PRESS RELEASE

BOARD APPROVES RESULTS AS AT 30 JUNE 2017

Precautionary recapitalisation completed

Customer time deposits and current accounts continue to grow: EUR +3.8 billion in the second quarter, about EUR +9.4 billion from the beginning of the year

- **Solid post-precautionary recapitalisation capital position, with EUR 11.3 billion book value and transitional CET1 at 15.4%**
- **Net result of the quarter negative for c. EUR 3.1 billion, impacted by c. EUR 4 billion non-recurring provisions related to the c. EUR 26 billion securitisation transaction, by the impairment of the stake held in Atlante (EUR -30 million), by gains for EUR 523 million on the disposal of the merchant acquiring business and by EUR 530 million from the partial reassessment of deferred tax assets, not booked previously**
- **Net interest income (-2.5% Q/Q) affected by the reduced rates and volumes of interest-bearing assets, only partially offset by the reduced cost of funding; net commissions up (+1.1% Q/Q) thanks to wealth management; costs (+1.8% Q/Q) impacted by non-recurring components, in particular the impairment of intangible assets**
- **Net of loans subject to disposal, classified as assets held for sale, all main asset quality indicators improve, with a gross NPE ratio at 19.8% (35.7% in March 2017), net NPE ratio at 11.7% (19.7% in March 2017), Texas ratio at 98% (146% in March 2017) and stock of net impaired loans at EUR 10.5 billion (EUR 20.2 billion in March 2017)**
- **Gross impaired loans are down by approximately EUR 0.5 billion compared with March 2017, due to reduced inflows from performing to default and to the growth of recoveries on impaired loans**
- **Unencumbered Counterbalancing Capacity at c. EUR 20 billion, up by c. EUR +4 billion from March 2017 (EUR +13 billion vs. December 2016), thanks to the increase in commercial funding and to the further downsizing of loans to customers, partly linked to the typical maturities of the semester. Liquidity coverage ratio ~226%, vs. 164% in March 2017; Net Stable Funding Ratio at ~98% (~95% in March 2017)**

Milano, 11 August 2017 – The Board of Directors of Banca Monte dei Paschi di Siena S.p.A. has reviewed and approved the results as at 30 June 2017.

Main consolidated Income Statement results for the first half:

- Net interest income for the semester equal to approximately EUR 903 million, down by 12.7% Y/Y, mainly due to the contraction in average volumes and the decline in yields on commercial loans, partly offset by the reduced cost of funding.
- Net fees and commissions at c. EUR 858 million, down 8.8% Y/Y, impacted by the booking of the cost of the guarantee on the EUR 11 billion State-guaranteed bond issues and by the lower income from the lending sector, affected by the decreased loan volumes.
- Other income[1] equal to c. EUR 92 million, vs. c. EUR 369 million in the first half 2016, which had been characterised by higher results from trading, securities sales/repurchases and capital gains on issued liabilities valued at fair value.
- Operating costs for approximately EUR 1,267 million, slightly improving from the first half of 2016, of which i) staff costs down by 2.6%, partly as a result of the headcount reduction, ii) other administrative expenses down by 4.6%, thanks to the structural improvement in real estate, IT and credit recovery sectors and iii) adjustments to tangible and intangible assets up 25.1% due to non-recurring write-downs.
- Net impairment losses on loans, financial assets and other operations at c. EUR 4,678 million, principally for i) provisions on loans subject to securitisation following the review of their realisable value, including further costs provided for in the agreement with Quaestio (overall about EUR -4 billion) and ii) the devaluation of the stake in Atlante (about EUR -30 million). Net of the effects of loans subject to disposal, the ratio between annualised net impairment losses on loans for the first semester of 2017 and loans to customers reflects a provisioning rate of 147 bps.
- Non-operating items, positive for EUR 353 million, are mainly affected by the c. EUR 523 mln gains on the disposal of the merchant acquiring business to CartaSi; the aggregate also includes the entire 2017 annual contribution to the SRF fund (booked in the first quarter) for EUR -63 million, the DTA fee of EUR -36 million and restructuring costs for EUR -18 million, connected with branch closures provided for in the restructuring plan[2].
- Income taxes positive for about EUR 510 million, as a result of the partial reassessment of DTAs from tax losses (c. EUR 530 million) which matured but were not booked in previous years, brought about by the recent legislative measure which has reduced the ACE benefit.
- Net loss for the semester, equal to about EUR -3,243 million, impacted by the recording of non-recurring loan loss provisions (EUR -4 billion), only partially offset by the capital gains on disposals (EUR +523 million) and by the DTA reassessment (EUR +530 million).

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[1] Net result from trading-valuation-repurchase of financial assets/liabilities, dividends, similar income and gains (losses) on investments, net profit (loss) from hedging, other operating expenses (income).

[2] The restructuring plan envisages the complete redesign of the distribution network, partly through the reduction of branches from 2,000 in 2016 to about 1,400 in 2021.

Main consolidated Balance Sheet results:

- Loans to customers at about Euro 89.7 billion, decreasing by EUR 17.0 billion from the end of December 2016 mainly on impaired loans, an effect of the loan loss provisions and of the reclassification of loans subject to disposal as assets held for sale. Further downturn of PCTs with institutional counterparties (EUR -4.7 billion). In the first half of 2017, new medium and long-term loans granted to households and businesses alike amounted to approximately EUR 2.7 billion; in the month of July alone, these amounted to about EUR 0.7 billion, recording a positive trend over the previous months.
- Direct funding at about EUR 106.5 billion, up by EUR 2.0 billion from 2016 year-end thanks to the commercial component, with a significant increase in current accounts and time deposits with commercial customers (EUR +9.4 billion from December 2016), which enabled repos with institutional counterparties to be strongly reduced (EUR -10.4 billion).
- Indirect funding is c. EUR 96.6 billion (-1.6% from the beginning of the year), for the most part affected by the c. EUR 1.3 billion negative net flows on assets under custody.
- Unencumbered counterbalancing capacity is equal to approximately EUR 19.8 billion, a sharp improvement (c. EUR +13 billion) compared with the values recorded at 31 December 2016, thanks to the resumption of commercial deposits, to the further contraction of loans, partly linked to end of June maturities, and to the government-guaranteed bonds issued in the first quarter.
- Gross non-performing exposures are EUR 45.5 billion (including loans subject to disposal), down both from December 2016 (EUR -0.3 billion) and from 31 March 2017 (EUR -0.5 billion). The positive quarterly evolution was driven by the decline in inflows from performing to default (-42.7%), and by the increased recoveries, especially on bad loans, and write-offs.
- Transitional Common Equity Tier 1, including the capital increase, is 15.4% (1.5% excluding the impact of recapitalisation).

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<u>Group profit and loss results for 1H17</u>

In the first half of 2017, the Group's **total revenues** stand at c. **EUR 1.853 million**, a -21.0% Y/Y decrease, due to a contraction in net interest income, in fees and commissions and in profit from trading and financial assets/liabilities. Compared to the previous quarter, in 2Q17 total revenues, standing at EUR 920 million, decrease by c. EUR 14 million, mainly in net interest income and profit from trading and financial assets/liabilities, partially offset by a positive trend in fees and commission and in dividends, similar income and gains (losses) on equity investments.

Net interest income for the first half of 2017 is approximately **EUR 903 million**, down 12.7% Y/Y, mainly as a result of the negative trend of interest-bearing assets and in particular of commercial loans (decreased average volumes and related yields). This trend is partially countered by the lessening of negative interests resulting from the decreased cost of commercial funding and the maturity of more expensive bonds. The result of the second quarter of 2017, at EUR 446 million, is down by about EUR 11 million (-2.5%) compared to the previous quarter, mainly due to the decline in yields/volumes on commercial loans, partially offset by the decreased cost of bonds.

Net fees and commissions are approximately **EUR 858 million**, down 8.8% Y/Y, impacted by the accounting of the cost of the guarantee on the State-guaranteed bonds issued in the first quarter and by fewer commissions coming from the credit sector (for the lower volumes compared to the previous year). The quarterly trend is +1.1%, mainly thanks to wealth management placement fees, which show a significant acceleration vs. the previous quarter.

Dividends, similar income and profit (loss) on investments amount to approximately **EUR 46 million**, increasing vs. 30 June 2017 thanks to the contribution of AXA-MPS (consolidated at net equity). The second quarter includes the accounting of dividends from the stake in Bank of Italy (EUR 9 million).

Net profit/loss from trading/valuation/repurchase of financial assets/liabilities for the first half of 2017 is positive for approximately **EUR 43 million**, sharply down compared to the same period of last year, which had been characterised by higher results from trading, from disposals/repurchases of securities and from gains on liabilities designated at fair value. Also down vs. 1Q17 (c. EUR -6 million, -25.3%). In detail:

- positive **trading results** for about **EUR 25 million**, although decidedly down from 30 June 2016, due to a smaller contribution from the subsidiary MPS Capital Services. Slight decline also vs. the previous quarter (c. EUR -1 million);
- results from **financial assets and liabilities designated at fair value** close to nil at 30 June 2017, due to the early adoption of the IFRS 9 accounting treatment of gains/losses related to the creditworthiness of fair value option liabilities. At 30 June 2016 the result, assessed according to IAS39, had been positive for about EUR 68 million;
- **disposal/repurchase** proceeds positive for about **EUR 19 million** (essentially for gains from the disposal of AFS securities), lower than the same period of 2016 (-85.4% Y/Y), which included greater capital gains from the sale of the AFS securities portfolio and other extraordinary income (the sale of the stake held by the parent company in VISA Europe and the repurchase of financial liabilities). Compared to the first quarter of 2017, the aggregate is down by about EUR 6 million, for the reduced disposal of AFS securities.

The following items also contribute to total revenues:

- **net income from hedging** for EUR -2 million, in line with 30 June 2016 (EUR -1 million) and slightly down on the previous quarter;
- **other operating expenses/income**, positive for about **EUR 5 million** (EUR +10 million in June 2016, mostly due to the VISA Europe operation).

In the first half of 2017 **operating expenses** are approximately **EUR 1,267 million**, down vs. the same period of the previous year (-0.9% Y/Y) but up vs 1Q17 (+1.8% Q/Q) due to non-recurring items in the adjustments to tangible and intangible assets. In particular:

- **Administrative expenses** stand at c. **EUR 1,139 million**, down by 3.2% Y/Y and -0.5% Q/Q. Within the aggregate:
    - **personnel expenses**, at about **EUR 800 million**, are down by 2.6% Y/Y (about EUR -22 million) due to headcount reduction (partly through the 1 May 2017 early retirement incentives) and to fewer provisions on the variable component. Expenses are also down compared to 1Q17 (-2.3% Q/Q), thanks to the exits related to the mentioned early retirement incentives (about 600 employees);

   - **other administrative expenses** amount to c. **EUR 340 million**, down 4.6% compared to June 2016, thanks to a structural improvement in spending, which has affected, in particular, real estate, IT and credit recovery. Expenses for 2Q17 increased compared to 1Q17 (c. EUR +7 million), mainly due to the seasonal acceleration of the spending cycle.
- **Net value adjustments to tangible and intangible assets**, at c. **EUR 128 million** (+25.1% Y/Y), are up compared with the same period of last year for the impairment of both tangible assets (impairment of land and buildings for c. EUR 8 million) and intangible assets (in the second quarter, write-down of the residual value of a software licence contract for c. EUR 10 million). The aggregate is also up from the previous quarter (+25.2% Q/Q), mainly due to the mentioned write-down of intangible assets.

As of 30 June 2017, the main qualitative and quantitative impairment indicators, based on both external and internal factors, were monitored in order to verify the existence of any signs of deterioration in the value of goodwill. The analysis, which took into account the evolution of the reference scenario, the discount rate and the Restructuring Plan figures, did not highlight any signs of potential impairment losses on goodwill.

As a result of the dynamics described above, the Group's **pre-provision profit** is approximately **EUR 586 million** (c. EUR 1,066 million in June 2016), down by EUR 25 million vs. the previous quarter.

In the first half of 2017 the Group reported **net impairment losses on loans, financial assets and other operations** for c. **EUR 4,678 million**, up by EUR 3,961 million compared with those recorded in the same period of the previous year, principally for i) net provisions booked from the beginning of the year on loans subject to securitisation, stemming from the review of their realisable value and from further costs provided for in the agreement with Quaestio (altogether approx. EUR -4 billion) and ii) the devaluation of the stake in Atlante (c. EUR -30 million). Quarterly performance, despite the significant reduction in inflows from performing to non-performing loans (-42.7%), is affected, inter alia, by an increase in coverage on unlikely-to-pay and overdue exposures.
The ratio of annualised loan loss provisions of the first semester of 2017 over total customer loans reflects a **provisioning rate of 554 bps,** 147 bps net of the effects of non-performing loans subject to the expected disposal.

As a consequence, the Group's **net operating result** for the period is **negative for about EUR 4,092 million**, compared to the c. EUR 349 million positive result recorded in the same period of last year.

The following also contribute to the result for the period:

- **Net provisions for risks and charges** for **EUR -59 million** compared to a positive result of EUR 24 million booked at 30 June 2016, which had benefited from the release of funds allocated for risks that did not occur or occurred to a lesser extent than previously expected. The aggregate improves over the previous quarter, which had conversely been negatively affected by provisions for lawsuits connected with previous capital increases and for the risk of having a sanction imposed following the procedure opened by the Italian Competition Authority on the switch to the new SEDA (previously RID) service;

- **Gains (losses) on investments negative** for c. **EUR -4 million** for impairment booked in 1Q17 on associates Trixia and Interporto Toscano, against EUR +8 million booked in the first half of 2016, mainly coming from capital gains on the sale of Fabrica Immobiliare SGR;
- **Restructuring costs/One-off costs**, including provisions for restructuring costs from the branch closures devised in the restructuring plan, for c. EUR -18 million, booked in 2Q17;
- **Risks and charges related to SRF, DGS and similar schemes** for c. **EUR -63 million**, consisting of the entire contribution due by the Group to the Single Resolution Fund (SRF), booked in the first quarter;
- **DTA fees**, equal to approximately **EUR -36 million**. The amount, determined according to the criteria of Law Decree no. 59/2016, converted into Law no. 119 on 30 June 2016, represents the fees due on 30 June 2017 for DTAs (Deferred Tax Assets) convertible into tax credit;
- **Gains on disposal of capital assets** for **EUR 532 million**, compared to nil in June 2016. The gain on sale of the merchant acquiring to CartaSi (about EUR 523 million) and the sale of a MPS Belgium property (EUR 9 million) are booked in the quarter.

Due to the occurrences mentioned above, the **Group's results from continuing operations before tax** amount to approximately **EUR -3,739 million**, down from the levels of 2016, which were positive for EUR 201 million.

Taxes on profit (loss) for the period from continuing operations record a gain of about **EUR 510 million**. This result is essentially attributable to the partial reassessment – for about EUR 530 million – of DTAs related to tax losses, accrued and not recorded in previous years, due to the recent regulatory measure that has reduced the ACE benefit.

The reduced ACE deductions expected from 2017 onwards will in fact lower, with respect to what occurred under previous legislation, the absorption of future taxable income, allowing a greater portion of this income to be used to offset past tax losses.

Considering the net effects of PPA (c. EUR -14 million), the **Group's consolidated loss for the first half of 2017** amounts to c. **EUR -3,243 million**, against a profit of about EUR 302 million reported in the same period of 2016.

Group balance sheet aggregates for the first half of 2017

As at 30 June 2017 **total funding** volumes for the Group amount to approximately **EUR 203 billion** (+0.2% vs. December 2016), down by EUR 3.2 billion from March 2017, mainly due to the decreased direct component.

Direct funding volumes, amounting to approx. **EUR 106.5 billion** at 30 June 2017, are up by EUR 2.0 billion from 2016 year-end thanks to the commercial component. Compared with 31 March 2017, volumes decrease by EUR 2.8 billion, mainly due to repos with institutional counterparties (EUR -5.6 billion) and bonds (EUR -1.2 billion, affected by quarterly maturities), whilst current accounts and time deposits with commercial customers are significantly up (EUR +3.8 billion).

The Group's direct funding market share[3] stands at 3.83% (latest available update April 2017), an increase of 28 bps from the end of 2016.

Indirect funding at the end of June came to c. **EUR 96.6 billion**, down by approx. EUR 1.5 billion from 31 December 2016 for the decrease in assets under custody (EUR -1.9 billion), affected by negative inflows for approx. EUR 1.3 billion (partly due to customers' preference for managed savings and time deposits). Assets under management are up (EUR +0.4 billion). The comparison with 31 March 2017 shows a decrease in indirect funding for approx. EUR 0.3 billion, with assets under management growing (EUR +0.3 billion), and assets under custody dwindling (EUR -0.7 billion).
Assets under management, at c. **EUR 57.6 billion**, are up, both versus December 2016 and versus March 2017. The increase is recorded on all components, with the exception of individual portfolios under management.

As at 30 June 2017 Group **customer loans** amount to approximately **EUR 89.7 billion**, down by EUR 17.0 billion compared to the end of December 2016 and by EUR 12.7 billion compared to 31 March 2017. The contraction recorded in the quarter is mainly concentrated on impaired loans (EUR -9.7 billion euros), which is impacted also by the allocation of loans subject to disposal to assets held for sale. Further downturns are recorded for repos with institutional counterparties (EUR -1.3 billion), for commercial assets, particularly mortgages (EUR -0.9 billion, where maturities are not completely counterbalanced by new lending) and for other forms of lending.
The Group's market share[4] stands at 6.60% (latest available update April 2017), stable compared to the end of 2016.
Medium-long term lending in the first semester of 2017 recorded new disbursements for about EUR 2.7 billion, down by 34.5% Y/Y and concerning both households and companies.

The Group's **gross non-performing exposures** as at 30 June 2017 equal **EUR 45.5 billion**, down both from 31 December 2016 (EUR -0.3 billion) and from 31 March 2017 (EUR -0.5 billion). The positive quarterly performance is driven by declining inflows from performing to default (-42.7%) and by increased recoveries, especially on bad loans, and increasing write-offs. Regarding NPE components, the quarter witnesses a growth of about EUR 0.7 billion in bad loans and a decrease in unlikely-to-pay (EUR -1.1 billion) and past-due (EUR -0.2 billion) loans. Net of gross impaired loans to be disposed of, gross exposure would fall from EUR 45.5 billion to EUR 19.7 billion.

As at 30 June 2017 the Group's **net non-performing loans exposure** is approximately **EUR 15.6 billion**, down by c. EUR 4.7 billion since the beginning of the year (EUR -4.6 billion vs. 31 March 2017, mainly due to net provisions on loans subject to securitisation stemming from the review of their realisable value). This net exposure includes impaired loans subject to disposal for EUR 5.1 billion, net of which the value would be EUR 10.5 billion, with a significant improvement in the ratio between net impaired loans and net customer loans (from 16.4% to 11.7%). Within the aggregate, the incidence of net bad loans decreases in the second quarter (from 10.5% in March 2017 to 7.4% in June 2017), whereas the incidence of unlikely-to-pay and past-due loans is substantially stable.

[3] Deposits and repurchase agreements (excluding repurchase agreements with central counterparties) with domestic ordinary customers and bonds net of repurchases placed with domestic ordinary customers as first borrowers.

[4] Loans to domestic ordinary customers, including bad loans and net of repurchase agreements with central counterparties.

As at 30 June 2017 **coverage of non-performing exposures** is 65.7%, up by c. 961 bps compared to March 2017. The increase in coverage in the quarter is mainly due to higher net provisions on bad loans included in the portfolio held for sale (the coverage of bad loans goes from 64.6% in March to 77.5% in June 2017). Coverage of unlikely-to-pay and past-due exposures is also up.

As at 30 June 2017, the **Group's tradable financial assets** amount to approximately **EUR 24.1 billion**, down both vs. December 2016 (EUR -1.8 billion) and vs. March 2017 (EUR -2.4 billion) due to the decrease in financial assets available for sale, impacted by sales in the first quarter, and in financial assets held for trading by the affiliate MPS Capital Services (increased in 1Q17 in particular on Italian government securities, on which the company acts as a primary dealer). Financial liabilities held for trading decrease by EUR 0.5 billion vs. 2016 year-end and are stable vs. 31 March.

At the end of June 2017 the Group's **net interbank position** stands at **EUR 9.7 billion** in funding, a decrease of c. EUR 12.8 billion vs. 31 December 2016. This trend is due to improved commercial liquidity (increased direct funding accompanied by decreased loans) and to government-guaranteed issues in 1Q17, which allowed the exposure with the ECB to be reduced. Loans to banks increase versus 31 March 2017, for the excess liquidity held with the Bank of Italy.

The operational liquidity position as at 30 June 2017 shows an **unencumbered counterbalancing capacity** of about **EUR 19.8 billion**, sharply up (approx. EUR +13 billion) compared with 31 December 2016 and EUR +3.8 billion from 31 March 2017, thanks to the increase in commercial funding and further contraction in loans, partly linked to June maturities.

At 30 June 2017 the Group's **shareholders' equity and non-controlling interests** amounts to approximately **EUR 3.0 billion**, down by c. EUR 3.4 billion from the end of December 2016 and by c. EUR 3.0 billion from 31 March 2017. The quarterly trend is mainly due to the loss for the period and to the improvement of the valuation reserves. Considering the capital increase, shareholders' equity is EUR 11.3 billion.

As for **capital ratios**, at 30 June 2017 the Common Equity Tier 1 Ratio is 1.5% (vs. 8.2% at the end of 2016) and Total Capital Ratio is 2.8%, vs. 10.4% at 31 December 2016. Including the capital increase, **CET1** and **Total Capital** ratios are estimated to be respectively **15.4%** and **15.6%**.
Compared to 31 December 2016, all capital levels register a marked decrease, due to the loss for the period (about EUR -3,243 million); Total Capital also reflects the negative impact of the regulatory depreciation of Tier2 subordinated securities.

Risk-weighted assets, at **EUR 61 billion**, are down by EUR -4,484 million from the beginning of the year, primarily as an effect of the reduced credit and counterpart risk stemming from the evolution of the customer loan portfolio, of the lower contribution of RWAs linked to the higher capital deductions for the reduced CET1 thresholds and of the transformation into tax credits of convertible DTAs. Operational risks increase.

The relevant loss booked in the first half 2017 brings capital ratios below the minimum thresholds provided for by Article 92 of Reg. 575/2013 (CRR). This breach was overcome by the precautionary recapitalisation perfected on 11 August 2017.

The reduction in regulatory capital has led to a significant increase in large exposures, as defined by regulatory legislation, which as at 30 June 2017 amounted to no. 77 large exposures for a total book value of EUR 79,379.2 million. In this regard, 16 exposures, for a total book value of EUR 17,050.6 million, exceeded the regulatory limit of 25% of eligible capital at the reference date. As a result of the subsequent increase in regulatory capital following precautionary recapitalisation and burden-sharing, large exposures were significantly reduced and no further infringement of regulatory limits was recorded (considering the increase in supervisory capital as already completed on 30 June 2017, the number of large exposures would be 11, for a total book value of EUR 58,738.6 million).

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Pursuant to paragraph 2, article 154-bis of the Consolidated Finance Act, the Financial Reporting Officer, Nicola Massimo Clarelli, declares that the accounting information contained in this press release corresponds to the documentary results, books and accounting records.

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This press release will be available at www.mps.it

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The forward-looking information contained herein represent the subjective views of the management of the Company and has been prepared on the basis of a number of assumptions and subjective judgments which may prove to be incorrect and, accordingly, actual results may vary. They represent the subjective views of the management of the Company and are based on significant assumptions. Industry experts, business analysts or other persons may disagree with these views, assumptions and judgments, including without limitation the management's view of the market and the prospects for the Company.

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Moreover, some statements included herein are based, inter alia, on the assumptions that the announced transaction(s) with "Quaestio Capital Management SGR - Atlante", including the de-recognition of nearly the entire non-performing loan portfolio, will be completed as expected.

By accepting this document you agree to be bound by the foregoing limitations. This document shall remain the property of the Company.

Reclassified accounts

Income statement and balance sheet reclassification principles

Reclassified Income statement

a) Item "**Interest income**" was cleared of the negative contribution (approximately EUR -7 million) referable to the Purchase Price Allocation (PPA) arising from the acquisition of former Banca Antonveneta, which was reclassified to a specific item;

b) Item "**Dividends, similar income and gains (losses) on investments**" incorporates item 70 "Dividends and similar income" and a portion of item 240 "Gains (losses) on investments" (approximately EUR 37 million, 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 (c. EUR 1 million) have also been eliminated from the aggregate.

c) Item "**Net profit (loss) from trading/valuation 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) on financial assets and liabilities designated at fair value". The item incorporates dividends earned on securities other than equity investments (approx. EUR 1 million).

d) Income statement item "**Other operating income (expense)**" includes the balance of financial statements item 220 "Other operating expenses (income)" net of the recovery of stamp duty and customer expenses, which are stated under the reclassified item "Other administrative expenses" (c. EUR 173 million).

e) Item "**Other administrative expenses**" includes the balance of financial statements item 180b "Other administrative expenses", reduced by the following cost items:
    - Expenses, amounting to c. EUR 63 mln, resulting from EU DGSD and BRRD directives for the resolution of bank crises (posted under the reclassified item "Risks and charges associated with SRF, DGS and similar schemes");
    - DTA fee, convertible into tax credit, for an approximate amount of EUR 36 mln (posted to the reclassified item "DTA fee").
    - Restructuring costs for c. EUR 18 million for branch closures called for in the restructuring plan.

   The item incorporates stamp duty and client expense recoveries (EUR 173 million) posted under item 220 "Other operating expenses / income".

f) Item "**Net value adjustments to tangible and intangible assets**" was cleared of the negative contribution (approximately EUR -13 million) referable to the Purchase Price Allocation (PPA) arising from the acquisition of former Banca Antonveneta, which was reclassified to a specific item;

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

h) Item “**Restructuring costs/One-off charges**” includes charges of approx. EUR 18 million relating to branch closures provided for in the restructuring plan.

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

j) Item “**DTA fees**” contains costs relating to the fees on DTAs which are convertible into tax credits, provided for by art. 11 of Law Decree no. 59 of 3 may 2016 converted into law no. 119 of 30 June 2016, booked in item 180b “Other Administrative Expenses”.

k) Item **“Profit (Losses) on equity investments”** incorporates the balance of item 240 “Profit (Losses) on equity investments” without the contribution to the income statement of the portion of the profit on the connected equity investments in AXA, consolidated according to the net equity method moved to the reclassified item “Dividends, similar income and profit (loss) on equity investments” (EUR 37 million).

l) Item "**Income tax for the period on current operations**" was cleared of the theoretical tax component relating to the Purchase Price Allocation (PPA), arising from the acquisition of former Banca Antonveneta, which was reclassified to a specific item for an amount of about EUR 7 million;

m) The overall negative effects of the Purchase Price Allocation (PPA) arising from the acquisition of former Banca Antonveneta have been reclassified to the specific item, separating them from the economic items concerned (in particular “**Interest Margin**” for approximately EUR -7 million and **Net adjustments to/recoveries on tangible and intangible assets** for about EUR -13 million, net of a theoretical tax burden of EUR +7 million which integrates the item).

Reclassified Balance sheet

n) Item “**Tradable financial assets**” on the assets side of the reclassified balance sheet includes item 20 “Financial assets held for trading” and item 40 “Financial assets available for sale”.

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

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

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

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INCOME STATEMENT AND BALANCE SHEET FIGURES

MPS GROUP

INCOME STATEMENT FIGURES	30/06/17		30/06/16	Chg.
Net interest income	903.3	-	1,035.2	-12.7%
Net fee and commission income	857.5	-	940.7	-8.8%
Other operating income	91.9	-	368.6	-75.1%
Total Revenues	1,852.7	-	2,344.5	-21.0%
Net impairment losses (reversals) on loans and financial assets	(4,677.9)	-	(717.2)	n.s.
Net operating income	(4,091.9)	-	348.5	n.s.
Net profit (loss) for the period	(3,242.6)	-	302.0	n.s.
EARNING PER SHARE (EUR)	30/06/17		30/06/16	Chg.
Basic earnings per share	(110.597)		10.298	n.s.
Diluted earnings per share	(110.597)		10.297	n.s.
BALANCE SHEET FIGURES AND INDICATORS	30/06/17		31/12/16	Chg.
Total assets	143,589.5		153,178.5	-6.3%
Loans to customers	89,713.1		106,692.7	-15.9%
Direct funding	106,543.9		104,573.5	1.9%
Indirect funding	96,629.4		98,151.8	-1.6%
of which: assets under management	57,603.0		57,180.9	0.7%
of which: assets under custody	39,026.4		40,971.0	-4.7%
Group net equity	3,047.7		6,425.4	-52.6%
OPERATING STRUCTURE	30/06/17		31/12/16	Chg.
Total head count - end of period	24,781		25,566	-785
Number of branches in Italy	1,860		2,032	-172

Loans to customers do not include the loan portfolio subject to disposal, classified as at 30 June 2017 as assets held for sale

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ALTERNATIVE PERFORMANCE MEASURES

MPS GROUP

PROFITABILITY RATIOS (%)	30/06/17	31/12/16	Chg.
Cost/Income ratio	68.4	61.2	7.2
R.O.E.	-136.9	-40.5	-96.5
Return on Assets (RoA) ratio	-4.5	-2.1	-2.40
ROTE (Return on tangible equity)	-137.1	-40.5	-96.6

Credit quality ratios *including* the portion of loan portfolio classified as assets held for sale (both in Non-Performing Loans and in Loans to Customers):

KEY CREDIT QUALITY RATIOS (%)	30/06/17	31/12/16	Chg.
Net non-performing loans / Loans to Customers	16.4	19.0	-2.6
Coverage of non-performing loans	65.7	55.6	10.1
Net bad loans / Loans to Customers	7.4	9.7	-2.3
Coverage of bad loans	77.5	64.8	12.7
Net impairment losses on loans / Loans to Customers (Provisioning)	5.5	4.2	1.3
Texas Ratio	139.3	145.0	-5.7

Credit quality ratios *excluding* the portion of loan portfolio classified as assets held for sale:

KEY CREDIT QUALITY RATIOS (%)	30/06/17	31/12/16	Chg.
Net non-performing loans / Loans to Customers	11.7	19.0	-7.4
Coverage non-performing loans	46.7	55.6	-8.9
Net doubtful loans / Loans to Customers	2.3	9.7	-7.4
Coverage doubtful loans	64.2	64.8	-0.6
Net impairment losses on loans / Loans to Customers (Provisioning)	1.5	4.2	-2.7
Texas Ratio	97.5	145.0	-47.5

Texas ratio shown in the table is calculated considering net equity inclusive of total capital increase, net of subordinated bonds held by the Group and converted into own shares

CONSOLIDATED REPORT ON OPERATIONS
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REGULATORY MEASURES

MPS GROUP

CAPITAL RATIOS (%)	30/06/2017	31/12/2016	Chg.
Common Equity Tier 1 (CET1) ratio	1.5	8.2	-6.7
Total Capital ratio	2.8	10.4	-7.6
FINANCIAL LEVERAGE INDEX (5)	30/06/2017	31/12/2016	Chg.
Leverage ratio - Transitional Phase	0.6	3.2	-2.6
LIQUIDITY RATIO (%)	30/06/2017	31/12/2016	Chg.
LCR	226.0	107.7	118.3
NSFR	98.1	87.6	10.5
Asset encumbrance ratio *	39.0	49.4	-10.4
Short-term counterbalancing capacity	19.8	6.9	12.9

* Carrying amount of encumbered assets and collateral/Total assets and collateral (Annex XVII, point 1.6, paragraph 9 of EU Regulation 2015/79)

Reclassified Consolidated Income Statement				
	30/06/17	30/06/16	Change	
Montepaschi Group			Abs.	%
Net interest income	903.3	1,035.2	(131.9)	-12.7%
Net fee and commission income	857.5	940.7	(83.2)	-8.8%
Income from banking activities	**1,760.8**	**1,975.9**	**(215.1)**	**-10.9%**
Dividends, similar income and gains (losses) on equity investments	46.2	43.2	3.1	7.1%
Net profit (loss) from trading/ valuation of financial assets	42.9	317.0	(274.2)	-86.5%
Net profit (loss) from hedging	(1.8)	(1.3)	(0.5)	38.5%
Other operating income (expenses)	4.6	9.7	(5.1)	-52.6%
Total Revenues	**1,852.7**	**2,344.5**	**(491.8)**	**-21.0%**
Administrative expenses:	(1,139.1)	(1,176.8)	37.7	-3.2%
a) personnel expenses	(799.5)	(821.0)	21.5	-2.6%
b) other administrative expenses	(339.6)	(355.8)	16.2	-4.6%
Net adjustments to (recoveries on) property, plant and equipment / Net adjustments to (recoveries on) intangible assets	(127.6)	(102.0)	(25.6)	25.1%
Operating expenses	**(1,266.7)**	**(1,278.8)**	**12.1**	**-0.9%**
Pre Provision Profit	**586.0**	**1,065.7**	**(479.7)**	**-45.0%**
Net impairment losses (reversals) on:	**(4,677.9)**	**(717.2)**	**(3,960.7)**	**n.s.**
a) loans	(4,597.0)	(718.3)	(3,878.7)	n.s.
b) financial assets	(80.9)	1.1	(82.0)	n.s.
Net operating income	**(4,091.9)**	**348.5**	**(4,440.4)**	**n.s.**
Net provisions for risks and charges	(59.0)	23.9	(82.9)	n.s.
Gains (losses) on investments	(3.8)	7.7	(11.5)	n.s.
Restructuring costs / One-off costs	(17.7)	-	(17.7)	
Risks and charges related to the SRF, DGS and similar schemes	(63.0)	(70.8)	7.8	-11.0%
DTA Fee	(35.5)	(108.8)	73.3	-67.4%
Gains (losses) on disposal of investments	531.7	-	531.7	
Profit (loss) before tax from continuing operations	**(3,739.2)**	**200.5**	**(3,939.7)**	**n.s.**
Tax expense (recovery) on income from continuing operations	510.0	118.5	391.5	n.s.
Profit (loss) after tax from continuing operations	**(3,229.2)**	**319.0**	**(3,548.2)**	**n.s.**
Net profit (loss) for the period including non-controlling interests	**(3,229.2)**	**319.0**	**(3,548.2)**	**n.s.**
Net profit (loss) attributable to non-controlling interests	(0.1)	0.8	(0.9)	n.s.
Profit (loss) for the period before PPA , impairment on goodwill and intangibles	**(3,229.1)**	**318.2**	**(3,547.3)**	**n.s.**
PPA (Purchase Price Allocation)	(13.5)	(16.2)	2.7	-16.5%
Net profit (loss) for the period	**(3,242.6)**	**302.0**	**(3,544.6)**	**n.s.**

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Quarterly trend in reclassified consolidated income statement						
	2017		2016			
Montepaschi Group	2°Q 2017	1°Q 2017	4°Q 2016	3°Q 2016	2°Q 2016	1°Q 2016
Net interest income	445.9	457.4	502.6	483.5	486.9	548.3
Net fee and commission income	431.2	426.3	437.0	461.7	483.8	456.9
Income from banking activities	**877.1**	**883.7**	**939.6**	**945.2**	**970.7**	**1,005.2**
Dividends, similar income and gains (losses) on equity investments	25.7	20.5	11.3	23.3	23.9	19.3
Net profit (loss) from trading/ valuation of financial assets	18.3	24.5	21.5	102.7	151.3	165.7
Net profit (loss) from hedging	(2.0)	0.2	(80.3)	(0.4)	(1.4)	0.1
Other operating income (expenses)	0.3	4.3	(27.6)	2.2	14.7	(5.0)
Total Revenues	**919.5**	**933.2**	**864.5**	**1,073.0**	**1,159.1**	**1,185.4**
Administrative expenses:	(568.2)	(570.9)	(630.6)	(595.1)	(582.1)	(594.7)
a) personnel expenses	(395.1)	(404.4)	(371.1)	(418.4)	(403.4)	(417.6)
b) other administrative expenses	(173.1)	(166.5)	(259.5)	(176.7)	(178.7)	(177.1)
Net adjustments to (recoveries on) property, plant and equipment / Net adjustments to (recoveries on) intangible assets	(70.9)	(56.6)	(61.6)	(55.2)	(51.7)	(50.3)
Operating expenses	**(639.1)**	**(627.5)**	**(692.2)**	**(650.3)**	**(633.8)**	**(645.0)**
Pre Provision Profit	**280.4**	**305.6**	**172.3**	**422.7**	**525.4**	**540.3**
Net impairment losses (reversals) on:	**(4,374.8)**	**(303.1)**	**(2,482.1)**	**(1,301.6)**	**(368.0)**	**(349.2)**
a) loans	(4,288.8)	(308.2)	(2,445.4)	(1,303.3)	(372.4)	(345.9)
b) financial assets	(86.0)	5.1	(36.7)	1.7	4.4	(3.3)
Net operating income	**(4,094.4)**	**2.5**	**(2,309.8)**	**(878.9)**	**157.4**	**191.1**
Net provisions for risks and charges	(13.4)	(45.6)	48.0	(27.5)	29.2	(5.3)
Gains (losses) on investments	0.2	(4.0)	2.5	1.6	0.2	7.5
Restructuring costs / One-off costs	(17.7)	-	(117.0)	-	-	-
Risks and charges related to the SRF, DGS and similar schemes	0.4	(63.4)	(139.1)	(31.2)	0.3	(71.1)
DTA Fee	(17.5)	(18.0)	53.9	(15.5)	(108.8)	-
Gains (losses) on disposal of investments	532.0	(0.3)	20.4	12.8	-	-
Profit (loss) before tax from continuing operations	**(3,610.6)**	**(128.6)**	**(2,441.1)**	**(938.7)**	**78.3**	**122.2**
Tax expense (recovery) on income from continuing operations	543.5	(33.5)	64.7	(203.9)	139.2	(20.7)
Profit (loss) after tax from continuing operations	**(3,067.2)**	**(162.0)**	**(2,376.4)**	**(1,142.6)**	**217.5**	**101.5**
Net profit (loss) for the period including non-controlling interests	**(3,067.2)**	**(162.0)**	**(2,376.4)**	**(1,142.6)**	**217.5**	**101.5**
Net profit (loss) attributable to non-controlling interests	(0.1)	-	(8.3)	0.6	0.3	0.5
Profit (loss) for the period before PPA , impairment on goodwill and intangibles	**(3,067.1)**	**(162.0)**	**(2,384.7)**	**(1,143.2)**	**217.2**	**101.0**
PPA (Purchase Price Allocation)	(6.4)	(7.1)	(7.7)	(7.5)	(8.3)	(7.9)
Net profit (loss) for the period	**(3,073.4)**	**(169.2)**	**(2,392.4)**	**(1,150.7)**	**208.9**	**93.1**

Reclassified Consolidated Balance Sheet

ASSETS	30/06/17	31/12/16	Chg abs.	Chg %
Cash and cash equivalents	843.1	1,084.5	(241.4)	-22.3%
Receivables :				
a) Loans to customers	89,713.1	106,692.7	(16,979.6)	-15.9%
b) Loans to banks	13,116.4	8,936.2	4,180.2	46.8%
Marketable assets	24,089.8	25,929.3	(1,839.5)	-7.1%
Financial assets held to maturity	-	-	-	
Equity investments	1,023.6	1,031.7	(8.1)	-0.8%
Property, plant and equipment / Intangible assets	2,844.7	2,942.9	(98.2)	-3.3%
of which:				
a) goodwill	*7.9*	*7.9*	-	
Other assets	11,958.8	6,561.2	5,397.6	82.3%
Total assets	**143,589.5**	**153,178.5**	**(9,589.0)**	**-6.3%**

LIABILITIES	30/06/17	31/12/16	Chg abs.	Chg %
Payables				
a) Deposits from customers and securities issued	106,543.9	104,573.5	1,970.4	1.9%
b) Deposits from banks	22,802.8	31,469.1	(8,666.3)	-27.5%
Financial liabilities held for trading	4,449.9	4,971.8	(521.9)	-10.5%
Provisions for specific use				
a) Provisions for staff severance indemnities	233.7	252.9	(19.2)	-7.6%
b) Pensions and other post retirement benefit obligations	47.3	53.6	(6.3)	-11.8%
c) Other provisions	958.8	1,054.5	(95.7)	-9.1%
Other liabilities	5,503.1	4,342.7	1,160.4	26.7%
Group net equity	3,047.7	6,425.4	(3,377.7)	-52.6%
a) Valuation reserves	102.0	47.3	54.7	n.s.
c) Equity instruments carried at equity	-	-	-	
d) Reserves	(1,177.4)	2,253.6	(3,431.0)	n.s.
e) Share premium	-	-	-	
f) Share capital	7,365.7	7,365.7	-	
g) Treasury shares (-)	-	-	-	
h) Net profit (loss) for the year	(3,242.6)	(3,241.1)	(1.5)	0.0%
Non-controlling interests	2.2	34.9	(32.7)	-93.7%
Total Liabilities and Shareholders' Equity	**143,589.5**	**153,178.5**	**(9,589.0)**	**-6.3%**

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Reclassified Consolidated Balance Sheet - Quarterly Trend

ASSETS	30/06/17	31/03/17	31/12/16	30/09/16	30/06/16	31/03/16
Cash and cash equivalents	843.1	879.1	1,084.5	941.4	794.6	913.4
Receivables :						
a) Loans to customers	89,713.1	102,406.9	106,692.7	104,612.4	107,547.8	113,544.3
b) Loans to banks	13,116.4	8,451.4	8,936.2	7,669.4	7,953.1	6,856.1
Marketable assets	24,089.8	26,511.8	25,929.3	35,748.3	36,022.6	39,999.9
Financial assets held to maturity	-	-	-	-	-	-
Equity investments	1,023.6	1,013.0	1,031.7	910.7	948.0	934.3
Property, plant and equipment / Intangible assets	2,844.7	2,894.2	2,942.9	3,016.9	3,059.8	3,112.4
of which:						
a) goodwill	*7.9*	*7.9*	*7.9*	*7.9*	*7.9*	*7.9*
Other assets	11,958.8	6,648.2	6,561.2	7,230.0	8,059.6	8,285.2
Total assets	**143,589.5**	**148,804.6**	**153,178.5**	**160,129.1**	**164,385.5**	**173,645.6**

LIABILITIES	30/06/17	31/03/17	31/12/16	30/09/16	30/06/16	31/03/16
Payables						
a) Deposits from customers and securities issued	106,543.9	109,390.0	104,573.5	105,461.4	112,045.2	119,507.9
b) Deposits from banks	22,802.8	22,837.5	31,469.1	25,282.4	19,465.8	17,524.7
Financial liabilities held for trading	4,449.9	4,412.4	4,971.8	13,802.7	15,854.7	20,051.0
Provisions for specific use						
a) Provisions for staff severance indemnities	233.7	252.5	252.9	251.3	249.9	247.7
b) Pensions and other post retirement benefit obligations	47.3	52.5	53.6	51.2	52.3	51.4
c) Other provisions	958.8	954.2	1,054.5	1,018.8	1,012.5	1,050.0
Other liabilities	5,503.1	4,861.3	4,342.7	5,489.2	5,750.4	5,511.9
Group net equity	3,047.7	6,041.9	6,425.4	8,745.6	9,928.7	9,675.3
a) Valuation reserves	102.0	7.4	47.3	(24.7)	7.7	(36.5)
c) Equity instruments carried at equity	-	-	-	-	-	-
d) Reserves	(1,177.4)	(1,162.0)	2,253.6	617.2	617.2	610.5
e) Share premium	-	-	-	-	-	6.3
f) Share capital	7,365.7	7,365.7	7,365.7	9,001.8	9,001.8	9,001.8
g) Treasury shares (-)	-	-	-	-	-	-
h) Net profit (loss) for the year	(3,242.6)	(169.2)	(3,241.1)	(848.7)	302.0	93.2
Non-controlling interests	2.2	2.4	34.9	26.5	26.0	25.7
Total Liabilities and Shareholders' Equity	**143,589.5**	**148,804.6**	**153,178.5**	**160,129.1**	**164,385.5**	**173,645.6**