of the ordinary credit facilities, (ii) extension with an increase in credit line agreed upon during the prior years and (iii) confirmation of the two construction mortgages on a pool basis with another bank, for a total amount of EUR 72.4 mln. The transaction is governed by CONSOB Regulation no. 17221/2010, as BMPS holds a stake in the company of 50% of the shares with voting rights.

June 2016

- On 13 June 2016, the Credit and Credit Policies Committee of BMPS expressed its approval of the disposal without recourse of the existing loan of MPS CAPITAL SERVICES SPA (part of the MPS Group and subsidiary of BMPS at 99.92%), with respect to BEATRICE SRL in liquidazione, for a total amount of EUR 48.4 mln. On 26 April 2016, the Credit and Credit Policies Committee of BMPS had already expressed its favourable opinion on the extension of the moratorium period for this loan up to 30 June 2016. The transaction falls within the scope of application of CONSOB Regulation no. 17221/2010, as BEATRICE SRL in liquidazione is 100% owned by SANSEDONI SIENA SPA, which is in turn subject to significant influence by BMPS, with a stake of 21.75% of the share capital.

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, Massimo Tononi, 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 2016.

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 2016 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 2016:
      - 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 related party transactions of major relevance.

Siena, 29 July 2016

On behalf of the Board of Directors	*The Financial Reporting*
Signed by The Chairman	*Signed by Officer*
Massimo Tononi	*Arturo Betunio*

AUDITORS' REVIEW REPORT ON THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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Review report on the interim condensed consolidated financial statements
(Translation from the original Italian text)

To the Shareholders of
Banca Monte dei Paschi di Siena S.p.A.

Introduction

We have reviewed the interim condensed consolidated financial statements, comprising the balance sheet as of June 30, 2016, the income statement, the statement of comprehensive income, the statement of changes in equity and cash flows for the period then ended and the related explanatory notes of Banca Monte dei Paschi di Siena S.p.A. and its subsidiaries (the "Montepaschi Group"). The Directors of Banca Monte dei Paschi di Siena S.p.A. are responsible for the preparation of the interim condensed consolidated financial statements in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with review standards recommended by Consob (the Italian Stock Exchange Regulatory Agency) in its Resolution no. 10867 of July 31, 1997. A review of interim condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA Italia) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the interim condensed consolidated financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements of Montepaschi Group as of June 30, 2016 are not prepared, in all material respects, in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Emphasis Paragraph

Without modifying our conclusions, we draw attention on the information provided in paragraphs "Going Concern" and "Plan for the disposal of doubtful loans, the reduction of the risk profile and the strengthening of the capital base" of the explanatory notes in which the Directors inform about the complex transaction approved by the Board of Directors on July 29, 2016 (the "Transaction") and about the assessment made with regard to the status of realization of the Transaction and the residual uncertainties related to the fulfillment of the conditions for its implementation. Upon completion of this assessment, and subject to the actual completion of the Transaction, the Directors have deemed appropriate to prepare the interim condensed consolidated financial statements as at June 30, 2016 under the going concern assumption.

Milan, August 4, 2016

EY S.p.A.
Signed by: Massimiliano Bonfiglio, Partner

This report has been translated into the English language solely for the convenience of international readers

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Annexes

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

Reconciliation between the reclassified income statement as at 30 June 2016 and related statutory accounts

Accounts in Reclassified Profit and Loss Statement - Montepaschi Group	30/06/16	Accounts in the Profit and Loss Statement - Montepaschi Group		30/06/16	Operating Reclassifications		30/06/16
Net interest income	1,035.2	Interest income and similar revenues	Item 10	1,748.4	(+) Economic effects from allocation of BAV acquisition costs to BMPS (PPA)		10.4
		Interest expense and similar charges	Item 20	-723.6			
Net fee and commission income	940.7	Fee and commission income	Item 40	1,091.3			
		Fee and commission expense	Item 50	-150.6			
Income from banking activities							
Dividends, similar income and gains (losses) on equity investments	43.2	Dividends and similar income	Item 70	11.9	(-) Reclassification of dividends on treasury stock transactions	Item 70 - Partial	-2.5
					(+) Portion of profit from equity investments (Gruppo AXA)	Item 240 - Partia	33.8
Net profit (loss) from trading/ valuation of financial assets	317.0	Net profit (loss) from trading	Item 80	117.5	(+) Reclassification of dividends on treasury stock transactions	Item 70 - Partial	2.5
		Gains/losses on disposal/repurchase of:	Item 100	128.6			
		a) loans		-6.8			
		b) financial assets available for sale		89.3			
		c) held to maturity investments					
		d) financial liabilities		46.1			
		Net profit (loss) from financial assets and liabilities	Item 110	68.4			
Net profit (loss) from hedging	-1.3	Net profit (loss) from hedging	Item 90	-1.3			
Other operating income (expenses)	9.7	Other income/expenses (net) from insurance activities	Item 220	203.9	(-) Recovery of stamp duty and customers' expenses	Item 220 - Partia	-194.2
Total Revenues	**2,344.5**			**2,494.5**			**-150.0**
Administrative expenses:	-1,176.8	Administrative expenses		-1,550.6			
a) personnel expenses	-821.0	a) Personnel expenses	Item 180a	-821.0			
b) other administrative expenses	-355.8	b) Other administrative expenses	Item 180b	-729.6	(+) Reclassification provision to BRRD and DGSD funds	Item 180b - Parti	70.8
					(+) Recovery of stamp duty and customers' expenses	Item 220 - Partia	194.2
					(+) DTA fee	Item 220 - Partia	108.8
Net adjustments to (recoveries on) property, plant and equipment / Net adjustments to (recoveries on) intangible assets	-102.0	Net losses/reversal on impairment on property, plant a	Item 200	-53.0			
		Net adjustments to (recoveries on) intangible assets	Item 210	-62.8	(+) Economic effects from allocation of BAV acquisition costs to BMPS (PPA)		13.8
Operating expenses	**-1,278.8**			**-1,666.4**			**387.6**
Pre Provision Profit	**1,065.7**			**828.1**			**237.6**
Net impairment losses (reversals) on:	-717.2	Net impairment losses(reversals) on	Item 130	-717.2			
a) loans	-718.3	a) loans	Item 130a	-718.3			
b) financial assets	1.1	b) financial assets available for sale	Item 130b	-16.1			
		c) held to maturity investments	Item 130c				
		d) other financial transactions	Item 130d	17.2			
Net operating income	**348.5**			**110.9**			**237.6**
Net provisions for risks and charges	23.9	Net provisions for risks and charges	Item 190	23.9	(-) Reclassification provision to BRRD and DGSD funds	Item 190 - Partia	
Gains (losses) on investments	7.7	Gains (losses) on investments	Item 240	41.5	(-) Portion of profit from equity investments (Gruppo AXA)	Item 240 - Partia	-33.8
Restructuring costs / One-off costs					(-) Restructuring charges	Item 180b - Parti	
Risks and charges related to the SRF, DGS and similar schemes	-70.8				Provision to BRRD and DGSD funds	Item 180b - Parti	-70.8
DTA fee	-108.8				(-) DTA fee	Item 180b - Parti	-108.8
Gains (losses) on disposal of investments		Gains (losses) on disposal of investments	Item 270				
Profit (loss) before tax from continuing operations	**200.5**			**176.3**			**24.2**
Tax expense (recovery) on income from continuing operations	118.5	Tax expense (recovery) on income from continuing operations	Item 290	126.5	(-) Economic effects from allocation of BAV acquisition costs to BMPS (PPA)		-8.0
Profit (loss) after tax from continuing operations	**319.0**			**302.8**			**16.2**
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	Item 310				
Net profit (loss) for the period including non-controlling interests	**319.0**			**302.8**			**16.2**
Net loss (profit) attributable to non-controlling interests	-0.8	Net loss (profit) attributable to non-controlling interest	Item 330	-0.8			
Profit (loss) for the period before PPA , impairment on goodwill and intangibles	**318.2**			**302.0**			**16.2**
PPA (Purchase Price Allocation)	-16.2				(-) Economic effects from allocation of BAV acquisition costs to BMPS (PPA)		-16.2
Impairment on goodwill and intangibles		Impairment on goodwill and intangibles	Item 260				
Net profit (loss) for the period	**302.0**	Net profit (loss) for the period		**302.0**	Total		

Reconciliation between the reclassified income statement as at 30 June 2015 and related statutory accounts

Accounts in Reclassified Profit and Loss Statement - Montepaschi Group	30/06/15	Accounts in the Profit and Loss Statement - Montepaschi Group		30/06/15	Operating Reclassifications			30/06/15
Net interest income	1160.7	Interest income and similar revenues	Item 10	2117.6	(+)	Economic effects from allocation of BAV acquisition costs to BMPS (PPA)		18.2
		Interest expense and similar charges	Item 20	-975.1				
Net fee and commission income	927.1	Fee and commission income	Item 40	1104.1				
		Fee and commission expense	Item 50	-176.9				
Income from banking activities	**2087.9**			**2069.6**				**18.2**
Dividends, similar income and gains (losses) on equity investments	66.3	Dividends and similar income	Item 70	14.2	(-)	Reclassification of dividends on treasury stock transactions	Item 70 - Partial	-5.4
					(+)	Portion of profit from equity investments (Gruppo AXA)	Item 240 - Partial	57.6
Net profit (loss) from trading/ valuation of financial assets	445.2	Net profit (loss) from trading	Item 80	325.3	(+)	Reclassification of dividends on treasury stock transactions	Item 70 - Partial	5.4
		Gains/losses on disposal/repurchase of:	Item 100	132.7				
		a) loans		-27.2				
		b) financial assets available for sale		161.0				
		c) held to maturity investments						
		d) financial liabilities		-1.1				
		Net profit (loss) from financial assets and liabilities designated at fair value	Item 110	-18.1				
Net profit (loss) from hedging	16.1	Net profit (loss) from hedging	Item 90	16.1				
Other operating income (expenses)	12.7	Other income/expenses (net) from insurance activities	Item 220	193.0	(-)	Recovery of stamp duty and customers' expenses	Item 220 - Partial	-180.3
Total Revenues	**2628.3**			**2732.8**				**-104.5**
Administrative expenses:	-1208.6	Administrative expenses		-1389.5				
a) personnel expenses	-833.8	a) Personnel expenses	Item 180a	-834.4	(+)	Restructuring charges	Item 180a - Partial	0.6
b) other administrative expenses	-374.8	b) Other administrative expenses	Item 180b	-555.1				
					(+)	Recovery of stamp duty and customers' expenses	Item 220 - Partial	180.3
Net adjustments to (recoveries on) property, plant and equipment / N	-102.1	Net losses/reversal on impairment on property, plant and equipment	Item 200	-60.8				
		Net adjustments to (recoveries on) intangible assets	Item 210	-55.1	(+)	Economic effects from allocation of BAV acquisition costs to BMPS (PPA)		13.8
Operating expenses	**-1310.7**			**-1505.4**				**194.6**
Pre Provision Profit	**1317.5**			**1227.4**				**90.1**
Net impairment losses (reversals) on:	-982.4	Net impairment losses(reversals) on	Item 130	-982.4				
a) loans	-984.0	a) loans	Item 130a	-984.0				
b) financial assets	1.7	b) financial assets available for sale	Item 130b	-3.2				
		c) held to maturity investments	Item 130c					
		d) other financial transactions	Item 130d	4.8				
Net operating income	**335.2**			**245.0**				**90.1**
Net provisions for risks and charges	-48.6	Net provisions for risks and charges	Item 190	-48.6				
Gains (losses) on investments	125.1	Gains (losses) on investments	Item 240	182.7	(-)	Portion of profit from equity investments (Gruppo AXA)	Item 240 - Partial	-57.6
Restructuring costs / One-off costs	-0.6				(-)	Restructuring charges	Item 180b - Partial	-0.6
Rischi e oneri connessi a SRF, DGS e schemi similari								
Gains (losses) on disposal of investments	1.0	Gains (losses) on disposal of investments	Item 270	1.0				
Profit (loss) before tax from continuing operations	**412.2**			**380.2**				**32.0**
Tax expense (recovery) on income from continuing operations	-61.0	Tax expense (recovery) on income from continuing operations	Item 290	-50.5	(-)	Economic effects from allocation of BAV acquisition costs to BMPS (PPA)		-10.6
Profit (loss) after tax from continuing operations	**351.2**			**329.7**				**21.4**
Profit (loss) after tax from groups of assets held for sale and discontinued operations		Profit (loss) after tax from groups of assets held for sale and discontinued operations	Item 310					
Net profit (loss) for the period including non-controlling interests	**351.2**			**329.7**				**21.4**
Net loss (profit) attributable to non-controlling interests	-0.8	Net loss (profit) attributable to non-controlling interests	Item 330	-0.8				
Profit (loss) for the period before PPA , impairment on goodwill and	**350.4**			**328.9**				**21.4**
PPA (Purchase Price Allocation)	-21.4				(-)	Economic effects from allocation of BAV acquisition costs to BMPS (PPA)		-21.4
Impairment on goodwill and intangibles		Impairment on goodwill and intangibles			(-)			
Net profit (loss) for the period	**328.9**	**Net profit (loss) for the period**		**328.9**		**Total**		**0.0**

Reconciliation between the reclassified balance sheet and related statutory accounts

Balance-sheet Items - Assets	30/06/16	31/12/15	Reclassified balance-sheet items - Assets
	794.6	**1,188.8**	**Cash and cash equivalents**
Item 10 – Cash and cash equivalents	794.6	1,188.8	
			Loans and receivables
	107,547.8	**111,366.4**	**a) Loans to customers**
Item 70 – Loans to customers	107,547.8	111,366.4	
	7,953.1	**8,242.1**	**b) Loans to banks**
Item 60 – Loans to banks	7,953.1	8,242.1	
	36,022.6	**35,208.6**	**Marketable assets**
Item 20 – Financial assets held for trading	18,596.2	18,017.4	
Item 30 – Financial assets designated at fair value	-	-	
Item 40 – Financial assets available for sale	17,426.4	17,191.2	
	-	**-**	**Financial assets held to maturity**
Item 50 – Held to maturity investments	-	-	
	948.0	**908.4**	**Investments**
Item 100 – Equity investments	948.0	908.4	
	3,059.8	**3,141.8**	**Property, plant and equipment / Intangible assets**
Item 120 – Property, plant and equipment	2,686.9	2,741.7	
Item 130 – Intangible assets	372.9	400.1	
	8,059.5	**8,955.9**	**Other assets**
Item 80 – Hedging Derivatives	576.6	556.4	
Item 90 – Change in value of macro-hedged financial assets (+/-)	204.3	139.6	
Item 140 – Tax assets	4,801.8	5,542.5	
Item 150 – Non-current assets held for sale and discontinued operations	30.4	29.3	
Item 160 – Other assets	2,446.4	2,688.1	
	-	-	
Total Assets	**164,385.4**	**169,012.0**	**Total Assets**

Balance-sheet Items - Liabilities	30/06/16	31/12/15	Reclassified balance-sheet items - Liabilities
			Deposits
	112,045.2	**119,274.6**	**a) Deposits from customers and securities issued**
Item 20 – Deposits from customers	83,118.6	87,806.3	
Item 30 – Debt securities issued	27,273.2	29,394.4	
Item 50 – Financial liabilities designated at fair value	1,653.4	2,073.9	
	19,465.8	**17,493.1**	**b) Deposits from banks**
Item 10 – Deposits from banks	19,465.8	17,493.1	
	15,854.7	**15,921.7**	**Financial liabilities held for trading**
Item 40 – Financial liabilities held for trading	15,854.7	15,921.7	
	-	-	**Provisions for specific use**
Item 110 – Provision for employee severance pay	249.9	246.2	a) Provision for employee severance pay
Item 120 - Provisions for risks and charges - a) pension and similar obligations	52.3	49.4	b) Provision for pension
Item 120 - Provisions for risks and charges - b) other provisions	1,012.5	1,067.5	c) Other provisions
	5,750.4	**5,336.7**	**Other liabilities**
Item 60 – Hedging Derivatives	1,136.0	1,205.3	
Item 70 – Change in value of macro-hedged financial liabilities (+/-)	-	-	
Item 80 – Tax liabilities	95.6	91.4	
Item 90 – Liabilities associated to disposal groups held for sale	-	-	
Item 100 – Other liabilities	4,518.8	4,040.0	
	9,928.6	**9,596.5**	**Group net equity**
Item 140 – Valuation reserves	7.7	(21.8)	a) Valuation reserves
Item 150 – Redeemable shares	-	-	b) Redeemable shares
Item 160 – Equity instruments	-	-	c) Capital instruments
Item 170 – Reserves	617.2	222.1	d) Reserves
Item 180 – Share premium reserve	-	6.3	e) Share premium reserves
Item 190 – Share Capital	9,001.8	9,001.8	f) Share capital
Item 200 – Treasury shares (-)	-	-	g) Treasury shares (-)
Item 220 – Profit (loss) for the period (+/-)	301.9	388.1	h) Profit (loss) for the period
	26.0	**26.3**	**Non-controlling interests**
Item 210 – Non-controlling interests (+/-)	26.0	26.3	
	-	-	
Total liabilities and shareholders' equity	**164,385.4**	**169,012.0**	**Total liabilities and shareholders' equity**

Pro-forma statements for the representation of the "Alexandria" transaction as a long-term repo, in continuity with previous reports

Foreword

As described extensively in the section "Restatement of previous period accounts in compliance with IAS 8 (Accounting policies, changes in accounting estimates and errors)" of the Consolidated 2015 Financial Statement, to which the reader is referred for further information, the Parent Company, following the provisions issued by Consob resolution No. 19459 of 11 December 2015, adjusted the accounting representation of the "Alexandria" transaction in the 2015 Financial Statements, by bringing it into line with that of a CDS ("closed balance" approach) and retrospectively restating the previous financial statements according to the rules of IAS 8.

Therefore, this half-year report as at 30 June 2016 presents comparative data processed according to the "closed balance" approach; in particular:

- historical income statement data as at 31 March, 30 June and 30 September 2015, calculated according to a long-term repo transaction ("open balance" approach), have been adjusted to the "closed balance" approach;
- no adjustments were made to historical data as at 31 December 2015, as already processed according to the "closed balance" approach.

With a view to ensuring adequate public disclosure with respect to accounting criteria, dedicated pro forma statements are provided below in order to highlight, in continuity with previous reports, the income and financial impacts of the "'Alexandria" transaction if it is accounted for as a long-term repo.

The pro-forma statements are presented using the balance sheet as at 30 June 2016 and as at 31 December 2015 and the income statements and statements of comprehensive income as at 30 June 2016 and 30 June 2015.

Pro-forma data were determined:

- for the balance sheet as at 31 December 2015, bringing appropriate pro-forma adjustment to the historical values of the 2015 financial statements (prepared according to "closed balance" approach) to represent the "Alexandria" transaction according to the "open balances" approach;
- for the income statement and the statement of comprehensive income as at 30 June 2015, bringing appropriate pro-forma adjustments to the comparative "closed balance" data used in this half-year report to retrieve such data to the historical ones published on 30 June 2015, based on the "open balances" approach;
- no pro-forma adjustment was made to balance sheets, income statements and statements of comprehensive income as at 30 June 2016, as they are no longer affected by the "Alexandria" transaction, closed in September 2015.

Pro-forma consolidated balance sheet

	Assets	30 06 2016	31 12 2015	pro-forma adjustments for classification "Alexandria transaction" as LTR	31 12 2015 Pro-forma
10	Cash and cash equivalents	794.6	1,188.8	-	1,188.8
20	Financial assets held for trading	18,596.2	18,017.4	-	18,017.4
40	Financial assets available for sale	17,426.4	17,191.2	-	17,191.2
60	Loans to banks	7,953.1	8,242.1	-	8,242.1
70	Loans to customers	107,547.8	111,366.4	-	111,366.4
80	Hedging deviratives	576.6	556.4	-	556.4
90	Change in value of macro-hedged financial assets (+/-)	204.3	139.6	-	139.6
100	Equity investments	948.0	908.4	-	908.4
120	Property, plant and equipment	2,686.9	2,741.7	-	2,741.7
130	Intangible assets	372.9	400.1	-	400.1
	of wich: goodwill	*7.9*	*7.9*	-	*7.9*
140	Tax assets	4,801.8	5,542.5	76.2	5,618.7
150	Non-current assets and groups of assets held for sale and discontinued operations	30.4	29.3	-	29.3
160	Other assets	2,446.5	2,688.1	-	2,688.1
	Total Assets	164,385.5	169,012.0	76.2	169,088.2

	Liabilities and Shareholders' Equity	30 06 2016	31 12 2015	pro-forma adjustments for classification "Alexandria transaction" as LTR	31 12 2015 Pro-forma
10	Deposits from banks	19,465.8	17,493.1	-	17,493.1
20	Deposits from customers	83,118.6	87,806.3	-	87,806.3
30	Debt securities issued	27,273.2	29,394.4	-	29,394.4
40	Financial liabilities held for trading	15,854.7	15,921.7	-	15,921.7
50	Financial liabilities designated at fair value	1,653.4	2,073.9	-	2,073.9
60	Hedging derivatives	1,136.0	1,205.3	-	1,205.3
80	Tax liabilities	95.6	91.5	(43.1)	48.4
100	Other liabilities	4,518.8	4,039.9	-	4,039.9
110	Provision for employee severance pay	249.9	246.2	-	246.2
120	Provisions for risks and charges	1,064.8	1,116.9	-	1,116.9
140	Valuation reserves	7.7	(21.8)	-	(21.8)
170	Reserves	617.2	222.1	619.2	841.3
180	Share premium	-	6.3	-	6.3
190	Share Capital	9,001.8	9,001.8	-	9,001.8
210	Non-controlling interests (+/-)	26.0	26.3	-	26.3
220	Profit (loss) (+/-)	302.0	388.1	(499.9)	(111.8)
	Total liabilities and Shareholders' Equity	164,385.5	169,012.0	76.2	169,088.2

Pro-forma consolidated income statement

	Items	30 06 2016	30 06 2015	pro-forma adjustments for classification "Alexandria transaction" as LTR	30 06 2015 Pro-forma
10	Interest income and similar revenues	1,748.4	2,117.6	73.3	2,190.9
20	Interest expense and similar charges	(723.6)	(975.1)	(62.3)	(1,037.4)
30	Net interest income	1,024.8	1,142.5	11.0	1,153.5
40	Fee and commission income	1,091.3	1,104.1	-	1,104.1
50	Fee and commission expense	(150.6)	(176.9)	-	(176.9)
60	Net fee and commission income	940.7	927.2	-	927.2
70	Dividends and similar income	11.9	14.2	-	14.2
80	Net profit (loss) from trading	117.5	325.3	(214.4)	110.9
90	Net profit (loss) from hedging	(1.3)	16.1	1.9	18.0
100	Gains/losses on disposal/repurchase	128.6	132.7	-	132.7
110	Net profit (loss) from financial assets and liabilities designated at fair value	68.4	(18.1)	-	(18.1)
120	Net interest and other banking income	2,290.6	2,539.9	(201.5)	2,338.4
130	Net impairment losses (reversals)	(717.2)	(982.4)	-	(982.4)
140	Net income from banking activities	1,573.4	1,557.5	(201.5)	1,356.0
180	Adiministrative expenses	(1,550.6)	(1,389.5)	-	(1,389.5)
190	Net provisions for risks and charges	23.9	(48.6)	-	(48.6)
200	Net adjustments to (recoveries on) property, plant and equipment	(53.0)	(60.8)	-	(60.8)
210	Net adjustments to (recoveries on) intangible assets	(62.8)	(55.1)	-	(55.1)
220	Other operating expenses/income	203.9	193.0	-	193.0
230	Operating expenses	(1,438.6)	(1,361.0)	-	(1,361.0)
240	Gains (losses) on investments	41.5	182.7	-	182.7
270	Gains (losses) on disposal of investments	-	1.0	-	1.0
280	Profit (loss) before tax from continuing operations	176.3	380.2	(201.5)	178.7
290	Tax expense (recovery) on income from continuing operations	126.5	(50.4)	66.2	15.8
300	Profit (loss) after tax from continuing operations	302.8	329.8	(135.3)	194.5
320	Profit (loss)	302.8	329.8	(135.3)	194.5
330	Profit (loss) for the period attributable to non-controlling interests	0.8	0.8	-	0.8
340	Parent company's net profit (loss)	302.0	329.0	(135.3)	193.7

Pro-forma consolidated statement of comprehensive income

	Items	30 06 2016	30 06 2015	pro-forma adjustments for classification "Alexandria transaction" as LTR	30 06 2015 Pro-forma
10	Profi (loss)	302.8	329.8	(135.3)	194.5
	Other comprehensive income after tax not recycled to profit and loss	(4.2)	15.6	-	15.6
40	Actuarial gains (losses) on defined benefit plans	(4.0)	15.6	-	15.6
60	Share of valuation reserves of equity-accounted investments	(0.2)	-	-	-
	Other comprehensive income after tax recycled to profit and loss	33.7	(31.4)	78.3	46.9
80	Exchange differences	(2.3)	5.2	-	5.2
90	Cash flow hedges	26.6	14.7	-	14.7
100	Financial assetes available for sale	(31.4)	(76.7)	78.3	1.6
110	Non-current assets held for sale	(19.6)	0.3	-	0.3
120	Share of valuation reserves of equity-accounted investments	60.4	25.1	-	25.1
130	Total other comprehensive icome after tax	29.5	(15.8)	78.3	62.5
140	Total comprehensive income (Item 10+130)	332.3	314.0	(57.0)	257.0
150	Consolidated comprehensive income attributable to non-controlling interests	0.8	0.8	-	0.8
160	Consolidated comprehensive income attributable to Parent Company	331.5	313.2	(57.0)	256.2