

# MONTE DEI PASCHI DI SIENA BANK

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**2016  
Annual Report  
Draft**



**MONTE  
DEI PASCHI  
DI SIENA**  
BANK SINCE 1472

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Monte dei Paschi di Siena Group  
Draft Consolidated Annual Report 2016



Banca Monte dei Paschi di Siena S.p.a.  
Share Capital: € 7,365,674,050.07 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



## NOTICE OF ORDINARY AND EXTRAORDINARY SHAREHOLDERS' MEETING

The Shareholders of Banca Monte dei Paschi di Siena S.p.A. (the “**Bank**”) are called to the Ordinary and Extraordinary Shareholders’ Meeting in Siena, Viale Mazzini 23 on **12 April 2017 at 9:30 a.m. on a single call**, to discuss and pass resolutions on the following

### AGENDA

#### Ordinary Session:

- 1 Separate and consolidated financial statements at 31 December 2016, including the report of the Board of Directors, of the Independent Auditor and of the Board of Statutory Auditors; inherent and consequent resolutions.
- 2 Remuneration Report: resolution pursuant to Article 123-*ter* of Legislative Decree No. 58 of 24 February 1998 (Consolidated Financial Act).
- 3 Proposal pursuant to the combined provisions of Article 114-*bis* and Article 125-*ter* of Legislative Decree No. 58 of 24 February 1998 (Consolidated Financial Act), in order to approve the “*performance shares*” plan in favour of the employees of the Monte dei Paschi Group. Inherent and consequent resolutions.
- 4 Proposal to reduce the number of the members of the Board of Directors; connected and consequent resolutions.

#### Extraordinary Session:

1. Proposal to reduce the corporate capital in order to cover the remaining losses ad at 31 December 2016; related amendment to the by-laws and inherent and consequent resolutions.
2. Amendments to Articles 15 and 19 of the By-Laws. Inherent and consequent resolutions.

The full version of the notice is available on the website [www.mps.it](http://www.mps.it) in the section Investors & Research – Corporate Governance – Shareholders’ Meetings and BoD.

Siena, 10 March 2017



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## **GOVERNING AND CONTROL BODIES**

### **BOARD OF DIRECTORS**

Alessandro FALCIAI	Chairman
Roberto ISOLANI	Deputy Chairman
Marco MORELLI	Chief Executive Officer
Stefania BARIATTI	Director
Fiorella BIANCHI	Director
Daniele BONVICINI	Director
Lucia CALVOSA	Director
Maria Elena CAPPELLO	Director
Béatrice BERNARD DEROUVROY	Director
Massimo EGIDI	Director
Fiorella KOSTORIS	Director
Stefania TRUZZOLI	Director
Antonino TURICCHI	Director
Christian WHAMOND*	Director

\* *Whith effect until December 28, 2016*

### **BOARD OF STATUTORY AUDITORS**

Elena Cenderelli	Chairman
Anna Girello	Standing Auditor
Paolo Salvadori	Standing Auditor
Gabriella Chersicla	Alternative Auditor
Carmela Regina Silvestri	Alternative Auditor

### **SENIOR MANAGEMENT**

Marco MORELLI	Chief Executive Officer
Angelo BARBARULO	Acting Deputy General Manager
Antonio NUCCI	Deputy General Manager

### **INDEPENDENT AUDITORS**

Ernst & Young S.p.A.





## CONSOLIDATED REPORT ON OPERATIONS

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## General accounting standards

The Consolidated Report on Operations as at 31 December 2016 provides a snapshot of the activities and results which largely characterised the Group's operations in 2016, both as a whole and in the various business sectors into which consolidated operations are organised.

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

The income statement and balance sheet have been reclassified based on presentation criteria that are more suitable for representing the contents of the items according to consistent operational criteria.

In addition, the Report 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 information is analysed in more depth within the specific section dedicated to the implementation of sustainability policies (as regards the updating and implementation) as well as in other relevant corporate communications found within the Banca MPS website [www.mps.it](http://www.mps.it), such as: the "Report on Corporate Governance and Ownership Structure", the "Remuneration Report" and the "Pillar 3 Disclosure".



## 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 presented figures.

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 used for the calculation of alternative performance measures.

CONSOLIDATED REPORT ON OPERATIONS			
Highlights at 31 12 2016			
INCOME STATEMENT AND BALANCE SHEET FIGURES			
MPS GROUP			
INCOME STATEMENT FIGURES	31 12 2016	31 12 2015	Chg.
Net interest income	2,021.3	2,258.6	-10.5%
Net fee and commission income	1,839.4	1,809.9	1.6%
Other operating income	421.3	1,147.1	-63.3%
Total Revenues	4,282.0	5,215.5	-17.9%
Net impairment losses (reversals) on loans and financial assets	(4,500.9)	(1,993.1)	n.s.
Net operating income	(2,840.2)	593.8	n.s.
Net profit (loss) for the period	(3,241.1)	388.1	n.s.
EARNING PER SHARE (EUR)	31 12 2016	31 12 2015	Chg.
Basic earnings per share	-110.545	22.328	n.s.
Diluted earnings per share	-110.545	21.965	n.s.
BALANCE SHEET FIGURES AND INDICATORS	31 12 2016	31 12 2015	Chg.
Total assets	153,178.5	169,012.0	-9.4%
Loans to customers	106,692.7	111,366.4	-4.2%
Direct funding	104,573.5	119,274.7	-12.3%
Indirect funding	98,151.8	106,171.8	-7.6%
of which: assets under management	57,180.9	55,515.7	3.0%
of which: assets under custody	40,971.0	50,656.1	-19.1%
Group net equity	6,425.4	9,596.4	-33.0%
OPERATING STRUCTURE	31 12 2016	31 12 2015	Chg.
Total head count - end of period	25,566	25,731	-165
Number of branches in Italy	2,032	2,133	-101



CONSOLIDATED REPORT ON OPERATIONS Highlights at 31 12 2016			
ALTERNATIVE PERFORMANCE MEASURES			
MPS GROUP			
PROFITABILITY RATIOS (%)	31 12 2016	31 12 2015	Chg.
Cost/Income ratio	61.2	50.4	10.8
R.O.E.	-40.5	5.1	-45.5
Return on Assets (RoA) ratio	-2.1	0.2	-2.3
ROTE (Return on tangible equity)	-40.5	5.1	-45.6
KEY CREDIT QUALITY RATIOS (%)	31 12 2016	31 12 2015	Chg.
Net non-performing loans / Loans to Customers	19.0	21.7	-2.6
Coverage non-performing loans	55.6	48.5	7.2
Net doubtful loans / Loans to Customers	9.7	8.7	1.0
Coverage doubtful loans	64.8	63.4	1.3
Net impairment losses on loans / Loans to Customers (Provisioning)	4.2	1.8	2.4
Texas Ratio	145.0	146.8	-1.8

**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 Net profit for the year 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 Assets (ROA):** ratio of the net profit for the year to the total assets at the end of the period.

**Return On Tangible Equity (ROTE):** ratio of the Net profit for the year to the average between the shareholders' equity (including Profit and Valuation Reserves, cleared of Goodwill) at the end of the previous year and for the year under way.

**Texas Ratio:** ratio between Gross non-performing loans and the sum, in the denominator, of Tangible shareholders' equity and the Allowance for impairment on non-performing loans.

CONSOLIDATED REPORT ON OPERATIONS Highlights at 31 12 2016			
REGULATORY MEASURES			
MPS GROUP			
CAPITAL RATIOS (%)	31 12 2016	31 12 2015	Chg.
Common Equity Tier 1 (CET1) ratio	8.2	12.0	-3.8
Total Capital ratio	10.4	16.0	-5.5
FINANCIAL LEVERAGE INDEX (5)	31 12 2016	31 12 2015	Chg.
Leverage ratio - Transitional Phase	3.2	5.2	-2.1
LIQUIDITY RATIO (%)	31 12 2016	31 12 2015	Chg.
LCR	107.7	222.0	-114.3
NSFR	87.6	100.8	-13.3



## Executive summary

Changes in the key items of the main aggregates of the Group for the year 2016 are summarised below:

- The Group recorded **Total revenues** of approximately **EUR 4,282 mln**, down by 17.9% compared to the previous year, due to the downturn in net interest income and in trading activity, with the latter positioned at lower levels than in 2015 (when it benefited from the effects of the restatement of the “Alexandria” transaction, impact of approx. EUR +608 mln). This revenue trend is affected by the performance of **Net interest income**, which amounted to **EUR 2,021 mln** (-10.5% YoY) due especially to the negative performance of interest bearing assets and the relative returns, only partially attenuated by the decrease in the cost of funding and repayment of the NFIs. **Net fee and commission income**, totalling approximately **EUR 1,839 mln** in 2016, recorded growth compared to 2015 of 1.6%, especially due to the recovery in traditional fees and commissions (in particular the recovery in current account expenses and payment services) and non-trading components (including the reduction of the cost of the State guarantee on “Monti Bonds”). Under other revenues, **Net profit (loss) from trading and financial assets/liabilities** in 2016 stood at around **EUR 441 mln**, down over the same period of the previous year (approx. EUR -597 mln YoY), which benefited from the positive effects of the restatement of the “Alexandria” transaction.
- **Operating expenses** amounted to approximately **EUR 2,621 mln** (-0.3% YoY). **Personnel expenses**, which totalled about **EUR 1,611 mln**, declined year on year by 2.6% (roughly EUR -42 mln) due to workforce downsizing and the downturn in the variable component, as well as other one-off benefits realised in the second quarter of 2016. **Other administrative expenses** stood at about **EUR 792 mln** in 2016, up by 4.2% from the previous year, due to the negative impact of expenses connected to the recapitalisation transaction (which was not completed successfully) of around EUR 37 mln, net of which there would have been a YoY decline. **Net value adjustments to tangible and intangible assets** totalled roughly **EUR 219 mln**, slightly higher than the values seen last year.
- **Net impairment (losses)/reversals on loans, financial assets and other transactions** amounted to approximately EUR 4,501 mln, up by 2,508 from those recorded in the previous year. The aggregate includes roughly EUR 2,592 mln in higher impairment losses due to the update of methodologies and parameters of loan valuation. In particular, these changes, which took into account the instructions laid out in the “*Draft guidance to banks on non – performing loans*” published by the ECB in September 2016 as well as internal assessments, concerned the amendment of the methodology for calculating the discounting adjustment, the increase in the analytical valuation threshold for unlikely to pay positions, the update of haircuts on real estate guarantees and the definition of minimum floors for the coverage of “exposures classified as Sofferenza (Doubtful loans) at the banking system level”. The ratio of net impairment losses on loans for 2016 to total customer loans reflects a **Provisioning Rate of 419 bps**, which declines to around 177 bps excluding the impact of the higher impairment losses noted above.
- As a result of the trends in the main aggregates described above, as at 31 December 2016 the Group generated a **loss of roughly EUR 3,241 mln** (impacted by higher impairment losses on loans, due to changes in the loan policy mentioned previously) against a positive result of about EUR 388 mln recorded in 2015 (with 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).
- **Total funding** at the end of 2016 amounted to approximately **EUR 203 bn** with a reduction of about EUR -23 bn compared to 31 December 2015. Direct funding (around EUR -15 bn YoY) was impacted during the year by the reduction in the commercial component (around EUR -28 bn) due to withdrawals recorded especially as a result of tensions linked to the negative outcome of the Group’s stress test and the recapitalisation which was not completed successfully.



- As at 31 December 2016, **Loans to Customers** amounted to approx. **EUR 107 bn**, a reduction of nearly EUR 5 bn compared to the end of 2015, with a downturn in all aggregates with the exception of repo transactions with financial counterparties (starting in the last quarter of 2016, MPS CS classified the new repo transactions in the banking book, given their purpose primarily associated with the temporary use of cash and cash equivalents; previously, transactions of this type were classified in the trading book as they were carried out as part of a broader trading strategy). There was a positive trend in net non-performing loans, which were down sharply by roughly EUR 4 bn. The **net exposure to non-performing loans** stood at **EUR 20.3 bn**, showing a EUR 4 bn decline from the beginning of the year. There was a considerable contraction in the fourth quarter of 2016 (EUR -2.2 bn compared to 30 September 2016) due to the higher provisions recognised during the period in the wake of the loan policy update. The **non-performing loan coverage** ratio was **55.6%**, up by roughly 716 bps compared to 31 December 2015 (+500 bps QoQ), especially due to impairment losses connected to changes in loan policies accounted for in the second half of the year. All coverage ratios of the non-performing loan categories were up YoY and QoQ, with the exception of the level of Non-performing past-due exposures, which was down on an annual basis but up on a quarterly basis.
- With regard to capital ratios, as at 31 December 2016 the **Common Equity Tier 1 Ratio** stood at 8.2% (12.0% at the end of 2015) and the **Total Capital Ratio** at 10.4%, compared to 16.0% recorded at the end of December 2015.



## Group overview









The Montepaschi Group is the banking hub led by Banca Monte dei Paschi di Siena, which does business primarily in Italy, mainly providing traditional retail & commercial banking services.

The Group is also active through its specialised product companies in business areas such as leasing, factoring, corporate finance and investment banking. The insurance-pension sector is covered by a strategic partnership with AXA while asset management activities are based on the offer of investment products of independent third parties.

The Group combines traditional services offered through the network of branches and specialised centres with an innovative self-service and digital services system enhanced by the skills of the network of financial advisors through Widiba Bank.

Foreign banking operations are focused on supporting the internationalisation processes of corporate clients in all major foreign financial markets.

Most back office activities, administrative, accounting and other services (e.g. accounts payable) are outsourced to Fruendo (the joint venture between Basilichi SpA and Accenture Italia).

COMPANY	ACTIVITIES
 <b>MONTE DEI PASCHI DI SIENA</b> BANCA DAL 1472	Banca Monte dei Paschi di Siena and its subsidiaries operate in the different segments of the banking and financial industry, with activities ranging from traditional banking to special purpose loans, assets under management, bancassurance and investment banking. The Bank performs functions of direction, coordination and control over the Group's companies, as part of the more general guidelines set out by the Board of Directors in compliance with the instructions provided by the Bank of Italy in the interest of the Banking Group's stability.
 <b>MPS FIDUCIARIA</b>	Monte Paschi Fiduciaria aims to satisfy the needs of individuals and legal entities wishing to have their assets managed with the utmost confidentiality. Monte Paschi Fiduciaria may take on the custody of assets in its capacity as a trustee and act as a protector in trusts.
 <b>MPS CAPITAL SERVICES</b>	MPS Capital Services Banca per le Imprese provides customers with solutions to financial and credit issues, focusing its business on medium-long term credit facilities, special-purpose loans, corporate finance, capital markets and structured finance.
 <b>MPS LEASING &amp; FACTORING</b>	MPS Leasing & Factoring is the Group bank specialised in developing an offer of integrated leasing and factoring packages for businesses, artisans and professionals.
 <b>widiba</b>	Widiba (Wise-DIalog-Banking) is the Group's direct bank that integrates a self-service offer with the competencies of MPS's network of financial advisors.
 <b>MPS CONSORZIO OPERATIVO</b>	Consorzio Operativo is the centre for the development and management of ICT and telecommunication systems.
 <b>MONTE PASCHI BANQUE</b>  <b>BANCA MONTE PASCHI BELGIO</b>	Monte Paschi Banque SA and Banca Monte Paschi Belgio SA are the Group's banks that support commercial trade and investments of Italian companies abroad.





## Shareholders

As at 31 December 2016, Banca Monte dei Paschi di Siena's share capital amounted to EUR 7,365,674,050.07, broken down into 29,320,798 ordinary shares, following the execution of the resolution for the share capital reduction and the grouping of BMPS ordinary shares with a ratio of 1 new ordinary share for every 100 shares held, approved by the BMPS Extraordinary Shareholders' Meeting on 24 November 2016.

According to the communications received pursuant to the applicable legislation and based on other information available, the entities that, as at 31 December 2016, directly and/or indirectly hold ordinary shares representing a shareholding exceeding 3% of the share capital of the Issuer and which do not fall under the cases of exemption set forth in art. 119-bis of the Issuers' Regulation, as well as on the basis of what is set forth on the CONSOB institutional website, are as follows:

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

\*Share held directly and through 12 subsidiary companies



## Information on the BMPS share

### Share price and trends

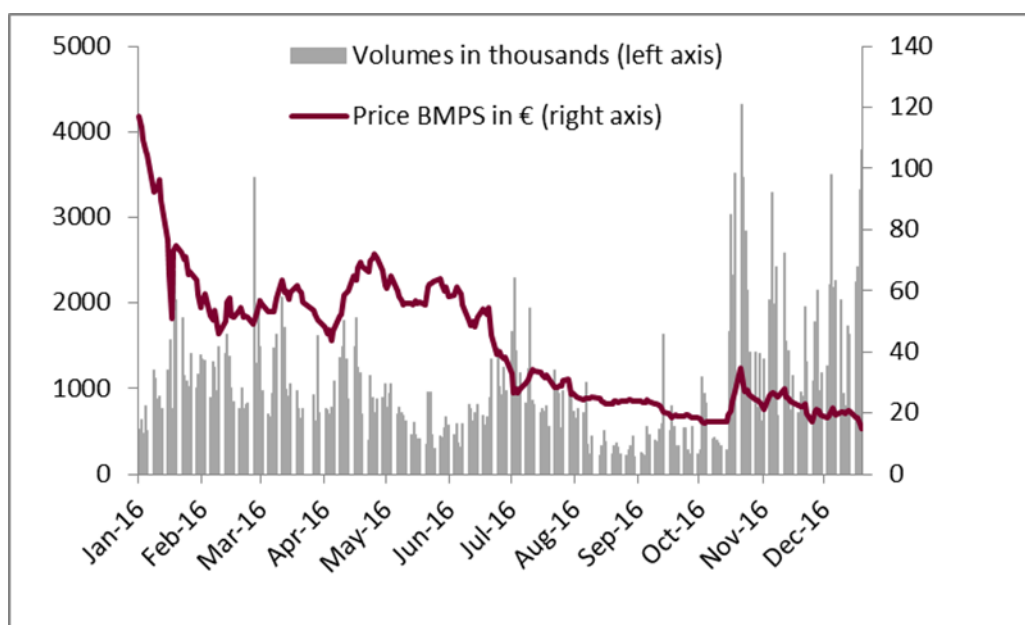
Many political events impacted the financial markets in 2016: Great Britain's June vote to exit the European Union, the election of the new US president and the victory of NO in the Italian referendum in December. This was also not an easy year for banks, which have been committed to seeking out a structural solution for the problem of doubtful loans and complying with EU dictates.

European share indexes had positive performance for the year on the whole, despite the considerable turbulence early in the year; the best was London with +14.4%, followed by Frankfurt +6.9% and Paris +4.9%. Milan and Madrid closed in the red at -10.2% and -2.0%. The performance of the FTSE MIB was impacted by trends in the FTSE IT Banks index, which closed 2016 with a downturn of 38.2%.

Also in the fourth quarter of 2016, European share indexes recorded positive performance (Milan +17.3%; Frankfurt +9.2%; Paris +9.3%; London +3.5%; Madrid +6.5%), and the Italian banking sector index, the FTSE IT Banks, was up during the quarter by 24.3%.

BMPS stock closed 2016 at EUR 15.08, with a negative 87.8% performance since the start of the year. Please recall that on 23 December Consob resolution no. 19833 temporarily suspended the MPS share from stock market trading, given the uncertainty and the lack of comprehensive information available after the capital increase was not successful.

**BMPS SHARE PRICE** (from 31 December 2015 to 31 December 2016)



**BMPS SHARE PRICE: STATISTICAL SUMMARY** (from 01 01 2016 to 30 12 2016)

Average	42.42
Lowest	15.08
Highest	116.90



The BMPS share prices and volumes for 2016 were recalculated following the grouping of ordinary shares in preparation for the capital increase launched on 19 December and concluded on 21 December 2016 for the public offer and 22 December for institutional investors.

<b>MONTHLY VOLUMES OF SHARES TRADED</b>	
2016 volumes summary (in thousands of units)	
January	22,281
February	26,091
March	24,325
April	22,204
May	14,445
June	16,663
July	22,508
August	10,717
September	10,584
October	31,816
November	32,918
December	32,462

## Ratings

Changes in the ratings given by the rating agencies in the last quarter of 2016 are provided below:

Rating Agencies	Short-term debt	Outlook	Long-term debt	Outlook	Last update
Moody's Investors Service	NP	-	B3	Under Review Uncertain	12/27/2016
DBRS	R-5	Under Review Developing	B (low)	Under Review Developing	12/13/2016
Fitch Ratings	B	Rating Watch Negative	B-	Rating Watch Evolving	11/22/2016

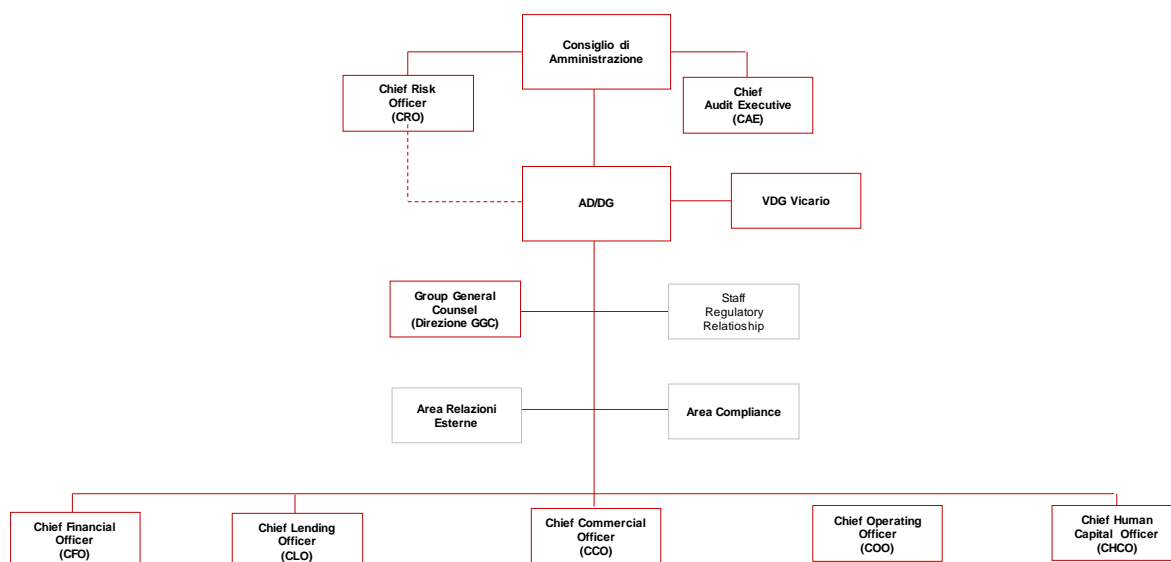
- On 27 December 2016, Moody's placed the BCA (Baseline Credit Assessment) rating under observation in view of a possible increase. The long-term rating at "B3" and the short-term rating at "NP" (Not Prime) remained unchanged. The long-term outlook remained "Under Review with Direction Uncertain".
-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



## Organisational structure

Through its Head Office, Banca Monte dei Paschi di Siena performs functions of direction, coordination and control over the Group's companies, as part of the more general guidelines set out by the Board of Directors and in the interest of the Group's stability.

Organisational chart of the Bank's Head Offices as at 31.12.2016



The year 2016 marked a time of change in the history of our organisation, thanks to the introduction in the fourth quarter of the new Parent Company organisational model, characterised by the assignment of broad and well-defined scopes of responsibility to senior managers (C x O or C-level) reporting to the CEO/GM, identified using a legible nomenclature recognised by the Supervisory Authorities and international analysts alike.

C-Levels were assigned an organisational role that includes responsibilities and levers consistent with strategic business objectives in terms of revenue, operating expenses, cost and capital risk, with a particular focus dedicated to speeding up decision-making processes and simplifying interaction mechanisms.

The Parent Company's new organisational model has made it possible to considerably reduce the parties reporting to the CEO/GM with a view to allowing the latter to focus more on defining strategies and managing risk.

Following the establishment of C-Levels, a coordinated action was initiated to revise the internal structures of each scope of responsibility, in compliance with the principle of simplifying structures as well as decision-making processes.

As part of this project, the initiatives already rolled out and which will be followed up with other interventions in the remaining areas of responsibility, to be completed by the end of the first quarter of 2017, regarded:

- The restructuring of the Chief Commercial Officer chain, to endow the structure with a central organisational system capable of supporting the launch and implementation of the projects placed under its responsibility by the Business Plan and begin to simplify the flow towards the Network. In this context, new, strong centres of responsibility have been created for the oversight and development of the reference markets (Retail, Wealth Management,



Corporate) and the chain of command has been simplified by making the Regional Areas report hierarchically directly to the CCO.

- The restructuring of the Chief Human Capital Officer chain, with the establishment of centres of responsibility focusing on specialised matters and the strengthening of the operational oversight of resources with an end-to-end approach, focusing on the enhancement and best use of the human capital present in the Network as well as the head office units.

Other actions that concerned the Parent Company and the Network in 2016 were carried out to support business strategies, particularly with regard to overseeing organisational adequacy and operational efficiency.

Of these, in 2016 research continued for the strengthening of **organisational adequacy** in light of regulatory provisions; in this regard, some significant initiatives were rolled out which impacted the Bank's operating model.

In particular, the core content of the Compliance function was refocused by separating the "Complaints" component, which was integrated within the sales chain, with benefits in terms of the uniform monitoring of the quality of the products/services provided to customers.

The Compliance function itself was also subject to an internal reorganisation, with an optimised restructuring of responsibilities, primarily with a view to effectively identifying, implementing and monitoring compliance risk mitigation actions.

Following this same line of intervention, during the year responsibilities for "first level" line controls relating to Network operations, previously carried out by HR, were transferred back to the sales chain. Thus the HR area is now more focused and activities have been initiated to optimise the head office units responsible for regional coordination (notably the Regional Areas), with the introduction of a Centre-Network chain specialised in first-level controls.

In this same area, the lending chain was also reviewed in the Large Corporate segment (formerly Large Groups), with a separation of responsibilities with respect to the sales chain.

In addition, particular relevance should be ascribed to the initiative for the revision of the internal regulatory model, which has made it possible to reorganise and simplify the structure and hierarchy of the documents making up internal regulations while outlining the relative responsibilities and autonomies and defining a plan for regulating the main business macro-processes.

With respect to the pursuit of improved levels of **operational efficiency**, the most significant action in 2016 was the restructuring of the "operating machine", with the establishment of the Corporate Services Division (subsequently placed under the responsibility of the COO) in order to adjust decision-making processes and the level of autonomy of the centres of responsibility.

With respect to Network processes, actions are under way to improve the quality of work, free up more time to be dedicated to sales activities and increase customer service quality, while reducing response/service provision times by streamlining "administrative" activities and document management costs, with a strong orientation towards increasing process digitalisation.



## Governance & Control systems

### Corporate Governance

For the Bank, the relevance of corporate governance goes beyond its traditional technical meaning, i.e. a set of coordinated rules and structures governing relations amongst shareholders and between them and the directors and top management. In line with the Bank's mission, it is seen as a tool for relations with all stakeholders.

The Bank's bodies work so as to pursue the overall success of the company.

The Bank's fair and transparent corporate governance system and shared Code of Ethics provide it with rules that ensure that the legitimate expectations of all stakeholders are incorporated within corporate objectives.

The overall corporate governance system makes reference to the Corporate Governance Code of listed companies issued by the Italian Stock Exchange, thereby ensuring: a clear delineation of roles and responsibilities, the appropriate separation of powers, balanced composition of the corporate bodies, effective controls, monitoring of all business risks, adequacy of information flows and the company's social responsibility.

In particular, the administration and control system includes the following: the Board of Directors, the Board of Statutory Auditors and the Shareholders' Meeting. In addition, there are: the CEO and four Board committees (Risk Committee, Appointments Committee, Remuneration Committee and Committee for Related-party Transactions).

The Bank's internal control system is meant to ensure that risks are identified, measured, managed and monitored in such a way so as to enable sound, proper business management in line with pre-established objectives.

Further information is available in the "Report on Corporate Governance and Ownership Structure", available on the Bank's website. (<https://www.mps.it/investors/corporate-governance/relazioni-di-corporate-governance>)

### 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 Parent Company's Board of Directors. 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.

The Parent Company's Board of Directors approves the "Group Risk Appetite Statement" (RAS) at least once per year. The Risk Control Function 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 RAS 2016 was an important evolutionary step compared to the prior system, in terms of indicators as well as breakdown by Business Unit/Legal Entity (cascading down of Risk Appetite). Its objective is to increase the Group's Risk Culture and 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 overall RAF system is broken down in terms of the Group's main Business Units and Legal Entities, also in terms of operating limits for the various business areas, and formalised in governance policies and processes for the management of the various corporate risks.

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 monitoring of key risk indicators.

Group Risk governance is provided centrally by the Parent Company's Board of Directors, which also supervises and is responsible for the updating and issue of internal policies and regulations in order to promote and guarantee a continuously greater and more widespread risk culture at all levels of the organisation. Awareness of risks and the correct knowledge and application of the internal processes and models governing those risks - especially for those validated for regulatory purposes - are fundamental requirements for effective, sound and prudent business management.

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 of all resources and the cultivation of a healthy risk culture.

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

### Compliance System

Within the broader internal control system, the Compliance Function of the Parent Company autonomously and independently governs non-compliance risk, also relying on specialised internal controls.

In 2016, that system was further strengthened, with reference in particular to:

- bank transparency, with respect to which the completion of actions scheduled in the plan sent to the Bank of Italy in 2013 and the adaptation to new supervisory instructions continued; company processes and procedures were also brought into line with the new regulatory provisions on "compound interest" (art. 120 of Italian Legislative Decree no. 385/1993 - Consolidated Law on Banking).
- usury, with the reinforcement of control procedures relating to current account credit line and advance services;
- protection of personal information, to completing compliance with the Data Protection Authority's measure on the traceability of banking transactions carried out by employees and to extend alerting procedures for potentially unauthorised access to the subsidiaries as well;
- investment services, with the continuation of initiatives included within the action plan disclosed to Consob for the distribution of complex products.

The Compliance Function is directly responsible for managing risks relating to the violation of the most significant rules in bank-customer relations and periodically reports to the company's top management and supervisory authorities regarding the overall state of compliance of the Parent Company's systems and operations.





### **Executive Remuneration Policy**

The Group's remuneration and incentive policies are described every year in the "Remuneration Report", prepared under Article 123-ter of the Consolidated Law on Finance and subject to approval by the Shareholders' Meeting.

(<https://www.mps.it/Investor+Relations/Corporate+Governance/>)

In enhancing professional skills and taking management decisions aimed at long-term value creation, they reflect a corporate culture based on the ethics of responsibility, a strong sense of belonging and continuous focus on human capital growth, in compliance with prudent risk management policies.



## Distribution channels

The Group operates with a view to developing and rationalising its distribution network, by combining regional coverage with the strengthening of innovative channels.

Traditional domestic branches are supported by specialist sales centres, which oversee relations with and the specific management of particular customer segments (e.g. SMEs, Private individuals, Institutions, etc.) and by 628 Financial Advisors (an increase of +31 over 31 December 2015) that carry out their activities by making use of the offices open to the public that are distributed nationwide (up by 2 compared to 31 December 2015).

MONTEPASCHI GROUP - DISTRIBUTION NETWORK AS AT 31/12/2016										
Region	Domestic branches <sup>(*)</sup>	Inc.	Client Centres <sup>(**)</sup>						Financial Advisory Offices	Inc.
			SME	Private/Private Top	Institutions	Corporate Top	Tot.	Inc.		
Emilia Romagna	140	6.9%	7	7		0	19	7.5%	7	6.1%
Friuli Venezia Giulia	56	2.7%	3	2		0	7	2.8%	3	2.6%
Liguria	30	1.5%	2	1		0	4	1.6%	4	3.5%
Lombardia	281	13.8%	11	12		2	32	12.7%	10	8.8%
Piemonte	45	2.2%	3	2		0	7	2.8%	2	1.8%
Trentino Alto Adige	3	0.1%	0	0		0	0	0.0%	0	0.0%
Valle d'Aosta	4	0.2%	0	0		0	0	0.0%	0	0.0%
Veneto	271	13.3%	14	8		1	32	12.7%	5	4.4%
<b>Northern Italy</b>	<b>830</b>	<b>40.6%</b>	<b>44</b>	<b>32</b>	<b>23</b>	<b>3</b>	<b>101</b>	<b>40.1%</b>	<b>31</b>	<b>27.2%</b>
Abruzzo	43	2.1%	3	2		0	7	2.8%	3	2.6%
Lazio	175	8.6%	12	7		1	27	10.7%	15	13.2%
Marche	64	3.1%	4	2		0	8	3.2%	4	3.5%
Molise	11	0.5%	1	0		0	1	0.4%	1	0.9%
Toscana	415	20.3%	18	17		1	48	19.0%	8	7.0%
Umbria	46	2.3%	0	2		1	5	2.0%	4	3.5%
<b>Central Italy</b>	<b>754</b>	<b>36.9%</b>	<b>41</b>	<b>30</b>	<b>19</b>	<b>3</b>	<b>96</b>	<b>38.1%</b>	<b>35</b>	<b>30.7%</b>
Basilicata	10	0.5%	0	0		0	1	0.4%	2	1.8%
Calabria	51	2.5%	2	0		0	4	1.6%	3	2.6%
Campania	114	5.6%	6	5		1	17	6.7%	19	16.7%
Puglia	119	5.8%	6	5		0	15	6.0%	16	14.0%
Sardegna	16	0.8%	1	1		0	3	1.2%	2	1.8%
Sicilia	149	7.3%	5	4		1	15	6.0%	6	5.3%
<b>Southern Italy and island</b>	<b>459</b>	<b>22.5%</b>	<b>22</b>	<b>15</b>	<b>16</b>	<b>2</b>	<b>55</b>	<b>21.8%</b>	<b>48</b>	<b>42.1%</b>
<b>Total</b>	<b>2,043</b>	<b>100.0%</b>	<b>107</b>	<b>85</b>	<b>58</b>	<b>8</b>	<b>252</b>	<b>100.0%</b>	<b>114</b>	<b>100.0%</b>

(\*) as reported to the Bank of Italy

(\*\*) of which n. 23 reported to the Bank of Italy as Office not having the same location of the branch.

The **Italy Network** has **2,032 branches** surveyed by the Supervisory Body at the end of 2016, a reduction of 101 operating units compared to 31 December 2015<sup>1</sup> in implementation of the initiatives laid out in the Business Plan.

The Group also relies on **251 Specialised Centres** (-12 compared to 31 December 2015), of which 167 dedicated to Corporate and Institutions and 84 to Private customers.

The Group's **ATM network** comprises a total of **2,868 machines** (-58 compared to 31 December 2015), of which 2,439 coinciding with traditional branches (2,218 of these are located in premises with an independent entrance also accessible outside of branch hours) and 429 installed in public places with high operational potential, of which 94 in institutions/companies. There are 568 ATM machines with cash-in functions, of which 388 located in self-service areas and 180 inside branches.

<sup>1</sup> Spin-off of branches with subsequent closure.



The Group has an international presence with a **Foreign Network** distributed, geographically speaking, in the main financial and economic markets, as well as in the emerging countries with the highest rates of growth and/or key relations with Italy, currently structured as follows: **4 operational branches** (London, New York, Hong Kong and Shanghai), **10 representative offices** (in target areas of the EU, Central-Eastern Europe, North Africa, India and China), **2 banks under foreign law** (MP Belgio with 9 units in Belgium and MP Banque with 18 branches in France).

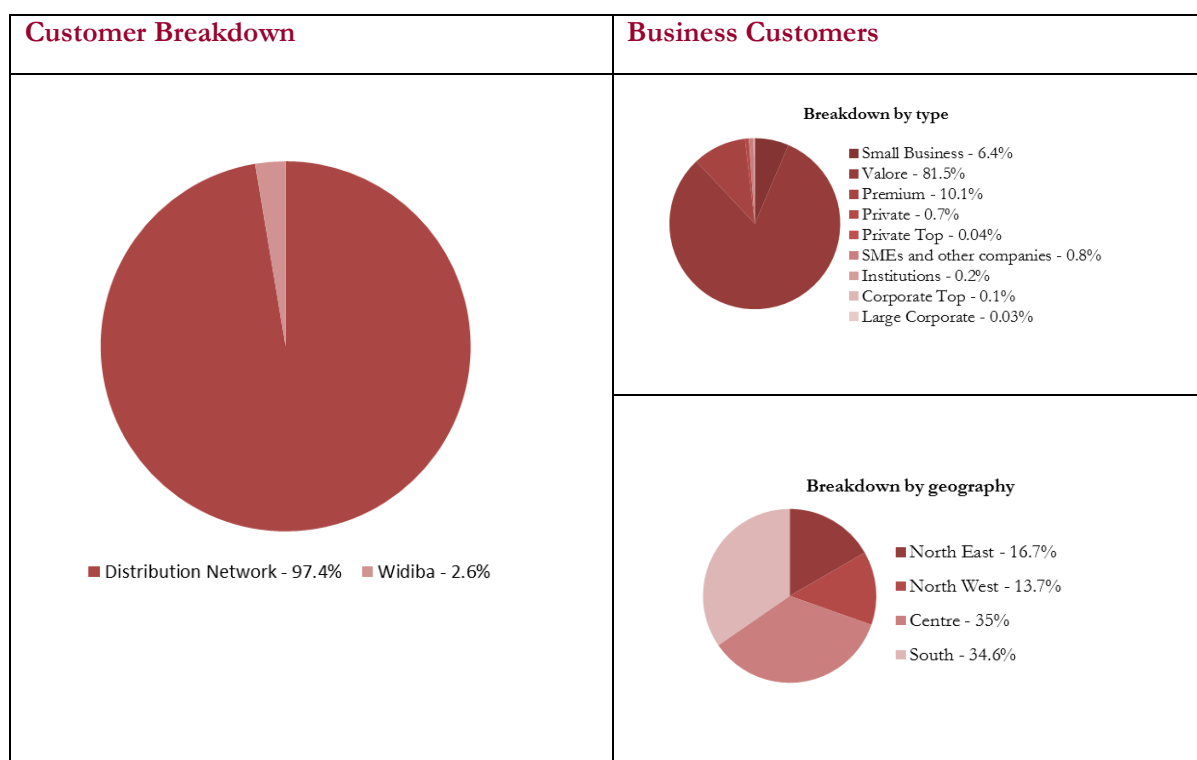
In addition to its presence across the country, the Parent Company offers banking services to customers through electronic channels, through Integrated Multichannel products for Retail and Corporate customers. As at 31 December 2016, there were a total of 2,069,592 agreements relating to electronic services, corresponding to 1,073,146 active users (up +32,998 compared to 31 December 2015). Active customers of Retail Multichannel services numbered 984,519 (relating to 1,897,768 agreements) while Corporate customers totalled 88,627 (for 171,824 agreements).



## Customer base

As at 31 December 2016, the Group had around 5.1 mln customers (compared to 5.3 million as at 31 December 2015) broken down as follows:

- roughly 5.0 million (down with respect to 31 December 2015) are managed by the Sales Network of the Parent Company Banca Monte dei Paschi;
- 0.135 million (up compared to 31 December 2015) managed exclusively by Widiba, the Group's on-line bank, in which the "Financial Advisory" sales channel was merged (on the whole, Widiba manages around 0.161 million actual customers).



At the end of 2016, the Retention and Acquisition indicators reached 92.7% and 3.4%, both down with respect to the same period of the previous year (when they stood at 94.4% and 4.1%). The deterioration of these indicators was influenced by the specific context surrounding the Parent Company (the effects of which were reflected in withdrawals of funding), as well as branch closures (as part of the network optimisation project).



## Reference context

In 2016, the global economy was forced to deal with a series of unexpected events: from concerns regarding China at the start of the year, to the consequences of the United Kingdom's referendum on its exit from the European Union, to the uncertainty and fear leading up to and following the US presidential elections. In this environment, global growth remained satisfactory and consensus projections for 2017 are optimistic.

Support for monetary policy remained robust in the course of the year. The Fed is the only central bank to find itself in a moderately restrictive phase and, after the first hike at the end of 2015, it refrained from implementing the further rate hikes signalled to the market at the start of 2016, instead limiting itself to enacting a second hike in December. The ECB strengthened its arsenal of expansionary measures, expanding its purchase programme to investment grade corporate securities 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%.

In 2016, the Italian economy continued its slow recovery towards pre-crisis levels. GDP growth should reach just below 1%, driven by the domestic component (particularly by household consumption). The job market saw only marginal improvement, with an increase in the labour force and the number of employed people, which was however accompanied by a simultaneous increase in the unemployed. On the public finance front, targets for 2017 envisage a fiscal stimulus which is currently under analysis by the European Commission. The matter of the 2017 budget deficit, along with measures regarding the banking sector, are two of the most important topics that will need to be dealt with by the new government that took office towards the end of 2016 after the constitutional reform was voted down by referendum.

In the financial markets, ten-year BTP yields followed global yield trends, tumbling in the first part of the year to the all-time low of just over 1%, to then begin a new upward trend, closing the year at around 1.8%, again following the rally in global bond market yields. In terms of the spread against the Bund with the same maturity, the minimum was reached around mid-March (101 basis points) and the year closed at around 160 basis points. In terms of monetary rates, the entire Euribor curve continued its journey in negative territory, with 3-month rates at -0.32% at year-end.

After the encouraging signals seen in recent years, the credit market has suffered a setback. Although the drop in the stock of loans to non-financial companies was marginal, it bears witness to the imperfect readjustment of the credit channel. On the other hand, loans to households rose slightly, thanks especially to rising demand for mortgages due to the reactivation of the real estate market, which saw a considerable increase in the number of sales. During the year, the cost of new loans to households and businesses continued to decline.



## Significant events in 2016

A new securitisation without derecognition of the lease receivables portfolio for EUR 1.6 bn was successfully finalised on **21 January 2016**.

On **15 April 2016**, the Parent Company's Board of Directors 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 subsidiary 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 valid for the years from 2015 to 2029, equal to 1.5% of the difference between deferred tax assets and paid taxes, be exercised. Subsequently, Law Decree no. 237/2016 changed the rule in question by substantially shifting the effects to the years from 2016 to 2030. Against the exercise of that option, the Group accounted for the entire fee relating to the year 2016.

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 and on the income statement for the year 2016 of the Group.

On **2 July 2016**, with the approval of the Public Prosecutor, the Parent Company filed a request for plea bargain in the criminal proceedings pending before the Preliminary Hearing Judge of Milan, in relation to the objections made against the Parent Company in accordance with Italian Legislative Decree 231/2001 regarding entities' administrative liability resulting from offences. Predicate offences with administrative liability of the Parent Company 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 Parent Company would exit the proceedings as defendant in the administrative offence following crimes committed by its own former executives, limiting the consequences to an administrative financial penalty of 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 Parent Company is also bringing a civil action against its former Directors and executives who were in office when said events took place.

On **4 July 2016**, the Parent Company disclosed that it had received a letter from the European Central Bank which indicated its intention to ask the Bank to comply with specific requirements relating to



non-performing loans (reducing non-performing loans over the next three years and meeting specific parameters).

On **19 July 2016**, the Interbank Deposit Protection Fund disclosed the amount, pertaining to the Parent Company, of approx. EUR 19 mln, concerning the intervention, within the Voluntary Scheme, in favour of Cassa di Risparmio di Cesena, which was reconfirmed in the communication of 16 September and settled with a value date of 20 September 2016.

On **21 July 2016**, the Parent Company received from the Revenue Agency a favourable answer to the request for an opinion filed in April about the tax relevance of some components of the restatement of the “Alexandria” transaction, recognised in the Financial Statements of 2015. In 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 Restatement of prior period accounts - IAS 8 section), 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 Revenue Agency Circular 31/2013. Due to the response to such request, the Parent Company has recognised in the Income Statement for 2016 (in the income tax line item) the corresponding gain which, also taking into account the assessments resulting from the probability test, amounts to EUR 38.8 mln.

On **29 July 2016**, the results of the EBA’s EU-wide stress test were published, showing a serious reduction in the CET1 ratio in the adverse scenario (fully loaded at -2.4%). 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. 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. The adverse stress scenario was designed by ECB/ESRB and covers a three-year horizon (2016-2018) under the assumption of static financial statements starting from December 2015; therefore, it does not take into account future changes in business strategies and the new Business Plan or other measures the Bank may take.

Still on **29 July 2016** the Parent Company’s Board of Directors approved the guidelines of a transaction (the Transaction) consisting of 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”) - (for a gross value of EUR 27.7 bn and a net value of EUR 10.2 bn as at 31 March 2016) and at recapitalising the Parent Company for a maximum estimated amount of EUR 5 bn.

On **8 September 2016**, the Board of Directors and the Chief Executive Officer Fabrizio Viola agreed that the Bank’s top management should be changed.

On **14 September 2016**, the Board of Directors approved the conditions for the termination of the employment relationship of Fabrizio Viola as of 15 October 2016. The Board also unanimously approved the co-opting of Marco Morelli as the new Chief Executive Officer and General Manager as of 20 September 2016. At the same board meeting, Chairman Massimo Tononi resigned from his position as Chairman and member of the Parent Company’s Board of Directors as of the end of the Shareholders’ meeting for the approval of activities in preparation for the implementation of the transaction presented to the market on 29 July.

On **14 October 2016**, the Parent Company’s Board of Directors appointed Antonio Nucci as Chief Commercial Officer and Deputy General Manager of the Parent Company. At the same board meeting, a non-binding proposal sent by letter by Mr Passera and received on 13 October was also analysed relating to the potential capital strengthening of the Parent Company. In this regard, the Board of Directors granted a specific mandate to the Chief Executive Officer to initiate the necessary investigations.

With respect to the request for a plea bargain referring to the pending criminal trial before the Preliminary Hearing Judge of Milan, submitted by the Parent Company on 2 July 2016, the position was closed and, consequently, at the moment the Parent Company is not civilly liable for its former top





management, now accused. With the plea bargain, accepted by the Preliminary Hearing Judge on **14 October 2016**, the Parent Company exited the proceedings as defendant in the administrative offence following crimes committed by its own former executives, limiting the consequences to an administrative financial penalty of EUR 0.1 mln and a confiscation, for EUR 10 mln, without exposing itself to the risk of higher penalties.

On **24 October 2016**, the Parent Company's Board of Directors decided to call the Bank's Ordinary and Extraordinary Shareholders' Meetings in order to adopt the resolutions required to conduct the Transaction aimed at (i) deconsolidating the MPS Group's doubtful loan portfolio at 30 June 2016 for a gross value of up to EUR 27.6 billion (without prejudice to the doubtful lease portfolio equal to EUR 0.9 billion, subject to a separate sale), also through the distribution of junior notes to Bank shareholders, and (ii) recapitalising the Parent Company up to EUR 5 billion. Authorisations regarding the Transaction were received from the European Central Bank on 23 November 2016.

At the same meeting on **24 October 2016**, the Bank's Board of Directors also approved the 2016-2019 Business Plan, based on 4 main lines of development: i) the re-launch of the commercial business, which envisages an acceleration of the digitalisation process, a greater focus on the traditional retail and small business segments and affluent customer advisory services; ii) the renewal of the operating model with a continuous focus on efficiency through the FTE reduction of roughly 2,600, the increasing allocation of the remaining FTEs to commercial activities and the closure of around 500 branches; iii) the improvement of credit risk management and the relative process which, along with the effects of the Transaction, will lead to a substantial reduction in the cost of risk; and iv) the strengthening of liquidity and capital strength by deconsolidating the non-performing loans portfolio and increasing the share capital, with positive impacts on all of the main ratios.

On **1 November 2016**, the Parent Company acknowledged the decision of Corrado Passera to withdraw his proposal of 13 October 2016. This was a non-binding proposal formulated on behalf of investors, the general information of which was not made public and which at the time had not yet been "solidified". Lastly, with reference to interactions with the Supervisory Authorities, the Bank specified that it kept the national and supranational regulators continuously updated - from the very beginning - with respect to the initiative taken by Mr Passera for the applicable evaluations.

On **14 November 2016**, the Parent Company reached a binding agreement with Cerved Group S.p.A. concerning the sale of its doubtful loans platform. The transaction envisaged the sale to Cerved Group S.p.A. of the vehicle which would have managed unsecuritised doubtful loans and a significant percentage of those that would be generated over the next ten years. This transaction confirmed what was announced with the Business Plan in terms of increasing efficiency and maximising returns linked to non-performing loan management. The sale consideration was set at EUR 105 mln, in addition to a possible earn-out of up to EUR 66 mln based on profit and loss results in the period until 2024. The closing of the transaction, expected to take place within the first quarter of 2017, was subject to the approval of the supervisory authority as well as the successful completion of the Transaction by the Parent Company. As is well-known, the Transaction was unsuccessful, but discussions are ongoing with the counterparty Cerved to explore alternative business partnership forms within the doubtful loan management sector.

On **24 November 2016**, the extraordinary Shareholders' Meeting of the Parent Company, which met in Siena under the chairmanship of Massimo Tononi, approved granting the Board of Directors the mandate pursuant to art. 2443 of the Italian Civil Code to increase the share capital against payment in cash, possibly on one or more occasions, in one or more tranches, with the exclusion or limitation of the option right pursuant to art. 2441, paragraph 5 of the Italian Civil Code, for a total maximum amount of EUR 5 bn, inclusive of any share premium, with 96.13% voting in favour. The capital increase noted above was broken down as follows:

- a. a component for a potential LME (Liability Management Exercise), with the possibility for holders of financial instruments subject to the LME to accept a voluntary offer for the acquisition of their financial instruments with consideration linked to the subscription of new shares to be issued as part of the capital increase;



- b. a cash component reserved for any cornerstone investors who expressed their willingness to acquire a significant stake in the Parent Company's share capital;
- c. an additional cash component, of which one part possibly to be allocated to the shareholders of the Parent Company.

At the same extraordinary meeting on **24 November 2016**, in addition to the grouping of ordinary shares, the Shareholders' Meeting approved the balance sheet as at 30 September 2016 and the proposal to reduce the share capital to cover prior losses and the losses resulting from the balance sheet as at 30 September 2016.

During the ordinary Shareholders' Meeting on **24 November 2016**, Alessandro Falciai, a member of the Parent Company's Board of Directors since April 2015, was appointed as Chairman of Banca Monte dei Paschi di Siena and Massimo Egidi was appointed as the new member of the Board of Directors, in the role of independent director. In addition, the Ordinary Shareholders' Meeting appointed Marco Morelli as a member of the Board of Directors. Lastly, the Ordinary Shareholders' Meeting approved the adoption of measures relating to: (a) the allocation of the share premium that would have arisen following the exercise of the delegation and the resulting execution of the capital increase; (b) the distribution in kind of the share premium reserve, once formed as a result of the execution of what was resolved upon in letter (a) above, through the assignment to Parent Company shareholders of securities representing junior notes linked to the securitisation of doubtful loans.

On **1 December 2016**, the Parent Company and AXA renewed the strategic life and non-life bancassurance and supplementary pension partnership entered into in March 2007 until 2027. The renewal was based on the excellent results of this partnership which - since 2007 - enabled the Parent Company to consolidate and strengthen its presence in the life/non-life insurance segment and AXA to conquer a position of leadership within the Italian market and therefore to further improve the diversification and growth profile of the AXA Group. According to the partnership agreement, the Parent Company will continue to distribute AXA-MPS products through the sales network consisting of more than 2,000 branches and to rely on the know-how of an international insurance leader, in terms of product innovation and the quality of the services offered.

On **7 December 2016**, after the liability management exercise was completed, with results meeting expectations, and with the activities in preparation for the transaction announced to the market on 25 October 2016 continuing in accordance with the established timing, the Parent Company decided it would be appropriate - due to the changed reference environment - to ask the European Central Bank for an extension until 20 January 2017 for the completion of the Transaction. At the same meeting, the Board of Directors also appointed Massimo Egidi as the new member of the Remuneration Committee to replace Alessandro Falciai.

At its meeting on **11 December 2016**, the Parent Company's Board of Directors decided to continue with its activities to carry out the Transaction in line with the timing laid out in the authorisations received. In this context, once the necessary authorisations were obtained, the Parent Company re-opened the liability management exercise. At the same time, the syndicate banks confirmed their willingness to support the capital increase on a best effort basis, thus cancelling the previous pre-underwriting agreement. In parallel, the final phases of negotiations continued between the senior lenders and Quaestio Capital Management SGR with regard to the structuring of the senior loan. All decisions were subject to the approvals of the competent authorities.

On **13 December 2016**, the Parent Company received a draft decision from the European Central Bank denying authorisation to postpone the Transaction announced to the market on 25 October 2016 to January 2017. Amongst its justifications, the European Central Bank highlighted that the delayed completion of the recapitalisation could entail an additional deterioration of the liquidity position as well as the capital ratios, putting the Parent Company's survival at risk. The European Central Bank also deemed that the postponement of the Transaction to January 2017 would not guarantee a more favourable market environment for entering into the guarantee agreement with the syndicate banks.

On **22 December 2016**, the Parent Company disclosed that the capital increase transaction, launched on Monday 19 December, had not been completed successfully. The investment orders placed were



insufficient to reach the EUR 5 billion needed to allow for the deconsolidation of non-performing loans and the achievement of the other capital strengthening objectives underlying the Transaction announced on 25 October 2016, as well as the authorisations received from national and supranational supervisory authorities. In particular, there were no expressions of interest from anchor investors willing to make a significant investment in the Parent Company, which negatively influenced the investment decisions of institutional investors, considerably limiting their subscription orders. Therefore, it was not possible to reach the sum of EUR 5 billion, despite the positive outcome of the liability management exercise, which saw the voluntary conversion of subordinated bonds into shares for a total of EUR 2.4 billion. The failure to complete the capital increase also entailed the cancellation of (i) the securitisation defined as part of the Transaction, and (ii) the overall liability management exercise on subordinated liabilities issued or guaranteed by Banca Monte dei Paschi di Siena, with the return of the securities granted in acceptance of the LME offers back to their respective owners. Please note that due to the Transaction's failure, the investment banks involved on various bases in the underwriting syndicate and in the securitisation, including JPMorgan and Mediobanca, received no fees and commissions.

Following the Shareholders' Meeting appointments on 24 November 2016, on **23 December 2016** the Parent Company's Board of Directors confirmed the fulfilment of professional and integrity requirements by Chairman Alessandro Falciai, Chief Executive Officer Marco Morelli and Mr Massimo Egidi. Please note that, based on statements made by Chairman Falciai, he was deemed independent pursuant to Italian Legislative Decree no. 58/1998 (Consolidated Law on Finance), but not pursuant to the Corporate Governance Code and, therefore, he was not deemed independent pursuant to the Parent Company's Articles of Association; Mr Morelli was not deemed independent; Mr Egidi was classified as an Independent Director. Therefore, the Board currently has eight independent directors, equal to more than half of its members, a percentage significantly higher than the minimum threshold (of at least one-third) specified in the Corporate Governance Code for issuers belonging to the FTSE-Mib index and also established in the Parent Company's Articles of Association. Lastly, the Board of Directors confirmed that none of the three members - or the Financial Reporting Officer - were in significant situations regarding the interlocking prohibition pursuant to art. 36 of Law Decree no. 201/2011, converted by Law no. 214/2011.

On **26 December 2016**, the Parent Company - after confirming the impossibility of completing the capital strengthening transaction for a total of EUR 5 billion (announced to the market on 25 October 2016 and authorised on 23 November 2016 by the ECB and the Bank of Italy insofar as they were each responsible) - announced that on 23 December it had sent the ECB an extraordinary, temporary financial support request for "precautionary recapitalisation". On the same date, the Parent Company sent the Bank of Italy and the Ministry of Economy and Finance a request for the State guarantee pursuant to art. 7 of Law Decree no. 237, which was approved by the Council of Ministers on 23 December 2016, and therefore to obtain the possibility of issuing further liabilities backed by the government. Subsequently, the Parent Company received two letters written by the ECB from the Ministry of Economy and Finance, addressed to that Ministry, which, aside from confirming the fulfilment of the necessary requirements for "precautionary recapitalisation", in compliance with applicable legislation, note the following:

- (i) as regards the consolidated data on the basis of the reports at 30 September, the Parent Company is solvent, as it meets the minimum capital requirements laid out in Article 92 of Regulation (EU) No. 575/2013. The Pillar 2 capital requirements are also met;
- (ii) the 2016 stress test results highlighted a shortfall, only in the adverse scenario, in the fully loaded CET 1 parameter at the end of 2018 (-2.44%), compared to a threshold of 8%; according to the ECB, this shortfall translates into a capital requirement of EUR 8.8 billion, inclusive of all components of regulatory capital as set forth in applicable legislation;
- (iii) the Parent Company's liquidity position deteriorated rapidly between 30 November 2016 and 21 December 2016, as seen in the sharp decline in the counterbalancing capacity (from EUR 14.6 billion to EUR 8.1 billion) and net liquidity at 1 month (from EUR 12.1 billion, equal to 7.6% of total assets, to EUR 7.7 billion, equal to 4.78% of total assets).



The Parent Company promptly initiated discussions with the competent Authorities in order to understand the methodologies underlying the ECB's calculations and to launch the precautionary "recapitalisation measures" summarised above.

On **28 December 2016**, due to the insufficiency of the financial resources of the National Resolution Fund, the Parent Company received a request from the Bank of Italy to pay two additional annual shares for 2016.

At its meeting on **30 December 2016**, the Board of Directors of Banca Monte dei Paschi di Siena S.p.A. accepted the resignation submitted on 28 December 2016 of Christian Whamond from the position of Director, and therefore also from his roles as a member of the Risk Committee and the Remuneration Committee, effective immediately.



## Significant events after 2016

On **20 January 2017**, the Parent Company announced that it had received a decree from the Ministry of Economy and Finance granting the government guarantee to back its access to liquidity pursuant to Law Decree no. 237/2016 and that it had promptly initiated activities in preparation for the issue of government backed securities.

On **25 January 2017**, the Parent Company completed two issues of government backed securities pursuant to Law Decree no. 237/2016, for a total of EUR 7 bn: the first issue matures on 20/1/2018, with a 0.5% coupon and a nominal amount of EUR 3 bn, whereas the second matures on 25/1/2020, with a 0.75% coupon and a nominal amount of EUR 4 bn. The securities, backed by the government guarantee pursuant to Law Decree no. 237/2016, were subscribed in full by the issuer. On **31 January 2017** the rating agency DBRS rated the two government backed securities issued on 25 January 2017 pursuant to Law Decree no. 237/2016. With regard to the “Banca Monte dei Paschi di Siena S.p.A. 360 giorni 0,50% 20.01.2018 con garanzia dello Stato - ISIN IT0005240491” issue, DBRS assigned a short-term rating of R-1 (low). With regard to the “Banca Monte dei Paschi di Siena S.p.A. 0,75% 25.01.2020 con garanzia dello Stato - ISIN IT0005240509” issue, DBRS assigned a long-term rating of BBB (high). The trend for both issues was assessed as “Stable”. Considering the unconditional and irrevocable guarantee of the Italian government, the ratings and trend are aligned with those of the Italian Republic.

On **3 February 2017**, the Parent Company announced that it reached a binding agreement with Istituto Centrale delle Banche Popolari Italiane S.p.A. (“ICBPI”), a national and international leader in the management of payment services, for the sale of assets relating to the “Merchant Acquiring” business on the basis of an enterprise value of EUR 520 million. As part of this transaction, BMPS and ICBPI, through its subsidiary CartaSi S.p.A., will enter into a ten-year partnership for the development and placement, through the MPS Group’s distribution network, of payment products and services for current and future customers of the MPS Group. The closing of the transaction is subject to the satisfaction of certain standard conditions precedent for transactions of this type, including the obligatory completion of the trade union procedure established by law and the contract and obtaining authorisation from the Bank of Italy and the antitrust authorities.

On **6 February 2017** Fitch Ratings rated the two government backed securities issued by the Bank on 25 January 2017 pursuant to Law Decree no. 237/2016. In particular, with regard to the “Banca Monte dei Paschi di Siena S.p.A. 360 giorni 0,50% 20.01.2018 con garanzia dello Stato - ISIN IT0005240491” issue, Fitch assigned a short-term rating of F2. With regard to the “Banca Monte dei Paschi di Siena S.p.A. 0,75% 25.01.2020 con garanzia dello Stato - ISIN IT0005240509” issue, Fitch assigned a long-term rating of BBB+. Considering the unconditional and irrevocable guarantee of the Italian government, the ratings are aligned with those of the Italian Republic. In February, the above-mentioned securities were used in full in sales transactions in the market and as collateral to back funding transactions.

On **17 February 2017**, Law Decree no. 237 of 23 December 2016 was converted into law, with the main changes regarding the rules on deferred tax assets (DTAs), the amendment of conditions concerning the recovery of the subordinated Upper Tier II 2008-2018 security and the value of shares necessary to calculate the price of the shares to be attributed to the holders of the instruments and loans.

On **28 February 2017**, with reference to the planned transaction for the acquisition of Banca Monte dei Paschi di Siena S.p.A.’s doubtful loans platform (the “Juliet Project”), pursuant to the binding offer submitted by Cerved Group S.p.A. on 13 November 2016 and already subject to the previous communication of 14 November 2016, Cerved Information Solutions S.p.A. (MTA: CERV) the holding company heading up the Cerved Group and a leader in Italy in credit risk analysis and credit management, and Banca Monte dei Paschi di Siena S.p.A. announce that (i.) the conditions precedent set forth in the agreement for the completion of the Juliet Project were not fulfilled by the established deadline of 28 February 2017 and, therefore, the agreement relating to that project should be considered void, and (ii.) Cerved Information Solutions S.p.A. expressed its willingness to extend the



above-mentioned deadline to 30 June 2017. In this context, Cerved Information Solutions S.p.A. and Banca Monte dei Paschi di Siena S.p.A. note, in any case, that discussions are ongoing between the parties to explore alternative business partnership forms within the doubtful loan management sector.

On March 9, 2017, the Board approved a preliminary proposal for the Restructuring Plan, which was sent to the competent Authority to start the comparison to finalization of the plan itself and its approval by the Authority.





## Human Resources

### KPI as at 31.12.16

Indicators	31/12/2016	31/12/2015	31/12/2014	31/12/2013	31/12/2012
<b>Headcount</b>	<b>25,566</b>	<b>25,731</b>	<b>25,961</b>	<b>28,417</b>	<b>30,303</b>
<i>Operational location (%)</i>					
Head Offices*	22.5	22.6	21.6	24.0	26.2
Italy Network**	75.5	75.3	76.3	74.1	72.0
Foreign Network	2.0	2.1	2.0	1.9	1.8
<i>Professional/occupational level (%)</i>					
Executives	1.2	1.4	1.3	1.3	1.5
Middle Managers	39.6	39.2	38.8	38.3	38.8
Professionals	59.2	59.4	59.9	60.4	59.7
<b>Other indicators</b>					
Training per capita (hours)	46	37	36	35	36
Female staff (%)	48.0	47.8	47.6	46.2	45.1
Female executives (%)	7.8	7.1	6.1	5.6	5.2

\* Bank Parent Company (net of the Contact Centre and Large Groups Services) including the Departments net of the Unit; Specialised Services Area for the Business and the Group Companies net of the sales areas (trends in the aggregate figure were impacted by the organisational changes made in the regional lending chain - quality and debt collection - now reporting directly to the head office units)

\*\* Regional Areas, DTMs (local unit offices), Branches, Unit, Specialised Centres and sales & distribution structures of the Group Companies

### Headcount changes

As at 31 December 2016, the Group had a total of 25,566 employees, down 165 compared to 31 December 2015 and 4,737 compared to 31 December 2012. In the course of 2016, there were 155 people hired (of which 63 pursuant to regulatory provisions on mandatory placement) and 320 terminations. Staff taking up positions involved 9 Executives, 28 Middle Managers and 118 Professionals, while the terminations concerned 40 Executives, 127 Middle Managers and 152 Professionals.

Distribution of the workforce in favour of customer interface units stands at 75.5% (figure does not include the international banking division which represents 2.0% of the total staff) and 22.5% as regards the Head Office units.

During the year, 40 full time resources were also hired with a temporary 4-month contract to meet temporary seasonal operating requirements. The resources were used in branch operator roles based on a basic and complete on-the-job training programme.



## Personnel management initiatives

The personnel management policies support the reorganisation projects, in line with the business plan objectives, through mobility plans (geographical and professional) with a view to development opportunities for employees according to the logics of transparency and participation. The operational initiatives were therefore supported by: the Performance Management system; professional and managerial plans which, based on a business continuity approach, guarantee adequate quality-quantity staff coverage levels; training programmes (MPS ACADEMY) to enhance skills, provide managerial career guidance and support requalification processes; engagement and human resource motivation leverage (incentive policies, BMPS welfare system and internal communication plans).

In 2016, the operational plans were functional to reaching the operational efficiency and core business strengthening objectives in accordance with the project activities set forth in the Business Plan. In this context, and in relation to the implementation of the Parent Company's new organisational model, the mobility plans - primarily professional - concerned roughly 750 resources in the course of the year, based on an approach meant to ensure professional continuity and the best allocation of people with respect to the new organisational roles.

In relation to the Sales & Distribution Network, on one hand activities to streamline the branches (closure of roughly 100 branches) continued in line with Plan forecasts - supported by the activation of operational plans for the reallocation of resources primarily at the merging branches and in any event according to an approach which seeks to leverage the professional skills gained and takes into consideration individual needs and aspirations - and on the other hand the new hub & spoke distribution model continued to be implemented by the Sales & Distribution Network, entailing the redesign of various Network roles as well as primarily professional mobility. During the year, total Network mobility came to roughly 5,300 employees, accompanied by a training offer appropriately set up to favour the continuing education and professional strengthening process in light of the new service models.

In line with the operational efficiency objectives laid out in the 2016-2019 Business Plan, on 23.12.2016 the Group's union agreement for the activation of the industry solidarity fund was signed with the goal of allowing for the exit of 600 resources (as at 1 May 2017), while favouring voluntary participation and closer proximity to the right to receive retirement benefits as priority selection criteria.

With respect to training, in its three main areas - People, Business, Compliance & Safety - MPSAcademy provided more than 1,150,000 training hours for the Group in 2016 (950,000 in 2015), equal to 45.7 hours per capita (37 in 2015); roughly 98% of personnel participated in training activities (97% in 2015). Aside from the focus on lending-related training, particular attention was reserved for topics connected to risk control. In order to favour the increased spread of the culture of competence over time, a specific informational campaign was launched on Network roles and professional skills, oriented towards supporting the evolution of the distribution model.





## Strategy

On 24 October 2016, the Parent Company's Board of Directors approved the 2016-2019 Business Plan, based on the transfer of doubtful loans and the simultaneous recapitalisation with recourse to the market. On 23 December, the Parent Company, after confirming the impossibility of completing the capital strengthening transaction, sent the ECB an extraordinary and temporary request for financial support involving access to the "precautionary recapitalisation" measure. Subsequently, the Parent Company received two letters written by the ECB from the Ministry of Economy and Finance, addressed to that Ministry, which, aside from confirming the fulfilment of the necessary requirements for "precautionary recapitalisation", in compliance with applicable legislation, note a capital requirement of EUR 8.8 billion, inclusive of all components of regulatory capital as set forth in applicable legislation. The completion of the "Precautionary recapitalisation" requires the submission of a "2017-21 Restructuring Plan" to the Domestic authorities (Ministry of Economy and Finance) as well as the European Commission.

On March 9, 2017, the Board approved a preliminary proposal for the Restructuring Plan, which was sent to the competent authority to start the comparison to finalization of the plan itself and its approval by the Authority.



## Income statement and balance sheet reclassification principles

As regards the approach adopted for the 2015 Financial Statements, also confirmed in the previous reports, 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.

### Reclassified income statement

- a) The item “**Net interest income**” was adjusted for the economic values of the Purchase Price Allocation (PPA) included in a specific item, in the amount of around EUR 19 mln.
- b) The item “**Net profit (loss) from trading and 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 3 mln).
- c) The item “**Dividends, similar income and gains (losses) on equity investments**” incorporates the item 70 “Dividends and similar income” and a portion of item 240 “Gains (losses) on investments” (around EUR 68 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.
- d) The item “**Other operating expenses (income)**” 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”.
- e) The income statement item “**Personnel expenses**” was reduced by around EUR 117 mln for restructuring charges, mainly related to allocations for early retirement incentives/provisions, as per the trade union agreement of 23 December 2016. The amount was reclassified under “Restructuring costs/One-off charges”.
- f) The item “**Other administrative expenses**” includes the balance of financial statements item 180b “Other administrative expenses”, reduced by the following cost items:
  - Expenses, amounting to EUR 241 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 70 mln (posted to the reclassified item “DTA fee”).This item includes also the portion of stamp duty and client expenses recovery (approx. EUR 344 mln) posted under item 220 “Other operating expenses/income”.
- g) The item “**Net adjustments to (recoveries on) property, plant and equipment/Net adjustments to (recoveries on) intangible assets**” was reduced for the economic values of the Purchase Price Allocation (PPA) included in a specific item, in the amount of approx. EUR 28 mln.
- h) 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”.
- i) The income statement item “**Restructuring costs/One-off charges**” includes charges of approx. EUR 117 mln, relating to early retirement incentives/provisions pursuant to the agreement with the trade unions of 23 December 2016, reclassified out of Personnel Expenses.
- j) 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 31 December 2016, there were charges recognised associated with SRF and NRF (roughly EUR 71 mln and EUR 140 mln, respectively) and with DGS (estimated at around EUR 30 mln).

- k) 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 item 180b “Other administrative expenses”.
- l) The item “**Gains (losses) on disposal of investments**” includes the balance of item 240 “Gains (losses) on investments” after deducting the portion of profit for the period contributed by investments in AXA, consolidated at equity and posted under the reclassified item “Dividends, similar income and gains (losses) on investments”.
- m) The item “**Tax expense (recovery) on income from continuing operations**” was separated from the theoretical tax component relating to the Purchase Price Allocation (PPA), included in a specific item in the amount of around EUR 15 mln.
- n) 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 roughly EUR 19 mln and “**Net value adjustments to tangible and intangible assets**” for approx. EUR 28 mln, net of a theoretical tax burden of EUR -15 mln which integrates the item).

#### Reclassified balance sheet

- o) The item “**Marketable assets**”, under Assets, includes the financial statements item 20 “Financial assets held for trading” and item 40 “Financial assets available for sale”.
- p) 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”.
- q) 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”.
- r) 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 income statement

Reclassified Consolidated Income Statement				
Montepaschi Group	31 12 2016	31 12 2015	Change	
			Abs.	%
Net interest income	2,021.3	2,258.6	(237.3)	-10.5%
Net fee and commission income	1,839.4	1,809.9	29.5	1.6%
<b>Income from banking activities</b>	<b>3,860.7</b>	<b>4,068.5</b>	<b>(207.8)</b>	<b>-5.1%</b>
Dividends, similar income and gains (losses) on equity investments	77.8	99.9	(22.1)	-22.1%
Net profit (loss) from trading and financial assets/liabilities	441.2	1,037.8	(596.6)	-57.5%
Net profit (loss) from hedging	(82.0)	14.1	(96.1)	n.s.
Other operating income (expenses)	(15.7)	(4.7)	(11.0)	n.s.
<b>Total Revenues</b>	<b>4,282.0</b>	<b>5,215.5</b>	<b>(933.5)</b>	<b>-17.9%</b>
Administrative expenses:	(2,402.5)	(2,412.6)	10.1	-0.4%
a) personnel expenses	(1,610.5)	(1,652.8)	42.2	-2.6%
b) other administrative expenses	(792.0)	(759.9)	(32.1)	4.2%
Net adjustments to (recoveries on) property, plant and equipment / Net adjustments to (recoveries on) intangible assets	(218.8)	(216.0)	(2.8)	1.3%
<b>Operating expenses</b>	<b>(2,621.3)</b>	<b>(2,628.6)</b>	<b>7.2</b>	<b>-0.3%</b>
<b>Pre Provision Profit</b>	<b>1,660.7</b>	<b>2,587.0</b>	<b>(926.3)</b>	<b>-35.8%</b>
Net impairment (losses) reversals on:	<b>(4,500.9)</b>	<b>(1,993.1)</b>	<b>(2,507.8)</b>	<b>n.s.</b>
a) loans	(4,467.0)	(1,991.1)	(2,475.9)	n.s.
b) financial assets	(33.9)	(2.1)	(31.8)	n.s.
<b>Net operating income</b>	<b>(2,840.2)</b>	<b>593.8</b>	<b>(3,434.1)</b>	<b>n.s.</b>
Net provisions for risks and charges	44.4	(64.0)	108.4	n.s.
Gains (losses) on investments	11.8	119.6	(107.8)	-90.1%
Restructuring costs / One-off costs	(117.0)	(17.4)	(99.5)	n.s.
Risks and charges related to the SRF, DGS and similar schemes	(241.1)	(195.5)	(45.6)	23.3%
DTA Fee	(70.4)	-	(70.4)	n.s.
Gains (losses) on disposal of investments	33.2	2.9	30.3	n.s.
<b>Profit (loss) before tax from continuing operations</b>	<b>(3,179.3)</b>	<b>439.3</b>	<b>(3,618.6)</b>	<b>n.s.</b>
Tax expense (recovery) on income from continuing operations	(20.7)	(11.4)	(9.2)	80.8%
<b>Profit (loss) after tax from continuing operations</b>	<b>(3,200.0)</b>	<b>427.9</b>	<b>(3,627.8)</b>	<b>n.s.</b>
<b>Net profit (loss) for the period including non-controlling interests</b>	<b>(3,200.0)</b>	<b>427.9</b>	<b>(3,627.8)</b>	<b>n.s.</b>
Net profit (loss) attributable to non-controlling interests	9.7	1.8	7.9	n.s.
<b>Profit (loss) for the period before PPA, impairment on goodwill and intangibles</b>	<b>(3,209.7)</b>	<b>426.1</b>	<b>(3,635.8)</b>	<b>n.s.</b>
PPA (Purchase Price Allocation)	(31.4)	(38.0)	6.6	-17.3%
<b>Net profit (loss) for the period</b>	<b>(3,241.1)</b>	<b>388.1</b>	<b>(3,629.2)</b>	<b>n.s.</b>



Quarterly trend in reclassified consolidated income statement								
Montepaschi Group	2016				2015			
	4°Q 2016	3°Q 2016	2°Q 2016	1°Q 2016	4°Q 2015	3°Q 2015	2°Q 2015	1°Q 2015
					(*)	(*)	(*)	(*)
Net interest income	502.6	483.5	486.9	548.3	541.0	556.8	553.9	606.8
Net fee and commission income	437.0	461.7	483.8	456.9	451.6	431.1	484.2	443.0
<b>Income from banking activities</b>	<b>939.6</b>	<b>945.2</b>	<b>970.7</b>	<b>1,005.2</b>	<b>992.6</b>	<b>987.9</b>	<b>1,038.1</b>	<b>1,049.8</b>
Dividends, similar income and gains (losses) on equity investments	11.3	23.3	23.9	19.3	4.8	28.7	42.1	24.3
Net profit (loss) from trading and financial assets/liabilities	21.5	102.7	151.3	165.7	133.6	458.9	163.6	281.7
Net profit (loss) from hedging	(80.3)	(0.4)	(1.4)	0.1	4.3	(6.3)	0.2	15.9
Other operating income (expenses)	(27.6)	2.2	14.7	(5.0)	(17.8)	0.5	11.3	1.3
<b>Total Revenues</b>	<b>864.5</b>	<b>1,073.0</b>	<b>1,159.1</b>	<b>1,185.4</b>	<b>1,117.6</b>	<b>1,469.6</b>	<b>1,255.3</b>	<b>1,373.0</b>
Administrative expenses:	(630.6)	(595.1)	(582.1)	(594.7)	(602.2)	(601.7)	(603.7)	(604.9)
a) personnel expenses	(371.1)	(418.4)	(403.4)	(417.6)	(396.3)	(422.7)	(414.5)	(419.4)
b) other administrative expenses	(259.5)	(176.7)	(178.7)	(177.1)	(206.0)	(179.1)	(189.3)	(185.5)
Net adjustments to (recoveries on) property, plant and equipment / Net adjustments to (recoveries on) intangible assets	(61.6)	(55.2)	(51.7)	(50.3)	(59.3)	(54.5)	(53.7)	(48.4)
<b>Operating expenses</b>	<b>(692.2)</b>	<b>(650.3)</b>	<b>(633.8)</b>	<b>(645.0)</b>	<b>(661.6)</b>	<b>(656.2)</b>	<b>(657.4)</b>	<b>(653.3)</b>
<b>Pre Provision Profit</b>	<b>172.3</b>	<b>422.7</b>	<b>525.4</b>	<b>540.3</b>	<b>456.0</b>	<b>813.4</b>	<b>597.9</b>	<b>719.7</b>
Net impairment (losses) reversals on:	<b>(2,482.1)</b>	<b>(1,301.6)</b>	<b>(368.0)</b>	<b>(349.2)</b>	<b>(575.4)</b>	<b>(435.3)</b>	<b>(528.2)</b>	<b>(454.2)</b>
a) loans	(2,445.4)	(1,303.3)	(372.4)	(345.9)	(577.2)	(429.9)	(515.8)	(468.2)
b) financial assets	(36.7)	1.7	4.4	(3.3)	1.7	(5.4)	(12.4)	14.0
<b>Net operating income</b>	<b>(2,309.8)</b>	<b>(878.9)</b>	<b>157.4</b>	<b>191.1</b>	<b>(119.5)</b>	<b>378.1</b>	<b>69.7</b>	<b>265.5</b>
Net provisions for risks and charges	48.0	(27.5)	29.2	(5.3)	(58.7)	43.3	(18.8)	(29.8)
Gains (losses) on investments	2.5	1.6	0.2	7.5	(7.1)	1.5	124.9	0.2
Restructuring costs / One-off costs	(117.0)	-	-	-	(14.6)	(2.2)	(0.3)	(0.2)
Risks and charges related to the SRF, DGS and similar schemes	(139.1)	(31.2)	0.3	(71.1)	(140.9)	(54.6)	-	-
DTA Fee	53.9	(15.5)	(108.8)	-	-	-	-	-
Gains (losses) on disposal of investments	20.4	12.8	-	-	1.0	0.9	0.6	0.4
<b>Profit (loss) before tax from continuing operations</b>	<b>(2,441.1)</b>	<b>(938.7)</b>	<b>78.3</b>	<b>122.2</b>	<b>(339.8)</b>	<b>367.0</b>	<b>176.0</b>	<b>236.1</b>
Tax expense (recovery) on income from continuing operations	64.7	(203.9)	139.2	(20.7)	152.1	(102.5)	18.1	(79.1)
<b>Profit (loss) after tax from continuing operations</b>	<b>(2,376.4)</b>	<b>(1,142.6)</b>	<b>217.5</b>	<b>101.5</b>	<b>(187.8)</b>	<b>264.5</b>	<b>194.2</b>	<b>157.0</b>
<b>Net profit (loss) for the period including non-controlling interests</b>	<b>(2,376.4)</b>	<b>(1,142.6)</b>	<b>217.5</b>	<b>101.5</b>	<b>(187.8)</b>	<b>264.5</b>	<b>194.2</b>	<b>157.0</b>
Net profit (loss) attributable to non-controlling interests	(8.3)	0.6	0.3	0.5	(0.5)	0.5	0.3	0.5
<b>Profit (loss) for the period before PPA, impairment on goodwill and intangibles</b>	<b>(2,384.7)</b>	<b>(1,143.2)</b>	<b>217.2</b>	<b>101.0</b>	<b>(188.2)</b>	<b>264.0</b>	<b>193.9</b>	<b>156.5</b>
PPA (Purchase Price Allocation)	(7.7)	(7.5)	(8.3)	(7.9)	(8.4)	(8.2)	(8.7)	(12.8)
<b>Net profit (loss) for the period</b>	<b>(2,392.4)</b>	<b>(1,150.7)</b>	<b>208.9</b>	<b>93.1</b>	<b>(196.6)</b>	<b>255.8</b>	<b>185.2</b>	<b>143.7</b>

(\*) 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 are referenced for further details.



## Trends in revenues

In 2016, the Group recorded **Total revenues** of approximately **EUR 4,282 mln**, down by -17.9% compared to the previous year, due for the most part to the downturn in net interest income and in trading activity (in 2015, the latter benefited from the effects of the restatement of the “Alexandria” transaction, by approx. EUR 608 mln). In Q4 2016, Revenues declined by 19.4% compared to the prior quarter, due primarily to the drop in the net profit (loss) from trading/valuation of financial assets as well as in the net profit (loss) from hedging.

Financial and insurance income (EUR mln)										
	31 12 2016	4Q2016	3Q2016	2Q2016	1Q2016	31 12 2015	Chg Q / Q		Chg Y / Y	
							Abs.	%	Abs.	%
Net interest income	2,021.3	502.6	483.5	486.9	548.3	2,258.6	19.1	4.0%	(237.3)	-10.5%
Net fee and commission income	1,839.4	437.0	461.7	483.8	456.9	1,809.9	(24.7)	-5.3%	29.5	1.6%
Income from banking activities	3,860.7	939.6	945.2	970.7	1,005.2	4,068.5	(5.6)	-0.6%	(207.8)	-5.1%
Dividends, similar income and gains (losses) on equity investments	77.8	11.3	23.3	23.9	19.3	99.9	(12.0)	-51.5%	(22.1)	-22.1%
Net profit (loss) from trading/ valuation of financial assets	441.2	21.5	102.7	151.3	165.7	1,037.8	(81.2)	-79.1%	(596.6)	-57.5%
Net profit (loss) from hedging	(82.0)	(80.3)	(0.4)	(1.4)	0.1	14.1	(79.9)	n.s.	(96.1)	n.s.
Other operating income (expenses)	(15.7)	(27.6)	2.2	14.7	(5.0)	(4.7)	(29.8)	n.s.	(11.0)	n.s.
Total Revenues	4,282.0	864.5	1,073.0	1,159.1	1,185.4	5,215.5	(208.5)	-19.4%	(933.5)	-17.9%

In 2016, **Net interest income** amounted to approx. **EUR 2,021 mln**, or 10.5% less than in 2015, penalised by the decline in interest-bearing assets and the related returns, only partly offset by the repayment of NFIs and the lower cost of funding. The 4th quarter of 2016 contributed approximately EUR 503 mln (+4.0% QoQ), higher than the levels seen in the previous period.

**Net fee and commission income**, totalling approximately **EUR 1,839 mln** in 2016, recorded growth compared to the previous year of 1.6%, especially due to the recovery in traditional services (in particular the recovery in current account expenses and payment services) and non-trading components (including the reduction of the cost of the State guarantee on “Monti Bonds”). The contribution of the Q4 2016 amounted to around EUR 437 mln and was lower than that of the previous quarter (-5.3%), primarily due to the downturn in income from product placement.

**Dividends, similar income and gains (losses) on investments** amounted to approx. **EUR 78 mln** (represented mainly by the contribution from AXA-MPS<sup>2</sup>), down compared with 2015 as well as the previous quarter (around EUR -22 mln and EUR -12 mln, respectively).

Net trading income (loss) / valuation of financial assets (EUR mln)										
	31 12 2016	4Q2016	3Q2016	2Q2016	1Q2016	31 12 2015	Chg Q/Q		Chg Y/Y	
							Abs.	%	Abs.	%
Net profit (loss) from trading	180.4	25.2	35.2	57.9	62.1	761.7	(10.0)	-28.4%	(581.3)	-76.3%
Gains (losses) on disposal/repurchase of loans, financial assets available for sale and financial liabilities	161.5	4.2	28.7	107.8	20.8	225.8	(24.5)	-85.4%	(64.3)	-28.5%
Net profit (loss) from financial assets and liabilities designated at fair value	99.3	(7.9)	38.8	(14.4)	82.8	50.3	(46.7)	n.s.	49.0	97.5%
Net profit (loss) from trading	441.2	21.5	102.7	151.3	165.7	1,037.8	(81.2)	-79.1%	(596.6)	-57.5%

**Net profit (loss) from trading and financial assets/liabilities** in 2016 stood at around **EUR 441 mln**, down over the previous year (approx. EUR -597 mln YoY), which benefitted from the positive effects of the restatement of the “Alexandria” transaction (approx. EUR +608 mln as at 31 December 2015). An analysis of the main aggregates shows the following:

<sup>2</sup> AXA – MPS is consolidated in the Group's financial statements using the equity method



- positive trading results amounting approx. to EUR 180 mln, down compared with those of 2015, positively affected by the restatement of the “Alexandria” transaction. The contribution of Q4 2016 was down with respect to the previous quarter, although it was positive;
- gains on disposal/repurchase of approximately EUR 162 mln, lower than the values recorded in the previous year (-28.5% YoY). The contribution of Q4 2016 (approx. EUR 4 mln) was down with respect to the previous quarter;
- positive contribution of assets/liabilities at fair value for about EUR 99 mln (approx. EUR 50 mln as at 31 December 2015), mainly due to the reduction in the value of certain bond issues. The overall financial impact of Q4 2016, equal to approx. EUR -8 mln, resulted from the negative effects deriving from the adjustment of the price of a subordinated bond to the value currently expected as part of the precautionary recapitalisation, partially offset by capital gains on other securities.

The following items also make up the Revenues:

- **Net profit (loss) from hedging**, totalling EUR -82 mln (about EUR 14 mln as at 31 December 2015), almost entirely realised in Q4 2016, inclusive of the negative effects connected to the intervening ineffectiveness of the interest rate risk hedge on a subordinated bond, following the obligatory conversion planned for 2017 based on the instructions laid out in Law Decree 237/2016, converted into law on 17 February 2017, as part of the precautionary recapitalisation by the State;
- **Other operating income/expenses** totalled approx. **EUR -16 mln** (approx. EUR -5 mln in 2015) with Q4 2016 contributing approx. EUR -28 mln, especially due to increased expenses for settlement agreements.

## Operating expenses

Operating expenses (EUR mln)										
	31 12 2016	4Q2016	3Q2016	2Q2016	1Q2016	31 12 2015	Chg Q/Q		Chg Y/Y	
							Abs.	%	Abs.	%
Personnel expenses	(1,610.5)	(371.1)	(418.4)	(403.4)	(417.6)	(1,652.8)	47.3	-11.3%	42.2	-2.6%
Other administrative expenses	(792.0)	(259.5)	(176.7)	(178.7)	(177.1)	(759.9)	(82.8)	46.9%	(32.1)	4.2%
<b>Administrative expenses</b>	<b>(2,402.5)</b>	<b>(630.6)</b>	<b>(595.1)</b>	<b>(582.1)</b>	<b>(594.7)</b>	<b>(2,412.6)</b>	<b>(35.5)</b>	<b>6.0%</b>	<b>10.1</b>	<b>-0.4%</b>
Net losses/reversal on impairment on property, plant and equipment / Net adjustments to (recoveries on) intangible assets	(218.8)	(61.6)	(55.2)	(51.7)	(50.3)	(216.0)	(6.4)	11.6%	(2.8)	1.3%
<b>Operating expenses</b>	<b>(2,621.3)</b>	<b>(692.2)</b>	<b>(650.3)</b>	<b>(633.8)</b>	<b>(645.0)</b>	<b>(2,628.6)</b>	<b>(41.9)</b>	<b>6.4%</b>	<b>7.2</b>	<b>-0.3%</b>

**Operating expenses** totalled approximately **EUR 2,621 mln** in 2016, down 0.3% on the previous year. The contribution of Q4 2016 was around EUR 692 mln, recording growth of 6.4% compared to the Q3 2016, due to the trend in Other administrative expenses, which were penalised by the recognition of certain cost components linked to the Recapitalisation transaction which was not completed successfully. A closer look at the individual aggregates reveals the following:

- **administrative expenses** stood at approx. **EUR 2,403 mln** (-0.4% compared to YoY), of which EUR 631 mln pertaining to Q4 2016, up 6.0% compared to the previous quarter. A breakdown of the aggregate shows:
  - **personnel expenses**, which totalled about **EUR 1,611 mln**, declined year on year by 2.6% (roughly EUR -42 mln) due to workforce downsizing and the downturn in the variable component, as well as other one-off benefits realised in the second quarter of 2016. Q4 2016 made a contribution of roughly EUR 371 mln, down 11.3% compared to the previous quarter, primarily as a result of the reversal of the variable component recognised in previous quarters.
  - **other administrative expenses** stood at about **EUR 792 mln**, up by 4.2% from 31 December 2015, due to the negative impact in Q4 2016 of expenses connected to the recapitalisation





transaction of BMPS (which was not completed successfully) of around EUR 37 mln, net of which there would have been a YoY decline.

- **net value adjustments to tangible and intangible assets** totalled roughly **EUR 219 mln** in 2016, slightly higher than the values seen last year (+1.3%). The share relating to Q4 2016 was higher than that of the previous quarter (+11.6%).

As a result of these factors, the Group's **Gross Operating Income** totalled approximately **EUR 1,661 mln** (approx. EUR 2,587 mln in 2015), with EUR 172 mln attributable to Q4 2016, down on the previous quarter.

### Net impairment (losses)/reversals on loans and financial assets

In 2016, the Group booked **Net impairment (losses)/reversals on loans, financial assets and other transactions** for approx. **EUR 4,501 mln**, up by around EUR 2,508 mln compared with last year. This increase is linked to the update of loan valuation methodologies and parameters (to the extent of around EUR 2,592 mln) in the second half of the year. In particular, changes in the loan policy, which took into account the instructions laid out in the “Draft guidance to banks on non – performing loans” published by the ECB in September 2016 as well as internal assessments, concerned in Q3 2016 the amendment of the methodology for calculating the discounting adjustment and the increase in the analytical valuation threshold for unlikely to pay positions, and in Q4 2016 the update of haircuts on real estate guarantees and the definition of minimum floors for the coverage of “exposures classified as Sofferenze (Doubtful Loans) at the banking system level”. In Q4 2016, net impairment losses, which came to around EUR 2,482 mln (EUR +1,180 mln QoQ), included around EUR 1,842 mln in adjustments relating to the above-mentioned policy changes.

The ratio of net impairment losses on loans for 2016 to total customer loans reflects a **Provisioning Rate of 419 bps**, which declines to around 177 bps excluding the impact of the changes in loan policies noted above.

Consequently, in 2016 the **Net operating income** of the Group was **negative at approx. EUR 2,840 mln** (also impacted as noted above by the effects of changes in loan policies), against a positive value of around EUR 594 mln last year, which also included the positive effects from the restatement of the “Alexandria” transaction.





## Non-operating income, tax and net profit for the year

Profit (loss) before tax from continuing operations (EUR mln)							Chg Q/Q		Chg Y/Y	
	31 12 2016	4Q2016	3Q2016	2Q2016	1Q2016	31 12 2015	Abs.	%	Abs.	%
Net operating income	(2,840.2)	(2,309.8)	(878.9)	157.4	191.1	593.8	(1,430.9)	n.s.	(3,434.1)	n.s.
Net provisions for risks and charges	44.4	48.0	(27.5)	29.2	(5.3)	(64.0)	75.5	n.s.	108.4	n.s.
Gains (losses) on investments	11.8	2.5	1.6	0.2	7.5	119.6	0.9	56.2%	(107.8)	-90.1%
Restructuring costs / One-off costs	(117.0)	(117.0)	-	-	-	(17.4)	(117.0)	n.s.	(99.5)	n.s.
Risks and charges related to the SRF, DGS and similar schemes	(241.1)	(139.1)	(31.2)	0.3	(71.1)	(195.5)	(107.9)	n.s.	(45.6)	23.3%
DTA Fee	(70.4)	53.9	(15.5)	(108.8)	-	-	69.4	n.s.	(70.4)	n.s.
Gains (losses) on disposal of investments	33.2	20.4	12.8	-	-	2.9	7.6	59.4%	30.3	n.s.
Profit (loss) before tax from continuing operations	(3,179.3)	(2,441.1)	(938.7)	78.3	122.2	439.3	(1,502.4)	n.s.	(3,618.6)	n.s.

Profit for the year included the following items:

- **Net provisions for risks and charges** were positive at approx. **EUR 44 mln** compared to approx. EUR -64 mln in 2015. The YoY trend benefitted especially from lower provisions for legal disputes, compensation for damages and bankruptcy rescindments and lower tax risks. Q4 2016 had a positive result of approx. EUR 48 mln as a result of the release of the provisions allocated to cover risks which were eliminated or which materialised to a lesser extent originally envisaged;
- **Gains on investments**, amounting to approx. **EUR 12 mln** (about EUR 2.5 mln referring to the fourth quarter) to be attributed mainly to the capital gain realised from the transfer of Fabbrica Immobiliare SGR, occurring in Q1 2016. The result of roughly EUR 120 mln realised in 2015 was due to the disposal of the equity investment in Anima Holding SpA;
- **Restructuring costs/One-off charges**, amounting to approx. **EUR -117 mln** (all accounted for in Q4 2016) due mainly to early retirement incentives/provisions, as per the trade union agreement of 23 December 2016. The value relating to 2015 refers especially to employment contract termination initiatives;
- **Risks and charges associated with SRF, DGS and similar schemes**, standing at approx. **EUR -241 mln**, consisting of EUR -71 mln concerning the contribution due from the Group to the Single Resolution Fund and EUR -140 mln due to the National Resolution Fund, and the remaining amount of about EUR -30 mln referring to the ordinary share to be recognised to the DGS, accounted for in the third quarter. With respect to the contribution in favour of the National Resolution Fund, the total amount mentioned above represents the two additional yearly payments requested by the Bank of Italy on 28 December 2016 pursuant to art. 25 of Law Decree 237/2016;
- **DTA Fee**, amounting to approx. **EUR -70 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 (Deferred Tax Assets) that can be converted into a tax credit for the year 2016;
- **Gains on disposal of investments**, equal to around **EUR 33 mln** (around EUR 3 mln in gains in 2015). In Q4 2016, a capital gain realised in December was recognised for the sale of a property in the Rome market of the investee COEM.

Due to the changes discussed above, in 2016 the **Group's Loss before tax from continuing operations** stood at approx. **EUR -3,179 mln** (impacted by the effects of changes in the loan policies mentioned above), down with respect to 2015 levels (which moreover included the positive impact from the restatement of the "Alexandria" transaction), with EUR -2,441 mln attributable to the fourth quarter of 2016.

**Tax expense (recovery) on income for the year from continuing operations** equalled around **EUR -21 mln**, inclusive of a partial write-down on DTAs relating to previous tax losses of EUR -252 mln, in application of an update in the methodology for estimating their recoverability (the "probability



test”). The amount of the write-down regards the DTA from the tax loss recognised in 2016 following the submission of the supplemental tax return including the higher costs emerging from the restatement of the 2015 financial statements for the Alexandria transaction, as well as those already recognised in the financial statements as at 31 December 2015.

For the sake of comprehensiveness, please note that based on the result of the probability test, DTAs were not recognised on the tax loss emerging from this income statement, amounting to EUR 817 mln. Taking into account the partial derecognition of DTAs from tax losses accrued and recognised in previous years, the total deferred tax assets not recognised amount to EUR 1,069 mln. As the use of previous tax losses is not subject to time limits, according to current legislation, the economic benefit not recognised as at 31 December 2016, corresponding to the relative deferred tax assets which cannot be recognised, remains potentially recognisable in future years if the Bank’s earning capacity is greater than that estimated based on the development guidelines provided by the preliminary proposal of the Restructuring Plan, approved by the Board on 9 March 2017 in order to be sent to the Competent Authority.

Considering the net effects of PPA (about EUR -31 mln) and the profit of non-controlling interests (EUR 10 mln), **the Group’s consolidated loss for 2016 amounted to roughly EUR 3,241 mln** (of which around EUR 2,392 mln pertaining to Q4 2016, impacted by the change in loan policies noted above) against a positive result of about EUR 388 mln recorded in 2015 (with 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 year of the Parent Company with the Group’s Shareholders’ equity and Net profit and loss for the year:

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	4,767.3	(3,722.8)
<i>including Parent Company's valuation reserves</i>	<i>(198.3)</i>	-
Impact of line-by-line consolidation of subsidiaries	(846.4)	(940.0)
Impact of associates	169.6	73.3
Reversal of dividends from subsidiaries	-	(57.5)
Effect of write off of depreciation/revaluation of equity investments	2,432.7	1,147.3
Other adjustments	(343.3)	258.5
Valuation reserve of subsidiaries and associates	245.6	-
<b>Consolidated balance</b>	<b>6,425.4</b>	<b>(3,241.1)</b>
<i>including valuation reserves</i>	<i>47.3</i>	



## Reclassified balance sheet

Reclassified Consolidated Balance Sheet				
ASSETS	31 12 2016	31 12 2015	Chg	
			abs.	%
Cash and cash equivalents	1,084.5	1,188.8	(104.3)	-8.8%
Receivables :				
a) Loans to customers	106,692.7	111,366.4	(4,673.7)	-4.2%
b) Loans to banks	8,936.2	8,242.1	694.1	8.4%
Marketable assets	25,929.3	35,208.6	(9,279.3)	-26.4%
Financial assets held to maturity	-	-	-	
Equity investments	1,031.7	908.4	123.3	13.6%
Property, plant and equipment / Intangible assets	2,942.9	3,141.8	(198.9)	-6.3%
<i>of which:</i>				
a) goodwill	7.9	7.9	-	
Other assets	6,561.2	8,956.0	(2,394.8)	-26.7%
<b>Total assets</b>	<b>153,178.5</b>	<b>169,012.0</b>	<b>(15,833.5)</b>	<b>-9.4%</b>
LIABILITIES	31 12 2016	31 12 2015	Chg	
			abs.	%
Payables				
a) Deposits from customers and securities issued	104,573.5	119,274.7	(14,701.2)	-12.3%
b) Deposits from banks	31,469.1	17,493.1	13,976.0	79.9%
Financial liabilities held for trading	4,971.8	15,921.7	(10,949.9)	-68.8%
Provisions for specific use				
a) Provisions for staff severance indemnities	252.9	246.2	6.7	2.7%
b) Pensions and other post retirement benefit obligations	53.6	49.4	4.2	8.6%
c) Other provisions	1,054.5	1,067.5	(13.0)	-1.2%
Other liabilities	4,342.7	5,336.7	(994.0)	-18.6%
Group net equity	6,425.4	9,596.4	(3,171.0)	-33.0%
a) Valuation reserves	47.3	(21.8)	69.1	n.s.
c) Equity instruments carried at equity	-	-	-	
d) Reserves	2,253.6	222.1	2,031.5	n.s.
e) Share premium	-	6.3	(6.3)	
f) Share capital	7,365.7	9,001.8	(1,636.1)	-18.2%
g) Treasury shares (-)	-	-	-	
h) Net profit (loss) for the year	(3,241.1)	388.1	(3,629.2)	n.s.
Non-controlling interests	34.9	26.3	8.6	32.9%
<b>Total Liabilities and Shareholders' Equity</b>	<b>153,178.5</b>	<b>169,012.0</b>	<b>(15,833.5)</b>	<b>-9.4%</b>



Reclassified Consolidated Balance Sheet - Quarterly Trend								
ASSETS	31 12 2016	30 09 2016	30 06 2016	31 03 2016	31 12 2015	30 09 2015	30 06 2015	31 03 2015
						(*)	(*)	(*)
Cash and cash equivalents	1,084.5	941	794.6	913.4	1,188.8	812.2	822.0	682.3
Receivables :	-	-	-	-	-	-	-	-
a) Loans to customers	106,692.7	104,612	107,547.8	113,544.3	111,366.4	112,513.2	117,436.3	123,139.0
b) Loans to banks	8,936.2	7,669	7,953.1	6,856.1	8,242.1	6,432.2	8,327.2	7,855.7
Marketable assets	25,929.3	35,748	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	1,031.7	911	948.0	934.3	908.4	959.6	907.7	947.0
Property, plant and equipment / Intangible assets	2,942.9	3,017	3,059.8	3,112.4	3,141.8	3,090.1	3,122.4	3,139.0
of which:	-	-	-	-	-	-	-	-
a) goodwill	7.9	8	7.9	7.9	7.9	7.9	7.9	7.9
Other assets	6,561.2	7,230	8,059.6	8,285.2	8,956.0	10,022.4	10,596.4	10,453.1
<b>Total assets</b>	<b>153,178.5</b>	<b>160,129</b>	<b>164,385.5</b>	<b>173,645.6</b>	<b>169,012.0</b>	<b>170,126.2</b>	<b>174,201.5</b>	<b>183,849.6</b>
LIABILITIES	31 12 2016	30 09 2016	30 06 2016	31 03 2016	31 12 2015	30 09 2015	30 06 2015	31 03 2015
						(*)	(*)	(*)
Payables	-	-	-	-	-	-	-	-
a) Deposits from customers and securities issued	104,573.5	105,461	112,045.2	119,507.9	119,274.7	122,717.4	122,890.5	128,160.9
b) Deposits from banks	31,469.1	25,282	19,465.8	17,524.7	17,493.1	17,804.9	18,830.9	22,519.3
Financial liabilities held for trading	4,971.8	13,803	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	252.9	251	249.9	247.7	246.2	245.2	246.4	268.2
b) Pensions and other post retirement benefit obligations	53.6	51	52.3	51.4	49.4	50.5	50.3	52.1
c) Other provisions	1,054.5	1,019	1,012.5	1,050.0	1,067.5	1,086.9	1,106.1	1,103.7
Other liabilities	4,342.7	5,489	5,750.4	5,511.9	5,336.7	6,989.6	7,285.0	7,291.0
Group net equity	6,425.4	8,746	9,928.7	9,675.3	9,596.4	9,730.4	9,234.2	6,161.8
a) Valuation reserves	47.3	(25)	7.7	(36.5)	(21.8)	(84.7)	(323.6)	(13.9)
c) Equity instruments carried at equity	-	-	-	-	-	-	-	3.0
d) Reserves	2,253.6	617	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	7,365.7	9,002	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	(3,241.1)	(849)	302.0	93.2	388.1	584.7	329.0	143.8
Non-controlling interests	34.9	27	26.0	25.7	26.3	25.5	24.3	24.1
<b>Total Liabilities and Shareholders' Equity</b>	<b>153,178.5</b>	<b>160,129</b>	<b>164,385.5</b>	<b>173,645.6</b>	<b>169,012.0</b>	<b>170,126.2</b>	<b>174,201.5</b>	<b>183,849.6</b>

(\*) 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

The Group's **Total funding** as at 31 December 2016 amounted to approximately **EUR 203 bn** (-10.1% versus 31 December 2015) with a decline in volumes of about EUR -1.2 bn recorded in the fourth quarter, concentrated in the direct component.

### Background

Since the start of the year, direct funding has declined to around EUR 2,001,391.4 mln in November (more than EUR 34,000 mln less than as at 31 December 2015); the trend of deposits remains positive, up 2.8% in the same period YoY (net of repurchase agreements with central counterparties) and in particular in the more liquid segment of current accounts, which has been preferred by savers also due to the low opportunity cost of holding short-term assets in a moment first of crisis and then of uncertainty. The low appeal in terms of pricing with respect to the liquidity offered by the ECB and the new regulation on bank crises continued to negatively affect bond funding, which in November declined to EUR 541,106.9 mln, against EUR 600,879.7 in December 2015.

The reduction in interest rates on deposits of non-financial companies and households did not abate in 2016, with the rate on balances at 0.41%, around 11 bps lower in November than at the end of 2015. The rate on bank bonds was down as well, to 2.75% in the same month. The evolution of interest rates payable reflected the liquidity provided by the ECB based on its monetary policy.

Asset management is slowing down, with net funding in 2016 that may turn out to be just over one-third of the amount recorded as at 31 December 2015 (EUR 54,351 mln in January-November 2016 against EUR 140,979 mln in 2015); collective management accounted for nearly 62% of total net funding, with almost exclusive recourse to the open-end fund instrument; in individual portfolio management, retail portfolios even recorded negative funding flows in January-November 2016. In any event, total assets under management grew to a value in November exceeding that of 31 December 2015 (EUR 1,902,528 mln against EUR 1,823,400).

Customer Funding							
	31 12 2016	30 09 2016	31 12 2015	Chg Q/Q		Chg Y/Y	
				Abs.	%	Abs.	%
Direct funding	104,573.5	105,461.4	119,274.7	-887.9	-0.8%	-14,701.2	-12.3%
Indirect funding	98,151.8	98,440.6	106,171.8	-288.8	-0.3%	-8,020.0	-7.6%
<b>Total funding</b>	<b>202,725.3</b>	<b>203,902.0</b>	<b>225,446.5</b>	<b>-1,176.7</b>	<b>-0.6%</b>	<b>-22,721.2</b>	<b>-10.1%</b>

Volumes of **Direct funding**, which as at 31 December 2016 stood at approx. **EUR 105 bn**, were down by around EUR -14.7 bn compared with the figures at the end of 2015. The trend was impacted by the reduction in the commercial component (around EUR -28 bn) due to withdrawals recorded during the year, especially as a result of tensions linked to the negative outcome of the Group's stress test and the recapitalisation which was not completed successfully. With respect to technical forms, there was a downturn in current accounts, deposits and bonds, partially offset by growth in repo transactions with financial counterparties (starting in the last quarter of 2016, MPS CS classified the new repo transactions in the banking book, given their purpose primarily associated with the raising of funds to finance Global Market operations; previously, transactions of this type were classified in the trading book as they were carried out as part of a broader trading strategy). There was a decline in Q4 2016 of roughly EUR -0.9 bn due to a downturn in the commercial component of approx. EUR -10.6 bn (the first reports from January confirm the level seen at the close of 2016, highlighting the halt in withdrawals), partially offset by the increase in repo transactions with financial counterparties, impacted by the above-mentioned classification.



The Group's market share<sup>3</sup> on Direct funding was 4.12% (figure updated in November 2016), down by 67 bps compared to the end of 2015.

Direct funding							
Type of transaction	31 12 2016	30 09 2016	31 12 2015	Change Q/Q		Change Y/Y	
				Abs.	%	Abs.	%
Current accounts	40,972.6	47,621.3	54,574.8	(6,648.7)	-14.0%	(13,602.2)	-24.9%
Time deposits	10,133.5	11,786.5	14,342.9	(1,653.0)	-14.0%	(4,209.4)	-29.3%
Reverse repurchase agreements	25,295.8	13,719.4	10,575.0	11,576.4	84.4%	14,720.8	139.2%
Bonds	23,676.3	26,197.6	31,246.1	(2,521.3)	-9.6%	(7,569.8)	-24.2%
Other types of direct funding	4,495.3	6,136.6	8,535.9	(1,641.3)	-26.7%	(4,040.6)	-47.3%
<b>Total</b>	<b>104,573.5</b>	<b>105,461.4</b>	<b>119,274.7</b>	<b>(887.9)</b>	<b>-0.8%</b>	<b>(14,701.2)</b>	<b>-12.3%</b>

**Indirect Funding** came to approx. **EUR 98.2 bn** at the end of December, down by around EUR 8 bn compared to 31 December 2015, due entirely to the decline in assets under custody (EUR -9.7 bn, penalised by around EUR -6.4 bn due to the effects of the merger by incorporation of a large customer); aggregate substantially in line with 30 September 2016.

As regards **Assets under management**, standing at approx. **EUR 57.2 bn**, this aggregate was up EUR 1.7 bn compared to 2015, benefitting from the increase in the Funds segment. The quarterly trend was also up by EUR 0.3 bn.

Indirect Funding							
	31 12 2016	30 09 2016	31 12 2015	Change Q/Q		Change Y/Y	
				Abs.	%	Abs.	%
Assets under management	57,180.9	56,890.5	55,515.7	290.4	0.5%	1,665.1	3.0%
<i>Mutual Funds/ Sicav</i>	27,020.5	26,553.7	25,493.0	466.8	1.8%	1,527.4	6.0%
<i>Individual Portfolio under Management</i>	6,619.7	6,744.2	6,306.9	-124.5	-1.8%	312.8	5.0%
<i>Insurance Products</i>	23,540.6	23,592.6	23,715.7	-52.0	-0.2%	-175.1	-0.7%
Assets under custody	40,971.0	41,550.1	50,656.1	-579.1	-1.4%	-9,685.1	-19.1%
<b>Total funding</b>	<b>98,151.8</b>	<b>98,440.6</b>	<b>106,171.8</b>	<b>-288.8</b>	<b>-0.3%</b>	<b>-8,020.0</b>	<b>-7.6%</b>

<sup>3</sup> 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.



## Loans to customers

At 31 December 2016, the Group's **Loans to Customers** amounted to roughly **EUR 107 bn**, down by EUR 5bn compared to the end of 2015, with a downturn in all aggregates with the exception of repo transactions with financial counterparties (starting in the last quarter of 2016, MPS CS classified the new repo transactions in the banking book, given their purpose primarily associated with the temporary use of cash and cash equivalents; previously, transactions of this type were classified in the trading book as they were carried out as part of a broader trading strategy). There was a positive trend in net non-performing loans, which were down sharply by roughly EUR 4 bn. With respect to Q4 2016, there was growth of EUR 2 bn, with a trend influenced by the repo transaction aggregate, mentioned above.

The Group's market share<sup>4</sup> stood at 6.77% (last available figure from November 2016), down by 9 bps compared to the end of 2015.

### Background

The trend in loans to the private sector, adjusted for loans securitised or otherwise transferred, is showing signs of improvement. Since the start of the year, the flows of loans disbursed to households for the purchase of real estate properties and those issued for new consumer credit operations continued to increase on a trend basis, although at decidedly lower levels than the peaks seen in the second half of 2015. New disbursements of loans to non-financial companies resumed their progress on a trend basis in the summer, but the growth gap with the EMU average remains significant. In terms of amounts, loans to households and businesses were just over EUR 1,410,071.9 mln in November against EUR 1,413,014.2 mln recorded as at 31 December 2015; loans to resident businesses declined by around EUR 7,500 mln in November with respect to the levels posted last December, while amounts of loans to households rose by more than EUR 4,500 mln from EUR 619,783.5 mln as at 31 December 2015.

From the beginning of the year, the cost of loans to non-financial companies reduced considerably, with an approx. 1.56% rate applied to new transactions (excluding current accounts) in November (more than 35 bps less than in December 2015), "driven by the reduction in the market rate and the gradual improvement in the economic situation, which has been reflected in an increase in the profitability and creditworthiness of businesses" (source: Prometeia, Forecast Report, December 2016). The rate on new loans for home purchases seems to have stabilised since September at just over 2%, but it is in any event down by almost 45 bps since the end of 2015; while the rate on new consumer credit operations fluctuated within a range between 7% and 6.5% since the start of the year.

The trend in doubtful loans has slowed down since the start of 2014, and since September the annual growth in the stock of gross doubtful loans decreased on a trend basis, in the wake of improvements in the economic situation and the launch of securitisation transactions. However, their amount remains high: in November, it again surpassed EUR 199,000 mln, roughly EUR 1,644 mln less than the values as at 31 December 2015, while the ratio of total doubtful loans to current loans stabilised at around 10.5% (more than 18% for businesses). Despite the launch of instruments intended to facilitate non-performing loan management (Atlante funds and government measures meant to reduce debt collection times), which have improved the stability of bank portfolios, "the disposal of the stock of non-performing loans will inevitably require time" (Speech by Bank of Italy Director General Salvatore Rossi, October 2016).

Loans to customers								
Type of transaction	31 12 2016	30 09 2016	31 12 2015	31 12 2015	Change Q/Q		Change Y/Y	
					Abs.	%	Abs.	%
Current accounts	6,313.2	7,192.4	7,650.4	7,650.4	(879.2)	-12.2%	(1,337.2)	-17.5%
Mortgages	49,532.6	50,476.1	52,453.4	52,453.4	(943.5)	-1.9%	(2,920.8)	-5.6%
Other forms of lending	20,542.0	22,042.3	21,379.8	21,379.8	(1,500.3)	-6.8%	(837.8)	-3.9%
Repurchase agreements	8,854.6	1,248.7	4,686.0	4,686.0	7,605.9	609.1%	4,168.6	89.0%
Securities lending	1,130.3	1,143.6	1,043.0	1,043.0	(13.3)	-1.2%	87.3	8.4%
Non performing loans	20,320.0	22,509.3	24,153.8	24,153.8	(2,189.3)	-9.7%	(3,833.8)	-15.9%
<b>Total</b>	<b>106,692.7</b>	<b>104,612.4</b>	<b>111,366.4</b>	<b>111,366.4</b>	<b>2,080.3</b>	<b>2.0%</b>	<b>(4,673.7)</b>	<b>-4.2%</b>

<sup>4</sup> Loans to resident consumer customers, including NPLs and net of repo transactions with central counterparties





The aggregate was sustained during 2016 by new disbursements of around EUR 7.5 bn (-2.3% YoY) in the medium-long term segment, which regarded households as well as businesses, with Q4 2016 accounting for roughly EUR 1.7 bn, stable compared to the previous quarter.

### Non-performing loans

As at 31 December 2016, the Group's **gross exposure to non-performing loans** totalled **EUR 45.8 bn**, down (EUR -1.1 bn) compared to the end of December 2015. The YoY trend benefitted especially from the partial write-off of late-payment interest on doubtful loans for roughly EUR 1.4 bn as well as the sharp reduction in transfers from performing compared to last year. As concerns the various aggregates of the non-performing segment, there was a rise in Doubtful loans and a reduction in Unlikely to Pay and past-due Impaired exposures. In Q4 2016, the aggregate was up slightly by EUR 0.2 bn.

Portfolio/quality	Gross exposure	Gross exposure	Gross exposure	Change Q/Q		Change Y/Y	
	31 12 16	30 09 16	31 12 15	Abs.	%	Abs.	%
<b>Balance-sheet exposure</b>							
<b>Total Non-performing loans</b>	45,785.4	45,584.3	46,861.8	201.1	0.4%	(1,076.4)	-2.3%
a) Doubtful loans	29,424.4	28,230.0	26,627.0	1,194.4	4.2%	2,797.4	10.5%
b) Unlikely to pay	15,246.6	15,359.4	17,400.5	(112.8)	-0.7%	(2,153.9)	-12.4%
c) Past-due Impaired	1,114.4	1,994.9	2,834.3	(880.5)	-44.1%	(1,719.9)	-60.7%
<b>Performing loans</b>	87,060.9	82,744.7	87,872.6	4,316.2	5.2%	(811.7)	-0.9%
<b>Total</b>	132,846.3	128,329.0	134,734.4	4,517.3	3.5%	(1,888.1)	-1.4%

The Group's **net exposure to non-performing loans** stood at EUR 20.3 bn as at 31 December 2016, showing a nearly EUR 4 bn decline from the beginning of the year. There was a considerable contraction in the fourth quarter of 2016 (EUR -2.2 bn compared to 30 September 2016) due to the higher provisions recognised in the wake of the update of loan methodologies and parameters.

<b>Loans to customers</b>						
Risk category - Net Book Value				Inc. %	Inc. %	Inc. %
	31 12 2016	30 09 2016	31 12 2015	31 12 2016	30 09 2016	31 12 2015
<b>A) Non performing loans</b>	20,319.9	22,509.4	24,153.9	19.0%	21.5%	21.7%
a1) Doubtful loans	10,364.9	10,902.7	9,732.8	9.7%	10.4%	8.7%
a2) Unlikely to pay	9,100.8	10,067.5	12,325.5	8.5%	9.6%	11.1%
a3) Net past-due and overdue exposures	854.2	1,539.2	2,095.6	0.8%	1.5%	1.9%
<b>B) Performing loans</b>	86,372.8	82,103.1	87,212.5	81.0%	78.5%	78.3%
<b>Total customer loans</b>	106,692.7	104,612.5	111,366.4	100.0%	100.0%	100.0%



The **non-performing loan coverage** ratio was 55.6% as at 31 December 2016, up by roughly 716 bps compared to 31 December 2015 (+500 bps QoQ), especially due to impairment losses connected to changes in loan valuation methodologies and parameters<sup>5</sup> accounted for in the second half of the year. All coverage ratios of the non-performing loan categories were up YoY and QoQ, with the exception of the level of Non-performing past-due exposures, which was down on an annual basis but up on a quarterly basis.

Coverage Ratios					
	31 12 2016	30 09 2016	31 12 2015	Chg. Q/Q Abs.	Chg. Y/Y Abs.
Provisions for Impaired Loans/Gross Impaired Loans	55.6%	50.6%	48.5%	5.0%	7.2%
Provisions for NPLs/Gross NPLs	64.8%	61.4%	63.4%	3.4%	1.3%
Provisions for Unlikely to pay Loans/Gross Unlikely to pay Loans	40.3%	34.5%	29.2%	5.9%	11.1%
Provisions for Past-due Positions/Gross Past-due Positions	23.3%	22.8%	26.1%	0.5%	-2.7%

### Financial assets/liabilities

As at 31 December 2016, the Group's tradeable financial assets amounted to approx. EUR 26 bn, a reduction of approx. EUR 9 bn compared to 2015, primarily connected with repo transactions (starting in the last quarter of 2016, MPS CS classified the new repo transactions in the banking book, given their purpose primarily associated with the temporary use of cash and cash equivalents; previously, transactions of this type were classified in the trading book as they were carried out as part of a broader trading strategy). Likewise, financial liabilities held for trading declined YoY by around EUR -11 bn, especially due to the above-mentioned repo transaction classification.

Items	31 12 2016	30 09 2016	31 12 2015	Chg. Q/Q		Chg. Y/Y	
				Abs.	%	Abs.	%
Tradable financial assets	25,929.3	35,748.3	35,208.6	(9,819.0)	-27.5%	(9,279.3)	-26.4%
<i>Financial assets held for trading</i>	<i>9,266.2</i>	<i>18,746.3</i>	<i>18,017.4</i>	<i>(9,480.1)</i>	<i>-50.6%</i>	<i>(8,751.2)</i>	<i>-48.6%</i>
<i>Financial assets available for sale</i>	<i>16,663.1</i>	<i>17,002.0</i>	<i>17,191.2</i>	<i>(338.9)</i>	<i>-2.0%</i>	<i>(528.1)</i>	<i>-3.1%</i>
Financial liabilities held for trading	4,971.8	13,802.7	15,921.7	(8,830.9)	-64.0%	(10,949.9)	-68.8%

<sup>5</sup> In particular, changes in the loan policy, which took into account the instructions laid out in the "Draft guidance to banks on non – performing loans" published by the ECB in September 2016 as well as internal assessments, concerned in Q3 2016 the amendment of the methodology for calculating the discounting adjustment and the increase in the analytical valuation threshold for unlikely to pay positions, and in Q4 2016 the update of haircuts on real estate guarantees and the definition of minimum floors for the coverage of "exposures classified as Sofferenza (Doubtful Loans) at the banking system level"



Items	31 12 2016		30 09 2016		31 12 2015	
	Tradable financial assets	Financial liabilities held for tradig	Tradable financial assets	Financial liabilities held for tradig	Tradable financial assets	Financial liabilities held for tradig
Debt securities	20,979.4	-	21,411.9	-	23,995.0	-
Equity instruments and Units of UCITS	527.7	-	580.7	-	509.6	-
Loans	265.2	2,665.7	9,286.4	11,314.7	5,284.8	12,548.1
Derivatives	4,157.0	2,306.1	4,469.3	2,488.0	5,419.2	3,373.6
Total	25,929.3	4,971.8	35,748.3	13,802.7	35,208.6	15,921.7



## Interbank position

In December 2016, the **net interbank position** of the Group stood at **EUR -23 bn** in funding, up by approx. EUR 13 bn compared to the balance as at 31 December 2015, due to the increase in exposure to the ECB.

Interbank balances							
	31 12 2016	30 09 2016	31 12 2015	Change Q/Q		Change Y/Y	
				Abs.	%	Abs.	%
Loans to banks	8,936.2	7,669.4	8,242.1	1,266.8	16.5%	694.1	8.4%
Deposits from banks	31,469.1	25,282.4	17,493.1	6,186.7	24.5%	13,976.0	79.9%
<b>Net interbank position</b>	<b>(22,532.9)</b>	<b>(17,613.0)</b>	<b>(9,251.1)</b>	<b>(4,919.9)</b>	<b>27.9%</b>	<b>(13,281.8)</b>	<b>n.s.</b>

As at 31 December 2016 the operational liquidity position showed an **unencumbered Counterbalancing Capacity of approx. EUR 7 bn**, which was approximately EUR -17 bn worse than the same figures as at 31 December 2015, in connection with corporate funding tensions that arose during the year. In this regard, on 25 January 2017 the Parent Company completed two issues of government backed securities pursuant to Law Decree no. 237/2016, converted into law on 17 February 2017, for a total amount of EUR 7 bn. The securities, backed by the government guarantee pursuant to Law Decree no. 237/2016, were subscribed in full by the issuer. In February, the above-mentioned securities were used in full in sales transactions in the market and as collateral to back funding transactions. The unencumbered counterbalancing capacity stood at approx. EUR 14.7 bn as at 9 March 2017.

## Shareholders' equity

As at 31 December 2016, the **Group shareholders' equity and non-controlling interests** amounts to **EUR 6.5 bn**, down by approx. EUR 3.2 bn compared to the end of 2015 and by approx. EUR 2.3 bn compared to 30 September 2016. The trend is associated mainly with the losses for the year.

Reclassified Consolidated Balance Sheet							
Equity	31 12 2016	30 09 2016	31 12 2015	Chg Q/Q		Chg Y/Y	
				Abs.	%	Abs.	%
Group net equity	6,425.4	8,745.6	9,596.4	(2,320.2)	-26.5%	(3,171.0)	-33.0%
a) Valuation reserves	47.3	(24.7)	(21.8)	72.0	n.s.	69.1	n.s.
c) Equity instruments carried at equity	-	-	-	-	-	-	-
d) Reserves	2,253.6	617.2	222.1	1,636.4	n.s.	2,031.5	n.s.
e) Share premium	-	-	6.3	-	-	(6.3)	-100.0%
f) Share capital	7,365.7	9,001.8	9,001.8	(1,636.1)	-18.2%	(1,636.1)	-18.2%
g) Treasury shares (-)	-	-	-	-	-	-	-
h) Net profit (loss) for the period	(3,241.1)	(848.7)	388.1	(2,392.4)	n.s.	(3,629.2)	n.s.
Non-controlling interests	34.9	26.5	26.3	8.4	31.7%	8.6	32.9%
<b>Total Group Shareholder's Equity and Non-controlling interests</b>	<b>6,460.3</b>	<b>8,772.1</b>	<b>9,622.7</b>	<b>(2,311.8)</b>	<b>-26.4%</b>	<b>(3,162.4)</b>	<b>-32.9%</b>



## Capital adequacy

### Regulatory capital and requirements

As at 31 December 2016 the Group's level of capital on a transitional basis was as shown in the following table:

Capital Adequacy (Eur mln)	31/12/16	31/12/15	Abs. chg vs 31/12/15	Chg. % vs 31/12/15
<b>Common Equity Tier 1</b>	<b>5,353</b>	<b>8,503</b>	<b>-3,150</b>	<b>-37.0%</b>
Tier 1	5,353	9,101	-3,748	-41.2%
Tier 2	1,464	2,196	-732	-33.3%
<b>Total Regulatory Capital</b>	<b>6,817</b>	<b>11,298</b>	<b>-4,480</b>	<b>-39.7%</b>
<b>Risk Weighted Assets</b>	<b>65,522</b>	<b>70,828</b>	<b>-5,307</b>	<b>-7.5%</b>
<b>Common Equity Tier 1 Ratio</b>	<b>8.17%</b>	<b>12.01%</b>	<b>-3.83%</b>	
Tier 1 Ratio	8.17%	12.85%	-4.68%	
Total Capital Ratio	10.40%	15.95%	-5.55%	

Compared to 31 December 2015, CET1 declined by around EUR -3,150 mln due primarily to the effects of the loss for the year (EUR -3,241 mln), which had an impact of EUR -2,738 mln on CET1 thanks to the transitional phasing-in mechanisms and the partial absorption by the available component of Additional Tier 1. The negative impact is also reflected in a decrease in exemptions, resulting in an increase in deductions linked to DTAs and significant equity investments in financial sector entities (EUR -270 mln). There was also a deterioration in prudential filters of around EUR -135 mln and in other residual effects of EUR -7 mln.

Tier 1 decreased (around EUR -3,748 mln) due to the trend described for CET 1 as well as the decrease in the grandfathering percentage on innovative equity instruments (EUR -38 mln), due to the higher deductions in phase-out (EUR -61 mln) and the absorption of part of the loss (EUR -503 mln), which brings Additional Tier 1 to zero, on the basis of the transitional rules.

Tier 2 decreased by about EUR -732 mln due to the negative effect of the regulatory amortisation of subordinated securities set forth in Basel 3 (EUR -850 mln) and deductions and filters (EUR -57 mln), partially offset by the recovery of the excess of allocations toward the projected loss (EUR 167 mln).

Overall, the Total Capital level was down by EUR -4,480 mln.

There was an overall reduction in RWAs (around EUR -5,307 mln) as a result of the decrease in "credit and counterparty risk" (around EUR -4,283 mln) due to the decline in the performing loan portfolio. The "market risk" (around EUR -386 mln) and "CVA risk" (approx. EUR -327 mln) components were also down due to the optimisation of the respective portfolios, in addition to "operational risk" (around EUR -310 mln).

On the basis of the aforementioned considerations, as at 31 December 2016 the capital ratios on a transitional basis are therefore down compared to 31 December 2015. In more detail, as at 31 December 2016, the Bank had a CET 1 ratio of 8.17%, higher than the minimums set forth in art. 92 of the CRR, but lower than the target ratio set by the ECB and the Combined Buffer Requirement laid out in regulations (likewise, the Tier 1 ratio and the Total Capital Ratio are higher than the requirements laid out in art. 92 of the CRR).



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

The following Operating Segments were present as at 31 December 2016:

- **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 Belgio 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.



## Results in brief

The following table reports the main income statement and balance sheet items that characterised the Group's Operating Segments as at 31 December 2016:

SEGMENT REPORTING		Business Segments						Corporate Center		Total MPS Group	
Primary segment		Retail banking		Corporate banking							
(EUR mln)		31/12/16	Chg % Y/Y	31/12/16	31/12/15	Chg % Y/Y	Chg % Y/Y	31/12/16	Chg % Y/Y	31/12/16	Chg % Y/Y
PROFIT AND LOSS AGGREGATES											
INCOME FROM BANKING AND INSURANCE		4,054.4	-11.1%	659.6	747.6	-87.9	-11.8%	(432.0)	n.s.	4,282.0	-17.9%
Operating expenses		(2,350.2)	-1.2%	(268.7)	(272.2)	3.6	-1.3%	(2.5)	n.s.	(2,621.3)	-0.3%
PRE PROVISION PROFIT		1,704.2	-21.8%	390.9	475.3	-84.4	-17.8%	(434.4)	n.s.	1,660.7	-35.8%
Net impairment losses (reversals) on loans and financial assets		(2,963.1)	85.3%	(1,418.3)	(347.7)	-1,070.7	n.s.	(119.5)	n.s.	(4,500.9)	n.s.
NET OPERATING INCOME		(1,258.9)	n.s.	(1,027.4)	127.6	-1,155.0	n.s.	(553.9)	n.s.	(2,840.2)	n.s.
BALANCE SHEET AGGREGATES											
Interest-bearing loans to customers (*)		65,906	-10.2%	20,793	22,945	-2,152.4	-9.4%	9,629	81.3%	96,328	-5.2%
Deposits from customers and debt securities issued(**)		53,575	-26.6%	5,595	14,506	-8,911.5	-61.4%	45,404	43.0%	104,574	-12.3%
Indirect funding		73,008	-2.5%	10,349	17,155	-6,806.1	-39.7%	14,795	4.6%	98,152	-7.6%
Assets under management		53,388	2.7%	805	760	44.8	5.9%	2,988	7.6%	57,181	3.0%
Assets under custody		19,619	-14.3%	9,544	16,395	-6,850.9	-41.8%	11,808	3.8%	40,971	-19.1%

(\*) Retail Banking and Corporate Banking data refers to the distribution network alone. It is noted that these figures do not include intercompany balances for the legal entities reporting to their respective business segments (typically intragroup funding).

(\*\*) Data on Retail Banking includes the figures of BMPS's Sales & Distribution Network and Banca Widiba SpA. The Corporate Banking figure includes the figures of BMPS's Sales Distribution Network as well as those of the Banks under foreign law (MP Banque and MPS Belgio).





## Sales & Distribution segments

### Retail Banking

Business areas	Customers																										
<ul style="list-style-type: none"> <li>• Funding, lending, provision of insurance products, financial and non-financial services to Retail customers.</li> <li>• Electronic payment services (issuing and acquiring).</li> <li>• 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 &amp; legal advisory), fiduciary and trust services (through the subsidiary MPS Fiduciaria).</li> <li>• Digital services and self service enriched by the skills of the financial advisors network (through its subsidiary Banca Widiba)</li> </ul>	<p>Retail customers numbered around 5.1 million, of which around 0.135 mln managed exclusively by Banca Widiba SpA.</p> <div data-bbox="922 555 1401 846"> <p><b>Breakdown by type</b></p> <table border="1"> <thead> <tr> <th>Type</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Value</td> <td>81.6%</td> </tr> <tr> <td>Premium</td> <td>10.2%</td> </tr> <tr> <td>Small Business</td> <td>6.5%</td> </tr> <tr> <td>Private</td> <td>0.7%</td> </tr> <tr> <td>Private Top</td> <td>0.04%</td> </tr> <tr> <td>SMEs and other companies</td> <td>0.8%</td> </tr> <tr> <td>Institutions</td> <td>0.2%</td> </tr> </tbody> </table> </div> <div data-bbox="922 902 1310 1126"> <p><b>Breakdown by geography</b></p> <table border="1"> <thead> <tr> <th>Geography</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Centre</td> <td>35%</td> </tr> <tr> <td>South</td> <td>34.6%</td> </tr> <tr> <td>North East</td> <td>16.7%</td> </tr> <tr> <td>North West</td> <td>13.7%</td> </tr> </tbody> </table> </div>	Type	Percentage	Value	81.6%	Premium	10.2%	Small Business	6.5%	Private	0.7%	Private Top	0.04%	SMEs and other companies	0.8%	Institutions	0.2%	Geography	Percentage	Centre	35%	South	34.6%	North East	16.7%	North West	13.7%
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### Income statement and balance sheet results

As at 31 December 2016, **Total Funding** for Retail Banking amounted to approximately **EUR 126.6 bn**, down by roughly EUR 21.3 bn from the level recorded at the end of December 2015 (approx. EUR -8 bn from 30 September 2016). The quarter was characterised by a reduction in the direct component, as a result of the initiation of the Parent Company's recapitalisation transaction which was not completed successfully. Indirect funding was substantially stable during the quarter. More specifically:

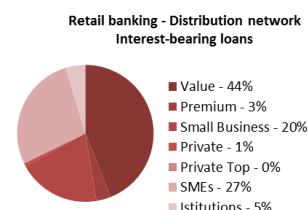
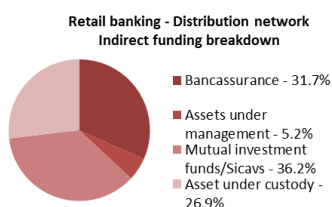
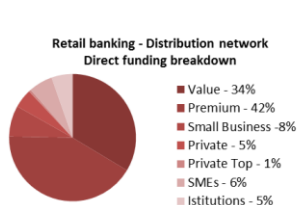
- **Direct Funding** came to **EUR 53.6 bn** at the end of December, down by around EUR -19.4 bn compared to 31 December 2015 and EUR -7.9 bn compared to 30 September. This trend is linked to customer behaviour, which was influenced by banking segment tensions in financial markets, the negative results of the group's stress tests and the launch of the Parent Company's recapitalisation transaction, which was not completed successfully;
- **Indirect Funding**, amounting to approx. **EUR 73 bn**, decreased by EUR 1.9 bn compared to the end of December 2015 (substantially stable during the quarter), thanks to the upward trend in asset management, which grew by approx. EUR 1.4 bn, driven by Funds/SICAVs, which partially offset the decrease in assets under custody (EUR -3.3 bn).

**Interest-bearing loans to customers** of Retail Banking decreased from EUR 73.4 bn in December 2015 to **EUR 65.9 bn** as at 31 December 2016 (-10.2%), with a decline in volumes of EUR 3.5 bn in Q4 2016, distributed among all types. With regard to the downward trend in the medium to long term component, in addition to the run-off of the former subsidiary Consum.it, the decline was also the



result of loan portions coming due, only partially offset by new loans granted, and loans switched to non-performing during the period.

RETAIL BANKING - BALANCE SHEET AGGREGATES							
(Eur mln)	31/12/16	30/09/16	31/12/15	Chg. Abs. Q/Q	Chg. % Q/Q	Chg. Abs. Y/Y	Chg. % Y/Y
Deposits from customers and debt securities issued	53,575	61,480	73,022	-7,906	-12.9%	-19,447	-26.6%
Assets under management	53,388	53,067	51,980	322	0.6%	1,409	2.7%
Assets under custody	19,619	20,123	22,889	-504	-2.5%	-3,269	-14.3%
Indirect Funding	73,008	73,190	74,868	-182	-0.2%	-1,861	-2.5%
Total Funding	126,583	134,671	147,890	-8,088	-6.0%	-21,308	-14.4%
Interest-Bearing Loans to Customers	65,906	69,366	73,378	-3,460	-5.0%	-7,472	-10.2%



With regard to profit and loss, in 2016 Retail Banking achieved Total **Revenues** of approx. **EUR 4,054 mln**, down 11.1% compared to last year. The contribution of Q4 2016, amounting to approx. EUR 909 mln, was lower by 8.0% than that of the previous quarter, affected by the reduction in Net Interest Income (mainly funding and loan volumes) and the decline in commissions. A breakdown of the aggregate shows:

- as at 31 December 2016, Net Interest Income was approximately EUR 2,215 mln, down 17.0% annually due to the decrease in returns on commercial assets (volumes and rates);
- in 2016, Net Fee and Commission income totalled approximately EUR 1,797 mln, with a slight decrease (-0.7%) from the previous year.

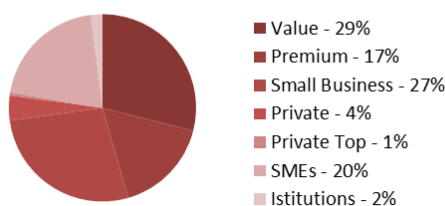
Considering the impact of operating expenses, which decreased slightly YoY, Retail Banking generated a **Gross Operating Income** of about **EUR 1,704 mln** in 2016 (-21.8% YoY), with Q4 2016 contributing approximately EUR 315 mln, or 20.3% less than the previous quarter. Net impairment (losses)/reversals on loans and financial assets increased by 85.3% compared to 2015, including the effects recorded in the 3rd and 4th quarter of the update of loan valuation methodologies and parameters. In particular, changes in the loan policy, which took into account the instructions laid out in the “Draft guidance to banks on non – performing loans” published by the ECB in September 2016 as well as internal assessments, concerned in Q3 2016 the amendment of the methodology for calculating the discounting adjustment and the increase in the analytical valuation threshold for unlikely to pay exposures, and in Q4 2016 the update of haircuts on real estate guarantees and the definition of minimum floors for the coverage of “exposures classified as Sofferenza (Doubtful Loans) at the banking system level”. Year to date, the **Net Operating Income** is **negative by approximately EUR 1,259 mln**, also as a result of the aforesaid effects of changes in loan valuation methodologies and parameters.

The **cost-income ratio** of the Operating Segment is **58.0%** (52.2% in 2015).



RETAIL BANKING - PROFIT AND LOSS AGGREGATES			
(EUR mln)	31/12/16	31/12/15	Chg % Y/Y
<i>Net interest income</i>	2,215.3	2,669.3	-17.0%
<i>Net fee and commission income</i>	1,796.8	1,810.1	-0.7%
<i>Other income</i>	59.6	65.7	-9.3%
<i>Other operating expenses/ income</i>	(17.3)	13.3	n.s.
<b>INCOME FROM BANKING AND INSURANCE</b>	<b>4,054.4</b>	<b>4,558.4</b>	<b>-11.1%</b>
<i>Operating expenses</i>	(2,350.2)	(2,378.1)	-1.2%
<b>PRE PROVISION PROFIT</b>	<b>1,704.2</b>	<b>2,180.3</b>	<b>-21.8%</b>
<i>Net impairment losses (reversals) on loans and financial assets</i>	(2,963.1)	(1,599.2)	85.3%
<b>NET OPERATING INCOME</b>	<b>(1,258.9)</b>	<b>581.1</b>	<b>n.s.</b>

Consumer banking - Distribution network  
Breakdown of revenues



## 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 year of EUR -12.2 mln, a reduction with respect to 2015 (when there was a loss of EUR -11.0 mln). Volumes of direct and indirect funding were basically stable. The customer base consisted of around 161,000 customers;
- **MPS Fiduciaria:** Profit for the year of approximately EUR 0.1 mln, down compared to the levels recorded in 2015 (EUR 0.3 mln).

## The main product/service sales and innovation initiatives

The 2016 sales plan was developed within an environment impacted by the following main factors:

- economic recovery and re-launch of the bank lending cycle;
- the evolution in demand with greater customer knowledge and information, widespread use of multiple banks, spread of new technologies (primarily mobile), although a notable digital divide remains based on age, education and financial status; new, often complex needs to be identified and met;



- regulatory pressure on adopting evolved advisory approaches (MiFID 2) to protect investors (ESMA/Consob instructions on “complex products”).

The initiatives enacted during the year were developed in accordance with the following main policies:

- **Development of quality loans**, while maintaining a focus on credit quality, particularly concentrating on the Small Business market, leveraging the availability of low-cost funding guaranteed by the TLTRO and the **development of innovation** (consolidation of commercial covenants and digital lending), monitoring **price leverage** particularly carefully;
- **Advisory management of investments**, enhancement of Indirect Funding by **reviewing investment advisory models with a view to providing more customer service and offer innovation** (e.g., automated advisory services, expansion of the product range with third-party AM and new wealth management);
- **Development in fees and commissions from services by enhancing the offer** (new products, like Protection and e-money), **innovation and technology** (e.g., MPS Wallie).

Market	Main sales initiatives developed in the market
Valore	<p>Release of <b>initiatives for the bilateral renegotiation</b> of Value current account conditions named “<b>Incontriamoci 2.0</b>”, to boost cross-selling by offering products and services under advantageous conditions to customers participating in the bilateral condition negotiation program.</p> <p>With respect to the distribution of <b>Compass SpA</b> products, release of sales initiatives with the offer of loans under highly competitive conditions to pre-scored and pre-accepted customers and customers with a high likelihood of acceptance.</p>
Small Business	<p><b>Growth in loans</b>, new “CREiamo CREdito” initiative released to develop agreements with customers of high standing, and focus on increasing share of wallet through the “Sostitutuo Imprese” product for the transfer of outstanding medium-term loans taken out from competitors.</p> <p><b>Increase in new POS terminals</b>, with marketing campaigns targeting Prospect customers and existing customers without POS terminals.</p> <p><b>Growth in Protection</b>, with dedicated targets intended to take advantage of when the risk situation is reviewed/a new line of credit is applied for, as a fundamental moment for a check-up on the customer’s situation.</p>
Premium	<p>Roll-out of the “<b>Premium Academy 2016</b>” Plan, with more than 200 events including classroom training, webinars, local meetings and focus groups with partners to enhance and develop the skills of Premium Managers to support the monthly actions laid out in the Marketing Plan.</p> <p><b>Training apprenticeships</b> activated with “<b>distinctive</b>” participation on the basis of the sales results achieved, with the partners AXA, Compass, MasterCard, Anima and JP Morgan.</p> <p>Launch at the Lecce DTM (local unit office) of the pilot program for the <b>new “Premium Telephone Operators” service</b>, which provides customers with information on their financial position by appointment, even outside of business hours, through the BMPS Contact Centre Service: a specialised team that has</p>



Market	Main sales initiatives developed in the market
	<p>completed dedicated classroom and on-the-job training.</p> <p>Gradual roll-out of the <b>“Fiduciaria Day”</b> project to highlight the skills and solutions of MPS Fiduciaria in the area of succession plans, generational handovers, legal protection, etc., with a view to growing volumes and diversifying revenues.</p> <p><b>AXA protection and pension targets</b>, supported by events with customers (Pension Happy Hour), with a view to improving cross-selling and diversifying revenues.</p>
Private Banking/ Family Office	<p><b>New modes of interacting with customers</b> through the release of the new, completely overhauled Private Banking website featuring new services and functions, and the release of a newsletter on current events dedicated to Private and Family Office customers.</p> <p><b>New asset optimisation service</b>, provided by MPS Fiduciaria, whereby customers can take advantage of the aggregation of portfolios across multiple intermediaries and, thanks to the trustee company’s involvement, of a complete overview of their total assets. Strengthening of the product range with the new <b>Goldman Sachs SICAV</b> and the release of the JP Morgan AM Passim Structured Funds Plc SICAV. Further expansion of the range of asset management products with the launch of the new GP Investi Relax 80/90 line and the bancassurance offer with the AxaMps Selezione Libera and IoDomani multi-line policies.</p>

### Advertising and marketing initiatives

In 2016, development continued of advertising and marketing initiatives to attract new customers and favour the transfer of Direct/Indirect Funding from other Institutions. The following main initiatives are noted in particular:

- **“Un Monte di Valore”** (“A Mountain of Value”), targeted at attracting new deposits in exchange of increasing benefits (in the form of expense reimbursement, commissions and stamp duties), also correlated with a process that leads to the adoption of services additional to advanced consulting;
- **“Chi trova 1 Amico...”** (in collaboration with MasterCard), a member-get-member style programme based on referrals, the main channel for acquiring new banking relationships; incentive mechanism based on non-banking benefits (Amazon and Decathlon gift cards and final first prize drawing).

Activities were also consolidated to generate financial returns from services not strictly related to banking. Specifically, the **“Un Monte di Desideri”** initiative allowed Bank current account holders to purchase basic commodities and prestigious brands. From the same perspective, please recall the co-marketing agreements entered into with leading energy operators, which provide, inter alia, favourable conditions on energy and gas supplies exclusively for Bank current account holders.

As regards Convention agreements, the commitment continues to privilege those supporting initiatives promoting Made in Italy products and the repositioning of manufacturing in Italy, internationalisation and in general credit access for SMEs.



### **Funding, Asset management and Bancassurance**

- The “Conto Italiano di Deposito” continues to represent the main product in the **Short/medium-term funding** segment. During the year, the entire offer was streamlined, through the introduction of the innovative line with coupon payments, “Cedola Valore”. To support year-end closing activities in the short-term, the CID Special 3 and 6-month line was introduced.
- In 2016, step-up callable type light-structured bonds were issued, with a duration of 4 years and an equity-indexed protected certificate. The Group’s offering was concentrated on **Third-Party Issuer products**, including through participation in Underwriting Syndicates of bonds of Supranational Issuers.
- In the **Asset Management** area, the Group further reinforced its multimanager approach in defining the product range. In particular, as regards UCITS, the Retail offering was integrated with the BlackRockUcits AM SICAV, personalised for our Group, working alongside the JP Morgan AM investment company, which was launched in the fourth quarter of 2015, completing and strengthening the quality and coverage of the product range so as to effectively expand solutions for customers while avoiding any overlaps with Anima Sgr products. On the other hand, as regards Private/FamilyOffice customers, the offer was further enhanced with the new Goldman Sachs AM SICAV.
- With respect to **Wealth Management**, the second quarter of 2016 saw the placement, initially in the Retail Market and then in the Private Market, of the new GP InvestiRelax 80/90; this is an innovative service that provides two management lines that protect 80% or 90% of the invested capital, as chosen by the customer, and also provides an explicit guarantee on the level of capital protected. The service is proposed during placement windows which fall one after the other on a continuous basis.
- In the **Bancassurance** segment, new policies were introduced in the product range in 2016 and existing products were also restyled.
- The current product offering was enhanced with the introduction of a new product, IoDomani, which is unique in the Italian market and jointly meets protection and investment requirements. This is a multi-line policy launched in November 2016 dedicated to retirement, which offers a range of protection coverage (critical illness, long term care and TCM) in addition to the possibility of a flexible financial investment under separate management and internal unit-linked funds.
- The year 2016 also saw the introduction of the recurring premium version of the multiline Double Engine Pac policy, four issues of the Progetto Crescita single-premium unit-linked policy, an issue of the insurance product of the Value Performance Family - AXA MPS Valore Performance Sustainability Base 90, the introduction of the Axa 80 Settori europei Protected Fund in the underlying of funds available in the Mosaico Evolution unit-linked policy and the restyling of the Previdenza per te and Previdenza in azienda Pension Funds, with the introduction of critical illness coverage.
- Also in 2016, **BMPS continued to be highly committed to the Protection segment** (Non-Life, Life and Auto), which confirmed the Bank as a leader in the bancassurance sector. The various recognitions received bear witness to this, including the Cerchio D’Oro award for the innovative automatic underwriting tool named MrDoc, which made it possible to increase the efficiency of the life protection product sale process.

In particular, we note the release of the following product/process innovations:





- introduction of the Earthquake coverage that may be subscribed throughout the country with no exclusions and the connected home service in the multi-guarantee policy for private individuals, AXA MPS Mia Protezione;
- the AXA MPS Protezione Business multi-guarantee product, an instrument dedicated to the protection of business risks, was improved in November 2016 with the Pronta Ripresa guarantee, which enables our corporate customers to benefit from a daily allowance to get through temporary periods of inactivity caused by insured losses.
- in addition, our means of payment protection offer was refreshed with the launch of the Pagamento Protetto Plus product, which also covers mobile devices, as they become increasingly used as payment instruments
- the motor offer was upgraded as well with the introduction of innovative accessory guarantees (Land vehicles) such as damages from uninsured vehicles, from wild animals, protected bonus, etc., with the release of the new Motor TPL rates which aim to make the offer more competitive.
- development in the life protection segment entailed increasing insurable capital “without medical visit” from EUR 200,000 to EUR 300,000, placing the bank amongst top market players. In addition, the k-man version of the Tutta la Vita product was launched, which made it possible to insure “key men”, including against the risk of critical illness
- lastly, changes were made in processes for the renewal of annual policies, which boosted retention thanks to the reduction of roughly 20% in the churn rate.

## Loans

- The sales partnership with Compass for the placement of personal loans continued, as well as that relating to the one-fifth of salary/pension products with the Futuro and Pitagora partnerships.
- In the consumer mortgages segment, a promotion was activated for the Italiano Benvenuto product (for the acquisition of residential properties and/or renovations) as well as Sostitutuo Benvenuto (for transfers to the bank of home mortgages) for all private customers.
- In the Small Business Loans segment, in 2016 two new products were launched: “Impresa Cash”, capable of satisfying financial needs connected to the production/sales cycle; an MLT universal unsecured and mortgage loan “Impresa Dinamica”, capable of satisfying all business requirements.

## Current Accounts, Payments and Collections

- Development was completed on MPSMio, a new modular, flexible account for Value customer needs, which is expected to be launched in the market in early 2017.
- The MPS One current account, already available for Premium customers, was improved with new additional functions.
- New “MPS Total Business” current account offering released for SB customers.
- Activities were completed for the fulfilment of legal requirements (compound interest, bail-in, deposit guarantee, transparency).
- Activities were launched for PSD2 adoption analysis and preparation and the development of SEPA Instant Payment services.
- New functions were rolled out for the CBill service, urgent SCT service released (on IB and ICB) and analyses began for the integration of Money Transfer services within IB and ATM channels.





## Cards

- The Business prepaid card (Quickcard Business) was released and the new retail prepaid offer continued to be implemented (Quickcard and Quickcard Plus), for release in 2017.
- MPS Wallie, the new Mobile Payment and Digital Wallet service, was released with its initial functions (Wallet Masterpass and Jiffy P2P payments service); implementation for progressive releases from the start of 2017 for additional functions (NFC payments, bill and top-up payments, promotional offers).
- The catalogue prepaid cards (Kristal Best and Spider) were reinforced with a new online purchase protection function (dynamic 3D Secure Code).
- New functions were released for debit cards, with the integration of a digital identity protection policy, for MasterCard Debit and spending/use control functions for the new Digital Banking.

## Banca WIDIBA SpA

Again in 2016, Widiba was confirmed as an innovative bank recognised by the system, and received various accolades for its new platform: amongst the awards worth mentioning, the best Customer Experience Award from the prestigious international organisation EFMA, the Italian Banking Association award for innovation and the “Premio dei Premi” award for the most innovative financial project, awarded directly by the President of Italy.

The commercial offering of the bank, which, since its formation, has been developed primarily with respect to the banking, payments and deposit account product/service components, alongside the introduction of advisory services, has been significantly enhanced with the launch of the WISE project, the new global advisory services and customer financial planning platform: a complete robot solution for advisors, in which technology and innovation support the advisor’s entire work cycle, with all instruments integrated. Another important achievement in 2016 was the launch of Widiba’s offer of credit with the first 100% paperless mortgage in Italy, from the application with a digital signature to the online upload of all documentation. The project made it possible to implement highly efficient processes for dealing with applications, which are at the top of the market in terms of timing and transparency for the customer. In addition, to expand the product offering, an agreement has been entered into with a market leader for the distribution of personal loans.

To complete the range of available services and products, in 2016 new distinctive functions were introduced, such as:

- the new Widiba 2020 platform which consists of an intelligent Google-style search engine developed completely within the bank, thanks to which customers can not only search for all information present in the platform, but also call up daily transactions by entering keywords in a simple and intuitive manner. Aside from providing an extremely simple and intuitive instrument for customer interaction with bank services, Widiba eliminated initial learning barriers and introduced a strong element for customer retention;
- the full digitalisation of account opening and simultaneous original account closing processes, taking advantage of the new account portability rules introduced in the banking industry;
- a significant upgrade of proprietary apps to drive mobile services, which are increasingly requested by customers;
- the introduction of an insurance offering with digital products featuring guarantees that can be mixed and matched by the customer;
- account access using voice or fingerprints;
- the extension of services to latest generation devices as well (digital watches and TVs).

Widiba has continued to integrate and optimise an advanced CRM and customer contact platform which allows for the multi-channel management of customer contacts (email, phone, social, avatar, website, etc.) as well as integration with all of the company structures involved in customer



management, to speed up and streamline requests with the support of financial advisors, with positive feedback from customers.

2016 was a year of significant investments in communication and brand awareness, which made it possible to surpass the level of 160,000 customers and 250,000 fans and followers. The strategy continues to be based on a dual objective: consolidating brand notoriety and positioning, in addition to completing the commercial offering while maximising new customer acquisition in terms of efficiency and quality. Strategy execution was driven by a high level of innovation, in terms of creative approach - using a language that strongly positions and differentiates the bank with respect to its competitors - as well as the media investment mix.

As regards communication channels, in addition to the use of media, digital and social channels played a pivotal role in making the media investment strategy more modern and efficient, with a view to branding as well as customer acquisition. Again in 2016, Widiba was the top social bank in Italy in terms of the size of its fan base and the level of network sentiment.

Thanks to its distinctive positioning and strong focus on innovation and the customer, the bank also increased its appeal with financial advisors: indeed, the network had 630 advisors at year end, marking a net increase of 35. Lastly, significant attention was dedicated to the development of skills and advisor retention, reducing the churn rate and improving the quality of the services provided.

At the end of 2016, the bank had approx. 161,200 thousand customers and total Funding from business customers amounting to roughly EUR 6.7 bn.

### **MPS Fiduciaria**

In 2016, the subsidiary confirmed its pace of acquiring new accounts, which was already observed in 2015, continuing with the positive trend of the “corporate” sector. Corporate and Retail market performance was positive, while only in the last part of the year there was a contraction in volumes, primarily linked to the Private market “ordinary” sector. In general, Monte Paschi Fiduciaria has confirmed its capacity to retain customers, even in unfavourable market conditions.

In 2016, Monte Paschi Fiduciaria began marketing an innovative asset aggregation and tax optimisation service, and continued its intense Network training and Bank sales process orientation activity, which privileged the three reference markets with targeted initiatives that included classroom as well as on-the-job training.

In 2016, new collaboration initiatives were put into place with the professional world, and a system of long-term agreements and continuous communications was launched.



## Corporate Banking

Business areas	Customers
<ul style="list-style-type: none"> <li>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.</li> <li>Offer of integrated leasing and factoring packages for businesses, artisans and professionals (through the subsidiary MPS Leasing &amp; Factoring).</li> <li>Corporate finance - medium-long term credit facilities, corporate finance, capital markets and structured finance also through the subsidiary MPS Capital Services.</li> <li>Products and services issued by the Parent Company'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.</li> <li>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).</li> </ul>	<p>About 4,400 Top Corporate customers and large groups of the parent company, directly followed by Corporate Banking</p> <p><b>Breakdown by type</b></p> <p><b>Breakdown by geography</b></p>

## Income statement and balance sheet results

**Total Funding** from Corporate Banking as at 31 December 2016 amounted at 15.9 bn and fell by approximately 50% compared to the end of December 2015, with a EUR 15.7 bn decrease, of which approximately EUR -7 bn attributable to assets under custody, affected by the merger by incorporation of a major customer, and EUR -8.9 bn relating to the direct component. In Q4, there was a decrease in direct funding of around EUR -2.7 bn, due to the launch of the Parent Company's recapitalisation, which was not completed successfully.

With regard to lending, as at 31 December 2016, Corporate Banking **interest-bearing loans to customers** stood at approximately **EUR 20.8 bn** (-9.4% on 31 December 2015 and -6.1% on the end of September, with a reduction in all types).

CORPORATE BANKING - BALANCE SHEET AGGREGATES							
(EUR mln)	31/12/16	30/09/16	31/12/15	Chg. Abs. Q/Q	Chg. % Q/Q	Chg. Abs. Y/Y	Chg. % Y/Y
Deposits from customers and debt securities issued	5,595	8,290	14,506	-2,695	-32.5%	-8,912	-61.4%
Assets under management	805	796	760	9	1.1%	45	5.9%
Assets under custody	9,544	9,268	16,395	276	3.0%	-6,851	-41.8%
Indirect Funding	10,349	10,064	17,155	285	2.8%	-6,806	-39.7%
Total Funding	15,943	18,353	31,661	-2,410	-13.1%	-15,718	-49.6%
Interest-Bearing Loans to Customers	20,793	22,147	22,945	-1,354	-6.1%	-2,152	-9.4%



For profit and loss aggregates, in 2016, Corporate Banking **Revenues** came to approximately **EUR 660 mln** (-11.8% YoY), with Q4 2016 contributing approximately EUR 133 mln, up by +4.1% from the previous quarter; this was affected, within the scope of other revenue from banking and insurance business, by the growth recorded by MPS Capital Services. A breakdown of the aggregate shows:

- Net Interest Income was approximately EUR 402 mln, down 10.1% annually due to the decrease in returns on commercial assets (volumes and rates);
- Net fee and commission income decreased by 13.6% YoY, amounting to approximately EUR 138 mln, 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 124 mln (-13.5% YoY).

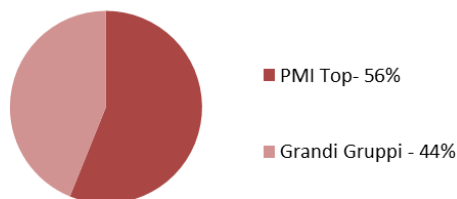
Considering the impact of operating expenses, which decreased slightly YoY, Corporate Banking generated a **Gross Operating Income** of about **EUR 391 mln** in 2016 (-17.8% YoY), with Q4 2016 contributing approximately EUR 65 mln, or 10.6% more than the previous quarter. The segment's **Net Operating Income** was **negative by approx. EUR 1,027 mln** (positive by roughly EUR 128 mln as at 31 December 2015), affected by the reduction in revenues and the increase in impairment losses on loans and financial assets (EUR +1,071 mln YoY). This increase is attributable especially to higher impairment losses on loans recorded in the 3rd and 4th quarters, related to the above-mentioned changes in loan valuation methodologies and parameters.

The Corporate Banking **cost-income ratio** stands at 40.7% (36.4% as at 31 December 2015).

CORPORATE BANKING - PROFIT AND LOSS AGGREGATES			
(EUR mln)	31/12/16	31/12/15	Chg % Y/Y
Net interest income	401.8	446.8	-10.1%
Net fee and commission income	138.0	159.7	-13.6%
Other income	124.5	143.8	-13.5%
Other operating expenses/ income	(4.7)	(2.8)	69.9%
<b>INCOME FROM BANKING AND INSURANCE</b>	<b>659.6</b>	<b>747.6</b>	<b>-11.8%</b>
Operating expenses	(268.7)	(272.2)	-1.3%
<b>PRE PROVISION PROFIT</b>	<b>390.9</b>	<b>475.3</b>	<b>-17.8%</b>
Net impairment losses (reversals) on loans and financial assets	(1,418.3)	(347.7)	n.s.
<b>NET OPERATING INCOME</b>	<b>(1,027.4)</b>	<b>127.6</b>	<b>n.s.</b>



Composizione dei ricavi Rete Commerciale



Composizione dei ricavi



## 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:** loss for the year of approximately EUR -770 mln, compared to the profit of around EUR 6 mln in 2015. This trend was influenced by significant growth in impairment losses on loans (EUR +755 mln roughly YoY) following the above-mentioned changes in loan valuation methodologies and parameters<sup>6</sup>, accounted for in the 3rd and 4th quarters;
- **MPS Leasing & Factoring:** loss for the year of approximately EUR -170 mln, compared to the loss of around EUR -49 mln in 2015. This trend was influenced by significant growth in impairment losses on loans (EUR +88 mln roughly YoY) following the above-mentioned changes in loan valuation methodologies and parameters<sup>7</sup>, accounted for in the 3rd and 4th quarters;
- **Foreign banks<sup>8</sup>:** in 2016 **MP Banque** recorded a loss of EUR -27.7 mln, a deterioration compared to the previous year; with regard to **MP Belgio**, the loss for the year amounted to around EUR -9.6 mln, compared to a profit of EUR 8 mln as at 31 December 2015, which benefited from one-off positive elements related to securities portfolio transactions.

## Main Corporate and Investment Banking initiatives

### Corporate Market

Amongst the initiatives developed in 2016, please note the following in particular:

- “Automatic available balance calculation” in the Cash Pooling product;
- provision to Corporate customers ‘active abroad’ of the range of International Cash Management payment and collection services;
- management of new collection and payment formats within Internet Corporate Banking;
- new PasKey tesoreriaonline platform for institutions;
- Electronic Storage service for archiving documents relating to Ordinativo Informatico Locale (OIL; “Local Electronic Order”) management in accordance with legal requirements;
- the MPS Admin Desk app for iPhone and Android, for the consultation and approval from mobile phones of instructions prepared on PasKey aziendaonline;
- Priority bank transfers, guaranteeing payment settlement on the same day.

Please note the following with respect to the products/services offered:

<sup>6</sup> This relates to the change in the methodology for calculating the discounting adjustment, the increase in the analytical valuation threshold for unlikely to pay positions, the update of haircuts on real estate guarantees and the definition of minimum floors for the coverage of “exposures classified as Sofferenze (Doubtful Loans) at the banking system level”.

<sup>7</sup> Cf. previous note

<sup>8</sup> The profit reported for foreign subsidiaries is local.



- some products were restyled while other new ones were launched, including the Copirate Line, an IRS with a zero floor and an IRS with a negative floor, “strip” type foreign exchange hedges, “Terminale Flessibile” activation of MPSLei (service to request on behalf of customers the Lei code needed for transactions in derivatives from Infocamere);
- introduction of the Digital Signature for the formalisation of contracts relating to OTC derivatives;
- some of the main loan products released during the year were: MPS Orizzonti, Evoluzione Euro, MPS Change Loan, CDP SME Loan, SACE Loan - Medium-Term Credit Enhancement (the last two with third-party funds);
- in addition, please note the following products based on specific regulatory measures: Operating Asset Loan (based on the Sabatini Ter law), MPS Corporate Restart Investimenti (based on the 2016 Stability Law), Advances on the incentive rate for former green certificates (following the introduction of the new incentive system to replace the green certificates system);
- within the agrifood sector, new products were created during the year named “Filiera Zootechnica” and “Filiera Vitivinicola”; in addition, the AgroPlafond Package was introduced (short and medium-term agricultural loan). For long-term agricultural loans with disbursement based on progress reports and for energy farming, two new dedicated products were created. Lastly, a specific product was created to provide advances on the capital accumulation plan contribution granted to companies, named Pacchetto Nuova PAC (2015-2020).

Funding activities with “Cassa Depositi e Prestiti Spa” (CDP) continued with regard to the following initiatives:

- “Plafond PMI” and “Plafond MID” based on the “V Convenzione ABI-CDP Piattaforma Imprese”;
- “Plafond Beni Strumentali” (“Nuova Sabatini” or “Sabatini Bis”);
- “Plafond Mutui Casa”;
- “Plafond Ricostruzione Sisma 2012” to support the populations struck by the earthquake in Emilia Romagna.

The “Export Banca” operating agreement continued with SACE, the Italian Banking Association (ABI), CDP and SIMEST.

Within innovative services, please note the new support model regarding Subsidised Financing, in partnership with an external company specialised in the sector, in order to:

- make customer and prospect businesses aware of the opportunities of regional, domestic and EU subsidised financing through a check-up and free pre-feasibility analysis;
- provide them with end-to-end support, from application submission to post-disbursement activities;
- link bank products and/or support for co-financing, advances and guarantees.

The new Corporate Advisory platform was released for corporate and prospect customers. This is an innovative service that provides the historical and outlook competitive positioning of the company with respect to the sector as well as competitors, in addition to a 3-5 year Business Plan.



Market	Main sales initiatives developed in the target market
<b>Large Groups</b>	<p>Initiatives to increase retention and customer deposits.</p> <p>Developed and improved intercompany synergies with the Companies: <i>MPS Leasing &amp; Factoring</i>, through the implementation of stocks and conclusion of new transactions (including in the form of indirect factoring under specific agreements) and <i>MPS Capital Services Banca per le Imprese</i> for new project and structured finance transactions, as well as more effective finalisation of activities</p>
<b>Corporate Top</b>	<p>Launched initiatives aimed at enhancing relationship loyalty with a view to increasing the Share of Wallet, also through activities designed to increase loans</p> <p>Started commercial initiatives in the following areas: Deposits, AXA Synergies and Factoring. Focus on Development through extension, with a view to</p>
<b>SMEs</b>	<p>Network reorganization activities continued with the creation of 6 Corporate Centres to replace SME and Institution Centres.</p> <p>Application of the new system to the DTMs (local unit offices) involved in the reorganization and portfolio restructuring process.</p> <p>Business activities focused on offering higher value-added services (Corporate</p>
<b>Institutions</b>	<p>Participation in the new Platform developed by the Agency for Digital Italy (AgID) for payments to the Public Administration.</p> <p>Launch of the "Electronic Storage" service for digitally signed electronic documents of the Public Administration.</p>

### MPS Capital Services

#### Corporate finance

Project Financing - Activities in recent years were directed towards the infrastructure, renewable energies and utilities sectors.

The most important transaction in 2016 was the loan for the privatisation (tender called by the French government) of Nice Airport. Also in the area of infrastructure, a loan was granted for the creation and management of the Dalmine-Como-Varese-Valico del Giaggiolo (CH) motorway connection and the Como and Varese by-pass motorways.

Amongst the Advising mandates acquired during the year, note those relating to the construction of a new hospital in the Province of Pesaro Urbino and the system upgrade and energy efficiency improvements on the Lazio Region road network.

Corporate Finance - In 2016, activities expanded to the real estate and industrial sector. In particular, pool transactions were carried out in which MPSCS also took on the role of bank arranger and agent (i) construction of a shopping centre in the province of Monza e della Brianza (ii) renovation of a hotel in Florence. In addition, the bank participated as co-arranger in pool transactions in favour of important manufacturers in north-eastern Italy in the food and industrial machinery and household appliance components sectors.

Loan Syndication, Asset Disposal & Media Entertainment – The syndication of two transactions was completed successfully, in which arranging activities were also carried out on behalf of Banca MPS. The syndication of a direct operation was launched for a redevelopment project in the tourism/hotel sector.





During the year, the first Asset Disposal transaction was completed successfully, involving a prestigious vineyard in Bolgheri (LI).

Participation, pursuant to the “tax credit” legislation, in providing financial support for the creation of some feature films, including “Perfetti Sconosciuti”.

Acquisition Financing - In 2016, MPSCS was Mandate Lead Arranger and Facility Agent in various important Acquisition/Leveraged Financing transactions, confirming its favourable positioning achieved in the Mid Corporate market. Particular attention was directed towards support for top customers - Companies and Private Equity Funds - for industry-oriented acquisitions.

### **Investment banking**

With regard to the bond market, in 2016 MPSCS acted as Joint Lead Manager for the Autostrade per l'Italia S.p.A issue and Joint Bookrunner in the 30-year syndicated issue for the Republic of Italy. MPSCS acted as Dealer in the tenth BTP Italia issue.

### **Subsidised financing**

Current operations continued throughout the year relating to services for the main business incentives, based on the obligations assumed upon entering into the agreements with the Ministry of Economic Development and the Ministry of Education, Universities and Research: Sustainable Growth Fund, Technological Innovation Fund, Law 488/92 and Regional Pacts, Research Subsidy Fund, SME Guarantee Fund.

### **Global Markets**

Global Markets Division activities with customers and in the markets were impacted in terms of volume and quality by various economic and geo-political events in 2016 (bank/oil/China crisis in January and February, Brexit referendum in June and US elections in November), with a concentration of volumes of customers and in the markets near these events and subsequently due to the volatility triggered by the unexpected results in financial variables.

Volatility made it possible to exploit appealing entry points in certain markets to implement liquid and well diversified proprietary positions, making it possible to offset some business lines focusing on customer activities, influenced by the business trend taking place for a few years now, in which the asset management sector is replacing assets under custody. In this sense, the Division took actions aimed at renewing and improving the product range to deal with the changed context, which it is deemed may begin generating results in 2017.

Again in 2016, business lines that maintained levels of absolute excellence were not lacking, such as Italian government bond transactions or foreign exchange for corporate customers.

### ***MPS Leasing & Factoring***

#### **Leasing**

- “Maxileasing” initiative: commercial offering for operating asset and vehicle lease products, with dedicated conditions for trade associations that have entered into an agreement with MP&F.
- “Sudleasing” initiative: promotional campaign dedicated to companies with a registered office or production plant in Southern Italian regions, which acquire an operating asset. This offer provides dedicated conditions and a one-year insurance policy free of charge.
- “MYHOME LEASING” initiative - First Home Residential Lease: the pilot project for the marketing of this product has begun in the provinces of Siena and Florence.





- Sabatini Ter: Agreement with the Ministry of Education, Universities and Research for access to the facilitation and full operations.

### Factoring

- “Welcome Factoring” initiative: commercial initiative for private companies that do not have factoring relationships active with MPS L&F (or which have not had them in the 24 previous months) and are interested in assigning their receivables with or without recourse. This initiative provides competitive and advantageous “welcome” conditions applied for the first 6 months on the basis of dedicated contractual clauses.
- Factoring initiatives (direct and indirect) have been formulated based on an analysis of the financial requirements of specific product sectors:
  - Health Facility Financing
  - Assifinancing (insurance companies)
  - Large Order Financing (contracting companies)
  - Style Chain Financing (fashion companies)
  - PACF (public administrations)
- “Maxifactoring” initiative: dedicated conditions on factoring transactions for trade associations that have entered into agreements with MPS L&F.

In addition, in 2016 some thematic conferences were held in collaboration with the Regional Areas of BMPS and the Single-Firm Agents, centred around the benefits of super-amortisation in lease products and the derecognition of receivables in factoring products.

### 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.



## Equity investment management

The Group continued to rationalise its equity investment portfolio.

The following is a list of the Bank's most significant transactions during 2016:

### Acquisitions and capital increases

- A 10% equity investment in the newly formed Siena PMI 2016 S.r.l. securitisation vehicle was acquired;
- The share capital increases of the subsidiaries MPS Capital Services S.p.A. and Monte Paschi Banque SA. were subscribed;
- Following the exchange of Finanziaria Regionale Friuli Venezia Giulia S.p.A. shares, a 0.59% stake was acquired in the joint-stock corporation Autovie Venete;
- Following the transfer of the equity investment in Visa Europe (0.007%), a 0.001% stake in the company Visa Inc. was acquired.

### Disposals

- Disposal of the 49.99% stake held in Fabbrica Immobiliare Società di Gestione del Risparmio S.p.A.;
- Other disposals of equity investments: Aeroporto di Reggio Emilia S.r.l. (0.11% of the share capital); Apofruit Italia Soc. Coop. Agricola (4.23% of the share capital); Caseificio Sociale del Parco Società Cooperativa (23.10% of the share capital); Consorzio Granterre Caseifici e Allevamenti Società Cooperativa Agricola (9.08% of the share capital); Consorzio per lo Sviluppo dell'Area Conca Barese Società Consortile a Responsabilità limitata (8.00% of the share capital); Eurobic Toscana Sud S.r.l. (18.49% of the share capital); Fabbrica Ambiente Rurale Maremma S.c.r.l. (4.40% of the share capital); G.A.L. Ponte Lama S.c.r.l. (12.47% of the share capital); G.A.L. Terra dei Messapi S.r.l. (4.22% of the share capital); S M I A S.p.A. (1.42% of the share capital).

In addition, the following equity investments are no longer in the portfolio: Agrifactoring S.p.A. in liquidation (2.50%); Edi.B S.p.A. in liquidation (18.05%); P.B. S.r.l. in liquidation (7.85%) following the closure of the respective liquidation procedures.

Finally, it should also be noted that an "Associazione in Partecipazione" (profit-sharing) agreement was signed with the film production company K+ S.r.l., in the form of financial support for the creation of feature films pursuant to "tax credit" legislation.

The subsidiary MPS Capital Services S.p.A. transferred its entire equity investment held in S.T.B. Società delle Terme e del Benessere S.p.A., equal to 0.98% of the share capital, and signed three "Associazione in Partecipazione" (profit-sharing) agreements, to provide financial support for the creation of feature films pursuant to "tax credit" legislation, with the production companies Indiana Production Company S.r.l., 3Zero2 S.r.l. and Cattleya S.r.l.



## Prospects and outlook on operations

In the second half of the year, the global economy showed an improvement that is expected to continue to strengthen. In the Eurozone, the economic recovery is continuing, with GDP growth in real terms of 0.3% in the third quarter of 2016 compared to the previous period, showing development analogous with that of the second quarter; in the future, the economic expansion is expected to continue at a moderate pace and consolidate. The transmission of ECB monetary policy measures to the real economy is supporting domestic demand and the recovery of facilitated investments, including with highly favourable lending conditions.

Yields on sovereign securities rose globally, particularly in the United States. An analogous phenomenon was also observed in the Eurozone, associated with an accentuated inclination of the EONIA forward curve.

In its pursuit of price stability objectives, the ECB's Governing Council decided to keep reference rates unchanged and continue the bond buying programme at the pace of EUR 80 bn per month until the end of March 2017. We also recall that the long-term bank refinancing programme under extremely favourable conditions (TLTRO 2) continued to encourage credit to households and businesses.

With regard to the Group, Banca Monte dei Paschi di Siena, after confirming the impossibility of completing the capital strengthening transaction announced to the market on 25 October, sent the ECB an extraordinary, temporary request for financial support involving access to the "precautionary recapitalisation" measure. Subsequently, the Bank received two letters written by the ECB from the Ministry of Economy and Finance, addressed to that Ministry, which, aside from confirming the fulfilment of the necessary requirements for "precautionary recapitalisation", in compliance with applicable legislation, note, inter alia, that:

- (i) as regards the consolidated data on the basis of the reports at 30 September 2016, the Bank is solvent, as it meets the minimum capital requirements laid out in Article 92 of Regulation (EU) No. 575/2013. The Pillar 2 capital requirements are also met;
- (ii) the 2016 stress test results highlighted a shortfall, only in the adverse scenario, in the fully loaded CET 1 parameter at the end of 2018 (-2.44%), compared to a threshold of 8%; according to the ECB, this shortfall translates into a capital requirement of EUR 8.8 billion, inclusive of all components of regulatory capital as set forth in applicable legislation;

The "Precautionary recapitalisation" process entails the subscription of new shares issued by the Parent Company by the government as well as by the subordinated bondholders through forcible conversion (following the "burden sharing" mechanism) in accordance with what is defined in Decree 237, approved by the Council of Ministers on 23 December 2016. The Decree was converted into law on 17 February 2017. The completion of the process also involves the Parent Company's preparation of a "Restructuring Plan". The plan need to satisfy the three conditions necessary for its approval: guarantee the restoration of the bank's sustainability, minimise the distortion of competition and distribute the restructuring costs (burden sharing) amongst the shareholders and subordinated bondholders. On March 9, 2017, the Board approved a preliminary proposal for the Restructuring Plan, which was sent to the competent Authority to start the comparison to finalization of the plan itself and its approval by the Authority.

With respect to the doubtful loans portfolio, the Bank is evaluating alternative options all aiming for full or partial deconsolidation, with the objective of reducing the Group's complexity and risk profile, improving the liquidity position and boosting the Bank's financial stability.

There have been no significant changes in trends in the Group's Commercial Direct Funding volumes since 31 December 2016.

Please note that the Bank received a decree from the Ministry of Economy and Finance granting the government guarantee to support its access to liquidity pursuant to Law Decree no. 237/16. On 25 January 2017, the Parent Company completed two issues of government backed securities for a total of EUR 7 bn: the first issue matures on 20/1/2018, with a nominal amount of EUR 3 bn, while the



second matures on 25/1/2020, with a nominal amount of EUR 4 bn. The securities, backed by the government guarantee pursuant to Law Decree no. 237/2016, were subscribed in full by the issuer. In February, the above-mentioned securities were used in full in sales transactions in the market and as collateral to back funding transactions.

With respect to the Consob letter received on 8 November 2016, pursuant to art. 114, paragraph 5 of Italian Legislative Decree 58/1998, requesting the implementation status of the Business Plan approved on 24 October 2016, with an indication of variations in actual data with respect to projections, please note that the above-mentioned Plan was suspended following the request for precautionary recapitalisation from the government, forwarded on 23 December 2016.

For the purpose of precautionary intervention processing above mentioned, on March 9, 2017, the Board approved a preliminary proposal for the Restructuring Plan, which was sent to the competent authority to start the comparison to finalization of the plan itself and its approval by the Authority



## Implementation of sustainability policies

### General approach

Sustainability policies express the vision and approach whereby the Group deals with significant topics for the economy, civil society and its stakeholders.

The general principles of these policies are laid out in the Code of Ethics and are also followed in line with collective commitments, first and foremost the United Nations Global Compact Programme, for which a separate annual disclosure is provided.

The Code was issued in 2008. In 2013 and 2016, it was subject to review to ensure that it was updated to the reference context and more functional within the broader system of internal rules of conduct established by Italian Legislative Decree 231/2001.

The Parent Company's Board of Directors has Code oversight responsibilities and is updated on the overall implementation of sustainability policies, particularly through this disclosure.

The Management Committee of the Parent Company, chaired by the CEO and representing the top management, is responsible for setting guidelines as regards sustainability matters in the Bank's activities. The External Affairs Area is responsible for coordinating the activities and since September 2016 reports directly to the new CEO.

In 2016, the new guidelines were followed, with a particular focus on the topics of financial education, welfare, social innovation and the role of local banks.

The following paragraphs provide a brief, qualitative description of some of the Bank's main sustainability policies, the initiatives completed in 2016 and the work under way. Additional details will be provided in other communications to be issued subsequent to the publication of this disclosure.

As regards sustainability policies in the areas of Corporate Governance, Remuneration and Risk Management, please refer to the specific conformity reports published on the Bank's website.

## People

### Management policies

Human resource management policies are designed to support the Group's business objectives and the associated organisational projects, through professional training and development courses and mobility plans rooted in the principles of transparency and participation.

The operational initiatives were therefore supported by:

- professional and managerial development plans which, with a view to business continuity, guarantee suitable quality-quantity staff coverage levels, in line with the performance management system and with an approach based on results, sharing and self-development;
- "Mps Academy" for the overall governance of permanent training activities, with course offerings broken down into the areas of People, Business, Compliance and Safety, to strengthen skills, provide managerial career guidance and support requalification processes, with a view to spreading the culture of competence (see the "Human Resources" chapter);
- engagement initiatives and motivation leverage consistent with remuneration policies, the welfare system and internal communications plans;
- recruiting policies meant to enhance the internal growth of resources, favour managerial renewal and integrate and strengthen skills, in keeping with company welfare policies.



In particular, the achievement of Business Plan operational efficiency objectives, including by means of progressive cutbacks in headcount, is supported by mobility plans (geographical and/or professional) that aim to enhance the professionals present in the company, while taking advantage of professional development opportunities for employees and taking into due consideration their aspirations and needs (see “Human Resources” chapter).

In addition, all of the specific Business Plan projects were discussed with the trade unions during meetings (pursuant to law and the contract, which concluded with specific agreements) for the joint examination of impacts on the personnel concerned.

In particular, as part of the 2016-2019 Business Plan, on 23 December 2016 the Group’s union agreement for the activation of the industry solidarity fund was signed in order to limit impacts on employment connected with the exit of 600 resources (as at 1 May 2017), while favouring voluntary participation and closer proximity to the right to receive retirement benefits as priority selection criteria.

## Corporate welfare

Corporate welfare has great value for the well-being of Group employees.

The Group’s second-level bargaining confirms the central role played by welfare, with a detailed offering of initiatives, monetary and otherwise, oriented towards the “traditional” and “new” social requirements of employees, pensioners and their nuclear families (a total of around 75 thousand people) within a framework of overall economic compatibility, considering the system of measures for limiting personnel expenses.

In particular, the company welfare system includes the following initiatives:

- health - with a medical expense coverage programme, that may also be used by family members, accident policy and other initiatives;
- pension plans - through company pension plans to which Group companies allocate 2.5% of pay taxable for the purposes of staff severance pay and for which they bear the management expenses;
- work-life balance - through a system of leave and time off, in particular to support parents, including training courses for mothers returning to work;
- education - with study leave for working students and initiatives exclusively for the education of children (see the paragraph below on “training and preparing young people for the world of work”);
- income support - favourable terms and conditions on loans and bank services and products, meal vouchers, compensation for new hires or to help with specific needs (e.g., commuting), support for household expenses and other initiatives;
- Free Time - through CRAL employee social organisations, which promote cultural activities, sport and individual hobbies.

The spreading and development of welfare policies are the main activities of the Welfare Commission formed with the union organisations in 2015 to ensure continuous dialogue on this theme, and are also supported with specific training initiatives for all personnel.

Second-level bargaining has also introduced new measures with a view to flexibility and the stimulation of solidarity amongst co-workers.

Indeed, in 2016, with respect to measures meant to improve work-life balance, “MP Solidale” was formed: an internal fund fuelled by donations from employees of paid leave or portions of their remuneration, to help their co-workers face serious and verified personal and family needs, with



priority afforded to childcare requirements. Thanks to the MP Solidale fund, the Welfare Commission was also able to provide extraordinary support by means of a concrete contribution to those employees whose homes were destroyed in the earthquake in Central Italy.

In addition, also based on the current company contract, a flexible benefits platform has been created for employees belonging to the categories of professionals and middle managers, in compliance with the pertinent tax legislation.

Also in the identification of measures for limiting personnel expenses taken with the union agreement of 24 December 2015, and functional to achieving the Business Plan objectives, policies of social equity and focusing on lower compensation levels have been enacted, with a fairer breakdown of interventions, mitigating initiatives for lower compensation levels and introducing an extraordinary contribution for higher levels.

### Gender diversity

A specific provision set forth in the articles of association of the Parent Company establishes gender balance on the Board of Directors and the Board of Statutory Auditors.

As at 31 December 2016, more than 50% of the directors were women (7 directors out of 13). The presence of women on the Board of Directors also reflects a bank which now has a significant female presence at all levels. Indeed, on the Board of Statutory Auditors, the chair as well as 3 of the 4 auditors are women.

Furthermore, with respect to employees, as at 31 December 2016 48.0% are women, 42.5% of roles of responsibility are held by women and women account for 7.8% of executives, in light of the reinforcement of an active equal opportunities policy in the pursuit of overall human resource development goals.

The main measures include (compatible with the company's technical and organisational requirements):

- work flexibility - flexible working start and end times, various part-time opportunities, even for a limited period of time (at the end of the year, there were 2,349 part-time workers, of which 95.2% women);
- short and long-term leave and relocations to favour improved management of personal, family and childcare needs: in 2016, 962 requests for transfers were accepted, of which 53.1% from women;
- dedicated training courses and retraining for staff returning to the workplace after maternity (and paternity) leave - developed by the company's Equal Opportunities Commission, including training initiatives, structured and on the job training and customisable multimedia tools. The initiatives are based on the individual's profile and requirements and promote organisational updating as well as the development of capacities that can help to reconcile new needs (for example, time management, effective communications, stress management, teamwork and negotiation skills). The managers of the resources concerned also participate in the initiative through dedicated training events which aim to provide suggestions and points for reflection on how to promote work-life balance within their own organisational units. In 2016, the course involved 360 new mothers.

The topic of equity opportunity is the ongoing focus of much attention, including through participation in the activities of Valore D (a leading association of Italian companies that supports female corporate leadership), of which the Bank has been a supporting member since 2014. In 2016, around 120 female employees were involved in Valore D initiatives.





## Caring for the interests of customers and consumers

The management approach involves:

- centralised organisational oversight, meant to guarantee regulatory compliance and ongoing updating of internal procedures with respect to rules on transparency, privacy and the adaptation/adequacy of banking and investment services, etc.;
- understanding customer/consumer expectations by conducting opinion surveys, both general (customer satisfaction assessment model) and to find out whether specific commercial offerings effectively meet their needs (customer experience measurements and focus groups). In 2016, the annual customer satisfaction surveys, which are sent periodically to representative samples of all customer categories, were postponed to leave more space for detailed analyses on topics of particular interest and relevance, with specific quali/quantitative focuses on premium and private customers. Increasing attention was dedicated to monitoring the customer experience, through spot surveys, for example after the implementation of the new Branch Network distribution model (Hub & Spoke), and with recurring and automated activities when specific events take place. Several focus groups were also formed, specifically with a selected sample of private customers, to test the characteristics of new products and gather additional feedback on the sales offering. Internal employee perception analyses enhanced the information available to us, to continue ever more effectively on our path of continuous customer service quality improvement.

Since it was launched in 2014, Widiba has used an evaluation system (stars on a scale of 1 to 5) which is shown to customers each time they use the platform, the results of which are visible in each section of the website. To date, more than 271,941 evaluations have been received, with a total average score of 4.48/5, which is experiencing constant growth from month to month. These evaluations are periodically analysed to improve the products and services evaluated by customers.

- incentives for achieving economic/financial performance targets which, for the network functions, may make up for any under-performance with regard to compliance, complaints control and customer satisfaction targets;
- a CRM (Customer Relationship Management) model which makes it possible to adjust offers based on the demographic and socio-economic characteristics of customers and communities. The model's strengths are: the centrality of customer financial requirements as a guiding parameter to personalise the offer, the integrated use of various customer interaction channels, continuous updating and expansion of the database, including "sensitive" information used to maintain strong relationships. The model was launched in 2015 and was widespread and broadly used in 2016, with the launch of new campaign management tools to support new multi-step and multi-channel sales processes based on target setting standards or transactional events in certain cases that may be managed in real time, for the effective interception of customer needs. In 2016, a more precise and granular statistical model was also consolidated, with the introduction of new big data and advanced analytics models and tools;
- ConsumerLab - the working group established in 2004, for discussion and collaboration with consumers' associations, which is meant to prevent "financial distress" for customers and consumers while ensuring a fruitful joint discussion on the evolution of banking topics and their needs. The main initiatives are: financial education programmes for young people (BancAscuola, see below in the specific section) and in the community (ConsumerLab a Casa Vostra). In this last regard, since 2009 more than 60 meetings have been held with customers and residents in Bank branches. The "Product Laboratory" component, which aims to gather reactions from consumer associations on the Group's new products, was not operating in 2016;
- a series of guidance and support tools, primarily the "Mps Advice" internal advisory model. With the help of a "relationship manager", customers can make the best financial decisions for them, build a portfolio with the best products from our multi-brand range and satisfy their investment, savings and pension needs, while also maintaining continuous control over the results achieved in keeping with their personal profile and risk appetite. In addition, customers receive reporting that



enables them to promptly investigate any variances with respect to their objectives, as well as new market opportunities to appropriately re-balance their portfolios.

To simplify the user experience, in April 2016 Widiba launched Widiba2020, a smart search engine customers can use to search for information and order transactions. The result is the creation of a single, simple and fast point of access to all of the information and functions available to customers (for this innovation, EFMA recognised Widiba as the best bank in terms of Customer Experience in 2016). In addition, to best respond to customer requests, Widiba activated a free number in the public area of its website as well as a dedicated email address; the private area features a virtual assistant, a webform and call me back and call me now functions, while in social networks, dedicated support is provided in Facebook and Twitter;

- online assistance and contact tools, to directly support customers (Customer Service Desk, with a focus on direct bank services; [info@mps.it](mailto:info@mps.it)) as well as branch managers (Network Help Desk);
- arrangements for physical and functional access to services by customers with disabilities. For example, 98% of the ATMs can be used by people who are visually impaired/blind, and 72% are accessible to people with motor disabilities.

### *Criticality management*

In 2016, the Bank received 9,154 complaints, down by around 21% compared to last year. This reduction was caused by the improvement in dialogue with customers through specialised operators of the Group's Contact Centre in the phase leading up to an official complaint, as well as lower actual flows of incoming complaints.

The downturn regarded complaints about banking services, mainly for current accounts, home mortgages and payment cards, as well as in system areas, which however do continue to be present: we are referring to the return of compound interest, claimed application of usurious rates on current accounts and contingent usury and late payment rates in mortgage agreements. On the other hand, complaints regarding consumer credit, primarily in the form of salary-backed loans, are up. The number of complaints about investment services remained in line with last year.

A total of 9,570 complaints were managed, with an average response time of 25 days. In around 80% of the cases, the complaint was closed within the regulatory term of 30 days; in addition, common, less complex problems were generally dealt with in 17 days on average.

In about 26% of cases, complaints were accepted, for an overall cost of roughly EUR 11.5 mln.

Customer complaints received through Arbitro Bancario Finanziario numbered 414 (299 in 2015) and 11 were received from the Ombudsman-Banking Court (14 in 2015).

There were 654 customer reports received from the Bank of Italy (665 in 2015) and 3 from Consob (9 in 2015).



## Distribution of OTC derivatives

The Group markets OTC derivative financial instruments to specific customer types. This matter is governed by a specific Consob regulation, adopted by the Bank through the establishment of policies and methods for carrying out this activity.

Precise internal rules are applied on the offer/distribution methods to be applied based on the type and experience of the customer concerned. In particular, the guidelines establish that:

- OTC derivatives may be offered only to corporate customers;
- OTC derivatives must be used exclusively for hedging purposes;
- no products are offered that have a leverage effect on hedged positions, with the exception of positions for which the Bank is not required to verify the hedging purposes (trading under the appropriateness regime with LEC customers);
- operations must take place in compliance with the requirement of adequacy, with an advisory service that guarantees consistency between the customer profile and the product features. If the adequacy requirement does not apply, transactions in OTC derivatives are allowed as deemed appropriate (at the customer's initiative) in limited cases, or at the explicit request of customers categorised as Large Experienced Companies (LEC).

During the year, at the instruction of the Parent Company's Board of Directors, internal rules were further reviewed to make them more precautionary in favour of customers, which also involved excluding public institutions from the customers that may take advantage of this type of offer.

## Service security

### IT fraud prevention

The risk of IT fraud to which customers who use remote banking services are exposed in particular, is managed by means of cyber attack prevention and protection systems/platforms and monitored using an internal measurement and control model validated by the Bank of Italy.

Critical issues arise for the most part due to inadequate settings in customer IT device protection systems. In response to this issue, awareness-raising campaigns have been developed for customers on the dangers of certain phenomena like spamming and phishing, and how to defend themselves.

### Robbery prevention

Launched in 2013 with the goal of reducing the risk of robberies, the "Branch Security" project continued in 2016 with the following activities:

- upgrade of branch technology with the installation, in roughly 1700 branches, of more efficient and secure money processing/storage machines (TARM-Teller Assistant Recycling Machine and Roller Cash);
- activation of remote video surveillance in 453 branches, with "live in control room" type controls during working hours;
- the installation of centralised alarm systems in around 2000 branches, with "in control room 24 h" type monitoring;
- the upgrade of 853 digital video recorders in just as many branches. The video recorders were centralised within the control room to manage their operations and extract images in the event of crimes.

Furthermore, during the year several innovative projects were launched in the test phase in collaboration with the University of Siena and other business leaders to increase security measures



within our branches (virtual guard, behavioural video analysis, audio surveillance, ATM deterrence systems).

### Combating corruption

A specific Organisational Model is in place which establishes:

- rules and procedures to prevent the crimes laid out in Italian Legislative Decree 231/2001, including corruption;
- financial resource management and control processes for at-risk activities;
- a Supervisory Body (consisting of a non-executive and independent director and two external professionals) to guarantee the proper functioning and continuous updating of the Model;
- ongoing employee training;
- reporting and penalty systems.

The Model is updated periodically to guarantee its effectiveness, based on a risk self assessment conducted on all company functions. The most recent review was in October 2016.

A whistleblowing procedure was also introduced in December 2015. This procedure is our prompt response to specific regulatory and supervisory provisions, but especially it is another step forward on the path undertaken some time ago by the Bank to increase the internal control and risk prevention culture, by reinforcing oversight over matters of legality and transparency.

In particular, based on the whistleblowing procedure, Group personnel can send reports in good faith regarding negligent, unlawful or irregular conduct by employees, executives, Board members and members of the Board of Statutory Auditors, as well as associated third parties (suppliers, consultants, etc.). The submission of a report does not in and of itself constitute the violation of obligations arising from the employment relationship, and the procedure is designed in a manner which guarantees protection from retribution or discrimination, the confidentiality of the report and the protection of the personal information of the reporter and any person subject to the report throughout all phases, to guarantee a specific, independent communication channel.

### Local community solidarity

Beyond the traditional social function of credit and other typical banking activities, the Group fulfils corporate citizenship duties through which it is committed to generating social and economic added value in the community. It does this in the communities with the support of institutions and other stakeholders in the local socio-economic systems, in accordance with a specific operating model that envisages:

- product range innovation with a view to credit accessibility to support the real economy and employment;
- sponsorships (around EUR 1.6 million disbursed in 2016), donations, fundraising and sharing of assets (skills, structures, relationship network, art and cultural heritage, etc.), to promote the basic rights of citizens, education, art and culture and the values of sports;
- project partnerships.

For many banks, being “close to the community” is a formula that is almost taken for granted, and its meaning is often not given due attention. But what does being close to a community actually mean?

The Bank, well aware of the specific nature of its role within the community as well as the issues that have weakened its actions, with a view to making a complete turnaround, is attempting to provide its



own interpretation to these questions and its own social role. In that sense, during the year it conducted an experiment to establish a listening and dialogue process with certain key local stakeholders (with a view to institutional and market positioning), starting from a critical analysis of its activities in certain limited geographical areas. The experiment took place in two basic areas: the preparation of a regional corporate social responsibility report and the organisation of a facilitated meeting with several representatives of economic and social interests. It was replicated with an analogous format in 3 geographical areas: the province of Siena, the southern provinces of the Marche and the Umbria region:

- regional corporate social responsibility report - this was a fundamental exercise which, on the basis of more than 150 economic and social indicators specific to the reference area, made it possible to characterise the needs of households and businesses, to then match them up with the Bank's financial and non-financial services. The goal was to understand if the Bank is actually responding to the needs of customers (current and potential) and the community, and if there are any areas clearly requiring improvement;
- listening to stakeholders - the regional corporate social responsibility report was presented to a group of around twenty selected stakeholders (institutions and local representatives) during a closed-door meeting led by an independent facilitator. The Bank placed itself in the position of listener, and committed to taking the feedback arising from the workshops into consideration in its activities. After the workshop, an open meeting was organised for all residents, during which the same topics were presented and discussed in a public forum with more than 150 participants at each event, including customers and residents.

Through this project, the Bank came face to face with the “real” dimension of corporate social responsibility and with the extent to which a large organisation like ours can manage to adjust to very specific expectations. It was able to test new ways of planning and acting really effectively as a community bank by directly listening to the reference communities and gaining even more awareness of the issues to be dealt with.

Due to its originality, the project was awarded the AIFIN - Bank and Community award, as the best example of communication and corporate social responsibility for the year.

## Support to the real economy and employment

The main initiatives in 2016 were:

- numerous local agreements with institutions, the industry association and sector systems, as well as with underwriting syndicates at local and national level, meant to improve the sustainability of access to credit by small businesses. In this regard, the decision to make recourse to innovative risk oversight structures (tranching covers) was particularly significant, with the goal of developing SME loan portfolios with favourable pricing through the acquisition of guarantees, with a view to capital savings;
- agreement with the European Investment Bank (EIB) to provide funding of EUR 450 million under favourable conditions to finance SMEs as well as mid caps;
- loan products under competitive conditions (Montepaschi Corporate Restart, Mps Evoluzione Euro, CDP Loans, EIB Loans) to support economic activity and Italy's business landscape. These products benefitted from the measures introduced by the ECB (refinancing transactions, TLTRO) and the funding provided by institutions such as Cassa Depositi e Prestiti and the EIB.



### Training and preparing young people for the world of work

The main initiatives in 2016 were:

- the assignment of nine Higher Education and Research Apprenticeship contracts promoted in collaboration with the University of Siena. The Bank, the first in Italy to adopt this formula, in order to favour interaction between academic knowledge and corporate culture offers young students an excellent training opportunity, with entry into the job market before they even complete their studies, providing them with direct experience of how the topic they are studying plays out in the real world;
- collaboration with the Consorzio ELIS Programme - School of Good Business: ten days of training, workshops and tutoring to teach university students about corporate values and culture, also featuring speeches by some of the top Made in Italy entrepreneurs. 40 young people participated in the 2015/16 edition (as an advanced form of corporate welfare), including 10 children of Bank employees, who had the opportunity to receive a study grant financed by the Bank;
- collaboration with the Intercultura Onlus Foundation, for secondary school students interested in going abroad for one year. The Bank made available to its employees' children, as an advanced form of corporate welfare, 2 Intercultura study grants (fully covered) for programmes abroad during the 2016-2017 academic year; this initiative was renewed once again for the 2017-18 academic year;
- initiatives in favour of professional orientation, dedicated to secondary school or university students: work-study project with a technical institute in the Siena area, also including company apprenticeships; Career Day in collaboration with the University of Siena; Job Days for meeting and interviewing candidates for open specialised positions;
- partnerships with schools and universities in events, instruction and seminars dedicated to selecting a university, social reputation, orientation, the evolution of the professions, local development, in which we made our skills available to more than two hundred young people;
- collaboration with HRCommunity in the "Road to Millennials - Panorama Careers and Work" project which, organised in partnership with the Panorama weekly magazine, engaged young participants (from 16 to 30 years old) in topics regarding the main dynamics and trends in the job market. Through a series of local meetings, the goal was to enter into contact with young people and help them with their professional choices, describe useful tools for looking for a job and offer an overview of the main financial aspects that may characterise their professional and personal future. The Bank followed in the field, with its own human resources and retail market specialists, 6 of the 10 meetings scheduled, which saw the participation of more than 190 young people. For this initiative, the HRC CSR Award 2016 was awarded to recognise the sensitivity and commitment demonstrated to millennials, and we were admitted to the CSR Ambassadors Club.

### **Bank for culture**

One of the Bank's priorities is to increase synergistic actions to conserve and spread awareness of its cultural/artistic assets, while continuing its intense lending and conservative restoration activities. In this respect, two distinct areas of action have been developed involving various stakeholders, with a strong focus on students receiving compulsory education. Considering the diverse presence of cultural assets present within the Bank's collections, guided visits were also provided to owned historical buildings, and the archives and library collection were made available for consultation by academics and researchers.





The main initiatives in 2016 were:

- “Back into the Light (Ritorno alla luce)” - not just an exhibit, but a programme of art events to offer some masterpieces from the Bank’s collections, generally not included in exhibitions, to the public after their careful restoration, accompanied by new studies and research to bring them “back into the light”. This programme has been carried out for several years, and in 2016 it involved 3 different events;
- Creative Culture Festival - our Bank also participated in the third edition of the festival dedicated to children and young people, organised by Italian banks and coordinated by the Italian Banking Association. More than 300 students took part in 6 cities in which the Bank has regional management offices;
- also with a view to education, support for projects was provided in schools, including the “Duccio di Buoninsegna” Arts High School in Siena, during the bicentennial celebration of the Fine Arts Academy, an occasion for engaging students in a series of initiatives to highlight and illustrate the Bank’s artistic and architectural wealth with help from accounts provided within the Bank’s historical office by the illustrious teachers and directors of the high school;
- participation in the “Young Factor” financial education project (promoted by Osservatorio Permanente Giovani-Editori) and the “Journalism championship” (promoted by the QN La Nazione group), with particular regard for the “Newspaper in class” initiative (more than 2 million student participants in the 2015/16 academic year).

## Solidarity

Keeping a direct link with the origins and motivation behind its foundation, the Bank has continued to support non-profit activities committed to social projects in the individual communities:

- particular attention is devoted to the care for and management of people impacted by disabilities, taking a widespread, private welfare approach which works alongside and supplements public welfare;
- for the 2016 Christmas holidays, the Bank decided to renew its community support by dedicating the resources traditionally used for Christmas festivities to those non-profitable organisations that are committed on a daily basis to projects supporting people impacted by disabilities as well as initiatives meant to improve the conditions of young people;
- in the wake of the emergencies caused by natural disasters, the Bank activated a network of support for the populations involved, by putting solidarity mechanisms into place, including fundraising and making direct acquisitions from impacted businesses.

## Financial inclusion

The Bank responds to the difficulties of a wide range of people and consumers in accessing banking services by taking part in system initiatives as well as carrying out independent activities, generally developed in partnership with institutions and other local stakeholders.

The measures in place include:

- the suspension of mortgage instalments (principal amount) and consumer loans for the customers most impacted by the effects of the economic crisis and natural disasters during the year;
- basic current accounts, available to particularly disadvantaged segments of the public (pensioners, consumers with ISEE income lower than EUR 7,500). Some of these accounts have no fees, while others have very low costs;





- student loans from the Bank of Italy for the evolution of the “Giovani studenti - Diamogli futuro” (“Young students - Let’s give them a future”) loan product for university or master’s and specialisation course students between 18 and 40 years old. This loan will be supported by the Young People’s Credit Fund; as a result, additional personal and/or family guarantees are not required;
- first home mortgages for young people and those with unstable work situations - the “Mutuo giovani coppie e famiglie” (“Young couples and families mortgage”) is used to finance “first home” or “primary residence” purchase and renovation expenses; it can also be used to finance consumer households in the assumption of portions of mortgages arising from the split of a previous building mortgage.

In addition, in 2016 the “Mutuo fondo prima casa Consap” (“Consap first home fund mortgage”) continued to be provided, guaranteed by the First Home Guarantee Fund (Consap Fund Manager), which may also be used to purchase a primary residence;

- Prestisenior, the reverse mortgage dedicated to customers over 60 who need to supplement their income (generally consisting only of a pension) to finance current needs, maintain an active lifestyle and be able to continue to help and support their children and grandchildren. This product, available since 2007, was renewed in 2016 (also in light of recent regulatory updates concerning this type of product) and enhanced through the collaboration with 65Plus, a specialised operator and leader in the segment of reverse mortgages and financial services for the elderly;
- South for Tomorrow – an open innovation call for startups in Southern Italy capable of developing digital services to respond to the social needs of people over 55 years of age. The call involved young people in particular, challenging them to think about the future of people who are the age of their parents to contribute to improving their quality of life during retirement. The experimental project was carried out with Axa Italia and with the support of Impact Hub Milano. The three finalists participated in a focus week to further refine their business ideas and learn new things to develop their projects. The winner, which will be selected in the beginning of 2017, will receive a prize of EUR 10,000 and will be mentored by Impact Hub Milano during a 4-month incubation period. The final goal is to refine the project to assess whether it can be integrated within the Axa-Mps offering;
- social and corporate microcredit, particularly through the specialised activities of the investee company Microcredito di Solidarietà Spa. Since the start of 2016, the company has been enrolled in the new list of microcredit operators pursuant to art. 111 of the Consolidated Law on Banking, consolidating and further strengthening its support to microbusinesses, also through its collaboration with the Italy-Siena Business Network for the related monitoring, training and support services;
- combating usury, for example through the activities set forth in the convention with the Toscana Foundation for the Prevention of Usury.

## Financial education for young people

The Bank looks to the world of young people with an approach that is not only business-oriented. After its extensive experience with schools during the ABI-Patti Chiari project, the Bank has begun a comprehensive process of improving financial literacy: since 2011, it has worked with consumers’ associations in a project named BancAscuola and since 2014, along with Intesa SanPaolo and Unicredit, it has collaborated in the Young People-Publishers Permanent Monitoring Unit and its Young Factor project:

- Again in 2016, BancAscuola was provided for secondary school students (fourth and fifth years) with an updated format including one day sessions in the classroom featuring role playing with consumers’ associations and an external facilitator, during which actual commercial situations



(including regarding loans) that students may find themselves in now and in the future were simulated. The Bank actively participated in the classroom with its employees throughout the country to share the banking perspective and experience. The activity directly involved 166 students from 8 schools and was highly appreciated, with more than 90% participants recognising the significant usefulness of initiatives such as this to better understand the financial aspects present in everyday life.

So far, the project has involved more than 3,500 students from 60 schools in 55 Italian provincial capitals;

- Young Factor - with the contribution of a group of experts and professors from Bocconi University and Catholic University of Milan, a workbook on the “hot” topics regarding the economy and society and 10 video lessons were created for secondary school teachers and students. In the 2015/16 academic year, there was a significant increase in project participation compared to the previous edition: 2,805 schools (+49%), 19,218 classes (+51%), 7,569 teachers (+12%), 500,207 students (+51%).

## **Control of the socio-environmental impacts of credit to businesses and industry policies**

### **Assessment procedures for socio-environmental risk associated with significant transactions**

The environmental impacts potentially associated with the activities of companies that apply for loans are carefully checked in most cases, in implementation of the broader Group Environmental Policy and in accordance with procedures certified pursuant to the UNI EN ISO 14001 standard.

In particular, the subsidiary MPS Capital Services is committed to:

- evaluating the indirect environmental aspects connected with lending, financial and advisory activities;
- planning new, more eco-sustainable products and services;
- maintaining an active environmental scoring system during the creditworthiness assessment phase.

The transactions managed by Mps Capital Services, aside from checks required during the assessment regarding compliance with applicable environmental legislation for the specific project, are subject to screening which considers: the dangers of activities and industry legislative obligations, the extent of the activity and the possession of environmental certifications. The rating (score) assigned to the transaction by the system algorithm which considers the above-mentioned variables contributes to determining creditworthiness.

In addition, especially in the most significant project finance transactions, specific contractual clauses are provided, differentiating them according to the type of investment, which commit the borrowing firm to comply with the laws and regulations established by local authorities as well as any other standards of quality regarding environmental protection, workplace health and safety, employment agreements and transparency in tender contracts. In these cases, compliance with the agreed standards is monitored in the various phases using the documentation provided by the customer or through due diligence carried out by external consultants. In the event of failure to comply with these agreements, the Bank is entitled to withdraw the loans.

In 2016, an environmental score was assigned to transactions with an overall value of roughly EUR 1.5 billion. More than 86% of those volumes was class A or B, or transactions with low or moderate impact.

In 2016, the subsidiary Mps Leasing & Factoring also adopted its own model for the evaluation and management of possible environmental risks connected with the leased asset.



The model, developed with the support of a qualified partner, includes:

- a scorecard which, based on precise factors (11 controls of environmental aspects), provides an opinion on the environmental risk of each transaction. As a result, any need for further analysis in the field is identified and the decision is made as to whether to provide the requested lease;
- portfolio monitoring, which makes it possible to track the riskiest assets, their periodic control and the actions to be taken if the risk takes place;
- operational oversight (provided primarily by an engaged professional, with the coordination of a dedicated internal technical structure), which manages incoming and outgoing environmental assessment requests, and conducts monitoring on the relevant laws and the relative impacts on internal regulations.

### Raising the awareness of SMEs

The topic of corporate sustainability, as a factor of innovation and high strategic potential for SMEs, is subject to a research in collaboration with the University of Siena.

The research regarded roughly 640 Tuscan SMEs which are Bank customers, and took place in two phases:

- an online “Sustainability at the service of business” survey to identify how companies are currently paying attention to the operating areas in which the conditions are created to make their businesses sustainable: responsible management, staff development and motivation; eco-efficient innovation of the production process; marketing oriented towards customer satisfaction and the safety and eco-friendliness of the product/service; the relationship with the local community based on the corporate citizen approach;
- a statistical/inferential analysis to verify the degree of correlation between the sustainability indicators of the companies participating in the survey and the Bank’s current assessment of their creditworthiness.

The results of the research will be investigated as part of the collaboration between the parties and will act as a useful point of reference to develop the resulting awareness-raising/training activities on the management of corporate sustainability that can be provided to businesses as well as banks, so that their improved interaction in this area as well can generate shared benefits and socially relevant impacts.

### Corporate lending with high environmental value added

- Sustainable agriculture - the Bank’s very roots are in agriculture. Its objective is to contribute to the development of an important part of the economy while also protecting ecosystems. For several years, the Bank has offered the “Terramica” package.

In addition, the Bank:

- pays particular attention to the vinicultural industry, which in 2016 was once again subject to various agreements with top quality local production consortia;
  - specialist support continues to be provided with ad hoc financial products (Borri Law) to food companies that participate in the DOP/IGP Protection Consortia, focusing on the production and storage of aged salamis.
- Renewable energy - in 2016, the subsidiary MPS Capital Services, after obtaining the “Legal Community Finance Award”, was nominated as “Team of 2016” for the project finance as well as the corporate finance segment. Specifically, the Bank’s leadership was recognised and confirmed



within the landscape of Italian corporate and investment banks as well as in the project finance sector for energy services and infrastructure.

Overall, during the year MPS Capital Services financed roughly EUR 125 million in renewable energy plants (44% solar, 30% wind). The main transactions include:

- 3 wind plants in the provinces of Foggia and Avellino, with total power of 80 MW;
- 5 solar plants in the provinces of Taranto, Rome and Latina, with total power of 27 MW;
- 4 hydroelectric plants in Emilia Romagna, with total power of roughly 7.5 MW;
- 7 biomass co-generation plants in Campania, each with a nominal power of 100 kW;
- completion of 55 solar plants in various Italian regions, with total power of 78 MW.

In addition, the Parent Company has proposed a new product, “Guaranteed advances on the assignment of receivables relating to the incentive rate for former Green Certificates”. The product was meant for customers that are “responsible for renewable energy production plants” which benefitted from the incentives represented by “Green Certificates” until the end of 2015. Following the Ministry of Economic Development Decree of 6 July 2012, starting in 2016 those parties can benefit from an incentive system provided with the methods established in a dedicated agreement with the Energy Services Operator (GSE) for the remaining period during which they have rights to Green Certificates (and as a replacement of them). The advance provided by the Bank allows customers to obtain part of the necessary liquidity in relation to future collections of receivables from the GSE.

### **Work in ethically controversial sectors**

The credit policy implemented since 2001 excludes the possibility for Group banks to finance operations for the import, export or transit of armaments governed by Law 185/90, as amended. Therefore, once again in 2016, as in previous years, no requests of this type were accepted.



## Annexes



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



Reconciliation between the reclassified income statement as at 31 December 2016 and related statutory accounts

Accounts in Reclassified Profit and Loss Statement - Monte paschi Group		31/12/16	Accounts in the Profit and Loss Statement - Montepaschi Group		31/12/16	Operating Reclassifications		31/12/16
Net interest income		2/21.3	Interest income and similar revenues	Item 10	3,17.2	(+) Economic effects from allocation of BAV acquisition costs to BAPS (PPA)		19.3
Net fee and commission income		1,839.4	Interest expense and similar charges	Item 20	-1,315.2			
Income from banking activities	Dividends, similar income and gains (losses) on equity investments	3,860.7	Fee and commission income	Item 40	2,132.3			
		77.8	Fee and commission expense	Item 50	-293.0			
Net profit (loss) from trading and financial assets/liabilities		441.2	Dividends and similar income	Item 70	13.5	(-) Reclassification of dividends on treasury stock transactions	Item 70 - Partial	-3.4
			Net profit (loss) from trading	Item 80	177.0	(+) Portion of profit from equity investments (Gruppo AXA)	Item 240 - Partial	67.7
Total Revenues			Gains/losses on disposal/repurchase of:	Item 100	161.5		Item 70 - Partial	3.4
			a) loans		1.0			
			b) financial assets available for sale		108.4			
			c) held to maturity investments		52.1			
Administrative expenses			d) financial liabilities		99.3			
			Net profit (loss) from financial assets and liabilities	Item 110	-82.0			
			Net profit (loss) from hedging	Item 90	-82.0			
			Other income/expenses (net) from insurance activities	Item 220	328.5	(-) Recovery of stamp duty and customers' expenses	Item 220 - Partial	-344.2
Net operating income			Administrative expenses		4,539.1			-257.2
			a) personnel expenses		-3,175.2			
			b) other administrative expenses	Item 180a	-1,727.5	(+) Restructuring charges	Item 180a - Parti	117.0
			Net adjustments to (recoveries on) property, plant and equipment / Net adjustments to (recoveries on) intangible assets	Item 210	-1,447.7	(+) Restructuring provision to DGSD and BRRD funds	Item 180b - Parti	241.1
Operating expenses			Net losses/ reversal on impairment on property, plant and equipment		-111.8	(+) Recovery of stamp duty and customers' expenses	Item 220 - Partial	344.2
			Pre Provision Profit		-134.6	(+) DTA fee	Item 220 - Partial	70.4
			Net impairment losses (reversals) on:		-3,421.6			
			a) loans	Item 130	1,117.5			800.3
Net operating income			b) financial assets available for sale	Item 130a	-4,500.9	(+) Economic effects from allocation of BAV acquisition costs to BAPS (PPA)		27.6
			c) other financial transactions	Item 130b	-4,467.0			543.1
			Net provisions for risks and charges	Item 130d	-41.8			
			Gains (losses) on investments		7.9			
Profit (loss) before tax from continuing operations			Net provisions for risks and charges	Item 190	-3,383.4			543.1
			Gains (losses) on investments	Item 240	44.4	(-) Portion of profit from equity investments (Gruppo AXA)	Item 240 - Partial	-67.7
			Gains (losses) on disposal of investments		79.5	(-) Restructuring charges	Item 180b - Parti	-117.0
			Tax expense (recovery) on income from continuing operations	Item 290		(-) Provision to BRRD and DGSD funds	Item 180b - Parti	-241.1
Profit (loss) after tax from continuing operations			Gains (losses) on disposal of investments	Item 270	33.2	(-) DTA fee	Item 180b - Parti	-70.4
			Profit (loss) after tax from groups of assets held for sale	Item 310	-3,226.2			46.9
			Net profit (loss) attributable to non-controlling interests	Item 330	-5.2	(-) Economic effects from allocation of BAV acquisition costs to BAPS (PPA)		-15.5
			Profit (loss) for the period including non-controlling interests		-3,231.4			31.4
Profit (loss) for the period before PPA, impairment on goodwill and intangibles			Net profit (loss) attributable to non-controlling interests	Item 330	9.7			31.4
			Profit (loss) for the period before PPA, impairment on goodwill and intangibles		-3,241.1			31.4
			PPA (Purchase Price Allocation)					-31.4
			Impairment on goodwill and intangibles	Item 260				0.0
Net profit (loss) for the period			Net profit (loss) for the period		-3,241.1			0.0





## Reconciliation between the reclassified income statement as at 31 December 2015 and related statutory accounts

Accounts in Reclassified Profit and Loss Statement - Montepaschi Group	31/12/15	Accounts in the Profit and Loss Statement - Montepaschi Group	31/12/15	Operating Reclassifications	31/12/15
Net interest income	2,258.6	Interest income and similar revenues	Item 10 4,887.5	(+) Economic effects from allocation of BAV acquisition costs to BMPS (PPA)	29.1
Net fee and commission income	1,809.9	Interest expense and similar charges	Item 20 -1,858.0		
		Fee and commission income	Item 40 2,153.8		
		Fee and commission expense	Item 50 -343.9		
<b>Margine intermediazione primario</b>	<b>4,068.5</b>		<b>4,039.4</b>		
Dividends, similar income and gains (losses) on equity investments	99.9	Dividends and similar income	Item 70 18.6	(-) Reclassification of dividends on treasury stock transactions	29.1
				(+) Portion of profit from equity investments (Grappo AXA)	9.6
Net profit (loss) from trading and financial assets/liabilities	1,037.8	Net profit (loss) from trading	Item 80 752.0	(+) Reclassification of dividends on treasury stock transactions	9.6
		Gains/losses on disposal/repurchase of:	Item 100 225.8		
		a) loans	-54.7		
		b) financial assets available for sale	281.7		
		c) held to maturity investments	-1.2		
		d) financial liabilities	50.3		
Net profit (loss) from financial assets and liabilities designated at fair value	14.1	Net profit (loss) from financial assets and liabilities designated at fair value	Item 110 50.3		
Net profit (loss) from hedging	14.1	Net profit (loss) from hedging	Item 90 14.1		
Other operating income (expenses)	-4.7	Other income/expenses (net) from insurance activities	Item 220 345.1	(-) Recovery of stamp duty and customers' expenses	349.8
<b>Total Revenues</b>	<b>5,215.5</b>		<b>5,445.4</b>		<b>-229.8</b>
Administrative expenses:		Administrative expenses			
a) personnel expenses	-2,412.6	a) Personnel expenses	Item 180a -1,670.2	(+) Restructuring charges	17.4
b) other administrative expenses	-7,599.9	b) Other administrative expenses	Item 180b -1,365.1	(+) Reclassification provision to DGSD and BRDD funds	195.5
		Net losses/reversal on impairment on property, plant and equipment	Item 200 -126.9	(+) Recovery of stamp duty and customers' expenses	349.8
Net adjustments to (recoveries on) property, plant and equipment / N	-216.0	Net adjustments to (recoveries on) intangible assets	Item 210 -116.6		
				(+) Economic effects from allocation of BAV acquisition costs to BMPS (PPA)	27.6
<b>Operating expenses</b>	<b>-26,28.6</b>		<b>-3,218.9</b>		
<b>Pre Provision Profit</b>	<b>2,587.0</b>		<b>2,226.5</b>		<b>990.3</b>
Net impairment losses (reversals) on:		Net impairment losses (reversals) on:			
a) loans	-1,993.1	a) loans	Item 130 -1,993.1		
b) financial assets	-2.1	b) financial assets available for sale	Item 130a -1,991.1		
		d) other financial transactions	Item 130d 23.9		
<b>Net operating income</b>	<b>593.8</b>		<b>233.3</b>		<b>360.5</b>
Net provisions for risks and charges	-64.0	Net provisions for risks and charges	Item 190 -64.0		
Gains (losses) on investments	119.6	Gains (losses) on investments	Item 240 210.4	(-) Portion of profit from equity investments (Grappo AXA)	-90.9
Restructuring costs / One-off costs	-17.4			(-) Restructuring charges	-17.4
Risk and charges related to the DGCS, SRIF and similar schemes	-195.5			(-) Reclassification provision to DGSD and BRDD funds	-195.5
Gains (losses) on disposal of investments	2.9	Gains (losses) on disposal of investments	Item 270 2.9		
<b>Profit (loss) before tax from continuing operations</b>	<b>439.3</b>		<b>382.6</b>		<b>56.7</b>
Tax expense (recovery) on income from continuing operations	-11.4	Tax expense (recovery) on income from continuing operations	Item 290 7.3	(-) Economic effects from allocation of BAV acquisition costs to BMPS (PPA)	-18.7
<b>Profit (loss) after tax from continuing operations</b>	<b>427.9</b>		<b>389.9</b>		<b>38.0</b>
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		
<b>Net profit (loss) for the period including non-controlling interests</b>	<b>427.9</b>		<b>389.9</b>		<b>38.0</b>
Net profit (loss) attributable to non-controlling interests	1.8	Net profit (loss) attributable to non-controlling interests	Item 330 1.8		
<b>Profit (loss) for the period before PPA, impairment on goodwill and intangibles</b>	<b>426.1</b>		<b>388.1</b>		<b>38.0</b>
PPA (Purchase Price Allocation)	-38.0			(-) Economic effects from allocation of BAV acquisition costs to BMPS (PPA)	-38.0
Impairment on goodwill and intangibles		Impairment on goodwill and intangibles			
<b>Net profit (loss) for the period</b>	<b>388.1</b>	<b>Net profit (loss) for the period</b>		<b>Total</b>	<b>0.0</b>



## Reconciliation between the reclassified balance sheet and related statutory accounts

Balance-sheet Items - Assets	31/12/16	31/12/15	Reclassified balance-sheet items - Assets
Item 10 – Cash and cash equivalents	1,084.5	1,188.8	Cash and cash equivalents
	1,084.5	1,188.8	
	106,692.7	111,366.4	Receivables
Item 70 – Loans to customers	106,692.7	111,366.4	a) Loans to customers
	8,936.2	8,242.1	b) Loans to banks
Item 60 – Loans to banks	8,936.2	8,242.1	
	25,929.3	35,208.6	Marketable assets
Item 20 – Financial assets held for trading	9,266.2	18,017.4	
Item 30 – Financial assets designated at fair value	-	-	
Item 40 – Financial assets available for sale	16,663.1	17,191.2	
	-	-	Financial assets held to maturity
Item 50 – Held to maturity investments	-	-	
	1,031.7	908.4	Equity investments
Item 100 – Equity investments	1,031.7	908.4	
	2,942.9	3,141.8	Property, plant and equipment / Intangible assets
Item 120 – Property, plant and equipment	2,597.4	2,741.7	
Item 130 – Intangible assets	345.5	400.1	
	6,561.2	8,956.0	Other assets
Item 80 – Hedging Derivatives	327.3	556.4	
Item 90 – Change in value of macro-hedged financial assets (+/-)	113.3	139.6	
Item 140 – Tax assets	4,147.5	5,542.5	
Item 150 – Non-current assets held for sale and discontinued operations	60.7	29.3	
Item 160 – Other assets	1,912.4	2,688.2	
<b>Total Assets</b>	<b>153,178.5</b>	<b>169,012.0</b>	<b>Total Assets</b>

Balance-sheet Items - Liabilities	31/12/16	31/12/15	Reclassified balance-sheet items - Liabilities
	104,573.5	119,274.7	Payables
Item 20 – Deposits from customers	80,702.8	87,806.3	a) Deposits from customers and securities issued
Item 30 – Debt securities issued	22,347.5	29,394.4	
Item 50 – Financial liabilities designated at fair value	1,523.2	2,073.9	
	31,469.1	17,493.1	b) Deposits from banks
Item 10 – Deposits from banks	31,469.1	17,493.1	
	4,971.8	15,921.7	Financial liabilities held for trading
Item 40 – Financial liabilities held for trading	4,971.8	15,921.7	
	-	-	Provisions for specific use
Item 110 – Provision for employee severance pay	252.9	246.2	a) Provision for employee severance pay
Item 120 – Provisions for risks and charges - a) pension and similar obligations	53.6	49.4	b) Provision for pension
Item 120 – Provisions for risks and charges - b) other provisions	1,054.5	1,067.5	c) Other provisions
	4,342.7	5,336.7	Other liabilities
Item 60 – Hedging Derivatives	1,018.3	1,205.3	
Item 70 – Change in value of macro-hedged financial liabilities (+/-)	-	-	
Item 80 – Tax liabilities	75.3	91.5	
Item 90 – Liabilities associated to disposal groups held for sale	10.4	-	
Item 100 – Other liabilities	3,238.7	4,039.9	
	6,425.4	9,596.4	Group net equity
Item 140 – Valuation reserves	47.3	(21.8)	a) Valuation reserves
Item 150 – Redeemable shares	-	-	b) Redeemable shares
Item 160 – Equity instruments	-	-	c) Capital instruments
Item 170 – Reserves	2,253.6	222.1	d) Reserves
Item 180 – Share premium reserve	-	6.3	e) Share premium reserves
Item 190 – Share Capital	7,365.7	9,001.8	f) Share capital
Item 200 – Treasury shares (-)	-	-	g) Treasury shares (-)
Item 220 – Profit (loss) for the period (+/-)	(3,241.1)	388.1	h) Profit (loss) for the period
	34.9	26.3	Non-controlling interests
Item 210 – Non-controlling interests (+/-)	34.9	26.3	
<b>Total liabilities and shareholders' equity</b>	<b>153,178.5</b>	<b>169,012.0</b>	<b>Total liabilities and shareholders' equity</b>



## CONSOLIDATED FINANCIAL STATEMENTS

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## Consolidated balance sheet

Assets	31 12 2016	31 12 2015
10 Cash and cash equivalents	1,084,510	1,188,761
20 Financial assets held for trading	9,266,150	18,017,359
40 Financial assets available for sale	16,663,117	17,191,196
60 Loans to banks	8,936,239	8,242,056
70 Loans to customers	106,692,711	111,366,383
80 Hedging derivatives	327,349	556,425
90 Change in value of macro-hedged financial assets (+/-)	113,300	139,582
100 Equity investments	1,031,678	908,365
120 Property, plant and equipment	2,597,434	2,741,723
130 Intangible assets	345,513	400,103
<i>of which: goodwill</i>	<i>7,900</i>	<i>7,900</i>
140 Tax assets	4,147,512	5,542,518
<i>a) current</i>	<i>850,737</i>	<i>2,229,111</i>
<i>b) deferred</i>	<i>3,296,775</i>	<i>3,313,407</i>
<i>under Law 214/2011</i>	<i>2,367,240</i>	<i>2,389,477</i>
150 Non-current assets and groups of assets held for sale and discontinued operations	60,684	29,267
160 Other assets	1,912,269	2,688,239
<b>Total assets</b>	<b>153,178,466</b>	<b>169,011,977</b>

*continued:* Consolidated balance sheet

Total Liabilities and Shareholders' Equity	31 12 2016	31 12 2015
10 Deposits from banks	31,469,061	17,493,110
20 Deposits from customers	80,702,762	87,806,329
30 Debt securities issued	22,347,465	29,394,436
40 Financial liabilities held for trading	4,971,802	15,921,727
50 Financial liabilities designated at fair value	1,523,223	2,073,915
60 Hedging derivatives	1,018,291	1,205,267
80 Tax liabilities	75,342	91,456
<i>a) current</i>	5,292	28,543
<i>b) deferred</i>	70,050	62,913
90 Liabilities associated with non-current assets held for sale and discontinued operations	10,402	-
100 Other liabilities	3,238,931	4,039,948
110 Provision for employee severance pay	252,858	246,170
120 Provisions for risks and charges:	1,108,054	1,116,913
<i>a) post-employment benefits</i>	53,582	49,366
<i>b) other provisions</i>	1,054,472	1,067,547
140 Valuation reserves	47,251	(21,817)
170 Reserves	2,253,601	222,086
180 Share premium	-	6,325
190 Share capital	7,365,674	9,001,757
210 Non-controlling interests (+/-)	34,859	26,259
220 Profit (loss) (+/-)	(3,241,110)	388,096
<b>Total Liabilities and Shareholders' Equity</b>	<b>153,178,466</b>	<b>169,011,977</b>



## Consolidated income statement

Items	31 12 2016	31 12 2015
10 Interest income and similar revenues	3,317,233	4,087,480
20 Interest expense and similar charges	(1,315,216)	(1,858,013)
<b>30 Net interest income</b>	<b>2,002,017</b>	<b>2,229,467</b>
40 Fee and commission income	2,132,321	2,153,837
50 Fee and commission expense	(292,965)	(343,940)
<b>60 Net fee and commission income</b>	<b>1,839,356</b>	<b>1,809,897</b>
70 Dividends and similar income	13,506	18,638
80 Net profit (loss) from trading	177,045	752,048
90 Net profit (loss) from hedging	(81,952)	14,099
100 Gains/(losses) on disposal/repurchase of:	161,501	225,834
<i>a) loans</i>	<i>1,003</i>	<i>(54,738)</i>
<i>b) financial assets available for sale</i>	<i>108,382</i>	<i>281,734</i>
<i>d) financial liabilities</i>	<i>52,116</i>	<i>(1,162)</i>
110 Net profit (loss) from financial assets and liabilities designated at fair value	99,322	50,276
<b>120 Net interest and other banking income</b>	<b>4,210,795</b>	<b>5,100,259</b>
130 Net impairment (losses)/reversals on	(4,500,890)	(1,993,140)
<i>a) loans</i>	<i>(4,467,024)</i>	<i>(1,991,083)</i>
<i>b) financial assets available for sale</i>	<i>(41,762)</i>	<i>(25,922)</i>
<i>d) other financial transactions</i>	<i>7,896</i>	<i>23,865</i>
<b>140 Net income from banking activities</b>	<b>(290,095)</b>	<b>3,107,119</b>
180 Administrative expenses:	(3,175,247)	(2,975,333)
<i>a) personnel expenses</i>	<i>(1,727,543)</i>	<i>(1,670,210)</i>
<i>b) other administrative expenses</i>	<i>(1,447,704)</i>	<i>(1,305,123)</i>
190 Net provisions for risks and charges	44,428	(64,038)
200 Net adjustments to/recoveries on property, plant and equipment	(111,822)	(126,942)
210 Net adjustments to/recoveries on intangible assets	(134,630)	(116,631)
220 Other operating expenses/income	328,533	345,121
<b>230 Operating expenses</b>	<b>(3,048,738)</b>	<b>(2,937,823)</b>
240 Gains (losses) on investments	79,453	210,440
260 Impairment on goodwill	-	-
270 Gains (losses) on disposal of investments	33,195	2,855
<b>280 Profit (loss) before tax from continuing operations</b>	<b>(3,226,185)</b>	<b>382,591</b>
290 Tax (expense)/recovery on income from continuing operations	(5,187)	7,277
<b>300 Profit (loss) after tax from continuing operations</b>	<b>(3,231,372)</b>	<b>389,868</b>
<b>320 Profit (loss)</b>	<b>(3,231,372)</b>	<b>389,868</b>
330 Profit (loss) attributable to non-controlling interests	9,738	1,772
<b>340 Parent company's net profit (loss)</b>	<b>(3,241,110)</b>	<b>388,096</b>



*continued:* Consolidated income statement

	31 12 2016	31 12 2015 *
<b>Basic Earnings per Share (Basic EPS)</b>	<b>(110.545)</b>	<b>22.328</b>
<i>of continuing operations</i>	(110.545)	22.328
<b>Diluted Earnings per Share (Diluted EPS)</b>	<b>(110.545)</b>	<b>21.965</b>
<i>of continuing operations</i>	(110.545)	21.965

\* Basic and diluted earnings per share as at 31 December 2015 also include the grouping of the Parent Company's ordinary shares at a ratio of 1 new ordinary share to 100 treasury shares that was carried out on 28 November 2016, pursuant to the resolution issued by the Parent Company's Extraordinary Shareholders Meeting held on 24 November 2016.



## Consolidated statement of comprehensive income

	Items	31 12 2016	31 12 2015
10	<b>Profit (loss)</b>	<b>(3,231,372)</b>	<b>389,868</b>
	<b>Other comprehensive income after tax not recycled to profit and loss</b>	<b>(8,868)</b>	<b>16,758</b>
40	Actuarial gains (losses) on defined benefit plans	(8,234)	16,681
50	Non current assets held for sale	(83)	-
60	Share of valuation reserves of equity-accounted investments	(551)	77
	<b>Other comprehensive income after tax recycled to profit and loss</b>	<b>77,943</b>	<b>269,308</b>
80	Exchange differences	1,364	5,649
90	Cash flow hedges	110,202	44,263
100	Financial assets available for sale	(137,075)	202,511
110	Non current assets held for sale	(4,107)	17,877
120	Share of valuation reserves of equity-accounted investments	107,559	(992)
<b>130</b>	<b>Total other comprehensive income after tax</b>	<b>69,075</b>	<b>286,066</b>
<b>140</b>	<b>Total comprehensive income (Item 10+130)</b>	<b>(3,162,297)</b>	<b>675,934</b>
150	Consolidated comprehensive income attributable to non-controlling interests	9,745	1,767
<b>160</b>	<b>Consolidated comprehensive income attributable to Parent Company</b>	<b>(3,172,042)</b>	<b>674,167</b>



## Consolidated Statement of changes in equity – 2016

	Balance as at 31 12 2015	Change in opening balances	Balance as at 01 01 2016	Allocation of profit from prior year	Changes during the year								Total comprehensive income for 31 12 2016	Total equity as at 31 12 2016	Group equity as at 31 12 2016	Non-controlling interest as at 31 12 2016	
					Reserves	Dividends and other payout	Changes in reserves	Shareholders' equity transactions									
								Issue of new share	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Treasury shares derivatives					Stock options
Share capital:	9,015,184	-	9,015,184	-	-	(1,636,083)	-	-	-	-	(42)	-	7,379,059	7,365,674	13,385		
a) ordinary shares	9,015,184	-	9,015,184	-	-	(1,636,083)	-	-	-	-	(42)	-	7,379,059	7,365,674	13,385		
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Share premium	6,538	-	6,538	(6,325)	-	(18)	-	-	-	-	-	-	195	-	195		
Reserves:	231,700	-	231,700	396,092	-	1,636,134	-	-	-	-	(25)	-	2,263,901	2,253,601	10,300		
a) from profits	440,147	-	440,147	307,322	-	237,363	-	-	-	-	-	-	984,832	974,532	10,300		
b) other	(208,447)	-	(208,447)	88,770	-	1,398,771	-	-	-	-	(25)	-	1,279,069	1,279,069	-		
Valuation reserves	(20,584)	-	(20,584)	-	-	-	-	-	-	-	-	69,075	48,491	47,251	1,240		
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Net profit (loss)	389,868	-	389,868	(389,767)	(101)	-	-	-	-	-	-	(3,231,372)	(3,231,372)	(3,241,110)	9,738		
Total equity	9,622,706	-	9,622,706	-	(101)	33	-	-	-	-	(67)	(3,162,297)	6,460,274	6,425,416	34,859		
Group equity	9,596,447	-	9,596,447	-	-	51	-	-	-	-	960	(3,172,042)	6,425,416	6,425,416	X		
Non-controlling interests	26,259	-	26,259	-	(101)	(18)	-	-	-	-	(1,027)	9,745	34,859	X	34,859		



As at 31 December 2016 the Group's net equity, including non-controlling interests and profit for the year, amounted to EUR 6,460.3 mln, as compared to EUR 9,622.7 mln as at 31 December 2015, with a total decrease of EUR 3,162.4 mln.

The most significant phenomena impacting the net equity, in addition to the EUR 3,231.4 mln loss for the year, were:

1. the profit of 2015, amounting to EUR 389.9 mln, for the portion attributed to the Parent Company, was used to cover losses, in compliance with the resolution issued by the Shareholders' Meeting on 14 April 2016;
2. in November 2016, the extraordinary Shareholders' Meeting of the Parent Company, taking into account (i) the financial position as at 30 September 2016 and the resulting losses for the period of EUR 1,398.7 mln, as well as (ii) prior losses of EUR 237.4 mln (carried forward on the basis of shareholders' meeting resolution of 14 April 2016), decided to approve the coverage of the total loss of EUR 1,636.1 mln by means of a corresponding reduction in the share capital, which therefore amounts to EUR 7,379.1 mln;
3. 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;
4. valuation reserves show overall a positive change amounting to EUR 69.1 mln, the details of which are available in the Consolidated statement of comprehensive income;
5. non-controlling interests is up by EUR 8.6 mln, as a result of the combination of what was discussed at point 3 and the comprehensive income for the year.



## Consolidated Statement of changes in equity - 2015

	Balance as at 31 12 2014*	Change in opening balances	Balance as at 01 01 2015	Allocation of profit from prior year	Changes during the year							Total equity as at 31 12 2015	Group equity as at 31 12 2015	Non-controlling interest as at 31 12 2015	
					Reserves	Dividends and other payout	Changes in reserves	Shareholders' equity transactions							
								Extraordinary distribution of dividends	Change in equity instruments	Stock options Treasury shares derivatives	Changes in equity investments				Total comprehensive income for 31 12 2015
Share capital:	12,497,620	-	12,497,620 (6,718,684)	-	-	-	3,236,234	-	-	-	14	-	9,015,184	9,001,757	13,427
a) ordinary shares	12,497,620	-	12,497,620 (6,718,684)	-	-	-	3,236,234	-	-	-	14	-	9,015,184	9,001,757	13,427
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium	2,506	-	2,506 (2,291)	-	-	-	6,326	-	-	-	-	-	6,538	6,325	213
Reserves:	(1,046,440)	-	(1,046,440) 1,366,654	-	-	-	(88,770)	-	-	-	20	-	231,699	222,086	9,613
a) from profits	(750,871)	-	(750,871) 1,366,654	-	-	-	891	-	-	-	-	-	616,674	607,061	9,613
b) other	(295,569)	-	(295,569) -	-	-	-	(656)	(88,770)	-	-	20	-	(384,975)	(384,975)	-
Valuation reserves	(261,099)	-	(261,099) (45,760)	-	-	-	210	-	-	-	-	-	(20,583)	(21,817)	1,234
Equity instruments	3,002	-	3,002 (3,002)	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net profit (loss)	(5,403,046)	-	(5,403,046) 5,403,083	(37)	-	-	-	-	-	-	-	-	389,868	388,096	1,772
Total equity	5,792,543	-	5,792,543 -	(37)	442	3,153,790	-	-	-	-	34	675,934	9,622,706	9,596,447	26,259
Group equity	5,768,918	-	5,768,918 -	-	(449)	3,153,790	-	-	-	-	21	674,167	9,596,447	9,596,447	X
Non-controlling interests	23,625	-	23,625 -	(37)	891	-	-	-	-	-	13	1,767	26,259	X	26,259

\* With respect to published accounts, the balances of 2014 are reflective of 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, which is referenced for further details.



As at 31 December 2015 the Group's net equity, including non-controlling interests and profit for the year, amounted to EUR 9,622.7 mln, as compared to EUR 5,792.5 mln as at 31 December 2014, with a total increase of EUR 3,830.2 mln.

The most significant phenomena impacting the net equity, in addition to the EUR 389.9 mln profit for the year, 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 mln 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, in execution of the resolution of the Parent Company's Extraordinary Shareholders' Meeting of 16 April 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 5.4 mln, relating to the proceeds on the sale of 1,054,573 option rights not exercised during the offering period and which were subsequently sold in the market.
3. in July 2015, in implementation of the resolution adopted by the Parent Company's Board of Directors on 21 May 2015, an additional capital increase was completed 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 favour of the Ministry of Economy and Finance, pursuant to the regulations governing them.

The "Share capital" item of the Parent Company as at 31 December 2015 amounted to EUR 9,001.8 mln following the three events mentioned above.

4. Valuation reserves registered an overall increase of EUR 240.5 mln, primarily relating to comprehensive income for the year of EUR 286.1 mln, of which: (i) + EUR 202.5 mln in valuation reserves of assets "available for sale"; (ii) + EUR 44.3 mln for the valuation reserves for cash flow hedges; (iii) + EUR 5.6 mln in valuation reserves for foreign exchange differences; (iv) + EUR 16.8 mln in valuation reserves primarily for actuarial losses arising from defined benefit plans; (v) + EUR 17.9 mln in valuation reserves for non-current assets held for sale and lastly (vi) - EUR 1.0 mln for the share of valuation reserves of equity investments carried at equity.

Non-controlling interests grew EUR 2.6 mln, largely as a result of comprehensive income for the year.

**Consolidated cash flow statement - indirect method**

<b>A. OPERATING ACTIVITIES</b>	<b>31 12 2016</b>	<b>31 12 2015</b>
<b>1. Cash flow from operations</b>	<b>810,144</b>	<b>737,314</b>
profit (loss) (+/-)	(3,231,372)	389,868
capital gains/losses on financial assets held for trading and on assets/liabilities designated at fair value (+/-)	(419,482)	(1,185,020)
net profit (loss) from hedging	81,952	(14,099)
net impairment losses/reversals	4,244,435	1,423,153
net losses/reversal on impairment on property, plant and equipment and on intangible assets (+/-)	246,452	243,573
net provisions for risks and charges and other costs/revenues (+/-)	(33,785)	74,839
tax expense (recovery) on income from continuing operations	5,187	(40,948)
other adjustments	(83,243)	(154,052)
<b>2. Cash flow from (used in) financial assets</b>	<b>11,938,845</b>	<b>10,974,172</b>
financial assets held for trading	8,998,173	636,824
financial assets available for sale	631,232	1,690,124
loans to banks: on demand	(706,775)	(544,640)
loans to customers	463,128	6,925,468
other assets	2,553,087	2,266,396
<b>3. Cash flow from (used in) financial liabilities</b>	<b>(12,872,651)</b>	<b>(14,636,775)</b>
deposits from banks: on demand	13,975,951	(10,154,561)
deposits from customers	(7,103,567)	(1,985,051)
debt securities issued	(7,031,378)	(817,929)
financial liabilities held for trading	(10,891,122)	624,854
financial liabilities designated at fair value	(436,977)	(465,695)
other liabilities	(1,385,558)	(1,838,393)
<b>Net cash flow from (used in) operating activities</b>	<b>(123,662)</b>	<b>(2,925,289)</b>
<b>B. INVESTMENT ACTIVITIES</b>		
<b>1. Cash flow from</b>	<b>201,727</b>	<b>359,312</b>
sales of equity investments	13,430	228,609
dividends collected on equity investments	57,085	121,612
sales of property, plant and equipment	130,762	8,769
sales of intangible assets	450	322
<b>2. Cash flow used in</b>	<b>(182,306)</b>	<b>(162,462)</b>
purchase of equity investments	-	(8)
purchase of property, plant and equipment	(106,717)	(83,585)
purchase of intangible assets	(75,589)	(78,869)
<b>Net cash flow from (used in) investment activities</b>	<b>19,421</b>	<b>196,850</b>





<b>C. FUNDING ACTIVITIES</b>		
issue/purchase of treasury shares	-	2,910,716
dividend distribution and other	(101)	(101)
<b>Net cash flow from (used in) funding activities</b>	<b>(101)</b>	<b>2,910,615</b>
<b>NET CASH FLOW FROM (USED IN) OPERATING, INVESTM</b>	<b>(104,342)</b>	<b>182,176</b>

#### Reconciliation

<b>Accounts</b>	<b>31 12 2016</b>	<b>31 12 2015</b>
Cash and cash equivalents at beginning of period	1,188,761	1,006,586
Net increase (decrease) in cash and cash equivalents	(104,342)	182,176
Cash and cash equivalents at end of period	1,084,510	1,188,761

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





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## A.1 – General

### Section 1 - Statement of compliance with international accounting principles

Pursuant to Legislative Decree no. 38 of 28 February 2005, these consolidated accounts were prepared in accordance with the international accounting principles issued by the International Accounting Standards Board (IASB) including interpretations by the IFRS Interpretations Committee, as endorsed by the European Commission, pursuant to EC Regulation no. 1606 of 19 July 2002 which was effective as at 31 December 2016.

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

Failing a principle or an interpretation specifically applicable to a certain transaction, event or circumstance, the Bank’s Management used its own judgment in developing and applying the accounting principles for the purpose of providing a report which is:

- relevant for the purpose of economic decision-making by the users;
- reliable so that the Financial Statements:
  - result in a true and fair view of the Group’s assets, financial position, profit and loss and cash flows;
  - reflect the economic substance -and not merely the juridical form- of transactions, other events and circumstances;
  - are neutral, that is with no prejudice;
  - are prudent;
  - are complete in all relevant respects.

In its judgment, the Bank’s Management made reference to and took account of the enforceability of the following provisions, listed in a hierarchically decreasing order:

- the provisions and implementation guidance contained in the principles and interpretations dealing with similar or related cases;
- the definitions, recognition and measurement criteria for the accounting of assets, liabilities, income and expenses contained in the Framework.

In delivering its judgment, the Bank’s Management may also take account of:

- the most recent provisions set forth by other entities in charge of establishing the accounting principles which use a conceptually similar Framework for the purpose of developing the accounting principles;
- other accounting literature;
- consolidated practices of the banking industry.

In compliance with art. 5 of Legislative Decree no. 38 of 28 February 2005, if – in exceptional cases – the application of a provision set forth in the international accounting principles proved to be non-compliant with a true and fair view of the Group’s balance sheet, financial situation and profit and loss statement, then such provision would not be applied. The reasons for deviation and its impact on the representation of the balance sheet, financial situation and profit and loss statement, would in such case be explained in the notes to the financial statements.

In the consolidated financial statements, any profits arising from this deviation are posted to a reserve which is only distributable in proportion to the value recovered.





## Section 2 - Preparation Criteria

The Consolidated Financial Statements have been prepared in accordance with the IAS/IFRS International accounting standards issued by the International Accounting Standards Board (IASB) including the interpretations issued by the International Financial Reporting Standards Interpretations Committee (IFRSIC), as endorsed by the European Union and mandatorily applied in the 2016 financial year. The provisions contained in Circular Letter No. 262 issued by the Bank of Italy concerning the layout and rules for preparing separate and consolidated financial statements for the banks and the Group were also applied, as amended by the fourth addendum of 15 December 2015.

The consolidated financial statements consist of the:

- Consolidated Balance Sheet;
- Consolidated Income Statement;
- Consolidated Statement of Comprehensive Income;
- Consolidated Statement of Changes in Equity;
- Consolidated Cash Flow Statement;
- Notes to the Consolidated Financial Statements.

The Consolidated Financial Statements are integrated with the Directors' Report on the operations, profit and loss and financial position of the Group.

The Consolidated Financial Statements are prepared with transparency and provide a true and fair view of the balance sheet, financial position and income statement for the year.

The notes to the consolidated financial statements contain all information required by the international accounting standards and provisions contained in Bank of Italy Circular Letter no. 262, together with other non-mandatory information deemed necessary to provide a true and fair, relevant, reliable, comparable and intelligible view of the Group's performance.

The consolidated balance sheet, profit and loss and comprehensive income statements consist of items (marked with numbers), sub-items (marked with letters) and further details (under "including/of which" in the items and sub-items). Items, sub-items and their details constitute the financial statements.

Each item in the balancesheet, profit and loss account and statement of comprehensive income also indicates prior year's amounts. If the items cannot be compared, the items in relation to the prior year are reclassified; non-comparability, reclassification or impossible reclassification are pointed out and commented in the notes to the financial statements.

Assets and liabilities, expenses and income cannot be mutually offset, unless this is permitted or required by the international accounting standards and the provisions set forth in Circular no. 262 of the Bank of Italy.

The balance sheet, profit and loss account and statement of comprehensive income do not indicate the items which do not show any amounts for the year of reference of the financial statements or prior year. If an item of the assets or liabilities is part of several items of the balance sheet, the notes to the financial statements indicate – whenever this is necessary for the purpose of intelligibility – that this component may also be referred to items other than the one it is posted to.

Income is posted with no sign in the profit and loss statement, in the statement of comprehensive income and the respective section of the notes, whereas expenses are indicated in brackets.

The statement of comprehensive income, beginning with profit (loss) for the year, shows the income items recognised as contra-entries of valuation reserves, net of the related tax effect, in compliance with international accounting standards. Consolidated comprehensive income is shown by separating income items that will not be transferred to the income statement in the future and those that may be subsequently classified to profit and loss when specific conditions are met. The statement also distinguishes between income of the parent company and that of non-controlling interests.



The statement of changes in equity shows the breakdown and changes in net equity accounts during the year and the previous year, broken down between share capital (ordinary and other shares), capital reserves, profit reserves and reserves from the valuation of assets or liabilities, equity instruments and profit and loss. Treasury shares in the portfolio are deducted from equity.

The cash flow statement has been prepared according to the indirect method, based on which cash flows from operations are represented by the income for the year adjusted to take into account the effects of non-monetary transactions. Cash flows are broken down amongst those deriving from operations, those deriving from investment activities and those generated by funding activities. In the statement, cash flows generated during the year have no sign, while those absorbed are shown in brackets.

In compliance with the provisions of art. 5 of Legislative Decree no. 38 of 28 February 2005, the financial statements have been prepared using the Euro as the accounting currency: the tables in the consolidated financial statements and in the consolidated notes are denominated in thousands of Euro.

The consolidated 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.

Items of a different nature or with different allocation were recognised separately, unless they were considered irrelevant. All amounts shown in the financial statements were adjusted so as to reflect any events subsequent to the date of closing which, according to IAS 10, make it mandatory to make an adjustment (adjusting events). Non-adjusting events reflecting circumstances that occurred after the reporting date should be disclosed as part of the Notes to the Financial Statements, section 4, if they are of such importance that non-disclosure would affect the ability of users to make proper evaluations and decisions.



## Section 3 – Scope and methods of consolidation

### 1. Investments in subsidiaries

	Name	Headquarters	Registered Office	Type of relationship (*)	Ownership Relationship		Available votes % (**)
					Held by	Shareholding %	
<b>A</b>	<b>Companies</b>						
A.0	BANCA MONTE DEI PASCHI DI SIENA S.p.A.	Siena	Siena				
	<b>A.1 Companies consolidated on a line-by-line basis</b>						
A.1	MPS CAPITAL SERVICES BANCA PER LE IMPRESE S.p.a.	Florence	Florence	1	A.0	99.979	
A.2	MPS LEASING E FACTORING BANCA PER I SERVIZI	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	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	1	A.0	100.000	
A.6	G.I.M.M. 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	
						<u>99.910</u>	
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
						<u>100.000</u>	-
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.	Bruxelles	Bruxelles	1	A.0	99.900	
					A.1	<u>0.100</u>	
						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	<u>0.800</u>	
						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	10.000	
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. 26.1. of Leg. Decree 87/92
- 6 = unified management under art. 26.2. of Leg. Decree 87/92

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

## 2. Significant assessments and assumptions for determining the scope of consolidation

### Scope of consolidation

The consolidated financial statements include the balance sheet and income statement results of the Parent Company and its direct and indirect subsidiaries. In particular, the scope of consolidation, as specifically set out in the IAS/IFRS, includes all subsidiaries, irrespective of their legal status, of business activity pursued in sectors other than the Parent Company's core business, of their being going concerns or wound-up companies, or of whether the equity investment consists of a merchant banking transaction.

The scope of consolidation includes all types of entities, regardless of nature, for which the principle of control laid out in IFRS 10 applies.

The concept of control is based on the simultaneous presence of three elements:

- power to direct the relevant activities, i.e., the activities that affect the investee's returns: the power arises from substantive rights that give the investor the power to direct the relevant activities; to be substantive, the rights must be exercisable when decisions about the direction of the relevant activities need to be made;
- exposure to variability of returns deriving from the investee's activities, which may increase or decrease;
- exercise of power to influence returns.

Structured entities are also consolidated when the requirement of actual control recurs, even if there is no stake in the entity.

More specifically, IFRS 12 defines structured entities as "entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity", such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. Examples of structured entities include securitisation vehicles, asset-backed financings and some investment funds.

The scope of consolidation may also include parts of a structured entity with no independent legal status, or so-called "deemed separate entities". In essence this is a group of well identified assets and liabilities within a company, characterised by both the fact that: the assets represent the only source of payment for those specific liabilities and that; third parties cannot claim rights to those specific assets or on the cash flows they generate.

### Equity investments and equity securities

Equity investments and equity securities are considered subject to control if the Group directly or indirectly holds the absolute majority of voting rights and such rights are substantive, and the relative majority of voting rights if the other voting rights are held by widely-dispersed shareholders. Control may also exist in situations in which the Group does not hold the majority of voting rights, but holds sufficient rights to have the practical ability to unilaterally direct relevant activities of the investee or in the presence of:



- substantive potential voting rights through underlying call options or convertible instruments;
- rights deriving from other contractual arrangements which, combined with voting rights, give the Group the de facto ability to direct production processes, other operating or financial activities able to significantly influence the investee's returns;
- power to influence, through rules of the articles of association or other contractual arrangements, governance and decision-making procedures regarding relevant activities;
- majority of voting rights through contractual arrangements formalised with other holders of voting rights (i.e., shareholders' agreements).

#### Structured entities - investment funds

The Group takes the following positions with respect to funds:

- subscriber of units, held for long-term investment purposes or for trading,
- counterparty in derivatives.

A relationship of control exists when the following situations are present:

- the Group, as a subscriber of units, is able to remove the investment fund manager without just cause or for reasons associated with fund performance, and such rights are substantive;
- existence of provisions in the fund regulation envisaging the establishment within the fund of committees, in which the Group participates, that influence the governance of relevant activities and have the legal and/or de facto right to control the activities of the fund manager;
- existence of other relations with the fund, such as the presence within the fund of personnel with strategic responsibilities associated with the Group and the presence of contractual relations that subject the fund to the Group for the subscription or placement of units.

#### Structured entities - securitisation vehicles

In checking for the fulfilment of requirements of control over securitisation vehicles, both the possibility of exercising power over relevant activities for its own benefit and the end purpose of the transaction are taken into consideration, as well as the investor/sponsor's involvement in the structuring of the transaction.

For autopilot entities, the subscription of the substantial entirety of the notes by Group companies is considered an indicator of the presence, particularly during the structuring phase, of the power to manage relevant activities to influence the economic returns of the transaction.

### **Methods of consolidation**

With reference to the consolidation methods, subsidiaries are consolidated on a line-by-line basis, interests in jointly controlled companies and investments in companies subject to the Group's "significant influence" are consolidated with the condensed equity method.

Line-by-line consolidation consists in the line-by-line acquisition of the balance sheet and income statement aggregates of the subsidiaries. After the assignment to third parties, under a separate account, of their shares of equity and profit/loss, the value of the investment is eliminated against the recognition of the residual value of the subsidiary's equity.

Intragroup assets, liabilities, income and expenses are eliminated.

Acquisitions of companies are accounted for based on the "acquisition method" set forth in IFRS 3, as amended by Regulation 495/2009, based on which identifiable assets acquired and identifiable liabilities assumed (including contingent), must be recognised at their respective fair values at the acquisition date. In addition, for each business combination, any non-controlling interests in the acquired company may be recognised at fair value or in proportion with the share of non-controlling interests in identifiable net assets of the company acquired. Any excess of the consideration transferred (represented by the fair value of the assets transferred, liabilities assumed and equity instruments



issued) and any recognition at fair value of the non-controlling interests with respect to the fair value of assets and liabilities acquired is recognised as goodwill; if the price is lower, the difference is allocated to the income statement.

The “acquisition method” is applied starting from the acquisition date, or beginning when control over the company acquired is effectively obtained. Therefore, the income and expenses of a subsidiary purchased during the reference year are included in the consolidated financial statements as of the date of purchase.

On the other hand, the income and expenses of a subsidiary sold are included in the consolidated financial statements up to the date of disposal, i.e. when the Parent ceases to control the subsidiary. At the date when control is lost, the controlling entity:

- derecognises the assets (including any goodwill) and liabilities of (and non-controlling interests in) the former subsidiary at their carrying amounts;
- recognises the fair value of the consideration received and of any investment retained in the former subsidiary;
- reclassifies to consolidated profit or loss any amounts previously recognised in the subsidiary’s statement of other comprehensive income as if the assets or liabilities had been transferred;
- recognises any resulting difference in consolidated profit or loss.

Interests in jointly controlled companies and investments in companies subject to the Group’s “significant influence” (associates) are consolidated with the condensed equity method.

This method contemplates the initial posting of the investment at cost. This value is subsequently adjusted to reflect:

- the Group’s share of gains/losses on the investment for the period is recognised under item 240 “Gains (losses) on equity investments” of the consolidated income statement;
- the Group’s share of changes recognised in the Statement of Consolidated Comprehensive Income.

If an investor’s share of losses in an associate equals or exceeds the interest’s carrying value, the investor discontinues recognising its share of further losses unless the investor has incurred specific legal obligations or made payments in favour of the associate.

Profits resulting from transactions between the Group and its associates are eliminated to the extent of the Group’s interest in the associate. Losses resulting from transactions between the Group and its associates are eliminated as well, unless the transaction provides evidence of an impairment of the asset transferred.

The Group stops using the equity method on the date on which it stops exercising significant influence or joint control over the investee; in that case, as of that date the investment is reclassified to “Financial assets available for sale”, on the condition that the associate or jointly controlled company does not become a subsidiary.

§ \* § \* § \* §

In 2016, the structured entity Siena PMI 2016 S.r.l. was consolidated and Patagonia Finance S.A. left the scope of consolidation, due to its expiry by the end of this year and the resulting liquidation of the vehicle.





### 3. Investments in associates and joint ventures with significant non-controlling interests

This section has not been completed as there are no investments of this type.

### 4. Significant restrictions

Listed below are the significant restrictions on the Group's ability to access or use assets and to extinguish liabilities:

#### Regulatory restrictions

The Parent Company and the subsidiaries (MPSL&F, MPSCS, MPS Banque, MP Belgio and Widiba) with assets and liabilities prior to intercompany eliminations amounting to EUR 192,425.1 mln as at 31 December 2016 (EUR 215,746.4 mln as at 31 December 2015) are subject to compliance with minimum capital requirements and prudential supervision exercised by the Authorities present in the respective countries of residence and by the European Central Bank, which is responsible, pursuant to the regulation instituting the Single Supervisory Mechanism, for ensuring the uniform application of Eurozone regulatory provisions. The credit institutions in question are required to comply with prudential requirements regarding capital, securitisations, limits on large exposures, liquidity, financial leverage and reporting and public disclosure of information regarding these aspects.

With the SREP Decision received by the Parent Company on 25 November 2015, the ECB confirmed the fulfilment of requirements to continue exercising the supervisory powers attributed to it by art. 16, paragraph 2 of Regulation (EU) no. 1024/2013 of 15 October 2013, with the objective of maintaining capital requirement standards exceeding those set forth by prudential regulations and strengthening the Parent Company's means, processes, mechanisms and strategies, requiring in particular:

- a) the maintenance of the minimum capital requirement on a consolidated basis, in terms of the Common Equity Tier 1 Ratio, at 10.20% and at 10.75% starting from 31 December 2016;
- b) restrictions on the payment of dividends and distributions on shares and on AT1 instruments.

As regards the consolidated data the Bank meets the minimum capital requirements laid out in Article 92 of Regulation (EU) No. 575/2013. Please note that the regulatory ratios remain above the minimum levels laid out in art. 92 of Reg. 575/2013, although the SREP target ratios were not respected at year-end. In addition, please note that the Group did not respect the Combined Buffer Requirement (CBR) required by CRD IV/Bank of Italy Circular no. 285 at 31 December 2016. Failure to meet the CBR means that, in addition to the restrictions imposed by the SREP Decision cited above, the Bank cannot assume obligations for the payment of variable remuneration or discretionary pension benefits or pay variable remuneration if the payment obligation was assumed when the combined capital buffer requirement was not respected. Following the approval of Italian Legislative Decree 237/2016 - Urgent provisions for the protection of savings in the credit sector - the conversion into law of which was definitively approved on 16 February 2017, on 30 December 2016 the Parent Company sent the MEF, the ECB and the Bank of Italy a request for extraordinary, temporary financial support involving access to the "precautionary recapitalisation" measure, in order to strengthen its capital position.

For further details, please refer to the quantitative and qualitative information provided in Part F, section 2.3 "Capital adequacy" of these Notes to the consolidated financial statements.

The subsidiaries MPS Capital Trust I, MPS Capital Trust II, MPS Preferred Capital I LLC, MPS Preferred Capital II LLC, Antonveneta Capital Trust I, Antonveneta Capital Trust II, Antonveneta Capital I LLC, Antonveneta Capital II LLC and Montepaschi Luxembourg are entities under foreign law incorporated between 2000 and 2003, through which the Parent Company carried out capital strengthening transactions in compliance with supervisory provisions through public issues of preference shares, counted, pursuant to prudential regulations in force pro tempore, for the purposes of calculating the own funds of BMPS and the Group.





### Legal restrictions

The Parent Company and the Italian subsidiaries other than securitisation vehicles are required, in compliance with statutory provisions, to deduct 5% of annual net profit to form the legal reserve, until it has reached 20% of the share capital. The reserve must be replenished if it is reduced for whatever reason.

### Contractual restrictions

#### Encumbered assets

The Group holds assets not available to it in that they are used to guarantee financing transactions (e.g., repurchase or securitisation transactions).

The disclosure on assets pledged as collateral for liabilities and commitments is provided in the “Other information” section of Part B of these notes to the consolidated financial statements, which should therefore be referred to.

#### Group Assets relating to securitisation transactions

At the reporting date, the item loans to customers includes EUR 5,649.5 mln (EUR 6,355.0 mln as at 31 December 2015) relating to loans that have not been derecognised, which were sold with the securitisations Siena Mortgages 10-7, Siena Lease 2016-2 S.r.l., Siena Consumer 2015 S.r.l. and Siena PMI 2015 S.r.l. As an offsetting entry for the cash flows arising from these disposals, the Parent Company and the subsidiary MPS Leasing & Factoring S.p.A. have recognised a liability in their financial statements with the vehicles that issued the senior notes (subject to final sale to a leading bank as part of the same securitisations) equal to EUR 1,453.6 mln (EUR 2,694.9 mln as at 31 December 2015). Against this liability, the creditors’ entitlement to repayment is limited to cash flows arising from the assets underlying senior notes sold (please refer to table E.3 of the Notes to the consolidated financial statements Part E - Information on risks and hedging policies).

### Other restrictions

The Group’s banks are required to hold a compulsory reserve at national Central Banks. The compulsory reserve, included in the “Loans to Banks” portfolio at the Bank of Italy, amounts to EUR 3,588.5 mln as at 31 December 2016 (EUR 3,028.8 mln as at 31 December 2015).

## 5. Other information

The financial statements processed for line-by-line consolidation of the subsidiaries include the financial statements as at 31 December 2016, as approved by the Boards of Directors of the respective companies.



## Section 4 – Events after the Reporting Period

On 25 January 2017, the Parent Company completed two issues of government backed securities pursuant to Law Decree no. 237/2016 for a total of EUR 7 bn. The securities were initially subscribed by the issuer and, after being rated by DBRS and Fitch Ratings, they were used in full in sales transactions in the market and as collateral to back funding transactions. This made it possible to stabilise the Group's liquidity situation.

In early February 2017, the Parent Company reached a binding agreement with Istituto Centrale delle Banche Popolari Italiane S.p.A. ("ICBPI"), a national and international leader in the management of payment services, for the sale of assets relating to the "Merchant Acquiring" business on the basis of an enterprise value of EUR 520 million. As part of this transaction, BMPS and ICBPI, through its subsidiary CartaSi S.p.A., will also enter into a ten-year partnership for the development and placement, through the MPS Group's distribution network, of payment products and services for current and future customers of the MPS Group. The closing of the transaction is subject to the satisfaction of certain standard conditions precedent for transactions of this type, including the obligatory completion of the trade union procedure established by law and the contract and obtaining authorisation from the Bank of Italy and the antitrust authorities.

It has to be noted the conversion into law of Italian Legislative Decree no. 237/2016 into Law no. 15 of 17 February 2017. Following to this conversion, the effects deriving from the amendment of conditions relating to the compulsory conversion of the subordinated bonds were incorporated within these financial statements, where applicable.

On March 9, 2017, the Board of Directors approved a preliminary proposal for the "Restructuring Plan", which was sent to the competent Authority to start the comparison aimed at the finalization of the plan itself and its subsequent approval by the Authority.

## Section 5 – Other Matters

### Going concern

These financial statements have been prepared under the going concern assumption.

With regard to the indications contained in Document no. 4 of March 3, 2010, issued jointly by the Bank of Italy, Consob and ISVAP, and subsequent amendments, the Group reasonably expects to continue operating in the foreseeable future and has therefore prepared the financial statements under the going concern assumption.

For the purposes of this assessment, relevance was attributed to the fact that, due to the impossibility of completing the EUR 5 billion capital strengthening, communicated to the market during 2016, on December 23, 2016 the Parent Company submitted to the Bank of Italy, ECB and the Italian Ministry of Economy and Finance the request for the admission to the state guarantee provided by Article 7 of Law Decree no. 237, approved by the Council of Ministers on December 23, 2016 (the "Decree"), granting the right to issue additional State-guaranteed liabilities, while on December 30, 2016 the Parent Company submitted to the same a request for an extraordinary and temporary financial support in the form of "precautionary recapitalisation" under Articles. 13 and subsequent articles of the Decree.

Thereafter, the Parent Company received from the Italian Ministry of Economy and Finance (MEF) two letters, issued by the ECB and addressed to the same in which, in addition to confirming that the requirements for accessing the "Precautionary Recapitalisation" measure in accordance with current regulations had been met, it highlighted the matters reported below.

At consolidated level, the Bank, based on the assessment carried out by the regulator with reference date September 30, 2016, was deemed solvent, as it met the minimum capital requirements set forth in Article 92 of EU Regulation no. 575/2013. Financial data as at December 31, 2016 highlight that the



regulatory ratios are above the minimum ones provided for by art. 92 of EU Regulation no. 575/2013, although at year-end the target ratios required by the ECB with the SREP Decision of 2015 and the Combined Buffer Requirement (CBR) were not met.

Failure to meet the SREP and the CBR target ratios implies the need to take appropriate actions to restore adequate levels of capital. As a matter of fact, this process is already underway due to the request for state intervention by means of the Precautionary Recapitalization.

The results of the stress test carried out by the EBA in the course of 2016 showed a shortfall, under the "adverse" scenario only, in the CET 1 fully loaded ratio at the end of 2018 equal to -2.44%, against the 8% threshold; this shortfall implied, according to the ECB, the need for a capital increase of Euro 8.8 billion, including all components of own funds as required by the applicable regulation given that in the context of the Precautionary Recapitalization the so-called "Burden Sharing" would be triggered, which involves the conversion of subordinated instruments in regulatory Tier 1 capital.

The liquidity position of the Bank has experienced a sharp deterioration in the course of 2016 and in particular since November 30, 2016, as shown by the significant decrease of the counterbalancing capacity and of the 1 month net liquidity position. This trend was affected by the reduction of the commercial component recorded in 2016 following the entry into force of BRRD as well as for the tensions related to the negative outcome of the private recapitalization. However, following the request made by the Parent Company on December 23, 2016, on January 18, 2017 the MEF issued Decree No. 650 granting the State guarantee on financial liabilities of the Bank for an amount up to Euro 15 billion (for a maximum period of 3 years). On January 25, 2017 the Parent Company issued two bonds guaranteed by the state for a total amount of Eur 7 billion.

The securities, backed by state guarantees under the Decree, have been initially entirely underwritten by the Bank, waiting to be sold on the market or used as collateral in funding transactions during 2017. To that purpose, in early February 2017 the two securities were listed on the TLX market and were rated by DBRS and Fitch. In February 2017, these securities were entirely utilized either through placements or as collateral in funding operations. Therefore, even with the severe strains occurred on the liquidity position, the mechanisms envisaged by the Decree and the initiatives taken by the Bank have provided adequate protection against the risk of further deterioration of the position.

The proposed preliminary Restructuring Plan approved by the Board of Directors on March 9, 2017 submitted to the competent authorities to initiate the discussion aimed at the finalization of the same reflects the completion of the requested Precautionary Recapitalization. Further, it shows, over the time-horizon considered, a return to a "normal" profitability in order to allow the release of the State and the restoration, after the capital increase, of adequate levels of capitalization as well as the reduction of the non-performing loans portfolio in full compliance with the targets set forth by the ECB (which will be updated once the capital strengthening process is completed).

In addition, for the purpose of the going concern assessment, it should be considered that from May 2016 until February 2017, the Parent Company has been subject to an On Site Inspection by the ECB. The inspection concerned the classification of loans, the levels of coverage and the valuation of collateral for impaired loans, as at the date of 31 December 2015. At the date of approval of the financial statements, however, the process for the communication of the final results of the inspection is not concluded. The Bank, also as a result of the discussions with the inspection team, made assessments and analyses which led to changes in the methodologies and parameters used for the valuation of impaired loans, according with the rationale and with the impacts described in Part A - Information about changes in accounting estimates. The final results of the On-Site Inspection will also be evaluated by the regulators for the purposes of assessing whether the Bank is solvent.

Finally it should be noted that the already mentioned Law Decree n. 237 of 23 December 2016, was converted into Law n.15 of 17 February 2017. The conversion law has substantially confirmed the provisions of the Decree, with particular reference to the Precautionary Recapitalization and the Burden Sharing through conversion of subordinated instruments in Tier 1 regulatory capital, bringing instead certain modifications to the methods for determining the value of the shares required to



calculate the price of the shares to be allocated to the holders of the financial instruments subject to conversion.

In light of the above, the Directors have performed a thorough analysis of the elements on which the assessment of the ability of the Parent Company and of the Group to continue to operate as a going concern in the foreseeable future is based, and the consequent use of the going concern assumption for the preparation of the financial statements, which led to the identification of certain factors of material uncertainty, mainly related to:

- Obtaining the authorizations required to access the Precautionary Recapitalization which assume the approval of the Restructuring Plan;
- The potential impacts of the On Site Inspection conducted by the ECB on the solvency assessment;
- The implementation of the actions envisaged in the Restructuring Plan.

The Directors, having evaluated the positive evolution of the regulatory framework due to the conversion into law of Decree 237/2016, as well as the improved liquidity position as a result of the placement on the market and the use as funding instruments of the state guaranteed bonds issued, having assessed the uncertainties described above, subject to the successful implementation of the Precautionary Recapitalization, confirmed the going concern assumption for the preparation of the financial statements at December 31, 2016.



## List of key IAS/IFRS international accounting principles and related SIC/IFRIC interpretations for mandatory application as of the 2016 financial statements

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 conditions” (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 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.

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.



On 12 August 2014, the IASB issued the document “**Equity Method in Separate Financial Statements - Amendments to IAS 27**”, which introduced 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.

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.

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. 2015/2441 on 18 December 2015 and is mandatorily to be applied for annual periods beginning on or after 1 January 2016.

On 18 December 2014 the IASB issued “**Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception**”. The changes regard the application of the consolidation exception for investment entities.

The document is meant to clarify the following aspects:

- the exemption from preparing consolidated financial statements for “intermediate” parent companies applies if the parent company is an investment entity, even if that entity measures all subsidiaries at fair value;
- a subsidiary that provides services related to the investment activities of the parent company should not be consolidated if the subsidiary itself is an investment entity;
- the exemption from application of the equity method to associates or joint ventures by a non-investment entity investor is extended, in addition to unlisted entities whose parent company publishes consolidated IFRS financial statements, to entities whose parent company publishes IFRS financial statements in which the subsidiaries are measured at fair value through profit or loss pursuant to IFRS 10;
- an investment entity measuring all of its subsidiaries at fair value provides the disclosures relating to investment entities required by IFRS 12.

The document was endorsed by the European Commission with Regulation no. 2016/1703 on 22 September 2016 and is mandatorily to be applied as of the start date of the first annual period beginning on or after 1 January 2016.

The application of the abovementioned new accounting rules did not produce any significant impacts on these consolidated financial statements.





**IAS/IFRS international accounting standards and related SIC/IFRIC interpretations endorsed by the European Commission, the application of which is mandatory as of 31 December 2016**

On 18 May 2014, the IASB published IFRS 15 “**Revenue from Contracts with Customers**” which replaces previous standards on revenue: IAS 11 “Construction Contracts”, IAS 18 “Revenue”, IFRIC 13 “Customer Loyalty Programmes”, IFRIC 15 “Agreements for the Construction of Real Estate”, IFRIC 18 “Transfer of Assets from Customers” and SIC 31 “Revenue – Barter Transactions Involving Advertising Services”.

The new standard applies to all contracts with customers (except for those subject to other specific standards) and proposes a model according to which an entity must recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In this regard, the standard establishes five steps:

1. identify the contract with the customer, defined as an agreement (written or verbal) with commercial substance between two or more parties that generates legally enforceable rights and obligations with the customer;
2. identify the performance obligations (individually distinct) in the contract;
3. determine the transaction price, i.e., the amount to which an entity expects to be entitled in exchange for the transfer of goods and services in line with the techniques set forth in the standard and on the basis of any presence of financial components;
4. allocate the transaction price to the performance obligations in the contracts;
5. recognise revenue when (or as) the entity satisfies a performance obligation, taking into consideration that services may be rendered either over time or at a point in time.

On the basis of initial assessments, no significant impacts are expected from the initial application of this standard.

On 12 April 2016, the IASB issued the document “**Clarifications to IFRS 15 Revenue from Contracts with Customers**”. The amendments provide some clarifications in relation to the following aspects:

- Identifying performance obligations;
- Principal-versus-agent considerations;
- Licensing.

The amendments also introduce some additional practical expedients for the transition to IFRS 15, relating to (i) contracts that were modified before the beginning of the earliest period presented and (ii) contracts that are completed at the beginning of the earliest period presented.

The amendments apply as of 1 January 2018, but early adoption is permitted. The amendments are to be applied retrospectively as if they were included in IFRS 15 at the date of its first-time application.

The standard was endorsed by the European Commission with Regulation no. 2016/1905 on 22 September 2016 and is mandatorily to be applied as of the start date of the first annual period beginning on or after 1 January 2018.

On 24 July 2014, the IASB issued the final version of **IFRS 9 “Financial instruments”**. This document incorporates the results of the phases regarding classification and measurement, impairment and hedge accounting of the IASB project to replace IAS 39, which began in 2008. Following that publication, IFRS 9 is to be deemed complete; the aspect of macro hedging has not yet been addressed, as the IASB has decided to undertake an autonomous project on this matter. The document was endorsed by the European Commission with Regulation no. 2016/2067 on 22 September 2016



and is mandatorily to be applied as of the start date of the first annual period beginning on or after 1 January 2018.

The key innovations are briefly described below:

Classification and measurement of financial assets: the new accounting standard includes three portfolio categories: amortised cost, fair value through profit and loss (FVTPL) and fair value with changes through other comprehensive income (FVOCI). The HTM and AFS IAS 39 categories were removed. As regards debt securities, the standard sets forth a single method for determining classification in one of the three categories; this method is based on the combination of two drivers, represented by the procedure for managing financial instruments adopted by the entity (business model) and the contractual characteristics of the cash flows of the instruments themselves. Equity instruments are classified in the FVTPL category; the only exception is the possibility to irrevocably classify equity instruments not held for trading in the FVOCI category. In this case, only dividends are recognised in the income statement, while the valuations and results deriving from the sale are allocated to equity; no impairment is envisaged.

Classification and measurement of financial liabilities: the IASB substantially decided to maintain the existing framework of IAS 39. It therefore maintained the existing requirement for separate accounting of derivatives embedded in a financial host. For instruments other than derivatives, measurement of all fair value changes through profit or loss only applies to financial liabilities held for trading. For financial liabilities designated under the fair value option, the amount of change in the fair value that is attributable to changes in the credit risk of the liability, shall be presented directly in other comprehensive income, unless it creates or increases an accounting mismatch, in which case the entire change in fair value shall be presented within profit and loss. The amount that is recognised in other comprehensive income is not transferred from OCI to P&L (“recycled”) when the liability is settled or extinguished.

Impairment: IFRS 9 establishes a single impairment model to be applied to all debt financial instruments not measured at FVTPL: financial assets measured at amortised cost, those measured at fair value through other comprehensive income, lease receivables and trade receivables. The new prospective model requires the recognition of expected losses (ECL) on the financial instrument beginning from initial recognition in the financial statements. Unlike the IAS 39 model, it is no longer necessary for a trigger event to take place for the recognition of losses on loans (incurred losses). The new standard requires credit losses to be estimated on the basis of supportable information that is available without undue cost or effort, and that includes historical, current and forecast information. For purposes of impairment, IFRS 9 requires classification in three buckets in increasing orders of deterioration of credit quality. The first category includes financial instruments whose credit quality has not significantly deteriorated with respect to their initial recognition in the financial statements. On exposures included in the first category, expected losses should be recognised on the basis of a 12-month time horizon. On the exposures included in the other two categories, lifetime expected losses should be recognised on the financial instrument. The assets allocated to the first two buckets according to IFRS 9 are classified as “performing” pursuant to IAS 39, and the amount of the relative provision is evaluated in accordance with IAS 39 using the losses incurred but not reported (IBNR) approach, i.e., the amount of the provision is calculated as a product of the risk factors deriving from the parameters used for CRR prudential requirement purposes (over a 12-month time horizon): probability of default (PD), loss given default (LGD), exposure at default (EAD) and loss confirmation period (LCP), each diversified by uniform exposure classes based on segment/portfolio characteristics. With the transition to IFRS 9, the IBNR approach used with IAS 39 will be replaced respectively by the ECL at 12 months for assets allocated to bucket 1 and the ECL (with a time horizon equal to the residual life of the asset) for the assets allocated to bucket 2. For assets allocated to bucket 3, which are non-performing according to IAS 39, there are no discrepancies in terms of classification, although there are possible differences in the valuation models, primarily following the application of the forward-looking approach, which will allow for a prompt identification of expected credit losses that will need to be calculated and recognised when credit quality has worsened significantly compared to when the loan was originated.



IFRS 9 also requires improved disclosure about expected credit losses and credit risk. In particular, entities are required to provide information that explains the basis for their expected credit loss calculations and how they assess changes in credit risk.

Hedge accounting (excluding macro hedges, for which IAS 39 remains in force) - the new standard tends to align the accounting presentation with risk management activities and, in the second place, to strengthen the disclosure of risk management activities undertaken by the reporting entity.

The standard allows for the rules governing the treatment of own credit quality on financial liabilities under the fair value option included in IFRS 9 to be applied in isolation.

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Compared to IAS 39, the general logic of IFRS 9, especially with regard to the ECL approach, will entail greater recourse to experience-based judgements and intrinsically complex calculations, with an accounting approach that is based even more on the use of valuation models.

The preparation of the ECL model requires significant changes in data, information systems and processes within the Group, and entails the definition of appropriate implementation strategies. After an analysis of the differences between IAS 39 and IFRS 9 and the definition of high-level methodological guidelines, detailed designs of the solutions are currently being developed.

With respect to classification and measurement, the Group has launched a detailed examination of the characteristics of the contractual flows of the debt instruments classified at amortised cost in accordance with IAS 39, in order to identify any assets which must be measured at fair value in accordance with IFRS 9 as they do not pass the Solely Payment of Principal and Interest test (SPPI test).

As regards the ECL approach, the Group is currently working on the design, verification and implementation of models, data and systems, and plans to carry out a detailed assessment in due time of the impact of the new ECL model, in parallel with the above-mentioned design and implementation activities.

The project's stage of development does not currently make it possible to consider certain and definitive the quantitative effects on the Group's consolidated financial statements expected at the date of first-time application of IFRS 9, which upon transition to the new standard will be accounted for as a balancing entry of shareholders' equity at 1 January 2018.

The main quantitative impacts expected at the date of first-time application of the standard, are in fact essentially associated with two areas:

- the application of the new impairment model, which will entail an increase in provisions relating to lifetime expected losses on performing assets classified in bucket 2 as a result of the significant deterioration of the borrower's credit quality with respect to that existing at the moment of initial recognition of the receivable in the financial statements;
- a possible increase in the scope of instruments measured at fair value through profit and loss as a result of their failure to pass the SPPI test (mandatory FVPL).

For both topics, the Group is still conducting activities intended:

- as regards impairment, to calibrate the new models, define the triggers that result in a transfer from bucket 1 to bucket 2 and evaluate any valuation impacts as regards the assets allocated to bucket 3;
- as regards the exact definition of the scope of mandatory FVPL assets, analyses are under way at system level to define the practice of interpreting certain cases of the SPPI test.



Subsequent to the date of first-time application, the two topics specified above may result in greater income statement volatility, due to the possible increased number of instruments measured at fair value and the transfer of financial instruments from bucket 1 to bucket 2 or vice versa; in this case, volatility will be positively correlated with the duration of the financial instruments.

With particular reference to the new impairment model's impacts, it should be noted that it was issued a consultation document by the Basel Committee on Banking Supervision (BCBS) which describes the possible approach to the disclosure of the impact on regulatory capital from first time adoption of the new standard.

As regards impacts on the process, please note the possible remodulation of the product catalogue based on the impact of specific contractual clauses on the passing of the SPPI test and the repercussions of an elevated loan duration on income statement volatility.

Lastly, the new method for accounting for interest on assets classified in bucket 3 (for which the effective interest rate must be applied on the net, and not gross, exposure) will have consequences on the methods for presenting interest in the income statement.

As regards the exercise of the options contained in the standard, please note that:

- it is highly likely that the current hedge accounting methods will remain unchanged (without prejudice to any indications to the contrary, the Group intends to choose to maintain the rules defined in this regard in IAS 39);
- in the year of first-time application, the Group will take advantage of the right not to present comparative information.

Lastly, as regards the insurance companies associated with the Group, please note that AXA has reported that it will defer the date of first-time application of IFRS 9 to 2021, as permitted by the amendment to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" published in September 2016 ("deferral approach").

### **IAS/IFRS international accounting standards and related SIC/IFRIC interpretations issued by the IASB and still awaiting approval from the European Commission**

On 30 January 2014 the IASB issued IFRS 14 "**Regulatory Deferral Accounts**", the interim standard associated with the Rate-regulated activities project. IFRS 14 permits only first-time adopters of IFRS to continue to account for regulatory deferral account balances in accordance with their previous GAAP. To improve comparability with entities that already apply IFRS and do not recognise these balances, the standard requires regulatory deferral account balances to be presented separately from other items.

This standard, which was supposed to apply as of 1 January 2016, has not been endorsed by the European Commission. The European Commission justified its decision based on the fact that the current IFRS 14 governs a marginal case in the European landscape, as it is a transitional standard that offers an accounting opinion to companies that adopt IFRS for the first time. For this reason, the European Commission will in the future consider the endorsement of a standard that refers to all rate regulated activities.

On 11 September 2014, the IASB issued the document "**Sales or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28**" in order to resolve a regulatory conflict between IAS 28 "Investments in Associates and Joint Ventures" and IFRS 10 "Consolidated Financial Statements".

The amendments clarify the accounting treatment in the case of loss of control of a subsidiary (governed by IFRS 10) and in the case of downstream transactions governed by IAS 28, depending on whether the transaction concerns a business, as defined by IFRS 3. If the transaction concerns a business, profit must be recognised in full in both cases (i.e., loss of control and downstream



transactions), but if the transaction does not concern a business, in both cases only the profit of non-controlling interests must be recognised.

In December 2015, the IASB decided to defer indefinitely the entry into force of the document, which was initially planned for 1 January 2016. This is because the IASB intends to plan a more extensive review of the standards involved in order to simplify the accounting of those transactions and other accounting aspects of associates and joint ventures.

On 13 January 2016, the IASB published the new standard “**IFRS 16 Leases**” which will replace IAS 17 - Leases, as well as the interpretations IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The new standard provides a new definition of lease and introduces an approach based on control (right of use) of an asset to distinguish lease agreements from service agreements, identifying as discriminating factors: the identification of the asset, the right to replace it, the right to substantially obtain all economic benefits originating from the use of the asset and the right to direct the use of the asset underlying the agreement.

IFRS 16 is the result of the shared project launched by the IASB and the Financial Accounting Standards Board (FASB) to deal with certain matters raised by users of financial statements as regards the limited comparability between financial statements due to the different manners of accounting for operating leases and finance leases and the limitations present in the disclosure provided for operating leases and the entity’s exposure to risks deriving from lease agreements. To deal with these matters, the IASB and the FASB decided to develop a new accounting model applicable to the lessor, which requires the lessee to recognise assets and liabilities for the rights and obligations deriving from lease agreements (with certain limited exceptions) and to improve the disclosure on lease agreements.

#### Scope of application

The new standard applies to all lease agreements, including leases of right-of-use assets in a sublease, with the exception of:

- leases for the exploration or use of minerals, oil, natural gas and similar non-regenerative resources; contracts falling within the scope of IFRIC 12;
- intellectual property licences falling within the scope of IFRS 15 (for lessors); and
- leases of biological assets falling within the scope of application of IAS 41 and rights under concession falling within the scope of application of IAS 38 for objects such as cinematographic films, video recordings, shows, manuscripts, patents and copyrights (for lessors).

The new standard applies as of 1 January 2019. Early application is permitted for the entities that will apply IFRS 15. The European Union endorsement process is still ongoing.

On 19 January 2016, the IASB published the document “**Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)**” which contains amendments to IAS 12.

The document has the objective of providing certain clarifications on the recognition of deferred tax assets on unrealised losses. In particular, the amendments arise from a request for clarification promoted by the IFRS IC on the application of IAS 12 relating to the recognition of deferred tax assets in the following circumstances:

- when an entity holds a fixed-rate debt instrument classified as available for sale with profit and loss recognised in OCI;
- when a change in market conditions, in particular an increase in interest rates, provokes a reduction in the fair value of the instrument to below the initial cost;
- when tax regulations exclude the deductibility of a loss for tax purposes as long as it is unrealised;





- when the entity expects to recover all contractual cash flows while retaining the instrument until its natural maturity;
- when the entity has insufficient temporary taxable differences and has no future taxable income against which the entity can use deductible temporary differences.

The amendments apply as of 1 January 2017, but early adoption is permitted.

On 29 January 2016, the IASB published the document “**Disclosure Initiative (Amendments to IAS 7)**” which contains amendments to IAS 7.

The document has the objective of providing certain clarifications to improve the disclosure on financial liabilities. In particular, the amendments require a disclosure that allows financial statement users to understand changes in liabilities deriving from financing transactions, including changes deriving from monetary movements and changes deriving from non-monetary movements.

The amendments apply as of 1 January 2017, but early adoption is permitted. The presentation of comparative information relating to prior years is not required.

On 20 June 2016, the IASB published the document “**Classification and Measurement of share-Based payment Transactions**”. The amendments provide some clarifications in relation to the following aspects:

- accounting for the effects of vesting conditions in the case of cash-settled share-based payments;
- the classification of share-based payments with net settlement characteristics;
- accounting for amendments to the terms and conditions of a share-based payment which change its classification from cash-settled to equity-settled.

The amendments apply as of 1 January 2018, but early adoption is permitted.

On 12 September 2016, the IASB published the document “**Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts**”. The amendments aim to clarify concerns deriving from the application of the new IFRS 9, before the current IFRS 4 is replaced by the IASB with the new standard currently in the development phase. These concerns relate to the temporary volatility of the results shown in the financial statements. The amendments introduce two approaches: an overlay approach and a deferral approach.

The amendments introduced will allow:

- entities that issue insurance contracts to recognise the effects deriving from the volatility that may arise when an entity will apply IFRS 9 before the application of the new IFRS 4 in the statement of comprehensive income (i.e., in the OCI statement), rather than in the income statement (the “overlay approach”).
- entities whose business is constituted to a predominant extent by insurance activities to rely on a temporary exemption from the application of IFRS 9 until 2021. Entities that defer the application of IFRS 9 will continue to apply the current IAS 39 (the “deferral approach”).

These amendments supplement the current options governed by IFRS 4 and may already be used in order to mitigate the accounting effects connected to the volatility.

On 9 December 2016, the IASB published a range of amendments to the standards and an IFRIC interpretation meant to clarify certain IFRS provisions.

- *Annual Improvements to IFRS Standards 2014-2016 Cycle*, which amends IFRS 1, IFRS 12 and IAS 28;
- IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*, which enters into force on 1 January 2018;
- Amendment to IAS 40 *Investment Property: Transfers of Investment Property*, which enters into force on 1 January 2018.



## A.2 – The main items of the accounts

### Accounting standards

This chapter contains the accounting standards in relation to the main assets and liabilities in the balance sheet, which were adopted for the preparation of the consolidated financial statements as at 31 December 2016.

### 1 Financial assets held for trading

#### a) recognition criteria

Initial recognition of financial assets occurs at settlement date, for debt securities and equities and at trade date for derivative contracts.

Upon initial recognition, financial assets held for trading are recognised at fair value, which usually corresponds to the amount paid, without considering transaction costs or revenues directly attributable to the instrument, which are directly recognised in the income statements.

Any embedded derivatives in combined financial instruments not directly connected to the latter and with the characteristics to meet the definition of a derivative are recognised separately from the host contract at fair value.

The applicable accounting criteria are administered to the primary contract.

#### b) classification criteria

This category includes debt securities and equities purchased mainly for the purpose of obtaining short-term profits arising from price changes and the positive value of derivative contracts, including expired and impaired derivatives not subject to early settlement as part of a master netting agreement. Contracts designated as hedging instruments are excluded. Derivative contracts include those embedded in combined financial instruments which were subject to separate accounting. The item includes repurchase transactions carried out by the subsidiary MPS Capital Services S.p.A. until September 2016 as they were carried out as part of a broader trading strategy. Starting in the last quarter of 2016, the new repurchase agreements are classified in the banking book, under loans to banks and customers, given their purpose which is predominantly associated with the temporary use of cash and cash equivalents.

#### measurement criteria

After initial recognition, financial assets held for trading are recorded at fair value, with value changes recognised in profit or loss.

For a description of criteria used to determine the fair value of financial instruments, please see section “A.4.3 Fair Value Hierarchy” of this Part A.

#### c) derecognition criteria

Financial assets are derecognised upon maturity of the contractual rights on the cash flows resulting from the assets or when the financial assets are sold and all related risks/benefits are transferred. Securities received within the scope of a transaction that contractually provides for subsequent sale are not recorded in the financial statements, and securities delivered within the scope of a transaction that contractually provides for subsequent buyback are not derecognised from the financial statements. Consequently, in the case of securities acquired with an agreement for resale, the amount paid is recorded in the financial statements as loans to customers or banks, while in the case of securities transferred with an agreement for repurchase, the liability is recorded under deposits from banks or deposits from customers.



#### **d) revenue recognition criteria**

Gains and losses arising from any changes in the fair value of a financial asset are recognised in profit and loss under item “80 Net trading income (expenses)”, except for gains and losses on derivative assets linked with the fair value option which are classified under item “110 Net profit / loss from financial assets and liabilities designated at fair value”.

### **2 Financial assets available for sale**

#### **a) recognition criteria**

Financial assets are initially recognised on the date of settlement, with reference to debt or equity instruments, and on the date of disbursement, with reference to loans and receivables.

On initial recognition, the assets are measured at their fair value which normally corresponds to the price paid, inclusive of transaction costs or income directly attributable to the instrument. If recognition occurs following the reclassification from assets held to maturity, the recognition value is the fair value as at the time of transfer. In the case of debt instruments, any difference between the initial value and the value of repayment is spread out over the life of the debt instrument in accordance with the method of amortised cost.

#### **b) classification criteria**

This category includes non-derivative financial assets which are not classified as loans, financial assets designated at fair value through profit and loss or financial assets held to maturity.

In particular, this category also comprises strategic equity investments which are not managed for trading purposes and cannot be defined as controlling interest, significant influence and joint control, and bonds which are not subject to trading. Such investments may be transferred for any reason, such as liquidity requirements or variations in interest rates, exchange rates, or stock price.

#### **c) measurement criteria**

After initial recognition, financial assets available for sale are measured at fair value, with interest being recognised in the income statement as resulting from the application of the amortised cost and with appropriation to a specific equity reserve of the gains or losses arising from changes in fair value net of the related tax effect, except losses due to impairment. Foreign exchange fluctuations in relation to equity instruments are posted to the specific equity reserve, whereas changes in loans/receivables and debt instruments are allocated to profit and loss. Equity instruments, for which it is not possible to determine a reliable fair value, are maintained at cost, adjusted for any impairment losses.

Financial assets available for sale are reviewed for objective evidence of impairment at each balance sheet and interim reporting date. Indicators of a likely impairment include but are not limited to: significant financial difficulty of the issuer, non-fulfilment or defaults in payments of interest or principal, possibility that the borrower is declared bankrupt or submitted to other forms of insolvency proceedings, disappearance of an active market for the assets. In particular, as far as equity instruments that have a quoted market price in an active market are concerned, a market price as at the date of the financial statements lower than the original purchasing cost of at least 30% or a market value lower than the cost lasting more than 12 months are considered an objective evidence of value reduction. If further reductions take place in subsequent financial years, these are charged directly to the profit and loss statement.

With regard to debt securities, regardless of whether or not these are listed on active markets, any impairment loss is recognised in the profit and loss statement strictly in relation to the issuer's ability to fulfil its obligations and therefore make the necessary payments and repay capital at maturity. Therefore, it needs to be established whether there are indications of a loss event which could have a negative impact on estimated future cash flows. Where there are no actual losses, no loss is recognised on the stock, and any capital loss is recognised in the negative net equity reserve.

The amount of any value adjustment shown following the impairment test is recorded in the profit and loss statement as an expense for the year. Should the reasons for impairment cease to exist, following





an event which occurred after recognition of impairment, reversals are recognised in equity in the case of equity instruments, and through profit and loss in the case of debt securities.

#### **d) derecognition criteria**

Financial assets are derecognised upon maturity of the contractual rights on the cash flows resulting from the assets or when the financial assets are sold and all related risks/rewards are transferred.

Securities received within the scope of a transaction that contractually provides for subsequent sale are not recognised in the financial statements, and securities delivered within the scope of a transaction that contractually provides for subsequent repurchase are not derecognised from the financial statements. Consequently, in the case of securities acquired with an agreement for resale, the amount paid is recognised in the financial statements as loans to customers or banks, while in the case of securities transferred with an agreement for repurchase, the liability is shown under deposits from customers or deposits from banks.

#### **e) revenue recognition criteria**

Upon disposal, exchange with other financial instruments or measurement of a loss of value following impairment testing, the fair value results accrued to the reserve for assets available for sale are reversed to profit and loss under:

- item “100 – Gains/Losses on purchase/disposal of: b) financial assets available for sale”, in the case of disposal;
- item “130 - Net impairment losses/reversals on: b) financial assets available for sale”, in the case of recognition of impairment.

If the reasons for impairment cease to exist, following an event which occurred after the impairment was recognised, the impairment loss is reversed: through profit and loss in the case of loans or debt securities, and through equity in the case of equity instruments.

### **3 Financial assets held to maturity**

The Group does not use this portfolio.

### **4 Loans**

#### **a) recognition criteria**

Recognition in the financial statements occurs:

- for a receivable:
  - on the date of disbursement;
  - when the creditor acquires the right to payment of the amounts contractually agreed upon;
- for a debt security:
  - on the date of settlement.

The initial value is determined on the basis of the fair value of the financial instrument (which is normally equal to the amount disbursed or price of underwriting), inclusive of the expenses/income directly related to the individual instruments and determinable as of the transaction date, even if such expenses/income are settled at a later date. This does not include costs which have these characteristics but are subject to repayment by the debtor or which can be encompassed in ordinary internal administrative expenses.

Swaps and repo contracts under agreement to re-sell are posted as lending transactions. In particular, the latter are reported as receivables in the sum of the spot amount paid.



## b) classification criteria

Receivables include loans to customers and banks, whether disbursed directly or purchased from third parties, with fixed or determinable payments, which are not quoted in an active market and were not initially classified among financial assets available for sale and financial assets at fair value through profit or loss.

The item also includes trade receivables and repurchase transactions of the subsidiary MPS Capital Service S.p.A. carried out starting in the last quarter of 2016. The latter due to the fact that their purpose is primarily associated with the temporary use of cash and cash equivalents, receivables arising from financial leasing transactions and securities purchased in a subscription or private placement, with fixed or determinable payments, not quoted in active markets.

## c) revenue recognition criteria

After initial recognition, receivables are valued at amortised cost, which is the initial recognition amount decreased/increased by principal repayments, write-downs/write-backs and the amortisation – calculated using the effective interest rate method – of the difference between the amount disbursed and the amount repayable upon maturity, typically attributable to the costs/income directly charged to each receivable. The effective interest rate is the interest rate which makes the current value of future flows of the receivable, in principal and interest, estimated over the expected life of the receivable, equal to the amount disbursed, inclusive of any costs/income attributable to the receivable. Therefore, the economic effect of costs and income is spread over the expected residual life of the receivable.

The amortised cost method is not used for short-term receivables, for which the effect of applying a discounting logic is negligible. Similar valuation criteria are adopted for receivables with no specific maturity or subject to revocation.

Non-performing exposures (e.g. doubtful, unlikely to pay and non-performing past due; together, non-performing exposures) are classified into different risk categories in accordance with the regulations issued by the supervisory authorities, supplemented with internal provisions which set automatic criteria and rules and non-binding triggers for the transfer of receivables between different risk categories. In particular, classification is carried out by the various units independently, except for loans more than 90 days past due, which are measured using automated procedures.

With regard to the general concept of the restructuring of loans, three different categories have been identified:

- “forborne exposures” (as defined in Circular 272 of the Bank of Italy, which correspond to the definitions contemplated by the ITS – Implementing Technical Standards of the EBA);
- renegotiation for commercial reasons/practice;
- debt settlement via borrower substitution or debt-for-equity swap.

In line with Bank of Italy regulations, a “forborne exposure” is a debt agreement for which measures of tolerance have been applied (otherwise identifiable as “forbearance measures”). The measures of tolerance consist of concessions - in terms of the amendment and/or refinancing of the pre-existing debt agreement - to the borrower who has or is on the verge of having difficulty in meeting its financial commitments (in other words, the borrower is in financial difficulty).

Forborne exposures are broken down into:

- non-performing exposures with forbearance measures, pursuant to the Implementing Technical Standards (ITS) issued by the EBA. These exposures represent a sub-category of, depending on the case, doubtful loans, unlikely to pay or non-performing past due; therefore, they do not make up their own category of non-performing exposures;
- forborne performing exposures, pursuant to the ITS.

The renegotiation of loans granted by the Bank to performing customers is substantially equated with the opening of a new position, if it is granted essentially for commercial reasons rather than for the borrower’s economic-financial difficulties (therefore, not classifiable as forborne exposures as



described above) and provided that the interest rate applied is a market rate as at the date of renegotiation.

As an alternative to the previously described options (renegotiations due to borrower difficulties and re-negotiations for commercial reasons/practice), the Bank and the borrower may agree on settlement of the original debt via:

- novation or assumption of the loan by another borrower (release from debt liability);
- substantial modification of loan terms involving a debt-equity swap.

Said events, involving a substantial modification of contractual terms, provide for cancellation of the pre-existing loan agreement from an accounting standpoint, and consequent booking of the new agreement at fair value, recognising through profit or loss an amount corresponding to the difference between the fair value of assets received and the book value of the cancelled loan.

In order to determine adjustments to the carrying value of receivables, and taking into account the different impairment levels, analytical or collective valuation is used, as outlined hereunder.

Doubtful loans, unlikely to pay and non-performing past due exposures are valued analytically (when the exposures exceed a given threshold value) or by applying the LGD parameter in the remaining cases. Performing exposures are subject to statistical valuation.

For loans subject to analytical assessment, the amount of value adjustment for each loan is equal to the difference between the loan book value at the time of measurement (amortised cost) and the current value of estimated future cash flows, as calculated by applying the original effective interest rate. When the original interest rate cannot be directly identified, or identifying it would be excessively burdensome, the best approximation is applied.

For all fixed-rate positions, the interest rate thus determined remains constant, even in subsequent years, while for floating-rate positions the interest rate is updated with respect to the reference variable component, and the originally established spread is kept constant.

Expected cash flows take account of the expected repayment schedule, the expected recovery value of collaterals, if any, as well as the costs expected to be incurred for the recovery of the credit exposure.

The value adjustments are booked to the profit and loss statement to item “130 - Net impairment losses/reversals”. The adjustment component attributable to the discounting of cash flows is calculated on an accrual basis in accordance with the effective interest rate method and posted under reversals.

In the Notes, impairment losses on non-performing exposures are classified as specific in the cited income statement item, even when the calculation method is statistical in nature.

If the quality of the non-performing receivable has improved to such a point that there is reasonable certainty of timely recovery of the principal and interest, its initial value is recycled in the following years to the extent in which the reasons determining the adjustment disappear, provided that such valuation can be objectively linked with an event which occurred after the adjustment. The reversal is posted to the profit and loss statement and may not in any case exceed the amortised cost that the receivable would have had without prior adjustments.

Receivables with no objective evidence of loss are subject to a collective assessment of impairment. Such assessment, developed on the basis of a risk management model, is carried out by category, with receivables grouped together according to credit risk, and the relative loss percentages are estimated taking into account time-series based on elements observed on the date of assessment which allow the value of latent loss in each category to be estimated.

The model, for this type of valuation, involves the following steps:

- Segmentation of the loan portfolio by:
  - client segment (turnover);



- economic sectors of activity;
- geographical location;
- determination of the loss rate of individual portfolio segments, using the historical experience of the Group as reference.

Value adjustments determined collectively are posted to the profit and loss statement. Any additional write-downs or write-backs are recalculated on a differential basis, at year-end or on the dates of interim reports, with reference to the entire loan portfolio on the same date.

#### **d) derecognition criteria**

Any receivables sold are derecognised from the assets on the balance sheet only if their disposal implied the substantial transfer of all associated risks and rewards. However, if the risks and rewards associated with the receivables sold have been maintained, they continue to be posted among the assets on the balance sheet, even if legal ownership has been transferred.

If it is not possible to ascertain a substantial transfer of all risks and rewards, the receivables are derecognised when control of the assets has been surrendered. If such control has been maintained, even partly, the receivables should continue to be recognised to the extent of residual involvement, as measured by the exposure to the changes in value of the receivables sold and to the changes in their cash flows.

In addition, receivables sold are derecognised if the contractual rights to receive the cash flows from the assets are maintained and a contractual obligation to pay only said flows to third parties is simultaneously undertaken (pass through arrangements).

Lastly, receivables are fully derecognised when they are deemed irrecoverable or they are written off. Derecognitions, for the portion exceeding the relative provision, are allocated directly to income statement item 130 a) “Net impairment losses/reversals” and are recognised as a reduction of the principal amount of the receivables. Recoveries of partial or entire amounts previously derecognised are posted to the same item.

### **5 Financial assets designated at fair value**

The Group does not use this portfolio.

### **6 Hedging transactions**

#### **a) recognition criteria – purpose**

Risk-hedging transactions are aimed at offsetting any potential losses on a certain element or group of elements that may arise from a specific risk, with the profits made on a different element or group of elements, should that particular risk occur.

#### **b) classification criteria – types of hedging**

IAS 39 provides for the following types of hedging:

- fair value hedges, which are intended to hedge the exposure to changes in fair value of a recognised asset or liability, that are attributable to a particular risk;
- cash flow hedges, which are intended to hedge the exposure to variability in future cash flows attributable to particular risks associated with a recognised asset or liability;
- hedges of a net investment in a foreign operation, which refers to hedging the risks of an investment in a foreign operation denominated in a foreign currency.

To conclude the chapter on the accounting principles, a specific section is added to provide further insight into the application issues and policies adopted by the Parent Company with regard to hedging



transactions. The hedging policies adopted by the Parent Company are explained, also including the “natural hedges” provided for by the Fair Value Option, used as an alternative to hedge accounting in the accounting management of liability hedges.

### c) revenue recognition criteria

Hedging derivatives are measured at fair value. In particular:

- in the case of fair value hedging, the changes in the fair value of the hedged asset are recognised, along with the change in the fair value of the hedging instrument, in profit and loss statement item “90 - Net profit (loss) from hedging”. Any difference, i.e. partial ineffectiveness of the hedging derivatives, reflects their net P&L impact;
- in the case of cash flow hedging, the changes in fair value of the derivative are posted to a specific shareholders’ equity reserve with reference to the effective portion of the hedge, and are posted to the profit and loss statement under item 90 “Net profit (loss) from hedging” only when the changes in fair value of the hedging instrument do not offset the changes in the cash flows of the hedged item;
- hedges of foreign currency investments are accounted for similarly to cash flow hedges.

A hedging transaction should be reflective of a pre-determined risk management strategy and consistent with risk management policies in use. In addition, a derivative is designated as a hedging instrument if the relationship between the hedged item and the hedging instrument is formally documented, and provided that the hedging relationship is prospectively effective at inception.

Hedge effectiveness depends on the extent to which changes in the fair value or expected cash flows of the hedged item are offset by corresponding changes in the hedging instrument. Therefore, effectiveness is measured by comparing said changes, while taking into account the company’s intent at hedge inception.

With reference to the hedged risk, the hedging is effective (within the 80% to 125% window) when the changes in fair value (or in the cash flows) of the hedging instrument offset the changes in the hedged item almost entirely.

Effectiveness is assessed at year-end by using:

- prospective tests, which justify continuing hedge accounting since they show its expected effectiveness;
- retrospective tests, which show how effective the hedging relationship has been in the period under review.

Derivatives which are considered as hedging instruments from an economic viewpoint because they are operationally linked with financial liabilities measured at fair value (Fair Value Option) are classified among trading derivatives; the respective positive and negative differentials or margins accrued until the end of the reporting period are recognised, in accordance with their hedging purpose, as interest income and interest expense, while valuation gains and losses are posted under item 110 of the profit and loss statement, “Net profit (loss) from financial assets and liabilities designated at fair value”.

### d) derecognition criteria – ineffectiveness

If tests do not confirm hedge effectiveness, both retrospectively and prospectively, hedge accounting is discontinued and, unless it has expired or has been terminated, the hedging derivative contract is reclassified as a held-for-trading instrument, whereas the hedged item reverts to the accounting treatment based on its original classification.

If a fair value hedge relationship is discontinued, any positive or negative adjustments made to the carrying amount of the hedged item until the last date on which compliance with hedge effectiveness was demonstrated are recycled into profit and loss. In particular, if the hedged item has not been derecognised, transfer to profit or loss is made using the effective interest method over the remaining life of the hedged instrument; if discontinuation of the hedge relationship leads to derecognition of the



hedged item (for example due to early redemption), any gain or loss shall be entirely classified to profit or loss when the hedged item is derecognised.

Any amounts accumulated in cash flow hedge reserves are recycled to profit or loss when the hedged item affects profit or loss. Conversely, if the hedged item is discharged, cancelled or expires the reserve is immediately recycled to profit or loss upon derecognition of the hedged item.

## **7 Equity investments**

### **a) recognition criteria**

The account includes equity investments held in associates and joint ventures; the investments are initially recognised at purchase cost.

### **b) classification criteria**

Please refer to item 10.6 “Key considerations and assumptions to determine the existence of joint control or significant influence” in Part B – “Assets” of these Notes to the financial statements.

### **c) revenue recognition criteria**

In consideration of the above, this item broadly contains the valuation of equity investments using the equity method; this method provides for initial recognition of the investment at cost and its subsequent adjustment on the basis of the share of the investee’s profits and losses made after the date of purchase. The pro-rata amount of the profit/loss for the period of the investee is posted to item 240 “Gains/losses on investments” in the consolidated income statement.

If evidence of impairment indicates that there may have been a loss in value of an equity investment, then the recoverable value of the investment (which is the higher of the fair value, less costs to sell, and the value in use) should be estimated. The value in use is the present value of the future cash flows expected to be derived from the investment, including those arising from its final disposal.

Should the recoverable value be less than its carrying value, the difference is recognised immediately in profit or loss under item “240 - Gains (losses) on investments”.

Should the reasons for impairment no longer apply as a result of an event occurring after the impairment was recognised, reversals of impairment losses are credited to the same account in profit and loss.

The profit related to the equity investments is booked to profit and loss of the Parent Company regardless of whether it was generated by the investee before or after the date of purchase. In the consolidated financial statements, dividends received are deducted from the investee’s book value; should, after dividend recognition, the investee’s book value in the separate financial statements exceed the book value (in the consolidated financial statements) of the investee’s net assets, including goodwill, or should dividend payout exceed the investee’s total profit, then the Group will determine the recoverable value of the investment to verify whether there has been a loss in its value.

### **d) derecognition criteria**

Investments are derecognised upon maturity of the contractual rights on the cash flows resulting from the assets or when the financial assets are sold and all related risks/rewards are transferred.

## **8 Property, plant and equipment**

### **a) recognition criteria**

Property, plant and equipment are originally recognised at cost, which includes the purchase price and any additional charges directly attributable to the purchase and installation of the assets.





Non-recurring expenditures for maintenance which involve an increase in future economic rewards are booked as an increase in the value of the assets, while expenses for ordinary maintenance are booked to the profit and loss statement.

#### **b) classification criteria**

Fixed assets include land, operating properties, investment properties, systems, furnishings and fixtures, equipment of any type and works of art.

Operating properties are properties owned by the Group and used in production and in the supply of services or for administrative purposes, whereas investment properties are those owned by the Group for the purpose of collecting rents and/or held for appreciation of capital invested.

This item also includes any assets used in financial lease contracts, although their legal ownership rests with the leasing company, and any improvements and incremental expenses incurred in relation to third-party assets when they refer to identifiable and separable property, plant and equipment from which future economic rewards are expected. As regards real estate, components relating to land and buildings are separate assets for accounting purposes and are measured separately upon acquisition.

#### **c) revenue recognition criteria**

Property, plant and equipment, including non-operating real estate, are valued at cost less any accrued depreciation and impairment.

They are systematically depreciated over their useful life on a straight-line basis, except for land and works of art which have an indefinite useful life and cannot be depreciated. The useful life of the fixed assets subject to depreciation is periodically reviewed and, in the event of any adjustments to the initial estimate, a change is also made in the related depreciation rate. The depreciation rates and subsequent useful life expected for the main categories of assets are reported in the specific sections of the notes to the financial statements.

The presence of any signs of impairment, or indications that assets might have lost value, shall be tested at the end of each reporting period.

Should there be indications of impairment of value, a comparison is made between the book value of the asset and the asset's recoverable value, i.e. the higher of the fair value, less costs to sell, and the value in use, which is the present value of the future cash flows generated by the asset. Any adjustments are posted to the profit and loss statement under item 170 "Net impairment losses/reversals on property, plant and equipment". Periodic depreciation is reported in the same item.

Where the reasons for impairment cease to exist, a reversal is made, which shall not exceed the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognised for the asset in prior periods.

#### **d) derecognition criteria**

Property, plant and equipment are derecognised from the balance sheet upon their disposal or when the assets are permanently withdrawn from use and no future economic rewards are expected as a result of their disposal.

### **9 Intangible assets**

#### **a) recognition criteria**

Intangible assets are identifiable, non-monetary assets without physical substance that are held for use over several years or indefinitely. They are recognised at cost, adjusted by any additional charges only if it is probable that the future economic rewards that are attributable to the asset will flow to the entity and if the cost of the asset can be measured reliably. The cost of intangible assets is otherwise posted to the profit and loss statement in the reporting period it was incurred.

Relevant intangible assets for the Group include:



- Technology-related intangible assets including software licenses, internal capitalised costs, projects and licenses under development; in particular, internally incurred costs for software project development are intangibles recognised as assets if, and only if: a) the cost for development can be measured reliably, b) the entity intends and is financially and technically able to complete the intangible asset and either use it or sell it, c) the entity is able to demonstrate that the asset will generate future economic rewards. Capitalised costs for software development only include the expenses that are directly attributable to the development process.
- Customer relationship intangible assets, represented by the value of assets under management/custody and core deposits in the event of business combinations.

Goodwill is posted among assets when it results from a business combination transaction in accordance with the principles of determination indicated by IFRS 3, as a residual surplus between the overall cost incurred for the transaction and the net fair value of the assets and liabilities purchased (i.e. companies or business units).

Should the cost incurred be less than the fair value of the assets and liabilities acquired, the difference (badwill) is directly recognised in profit or loss.

#### **b) revenue recognition criteria**

The cost of intangible fixed assets is amortised on a straight-line basis over their useful life. An intangible asset with an indefinite useful life should not be amortised but assessed for impairment periodically. Intangible assets arising from an internally developed software purchased from third parties are amortised on a straight-line basis starting from completion and roll-out of the applications based on their useful life. Intangible assets reflective of customer relationships, which are taken over during business combinations, are amortised on a straight-line basis.

Where there is evidence of impairment, the recoverable amount of the assets is estimated at each reporting date. The amount of the loss recognised in profit and loss is equal to the difference between the carrying value and the recoverable amount of the assets.

The goodwill recognised is not subject to amortisation, but its book value is tested annually (or more frequently) when there are signs of impairment. To this end, the cash flow generating units to which goodwill is attributable are identified.

The amount of the impairment loss is determined by the difference between the book value of goodwill and its recoverable amount, if lower. Said recoverable amount is the higher of the cash-generating unit's fair value, less costs to sell, and its value in use. Value in use is the present value of future cash flows expected to arise from the years of operation of the cash-generating unit and its disposal at the end of its useful life. The resulting value adjustments are posted to the profit and loss statement under item 210 "Net adjustments to (recoveries on) intangible assets". Periodic depreciation is reported in the same item. An impairment loss recognised for goodwill shall not be reversed in a subsequent period.

#### **c) derecognition criteria**

Intangible assets are derecognised from the balance sheet upon disposal and when no future economic rewards are expected.

### **10 Non-current assets held for sale**

#### **a) recognition criteria**

Non-current assets held for sale and discontinued operations are initially valued at the lower of the book value and the fair value less costs to sell.



**b) classification criteria**

This item includes non-current (tangible, intangible and financial) assets held for sale and discontinued operations, with the relative associated liabilities, when the book value is to be recovered mainly through a highly likely sale rather than continuous use.

**c) revenue recognition criteria**

Following initial recognition, non-current assets held for sale and discontinued operations, with the relative liabilities, are valued at the lower of the book value and the fair value net of selling costs.

The valuation reserves relating to non-current assets held for sale, recorded as a contra-entry to changes in value relevant for that purpose, are recognised in the statement of comprehensive income.

Income and costs relating to groups of assets and liabilities held for sale, net of the tax effect, are recognised in profit and loss item 310 “Profit (loss) after tax from assets held for sale and discontinued operations”. Profit and loss associated with individual assets held for sale are recognised in the most appropriate income statement item.

In the case of discontinued operations, it is also necessary to disclose again the same economic information in a separate item for the previous periods presented in the financial statements, reclassifying the profit and loss statements as a result.

Amortisation is discontinued at the date the non-current asset is classified as a non-current asset held for sale.

**d) derecognition criteria**

Non-current assets held for sale and discontinued operations are derecognised from the balance sheet upon disposal.

**11 Current and deferred tax****a) recognition criteria**

The effects of current and deferred taxation calculated in compliance with Italian tax laws are recognised on an accrual basis, in accordance with the measurement methods of the income and expenses which generated them, by administering the applicable tax rates.

Income taxes are posted to profit and loss, excluding those relating to items directly credited or charged to equity.

Income tax provisions are determined on the basis of a prudential forecast of current tax expense, deferred tax assets and liabilities.

Current tax includes the net balance of current tax liabilities for the year and current tax assets with the Financial Administration, comprising tax advances, tax credit arising from prior tax returns and other withholding tax receivables. In addition, current tax includes tax credit for which reimbursement has been requested from the relevant tax authorities. Tax receivables transferred as a guarantee of own debts shall also be recorded within this scope.

Deferred tax assets and liabilities are determined on the basis of the temporary differences – with no time limits – between the value assigned to the assets or liabilities in accordance with statutory principles and the corresponding values for tax purposes, applying the so-called balance sheet liability method.

Deferred tax assets determined on the basis of deductible temporary differences are shown in the balance sheet for the extent to which they are likely to be recovered on the basis of the capacity of the company involved or all of the participating companies – as a result of exercising the option concerning “fiscal consolidation” – to generate a positive taxable profit on an ongoing basis, in light of a probability test. For a description of the specific methodology of the probability test, please refer to



the notes to these consolidated financial statements, paragraph 14.7 of Section 14 - Part B – Information on the balance sheet.

Recovery of deferred tax assets relating to goodwill, other intangibles and write-downs on loans is to be considered automatically probable because of existing regulations that provide for conversion into tax credits, if a statutory and/or tax loss is incurred.

In particular:

- if the financial statements filed by the company show a statutory loss for the year, deferred tax assets relating to goodwill, other intangible assets and loan write-downs will be subject to partial conversion into tax credits pursuant to the provisions set out in art. 2, par. 55 of Legislative Decree no. 225 of 29 December 2010, as amended by Law no. 10 of 26 February 2011. The conversion into tax credits becomes effective as of the date when the 'loss-incurring' separate financial statements are approved by the Shareholders' Meeting, as provided for by art. 2, par. 56 of aforementioned Legislative Decree no. 225/2010.
- If the financial statements filed by the company show a tax loss for the year, deferred tax assets relating to goodwill, other intangible assets and loan write-downs will be subject to conversion into tax credits pursuant to the provisions set out in art. 2, par. 56-bis of said Legislative Decree no. 225/2010, introduced by art. 9 of Legislative Decree no. 201 of 6 December 2011, as amended by Law no. 214 of 22 December 2011. Conversion will be effective as of the date of submission of the tax return for the year in which the loss is incurred.

As a result of changes introduced to the above provisions by Law no. 147 of 27 December 2013, starting from the tax period in progress as at 31 December 2013, the conversion into tax credits of deferred tax assets relating to goodwill, other intangible assets and loan losses and write-downs has also been extended to IRAP (regional productivity tax), in the case of both a statutory loss for the year and a negative production value.

On 27 June 2015, Law Decree no. 83/2015 (converted by Law no. 132 of 6 August 2015) was published in the Official Gazette (no. 147), which amended, inter alia, the tax deductibility regime with regard to the IRES and IRAP to which losses and write-downs on loans to customers of credit and financial institutions and insurance companies are subject and the ability to convert DTAs relating to goodwill and other intangible assets into tax credits.

In this regard, the new tax measure set forth, in brief, that:

1. beginning in 2016, write-downs and losses on loans are fully deductible in the year in which they are recognised in the income statement (and no longer over 5 years); for 2015, on a transitional basis, they are 75% deductible;
2. DTAs relating to write-downs and losses on loans accounted for in previous years and deductible in 18 or 5 years in accordance with the previous regulation (as well as the 25% not deductible in 2015), constitute a single indistinct prior stock deductible in 10 years beginning in 2016;
3. any DTAs relating to goodwill and other intangible assets recognised in the financial statements as of 2015 will no longer be convertible into tax credits.

As a result of these new provisions, convertible DTAs can no longer increase beginning from 2015 (with the exception of those originating from the 25% of write-downs and losses on loans recognised in the 2015 income statement). In particular, for the future the prerequisite for the recognition of "convertible" DTAs relating to goodwill and other intangible assets as well as write-downs and losses on loans will cease to apply, with the latter becoming deductible negative income components (with the exception noted above of the portion not deductible in 2015).

On 3 May 2016, Law Decree no. 59/2016 was published in the Official Gazette (no. 102) (converted by Law of 30 June 2016 no. 119). In addition, on 17 February 2017, Law no. 237 of 23 December 2016 - "Urgent provisions for the protection of savings in the credit sector" was converted into Law no. 15.

As regards convertible DTAs, this Decree established that to continue to apply the existing rules on conversion into tax credits of deferred tax assets, companies must have exercised an irrevocable option and pay an annual fee payable with respect to each of the financial years from 2016 and subsequently,



if the conditions exist, until 2030. The Bank exercised this option, thus maintaining, on its own behalf and for companies within the tax consolidation, the future right to the transformation into tax credits of DTAs relating to goodwill, other intangible assets and write-downs and losses on loans.

Deferred tax assets on unused tax losses are recognised based on the same criteria as those used to recognise deferred tax assets on deductible temporary differences: therefore, they are shown in the balance sheet to the extent to which they are likely to be recovered on the basis of the capacity of the company to generate a positive taxable profit in the future. Since the existence of unused tax losses may be symptomatic of difficulties to generate positive taxable profit in the future, IAS 12 establishes that if losses have been posted in recent periods, suitable evidence must be provided to support the existence of such profit in the future. Furthermore, current Italian tax law allows for IRES losses to be carried forward indefinitely (art. 84, paragraph 1, of the Income Tax Act – TUIR); as a result, verifying the existence of future taxable profit against which to use such losses is not subject to any time limits.

Deferred tax assets and liabilities are calculated using the tax rates expected at the date on which the temporary differences are reversed, on the basis of the provisions in force at the reporting date. Any changes in tax rates or tax standards having a significant effect on deferred tax assets and liabilities that are issued or announced after the reporting date and before the publication authorisation date are treated as events after the balance sheet date that do not entail an adjustment pursuant to IAS 10, with the resulting disclosure in the notes.

Deferred tax assets and liabilities are posted to the balance sheet by offsetting each tax against the defined asset or liability to which it relates.

Lastly, please note that Law no. 208 of 28 December 2015 (the 2016 Stability Law) established that:

- as of 1 January 2017, effective for tax periods subsequent to that under way as at 31 December 2016, the IRES rate will be reduced to 24%;
- for the credit and financial institutions pursuant to Legislative Decree no. 87 of 27.1.1992, an additional IRES tax of 3.5% applies as of tax periods subsequent to that under way as at 31 December 2016, to be calculated on individual taxable income for companies participating in tax consolidation.

#### **b) classification and measurement criteria**

Deferred tax assets and liabilities are systematically measured to take account of any changes in regulations or tax rates and of any different subjective situations of Group companies. The charges which might result from already notified tax assessments or litigation pending with the tax authorities are instead recognised in “Net provisions for risks and charges”.

With reference to fiscal consolidation of the parent company and participating subsidiaries, contracts have been stipulated to regulate offsetting flows in relation to the transfers of tax profits and losses. Such flows are determined by administering the applicable IRES tax rate to the taxable income of participating companies. The offsetting flow for companies that transfer tax losses – calculated as above – is posted by the consolidating to the consolidated company when and to the extent to which the consolidated company will transfer positive taxable income in tax periods subsequent to that in which the loss was recorded. Offsetting flows so determined are posted as receivables and payables with companies participating in fiscal consolidation, classified under other assets and other liabilities, offsetting item 290 “Tax expense (recovery) on income from continuing operations”.

#### **c) revenue recognition criteria**

Where deferred tax assets and liabilities refer to components which affected the profit and loss statement, they are offset by income tax. When deferred tax assets and liabilities refer to transactions which directly affected equity without impacting the profit and loss statement (e.g. valuations of available-for-sale financial instruments or cash flow hedging derivatives), they are posted as a contra entry to shareholders’ equity, involving the special reserves if required.



## 12 Provisions for risks and charges

Provisions to the reserve for risks and charges are made only when:

- there is a current (legal or implicit) obligation resulting from a past event;
- an outflow of resources producing economic rewards is likely to be necessary in order to settle the obligation; and
- the amount of the obligation can be estimated reliably.

Whenever timing is important, the provisions are discounted back.

Provisions to the reserve are posted to the profit and loss statement, in addition to interest expense accrued on the reserves which were subject to discounting.

No provision is shown for contingent and unlikely liabilities, but information is provided in the notes to the financial statements, except in cases where the probability of an outflow of resources to settle the amount is remote or the amount is not significant.

Sub-item 120 “Provisions for risks and charges: post-employment benefits” includes appropriations in compliance with the 2011 revised version of IAS 19 “Employee benefits” for the purpose of settling the technical deficit of defined-benefit supplementary pension funds. Pension plans are either defined-benefit or defined-contribution schemes. The charges borne by the employer for defined-contribution schemes are pre-determined; charges for defined-benefit plans are estimated and shall take account of any shortfall in contributions or poor investment performance of defined-benefit plan assets.

For defined-benefit plans, the actuarial values required by the application of the above principle are determined by an external actuary in accordance with the Projected Unit Credit Method). In particular, the accounting treatment of net defined benefit liabilities is as follows:

- 1) any surplus or deficit in the plan is measured as the difference between the present value of the defined benefit obligation (DBO) and the fair value of the plan’s assets, when present;
- 2) when the plan is in deficit, the net defined benefit liability recognised in the balance sheet is equal to the deficit itself;
- 3) when the plan is in surplus, it is necessary to determine the present value of any future economic benefits available to the Parent Company in the form of refunds from the plan or reductions in future contributions to the plan (asset ceiling);
- 4) when the asset ceiling is lower than the surplus, the net defined benefit asset is to be recognised in the balance sheet in an amount equal to the asset ceiling.

In essence, if the Bank cannot use the surplus in any way then no asset may be recognised in the balance sheet.

An increase in the present value of the DBO resulting from employee service in the current year is recognised in the Bank’s P&L, regardless of whether the plan is in surplus or deficit, as is the case for past service costs and interest costs.

The following components, on the other hand, are immediately recognised in the statement of comprehensive income:

- 1) actuarial gains and losses on the DBO;
- 2) difference between the actual return on plan assets and net income on the plan assets;
- 3) any change in the effect of the asset ceiling, excluding the interest income component.

Sub-item 120 “Provisions for risks and charges: other provisions” includes any provision to cover expected losses for actions filed against the Bank, including clawback actions, estimated expenses in relation to customer claims for securities brokerage, and other estimated expenses in relation to legal or implicit obligations existing at the end of the year.



### 13 Liabilities and debt securities issued

#### a) recognition criteria

These financial liabilities are first recognised upon receipt of the sums collected or at the time of issuance of debt securities.

Liabilities are initially recognised at their fair value, which is generally equal to the amount received or the issue price, increased by any additional income/expense directly attributable to the funding or issuing transaction and not reimbursed by the creditors. Internal administrative costs are excluded. The fair value of financial liabilities (if any) issued at conditions other than market conditions is calculated by using a specific valuation technique, and the difference with respect to the consideration received is booked directly to profit and loss only when the conditions provided for by IAS 39 have been met, i.e. when the fair value of the instrument issued can be established by using either quoted market prices for similar instruments or a valuation technique based solely on market data.

#### b) classification criteria

Deposits from banks and customers and securities issued include different types of funding (both interbank and from customers) and funds raised through certificates of deposit and outstanding bonds, net of any repurchase. Debt securities issued include all securities that are not subject to “natural” hedging through derivatives and that are classified as liabilities measured at fair value.

This category also includes payables recognised by the lessor as part of any finance lease transactions entered into and repurchase transactions in the banking book carried out by the subsidiary MPS Capital Services S.p.A. starting in the last quarter of 2016, given their purpose primarily associated with the raising of funds to finance trading business operations.

#### c) revenue recognition criteria

Following initial recognition, financial liabilities are valued at amortised cost using the effective interest method.

Short-term liabilities for which time effect is immaterial are an exception, and are recognised at the amount collected.

Should the requirements provided for by IAS 39 for the separate recognition of embedded derivatives be met in the case of structured instruments, they are separated from the host contract and reported at fair value as a trading asset or liability. In this case, the host contract is recognised at amortised cost.

#### d) derecognition criteria

Financial liabilities are derecognised upon maturity or extinction. Derecognition also occurs if previously issued securities have been repurchased. The difference between the book value of the liabilities and the amount paid to repurchase them is recorded in the profit and loss statement.

A new placement in the market of own securities after their repurchase is considered as a new issue and posted at the new price of placement, with no impact on the profit and loss statement.

In compliance with the provisions of IAS 32, any potential commitment to buy treasury shares as a result of the issuance of put options is shown in the balance sheet under financial liabilities, offset by the reduction of shareholders' equity in the amount of the current value of the contractual repayment sum. At the end of 2016, there were no put options sold on treasury shares of the Parent company.

### 14 Financial liabilities held for trading

#### a) recognition criteria

Financial liabilities held for trading are initially recognised on the date of issue for debt securities, and on the date of subscription for derivatives.



Upon initial recognition, they are measured at fair value, which usually corresponds to the amount collected net of any transaction costs or income directly attributable to the instrument itself, which are directly posted to the profit and loss statement. Any embedded derivatives in combined financial instruments not directly connected to the latter and with the characteristics to meet the definition of a derivative are recognised separately from the host contract at fair value. The applicable accounting criteria are administered to the primary contract.

#### **b) classification criteria**

This category includes debt securities issued mainly for the purpose of obtaining short-term profits and the negative value of derivative contracts excluding those designated as hedging instruments. Derivative contracts include those embedded in combined financial instruments which were subject to separate accounting.

The sub-items deposits from banks and deposits from customers include repurchase transactions carried out by the subsidiary MPS Capital Services S.p.A. until September 2016, as they were carried out as part of a broader trading strategy, and uncovered short positions on securities.

Starting in the last quarter of 2016, the new repurchase agreements entered into by the subsidiary MPS Capital Services S.p.A. are classified in the banking book, under deposits from banks and customers, given their purpose which is predominantly associated with the raising of funds to finance trading business transactions.

#### **c) measurement criteria**

Following initial recognition, financial liabilities held for trading are measured at fair value, every change in fair value are recognised in the income statement.

For a description of criteria used to determine the fair value of financial instruments, please see section “A.4.5 Fair Value Hierarchy” of this Part A.

#### **d) derecognition criteria**

Financial liabilities are derecognised upon maturity or extinction. Derecognition also occurs if previously issued securities have been repurchased. The difference between the book value of the liabilities and the amount paid to repurchase them is booked in the profit and loss statement.

#### **e) revenue recognition criteria**

Profits and losses arising from any changes in the fair value of financial liabilities are recognised in profit and loss under item “80 Net profit/loss from trading”, except for gains and losses on derivative payables linked with the fair value option which are classified under item “110 Net profit/loss from financial assets and liabilities designated at fair value”.

### **15 Financial liabilities designated at fair value**

#### **a) recognition criteria**

Financial liabilities measured at fair value are initially recognised on the date of issuance for debt securities. Upon initial recognition, they are measured at fair value, which usually corresponds to the amount collected net of any transaction costs or income directly attributable to the instrument itself, which are directly posted to the profit and loss statement.

The fair value of financial liabilities (if any) issued at conditions other than market conditions is calculated by using a specific valuation technique, and the difference with respect to the consideration received is booked directly to profit and loss only when the conditions provided for by IAS 39 have been met, i.e. when the fair value of the instrument issued can be established by using either quoted market prices for similar instruments or a valuation technique based solely on market data. Should these conditions not be available, the fair value used for valuations after the issuance of instruments is cleared of the initial difference between the fair value upon issuance and the consideration received.





This difference is recognised in profit and loss only if it ensues from changes in the factors (including time), which market traders would consider for price determination.

#### **b) classification criteria**

According to IAS 39, this category includes financial liabilities which have been recognised at fair value through profit or loss; this option is allowed when:

1. the designation at fair value allows for the elimination or reduction of significant misrepresentations of the financial instruments in the profit and loss statement and balance sheet; or
2. the management and/or measurement of a group of financial instruments at fair value through profit or loss is consistent with an investment or risk management strategy documented as such by senior management; or
3. a host instrument embeds a derivative which significantly modifies the cash flows of the host and should otherwise be accounted for separately.

The Parent Company has exercised this option in case 1, classifying under this item financial liabilities that are subject to “natural hedging” through derivative instruments. In item 17 “Other information”, a specific section is included to provide insight into the hedging management methods through the adoption of the fair value option.

#### **c) measurement criteria**

Following initial recognition, financial liabilities are measured at fair value.

For a description of criteria used to determine the fair value of financial instruments, please see section “A.4.5 Fair Value Hierarchy” of this Part A.

#### **d) derecognition criteria**

Financial liabilities are derecognised upon maturity or extinction. Derecognition also occurs if previously issued securities have been repurchased. The difference between the book value of the liabilities and the amount paid to purchase them is recorded in the profit and loss statement under item 110 “Net profit/loss from financial assets and liabilities designated at fair value”.

#### **e) revenue recognition criteria**

Gains and losses arising from any changes in the fair value of a financial asset are recognised in profit and loss under item “110 Net profit/loss from financial assets and liabilities designated at fair value”; same treatment applies to derivatives payable linked with the fair value option which are classified under item “110 Net profit/loss from financial assets and liabilities designated at fair value”.

### **16 Foreign-currency transactions**

#### **a) recognition criteria**

Upon initial recognition, foreign-currency transactions are recognised in the currency of account using the foreign-exchange rates on the date of the transaction.

#### **b) revenue recognition and derecognition criteria**

Financial statement entries denominated in foreign currencies are valued at the end of each reporting period as follows:

- monetary entries are converted using the exchange rate on the closing date;
- non-monetary entries valued at historical cost are converted using the exchange rate on the date of the transaction;
- non-monetary entries that are measured at fair value in a foreign currency are translated at the closing date rate.





Any exchange-rate differences resulting from the settlement of monetary elements, or from the conversion of monetary elements at rates other than those used for initial conversion or conversion in the previous financial statements, are posted to the profit and loss statement for the period in which they arise.

When a profit or a loss on a non-monetary element is recognised in equity, the exchange-rate difference in relation to said element is also posted to equity. However, when a profit or a loss is posted to the profit and loss statement, the relative exchange-rate difference is also posted there.

The accounting position of foreign branches with different operating currencies is converted into Euros by using the exchange rates at the end of the reporting period.

Any exchange-rate differences attributable to investments in such foreign branches, and those resulting from the conversion into Euros of their accounting position, are recognised in equity reserves and transferred to the profit and loss statement only in the year when the investment is disposed of or reduced.

## 17 Other information

### Other significant items

Other significant items from the Group's financial statements are described below.

#### Cash and cash equivalents

This item includes currencies that are legal tender, including foreign banknotes and coins and demand deposits with the central bank of the country or countries in which the Group operates with its own branches.

The item is posted at face value. For foreign currencies, the face value is converted into Euros at year-end exchange rate.

#### Value adjustment of macrohedged financial assets and liabilities

These items show, respectively, the net amount, whether positive or negative, of the changes in value of the macrohedged assets and the net amount, whether positive or negative, of the changes in value of liabilities macrohedged against interest-rate risk, pursuant to IAS 39, paragraph 89.

#### Other assets

This item shows assets not attributable to the other items on the asset side of the balance sheet. It may include, for example:

- gold, silver and precious metals;
- accrued income other than that which is capitalised to the related financial assets;
- any inventories according to the definition of IAS 2;
- improvements and incremental expenses incurred on third-party real estate other than those attributable to property, plant and equipment and therefore not independently identifiable and separable.

The costs in the latter bullet point are posted to other assets, since the user company exercises control of the assets for the purpose of the tenancy agreement and can obtain future economic benefits from them. Said costs are posted to Item 220 "Other operating expenses (income)" on the income statement according to the shorter of the period in which the improvements and expenses can be used and the remaining term of the contract.

#### Severance pay

Employee severance pay is a defined-benefit allowance subsequent to the employment relationship; therefore its actuarial value must be estimated for the purpose of the financial statements. This estimate is carried out using the "Projected Unit Credit" method, which predicts future disbursements on the basis of statistical historical analysis and the demographic curve, and the financial discounting of



such flows according to market interest rates. For the calculation of liabilities to be recognised in the financial statements, the 2011 revised version of IAS 19 “Employee benefits” has been applied; please refer to the paragraph “Provisions for risks and charges” regarding defined benefit pension plans.

The costs accrued during the year for servicing the plan are posted to the profit and loss statement under item “180 a) Personnel expenses”.

After the reform of supplementary pension funds as per Legislative Decree No. 252 of 5 December 2005, severance pay quotas accrued to 31 December 2006 remain with each company of the Group, while severance pay quotas accrued after 1 January 2007, at the discretion of the employee, are assigned to supplementary pension funds or maintained with the individual companies, which will provide for their transfer to the Treasury Fund managed by the Italian National Social Security Institute, INPS.

#### Other liabilities

This item shows liabilities not attributable to other items on the liability side of the balance sheet.

It includes, for example:

- a) payment agreements that must be classified as debit entries according to IFRS 2;
- b) debit entries connected with payment for provision of goods and services;
- c) accrued liabilities other than those to be capitalised to the respective financial liabilities.

#### **Other significant accounting practices**

Details on significant accounting criteria for purposes of understanding the financial statements are shown below.

#### Treasury shares

Any shares held by Parent Company Banca Monte dei Paschi di Siena S.p.A. are recorded in their own item and deducted directly from equity. No profits or losses are posted to the income statement upon the purchase, sale, issue or cancellation of the Parent Company’s equity instruments. Any amount paid or received is posted directly to equity.

#### Dividends and income/cost recognition

Revenues are recognised upon attainment, or: in the case of selling goods or products, when it is likely that future benefits will be received and said benefits can be reliably quantified; in the case of services, when these are provided.

In particular:

- a) interest is booked pro rata temporis on the basis of the contractual interest rate or the effective interest rate in the event of application of the amortised cost;
- b) interest on arrears is posted to the profit and loss statement only upon actual collection;
- c) dividends are shown in the profit and loss statement upon resolution of their distribution, i.e. when their payment is due;
- d) commissions for service income are posted in the period when said services were rendered, on the basis of existing contractual agreements;
- e) revenues from trading or from issuance of financial instruments, as determined by the difference between the transaction price and the fair value of the instrument, are booked to the profit and loss statement upon reporting of the transaction if the fair value can be determined with reference to parameters or recent transactions observable on the same market in which the instrument is traded; otherwise, they are distributed over time, taking into account the duration and the nature of the instrument.
- f) portfolio management fees are recognised based on the duration of service;



- g) expenditures are booked to profit and loss during the periods in which the related revenues are booked. Expenditures that cannot be associated with income are booked immediately to the profit and loss statement.

#### Business combinations

A business combination is defined as the transfer of control of a company (or of a group of assets and integrated goods, conducted and managed as a unit). For the definition of control, please refer to Section 3 “Scope of consolidation” of this part A of the notes.

A business combination may give rise to an investment link between the acquiring parent company and the acquired subsidiary. In these cases, the acquirer applies IFRS 3 to the consolidated financial statements while posting the acquired interest to its separate financial statements as an equity interest in a subsidiary, consequently applying IFRS 10.

A business combination may also provide for the acquisition of the net assets of another entity, including any goodwill, or the acquisition of the share capital of another entity (for example mergers, splits, acquisitions of business units). Such a business combination is not an investment link like the one between a parent company and subsidiary, and therefore in these cases IFRS 3 is also applied to the individual financial statements.

Based on the provisions of IFRS 3, an acquirer must be identified for all combination transactions. It is identified as the subject that obtains control over another entity or group of assets.

The acquisition must be posted to the accounts on the date when the acquirer effectively obtains control over the entity or assets acquired.

At the date of acquisition, the acquirer must recognise goodwill as the difference between:

- (a) the sum of:
- i. the consideration generally measured at fair value at the acquisition date;
  - ii. the amount of any non-controlling interest in the acquired company and
  - iii. in a business combination carried out in multiple phases, the fair value at the acquisition date of interests in the acquired company previously held by the acquirer;
- (b) the net value of amounts, at the acquisition date, of identifiable assets acquired and identifiable liabilities assumed.

The acquirer must account for transaction-related costs (legal, accounting costs, consulting expenses, etc.) as expenses in the periods in which the costs are incurred and the services are received, with the exception of the costs of issuing debt securities or equity instruments, which must be recognised in accordance with the provisions of IAS 32 and IAS 39.

The fair value of the assets, liabilities and contingent liabilities of the acquired entity may be determined provisionally by the end of the first reporting period in which the combination occurs and must be completed within twelve months of the date of acquisition.

Business combinations do not include transactions aimed at control of one or more entities that do not constitute a business activity, or aimed at temporary control, or finally, if the business combination is realised for restructuring purposes, thus among two or more entities or business activities already part of the MPS Group, and not involving changes to the control structures regardless of the percentage of rights of third parties before and after the transaction (so-called business combinations of entities under common control).

#### Business combinations under common control

Business combinations between entities under common control do not fall under IFRS 3. In the absence of a standard of reference, as indicated in Section 1 “Declaration of conformity with international accounting standards”, these transactions are posted to the accounts by making reference to preliminary guidance from the Italian Association of Auditors (Orientamenti Preliminari, OPI no. 1 “Accounting treatment of “business combinations of entities under common control” in separate and consolidated financial statements” and OPI no. 2 “Accounting treatment of mergers in financial



statements”). These guidelines consider the economic significance of business combinations on the basis of cash flow impact on the Group. Transactions, which had no significant influence on future cash flows, were recognised using the pooling of interest method. Therefore, in the financial statements of the seller, the difference between the sale price and the book value is posted as an increase/decrease in equity. Exclusively in the event of acquisition or transfer of a controlling interest, the equity investment is posted at acquisition cost in the acquirer/transferee’s financial statements for the year.

#### Amortised cost

The amortised cost of financial assets or liabilities is the value at which they were measured upon initial recognition, net of principal repayments, plus or minus overall amortisation calculated using the effective interest method, on the differences between the initial value and that at maturity and net of any permanent impairment.

The effective interest rate is the rate which makes the present value of expected future payment or collection cash flows (without considering future losses on loans), until maturity or a subsequent price recalculation date, equal to the net book value of the financial assets or liabilities. To calculate the current value, the effective interest rate is applied to estimated future collection or payment flows over the entire useful life of the financial assets or liabilities – or for a shorter period if certain conditions are met (for example, a change to market rates).

The effective interest rate shall be redetermined where the financial assets or liabilities have been subject to fair value hedging that has ceased to exist.

In cases in which it is not possible to estimate the cash flows or expected life in a reliable manner, the Group uses the cash flows contractually envisaged for the entire contractual term.

Following initial recognition, the amortised cost makes it possible to allocate income and costs reducing or increasing the instrument over its entire expected life by means of the amortisation process. The determination of the amortised cost is different depending on whether the financial assets/liabilities are subject to valuation at a fixed or variable rate.

For fixed-rate instruments, future cash flows are quantified based on the known interest rate during the term of the financing. For floating-rate financial assets/liabilities, whose variability is not known beforehand (because, for example, it is tied to an index), cash flows are determined on the basis of the last known rate. At every rate review date, the amortisation schedule and the actual rate of return over the entire useful life of the instrument, i.e. until maturity, are recalculated. The adjustment is recognised as cost or income in the profit and loss statement.

Valuation at amortised cost is applied to receivables, held-to-maturity financial assets, financial assets available for sale, liabilities and debt securities in issue; for debt securities classified under assets available for sale, amortised cost is calculated for the only purpose to post interest (based on the effective interest rate) to profit and loss; the difference between fair value and amortised cost is allocated to a specific equity reserve.

Financial assets and liabilities traded at market conditions are initially recognised at their fair value, which normally corresponds to the amount disbursed or paid inclusive -in the case of instruments valued at amortised cost- of transaction costs and commissions directly attributable to the assets and liabilities (such as fees and commissions paid to agents, consultants, intermediaries and dealers), as well as contributions withheld by regulatory bodies and securities exchanges, taxes, and transfer charges. These expenses, which must be directly attributable to the individual financial assets or liabilities, impact the original actual return and make the effective interest rate associated with the transaction different from the contractual interest rate. Calculation of the amortised cost does not include costs that the Group must incur regardless of the transaction (for example, administrative, stationery and advertising costs), which, even though they are specifically attributable to the transaction, occur in the normal practice of managing loans (for example, disbursement activities).



With particular reference to receivables, lump-sum reimbursements of expenses incurred by the Group for the provision of a service must not be attributed in a way that lowers the cost of disbursing the loan, but since they may be considered as other operating income, the related costs must be posted to a separate account in the income statement.

#### Guarantees issued

Adjustments due to any deterioration in the guarantees issued are posted to item 100 “Other liabilities”. Impairment losses are posted to Item 130 d) “Net impairment losses/reversals on other financial transactions” in the profit and loss statement.

#### Accounting for contributions to the resolution funds and the Italian Interbank Deposit Protection Fund

Italian Legislative Decrees no. 180 and 181 of 2015 transposed directive 2015/59/EU Banking Resolution and Recovery Directive (“BRRD”), which requires the formation of resolution funds, into Italian law.

These funds are funded, inter alia, by:

- a) annual contributions from banks, in order to reach the target level of fund resources established by the regulation;
- b) extraordinary contributions from banks when ordinary contributions are insufficient to support approved resolution interventions.

Both types of contribution are subject to interpretation IFRIC 21 “Levies”, as the contribution obligations are based on legislative provisions. Based on this interpretation, a liability should be recognised when the “obligating event” takes place which triggers the payment obligation. The balancing entry of that liability is represented by income statement item 180 (b) “administrative expenses - other administrative expenses”, as the conditions are not met for the recognition of an intangible asset pursuant to IAS 38 “Intangible assets”, or for the recognition of an asset for a prepayment.

The same treatment is applied to “ex ante” contributions made to the Italian Interbank Deposit Protection Fund within the scope of Directive 2014/49/EU “Deposit Guarantee Schemes” (DGS).

The additional contributions set forth for 2016 pursuant to art. 25 of Law Decree 237/2016, referenced by the Bank of Italy in its notice of 27 December 2016, were also allocated to the 2016 financial statements in income statement item 180 (b) “Administrative expenses - other administrative expenses” as a balancing entry to item 100 “Other liabilities”, in compliance with the instructions provided by the Bank of Italy in its notice dated 25 January 2017.



**Significant accounting choices made in preparing the financial statements (with particular reference to the provisions of IAS 1, paragraph 122, and documents nos. 4 of 3 March 2010 and 2 of 6 February 2009, issued jointly by the Bank of Italy/Consob/Isvap)**

Decisions by senior management having a significant effect on amounts in the financial statements, other than those relating to estimates, made when applying accounting principles, are shown below.

Accounting for hedge transactions – adoption of the Fair Value Option

In its financial risk management policy, relating to financial instruments included in the banking book, the Bank has used the Fair Value Option accounting technique alongside fair value hedging and cash flow hedging methods.

The Fair Value Option was used to represent operational hedges on fixed-rate or structured bonds (Accounting Mismatch). In that case the Parent Company, the only issuer within the Group, stipulates operational microhedging derivative contracts with MPS Capital Services S.p.A., which in turn manages by assets the Group's overall exposure to the market.

The scope of application of the fair value option currently regards primarily fixed-rate securities and structured securities subject to hedges on interest-rate risk and the risk deriving from embedded derivative components.

Adopting the Fair Value Option necessitates the liabilities being measured at fair value while also taking into account changes in own creditworthiness of the issuer, the distorting effects of which are eliminated from own funds, from the perspective of prudential supervision, in compliance with prudential regulations in force.

IAS 39 allows the option of designating a financial instrument under the fair value option to be exercised irrevocably only upon initial recognition. The fair value option cannot therefore be used for hedges on funding instruments issued prior to the decision that the hedge be undertaken; hedge accounting must be used in these cases.

In the Operating Guide no. 4 of the OIC on accounting management of reserves and profit distribution pursuant to Legislative Decree no. 38 of 28 February 2005, the supervisory authorities (Bank of Italy/Consob/Isvap) specify that capital gains posted to the profit and loss statement using the Fair Value Option and not yet realised are not distributable.

Accounting treatment of “long-term structured repos”

Over the past years, the Parent Company entered into two asset swaps with Italian government bonds-BTPs (known as the “Santorini/Deutsche Bank” and “Alexandria/Nomura” transactions), funded by repo agreements with duration equal to the securities' natural maturity.

These transactions led to the restatement of the 2012 Financial Statements (for further details on these transactions and on the restatement to the 2012 Financial Statements, please refer to the chapter “Restatement of prior period accounts in compliance with IAS 8” in the same Financial Statements).

The “Santorini” transaction was closed in 2013, whereas the “Alexandria” transaction was closed in 2015, with the finalisation of a settlement agreement with Nomura International PLC.

By resolution no. 19459 of 11 December 2015, Consob, after completing its investigation, found that the consolidated and separate financial statements for 2014 and the half-year report as at 30 June 2015 were not compliant, with exclusive reference to the accounting (as a long-term repo or a CDS derivative) of items referring to the “Alexandria” transaction. Therefore, the Parent Company amended the accounting method for that transaction in the 2015 financial statements, in compliance with IAS 8, by representing it as a synthetic derivative (CDS): in this presentation, the purchase of securities and its financing through a long term repo agreement are represented as a Credit Default Swap (sale of protection on the risk of the Italian government, i.e. issuer of the bonds). The settlement of the “Alexandria” transaction in 2015 enabled the Parent Company to close the transaction with a discount, with respect to the transaction pricing shared with the counterparty, of EUR 440 mln, net of the recognition of the funding benefit of EUR 188 mln to the counterparty. The economic impact





reported in the 2015 financial statements after the change in the accounting treatment requested by Consob (accounting as a CDS derivative) was positive, by EUR 252 mln, gross of the tax effect.

**Use of estimates and assumptions when preparing financial statements. Main causes of uncertainty (with particular reference to the provisions of IAS 1, paragraph 125, and documents nos. 4 of 3 March 2010 and 2 of 6 February 2009, issued jointly by the Bank of Italy/Consob/Isvap)**

The financial crisis has had many consequences for businesses, notably on their financial planning. The strong volatility on the still-active financial markets, the reduction in transactions on inactive financial markets and the lack of prospects for the future create specific conditions that influence the preparation of financial statements, especially in relation to estimates required by accounting standards that can have a significant impact on the balance sheet and profit and loss account, as well as on disclosure of contingent assets and liabilities reported in the financial statements. 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.

The main cases in which Management's subjective valuations are mostly required include the followings:

- a) use of valuation models to measure the fair value of financial instruments not listed in active markets;
- b) quantification of impairment losses on loans and, more generally, other financial assets;
- c) assessment of the fair value of equity investments, goodwill, other intangible assets and property, plant and equipment;
- d) estimation of liabilities arising from defined-benefit company pension funds;
- e) estimation of deferred tax assets recoverability;
- f) estimation of costs relating to legal and tax disputes.

For a description of item a), please see section A.4.5 Fair Value Hierarchy; in relation to items b) and c), the most important qualitative issues subject to elements of discretion are described below. The actual technical and conceptual solutions used by the Group are analysed in more detail in the individual sections of the notes to the balance sheet and the profit and loss statement, where the contents of each item in the financial statements are described. With regard to item d) please refer to section 12 of Liabilities in the Notes to the Financial Statements "Defined benefit company pension funds"; as for item e) please see section 14 of Assets in the Notes to the Financial Statements "Tax assets and liabilities". With reference to point f) please refer to section 12 of Liabilities in the Notes to the Financial Statements "Provisions for risks and charges" and section 1.4 "Operational Risk" in part E of the Notes to the Financial Statements.

*Methods for determining impairment losses on loans and, more generally, other financial assets*

At the end of every reporting period, the financial assets not classified as held-for-trading financial assets or assets at fair value are evaluated to check whether there is objective evidence of impairment that might render the book value of these assets not entirely recoverable.

A financial asset has suffered a reduction in value and the impairment losses must be posted to the financial statements if, and only if, there is objective evidence of a reduction in future cash flows compared with those originally estimated as a result of one or more specific events that have occurred after initial recognition; the loss should be determined reliably and in relation with recent events.

The reduction in value may also be caused not by a single separate event but by the combined effect of several events.





The objective evidence that a financial asset or group of financial assets has suffered a reduction in value includes measurable data that arise from the following events:

- significant financial difficulty of the issuer or debtor;
- breach of contract, for example non-fulfilment or failure to pay interest or principal;
- granting Beneficiary a credit facility that the Group has taken into consideration primarily for economic or legal reasons related to the beneficiary's financial difficulties and that would not have been granted otherwise;
- a reasonable probability that the beneficiary will file for bankruptcy or other financial restructuring procedures;
- disappearance of an active market for that financial asset due to financial difficulties. Nevertheless, the disappearance of an active market due to the fact that the financial instruments of the company are no longer publicly traded is not evidence of a reduction in value;
- measurable data which indicate the existence of a significant drop in the estimated future cash flows for a group of financial assets from the time of their initial recognition, even though the reduction cannot yet be matched to the individual financial assets of the Group, including:
  - unfavourable changes in the status of payments of the beneficiaries within the group; or
  - local or national economic conditions that are associated with non-fulfilment related to internal Group assets.

Objective evidence of reduction in value for an investment in an equity instrument includes information regarding important changes with an adverse effect that have occurred in the technological, market, economic or legal environment in which the issuer operates and indicates that the cost of the investment may not be recovered.

The impairment test is performed on an analytical basis with respect to financial assets that show specific evidence of impairment and on a collective basis with respect to financial assets for which such objective evidence does not exist. Collective valuation is based on identifying homogenous risk classes of financial assets with reference to the characteristics of the debtor/issuer, economic sector, geographic area, presence of any guarantees and other relevant factors.

Whenever loans to customers and banks are classified as doubtful, unlikely to pay or non-performing past due exposures, they are subject to an analytical valuation process, with the determination of expected losses by uniform categories and analytical attribution to each position. The amount of the loss is equal to the difference between the book value of the receivable upon valuation (amortised cost) and the current value of expected future cash flows, calculated using the original effective interest rate. Expected cash flows take account of the expected repayment schedule, the expected recovery value of collaterals, if any, as well as the costs expected to be incurred for the recovery of the credit exposure. In this regard, in order to determine the cash flows deemed recoverable, within the assessment process adopted by the Parent Company, if there are no analytical schedules, statistical schedules are used.

The amount of the loss is indicated in the profit and loss statement under Item 130 a) "Net impairment losses/reversals on loans".

Receivables classified as performing and certain non-performing loans (with exposures below a given threshold value) are statistically assessed. This valuation occurs by credit-risk homogenous categories of receivables, indicative of the debtor's ability to repay sums contractually owed. The segmentation drivers used for this purpose consist of: economic sector, geographic location and customer segments (turnover); on the basis of the last indicator, the main segments of the portfolio are differentiated as follows:

- Retail;
- Small and Medium Enterprises - Retail;
- Small and Medium Enterprises – Corporate;
- Corporate;
- Large Corporate;



- Banks;
- Other.

The rate of loss is determined for each portfolio segment by identifying the largest possible synergies (as allowed by various regulations) using the supervisory approach. In particular, the impairment for the year of each loan belonging to a particular category is given by the difference between the book value and the recoverable amount on the date of valuation, with the latter being determined by using the parameters of the calculation method provided for by the new supervisory provisions, represented by PD (probability of default) and LGD (loss given default).

For non-performing loans, statistical valuation is carried out by applying the specific LGD parameter to the exposures' book value.

If, in a subsequent year, the impairment loss decreases and the reduction can be objectively linked to an event that occurred after the impairment was recognised (such as an improvement in the financial solvency of the debtor), the previously recognised impairment loss will be reversed. The amount of the reversal is indicated in the profit and loss statement under Item 130 "Net impairment losses/reversals".

Regarding non performing loans, and in particular doubtful loans, the modalities and the perimeter of the possible deconsolidation are not already defined, so their evaluations have been conducted taking into consideration the ordinary recovery mode. Therefore the fees related to probable operations of deconsolidation could differ significantly compared to the amounts recorded in the financial statements in order to reflect the specific conditions of the operations, for example the financial structure, return rates demanded by buyers and servicing costs.

With reference to loans which have been restructured by partial or full conversion into equity stakes of beneficiary companies, in accordance with joint document no. 4 issued by Bank of Italy/Consob/Isvap on 3 March 2010, it is noted that the fair value of quotas received was factored into the valuation. In particular, in the case of non-performing exposure, such classification was maintained for converted financial instruments received and, in the case of classification in the available-for-sale (AFS) category, capital losses recognised after conversion were posted directly to the profit and loss statement.

With regard to debt securities classified under loans to customers, if there is objective evidence of an impairment loss, the loss is calculated as the difference between the asset's carrying value and the present value of estimated cash flows, discounted at the asset's original interest rate.

If the amount of the impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. The reversal is not to result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised. The amount of the reversal is recognised in profit and loss.

Impairment of financial assets available for sale is posted to the profit and loss statement when a reduction in fair value has been directly recognised in equity and the aforementioned objective evidence exists. In such cases, the cumulative loss recognised directly in equity shall be reversed and posted to profit and loss, even if the financial asset has not been derecognised. The overall loss transferred from equity to profit and loss is the difference between the acquisition cost (net of any repayment of principal and amortisation) and the current fair value, less any impairment loss on the financial asset previously posted to profit and loss. Impaired losses posted to profit and loss for investment in an available-for-sale equity instrument do not have to be reversed with an impact on profit and loss.

If the fair value of an available-for-sale debt instrument subsequently increases, and the increase can be objectively linked to an event that took place after the impairment loss was posted to the profit and loss statement, the impairment loss must be derecognised and reversed to profit and loss.

However, the existence of a negative reserve is not in itself sufficient to determine a write-down in the profit and loss statement.



The nature and number of assumptions used to identify impairment factors and determine losses and reversals are elements of uncertainty in estimation.

*Methods for determining impairment losses on equity investments, goodwill and, more generally, other intangible assets*

The assumptions used to determine impairment losses on equity investments, goodwill and other intangible assets are based on the 2016 preliminary data and updated 2017-2021 projections prepared in line with the development policies of the preliminary draft of the Restructuring Plan approved by the board to send to the competent Authorities

*Equity investments*

The impairment process entails computation of the recoverable amount, which is the greater of the fair value less costs to sell, and the value in use. The value in use is the present value of the cash flows arising from the impaired asset; it reflects the estimate of the cash flows expected from the asset, the estimate of possible changes in the amount and/or in the timing of the cash flows, the financial value over time, the price for remunerating the risk on the asset and other factors that can influence the pricing, on the part of market dealers, of the cash flows expected from the asset. Numerous assumptions are therefore required to estimate the fairness of the carrying amount of equity investments; it follows that the result of this verification inevitably entails some degree of uncertainty.

*Goodwill*

Goodwill posted following acquisitions is subjected to an impairment test at least once a year and whenever there are signs of impairment. For testing purposes, once goodwill has been allocated to cash-generating units (CGUs), the book value is compared with the recoverable value of said units. The discounted cash flow (DCF) method is normally used to determine the recoverable value of the CGUs. To this end, senior management has estimated CGU cash flows; these are dependent on several factors, including cost and revenue growth rates, which in turn depend on changes in the real economy, customer behaviour, competition and other factors. Numerous assumptions are therefore required to estimate the fairness of the carrying amount of goodwill; it follows that the result of this verification inevitably entails some degree of uncertainty. Disclosure in Section 13 of the “Assets” in the notes to the financial statements provides more details on this subject.

*Other property, plant and equipment and intangible assets*

The tangible and intangible assets with limited useful life are tested for impairment in the presence of any indication that the book value of the asset may not be recovered. The recoverable value is computed with reference to (i) the fair value of the tangible or intangible asset, net of the charges for disposal or (ii) the value in use if determinable and if it is above fair value.

The recoverable value of properties is determined on the basis of an appraisal or index-based valuations. The loss in value is reported only if the fair value less costs to sell, or the value-in-use, is less than the book value. The nature and number of assumptions are elements of uncertainty also for these values and for subsequent verifications. More information on the possible assumptions can be found in Sections 12 and 13 of the “Assets” in the notes to the financial statements.

*Assumptions adopted with respect to the provisions of Law Decree 237/2016, converted with amendments to Law no. 15 of 17 February 2017*

As part of the Parent Company’s precautionary recapitalisation transaction, Law Decree no. 237 of 23 December 2016 - “Urgent provisions for the protection of savings in the credit sector”, converted with amendments to Law no. 15 of 17 February 2017 (the “Decree”), envisages the obligation of converting all subordinated liabilities into newly issued shares of the Parent Company, in compliance with the principle which involves sharing the burden of the precautionary recapitalisation by the pre-existing shareholders and the holders of subordinated bonds.

For the subordinated bondholders, the Decree establishes, upon conversion, a share subscription price different from that set forth for the subscription of the capital increase by the MEF, for which the



application of a 25% discount factor is envisaged with respect to the conversion price established for subordinated bondholders.

As regards the measurement in the financial statements of the subordinated liabilities subject to conversion classified under liabilities measured at fair value (fair value option), please note that based on the reference regulations, the prices for converting the subordinated bonds cannot be considered an expression of the fair value of the same shares at the moment of conversion. As there are no observable market data available with respect to the transfer of the above-mentioned liabilities, or prices listed in an active market, in compliance with IFRS 13 the fair value of the financial instrument from the perspective of the holder was used for the measurement in the financial statements.

Please also note that the introduction of the compulsory conversion of subordinated liabilities entailed the interruption of existing hedging relationships for bonds subject to interest rate risk hedging.

#### Correction of errors

The correction of errors is governed by IAS 8 (Accounting policies, changes in accounting estimates and errors). According to this standard, errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements.

When errors are discovered in the period in which the error occurred, they are corrected before the financial statements are authorised for issue.

Material errors that are discovered in a subsequent period with respect to the period in which they occurred, are corrected, when measurable, in the comparative information presented in the financial statements for that subsequent period; material previous period errors shall be corrected in the first set of financial statements authorised for issue after their discovery by retrospectively restating the comparative amounts for previous period(s) presented in which the error occurred or, if the error occurred before the previous periods presented, restating the opening balances of assets, liabilities and net assets/equity for the earliest previous period presented.



## Disclosure on changes in accounting estimates

Pursuant to paragraphs 39-40 of IAS 8, it should be noted that in 2016 the Bank updated the criteria for estimating the provisions for loan losses.

### Loan estimation criteria

As a result of these changes additional impairment losses for a total amount of Eur 2,592 mln have been booked in 2016. The updates of the loan estimation criteria specifically regarded the aspects described below:

#### Changes to the methodology for the calculation of the provision for discounting of Unlikely to Pay exposures

In order to better align it to the market best practices and to consider the indications provided in the “Draft guidance to banks on non – performing loans” issued by the ECB in September, the Bank updated the methodology for the calculation of the discounting adjustment of Unlikely to pay exposures, with the exclusion of exposures for which a restructuring plan has been finalized.

This amendment, based on the estimate of the discounting period which takes into account the probability that the exposure is classified to doubtful loans, allows to better represent the incurred deterioration of the exposures due to the continuing economic downturn, which is reflected in the transfer rate of the unlikely to pay exposures into the doubtful loans category.

Besides that, the new methodology will allow, through periodical updating of the time series, to recognize any future improvements of the performance of the portfolio of the Unlikely to Pay exposures.

#### Increase of the threshold for the analytical impairment of Doubtful Loans and Unlikely to Pay exposures

In order to reduce the judgmental component of the impairment process, also following the recommendation of the regulator, the threshold for the analytical impairment (individual assessment) of credit exposures classified as doubtful loans has been raised from Eur 50k to Eur 150k; similarly the threshold for the analytical impairment of loans classified as Unlikely to Pay has been raised from Eur 20k to Eur 150k.

#### Haircut on real estate collateral

As a result of the assessment carried out on the assignment values of property awarded at auction over a multi-year period, for a significant population of assets, the haircuts (percentages of adjustment) applied to the values of real estate held as collateral for doubtful loans by the MPS Group have been updated; the purpose of this change is to better align the realizable values of collateral with the evidence of the recovery process. The haircuts so determined have a higher degree of granularity as compared to the previous ones, in terms of differentiation by customer segment and type of property. The new haircuts applied for the impairment assessment of doubtful loans have been also applied for the impairment assessment of unlikely to pay (“UtP”) exposures; to this end, the haircuts applied to doubtful loans real estate collaterals have been adjusted in order to reflect the cure rate of UtP exposures (i.e. the rate of migration of unlikely to pay exposures to the performing loans book) historically observed. As for the values of real estate leased assets, given the specific nature of the recovery process of these assets, specific haircuts based on the realizable values observed for this type of lending arrangements were applied.

#### Minimum provisioning levels (“floors”) for “Exposures classified as Sofferenza (Doubtful Loans) at the banking system level”

For positions not backed by collateral subject to analytical assessment, classified as Unlikely to Pay by the MPS Group and identified in the Bank of Italy “Centrale dei Rischi” (Bank Debtors Register) as bad debtors by other banks, a minimum provisioning level has been established, determined on the basis of the historical rate of recovery observed for this class of debtor



### Criteria for estimating deferred tax assets (DTA)

The method to perform the probability test required by IAS 12 for the recognition of DTAs was also revised. This change in methodology was required in light of unused tax losses and the tax loss for the year which, in combination, extended the deferred tax asset recovery horizon. The decision to update the policy also results from changes in tax regulations, including the change in the tax regime for impairment losses on customer loans (Law Decree 83/2015), which now allows for their full deductibility in the year in which they are recognised. The methodology evolution introduced in the probability test consists of applying an increasing discount factor to future taxable income (the “risk adjusted profits approach”) which “weighs” the expected results to reflect with the greatest possible reasonableness the uncertainty of their realization.

This methodology, applied in the most recent forecasts regarding the Group’s future income, resulted in the write-down of the DTAs previously recognised by EUR 251.6 mln and the non-recognition of DTAs connected to the tax loss for the year of EUR 817.1 mln.



### A.3 Information on portfolio transfers

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

Type of financial instrument (1)	Portfolio prior to transfer (2)	Portfolio after transfer (3)	Book value at 31 12 2016 (4)	Fair value at 31 12 2016 (5)	Income components in the absence of transfers (before tax)		Income components reported for the period (before tax)	
					Value-relevance (6)	Other (7)	Value-relevance (8)	Other (9)
UCITS	Trading	Available for sale	432	432	191	-	191	76
Debt Securities	Trading	Loans to banks	44,171	42,269	9,368	1,278	6	1,288
Debt Securities	Trading	Loans to customers	127,174	123,566	(5,881)	3,027	276	3,023
Debt Securities	Available for sale	Loans to banks	696,683	567,898	20,333	18,857	(379)	19,163
Debt Securities	Available for sale	Loans to customers	210,411	183,972	(4,342)	6,256	(525)	5,949
<b>Total</b>			<b>1,078,871</b>	<b>918,137</b>	<b>19,669</b>	<b>29,418</b>	<b>(431)</b>	<b>29,499</b>

In the course of 2008, the Group applied the amendment “Reclassification of financial assets”, which was issued by the IASB to amend IAS 39 and IFRS 7 in October 2008 introducing the possibility of reclassifying portfolios in unusual circumstances such as the crisis that emerged in the markets in the second half of 2008.

This table, which refers exclusively to financial instruments reclassified in the second half of 2008 based on the above-mentioned amendment, reports, in addition to the book values and fair values of reclassified financial instruments as at 31 December 2016, financial results (columns 6 and 7) in terms of “value relevance” and “other” (realised profit/loss and interest), which the same financial instruments would have produced for the Group in 2016 had they not been transferred in 2008. Columns 8 and 9, on the other hand, contain the profit and loss results in terms of “value relevance” and “other” (realised profit/loss and interest) which the Group actually posted for these instruments in the course of 2016.

The hypothetical net capital gains (column 6) of EUR 19.7 mln differ from the losses actually recorded for 2016 (see column 8) amounting to EUR 0.4 mln, for an overall amount of EUR 20.1 mln in greater valuations (of which EUR 4.0 mln posted to profit and loss and EUR 16.1 mln to equity).

By way of completeness, on the back of the reclassification in 2008 of bonds originally classified as AFS financial instruments, the relative negative reserve, for an amount of EUR 228.4 mln, existing on the date of reclassification, was accounted for pursuant to the provisions set out in IAS 39, par. 50 F.

In particular, the negative AFS reserve was gradually phased out over a timeframe reflecting the residual life of the underlying securities, measured as a direct reduction of interest income. This negative impact on net interest income was offset by the positive effect of the amortised cost mechanism on securities, which gradually brings the maturity value in line with the nominal value. The residual reserve at the end of 2016 was EUR 6.2 mln.



**A.3.2 Reclassified financial assets: effects on comprehensive income****A.3.3 Transfer of financial assets held for trading****A.3.4 Effective interest rate and expected cash flows from reclassified financial assets**

Tables A.3.2, A.3.3 and A.3.4 were left blank because no financial assets were reclassified during the year.



## A.4 – Information on fair value

### Qualitative information

#### A.4.1.a Fair value level 2: measurement techniques and inputs used

Items	Fair value 31.12.2016				Type	Valuation technique(s)	Inputs used
	Financial assets held for trading	Hedging derivatives	Financial liabilities designated at fair value	Hedging derivatives			
Debt securities	387,644	203,875	X	X	Bonds	Discounted Cash Flow	Interest rate curve, CDS curve, Basis(yield), Inflation Curves
					Structured bonds	Discounted Cash Flow	Interest rate curve, CDS curve, Basis(yield), Inflation Curves + inputs necessary to measure optional component
					Bonds	Market price*	Market price*
Equity instrument	26	10,877	X	X	Share/Equity Instruments	Market price*	Market price*, recent transactions, appraisals, manager reports
					Equity Instruments	Discount cash flow	Share price, beta factors, free risk rate
					Equity Instruments	Net asset adjusted	Fair value asset
Units of UCITS	-	144,812	X	X	Funds/PE	Market price*	Market price*
Loans/Deposits	265,210	-	X	X	Repo Trade	Discounted Cash flow	Interest rate curve
Deposits	X	X	X	X	from banks		
					from customers		
					IR/Asset/Currency Swaps	Discounted Cash Flow	Interest rate curve, CDS Curve, Basis(yield), Inflation Curve, Foreign exchange rates and correlation
					Total return swaps	Discounted Cash Flow	Bond price, Interest rate curve, Foreign exchange rates
					Equity swaps	Discounted Cash Flow	Share price, Interest rate curve, Foreign exchange rates
					Forex Singlename Plain	Option Pricing Model	Interest rate curve, Foreign exchange rates, Forex volatility
					Forex Singlename Exotic	Option Pricing Model	Interest rate curve, Foreign exchange rates, Forex volatility (Surface)
					Forex Multiname	Option Pricing Model	Interest rate curve, Foreign exchange rates, Forex volatility, Correlation
Financial Derivat	4,048,084	-	327,349	1,018,201	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, Interest rate curve, inflation curves, bond prices, foreign exchange rates, Rate volatility, rate correlations
					Plain Rate	Option Pricing Model	Market price*, Swap Point
					Spot-Forward	Market price*	Market price*
					Credit Index	Market price*	Market price*
					Default swaps	Discounted Cash Flow	CDS curves, Interest rate curve
Credit derivatives	39,920	-	48,496	X			
Total assets	4,740,893	359,564	327,349	X			
Total liabilities	X	X	2,398,181	1,368,705			

\* Price for identical financial instruments listed in non-active markets (IFRS 13 para. 82 (a)-(b))



#### A.4.1.b Fair value level 3: measurement techniques and inputs used

Fair value 31/12/2016		Type	Valuation technique(s)	Unobservable inputs	Range (weighted average)
Items	Financial assets held for trading				
Debt securities	-	154,518 Bonds	Economic value ex DL n° 237/23/12/2016		
Equity instruments		Equity Instruments	Discounted Cash Flow	Liquidity base/Equity Risk Premium/Beta	30% / >8% / 0.4 < x < 0.5
	294,039	Equity Instruments	Discounted Cash Flow	Equity Risk Premium/Growth Rate	10.5% / 1.10%
	X	Equity Instruments	Cost/Net Equity	Fair value asset	0 - 13.5 eur/mln
		Convertible bonds	Credit Model	Fair value asset	22.1 eur/mln
Units of UCITS	27,878	X		NAV FV componenti attivo	0-5.5 eur/mln 19 eur/mln
Total assets	321,917	X			
Total liabilities	X	154,518			



#### A.4.2 Measurement processes and sensitivity

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

The financial statement item “Financial liabilities designated at fair value” under “Debt securities” includes the Group’s subordinated bond subject to the provisions set forth in Law Decree no. 237 of 23 December 2016, later converted into law. This instrument was valued based on the methodology specified in the attachment to the same decree, which involves the assignment of a real economic value equal to 75% of the nominal value for Tier 1 securities and equal to 100% of the nominal value for Tier 2 securities. These values were subject to a correction percentage to consider the 25% discount on the price of the newly issued shares reserved under the same regulatory measure to the MEF. The valuation technique used is therefore not based on an unobservable input, but rather it is impacted by assumptions that are likely to be borne out given the current regulatory environment at the reporting date.

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”. This document not only details the valuation techniques adopted to reach the end result, but identified the market beta of the equity risk premium and the cash flow base to be used for cash flow discounting, as the parameters on which the entity makes specific assumptions. The valuation of that equity investment is also confirmed in market transactions carried out in recent years by certain banks involved in the disposal of shareholdings exceeding the threshold of 3% of the share capital of the Bank of Italy. During valuation, the intervals of the possible values that can be assigned to these parameters cause the following changes in value: roughly EUR -26 mln for every 100 bps increase in the equity risk premium, around EUR -42 mln for every 10 percentage point increase in the market beta and roughly EUR -28 mln for every 10 percentage point increase in the cash flow base.

The same aggregate also includes the support provided to Cassa di Risparmio di Cesena in the amount of EUR 14.7 mln as a result of the contribution to the IDPF Voluntary Scheme. Sensitivity to the unobservable parameters in the valuation of the Voluntary Scheme, i.e., the equity risk premium and the growth rate, comes to EUR -1.5 mln per percentage point and EUR -0.06 mln per percentage point, respectively.

Equity securities valued at cost/net equity include all investments valued at fair value that could not be measured according to a market-based model. These positions amount to approx. EUR 70 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 book value (EUR 8.2 mln). This category includes the units acquired of the Atlante Fund, recognised in the financial statements as at 31 December 2016 in the amount of EUR 19.7 mln. These units were valued by applying a discount factor of around 34% with respect to the nominal value of the subscriptions (the latter equal to EUR 29.7 mln). The discount factor in question is also supported by a calculation obtained by updating the report of the asset management company with the feedback of an independent expert concerning the investments in Veneto Banca and Banca Popolare di Vicenza. This fair value was identified based on the median value of a range with a spread in absolute value of EUR 2.4 mln.



### A.4.3 Fair value hierarchy

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

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

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

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

#### Level 1

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

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

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

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

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

#### Levels 2 and 3

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

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

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

Level 2 inputs are as follows:

- a) quoted prices on active markets for similar assets or liabilities;
- b) quoted prices for the instrument in question or for similar instruments on non-active markets, i.e. markets where:
  - there are few transactions;
  - the prices are not current or they vary substantially over time and between the different market makers or
  - little information is made public;



- c) observable market inputs other than quoted prices (e.g. interest rates or yield curves observable in different buckets, volatility, credit curves, etc.);
- d) inputs that derive primarily from observable market data, the reporting of which is confirmed by parameters such as correlation.

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

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

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

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

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

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

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



#### A.4.4 Other information

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.

### Qualitative information

#### A.4.5 Fair value hierarchy

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

Asset and liabilities measured at fair value	31 12 2016				31 12 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
1. Financial assets held for trading	4,525,257	4,740,893	-	9,266,150	7,103,582	10,913,777	-	18,017,359
2. Financial assets designated at fair value	-	-	-	-	-	-	-	-
3. Financial assets available for sale	15,981,636	359,564	321,917	16,663,117	16,412,514	518,387	260,295	17,191,196
4. Hedging derivatives	-	327,349	-	327,349	-	556,425	-	556,425
5. Property, plant and equipment	-	-	-	-	-	-	-	-
6. Intangible assets	-	-	-	-	-	-	-	-
<b>Total</b>	<b>20,506,893</b>	<b>5,427,806</b>	<b>321,917</b>	<b>26,256,616</b>	<b>23,516,096</b>	<b>11,988,589</b>	<b>260,295</b>	<b>35,764,980</b>
1. Financial liabilities held for trading	2,573,621	2,398,181	-	4,971,802	2,964,377	12,957,265	85	15,921,727
2. Financial liabilities designated at fair value	-	1,368,705	154,518	1,523,223	1,098,268	975,647	-	2,073,915
3. Hedging derivatives	-	1,018,291	-	1,018,291	-	1,205,267	-	1,205,267
<b>Total</b>	<b>2,573,621</b>	<b>4,785,177</b>	<b>154,518</b>	<b>7,513,316</b>	<b>4,062,645</b>	<b>15,138,179</b>	<b>85</b>	<b>19,200,909</b>

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 requires significant adjustment based on non-observable data, or that requires internal assumptions and estimations of future cash flows.

Additional information on level 3 financial instruments can be found in the comments under the tables for the individual balance sheet items concerned.

The fair value of some financial liabilities of the Parent Company, particularly the senior bonds for EUR 980.2 mln, worsened during the year from level 1 to level 2. This change is primarily associated with the temporary suspension of trading in regulated markets of the securities issued or guaranteed by the Parent Company and the financial instruments with the securities issued by Banca MPS as their underlying asset (cf. Consob resolution no. 19833 of 22 December 2016) and the resulting use, in the absence of direct market references, of a comparable approach valuation technique. The same change in the fair value level involved certain financial assets and liabilities of the subsidiary MPS Capital Services S.p.A. for EUR 3.4 and EUR 0.5 mln, respectively, linked to the deterioration of the securities' liquidity conditions (measured in terms of bid-ask spread of the listed price) which allowed this level transfer in accordance with the Group's policy on the valuation of financial instruments.

With respect to the financial instruments that improved from fair value level 2 to level 1, this trend involved bonds held by the Parent Company classified as financial assets available for sale for a total of EUR 196.7 mln and by the subsidiary MPS Capital Services S.p.A. classified as financial assets held for trading for EUR 12.5 mln. The change in the fair value level during the year is essentially linked to the improvement in the securities' liquidity conditions (measured in terms of bid-ask spread of the listed price) which allowed this level transfer in accordance with the Group's policy on the valuation of financial instruments.





As for OTC derivatives, in compliance with IFRS 13 the Group calculates adjustments to values, obtained through valuation models using risk-free interest rates, to take account of the creditworthiness of the individual counterparty. This 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 prices without, however, losing the historical information available within the Group.

The impact of the CVA as at 31 December 2016 amounted to EUR -84.8 mln.

The Group calculates the value adjustment of OTC derivatives in a mirror image fashion and on the same perimeter to take into account its creditworthiness, Debit Value Adjustment (DVA). As at 31 December 2016 the DVA is positive and amounts to a total of EUR 23 mln.

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

31 12 2016

	Financial assets held for trading	Financial assets designated at fair value	Financial assets available for sale	Hedging derivatives	Property, plants and equipments	Intangible assets
<b>1. Opening balance</b>	-	-	<b>260,295</b>	-	-	-
<b>2. Increases</b>	-	-	<b>112,918</b>	-	-	-
2.1 Purchase	-	-	55,094	-	-	-
2.2 Profit posted to:	-	-	13,545	-	-	-
2.2.1 Profit and Loss	-	-	187	-	-	-
- of which capital gains	-	-	-	-	-	-
2.2.2 Equity	X	X	13,358	-	-	-
2.3 Transfers from other levels	-	-	42,105	-	-	-
2.4 Other increases	-	-	2,174	-	-	-
<b>3. Decreases</b>	-	-	<b>51,296</b>	-	-	-
3.1 Sales	-	-	9,220	-	-	-
3.2 Redemptions	-	-	-	-	-	-
3.3 Losses posted to:	-	-	23,638	-	-	-
3.3.1 Profit and Loss	-	-	18,074	-	-	-
- of which capital losses	-	-	17,606	-	-	-
3.3.2 Equity	X	X	5,564	-	-	-
3.4 Transfers to other levels	-	-	493	-	-	-
3.5 Other decreases	-	-	17,945	-	-	-
<b>4. Closing balance</b>	-	-	<b>321,917</b>	-	-	-

The amount shown in the column "Financial assets available for sale" under item "2.1 Purchases", equal to EUR 55.1 mln, includes EUR 19.4 mln for the equity instrument purchased following the intervention in favour of Cassa di Risparmio di Cesena as a result of the contribution to the IDPF Voluntary Scheme, and EUR 29.7 mln for the Atlante Fund units.

The amount shown in the column "Financial assets available for sale" under item "2.3 Transfers from other levels" totalling EUR 42.1 mln consists of: equity investments whose fair value, at the reporting date, has been determined using valuation techniques that are not market oriented, but are based on other non-market values (cost, equity, etc.), according to what is set forth on the matter in the internal policy.



The amount shown in the same column alongside item “3.5 Other decreases”, amounting to EUR 17.9 mln, is primarily associated with the classification amongst non-current assets held for sale and discontinued operations of the investees Bassilichi S.p.A. (EUR 12.9 mln) and Consorzio Triveneto S.p.A. (EUR 5.0 mln).

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

31/12/2016

	Financial liabilities held for trading	Financial liabilities designated at fair value	Hedging derivatives
<b>1. Opening balance</b>	<b>85</b>	<b>-</b>	<b>-</b>
<b>2. Increases</b>	<b>-</b>	<b>154,518</b>	<b>-</b>
2.1 Issues	-	-	-
2.2 Losses posted to	-	-	-
2.2.1 Profit and Loss	-	-	-
- of which capital losses	-	-	-
2.2.2 Equity	X	X	-
2.3 Transfers from other levels	-	154,518	-
2.4 Other increases	-	-	-
<b>3. Decreases</b>	<b>85</b>	<b>-</b>	<b>-</b>
3.1 Redemptions	-	-	-
3.2 Repurchases	-	-	-
3.3 Profit posted to:	85	-	-
3.3.1 Profit and Loss	85	-	-
- of which capital gains	-	-	-
3.3.2 Equity	X	X	-
3.4 Transfers from other levels	-	-	-
3.5 Other decreases	-	-	-
<b>4. Closing balance</b>	<b>-</b>	<b>154,518</b>	<b>-</b>

The amount in the column “liabilities designated at fair value” under item “2.3 Transfers from other levels” totalling EUR 154.5 mln refers to a subordinated issue of the Group, which was transferred from level 2 to level 3 at the end of 2016, as a liability subject to conversion valued on the basis of the methodology specified in the attachment to Law Decree no. 237 of 23 December 2016.

**A.4.5.4 Assets and liabilities not designated at fair value or designated at fair value on a non-recurring basis: breakdown by fair value level**

Financial assets/liabilities not designated at fair value or designated at fair value on a non-recurring basis	31 12 2016				
	Book value	Level 1	Level 2	Level 3	Total Fair value
1. Financial assets held to maturity	-	-	-	-	-
2. Loans to bank	8,936,239	52,546	8,755,442	1,937	8,809,925
3. Loans to customers	106,692,711	154,817	9,498,076	100,771,239	110,424,132
4. Property, plant and equipment held for investment	327,747	-	-	362,257	362,257
5. Non-current assets and groups of assets held for sale	60,684	-	17,921	1,128	19,049
<b>Total assets</b>	<b>116,017,381</b>	<b>207,363</b>	<b>18,271,439</b>	<b>101,136,561</b>	<b>119,615,363</b>
1. Deposits from banks	31,469,061	-	31,469,061	-	31,469,061
2. Deposits from customers	80,702,762	-	80,707,017	-	80,707,017
3. Debt securities issued	22,347,465	-	17,733,986	3,450,179	21,184,165
4. Liabilities associated to disposal groups held for sale	10,402	-	-	-	-
<b>Total liabilities</b>	<b>134,529,690</b>	<b>-</b>	<b>129,910,064</b>	<b>3,450,179</b>	<b>133,360,243</b>

The amount on line “Non-current assets and groups of assets available for sale and discontinued operations”, of EUR 60.7 mln, includes EUR 18.3 mln relating to other assets associated with the merchant acquiring business subject to the binding sale agreement reached by the Parent Company on 3 February 2017 with Istituto Centrale delle Banche Popolari Italiane S.p.A. The aggregate also includes EUR 23.3 mln referring to certain property, plant and equipment used in the business (EUR 18 mln relating to the Parent Company, EUR 4.5 mln relating to the subsidiary Banca MP Belgio S.A. and EUR 0.8 mln relating to the subsidiary MPS Capital Services S.p.A.) and lastly the investees Basilichi S.p.A. (EUR 12.9 mln), Consorzio Triveneto S.p.A. (EUR 5.0 mln) and Assofood S.p.A. (EUR 1.1 mln).

The amount shown in line “Liabilities associated with individual assets held for sale”, totalling EUR 10.4 mln, refers in its entirety to the liabilities relating to the merchant acquiring business noted above.

For non-performing exposures 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 manager; 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 non-performing receivables, 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.



Financial assets/liabilities not designated at fair value or designated at fair value on a non-recurring basis	31 12 2015				Totale Fair value
	Valore di bilancio	Livello 1	Livello 2	Livello 3	
1. Financial assets held to maturity	-	-	-	-	-
2. Loans to bank	8,242,056	144,672	7,952,761	2,257	8,099,690
3. Loans to customers	111,366,383	48,953	1,829,586	113,338,828	115,217,367
4. Property, plant and equipment held for investment	431,366	-	-	496,573	496,573
5. Non-current assets and groups of assets held for sale	29,267	-	21,057	1,129	22,186
<b>Total assets</b>	<b>120,069,072</b>	<b>193,625</b>	<b>9,803,404</b>	<b>113,838,787</b>	<b>123,835,816</b>
1. Deposits from banks	17,493,110	-	17,502,641	-	17,502,641
2. Deposits from customers	87,806,329	-	87,810,731	-	87,810,731
3. Debt securities issued	29,394,436	15,786,961	13,056,510	-	28,843,471
4. Liabilities associated to disposal groups held for sale	-	-	-	-	-
<b>Total liabilities</b>	<b>134,693,875</b>	<b>15,786,961</b>	<b>118,369,882</b>	<b>-</b>	<b>134,156,843</b>

### A.5 Information on “day one profit/loss”

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





## Part B – Information on the balance sheet

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## ASSETS

### Section 1 – Cash and cash equivalents – Item 10

#### 1.1 Cash and cash equivalents: breakdown

	Total 31 12 2016	Total 31 12 2015
a) Cash	861,601	990,473
b) Demand deposits with central banks	222,909	198,288
<b>Total</b>	<b>1,084,510</b>	<b>1,188,761</b>

The line “Demand deposits with central banks” does not include the compulsory reserve, which is shown under Assets in Item 60 “Loans to banks”.

### Section 2 – Financial assets held for trading – Item 20

#### 2.1 Financial assets held for trading: breakdown

Items/Amounts	Total 31 12 2016				Totale 31 12 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>A. Balance sheet assets</b>								
1. Debt securities	4,413,046	387,644	-	4,800,690	6,935,194	324,047	-	7,259,241
1.1 Structured securities	-	110,627	-	110,627	290	127,733	-	128,023
1.2 Other debt securities	4,413,046	277,017	-	4,690,063	6,934,904	196,314	-	7,131,218
2. Equity instruments	31,306	26	-	31,332	50,435	112	-	50,547
3. Units of UCITS	12,122	-	-	12,122	2,116	1,640	-	3,756
4. Loans	-	265,210	-	265,210	-	5,284,782	-	5,284,782
4.1 Repurchase agreements	-	265,210	-	265,210	-	5,284,782	-	5,284,782
4.2 Others	-	-	-	-	-	-	-	-
<b>Total (A)</b>	<b>4,456,474</b>	<b>652,880</b>	<b>-</b>	<b>5,109,354</b>	<b>6,987,745</b>	<b>5,610,581</b>	<b>-</b>	<b>12,598,326</b>
<b>B. Derivatives</b>								
1. Financial derivatives:	68,783	4,048,084	-	4,116,867	115,837	5,223,833	-	5,339,670
1.1 held for trading	68,783	4,010,261	-	4,079,044	115,837	5,189,866	-	5,305,703
1.2 fair value option	-	37,823	-	37,823	-	33,967	-	33,967
1.3 Others	-	-	-	-	-	-	-	-
2. Credit derivatives:	-	39,929	-	39,929	-	79,363	-	79,363
2.1 held for trading	-	39,929	-	39,929	-	79,363	-	79,363
2.2 fair value option	-	-	-	-	-	-	-	-
2.3 Others	-	-	-	-	-	-	-	-
<b>Total (B)</b>	<b>68,783</b>	<b>4,088,013</b>	<b>-</b>	<b>4,156,796</b>	<b>115,837</b>	<b>5,303,196</b>	<b>-</b>	<b>5,419,033</b>
<b>Total (A+B)</b>	<b>4,525,257</b>	<b>4,740,893</b>	<b>-</b>	<b>9,266,150</b>	<b>7,103,582</b>	<b>10,913,777</b>	<b>-</b>	<b>18,017,359</b>



Criteria adopted for classification of financial instruments in the three levels of the “fair value hierarchy” are reported in Section A.4, “Fair value disclosure” of Part A, “Accounting policies” of the notes to the consolidated financial statements, which should therefore be referred to.

As a result of the provisions set out in IAS 39 with regard to the derecognition of financial assets, lines 1.1 Structured securities and 1.2 Other debt securities of the item “Cash assets” also include debt securities pledged in repos and securities lending transactions carried out in respect of own securities posted to the trading portfolio.

The amount of EUR 277.0 mln (EUR 196.3 mln as at 31 December 2015), reported on line “1.2 Other debt securities”, in the level 2 column, includes senior, mezzanine and junior exposures assumed by the Group with reference to third-party securitisation transactions, equal to EUR 59.3 mln (EUR 65.8 mln as at 31 December 2015), EUR 32.7 mln (EUR 1.1 mln as at 31 December 2015) and lastly EUR 5.0 mln (zero as at 31 December 2015), respectively.

The significant decrease of EUR 5,019.6 mln reported on line “4.1 Repurchase agreement”, in the level 2 column is due to the classification by the subsidiary MPS Capital Services S.p.A. starting in the last quarter of 2016 of the new repurchase agreements in the banking book, given their purpose which is predominantly associated with the temporary use of cash and cash equivalents. Previously, transactions of this type were classified in the trading book as they were carried out as part of a broader trading strategy.

Derivatives connected with fair value option instruments are also classified as derivative instruments: these cover the risks of funding designated at fair value arising from possible interest rate fluctuations and from any embedded options in fixed-rate and structured bonds issued by the Bank (natural hedging). The positive fair value of these derivatives is shown in the table in line “B.1-1.2 – Fair value option”.

By convention, such derivatives are classified in the trading book. In terms of their representation in the income statement, they comply with rules similar to the rules applicable to hedging derivatives: positive and negative spreads or margins settled or accrued until the balance sheet date are recognised as interest income and expense, while valuation gains and losses are posted under item 110 of the profit and loss statement, “Net profit (loss) from financial assets and liabilities designated at fair value”, in compliance with representations used for funding instruments that adopted the fair value option.

### 2.1.a Breakdown of debt securities: structured securities

Structured debt securities	Total 31 12 2016	Total 31 12 2015
Index Linked	47,524	12,911
Equity Linked	18,991	12,553
Commodity	38,166	32,447
Fund Linked	4,018	66,938
Other	1,928	3,174
<b>Total</b>	<b>110,627</b>	<b>128,023</b>

The table adds details to line “A.1.1 Structured securities” of table 2.1 above.



## 2.2 Financial assets held for trading: breakdown by borrower/issuer

Items/Amounts	Total 31 12 2016	Total 31 12 2015
<b>A. Balance sheet assets</b>		
1. Debt securities	4,800,690	7,259,241
a) Governments and Central banks	4,008,016	6,640,065
b) Other public entities	2	74
c) Banks	484,726	461,678
d) Other issuers	307,946	157,424
2. Equity instruments	31,332	50,547
a) Banks	4,316	312
b) Other issuers:	27,016	50,235
- insurance companies	3	36
- financial companies	401	496
- non-financial companies	26,612	49,703
- other	-	-
3. Units of UCITS	12,122	3,756
4. Loans	265,210	5,284,782
a) Governments and Central banks	-	-
b) Other public entities	-	-
c) Banks	60,699	658,180
d) Other entities	204,511	4,626,602
<b>Total (A)</b>	<b>5,109,354</b>	<b>12,598,326</b>
<b>B. Derivatives</b>		
a) Banks	2,054,940	2,863,433
b) Customers	2,101,856	2,555,600
<b>Total (B)</b>	<b>4,156,796</b>	<b>5,419,033</b>
<b>Total (A+B)</b>	<b>9,266,150</b>	<b>18,017,359</b>

The breakdown by borrower/issuer was carried out in accordance with criteria of classification by economic activity group and sector laid down by the Bank of Italy.

As for derivatives, it should be noted that the positive fair value of derivatives with customers includes approx. EUR 338.4 mln from balanced trading aimed at providing financial protection to customers of the Group's network (for further details, see Part E "Information on risks and hedging policies" of these Notes to the Financial statements). The remaining amount is generated from transactions with financial market participants classified as customers pursuant to the above classification criteria set by the Bank of Italy.

**2.2.a Units of UCITS: Breakdown by main categories**

Categories/Amounts	Total	Total
	31 12 2016	31 12 2015
Equity	5	14
Bonds	159	160
Others	11,958	3,582
<b>Total</b>	<b>12,122</b>	<b>3,756</b>

The table adds details to line “A.3. Units of UCITS” of table 2.2 above.

**Section 3 – Financial assets designated at fair value – Item 30**

The tables for this section were not completed since the Bank has no financial assets designated at fair value to report for either the current or previous year.

**Section 4 - Financial assets available for sale – Item 40****4.1 Financial assets available for sale: breakdown**

Items/Amounts	Total 31 12 2016				Total 31 12 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
1. Debt securities	15,974,883	203,875	-	16,178,758	16,393,702	341,997	136	16,735,835
1.1 Structured securities	-	-	-	-	-	-	-	-
1.2 Other debt securities	15,974,883	203,875	-	16,178,758	16,393,702	341,997	136	16,735,835
2. Equity instruments	5,931	10,877	294,039	310,847	17,984	62,665	250,879	331,528
2.1 Designated at fair value	5,931	10,650	289,488	306,069	17,984	62,662	246,953	327,599
2.2. Carried at cost	-	227	4,551	4,778	-	3	3,926	3,929
3. Units of UCITS	822	144,812	27,878	173,512	828	113,725	9,280	123,833
4. Loans	-	-	-	-	-	-	-	-
<b>Total</b>	<b>15,981,636</b>	<b>359,564</b>	<b>321,917</b>	<b>16,663,117</b>	<b>16,412,514</b>	<b>518,387</b>	<b>260,295</b>	<b>17,191,196</b>

The portfolio of AFS financial assets includes:

- a) bonds and UCITS not held for trading;
- b) equity investments with shareholding lower than controlling or associate interests.

As a result of the provisions set out in IAS 39 for the derecognition of financial assets, line 1.2 also includes debt securities committed in repos (liabilities) and securities lending transactions carried out for own securities posted to the available-for-sale portfolio.

At the reporting date, the aggregate does not include the Group’s senior, mezzanine and junior exposures with reference to own and third party securitisation transactions.



## 4.2 Financial assets available for sale: breakdown by borrower/issuer

Items/Amounts	Total 31 12 2016	Total 31 12 2015
<b>1. Debt securities</b>	<b>16,178,758</b>	<b>16,735,835</b>
a) Governments and Central banks	15,409,813	16,454,932
b) Other public entities	14,024	42,819
c) Banks	298,056	156,290
d) Other issuers	456,865	81,794
<b>2. Equity instruments</b>	<b>310,847</b>	<b>331,528</b>
a) Banks	229,256	215,020
b) Other issuers:	81,591	116,508
- insurance companies	404	368
- financial companies	27,135	22,428
- non-financial companies	54,052	93,712
- other	-	-
<b>3. Units of UCITS</b>	<b>173,512</b>	<b>123,833</b>
<b>4. Loans</b>	<b>-</b>	<b>-</b>
a) Governments and Central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other entities	-	-
<b>Total</b>	<b>16,663,117</b>	<b>17,191,196</b>

### 4.2.a Units of UCITS: breakdown by main categories

Categories/Amounts	Total 31 12 2016	Total 31 12 2015
Hedge Funds	8,681	10,563
Private Equity	151,488	107,107
Real estate	8,683	5,335
Other	4,660	828
<b>Total</b>	<b>173,512</b>	<b>123,833</b>

The table adds details to line “3. Units of UCITS” of table 4.1 above.

**4.2.b Equity securities issued by entities classified as doubtful or unlikely to pay**

Categories/Amounts	Total 31 12 2016	Total 31 12 2015
<b>Equity securities issued by parties with doubtful status</b>		
Gross exposure	20,735	20,704
Cumulative writedowns	20,735	19,077
<i>of which: Writedowns for the period</i>	1,626	-
Net exposure	-	1,627
<b>Equity securities issued by parties with unlikely to pay status</b>		
Gross exposure	143,897	174,884
Cumulative writedowns	114,320	115,911
<i>of which: Writedowns for the period</i>	18,182	21,788
Net exposure	29,577	58,973
<b>Total net exposure</b>	<b>29,577</b>	<b>60,600</b>

The main cumulative write-downs relating to equity securities issued by entities classified as unlikely to pay regard:

- Sorgenia S.p.A. (EUR 40.6 mln);
- CISFI S.p.A. (EUR 10.9 mln);
- RCR S.p.A. (EUR 9.5 mln);
- Risanamento S.p.A. (EUR 9.0 mln);
- Prelios S.p.A. (EUR 8.6 mln);
- Comital Gestione Industria S.p.A. (EUR 7.2 mln);
- Marina di Stabia S.p.A. (EUR 6.9 mln).

The main write-downs recognised during the year regard:

- Sorgenia S.p.A. (EUR 4.5 mln);
- RCR S.p.A. (EUR 4.2 mln);
- Risanamento S.p.A. (EUR 3.7 mln);
- Prelios S.p.A. (EUR 3.2 mln).



### 4.3 Financial assets available for sale: micro-hedged assets

Items/Amounts	Total 31 12 2016	Total 31 12 2015
<b>1. Financial assets subject to micro-hedging of fair value</b>	3,948,514	5,334,041
a) interest rate risk	3,948,514	5,334,041
b) price risk	-	-
c) foreign exchange risk	-	-
d) credit risk	-	-
e) multiple risks	-	-
<b>2. Financial assets subject to micro-hedging of cash flows</b>	-	-
a) interest rate risk	-	-
b) foreign exchange risk	-	-
c) other	-	-
<b>Total</b>	<b>3,948,514</b>	<b>5,334,041</b>

### Section 5 – Financial assets held to maturity – Item 50

The tables for this section were not completed since the Bank has no financial assets held to maturity to report for either the current or previous year.





## Section 6 – Loans to banks – Item 60

### 6.1 Loans to banks: breakdown

Type of transaction/Amount	Total 31 12 2016				
	Book value	Fair Value			Total
		Level 1	Level 2	Level 3	
<b>A. Loans to central banks</b>	<b>3,608,463</b>	<b>-</b>	<b>3,608,463</b>	<b>-</b>	<b>3,608,463</b>
1. Time deposits	20,000	X	X	X	X
2. Compulsory reserve	3,588,463	X	X	X	X
3. Reverse repurchase agreements	-	X	X	X	X
4. Others	-	X	X	X	X
<b>B. Loans to banks</b>	<b>5,327,776</b>	<b>52,546</b>	<b>5,146,979</b>	<b>1,937</b>	<b>5,201,462</b>
1. Loans	4,449,560	-	4,451,197	1,937	4,453,134
1.1 Current accounts and demand deposits	2,339,380	X	X	X	X
1.2 Time deposits	57,656	X	X	X	X
1.3 Other loans:	2,052,524	X	X	X	X
- Reverse repurchase agreements	151,545	X	X	X	X
- Finance leases	-	X	X	X	X
- Others	1,900,979	X	X	X	X
2. Debt securities	878,216	52,546	695,782	-	748,328
2.1 Securities	-	X	X	X	X
2.2 Other debt securities	878,216	X	X	X	X
<b>Total</b>	<b>8,936,239</b>	<b>52,546</b>	<b>8,755,442</b>	<b>1,937</b>	<b>8,809,925</b>

At the reporting date, the item includes non-performing loans for an amount of EUR 1.0 mln (EUR 1.8 mln as at 31 December 2015).

'Banks' also includes international entities of a banking nature subjected to zero weighting in accordance with prudential supervisory regulations on the standardised approach to counterparty and credit risk.

The portfolio of "Loans to banks" includes loans and deposits, in addition to the unrestricted part of the compulsory legal reserve with the Bank of Italy which, at year end, amounted to EUR 3,588.5 mln (EUR 3,028.8 mln as at 31 December 2015). In accordance with regulations on average maintenance levels, the end-of-period balance of the compulsory reserve may be subject to substantial changes in relation to the Group's contingent cash flow requirements.

Sub-item "B.1.3 Other loans – Other", totalling EUR 1,901.0 mln includes security deposits of approximately EUR 1,539.3 mln.

At the reporting date, the aggregate does not include the Group's senior, mezzanine and junior exposures with reference to own and third party securitisation transactions.



Type of transaction/Amount	Total 31 12 2015				
	Book value	Fair Value			Total
		Level 1	Level 2	Level 3	
<b>A. Loans to central banks</b>	<b>3,047,791</b>	<b>-</b>	<b>3,047,791</b>	<b>-</b>	<b>3,047,791</b>
1. Time deposits	19,000	X	X	X	X
2. Compulsory reserve	3,028,789	X	X	X	X
3. Reverse repurchase agreements	-	X	X	X	X
4. Others	2	X	X	X	X
<b>B. Loans to banks</b>	<b>5,194,265</b>	<b>144,672</b>	<b>4,904,970</b>	<b>2,257</b>	<b>5,051,899</b>
1. Loans	4,284,496	-	4,282,935	1,577	4,284,512
1.1 Current accounts and demand deposits	1,740,816	X	X	X	X
1.2 Time deposits	95,177	X	X	X	X
1.3 Other loans:	2,448,503	X	X	X	X
- Reverse repurchase agreements	319,261	X	X	X	X
- Finance leases	-	X	X	X	X
- Others	2,129,242	X	X	X	X
2. Debt securities	909,769	144,672	622,035	680	767,387
2.1 Securities	-	X	X	X	X
2.2 Other debt securities	909,769	X	X	X	X
<b>Total</b>	<b>8,242,056</b>	<b>144,672</b>	<b>7,952,761</b>	<b>2,257</b>	<b>8,099,690</b>

## 6.2 Loans to banks subject to micro-hedging

Type of transaction/Amounts	Total 31 12 2016	Total 31 12 2015
<b>1. Loans subject to micro-hedging of fair value</b>	<b>795,602</b>	<b>837,535</b>
a) interest rate risk	446,863	498,118
b) exchange risk	348,739	339,417
c) credit risk	-	-
d) multiple risks	-	-
<b>2. Loans subject to micro-hedging of cash flows</b>	<b>-</b>	<b>-</b>
a) interest rate risk	-	-
b) foreign exchange risk	-	-
c) others	-	-
<b>Total</b>	<b>795,602</b>	<b>837,535</b>

## 6.3 Finance leases

This table was not compiled since the Group had no finance leases to report for either the period under review or the previous year.



## Section 7 – Loans to customers – Item 70

### 7.1 Loans to customers: breakdown

Type of transaction Amount	31 12 2016							
	Book value				Fair value			
	Performing	Non-performing		Total	Level 1	Level 2	Level 3	Total
		Purchased	Others					
<b>Loans</b>	85,242,458	3,778	20,316,094	105,562,330	-	8,522,269	100,771,164	109,293,433
1. Current accounts	6,313,250	374	3,405,988	9,719,612	X	X	X	X
2. Reverse repurchase agreements	8,854,642	-	-	8,854,642	X	X	X	X
3. Mortgages	49,532,622	1,787	12,666,897	62,201,306	X	X	X	X
4. Credit cards, personal loans and fifth-of-salary backed loans	1,397,535	-	145,804	1,543,339	X	X	X	X
5. Finance lease	2,928,195	-	954,307	3,882,502	X	X	X	X
6. Factoring	756,321	-	134,422	890,743	X	X	X	X
7. Other transactions	15,459,893	1,617	3,008,676	18,470,186	X	X	X	X
<i>of which: leased assets under construction</i>	<i>183,337</i>	<i>-</i>	<i>30,871</i>	<i>214,208</i>	<i>X</i>	<i>X</i>	<i>X</i>	<i>X</i>
<b>Debt securities</b>	<b>1,130,306</b>	<b>-</b>	<b>75</b>	<b>1,130,381</b>	<b>154,817</b>	<b>975,807</b>	<b>75</b>	<b>1,130,699</b>
8. Structured securities	-	-	-	-	X	X	X	X
9. Other debt securities	1,130,306	-	75	1,130,381	X	X	X	X
<b>Total</b>	<b>86,372,764</b>	<b>3,778</b>	<b>20,316,169</b>	<b>106,692,711</b>	<b>154,817</b>	<b>9,498,076</b>	<b>100,771,239</b>	<b>110,424,132</b>

'Loans to customers' also includes operating receivables other than those connected with the payment for the supply of non-financial goods and services, which are posted to "Other assets" in item 160 of the Assets.

The securities portfolio also includes bonds not listed in active markets issued mainly by regional public bodies, e.g. municipal bonds (it.: buoni ordinari comunali, BOC).

According to the Bank of Italy's definitions, the "Non-performing" column, broken down into "Purchased" and "Others", includes doubtful, unlikely to pay and loans more than 90 days past due, recognised net of impairment losses. Details of these exposures can be found in Part E "Information on risks and hedging policies" of the notes to the financial statements (Section A "credit Quality").

At the reporting date, the aggregate does not include the Group's senior, mezzanine and junior exposures with reference to third party securitisation transactions.

The significant increase of EUR 4,168.7 mln reported on line "2. Repurchase agreement", in the "Performing" column is due to the classification by the subsidiary MPS Capital Services S.p.A. starting in the last quarter of 2016 of the new repurchase agreements in the banking book, given their purpose which is predominantly associated with the temporary use of cash and cash equivalents. Previously, transactions of this type were classified in the trading book as they were carried out as part of a broader trading strategy.



Type of transaction Amount	31 12 2015							
	Book value				Fair value			
	Performing	Non-performing		Total	Level 1	Level 2	Level 3	Total
		Purchased	Others					
<b>Loans</b>	86,169,509	4,487	24,148,296	110,322,292	-	801,632	113,337,780	114,139,412
1. Current accounts	7,650,372	440	3,936,483	11,587,295	X	X	X	X
2. Reverse repurchase agreements	4,685,976	-	-	4,685,976	X	X	X	X
3. Mortgages	52,453,411	3,958	14,977,905	67,435,274	X	X	X	X
4. Credit cards, personal loans and fifth-of-salary backed loans	1,680,994	-	187,403	1,868,397	X	X	X	X
5. Finance lease	3,162,585	-	1,112,518	4,275,103	X	X	X	X
6. Factoring	707,292	-	145,575	852,867	X	X	X	X
7. Other transactions	15,828,879	89	3,788,412	19,617,380	X	X	X	X
<i>of which: leased assets under construction</i>	<i>157,230</i>	-	<i>36,364</i>	<i>193,594</i>	X	X	X	X
<b>Debt securities</b>	1,043,043	-	1,048	1,044,091	48,953	1,027,954	1,048	1,077,955
8. Structured securities	-	-	-	-	X	X	X	X
9. Other debt securities	1,043,043	-	1,048	1,044,091	X	X	X	X
<b>Total</b>	87,212,552	4,487	24,149,344	111,366,383	48,953	1,829,586	113,338,828	115,217,367



## 7.2 Loans to customers: breakdown by borrower/issuer

Type of transaction/Amount	31 12 2016			
	Performing	Non-performing		Total
		Purchased	Others	
<b>1. Debt securities:</b>	1,130,306	-	75	1,130,381
a) Governments	153,180	-	-	153,180
b) Other public entities	224,225	-	-	224,225
c) Other issuers	752,901	-	75	752,976
- non-financial companies	70,037	-	75	70,112
- financial companies	227,574	-	-	227,574
- insurance companies	455,290	-	-	455,290
- others	-	-	-	-
<b>2. Loans to:</b>	85,242,458	3,778	20,316,094	105,562,330
a) Governments	613,245	-	265	613,510
b) Other public entities	2,051,607	-	280,483	2,332,090
c) Other entities	82,577,606	3,778	20,035,346	102,616,730
- non-financial companies	41,607,346	2,512	16,563,009	58,172,867
- financial companies	12,174,474	-	487,717	12,662,191
- insurance companies	121	-	4	125
- others	28,795,665	1,266	2,984,616	31,781,547
<b>Total</b>	<b>86,372,764</b>	<b>3,778</b>	<b>20,316,169</b>	<b>106,692,711</b>

Type of transaction/Amount	31 12 2015			
	Performing	Non-performing		Total
		Purchased	Others	
<b>1. Debt securities:</b>	1,043,043	-	1,048	1,044,091
a) Governments	144,857	-	-	144,857
b) Other public entities	254,645	-	-	254,645
c) Other issuers	643,541	-	1,048	644,589
- non-financial companies	-	-	1,048	1,048
- financial companies	188,382	-	-	188,382
- insurance companies	455,159	-	-	455,159
- others	-	-	-	-
<b>2. Loans to:</b>	86,169,509	4,487	24,148,296	110,322,292
a) Governments	731,585	-	230	731,815
b) Other public entities	2,306,703	-	2,965	2,309,668
c) Other entities	83,131,221	4,487	24,145,101	107,280,809
- non-financial companies	45,399,545	2,911	20,423,337	65,825,793
- financial companies	7,714,546	-	528,203	8,242,749
- insurance companies	19,158	-	1	19,159
- others	29,997,972	1,576	3,193,560	33,193,108
<b>Total</b>	<b>87,212,552</b>	<b>4,487</b>	<b>24,149,344</b>	<b>111,366,383</b>



### 7.3 Loans to customers: micro-hedged assets

Type of transaction/Amount	Total 31 12 2016	Total 31 12 2015
<b>1. Loans subject to micro-hedging of fair value</b>	<b>380,059</b>	<b>402,885</b>
a) interest rate risk	380,059	402,885
b) exchange risk	-	-
c) credit risk	-	-
d) multiple risks	-	-
<b>2. Loans subject to micro-hedging of cash flows</b>	<b>50,095</b>	<b>-</b>
a) interest rate risk	50,095	-
b) foreign exchange risk	-	-
c) other	-	-
<b>Total</b>	<b>430,154</b>	<b>402,885</b>

### 7.4 Finance leases

#### 7.4.a Reconciliation of future minimum payments receivable and finance leases

31 12 2016

Items /Accounts	Carrying amount			Gross investment		
	Lease payments receivable discounted at explicit lease rate (A)	Lease payments receivable discounted at implicit lease rate (present value of minimum lease payments) (B)	Total lease payments receivable recognised in income for the period (A + B)	Deferred financial income (D)	Future minimum lease payments (B + D)	of which: unguaranteed residual values
Up to 1 year	267,353	777,447	1,044,800	164,595	942,042	26,421
From 1 to 5 years	-	1,486,843	1,486,843	457,946	1,944,789	93,144
Over 5 years	-	1,845,965	1,845,965	364,905	2,210,870	548,280
Indefinite useful life	770,718	-	770,718	-	-	-
<b>Total</b>	<b>1,038,071</b>	<b>4,110,255</b>	<b>5,148,326</b>	<b>987,446</b>	<b>5,097,701</b>	<b>667,845</b>
Value adjustments	(926,300)	(339,524)	(1,265,824)	-	(339,524)	-
<b>Loans and advances in the balance sheet</b>			<b>3,882,502</b>			

Net loans to customers for finance leases amounted to EUR 3,882.5 mln, of which EUR 954.3 mln for “Non-performing assets”. The finance lease portfolio of the subsidiary MPS Leasing & Factoring consists of 28,850 contracts, broken down as follows in terms of the remaining debt balance:

- 64.0% real estate segment;
- 19.5% operating asset segment;
- 8.0% energy segment;
- 4.9% vehicle segment;
- 3.6% aircraft and railway segment.

The remaining value of the thirty most significant loans was EUR 275.0 mln.



## Section 8 – Hedging derivatives – Item 80

### 8.1 Hedging derivatives: breakdown by type of contract and underlying asset

	Fair value 31 12 2016				NV
	Level 1	Level 2	Level 3	Total	
<b>A. Financial derivatives</b>	-	327,349	-	327,349	15,282,706
1) Fair value	-	327,349	-	327,349	15,282,706
2) Cash flows	-	-	-	-	-
3) Foreign investments	-	-	-	-	-
<b>B. Credit derivatives</b>	-	-	-	-	-
1) Fair value	-	-	-	-	-
2) Cash flows	-	-	-	-	-
<b>Total</b>	-	327,349	-	327,349	15,282,706

#### Legend

NV = Notional or Nominal Value

The table displays the positive book value (fair value) of hedging derivatives for hedges carried out through hedge accounting.

Information on the underlying strategies and objectives of hedge transactions can be found in the Section “Market risks” of Part E “Information on Risks and hedging policies”.

	Fair value 31 12 2015				NV
	Level 1	Level 2	Level 3	Total	
<b>A. Financial derivatives</b>	-	556,425	-	556,425	16,608,084
1) Fair value	-	551,684	-	551,684	16,549,521
2) Cash flows	-	4,741	-	4,741	58,563
3) Foreign investments	-	-	-	-	-
<b>B. Credit derivatives</b>	-	-	-	-	-
1) Fair value	-	-	-	-	-
2) Cash flows	-	-	-	-	-
<b>Total</b>	-	556,425	-	556,425	16,608,084

#### Legend

NV = Notional or Nominal Value





## 8.2 Hedging derivatives: breakdown by hedged portfolios and type of hedging

Transaction/Type of hedge	Fair Value						Cash Flows		Investments Foreign	Total 31 12 2016
	Micro-hedge					Macro-hedge	Micro-hedge	Macro-hedge		
	Risk Rate	Risk Exchange	Risk Credit	Risk Price	Multiple Risks					
1. Financial assets available for sale	5,580	-	-	-	-	X	-	X	X	5,580
2. Loans and receivables	-	-	-	-	-	X	-	X	X	-
3. Financial assets held to maturity	X	-	-	X	-	X	-	X	X	-
4. Portfolio	X	X	X	X	X	3,001	X	-	X	3,001
5. Other transactions	-	-	-	-	-	X	-	X	-	-
Total assets	5,580	-	-	-	-	3,001	-	-	-	8,581
1. Financial liabilities	302,901	-	-	-	15,867	X	-	X	X	318,768
2. Portfolio	X	X	X	X	X	-	X	-	X	-
Total liabilities	302,901	-	-	-	15,867	-	-	-	-	318,768
1. Expected transactions	X	X	X	X	X	X	-	X	X	-
2. Financial assets and liabilities portfolio	X	X	X	X	X	-	X	-	-	-
Total	308,481	-	-	-	15,867	3,001	-	-	-	327,349

The table shows the positive fair values of hedging derivatives, classified by hedged assets or liabilities and type of hedging implemented.

In particular, on the assets side, fair value micro-hedging was used to hedge against interest-rate risk on fixed-rate and variable-rate capped mortgages and bonds classified in the available-for-sale portfolio or among receivables, in order to protect them from unfavourable interest rate changes. Fair value macro-hedging was carried out on fixed-rate mortgage loan portfolios.

With reference to financial liabilities, fair value micro-hedging of the interest-rate risk refers primarily to hedges of liabilities represented by securities. Cash flow hedges were carried out on some specific index-linked bond issues, in order to stabilise their flows through interest rate swaps.

More information on hedged assets and liabilities can be found in the tables contained in Part B of the notes for each section of the balance sheet items to which the hedged items are posted.



## Section 9 – Change in value of macro-hedged financial assets – Item 90

### 9.1 Change in value of hedged assets: breakdown by hedged portfolios

Changes in value of hedged assets / Group components	Total 31 12 2016	Total 31 12 2015
<b>1. Positive changes</b>	<b>113,300</b>	<b>139,582</b>
1.1 of specific portfolios:	113,300	139,582
a) loans and receivables	113,300	139,582
b) financial assets available for sale	-	-
1.2 overall	-	-
<b>2. Negative changes</b>	<b>-</b>	<b>-</b>
2.1 of specific portfolios:	-	-
a) loans and receivables	-	-
b) financial assets available for sale	-	-
2.2 overall	-	-
<b>Total</b>	<b>113,300</b>	<b>139,582</b>

The value adjustment concerns fixed and capped floating rate mortgage loan portfolios that were fair value macro-hedged with derivatives to counter possible interest rate risk-induced fluctuations in value. As this is a macro-hedge, any gain or loss on the hedged item attributable to the risk hedged may not directly adjust the value of said item (unlike in micro-hedging), but must be presented in this separate line item of the assets. The amounts in this item must be removed from the balance sheet when the relevant assets or liabilities are derecognised.

The fair value of the corresponding hedging derivatives is shown respectively in Table 8.2 (assets) or Table 6.2 (liabilities), both entitled “Hedging derivatives: breakdown by hedged portfolio and type of hedging”, in the “Macro-hedging” column.

### 9.2 Assets subject to macro-hedging of interest-rate risk

Hedged assets	Total 31 12 2016	Total 31 12 2015
1. Loans and receivables	4,126,257	1,418,025
2. Assets available for sale	-	-
3. Portfolio	-	-
<b>Total</b>	<b>4,126,257</b>	<b>1,418,025</b>

The table shows the book value (amortised cost) of fixed-rate and capped floating rate mortgages included in Item 70 “Loans to customers”, which was macro-hedged against interest-rate risk as per Table 9.1 above.

The sum of this amount and the one shown in Table 9.1 expresses the book value of these receivables, adjusted for profit or loss attributable to the risk hedged.



## Section 10 – Equity investments – Item 100

### 10.1 Equity investments: information on shareholding

Company Name	Headquarters	Registered Office	Type of relationship	Ownership Relationship		Avail. % votes
				Held by	Share holding %	
A. Companies under joint control						
Immobiliare Novoli S.p.a.	Florence	Florence	7	Banca Monte dei Paschi di Siena	50.000	-
Integra S.p.a.	Calenzano (FI)	Calenzano (FI)	7	Banca Monte dei Paschi di Siena	50.000	-
Marinella S.p.a.	Marinella di Sarzana (SP)	Marinella di Sarzana (SP)	7	Banca Monte dei Paschi di Siena	25.000	
B. Companies under significant influence						
Aeroporto di Siena S.p.a. (in liquidazione)	Siena	Siena	8	Banca Monte dei Paschi di Siena	49.014	-
Axa Mps Assicurazioni Danni S.p.a.	Rome	Rome	8	Banca Monte dei Paschi di Siena	50.000	-
Axa Mps Assicurazioni Vita S.p.a.	Rome	Rome	8	Banca Monte dei Paschi di Siena	50.000	-
Casalboccone Roma S.p.a. (in liquidazione)	Siena	Siena	8	Banca Monte dei Paschi di Siena	21.750	33.675
Fenice Holding S.p.a.	Calenzano (FI)	Calenzano (FI)	8	Banca Monte dei Paschi di Siena	4.156	-
				MPS Capital Services S.p.a.	16.383	-
Fidi Toscana S.p.a.	Florence	Florence	8	Banca Monte dei Paschi di Siena	27.460	-
Firenze Parcheggi S.p.a.	Florence	Florence	8	Banca Monte dei Paschi di Siena	16.807	-
Fondo Etrusco Distribuzione	Rome	Rome	8	Banca Monte dei Paschi di Siena	48.000	-
Fondo Minibond PMI Italia	Conegliano (TV)	Conegliano (TV)	8	Banca Monte dei Paschi di Siena	61.940	-
Fondo Socrate	Rome	Rome	8	Banca Monte dei Paschi di Siena	23.140	-
Immobiliare Centro Milano S.p.a.	Milan	Milan	8	MPS Capital Services S.p.a.	33.333	-
Intermonte SIM S.p.a.	Milan	Milan	8	Banca Monte dei Paschi di Siena	17.410	-
Interporto Toscano A.Vespucci S.p.a.	Collesalveti (LI)	Collesalveti (LI)	8	Banca Monte dei Paschi di Siena	21.819	-
				MPS Capital Services S.p.a.	19.002	-
Le Robinie S.p.a.	Reggio Emilia	Reggio Emilia	8	Banca Monte dei Paschi di Siena	20.000	-
Microcredito di Solidarietà S.p.a.	Siena	Siena	8	Banca Monte dei Paschi di Siena	40.000	
Nuova Sorgenia Holding S.p.a.*	Milan	Milan	8	Banca Monte dei Paschi di Siena	16.670	-
NewColle S.r.l.	Colle V.Elsa (SI)	Colle V.Elsa (SI)	8	Banca Monte dei Paschi di Siena	49.002	-
Realizzazioni e Bonifiche Arezzo S.p.a. (in liquidazione)	Arezzo	Arezzo	8	Banca Monte dei Paschi di Siena	19.584	-
Sansedoni Siena S.p.a.	Siena	Siena	8	Banca Monte dei Paschi di Siena	21.754	33.674
S.I.C.I. Sviluppo Imprese Centro Italia SGR S.p.a.	Florence	Florence	8	MPS Capital Services S.p.a.	15.000	-
S.I.T. - Finanz.di Sviluppo per l'Inn. Tecnologica S.p.a.	Rome	Rome	8	Banca Monte dei Paschi di Siena	19.969	-
Terme di Chianciano S.p.a.	Chianciano T. (SI)	Chianciano T. (SI)	8	Banca Monte dei Paschi di Siena	18.527	-
				MPS Capital Services S.p.a.	26.395	-
Trixia S.r.l.	Milan	Milan	8	Banca Monte dei Paschi di Siena	15.000	-

\* The portion pertaining to the Group in application of the equity method amounts to 22.24%, given the set of risks and benefits connected with the exposure to Sorgenia S.p.A.

For further details on changes, see comments to table “10.5 - Equity investments: annual changes”.



## 10.2 Significant equity investments: book value, fair value and dividends earned

Company name	Book value		Fair value	Dividends earned
	31 12 2016	31 12 2015		
A. Companies under joint control				
Immobiliare Novoli S.p.a.	6,602	8,179	-	-
B. Companies under significant influence				
Axa Mps Assicurazioni Vita S.p.a.	771,707	658,114	-	50,072
Axa Mps Assicurazioni Danni S.p.a.	66,474	56,802	-	-
Fondo Etrusco Distribuzione	64,856	62,886	-	3,240
Fidi Toscana S.p.a.	42,439	45,634	-	-
Fondo Minibond PMI Italia	41,660	40,341	-	600
Intermonte SIM S.p.a.	16,307	16,674	-	3,040
Fondo Socrate	12,065	11,873	14,827	-
Firenze Parcheggio S.p.a.	4,556	4,556	-	-
Totale	1,026,666	905,059	14,827	56,952



### 10.3 Significant equity investments: accounting information

Company name		Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total revenues	Net interest income	Value adjustments and writebacks on tangible and intangible assets	Gain (Loss) from current operations before tax	Gain (Loss) from current operations after tax	Gain (Loss) from groups of assets held for sale after tax	Gain (Loss) for the year (1)	Other comprehensive income after tax (2)	Comprehensive income (3) = (1) + (2)
<b>A. Companies under joint control</b>															
Immobiliare Novoli S.p.a.	-	90	165,504	141,817	10,573	9,604	(2,830)	-	(2,867)	(2,813)	-	(2,813)	-	-	(2,813)
<b>B. Companies under significant influence</b>															
Axa Mps Assicurazioni Danni S.p.a.	-	536,772	68,616	407,463	69,609	185,047	-	-	29,494	18,106	18,106	-	18,106	1,237	19,343
Axa Mps Assicurazioni Vita S.p.a.	X	17,299,949	920,340	15,818,672	939,069	2,979,360	-	-	190,338	161,694	161,694	-	161,694	210,127	371,821
Fidi Toscana S.p.a.	X	224,245	112,027	-	182,568	19,459	-	-	(671)	(639)	-	-	(639)	(879)	(1,518)
Firenze Parcheggi S.p.a.	X	1,994	50,178	13,177	5,093	14,536	-	-	577	407	407	-	407	-	407
Fondo Etrusco	X	3,691	222,584	78,667	645	8,171	-	-	5,124	5,124	5,124	-	5,124	-	5,124
Fondo Minibond PMI Italia	X	60,138	1,071	-	153	-	-	-	3,101	3,101	3,101	-	3,101	-	3,101
Fondo Socrate	X	9,810	134,811	18,889	1,927	-	-	-	829	829	829	-	829	-	829
Intermonte SIM S.p.a.	X	274,091	14,457	179,092	17,313	41,148	-	-	15,197	10,711	10,711	-	10,711	-	10,711



### 10.3a - Reconciliation of accounting information with the book value

	FIRENZE PARCHEGGI S.P.A.	INTERMONTE SIM S.P.A.	FONDO SOCRATE	FONDO MINIBOND PMI ITALIA	FONDO ETRUSCO DISTRIBUZIONE	FIDI TOSCANA S.P.A.	AXA MPS ASSICURAZIONI VITA S.P.A.	AXA MPS ASSICURAZIONI DANNI S.P.A.	IMMOBILIARE NOVOLI S.P.A.
Shareholding	16.81%	17.41%	23.14%	61.94%	48.00%	27.46%	50.00%	50.00%	50.00%
Cash and cash equivalents	X	X	X	X	X	X	X	X	-
Financial assets	1,994	274,091	9,810	60,138	3,691	224,245	17,299,949	536,772	90
Non-financial assets	50,178	14,457	134,811	1,071	222,584	112,027	920,340	68,616	165,504
Financial liabilities	13,177	179,092	18,889	-	78,667	-	15,818,672	407,463	141,817
Non-financial liabilities	5,093	17,313	1,927	153	645	182,568	939,069	69,609	10,573
Shareholders' equity (100%)	33,902	92,143	123,805	61,056	146,963	153,704	1,462,548	128,316	13,204
Group shareholding	5,698	16,042	28,648	37,818	70,542	42,207	731,274	64,158	6,602
Cancellation of unrealised intragroup profit/loss	-	-	-	-	-	-	56,885	-	-
Goodwill	-	-	-	-	-	-	46,796	2,316	-
Value adjustments	-	-	-	-	-	-	-	-	-
Other increases/decreases	(1,142)	265	(16,583)	3,842	(5,086)	232	(63,248)	-	-
Book value of Associate company as at 31 12 2016	4,556	16,307	12,065	41,660	64,856	42,439	771,707	66,474	6,602
Book value as at 31 12 2015	-	-	-	-	-	-	-	-	-
Profit (loss) for the year	4,556	16,674	11,873	40,341	62,886	45,634	658,114	56,802	8,179
Other comprehensive income after tax	407	10,711	829	3,101	5,124	(639)	161,694	18,106	(2,813)
Comprehensive income attributable to the Group	-	-	-	-	-	(879)	210,127	1,237	-
Dividends	68	1,865	192	1,921	2,460	(416)	185,911	9,672	(1,406)
Value/adjustments and writebacks	-	(3,040)	-	(600)	(3,240)	-	(50,072)	-	-
Other changes	(68)	808	-	(2)	2,750	(2,779)	(22,246)	-	(171)
Book value of Associate company as at 31 12 2016	4,556	16,307	12,065	41,660	64,856	42,439	771,707	66,474	6,602



### 10.3b – Significant equity investments: information on business

Company name	Type of business
<b>Companies under significant influence</b>	
Axa Mps Assicurazioni Danni S.p.A.	Company specialising in P&C insurance, offering a comprehensive range of insurance solutions tailored to the needs of customers and businesses.
Axa Mps Assicurazioni Vita S.p.A.	Leading company in the domestic insurance market, offering innovative and advantageous solutions for all pension, insurance, savings and investment needs.
Fidi Toscana S.p.A.	A Tuscan financial company which aims to facilitate access to credit for small and medium businesses
Fondo Etrusco Distribuzione	Real estate fund for institutional investors. Its portfolio has been built up through a series of sale and leaseback transactions on commercial properties fully leased by a leading player in the Mass Distribution Industry
Fondo Minibond PMI Italia	Independent investment fund for investments in bonds issued by small and medium Italian businesses
Fondo Socrate	Closed-end mutual real estate investment fund. Listed on the Market for Investment Vehicles of the Italian Stock Exchange as of 30 January 2014
Immobiliare Novoli S.p.A.	Real estate company
Intermonte SIM S.p.A.	Leading brokerage company in the Italian stock market. Operates with foreign and Italian institutional customers
Firenze Parcheggio S.p.A	Company that manages and coordinates the parking in Florence

The associated companies Axa MPS Assicurazione Danni S.p.A and Axa Mps Assicurazioni Vita S.p.A. are strategic for the Group.

### 10.4 Non-significant equity investments: accounting information

	Book value of equity investment	Total assets	Total liabilities	Total revenues	Gain (Loss) from continuing operations after tax	Gain (Loss) from groups of assets held for sale after tax	Gain (Loss) for the year (1)	Other comprehensive income after tax (2)	Comprehensive income (3) = (1) + (2)
<b>A. Companies under joint control</b>	951	78,671	52,955	2,601	(1,098)	-	(1,098)	-	(1,098)
<b>B. Companies under significant influence</b>	4,061	3,028,958	3,085,312	1,414,834	59,748	-	59,748	-	59,748

**10.5 Equity investments: annual changes**

	Total 31 12 2016	Total 31 12 2015
<b>A. Opening balance</b>	<b>908,365</b>	<b>1,013,899</b>
<b>B. Increases</b>	<b>188,117</b>	<b>150,353</b>
B.1 Purchases	-	-
B.2 Write-backs	-	-
B.3 Revaluations	-	-
B.4 Other increases	188,117	150,353
<b>C. Decreases</b>	<b>64,804</b>	<b>255,887</b>
C.1 Sales	-	110,800
C.2 Write-downs	1,644	10,137
C.3 Other decreases	63,160	134,950
<b>D. Closing balance</b>	<b>1,031,678</b>	<b>908,365</b>
<b>E. Total revaluation</b>	<b>-</b>	<b>-</b>
<b>F. Total write-downs</b>	<b>110,384</b>	<b>111,200</b>

Below are the main changes in the course of the year.

Among increases:

- in line B.4 “Other increases”: EUR 79.3 mln in profits and EUR 107.0 mln in changes in valuation reserves relating to associates.

Among decreases:

- in line C.2 “Write-downs”: the impairment loss of the interest held in the associate Trixia S.r.l.;
- in line C.3 “Other decreases”, dividends from associated companies of EUR 57.1 mln and losses of associates of EUR 6.1 mln.

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In accordance with the accounting standards, the indicators of impairment of equity investments in associates have been measured, the recoverable value has been determined where applicable, and any write-downs or reversals have been accounted for.

As regards the equity investments in the associates Axa MPS Danni and Axa MPS Vita, an analysis on key impairment indicators has not identified elements indicating that impairment tests should be performed.

Reported below is the main embedded goodwill:

<b>Embedded goodwill</b>	<b>31 12 2016</b>	<b>31 12 2015</b>
Axa Mps Assicurazioni Vita S.p.A.	46,796	46,796
Axa Mps Assicurazioni Danni S.p.A.	2,316	2,316
Others	-	712
<b>Total</b>	<b>49,112</b>	<b>49,824</b>





### **10.6 Key considerations and assumptions to determine the existence of joint control or significant influence**

The Group considers as associates, that are subject to significant influence, the companies of which it holds at least 20 per cent of the voting rights (including potential voting rights) and in which it has the power to participate in determining the financial and operating policies.

Similarly, companies are considered associates also when the Group – despite a lower percentage of voting rights– has the power of participating in the determination of the financial and operating policies of the investee on account of specific legal agreements such as, for example, the participation in important committees of the investee as well as the presence of vetoing rights on significant decisions.

The Group considers jointly controlled those companies with respect to which the following circumstances occur simultaneously:

- if an agreement has been entered into that assigns co-participation in the management of the investee's activities via a presence on the Board of Directors;
- none of the parties participating in the agreement holds exclusive control;
- decisions relating to relevant activities are made unanimously by the parties identified (each has an implicit or explicit veto right with regard to relevant decisions).

### **10.7 Covenants on investments in jointly controlled companies**

No covenants on investments in jointly controlled companies are reported.

### **10.8 Covenants on investments in companies under significant influence**

No covenants on investments in companies under significant influence are reported.

### **10.9 Significant restrictions**

At the financial statement date there are no significant restrictions to the jointly controlled companies' or associates' ability to transfer funds to the Group in the form of dividends, aside from those set forth in Civil Code provisions, requiring the deduction of 5% of the net profit for the year and its allocation to the legal reserve, until the latter amounts to 20% of the share capital. The reserve must be replenished if it is reduced for any reason.

### **10.10 Other information**

The equity method, a synthetic methods for the valuation of the equity of companies on which the Group has significant influence or joint control, is performed on the basis of the financial statements for the year ended 31 December 2016; if these are not available, the valuation is carried out on the basis of the interim report as at 30 September 2016.

**Section 11 – Reinsurance technical reserves – Item 110**

No values are shown in this section as the insurance companies in which the Group holds equity investments are associates, and therefore these investments are consolidated using the equity method.

**Section 12 - Property, plant and equipment - Item 120****12.1 Property, plant and equipment used in the business: breakdown of assets valued at cost**

Asset/Amount	Total	
	31 12 2016	31 12 2015
<b>1. Assets owned</b>	<b>2,248,657</b>	<b>2,286,046</b>
a) land	795,492	817,623
b) buildings	1,144,413	1,182,146
c) furniture and furnishings	159,025	158,242
d) electronic systems	87,969	72,206
e) other	61,758	55,829
<b>2. Assets leased</b>	<b>21,030</b>	<b>24,310</b>
a) land	-	-
b) buildings	-	-
c) furniture and furnishings	-	-
d) electronic systems	21,030	24,310
e) other	-	-
<b>Total</b>	<b>2,269,687</b>	<b>2,310,356</b>

All of the Group's property, plant and equipment is measured at cost; the line "land" expresses the value of land separately from the value of buildings. In compliance with guidance provided by IAS 36 "Impairment of Assets" and recommendations contained in document no. 4 of 3 March 2010 issued jointly by the Bank of Italy, Consob and Isvap, an overall property appraisal was made with a view to determining any impairment losses to be posted to profit and loss for the year; disclosure of these impairment losses is provided in the notes to the table "12.5 Property, plant and equipment used in the business: annual changes", below.

Item 1 "Assets owned –c) furniture and furnishings" includes works of Arts whose value amounts to EUR 121.4 mln.



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

Asset/Amount	Total 31 12 2016				
	Book value	Fair Value			
		Level 1	Level 2	Level 3	Total
<b>1. Assets owned</b>	<b>327,747</b>	-	-	<b>362,257</b>	<b>362,257</b>
a) land	160,012	-	-	162,936	162,936
b) buildings	167,735	-	-	199,321	199,321
<b>2. Assets leased</b>	-	-	-	-	-
a) land	-	-	-	-	-
b) buildings	-	-	-	-	-
<b>Total</b>	<b>327,747</b>	-	-	<b>362,257</b>	<b>362,257</b>

All of the Group's property, plant and equipment is measured at cost; the line "land" expresses the value of land separately from the value of buildings. In compliance with guidance provided by IAS 36 "Impairment of Assets" and recommendations contained in document no. 4 of 3 March 2010 issued jointly by the Bank of Italy, Consob and Isvap, an overall property appraisal was made with a view to determining any impairment losses to be posted to profit and loss for the year; disclosure of these impairment losses is provided in the notes to the table "12.6 Property, plant and equipment held for investment: annual changes", below.

Asset/Amount	Total 31 12 2015				
	Book value	Fair Value			
		Level 1	Level 2	Level 3	Total
<b>1. Assets owned</b>	<b>431,366</b>	-	-	<b>496,573</b>	<b>496,573</b>
a) land	185,629	-	-	203,747	203,747
b) buildings	245,737	-	-	292,826	292,826
<b>2. Assets leased</b>	-	-	-	-	-
a) land	-	-	-	-	-
b) buildings	-	-	-	-	-
<b>Total</b>	<b>431,366</b>	-	-	<b>496,573</b>	<b>496,573</b>

## 12.3 Property, plant and equipment used in the business: breakdown of revalued assets

The Group does not own any revalued property, plant and equipment.

## 12.4 Property, plant and equipment held for investment: breakdown of assets designated at fair value

The Group holds no property, plant and equipment designated at fair value pursuant to IAS 40.



## 12.5 Property, plant and equipment used in the business: annual changes

	Land	Buildings	Furniture and furnishings	Electronic systems	Others	Total 31 12 2016
<b>A. Gross opening balance</b>	<b>834,885</b>	<b>1,420,829</b>	<b>509,975</b>	<b>693,354</b>	<b>445,603</b>	<b>3,904,646</b>
A.1 Total net decrease	17,261	238,681	351,733	596,840	389,774	1,594,289
<b>A.2 Net opening balance</b>	<b>817,624</b>	<b>1,182,148</b>	<b>158,242</b>	<b>96,514</b>	<b>55,829</b>	<b>2,310,357</b>
<b>B. Increases</b>	<b>2,006</b>	<b>27,618</b>	<b>10,671</b>	<b>45,397</b>	<b>21,140</b>	<b>106,832</b>
B.1 Purchases	-	-	10,671	45,396	21,111	77,178
B.2 Capitalized expenditure on improvements	-	7,493	-	-	-	7,493
B.3 Write-backs	-	-	-	-	-	-
B.4 Increases in fair value booked to:	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) profit and loss	-	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	1	3	4
B.6 Transfers from properties held for investment	2,006	2,812	-	-	-	4,818
B.7 Other increases	-	17,313	-	-	26	17,339
<b>C. Decreases</b>	<b>24,137</b>	<b>65,353</b>	<b>9,887</b>	<b>32,914</b>	<b>15,211</b>	<b>147,502</b>
C.1 Sales	17,002	10,984	108	154	275	28,523
C.2 Depreciation	-	43,259	9,777	31,960	14,936	99,932
C.3 Impairment losses booked to:	356	903	-	773	-	2,032
a) shareholders' equity	-	-	-	-	-	-
b) profit and loss	356	903	-	773	-	2,032
C.4 Decreases in fair value booked to:	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) profit and loss	-	-	-	-	-	-
C.5 Negative exchange differences	-	-	2	-	-	2
C.6 Transfer to:	6,144	10,092	-	-	-	16,236
a) tangible asset held for investment	3,911	7,426	-	-	-	11,337
b) assets held for sale	2,233	2,666	-	-	-	4,899
C.7 Other decreases	635	115	-	27	-	777
<b>D. Net closing balance</b>	<b>795,493</b>	<b>1,144,413</b>	<b>159,026</b>	<b>108,997</b>	<b>61,758</b>	<b>2,269,687</b>
D.1 Total net decreases	17,080	268,658	361,413	628,243	405,033	1,680,427
<b>D.2 Gross closing balance</b>	<b>812,573</b>	<b>1,413,071</b>	<b>520,439</b>	<b>737,240</b>	<b>466,791</b>	<b>3,950,114</b>
<b>E. Carried at cost</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

The line “C.1 Sales” includes EUR 18.0 mln due to a sale transaction on a property in the municipality of Milan owned by the Parent Company: this sale and lease back transaction entailed disposing of the entire property and simultaneously entering into an operating lease agreement on around half of the property.

An analysis of external and internal impairment indicators resulted in impairment losses for an amount of EUR 2.0 mln being recognised in the financial statements as at 31.12.2016 (line C.3). In addition, EUR 14.3 mln in overall capital gains on real estate used in the business is also reported; these capital gains were not recognised in the financial statements. With regard to property, plant and equipment of the Group used in the business other than buildings, no extraordinary negative market factors were thought to exist under a going concern assumption, that might call for the need to recognise impairment losses.

Line E – “Carried at cost” was left blank, as per the Bank of Italy’s instructions, since it only needs to be completed for assets accounted for at fair value.



## 12.6 Property, plant and equipment held for investment: annual changes

	31 12 2016		
	Lands	Building	Total
<b>A. Opening balance</b>	<b>185,629</b>	<b>245,737</b>	<b>431,366</b>
<b>B Increases</b>	<b>6,885</b>	<b>26,746</b>	<b>33,631</b>
B.1 Purchases	2,956	18,461	21,417
B.2 Capitalized expenditure on improvements	-	629	629
B.3 Increases in fair value	-	-	-
B.4 Write-backs	-	-	-
B.5 Positive exchange differences	-	-	-
B.6 Transfers from property used in the business	3,911	7,426	11,337
B.7 Other increases	18	230	248
<b>C. Decreases</b>	<b>32,502</b>	<b>104,748</b>	<b>137,250</b>
C.1 Sales	18,850	83,389	102,239
C.2 Depreciation	-	9,485	9,485
C.3 Decreases in fair value	-	-	-
C.4 Impairment losses	229	144	373
C.5 Negative exchange differences	-	-	-
C.6 Transfers to other asset portfolios	13,423	11,730	25,153
a) properties used in the business	2,006	2,813	4,819
b) non-current assets held for sale	11,417	8,917	20,334
C.7 Other decreases	-	-	-
<b>D. Closing balance</b>	<b>160,012</b>	<b>167,735</b>	<b>327,747</b>
<b>E. Designated at fair value</b>	<b>162,936</b>	<b>199,321</b>	<b>362,257</b>

The total amount of EUR 21.4 mln in line “B.1 Purchases” refers primarily to the recognition of properties in the financial statements of a Group company following the definitive termination of lease agreements.

The amount of EUR 102.2 mln in line C.1 “Sales” regards the sale in December 2016 of a property owned by a subsidiary.

An analysis of external and internal impairment indicators resulted in impairment losses for an amount of EUR 0.4 mln being recognised in the balance sheet as at the reporting date (line C.4). In addition, EUR 34.5 mln in overall capital gains on real estate held for investment is also reported; these capital gains were not recognised in the balance sheet.



## 12.7 Commitments to purchase property, plant and equipment

No commitments to purchase property, plant and equipment were registered in 2016.

## 12.8 Property, plant and equipment: depreciation rates

Main categories of tangible assets	%
Lands and works of art	0.00%
Buildings	3.03%
Furniture and furnishings	10-20%
Alarm and video systems	30.00%
Electronic and ordinary office equipment	12-20%
Electronic data processing equipment	50.00%
Vehicles	20-25%
Telephones	20-25%

The percentages used for carrying out the depreciations with reference to the main categories of property, plant and equipment are presented in the table. Owing to their indefinite useful life, lands and works of art are not depreciated.



## Section 13 – Intangible assets – Item 130

### 13.1 Intangible assets: breakdown by type

Asset / Amount	31 12 2016			31 12 2015		
	Finite Life	Indefinite Life	Total	Finite Life	Indefinite Life	Total
<b>A.1 Goodwill</b>	<b>X</b>	<b>7,900</b>	<b>7,900</b>	<b>X</b>	<b>7,900</b>	<b>7,900</b>
A.1.1 group	X	7,900	7,900	X	7,900	7,900
A.1.2 minorities	X	-	-	X	-	-
<b>A.2 Other intangible assets</b>	<b>337,613</b>	<b>-</b>	<b>337,613</b>	<b>392,203</b>	<b>-</b>	<b>392,203</b>
A.2.1 Assets carried at cost	337,613	-	337,613	392,203	-	392,203
a) internally generated intangible assets	64,948	-	64,948	72,587	-	72,587
b) other assets	272,665	-	272,665	319,616	-	319,616
A.2.2 Assets valued at fair value:	-	-	-	-	-	-
a) internally generated intangible assets	-	-	-	-	-	-
b) other assets	-	-	-	-	-	-
<b>Total</b>	<b>337,613</b>	<b>7,900</b>	<b>345,513</b>	<b>392,203</b>	<b>7,900</b>	<b>400,103</b>

All of the Group's intangible assets are valued at cost. All intangible assets recognised in the financial statements have a finite useful life, except for goodwill.

In preparing of the 2016 accounts, goodwill recognised was tested for recoverability or impairment. In accordance with Document 4 jointly published by Bank of Italy/Consob/IVASS on 3 March 2010 and provisions set out in IAS 36, "Impairment of Assets", a special chapter has been added below to describe the goodwill recoverability test.

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

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

- intangible assets arising from customer relations recognised following the acquisition of former Banca Antonveneta S.p.a.:
  - core deposits totalling EUR 50.2 mln, from the fair value measurement of on-demand funding (current accounts and savings deposits),
  - core overdrafts totalling EUR 12.7 mln, from the fair value measurement of assets represented by non-revolving credit facilities,
  - assets under management and assets under custody in the amount of EUR 1.3 mln, arising from the fair value measurement of AUM and AUC,
- purchase of externally-developed software for an amount of EUR 208.5 mln.

Considering that line "A.2.1 assets carried at cost – a) internally generated intangible assets" includes intangible assets linked to internally generated technology in the amount of EUR 64.9 mln, the software total recognised in the consolidated financial statement amounts to EUR 273.4 mln.

For intangible assets associated with customer relationships, an analysis was carried out on the impairment indicators, which resulted in no need for impairment testing.

With regard to the software, an analysis was carried out of the future service life of the main capitalised assets to check for impairment. This analysis did not result in the identification of significant impairment losses.



### Impairment testing of Group Goodwill

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

IAS 36 defines recoverable amount as the higher of:

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

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

The recoverable amount of goodwill is estimated with reference to the CGUs, since goodwill is not able to generate cash flows independently from an asset.

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

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

- 1) Identification of goodwill;
- 2) Identification of cash-generating units and allocation of goodwill to the cash-generating units identified;
- 3) Determination of the recoverable value of the CGUs
- 4) Impairment Test results.

#### **1) Identification of goodwill**

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

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

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

As for the impairment test as at 31 December 2016, the Group's goodwill was tested by identifying those CGUs into which the Group's operations can be separated and analysing the cash flows that these will be able to generate in future years, based on an approach consistent with Segment Reporting presented in the financial statement and therefore with Management Reporting.

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

In particular, the three CGUs have the following scope of business:

1. **"CGU - Consumer"** is composed of:
  - retail customers from BMPS branches;
  - typically private customers of BMPS as well as other private clients from other Group entities.
2. **"CGU - Corporate"**, composed of typically corporate clients of BMPS and foreign branches, Large Corporates, MPS Leasing & Factoring and MPS Capital Services.
3. **"CGU - Financial Advisory and Digital Banking"** composed of the customers of the subsidiary Widiba, the Group company established to relaunch the presence of MPS in direct channels, which has also been assigned the Financial Advisory Network.





The Group's remaining goodwill tested for impairment amounts to EUR 8 mln and is entirely allocated to the Financial Advisory and Digital Banking CGU. These figures reflect the write-downs of more than EUR 6.5 bn carried out in the previous years.

In fact, it is noted that, since the Consumer and Corporate CGUs have no allocated goodwill, they were not tested for impairment.

### 3) Determination of the recoverable value of the CGU

The Group's goodwill as at 31 December 2016 was tested for impairment by identifying the recoverable amount of the Financial Advisory and Digital Banking CGU as the value in use.

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

On the basis of the above and along the same lines as previously performed impairment tests, this test was carried out on the basis of 2016 preliminary data and the updated 2017-2021 projections developed in line with forecast plans of the Group.

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

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

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

where:

$F_t$  = cash flows distributable to shareholders over the selected time horizon based on the economic and financial projections made, maintaining a satisfactory level of capitalisation.

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

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

To discount cash flows distributable to shareholders, the cost of equity was used, i.e. the return on equity required by investors/shareholders for investments with comparable risk characteristics. This rate was estimated to be 11.3% using the Capital Asset Pricing Model ("CAPM"), based on the following formula:

$$k_e = R_f + \text{Beta} * (R_m - R_f)$$

where:

$R_f$  = risk-free rate (factoring in the country risk) of 1.9%, identified as the average yield of 10-year bonds issued by the Italian government expected at the end of 2019 (source: Prometeia).

Beta = correlation factor between actual share performance and overall performance of the reference market (measurement of the volatility of a stock relative to the market), equivalent to 1.46 (adjusted beta of the Banca MPS ordinary share, source: Bloomberg).

$R_m - R_f$  = risk premium required by the market which, in line with assessment practices, is set at 5.76%.

An additional risk of 100 bps was applied to the rate determined as described above to take into account the stock risk perceived by the market, which is not entirely reflected by the parameters underlying the CAPM.

The Terminal Value was determined based on the following formula:

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

considering a normalised cash flow and an assumed long-term growth rate ( $g$ ) of 1.5%.

2. Determination of the CGU's value in use by discounting future distributable cash flows.

Cash flows of the Widiba CGU have been determined on the basis of the CGU's estimated net profit inferred from the analysis of the projections mentioned previously and the following main valuation parameters - reflective of the most recent market conditions - used to determine the recoverable amount of the Financial Advisory and Digital Banking CGU as at 31 December 2016:

- a target supervisory ratio (capital ratio) of 8.5% at 2020, taking into account the characteristics of Widiba's business;
- the CGU's cost of capital ( $k_e$ ) equal to 11.30%, determined using the method described above;
- a long-term growth rate ( $g$ ) of 1.5%.



#### 4) Impairment test results

The results (in million euros) of the impairment test performed on the Financial Advisory and Digital Banking CGU on the basis of the multiple scenario analysis are presented below.

	Book value	Recoverable value	Delta
Financial Advisory and Digital Banking	72	234	162

In conclusion, the impairment test on goodwill did not bring to light impairment losses for the Financial Advisory and Digital Banking CGU, as the recoverable value is higher than the book value by EUR 162 mln.



### 13.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: generated internally		Other intangible assets: other		Total 31 12 2016
		finite life	indefinite life	finite life	indefinite life	
<b>A. Opening balance</b>	<b>6,605,132</b>	<b>416,975</b>	<b>-</b>	<b>1,685,411</b>	<b>-</b>	<b>8,707,518</b>
A.1 Total net decreases	6,597,232	344,388	-	1,365,795	-	8,307,415
A.2 Net opening balance	7,900	72,587	-	319,616	-	400,103
<b>B. Increases</b>	<b>-</b>	<b>20,462</b>	<b>-</b>	<b>60,713</b>	<b>-</b>	<b>81,175</b>
B.1 Purchases	-	20,462	-	55,127	-	75,589
B.2 Increases in internally generated intangible assets	X	-	-	-	-	-
B.3 Write-backs	X	-	-	-	-	-
B.4 Increases in fair value	-	-	-	-	-	-
- to net equity	X	-	-	-	-	-
- to profit and loss	X	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	-	-	-
B.6 Other increases	-	-	-	5,586	-	5,586
<b>C. Decreases</b>	<b>-</b>	<b>28,101</b>	<b>-</b>	<b>107,664</b>	<b>-</b>	<b>135,765</b>
C.1 Sales	-	-	-	450	-	450
C.2 Write-downs	-	28,101	-	106,529	-	134,630
- Depreciation	-	27,992	-	105,869	-	133,861
- Write-downs	-	109	-	660	-	769
+ net equity	-	-	-	-	-	-
+ profit and loss	-	109	-	660	-	769
C.3 Decreases in fair value	-	-	-	-	-	-
- to net equity	X	-	-	-	-	-
- to profit and loss	X	-	-	-	-	-
C.4 Transfers to non-current assets held for sale	-	-	-	-	-	-
C.5 Negative exchange differences	-	-	-	8	-	8
C.6 Other decreases	-	-	-	677	-	677
<b>D. Net closing balance</b>	<b>7,900</b>	<b>64,948</b>	<b>-</b>	<b>272,665</b>	<b>-</b>	<b>345,513</b>
D.1 Total net value adjustments	6,597,232	372,489	-	1,472,313	-	8,442,034
<b>E. Gross closing balance</b>	<b>6,605,132</b>	<b>437,437</b>	<b>-</b>	<b>1,744,978</b>	<b>-</b>	<b>8,787,547</b>
<b>F. Carried at cost</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Line A.1, “Total net decreases” and line D.1, “Total net value adjustments” show the opening and closing balances for total value adjustments and amortisation recorded for intangible assets with a finite life.

With regard to line C.2 “Writedowns” see footnotes to table 13.1 “Intangible assets: breakdown by type”.

Line F - “Carried at cost” was left blank in accordance with Bank of Italy’s instructions, as it only needs to be completed for assets recognised at fair value.



### 13.3 Other information: amortisation rates

Main categories of intangible assets	%	residual depreciation period
Software	14,28-33,33%	
Concessions and other licenses	20.00%	
Core deposits - current accounts	9.10%	3 years
Core deposits - deposit	6.70%	7 years
Core overdraft	9.10%	3 years
Assets under management/under custody	11.10%	1 year

Intangible assets recognised during the purchase price allocation of Banca Antonveneta S.p.A. are all finite-life and therefore amortised based on their expected useful life.

As at 31 December 2016 there were no:

- revalued intangible fixed assets;
- intangible fixed assets acquired through government concessions (IAS 38, par. 4);
- intangible fixed assets pledged as loan collaterals;
- commitments to purchase intangible assets.



## Section 14 – Tax Assets and Liabilities – Item 140 (Assets) and Item 80 (Liabilities)

### 14.1 Deferred tax assets: breakdown

Items/Amounts	IRES with offsetting entry on P&L	IRES with offsetting entry on Equity	IRAP with offsetting entry to P&L	IRAP with offsetting entry on Equity	31 12 2016	31 12 2015
Receivables	65,010	-	-	-	65,010	68,351
Receivables (L. 214/2011)	1,089,319	-	142,558	-	1,231,877	1,298,670
Other financial instruments	2,575	-	10,508	-	13,083	11,448
Goodwill (L. 214/2011)□	790,625	2,031	207,705	473	1,000,834	1,002,476
Tangible assets	72,173	-	8,245	-	80,418	79,530
Intangible assets	504	-	72	-	576	1,995
Intangible assets (L. 214/2011)	56,470	-	12,141	-	68,611	77,533
Personnel expenses	12,756	21,500	5,230	2,345	41,831	40,930
ACE surplus	97,342	-	-	-	97,342	24,757
Tax losses	262,129	30,891	-	-	293,020	312,807
Tax losses (L. 214/2011)	59,013	-	6,905	-	65,918	10,794
Financial instruments - valuation reserves	-	179,943	-	35,210	215,153	207,379
Others	305,839	48,366	17,584	248	372,037	401,340
<b>Deferred tax assets (gross)</b>	<b>2,813,755</b>	<b>282,731</b>	<b>410,948</b>	<b>38,276</b>	<b>3,545,710</b>	<b>3,538,010</b>
Offsetting with deferred tax liabilities	(99,143)	(115,883)	(10,319)	(23,590)	(248,935)	(224,603)
<b>Deferred tax assets (net)</b>	<b>2,714,612</b>	<b>166,848</b>	<b>400,629</b>	<b>14,686</b>	<b>3,296,775</b>	<b>3,313,407</b>

Deferred tax assets were recognised after verifying the existence of foreseeable future income (probability test). For additional information, please refer to paragraph 14.7 “Other information” below.

In addition to deferred taxes referring to the main tax (at the rate of 24%), the amounts shown in the IRES column also includes those relating to the additional IRES tax (3.5% rate) introduced by Law no. 208 of 28 December 2015, paragraphs 65-66, for the companies concerned.

The line “Financial instruments – valuation reserves” includes tax assets relating to the valuation of cash flow hedge derivatives, financial instruments classified in portfolios of financial assets available for sale and those originally in the portfolio of financial assets available for sale which were reclassified as ‘loans to customers’ and ‘loans to banks’ in 2008.

The line “Other” includes tax assets relating to other cases, such as those recognised on provisions for risks and charges in respect of deductible costs expected for future periods and those on accessory costs of the share capital increase deductible over five years.

**14.2 Deferred tax liabilities: breakdown**

Items/Amounts	IRES with offsetting entry on P&L	IRES with offsetting entry on Equity	IRAP with offsetting entry on P&L	IRAP with offsetting entry on Equity	Total 31 12 2016	Total 31 12 2015
Capital gains to be divided into installments	-	421	-	-	421	842
Tangible and intangible assets	6,566	-	69	-	6,635	394
Financial instruments	66,173	-	8,915	-	75,088	125,559
Personnel expenses	406	-	-	-	406	737
Financial instruments - valuation reserves	-	158,188	-	29,346	187,534	141,379
Others	37,533	4,617	5,853	898	48,901	18,605
<b>Deferred tax liabilities (gross)</b>	<b>110,678</b>	<b>163,226</b>	<b>14,837</b>	<b>30,244</b>	<b>318,985</b>	<b>287,516</b>
Offsetting with deferred tax assets	(99,143)	(115,883)	(10,319)	(23,590)	(248,935)	(224,603)
<b>Deferred tax liabilities (net)</b>	<b>11,535</b>	<b>47,343</b>	<b>4,518</b>	<b>6,654</b>	<b>70,050</b>	<b>62,913</b>

The line “Financial instruments – valuation reserves” includes tax liabilities relating to the valuation of financial instruments classified in the portfolio of “financial assets available for sale” and those originally in the portfolio of financial assets available for sale and reclassified in 2008 in the “loans to customers” and “loans to banks” portfolios, as well as tax liabilities relating to cash flow hedge derivatives.



### 14.3 Deferred tax assets: annual changes (with offsetting entry on profit and loss)

	Total 31 12 2016	Total 31 12 2015
<b>1. Opening balance</b>	<b>3,202,928</b>	<b>5,388,893</b>
<b>2. Increases</b>	<b>503,380</b>	<b>306,061</b>
2.1 Deferred tax assets arising during the year	370,189	270,941
a) relating to previous years	-	-
b) due to changes in accounting principles	-	-
c) write-backs	-	-
d) other	370,189	270,941
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	133,191	35,120
<b>3. Decreases</b>	<b>481,605</b>	<b>2,492,026</b>
3.1 Deferred tax assets derecognised during the year	442,419	227,216
a) reversals	178,747	198,912
b) write-downs of non-recoverable items	259,061	-
c) changes in accounting principles	-	-
d) other	4,611	28,304
3.2 Reduction in tax rates	-	573
3.3 Other decreases	39,186	2,264,237
a) conversion into tax credits pursuant to Law no. 214/2011 □	17,540	2,167,130
b) others	21,646	97,107
<b>4. Closing balance</b>	<b>3,224,703</b>	<b>3,202,928</b>

Amongst the main “Deferred tax assets arising during the year” in line 2.1 letter d), note those relating to taxed provisions for risks and charges recognised during the year, the ACE deduction accrued during the year and not used, the tax losses convertible into a tax credit pursuant to Law 214/2011 and the share of tax losses with respect to the additional IRES tax deemed recoverable on the basis of the probability test.

Line 2.3 “Other increases” includes deferred tax assets for the tax loss recognised arising from higher costs emerging from the restatement of the “Alexandria” transaction in the 2015 financial statements.

In this regard, it must be noted that this transaction, 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 Restatement of previous period accounts and changes in estimates in compliance with IAS 8 section), the taxation effect of the restatement was represented in consideration of the non-relevance, for tax purposes, of some negative income components, due to an initial and restrictive interpretation of the Revenue Agency Circular 31/2013 pending the receipt of a response from the Revenue Agency to the request for an opinion submitted with regard to this issue. On 21 July 2016, the Bank received a favourable answer about the tax relevance of the components of the restatement of the “Alexandria” transaction, also with reference to the tax periods excluded when accounting for the tax effects of the restatement upon preparation of the 2015 financial statements.

Amongst the most significant amounts shown in line 3.1 letter a) “Reversals” are the use of provisions for risks and charges taxed in previous years and impairment losses and losses on loans carried forward from previous years pursuant to art. 106 of the TUIR and art. 6 of Italian Legislative Decree 446/1997.

Line 3.1 letter b) “Write-downs for non-recoverable items” reflects the effect of the partial derecognition of deferred tax assets on consolidated tax losses recognised previously, to the extent to which they were not deemed recoverable in light of the probability test results. For additional information, please refer to paragraph 14.7 “Other information” below.

**14.3.1 Deferred tax assets: changes under law 214/2011 (with offsetting entry on profit and loss)**

Items / Amounts	Total	
	31 12 2016	31 12 2015
<b>1. Opening balance</b>	<b>2,385,327</b>	<b>4,400,292</b>
<b>2. Increases</b>	<b>66,144</b>	<b>174,932</b>
<b>3. Decreases</b>	<b>86,735</b>	<b>2,189,897</b>
3.1 Reversals	68,951	-
3.2 Conversion into tax credits	17,540	2,167,130
a) arising from loss for the year	6,746	2,154,772
b) arising from tax losses	10,794	12,358
3.3 Other decreases	244	22,767
<b>4. Closing balance</b>	<b>2,364,736</b>	<b>2,385,327</b>

Line “2. Increases” includes the portion of the tax loss arising in 2016 which will be convertible into a tax credit with the submission of the income tax return pursuant to art. 2, par. 56-bis and 56-bis.1, of Law Decree no. 225 of 29 December 2010 (transposed, as amended, into law no. 10 of 26 February 2011).

**14.4 Deferred tax liabilities: annual changes (with offsetting entry on profit and loss)**

	Total	Total
	31 12 2016	31 12 2015
<b>1. Opening balance</b>	<b>85,699</b>	<b>199,834</b>
<b>2. Increases</b>	<b>59,974</b>	<b>15,606</b>
2.1 Deferred tax liabilities arising during the year	47,368	6,168
a) relating to previous years	-	-
b) due to changes in accounting principles	-	-
c) other	47,368	6,168
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	12,606	9,438
<b>3. Decreases</b>	<b>20,158</b>	<b>129,741</b>
3.1 Deferred taxes derecognised during the year	13,458	11,285
a) reversals	13,394	11,285
b) due to changes in accounting principles	-	-
c) other	64	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	6,700	118,456
<b>4. Closing balance</b>	<b>125,515</b>	<b>85,699</b>





### 14.5 Deferred tax assets: annual changes (with offsetting entry on equity)

	Total 31 12 2016	Total 31 12 2015
<b>1. Opening balance</b>	<b>335,082</b>	<b>457,306</b>
<b>2. Increases</b>	<b>89,452</b>	<b>49,864</b>
2.1 Deferred tax assets arising during the year	86,728	46,285
a) relating to previous years	-	-
b) due to changes in accounting principles	-	-
c) other	86,728	46,285
2.2 New taxes or increases in tax rates	42	-
2.3 Other increases	2,682	3,579
<b>3. Decreases</b>	<b>103,527</b>	<b>172,088</b>
3.1 Deferred tax assets derecognised during the year	101,356	168,399
a) reversal	101,356	168,399
b) write-downs of non-recoverable items	-	-
c) due to changes in accounting principles	-	-
d) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	2,171	3,689
<b>4. Closing balance</b>	<b>321,007</b>	<b>335,082</b>

The increase reported in line 2.1 c) is due primarily to the taxes recognised on financial instruments in the “financial assets available for sale” portfolio.

Deferred tax assets derecognised during the year, line 3.1 a) refers primarily to costs deductible during the year connected with previous capital increases of the Parent Company and valuations of cash flow hedging derivatives.

#### 14.5.1 Deferred tax assets: changes under law 214/2011 (with offsetting entry on equity)

Items/Amounts	Total 31 12 2016	Total 31 12 2015
<b>1. Opening balance</b>	<b>4,146</b>	<b>4,488</b>
<b>2. Increases</b>	<b>-</b>	<b>-</b>
Mergers/demergers incoming	-	-
<b>3. Decreases</b>	<b>1,642</b>	<b>342</b>
3.1 Reversals	-	-
3.2 Conversion into tax credit	-	342
a) arising from loss for the year	-	342
b) arising from tax losses	-	-
3.3 Other decreases	1,642	-
<b>4. Closing balance</b>	<b>2,504</b>	<b>4,146</b>

The table shows deferred tax assets that may be converted into tax credits pursuant to Law 214/2011, recognised with an offsetting entry to equity. These refer to goodwill posted by the Parent Company to equity on business combinations “under common control”.



## 14.6 Deferred tax liabilities: annual changes (with offsetting entry on equity)

	Total 31 12 2016	Total 31 12 2015
<b>1. Opening balance</b>	<b>201,817</b>	<b>169,562</b>
<b>2. Increases</b>	<b>41,446</b>	<b>100,830</b>
2.1 Deferred tax liabilities arising during the year	36,491	51,660
a) relating to previous years	-	-
b) due to changes in accounting principles	-	-
c) other	36,491	51,660
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	4,955	49,170
<b>3. Decreases</b>	<b>49,793</b>	<b>68,575</b>
3.1 Deferred tax liabilities derecognised during the year	46,943	68,575
a) reversal	46,522	68,154
b) due to changes in accounting principles	-	-
c) other	421	421
3.2 Reduction in tax rates	-	-
3.3 Other decreases	2,850	-
<b>4. Closing balance</b>	<b>193,470</b>	<b>201,817</b>

Changes, up and down, mainly relate to taxes recognised on changes in equity reserves relating to securities classified in the “financial assets available for sale” portfolio.

## 14.7 Other information

### Probability test

Deferred tax assets were recognised after verifying the existence of foreseeable future income sufficient to absorb them (probability test).

In this test, the different rules set forth in the Italian tax laws which impact the assessment in question were taken into account, in particular:

- art. 2, paragraphs 55-59, of Law Decree no. 225 of 29/12/2010 (converted, with amendments, by Law no. 10 of 26/02/2011) which establishes the obligation for financial intermediaries to convert into tax credits DTAs (IRES and IRAP) relating to goodwill, other intangible assets and impairment losses on receivables, in the case of a loss in the statutory financial statements and/or a tax loss;
- art. 84, paragraph 1 of the TUIR, which allows for the possibility of carrying forward IRES tax losses with no time limits;
- art. 1, paragraph 4 of Law Decree no. 201 of 06/12/2011 (converted, with amendments, by law no. 214 of 22/12/2011), which allows for unused excess ACE to be carried forward with no time limits, as well as, alternatively, conversion into a tax credit to be used to offset IRAP due in 5 annual instalments;
- paragraphs 61 to 66, art. 1, of the 2016 Stability Law (Law no. 208 of 28 December 2015) reduced the IRES rate from 27.5% to 24% and simultaneously introduced an additional IRES tax of 3.5% for credit and financial institutions; both measures are effective as of 2017.



In 2016, some methodological changes were made to the probability test, considering the events that have taken place in the Group's recent history and, in general, the regulatory updates that have impacted the Group's profitability.

With regard to the events that have characterised the Bank's recent history, the significant tax losses recorded in recent years and this year, as well as the tax loss expected from the process of deconsolidating doubtful loans, required particular attention to be paid to the process of evaluating whether deferred tax assets could be recognised. IAS 12 (par. 35-36) establishes that *"the existence of unused tax losses is strong evidence that future taxable profit may not be available. Therefore, when an entity has a history of recent losses, the entity recognises a deferred tax asset arising from unused tax losses or tax credits only to the extent that the entity has sufficient taxable temporary differences or there is convincing other evidence that sufficient taxable profit will be available against which the unused tax losses or unused tax credits can be utilised by the entity"*.

In addition, it is necessary to keep in mind that various events in recent years have negatively impacted the Group's profitability, including: i) interest rate reductions, ii) the increased cost of credit due to the recession that struck Italy as well as the revision of the provisioning policy to make it more conservative, for progressive alignment with the classification and valuation criteria that emerged as part of the ECB's AQR and the subsequent supervisory activity within the scope of the SSM, iii) the introduction of new significant cost components such as the ex ante contributions to the Resolution Fund and the Interbank Deposit Protection Fund, as well as the introduction of the fee on convertible DTAs.

The recent evolution of tax regulations has also significantly reduced the expected future capacity to absorb tax losses.

In this sense, please note the changes in the tax regime on impairment losses on loans to customers (Law Decree 83/2015), which now envisages their full deductibility in the year in which they are recognised, compared to previous systems under which the deduction was, over time, broken down into ninths/eighths/fifths. This intervention ensured that the tax base for the current year, as well as that of previous years, would include all impairment losses on loans recognised during the year as well as the amounts of the same adjustments not deducted in previous years and carried forward pursuant to the regulation in force previously.

Another material impact in terms of the reduction of the tax base relates to ACE (Support to Economic Growth), the "benefit" of which is recognised as a reduction of the tax base of each year to the extent of a rate, set at 4.75% for the year 2016 (reduced to 2.3% for 2017 and 2.7% for subsequent years), on the capital increases carried out in 2011 and thereafter and within the limits of the book value of shareholders' equity over time. The capital increases carried out by the Parent Company since 2011, as well as that expected for 2017, contribute to reducing future taxable income capable of absorbing previous tax losses.

The change made by the Parent Company in the probability testing method in 2016 substantially consists of applying a discount factor to outlook income inferred from the income statement forecasts included in the preliminary draft of the "Restructuring Plan" approved by the Board of Director on 9 March 2017 (the "risk-adjusted profits approach"); this factor used in a combined manner discounts future income to an increasing extent to reflect its uncertainty. The discount factor is calculated by taking into account observable market parameters.

Practically speaking, the probability test was carried out by following the steps listed below.

DTAs relating to goodwill, other intangible assets and impairment losses on receivables ("qualified" DTAs), were excluded from the total amount of DTAs for which the existence of sufficient future taxable income needs to be identified.



This is because the above-mentioned art. 2, paragraphs 55-59 of Law Decree 225/2010 made the recovery of that type of DTA certain, with respect to both IRES and IRAP, regardless of the presence of future taxable income.

Indeed, the rule sets forth that, if taxable income for the year in which the recovery of qualified DTAs is expected is not sufficient to absorb them, the resulting tax loss would be convertible into a tax credit that may be, alternatively (i) used to offset, with no amount limits, the various taxes ordinarily due from the Bank, or (ii) requested in the form of a refund, or (iii) transferred to third parties. In addition, qualified DTAs may be converted into tax credit in advance of their natural maturity, in the event of a loss for the year in the statutory financial statements or voluntary liquidation, as well as subsection to bankruptcy proceedings.

In other words, for qualified DTAs the probability test must be deemed automatically satisfied; this is also confirmed by the joint Bank of Italy, Consob and ISVAP document no. 5 of 15/05/2012.

For DTAs other than qualified DTAs, the year in which the relative recovery is expected has been identified (or estimated when uncertain).

Taxable income in future years has been estimated based on the forecast profit and loss statements included in the MPS Group preliminary draft of the “Restructuring Plan” approved by the Board of Director on 9 March 2017; taxable income was estimated by applying the compound discount factor envisaged by the risk-adjusted profits approach:

- at domestic tax consolidation level, for the IRES probability test, since for the payment of this tax the Parent Company uses the method set forth in arts. 117 et seq. of the TUIR;
- at individual level for additional IRES;
- at individual level for IRAP.

The data thus processed have shown that taxable income in future years will be sufficient to absorb the unqualified DTAs other than tax losses and ACE deductions recognised in the financial statements as at 31 December 2016.

The DTAs referring to ACE deductions carried forward from previous years were recognisable, with the exception of EUR 1.3 mln. As regards tax losses, the probability test entailed:

- not recognising DTAs on the consolidated tax loss and on part of the individual tax losses associated with the additional IRES, emerging in 2016, for a total of EUR 817.1 mln,
- the derecognition of DTAs on consolidated tax losses recognised in the interim reports during 2016 (cf. higher costs emerging from the restatement of the 2015 financial statements for the Alexandria transaction) and part of the DTAs on consolidated tax losses recognised in the financial statements as at 31 December 2015, for a total of EUR 251.6 mln.

As a result of the above-mentioned assessment, the Group had a total of EUR 1,068.7 mln in DTAs on consolidated tax losses not recognised in the Balance Sheet assets as at 31 December 2016.

For the Group, this amount is a potential asset not subject to any time limits according to current tax legislation, whose recognition in the Balance Sheet asset will be evaluated at the future financial statement dates based on the Group’s profit outlook.



### Current tax assets

Items/Amounts	Total	Total
	31 12 2016	31 12 2015
Prepayments of corporate income tax (IRES and IRAP)	14,002	20,373
Other tax credits and withholdings	838,752	2,234,339
<b>Gross current tax assets</b>	<b>852,754</b>	<b>2,254,712</b>
Offsetting with current tax liabilities	(2,017)	(25,601)
<b>Net current tax assets</b>	<b>850,737</b>	<b>2,229,111</b>

“Other tax credits and withholdings” mostly consist of income tax credits claimed for refund, IRES/IRAP credits resulting from prior tax returns which can be used as a set-off and the tax credit arising from DTA transformation (Law no. 214/2011), for the remaining amount not yet used.

### Current tax liabilities

Items/Amounts	31 12 2016			31 12 2015		
	Booked to net equity	Booked to P&L	Total	Booked to net equity	Booked to P&L	Total
Corporate income tax (IRES IRAP) payables	14	25	39	(21,245)	46,852	25,607
Other current income tax payables	-	7,270	7,270	5	28,532	28,537
<b>Gross current tax payables</b>	<b>14</b>	<b>7,295</b>	<b>7,309</b>	<b>(21,240)</b>	<b>75,384</b>	<b>54,144</b>
Offsetting with current tax asset	14	2,003	2,017	-	25,601	25,601
<b>Net current tax payables</b>	<b>-</b>	<b>5,292</b>	<b>5,292</b>	<b>(21,240)</b>	<b>49,783</b>	<b>28,543</b>



## Section 15 – Non-current assets held for sale / discontinued operations and associated liabilities – Item 150 (assets) and 90 (liabilities)

### 15.1 Non-current assets held for sale and discontinued operations: breakdown by type

	Total	
	31 12 2016	31 12 2015
<b>A. Individual assets</b>		
A.1 Financial assets	19,049	22,186
A.2 Equity investments	-	5,592
A.3 Tangible assets	23,322	1,489
A.4 Intangible assets	-	-
A.5 Other non-current assets	18,313	-
<b>Total A</b>	<b>60,684</b>	<b>29,267</b>
<i>of which valued at cost</i>	41,635	7,081
<i>of which designated at fair value (level 1)</i>	-	-
<i>of which designated at fair value (level 2)</i>	17,921	21,057
<i>of which designated at fair value (level 3)</i>	1,128	1,129
<b>B. Asset groups (discontinued operations)</b>		
<b>C. Liabilities associated with individual assets held for sale and discontinued operations</b>		
C.1 Payables	-	-
C.2 Securities	-	-
C.3 Other liabilities	10,402	-
<b>Totale C</b>	<b>10,402</b>	<b>-</b>
<i>of which valued at cost</i>	10,402	-
<i>of which designated at fair value (level 1)</i>	-	-
<i>of which designated at fair value (level 2)</i>	-	-
<i>of which designated at fair value (level 3)</i>	-	-
<b>D. Liabilities included in groups of assets held for sale and discontinued operations</b>		

Line “A.1 Financial assets” equal to EUR 19.0 mln, includes the investees Basilichi S.p.A. (EUR 12.9 mln), Consorzio Triveneto S.p.A. (EUR 5.0 mln) and Assofood S.p.A. (EUR 1.1 mln). Those equity investments are expected to be sold based on the non-core asset disposal strategy.

Line “A.3 Tangible assets”, amounting to EUR 23.3 mln, refers to properties for business use for EUR 18 mln, disposals carried out as part of the Parent Company branch network streamlining plan, for EUR 4.5 mln to Banca MP Belgio S.A. and lastly for EUR 0.8 mln to MPS Capital Services S.p.A.

The amounts of EUR 18.3 mln and EUR 10.4 mln relating to the items “A.5 Other non-current assets” and “C.3 Other liabilities”, respectively, refer to the merchant acquiring business subject to the binding sale agreement reached by the Parent Company on 3 February 2017 with Istituto Centrale delle Banche Popolari Italiane S.p.A. The transaction will involve the disposal of the merchant acquiring assets on the basis of an enterprise value of EUR 520.0 mln as well as a ten-year partnership with the counterparty ICBPI, through its subsidiary CartaSi, for the development and placement of payment products and services intended for Group customers through its distribution network.



## 15.2 Other information

None to report as at 31 December 2016.

## 15.3 Details of investments in companies subject to significant influence not valued at equity

As at 31 December 2016, there were no investments in companies subject to significant influence not valued at equity classified as held for sale.

## Section 16 – Other assets – Item 160

### 16.1 Other assets: breakdown

	Total 31 12 2016	Total 31 12 2015
Tax credits from the Revenue and other tax levying authorities	280,347	461,452
Third party cheques held at the cashier's for collection	131,949	208,669
Cheques drawn on the Company held at the cashier's for collection	482	527
Gold, silver and precious metals	8,599	6,267
Property inventory	45,834	43,901
Items in transit between branches	3,004	3,921
Items in processing	567,620	1,005,739
Receivables associated with the provision of goods and services	40,333	19,056
Improvements and incremental costs on third party assets other than those included under tangible assets	43,924	43,850
Prepaid expenses and accrued income not attributable to other line items	386,963	400,432
Biological assets	3,411	3,433
Other	399,803	490,992
<b>Total</b>	<b>1,912,269</b>	<b>2,688,239</b>

The lines "Items in processing" and "Other" include transactions which were cleared during the first days of 2017.



## LIABILITIES

### Section 1 – Deposits from banks – Item 10

#### 1.1 Deposits from banks: breakdown

Items/accounts	Total 31 12 2016	Total 31 12 2015
<b>1. Deposits from central banks</b>	<b>24,439,087</b>	<b>8,889,057</b>
<b>2. Deposits from banks</b>	<b>7,029,974</b>	<b>8,604,053</b>
2.1 Current accounts and demand deposits	182,050	737,248
2.2 Time deposits	21	57,129
2.3 Loans	6,085,027	6,901,681
2.3.1 Repurchase agreements	5,534,131	5,163,541
2.3.2 Other	550,896	1,738,140
2.4 Liabilities for commitments to repurchase own equity instruments	-	-
2.5 Other liabilities	762,876	907,995
<b>Total</b>	<b>31,469,061</b>	<b>17,493,110</b>
<i>Fair value - level 1</i>	-	-
<i>Fair value - level 2</i>	<i>31,469,061</i>	<i>17,502,641</i>
<i>Fair value - level 3</i>	-	-
<b>Total fair value</b>	<b>31,469,061</b>	<b>17,502,641</b>

The line “Deposits from central banks” includes EUR 24,031 mln for refinancing operations, guaranteed by securities pledged by the Parent Company using the pooling mechanism.

Line “2.3.1 Repurchase agreements” contains the financial liabilities arising from repo transactions with banks on both treasury securities and securities made available through reverse repurchase agreements or securities lending transactions.

#### 1.2 Details of Item 10 “Deposits from banks”: subordinated liabilities

At the reporting date, the Group does not have liabilities of this type (EUR 402.4 mln in 2015).

The amounts qualifying as regulatory capital are set out in Part F, Section 2 “Regulatory capital and ratios”.

#### 1.3 Details of Item 10 “Deposits from banks”: structured liabilities

This table was not completed as the Group has no such liabilities to report for either the current or the previous year.





#### 1.4 Deposits from banks subject to micro-hedging

Type of transaction/Amount	Total 31 12 2016	Total 31 12 2015
<b>1. Liabilities subject to micro-hedging of fair value</b>	<b>8,483,790</b>	<b>3,627,327</b>
a) interest rate risk	8,483,790	3,627,327
b) exchange risk	-	-
c) multiple risk	-	-
<b>2. Liabilities subject to micro-hedging cash-flow</b>	<b>-</b>	<b>-</b>
a) interest rate risk	-	-
b) exchange risk	-	-
c) multiple risk	-	-
<b>Total</b>	<b>8,483,790</b>	<b>3,627,327</b>

The amount shown in item 1 letter a) of EUR 8,483.8 mln refers to fair value hedging of interest rate risk, carried out on certain refinancing transactions performed as part of Eurosystem financing.

#### 1.5 Finance lease payables

This table was not provided as the Group has no such liabilities to report for either the current or the previous year.



## Section 2 – Deposits from customers – Item 20

### 2.1 Deposits from customers: breakdown

Type of transaction/Amount	Total 31 12 2016	Total 31 12 2015
1. Current accounts and demand deposits	40,972,592	54,574,784
2. Time deposits	10,133,515	14,342,854
3. Loans	28,721,385	17,986,519
3.1 Repurchase agreements	25,295,838	10,574,970
3.2 Other	3,425,547	7,411,549
4. Liabilities for commitments to repurchase own equity instruments	-	-
5. Other liabilities	875,270	902,172
<b>Total</b>	<b>80,702,762</b>	<b>87,806,329</b>
<i>Fair value - level 1</i>	-	-
<i>Fair value - level 2</i>	80,707,017	87,810,731
<i>Fair value - level 3</i>	-	-
<b>Total fair value</b>	<b>80,707,017</b>	<b>87,810,731</b>

Deposits from customers are valued at cost or at amortised cost, except for liabilities subject to micro-hedging of fair value as reported in Table 2.4 of this section, the amortised cost of which is adjusted proportionally to the fair value of the hedged item.

The line 3.1 “Repurchase agreements” contains the financial liabilities arising from repo transactions with customers on both treasury securities and securities made available through repurchase agreements or securities lending transactions.

The significant increase of EUR 14,720.9 mln reported in the comparison between the two years in line “3.1 Repurchase agreement” is due to the classification by the subsidiary MPS Capital Services S.p.A. starting in the last quarter of 2016 of the new repurchase agreements in the banking book, given their purpose which is predominantly associated with the raising of funds to finance Global Market Division operations. Previously, transactions of this type were classified in the trading book as they were carried out as part of a broader trading strategy.

### 2.2 Details of Item 20 “Deposits from customers”: subordinated liabilities

This table was not completed as the Group has no such liabilities to report for either the current or the previous year.

### 2.3 Details of Item 20 “Deposits from customers”: structured liabilities

This table was not completed as the Group has no such liabilities to report for either the current or the previous year.



## 2.4 Deposits from customers subject to micro-hedging

Type of transaction/Amount	Total	Total
	31 12 2016	31 12 2015
1. Liabilities subject to micro-hedging of fair value:	-	25,122
a) interest rate risk	-	25,122
b) exchange risk	-	-
c) multiple risks	-	-
2. Liabilities subject to micro-hedging of cash flows:	-	-
a) interest rate risk	-	-
b) exchange risk	-	-
c) other	-	-
<b>Total</b>	<b>-</b>	<b>25,122</b>

The table provides details of table 2.1 above. When present, the carrying amount corresponds to the amortised cost adjusted by changes in fair value for the specific risk hedged.

As at 31 December 2016, there are no liabilities of this type as the two loans payable subject to a fair value hedge on the interest-rate risk have been settled.

## 2.5 Finance lease payables

Type of transaction/ Amount	31 12 2016	
	Future minimum lease payments	Present Value
Finance lease liabilities		
- Up to 1 year	-	-
- From 1 to 5 years	1,215	1,161
- Over 5 years	-	-
<b>Present value of gross/net minimum payments</b>	<b>1,215</b>	<b>1,161</b>
Value adjustments	(54)	-
<b>Present value of liabilities for the minimum lease payments</b>	<b>1,161</b>	<b>1,161</b>



## Section 3 – Debt securities issued – Item 30

### 3.1 Debt securities issued: breakdown

Type of Securities/ Amounts	Total				
	31 12 2016				
	Book value	Fair value			
		Level 1	Level 2	Level 3	Total
A. Listed securities					
1. Bonds	22,153,122	-	17,497,857	3,450,179	20,948,036
1.1 Structured	-	-	-	-	-
1.2 Other	22,153,122	-	17,497,857	3,450,179	20,948,036
2. Other securities	194,343	-	236,129	-	236,129
2.1 Structured	-	-	-	-	-
2.2 Other	194,343	-	236,129	-	236,129
Total	22,347,465	-	17,733,986	3,450,179	21,184,165

The table shows funding represented by securities, including bonds and certificates of deposit (outstanding and maturities).

Liabilities are net of bonds and repurchased CDs. In this connection it is noted that on 31 December 2016 State-guaranteed bonds were in place, issued and concurrently repurchased for a nominal amount of EUR 4,000 mln (unchanged with respect to 31 December 2015), part of which were then pledged as collateral for financing transactions.

Type of Securities/ Amounts	Total				
	31 12 2015				
	Book value	Fair value			
		Level 1	Level 2	Level 3	Total
A. Listed securities					
1. Bonds	29,172,233	15,786,961	12,792,521	-	28,579,482
1.1 Structured	-	-	-	-	-
1.2 Other	29,172,233	15,786,961	12,792,521	-	28,579,482
2. Other securities	222,203	-	263,989	-	263,989
2.1 Structured	-	-	-	-	-
2.2 Other	222,203	-	263,989	-	263,989
Total	29,394,436	15,786,961	13,056,510	-	28,843,471



### 3.2 Details of Item 30 “Debt securities issued”: subordinated securities

The item includes subordinated securities for an amount of EUR 4,214.6 mln (EUR 4,957.2 mln in 2015).

The amounts qualifying as regulatory capital are set out in Part F, Section 2 “Regulatory capital and ratios”.

### 3.3 Details of Item 30 “Debt securities issued”: securities subject to micro-hedging

Type of transaction / Amount	Total 31 12 2016	Total 31 12 2015
<b>1. Securities subject to micro-hedging of fair value:</b>	<b>8,977,475</b>	<b>12,345,261</b>
a) interest rate risk	8,878,980	12,230,042
b) exchange risk	-	-
c) multiple risks	98,495	115,219
<b>2. Securities subject to micro-hedging of cash flows:</b>	<b>-</b>	<b>1,184,819</b>
a) interest rate risk	-	1,101,539
b) exchange risk	-	83,280
c) other	-	-
<b>Total</b>	<b>8,977,475</b>	<b>13,530,080</b>

As a result of cash flow hedging, the fair value of derivative contracts is posted to a specific equity reserve.

The reduction in liabilities of this type is related for roughly EUR 2,510.7 mln to the expected interruption of hedges resulting from the ineffectiveness of four interest rate hedges (three fair value hedges and one cash flow hedge) due to the conversion in February 2017 of law decree no. 237 of 23 December 2016, which introduced, inter alia, as part of the precautionary recapitalisation by the State, obligatory conversion for the Parent Company’s subordinated liabilities specified in the decree.



## Section 4 – Financial liabilities held for trading – Item 40

### 4.1 Financial liabilities held for trading: breakdown

Type of transaction/ Group item	NV	Total 31 12 2016				FV*
		FV				
		Level 1	Level 2	Level 3	Total	
A. Balance-sheet liabilities						
1. Deposits from banks	1,508,245	1,816,532	6,462	-	1,822,994	1,822,994
2. Deposits from customers	713,483	756,581	86,071	-	842,652	842,652
3. Debt securities issued	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	-	X
3.1.2 Other	-	-	-	-	-	X
3.2 Other securities	-	-	-	-	-	-
3.2.1 Structured	-	-	-	-	-	X
3.2.2 Other	-	-	-	-	-	X
Total A	2,221,728	2,573,113	92,533	-	2,665,646	2,665,646
B. Derivatives						
1. Financial derivatives		508	2,257,152	-	2,257,660	
1.1 Trading	X	508	2,257,152	-	2,257,660	X
1.2 Fair value option (FVO)	X	-	-	-	-	X
1.3 Other	X	-	-	-	-	X
2. Credit derivatives		-	48,496	-	48,496	
2.1 Trading	X	-	48,496	-	48,496	X
2.2 Fair value option (FVO)	X	-	-	-	-	X
2.3 Other	X	-	-	-	-	X
Total B	X	508	2,305,648	-	2,306,156	X
Total (A+B)	2,221,728	2,573,621	2,398,181	-	4,971,802	X

#### Legend

FV = Fair Value

FV\* = Fair value calculated excluding value adjustments due to variations in the credit rating of the issuer since the date of issue

NV = Nominal or Notional Value

Criteria adopted for classification of financial instruments in the three levels of the “fair value hierarchy” are reported in Section A.3, “Fair value disclosure” of Part A, “Accounting policies” of the notes to the financial statements.

The amounts classified in lines “1. Deposits from banks” and “2. Deposits from customers” are related to uncovered short positions of the subsidiary MPS Capital Services - Banca per le imprese S.p.A. of EUR 1,823.0 mln (EUR 1,638.3 mln as at 31 December 2015) posted to deposits from banks and EUR 756.6 mln (EUR 1,326.6 mln as at 31 December 2015) posted to deposits from customers. The significant decline in the comparison between the two years, of EUR 743.3 mln on line “1. Deposits from banks” and of EUR 8,753.8 mln on line “2. Deposits from customers”, is due to the classification by the subsidiary MPS Capital Services S.p.A. starting in the last quarter of 2016 of the new repurchase agreements in the banking book, given their purpose which is predominantly associated with the raising of funds to finance global market operations. Previously, transactions of this type were classified in the trading book as they were carried out as part of a broader trading strategy.

Derivatives connected with fair value option instruments are also included in the trading book: they cover the risks of funding designated at fair value arising from possible interest rate fluctuations and from any embedded options in structured bonds issued (natural and systematic hedging). The fair value of these derivatives is shown in the table in line B1.1 as they are FVO hedges originally carried out with the subsidiary MPS Capital Services S.p.A., for which risk externalisation was required.

For FVO derivatives arranged by Group companies with the subsidiary MPS Capital Services S.p.A., it is worth noting that the relevant internal units responsible for risk management perform suitable tests at consolidated level in order to periodically test the effectiveness of the hedge established from the perspective of a ‘natural hedge’.



The fair value calculated on financial derivatives excludes value adjustments owing to changes in the Group's creditworthiness, Debit Value Adjustment (i.e. DVA), totalling EUR 23 mln (EUR 9.2 mln as at 31 December 2015).

Type of transaction/ Group item	NV	Total 31 12 2015				FV*
		FV			Total	
		Level 1	Level 2	Level 3		
A. Balance-sheet liabilities						
1. Deposits from banks	2,067,449	1,637,105	744,505	-	2,381,610	2,381,609
2. Deposits from customers	9,970,636	1,326,630	8,839,838	-	10,166,468	10,166,468
3. Debt securities issued	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	-	X
3.1.2 Other	-	-	-	-	-	X
3.2 Other securities	-	-	-	-	-	-
3.2.1 Structured	-	-	-	-	-	X
3.2.2 Other	-	-	-	-	-	X
Total A	12,038,085	2,963,735	9,584,343	-	12,548,078	12,548,077
B. Derivatives						
1. Financial derivatives		642	3,300,878	85	3,301,605	
1.1 Trading	X	642	3,300,878	85	3,301,605	X
1.2 Fair value option (FVO)	X	-	-	-	-	X
1.3 Other	X	-	-	-	-	X
2. Credit derivatives		-	72,044	-	72,044	
2.1 Trading	X	-	72,044	-	72,044	X
2.2 Fair value option (FVO)	X	-	-	-	-	X
2.3 Other	X	-	-	-	-	X
Total B	X	642	3,372,922	85	3,373,649	X
Total (A+B)	12,038,085	2,964,377	12,957,265	85	15,921,727	X

**Legend**

FV = Fair Value

FV\* = Fair value calculated excluding value adjustments due to variations in the credit rating of the issuer since the date of issue

NV = Nominal or Notional Value

#### 4.2 Details of item 40 “Financial liabilities held for trading”: subordinated liabilities

The Group has issued no subordinated liabilities classified in the trading book.

#### 4.3 Details of item 40 “Financial liabilities held for trading”: structured liabilities

The Group has issued no structured liabilities classified in the trading book.



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

### 5.1 Financial liabilities designated at fair value: breakdown

Type of transaction / Amount	Total 31 12 2016					
	NV	FV				FV*
		Level 1	Level 2	Level 3	Total	
1. Deposits from banks	-	-	-	-	-	-
1.1 Structured	-	-	-	-	-	X
1.2 Other	-	-	-	-	-	X
2. Deposits from customers	-	-	-	-	-	-
2.1 Structured	-	-	-	-	-	X
2.2 Other	-	-	-	-	-	X
3. Debt securities issued	1,670,756	-	1,368,705	154,518	1,523,223	1,788,649
3.1 Structured	170,265	-	144,916	-	144,916	X
3.2 Other	1,500,491	-	1,223,789	154,518	1,378,307	X
<b>Total</b>	<b>1,670,756</b>	<b>-</b>	<b>1,368,705</b>	<b>154,518</b>	<b>1,523,223</b>	<b>1,788,649</b>

#### Legend

FV = Fair Value

FV\* = Fair value calculated excluding value adjustments due to variations in the credit rating of the issuer since the date of issue

NV = Nominal or Notional Value

The table shows the financial liabilities represented by fixed-rate and structured bonds which have been classified at fair value and are subject to hedging. Hedging occurs through derivative contracts and is used to cover the risk of interest rate fluctuations and the risk resulting from embedded options.

Positive and negative spreads or margins in relation to derivative contracts settled or accrued until the balance sheet date are recorded in the profit and loss statement under interest income and expense, while valuation profits and losses are posted under Item 110, “Net profit (loss) from financial assets and liabilities designated at fair value”, in compliance with reporting used for funding instruments for which the fair value option was used.

For further details on the securities in the “Level 3” column, please refer to Section A.4.2 of the Notes to the financial statements - Part A – Accounting policies.

Type of transaction / Amount	Total 31 12 2015					
	NV	FV				FV*
		Level 1	Level 2	Level 3	Total	
1. Deposits from banks	-	-	-	-	-	-
1.1 Structured	-	-	-	-	-	X
1.2 Other	-	-	-	-	-	X
2. Deposits from customers	-	-	-	-	-	-
2.1 Structured	-	-	-	-	-	X
2.2 Other	-	-	-	-	-	X
3. Debt securities issued	2,101,431	1,098,268	975,647	-	2,073,915	2,250,065
3.1 Structured	188,640	-	173,170	-	173,170	X
3.2 Other	1,912,791	1,098,268	802,477	-	1,900,745	X
<b>Total</b>	<b>2,101,431</b>	<b>1,098,268</b>	<b>975,647</b>	<b>-</b>	<b>2,073,915</b>	<b>2,250,065</b>

#### Legend

FV = Fair Value

FV\* = Fair value calculated excluding value adjustments due to variations in the credit rating of the issuer since the date of issue

NV = Nominal or Notional Value





### 5.1.a Liabilities designated at fair value: the Fair Value Option approach

Liabilities for which the fair value option was adopted include natural hedges through debt security derivatives for a book value of EUR 1,523.2 mln, as compared to EUR 2,073.9 mln in the previous year.

### 5.1.b Financial liabilities designated at fair value: structured debt securities

Item/Amount	Total	Total
	31 12 2016	31 12 2015
Index Linked	144,916	163,213
Inflation Linked	-	9,957
<b>Total</b>	<b>144,916</b>	<b>173,170</b>

The table reports the main types of structured bonds issued by the Group and measured at fair value. Since bonds are measured at fair value as an offset to profit or loss, embedded derivatives are not reported separately.

### 5.2 - Details of item 50 “Financial liabilities designated at fair value”: subordinated liabilities

The item includes subordinated securities for an amount of EUR 154.5 mln (EUR 174.8 mln in 2015). In 2016, no new subordinated issues were finalised as part of the portfolio of financial liabilities designated at fair value.

The amounts qualifying as regulatory capital are set out in Part F, Section 2 “Regulatory capital and ratios”.



## Section 6 – Hedging derivatives – Item 60

### 6.1 Hedging derivatives: breakdown by type of contract and underlying asset

	Fair value				NV
	31 12 2016				
	Level 1	Level 2	Level 3	Total	
A. Financial derivatives	-	1,018,291	-	1,018,291	8,464,780
1) Fair value	-	1,018,291	-	1,018,291	8,464,780
2) Cash flows	-	-	-	-	-
3) Foreign investments	-	-	-	-	-
B. Credit derivatives	-	-	-	-	-
1) Fair value	-	-	-	-	-
2) Cash flows	-	-	-	-	-
Total	-	1,018,291	-	1,018,291	8,464,780

#### Legend

NV = Nominal or Notional Value

The table displays the negative book value (fair value) of hedging derivatives for hedges carried out through hedge accounting.

Hedges of financial liabilities represented by securities are also managed through the fair value option.

Information on the underlying strategies and objectives of hedge transactions can be found in Section 2 “Market risks” of Part E “Information on risks and hedging policies”.

	Fair value				NV
	31 12 2015				
	Level 1	Level 2	Level 3	Total	
A. Financial derivatives	-	1,205,267	-	1,205,267	8,024,493
1) Fair value	-	1,048,186	-	1,048,186	6,676,979
2) Cash flows	-	157,081	-	157,081	1,347,514
3) Foreign investments	-	-	-	-	-
B. Credit derivatives	-	-	-	-	-
1) Fair value	-	-	-	-	-
2) Cash flows	-	-	-	-	-
Total	-	1,205,267	-	1,205,267	8,024,493

#### Legend

NV = Nominal or Notional Value



## 6.2 Hedging derivatives: breakdown by hedged portfolios and type of hedging

Transaction/Type of hedge	Fair Value					Cash flow Hedge			Foreign investments	Total 31 12 2016
	Micro Hedge					Macro-hedge	Micro-hedge	Macro-hedge		
	interest rate risk	exchange risk	credit risk	price risk	multiple risks					
1. Financial assets available for sale	401,069	-	-	-	-	X	-	X	X	401,069
2. Loans and receivables	96,674	46,939	-	-	-	X	-	X	X	143,613
3. Financial assets held to maturity	X	-	-	X	-	X	-	X	X	-
4. Portfolio	X	X	X	X	X	468,170	X	-	X	468,170
5. Other transactions	-	-	-	-	-	X	-	X	-	-
Total assets	497,743	46,939	-	-	-	468,170	-	-	-	1,012,852
1. Financial liabilities	5,439	-	-	X	-	X	-	X	X	5,439
2. Portfolio	X	X	X	X	X	-	x	-	X	-
Total liabilities	5,439	-	-	-	-	-	-	-	-	5,439
1. Expected transactions	X	X	X	X	X	X	-	X	X	-
2. Financial assets and liabilities portfolio	X	X	X	X	X	-	X	-	-	-
Total	503,182	46,939	-	-	-	468,170	-	-	-	1,018,291

The tables show the negative fair values of hedging derivatives, classified by hedged assets or liabilities and type of hedging implemented.

In particular, on the assets side, fair value micro-hedging was used to hedge against interest-rate risk on fixed-rate and variable-rate capped mortgages and bonds classified in the available-for-sale portfolio or among receivables, in order to protect them from unfavourable interest rate changes. Fair value macro-hedging was carried out on fixed-rate mortgage loan portfolios.

With reference to financial liabilities, fair value micro-hedging of the interest-rate risk refers primarily to hedges of liabilities represented by securities. Cash flow hedges were carried out on some specific index-linked bond issues, in order to stabilise their flows through interest rate swaps.

More information on hedged assets and liabilities can be found in the tables contained in Part B of the notes for each section of the balance sheet items to which the hedged items are posted.



Transaction/Type of hedge	Fair Value						Cash flow Hedge			Foreign investments	Total 31 12 2015
	Micro Hedge					Macro-hedge	Micro-hedge	Macro-hedge			
	interest rate risk	exchange risk	credit risk	price risk	multiple risks						
1. Financial assets available for sale	781,215	-	-	-	-	X	-	X	X	781,215	
2. Loans and receivables	124,885	50,055	-	-	-	X	-	X	X	174,940	
3. Financial assets held to maturity	X	-	-	X	-	X	-	X	X	-	
4. Portfolio	X	X	X	X	X	84,674	X	-	X	84,674	
5. Other transactions	-	-	-	-	-	X	-	X	-	-	
Total assets	906,100	50,055	-	-	-	84,674	-	-	-	1,040,829	
1. Financial liabilities	7,357	-	-	X	-	X	157,081	X	X	164,438	
2. Portfolio	X	X	X	X	X	-	X	-	X	-	
Total liabilities	7,357	-	-	-	-	-	157,081	-	-	164,438	
1. Expected transactions	X	X	X	X	X	X	-	X	X	-	
2. Financial assets and liabilities portfolio	X	X	X	X	X	-	X	-	-	-	
Total	913,457	50,055	-	-	-	84,674	157,081	-	-	1,205,267	

## Section 7 – Changes in value of macro-hedged financial liabilities – Item 70

This item was left blank since no macro-hedges have been established on financial liabilities.

## Section 8 – Tax liabilities – Item 80

Please refer to section 14 of the assets.

## Section 9 – Liabilities associated with individual assets held for sale – Item 90

Please refer to section 15 of the assets.



## Section 10 – Other liabilities – Item 100

### 10.1 Other liabilities: breakdown

	Total 31 12 2016	Total 31 12 2015
Due to the Revenue and other tax levying authorities	94,705	214,907
Due to social security authorities	238,582	364,719
Amounts available to customers	122,465	102,112
Other amounts due to employees	47,799	63,492
Items in transit between branches	69,941	13,492
Items in processing	938,389	683,918
Payables in relation to the payment of supplies of goods and services	307,187	253,569
Irrevocable commitments to disburse funds	183,171	191,192
Accrued expenses and unearned revenues not attributable to other line items	53,573	78,660
Other	1,183,119	2,073,887
<b>Total</b>	<b>3,238,931</b>	<b>4,039,948</b>

The lines “Items in processing” and “Other” include transactions which were cleared during the first days of 2017.

## Section 11 – Provision for employee severance pay – Item 110

### 11.1 Provision for employee severance pay: annual changes

	Total 31 12 2016	Total 31 12 2015
<b>A. Opening balance</b>	<b>246,170</b>	<b>271,434</b>
<b>B. Increases</b>	<b>12,598</b>	<b>3,896</b>
B.1 Provision for the year	5,644	3,610
B.2 Other increases	6,954	286
<b>C. Decreases</b>	<b>5,910</b>	<b>29,160</b>
C.1 Severance payments	4,329	9,060
C.2 Other decreases	1,581	20,100
<b>D. Closing balance</b>	<b>252,858</b>	<b>246,170</b>

### 11.2 Other information

Provision for employee severance pay is considered as a defined benefit fund for the purpose of international accounting standards.

The provision for the year, as clarified by the Bank of Italy, does not include amounts which, as a result of the reform introduced by Legislative Decree no. 252 of 5 December 2005, are paid directly by the Bank, depending on the various employee options, to complementary pension schemes or to the treasury fund managed directly by the Italian National Social Security Institute, INPS. These items are recognised in personnel expenses, as “contributions to external pension funds: defined contribution”.

**11.2.a Changes in net defined benefit liability during the year: Severance pay**

Item/Amount	Present value of DBO	
	31 12 2016	31 12 2015
<b>Opening balance</b>	<b>246,170</b>	<b>271,434</b>
Current service cost	13	13
Interest income/expense	5,630	3,597
Remeasurement of net defined benefit liability (asset):	6,947	(20,051)
Return on plan assets excluding interest	-	-
Actuarial gains (losses) arising from changes in demographic assumptions	825	-
Actuarial gains (losses) arising from experience adjustments	(1,619)	-
Actuarial gains (losses) arising from changes in financial assumptions	7,741	(20,051)
Changes in effect of limiting net defined benefit asset to asset ceiling	-	-
Payments from plan	(4,346)	(9,010)
Effect of any plan settlements	-	50
Other changes	(1,556)	237
<b>Closing balance</b>	<b>252,858</b>	<b>246,170</b>

The table above reports the information required by paragraphs 140 and 141 of IAS 19.

**11.2.b Key actuarial assumptions**

Key actuarial assumptions/percentage	31 12 2016	31 12 2015
Discount rates	0,76-1,82%	1,10-2,22%
Expected rates of salary increases	X	X

**11.2.c Sensitivity of defined benefit obligation to changes in key actuarial assumptions**

Actuarial assumptions	31 12 2016		31 12 2015	
	Change in DBO	Change (%) in DBO	Change in DBO	Change (%) in DBO
Discount rates				
Increase of 0.25%	(5,826)	-2.30%	(5,584)	-2.27%
Decrease of 0.25%	2,669	1.06%	5,747	2.33%



## Section 12 – Provisions for risks and charges – Item 120

### 12.1 Provisions for risks and charges: breakdown

Item/Amount	Total 31 12 2016	Total 31 12 2015
1. Pensions and other post retirement benefit obligations	53,582	49,366
2. Other provisions for risks and charges	1,054,472	1,067,547
2.1 legal disputes	599,910	639,260
2.2 personnel charges	178,123	99,880
2.3 other	276,439	328,407
<b>Total</b>	<b>1,108,054</b>	<b>1,116,913</b>

For further details of the sub-item 2.3 “others”, please refer to table 12.4 below “Provisions for risks and charges - Other provisions”.

### 12.2 Provisions for risks and charges: annual changes

Item/Amount	Total 31 12 2016		
	Pensions and other post retirement benefit obligations	Other provisions	Total
<b>A. Opening balance</b>	<b>49,366</b>	<b>1,067,547</b>	<b>1,116,913</b>
<b>B. Increases</b>	<b>27,965</b>	<b>348,843</b>	<b>376,808</b>
B.1 Provision for the year	541	347,541	348,082
B.2 Changes due to the time value of money	1,011	6	1,017
B.3 Changes due to discount rate changes	26,118	321	26,439
B.4 Other increases	295	975	1,270
<b>C. Decreases</b>	<b>23,749</b>	<b>361,918</b>	<b>385,667</b>
C.1 Use during the year	3,530	134,203	137,733
C.2 Changes due to discount rate changes	-	-	0
C.3 Other decreases	20,219	227,715	247,934
<b>D. Closing balance</b>	<b>53,582</b>	<b>1,054,472</b>	<b>1,108,054</b>



## 12.3 Defined benefit company pension funds

### 12.3.1. Description of funds and related risks

The information provided below concerns defined benefit pension funds in favour of employees and terminated employees of the Parent Company and the Group companies, i.e. funds in which the obligation of future payment of retirement benefits is undertaken by the fund itself and indirectly by the Companies, which may be required to increase the value of the obligation in the event of inadequate capital assessed in accordance with actuarial criteria.

For each definite benefit plan the Parent Company relies on analyses carried out by an independent certified actuary.

In accounting for the plans, the surplus or deficit was determined using the credit unitary projection method; therefore the fair value of the assets servicing the plan, if any, was deducted from the current value of the obligation, as shown in the statement of financial position (*see Part A of the Notes - Accounting Policies*).

The valuations concerned those participating, which form a closed group of retired or active employees, and were carried out on the basis of these groups of employees as measured in December 2016 (with the exclusion of the Section of the Cassa di Previdenza Aziendale (Company's Pension Scheme) for employees of Monte dei Paschi di Siena, valued as at 30 November 2016).

In accordance with IAS 19, revised by amendments issued by IASB on 16/06/2011 and approved by EU Regulation no. 475/2012 dated 5/06/2012, in determining the total cost of each defined benefit plan, which - as is well-known - may be influenced by many variables, objective and prudential technical bases were adopted in formulating both demographic and financial assumptions.

In view of the evolutionary nature of the main relevant aggregates, actuarial valuations were performed under dynamic conditions, so as to subsume in the medium-long term both the average annual changes in the benefits defined in each plan, and the interest rate trends expected in the financial market.

Some of the main actuarial assumptions that were formulated and used as valuation bases are mentioned below:

- technical mortality basis: using death probability data as provided in ISTAT's 2015 tables, broken down by gender and age, with mortality reduced by 20%;
- economic-financial basis: using as annual relative interest rate the interpolated EUR Composite AA rate curve (BFV) as at 31 December 2016.

For each defined benefit plan, the balance sheet equity resulting from valuations carried after reconciliation of actuarial assets and liabilities as at 31 December 2016 underwent a sensitivity analysis to examine the effects of changes in the key technical assumptions included in the calculation model (average annual discount rate and inflation rate), and the results were presented in specific tables.

The theoretical future increase in INPS pensionable earnings, which in any case is considered in the calculation model in an average annual percentage of 0.85%, was not included in the sensitivity analysis because it is essentially irrelevant for the preparation of the technical financial statements as, given that all defined benefit pensions funds are closed to new participants and taking into account the progressive decrease in the active population due to retirements during the year, the ratio between active and retired participants has now reduced to a percentage of less than 0.1%.

The defined benefit plans, in which the Group companies are co-obliged within the limits set out in the respective articles of association or regulations, are either internal plans, divided in the description below between unfunded and funded, or independent external funds.





### Unfunded internal plans

#### Supplementary pension provision for staff in the former tax collection division of Banca Monte dei Paschi di Siena S.p.a.

(Bank Register no. 9185)

This is a defined benefit plan designed to provide retired staff of the former Direct Management division of the Parent Company with supplementary pension in the form of annuity.

The entitled population, consisting solely of retirees whose number is 331, is made up of staff of the former business unit, divested in 2006, who retired after the year 1982.

For the purposes of the preparation of the technical financial statements, the liabilities were valued taking into account INPS pension payment regulations issued by Law no. 335/95 as amended and the Plan Regulations.

The valuations concerning participants were carried out on the basis of the positions of retirees receiving immediate or deferred retirement benefits, taking into account details on currently paid pensions, types of pension, personal data of the beneficiary and amount of the annuity paid by the Fund and that paid by INPS.

In the event that the agreed benefits are more costly than expected, the Parent Company remains responsible for providing additional funds to meet the financial requirements of the retirement plans.

The actuarial calculations show a loss of EUR 0.397 mln at the valuation date of 31 December 2016 due primarily to the interpolated EUR Composite AA rate curve used.

#### National insurance (INPS) for former Banca Operaia di Bologna staff

(Bank Register no. 9142)

The fund is intended to supplement benefits paid out under INPS pension schemes for retired employees of former Banca Operaia di Bologna.

The Regulations, signed on 23 September 1980, provide for the payment of supplementary benefits so as to reach a certain percentage of the last salary earned, and for the purposes of the preparation of the technical financial statements, the liabilities were valued taking into account INPS pension payment regulations issued by Law no. 335/95, as amended. For the purposes of pension calculation, annual salary means a set of items paid on a continuous basis and on which benefits are paid out to surviving dependents.

The valuations concerning participants were carried out on the basis of the positions of retirees, taking into account details on currently paid pensions, types of pension, personal data of the beneficiary and amount of the annuity paid by the Fund and that paid by INPS.

In the event of deficit, the Parent Company remains responsible for providing additional funds to meet the financial requirements of the retirement plans.

At the valuation date of 31 December 2016, it was not necessary to adjust liabilities, given the realisation of actuarial gains.

The plan applies to a population made up exclusively of non-active participants, of which 66 are retired and 3 on deferred retirement.

#### Pension provision for employees of former Banca di Credito Popolare e Cooperativo di Reggio Emilia

(Bank Register no. 9178)

The sole aim of the fund is to supplement compulsory schemes in order to guarantee higher levels of insurance coverage for ex-employees of former Banca di Credito Popolare e Cooperativo di Reggio Emilia, as the direct beneficiaries of a life annuity or as the surviving spouse of a former employee.



The pension provision for employees participating in the Fund is governed by the Regulations issued in 1977 and later amended to reflect subsequent laws. It provides for payment of supplementary benefits so as to reach a certain percentage of the last salary earned.

The valuations concerning participants were carried out on the basis of the positions of retirees, taking into account details on currently paid pensions, types of pension, personal data of the beneficiary and amount of the annuity paid by the Fund and that paid by INPS.

The obligation to pay the benefits lies with the Parent Company, which must provide the wherewithal to cover the liability over time.

The actuarial calculations show a loss of EUR 0.028 mln at the valuation date of 31 December 2016 due primarily to the interpolated EUR Composite AA rate curve used.

The Plan applies to a population of only 12 retirees.

*Pension provision for employees of former Banca Popolare Veneta*

*(Bank Register no. 9066)*

The pension plan, which applies to a residual population of 23 retirees, is aimed at supplementing the benefits paid out by INPS for employees already retired at 7 December 1989 and their assigns, under labour agreements signed on 4 February 1956 and subsequently on 1 January 1982 for executive staff, as amended.

Also in this case, actuarial valuations were carried out on the basis of each individual position, taking into account details on currently paid pensions, types of pension, personal data of the beneficiary and amount of the annuity paid by the Fund and that paid by INPS.

The Fund is financed exclusively by the company, and in the event of deficit, the Parent Company remains responsible for providing additional funds to meet the financial requirements of the retirement plans.

The actuarial calculations show a loss of EUR 0.067 mln at the valuation date of 31 December 2016.

*Pension fund of MPS Capital Services Banca per le Imprese S.p.A.*

*(Bank Register no. 9134)*

This defined benefit complementary pension fund is reserved to employees who at the time opted to remain with the specific complementary benefit schemes.

The actuarial calculations show a loss of EUR 0.196 mln at the valuation date of 31 December 2016.



## Funded internal plans

### Pension provision for employees of former Banca Nazionale Agricoltura

(Bank Register no. 9047)

The purpose of this provision is to pay additional retirement benefits over and above those paid by INPS to employees of the former Banca Nazionale dell'Agricoltura, who retired before 1 October 2000 or whose employment was terminated after this date without their having exercised the right, provided under the agreement of 12 September 2000, to transfer their contributions to another individual capitalisation, defined contribution fund.

The Plan applies to a population of 241 retirees and 3 employees on deferred retirement.

The Plan's Regulations, first approved in 1966, provide for supplementary benefit up to a certain percentage of the last salary earned, to be paid to the direct beneficiaries and their surviving dependants.

Actuarial valuations were carried out on the basis of the positions of retirees, taking into account details on currently paid pensions, types of pension, personal data of the beneficiary and amount of the annuity paid by the Fund and that paid by INPS.

Although the Fund has its own separate and independent allocation capital, the guarantee of performance of the benefit payment obligation lies with the Parent Company, which must ensure the wherewithal to cover the liability over time.

At the valuation date of 31 December 2016, the actuarial calculations show that the capital adequacy of the Fund satisfies the obligation to pay benefits with respect to the participants.

### Complementary pension provision for employees of former Banca Toscana

(Bank Register no. 9110)

This defined benefit complementary pension fund is reserved for employees of the former Banca Toscana who were already retired at 1 January 1999 and to active employees hired before 27 April 1993 who did not opt at the time to transfer their contributions to an individual capitalisation and defined contribution fund.

The population of employees eligible for the present and future benefits is composed of 878 retirees, 4 active employees and 3 employees on deferred retirement.

The current Fund Regulations set out the rules concerning the retirement benefits to be paid to eligible employees, distinguishing between old age, seniority and disability pensions. Calculation of the complementary benefits is based on the average of the last three years of employment, taking into account only the items specified in the Regulations.

The guarantee of performance of the benefit payment obligation lies with the Parent Company, which must ensure the wherewithal to cover the liability over time, although the Fund has its own separate accounting and capital, with the effects set out in art. 2117 of the Italian Civil Code.

At the valuation date of 31 December 2016, the actuarial calculations show that the capital adequacy of the Fund satisfies the obligation to pay benefits with respect to the participants.



## External funds

### Cassa di Previdenza Aziendale (Company's Pension Scheme) for employees of Monte dei Paschi di Siena

(Bank Register no. 1127)

The Fund has legal personality and full independence in terms of capital and operation.

It is reserved to employees and retirees of the Parent Company hired until 31 December 1990 who, following the agreement of 30 June 1989, opted to remain in the specific complementary benefit Section under a defined benefit regime.

The Fund's governance consists of a Board of Directors and a Board of Statutory Auditors with joint membership (some of the members are appointed by the Parent Company and others are appointed by the participants) supported by the General Manager.

The Parent Company provides, free of charge, the employees, premises and other resources required for the autonomous management of the Cassa and incurs all the related costs and expenses, including those for the functioning of the governing and control bodies.

In terms of guarantees given, in accordance with art. 26 of the Articles of Association, any deficits in Section coverage which should be identified during actuarial checks will be made up by the Parent Company only to the extent necessary to maintain tier 1 services, in accordance with the guarantee to the participants undertaken in compliance with Law no. 218/90 and referred to in the agreement of 24 June 1991.

The complementary benefits, which are determined by subtracting the benefits paid out by INPS from the annual amount of the complementary benefits, are made up of two components. The first component increases the benefits to be paid by the Cassa up to 70% of the fixed items of the salary of an employee of the same level, and the second component increases the complementary benefits by a further 9%.

The assets that comprise the reference capital consist of properties, in a percentage of less than 20% at book value, and for the remaining portion of investments in securities, managed almost entirely under a financial management agreement, with a minimal portion of around 3% managed directly.

The population is composed of 2725 retirees, 155 active employees and 119 employees on deferred retirement.

The technical report prepared in accordance with IAS 19 criteria by the designated actuary shows the capital adequacy of the Complementary Section which, against an asset fair value calculated at 30 November 2016\* of EUR 375.549 mln, takes into consideration the DBO (Defined Benefit Obligation) as at 31 December 2016 of EUR 170.804 mln.

(\*) most recent figure available



Pension Fund for personnel of former Banca Agricola Mantovana S.p.A.

(Bank Register no. 1341)

The Fund, which operates on a defined benefit basis, has legal personality and full independence in terms of capital and operation, as its legal form is that of an unincorporated association under art. 36 of the Italian Civil Code.

The Fund's governance consists of a Board of Directors and a Board of Statutory Auditors with joint membership, supported by the General Manager.

The sole purpose of the Fund is to pay to eligible participants complementary benefits over and above those paid out by INPS; the participants include 35 retirees and 3 employees on deferred retirement.

At the valuation date of 31 December 2016, the actuarial calculations show a profit with regard to the obligation to pay benefits to participants.

Pension Fund for personnel of former Banca Antonveneta S.p.a.

(Bank Register no. 1033)

The Fund, whose legal form is that of an unincorporated association in accordance with article 36 of the Italian Civil Code, has the sole purpose of providing benefits in addition to AGO (General Compulsory Insurance) cheques, was established in 1966 and has continued to operate to date.

The currently limited group of pensioners entitled to benefits refers to those who at the time did not accept the proposal for the settlement in capital of the value of the position recognised.

Although the Fund has legal personality and full independence in terms of capital, in the event of operating deficit, the co-obliged Parent Company is responsible for providing the wherewithal to cover such deficit.

The population eligible to receive the benefits is composed of only 31 retirees.

The actuarial calculations show a loss of EUR 0.224 mln at the valuation date of 31 December 2016.

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The defined-benefit pension funds for personnel of the London branch (BMPS UK Pension Fund) and the New York branch (Retirement Plan) of the Parent Company are designed to pay for the employees' benefits upon reaching normal retirement age as well as benefits to other surviving beneficiaries.

As concerns the complementary pension plan for the London branch, the plan is funded by the branch itself through approximately 37.1% of the total salaries. The plan is administered by a Trustee whose members include active employees and the financial resources are managed by a contractor. The plan's deficit is currently being made up through a seven-year plan of 84 monthly instalments the first of which was paid in October 2014. At the end of 2016, the capital amounts to EUR 56.636 mln, with an actuarial loss of EUR 3.588 mln.

As regards the New York branch's retirement plan (external/funded), which includes a total of 57 members, of which 18 active employees, it has a total of EUR 12.244 mln as at 31 December 2016, with an actuarial loss of EUR 6.325 mln.

There is also a pension plan for Banca Monte dei Paschi Belgio, which includes 66 active employees and 17 employees on deferred retirement. The capital at 31 December 2016 was EUR 3.919 mln, with an actuarial loss of EUR 1.313 mln.

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IAS 19 was also applied to calculate the actuarial values that could be used to determine the liability relating to the pension plan recognised to beneficiaries of complementary benefits associated with the former Credito Lombardo Spa. Considering the contractual nature of the obligation, the economic



costs are incurred directly by the Parent Company. The currently limited group of people eligible for benefits regards a total of 100 immediate pensions, of which 62 direct and 38 indirect. The actuarial calculations show a commitment (DBO) of EUR 2.997 mln at the valuation date of 31 December 2016.

Finally, there are two positions referring to former General Managers of the Parent Company to whom specific economic benefits other than pension benefits are disbursed. In any event, they are assessed on the basis of actuarial parameters in order to determine the value of the Parent Company's obligation. This type of remuneration, known as *ex contractu*, consists of payment of monthly benefits revalued on the basis of automatic pension equalisation indexes.

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As required by the Bank of Italy, the internal fund statements can be found in the annexes to the financial statements.



### 12.3.2 Changes in net defined liability (asset) and reimbursement rights during the year

The following tables show movements for the year in internal and external funds which, according to international accounting standards, come under the heading of defined benefit funds.

#### 12.3.2a Changes in net defined liability (asset) and reimbursement rights during the year – Internal Funds

Item/Amount	31 12 2016			
	A (-)	B (+)	C (+)	D=A+B+C
	Plan assets	Present value of DBO	Effect of asset ceiling	Net defined benefit liability (asset)
<b>Opening balance</b>	<b>(141,674)</b>	<b>165,599</b>	<b>17,421</b>	<b>41,346</b>
Current service cost	X	-	X	-
Interest income/expense	(969)	1,211	96	338
Remeasurement of net defined benefit liability (asset):	191	2,687	(1,985)	893
Return on plan assets excluding interest	191	X	X	191
Actuarial gains (losses) arising from changes in demographic assumptions	X	(457)	X	(457)
Actuarial gains (losses) arising from experience adjustments	X	(1,533)	X	(1,533)
Actuarial gains (losses) arising from changes in financial assumptions	X	4,677	X	4,677
Changes in effect of limiting net defined benefit asset to asset ceiling	X	X	(1,985)	(1,985)
Past service cost and gains (losses) arising from settlements	X	-	X	-
Changes in foreign exchange rates	-	-	-	-
Contributions to plan:	-	-	-	-
by employer	-	-	X	-
by employee	-	-	X	-
Payments from plan	10,436	(13,965)	X	(3,529)
Effect of business combinations and disposals	-	-	-	-
Effect of any plan curtailments	-	-	X	-
Effect of any plan settlements	-	-	X	-
Other changes	(56)	3,083	56	3,083
<b>Closing balance</b>	<b>(132,072)</b>	<b>158,615</b>	<b>15,588</b>	<b>42,131</b>



Item/Amount	31 12 2015			
	A (-)	B (+)	C (+)	D=A+B+C
	Plan assets	Present value of DBO	Effect of asset ceiling	Net defined benefit liability (asset)
<b>Opening balance</b>	<b>(138,397)</b>	<b>185,981</b>	<b>12,125</b>	<b>59,709</b>
Current service cost	X	30	X	30
Interest income/expense	(1,169)	1,432	97	360
Remeasurement of net defined benefit liability (asset):	159	(7,637)	5,199	(2,279)
Return on plan assets excluding interest	159	X	X	159
Actuarial gains (losses) arising from changes in demographic assumptions	X	-	X	-
Actuarial gains (losses) arising from experience adjustments	X	(2,772)	X	(2,772)
Actuarial gains (losses) arising from changes in financial assumptions	X	(4,865)	X	(4,865)
Changes in effect of limiting net defined benefit asset to asset ceiling	X	X	5,199	5,199
Past service cost and gains (losses) arising from settlements	X	-	X	-
Changes in foreign exchange rates	-	-	-	-
Contributions to plan:	(13,109)	-	-	(13,109)
by employer	(13,109)	-	X	(13,109)
by employee	-	-	X	-
Payments from plan	10,842	(14,208)	X	(3,366)
Effect of business combinations and disposals	-	-	-	-
Effect of any plan curtailments	-	-	-	-
Effect of any plan settlements	-	-	X	-
Other changes	-	1	-	1
<b>Closing balance</b>	<b>(141,674)</b>	<b>165,599</b>	<b>17,421</b>	<b>41,346</b>





### 12.3.2b Changes in net defined liability (asset) and reimbursement rights during the year: external funds

Item/Amount	31 12 2016			
	A (-)	B (+)	C (+)	D=A+B+C
	Plan assets	Present value of DBO	Effect of asset ceiling	Net defined benefit liability (asset)
<b>Opening balance</b>	<b>(472,644)</b>	<b>259,935</b>	<b>220,733</b>	<b>8,024</b>
Current service cost	X	541	X	541
Interest income/expense	(7,112)	6,044	1,741	673
Remeasurement of net defined benefit liability (asset):	13,986	7,315	(17,713)	3,588
Return on plan assets excluding interest	13,986	X	X	13,986
Actuarial gains (losses) arising from changes in demographic assumptions	X	(719)	X	(719)
Actuarial gains (losses) arising from experience adjustments	X	(13,896)	X	(13,896)
Actuarial gains (losses) arising from changes in financial assumptions	X	21,930	X	21,930
Change in effect of limiting net defined benefit asset to asset ceiling	X	X	(17,713)	(17,713)
Past service cost and gains (losses) arising from settlements	X	-	X	-
Changes in foreign exchange rates	7,325	(7,258)	-	67
Contributions to plan:	(1,787)	-	-	(1,787)
by employer	(1,787)	-	X	(1,787)
by employee	-	-	X	-
Payments from plan	8,479	(8,479)	X	-
Effect of business combinations and disposals	-	-	-	-
Effect of any plan curtailments	-	-	X	-
Effect of any plan settlements	-	-	X	-
Other changes	349	-	-	349
<b>Closing balance</b>	<b>(451,404)</b>	<b>258,098</b>	<b>204,761</b>	<b>11,455</b>



Item/Amount	31 12 2015			
	A (-)	B (+)	C (+)	D=A+B+C
	Plan assets	Present value of DBO	Effect of asset ceiling	Net defined benefit liability (asset)
<b>Opening balance</b>	<b>(477,688)</b>	<b>269,656</b>	<b>214,238</b>	<b>6,206</b>
Current service cost	X	2,023	X	2,023
Interest income/expense	(7,094)	5,176	2,611	693
Remeasurement of net defined benefit liability (asset):	11,684	(16,258)	3,884	(690)
Return on plan assets excluding interest	11,684	X	X	11,684
Actuarial gains (losses) arising from changes in demographic assumptions	X	1,472	X	1,472
Actuarial gains (losses) arising from experience adjustments	X	(6,074)	X	(6,074)
Actuarial gains (losses) arising from changes in financial assumptions	X	(11,656)	X	(11,656)
Change in effect of limiting net defined benefit asset to asset ceiling	X	X	3,884	3,884
Past service cost and gains (losses) arising from settlements	X	-	X	-
Changes in foreign exchange rates	(4,303)	4,896	-	593
Contributions to plan:	(2,514)	6	-	(2,508)
by employer	(2,508)	-	X	(2,508)
by employee	(6)	6	X	-
Payments from plan	10,657	(10,657)	X	-
Effect of business combinations and disposals	-	-	-	-
Effect of any plan curtailments	-	-	-	-
Effect of any plan settlements	-	-	X	-
Other changes	(3,386)	5,093	-	1,707
<b>Closing balance</b>	<b>(472,644)</b>	<b>259,935</b>	<b>220,733</b>	<b>8,024</b>



### 12.3.2c Changes in net defined liability (asset) and reimbursement rights during the year – Total

Item/Amount	31 12 2016			
	A (-)	B (+)	C (+)	D=A+B+C
	Plan assets	Present value of DBO	Effect of asset ceiling	Net defined benefit liability (asset)
Internal funds	(132,072)	158,615	15,588	42,131
External funds	(451,404)	258,098	204,761	11,455
<b>Total defined benefit funds</b>	<b>(583,476)</b>	<b>416,713</b>	<b>220,349</b>	<b>53,586</b>

Item/Amount	31 12 2015			
	A (-)	B (+)	C (+)	D=A+B+C
	Plan assets	Present value of DBO	Effect of asset ceiling	Net defined benefit liability (asset)
Internal funds	(141,674)	165,599	17,421	41,346
External funds	(472,644)	259,935	220,733	8,024
<b>Total defined benefit funds</b>	<b>(614,318)</b>	<b>425,534</b>	<b>238,154</b>	<b>49,370</b>

**12.3.3 Information on Fair value of plan assets**

Item	31 12 2016			
	Internal pension plans		External pension plans	
	Listed in active markets	Not listed in active markets	Listed in active markets	Not listed in active markets
Cash and cash equivalents	91,806	-	14,632	3,920
of which: used by the Group	91,806	-	3,055	-
Equity instruments	-	-	44,030	-
of which: issued by Group	-	-	2	-
Debt instruments	40,266	-	178,895	-
of which: issued by the Group	-	-	5,983	-
Real estate	-	-	-	62,700
UCITS	-	-	147,227	-
<b>Total</b>	<b>132,072</b>	<b>-</b>	<b>384,784</b>	<b>66,620</b>
of which: own instruments/assets used by the Group	91,806	-	9,040	-

The table shows, for funded defined benefit plans, the total amount of plan assets. In particular, the assets refer to the following funds:

- Pension Fund for personnel of former Banca Agricola Mantovana S.p.A.
- Pension Fund for personnel of former Banca Toscana S.p.A.
- Pension Fund for personnel of former Banca Antonveneta
- Cassa di Previdenza Aziendale for Monte dei Paschi di Siena employees, defined benefit section

the total of which exceed the obligations existing at year end.

Item	31 12 2015			
	Internal pension plans		External pension plans	
	Listed in active markets	Not listed in active markets	Listed in active markets	Not listed in active markets
Cash and cash equivalents	100,437	-	13,692	3,607
of which: used by the Group	100,437	-	-	-
Equity instruments	-	-	39,462	-
of which: issued by Group	-	-	10	-
Debt instruments	41,237	-	203,892	-
of which: issued by the Group	-	-	12,073	-
Real estate	-	-	-	65,300
of which: used by the Group	-	-	-	-
Derivatives	-	-	-	-
UCITS	-	-	146,691	-
Asset-backed securities	-	-	-	-
Structured debt	-	-	-	-
<b>Total</b>	<b>141,674</b>	<b>-</b>	<b>403,737</b>	<b>68,907</b>
of which: own instruments/assets used by the Group	100,437	-	12,084	-



### 12.3.4 Key actuarial assumptions used

Key actuarial assumptions/percentages	31 12 2016		31 12 2015	
	Defined benefit funds		Defined benefit funds	
	Internal pension plans	External pension plans	Internal pension plans	External pension plans
Discount rates	0.84%	1.85%	1.46%	2.52%
Expected rates of salary increases	0.75%	1.63%	1.50%	2.04%

A discount rate of 0.84% was used for internal plans and of 1.85% for external ones (0.76-1.44% for Provision for severance pay, see section 11.2b), calculated as a weighted average of interest rates in EUR Composite AA yield curve as at 31 December 2016, using, as weights, the ratio between the amount paid / paid in advance for each maturity and the total amount to be paid / paid in advance for the entire duration of the population considered.

### 12.3.5 Information on amount, timing and uncertainty of cash flows

31 12 2016			
Actuarial assumption	Change in DBO	Change (%) in DBO	
<b>Discount rate</b>			
Increase of 0.25%	(15,229)	-3.86%	
Decrease of 0.25%	9,219	2.34%	
<b>Expected rates of salary increases</b>			
Increase of 0.25%	10,730	2.72%	
Decrease of 0.25%	(6,110)	-1.55%	

31 12 2015			
Actuarial assumption	Change in DBO	Change (%) in DBO	
<b>Discount rate</b>			
Increase of 0.25%	(6,218)	-1.46%	
Decrease of 0.25%	5,052	1.19%	
<b>Expected rates of salary increases</b>			
Increase of 0.25%	(129)	-0.03%	
Decrease of 0.25%	(3,906)	-0.92%	

With respect to pay increases, it is not possible to conduct any sensitivity analysis given the static nature of the benefits linked to the choice of participants to stay in the fund.

### 12.3.6 Plans covering multiple employers

### 12.3.7 Defined benefit plans sharing risks among entities under common control

Plans having these characteristics are not present for the Group.



## 12.4 Provisions for risks and charges - Other provisions

Items/Amounts	Total	Total
	31 12 2016	31 12 2015
2.1 Legal disputes	599,910	639,260
- Revocatory	82,965	108,367
- Other legal disputes	516,945	530,893
2.2 Personnel charges	178,123	99,880
- Job disputes	46,364	53,647
- Leaving incentives	120,032	10,000
- Other	11,727	36,233
2.3 Other	276,439	328,407
- Risks related to the sale of business units	30,321	35,093
- Charges due to corporate restructuring	17,654	30,061
- Payments to financial advisors	60,098	60,819
- Charges for embezzlement	8,144	16,537
- Claims and Court agreements	781	3,863
- Other	159,441	182,034
<b>Total</b>	<b>1,054,472</b>	<b>1,067,547</b>

Sub-item 2.2 "Personnel charges - Leaving incentives" regards primarily EUR 117 mln of provisions recognised for the early retirement incentives/solidarity fund pursuant to the agreement of 23 December 2016 entered into with the trade unions.

## Section 13 – Insurance reserves – Item 130

The tables in this section have not been completed as no data is present for either current or previous year.

## Section 14 – Redeemable shares – Item 150

The tables in this section have not been completed as no data is present for the current year or for the previous year.



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

### 15.1 “Share capital” and “Treasury shares”: breakdown

#### 15.1.a “Share capital” breakdown

(in units of Eur)

Items/Amounts	31 12 2016		31 12 2015	
	Implied par value share (a)	Par value of fully paid shares	Par value per share	Par value of fully paid shares
Ordinary shares	251.21	7,365,674,050.00	3.07	9,001,756,821.00
<b>Total</b>		<b>7,365,674,050</b>		<b>9,001,756,821</b>

a) On 6 June 2011 the Bank’s Extraordinary Shareholders’ Meeting resolved that indication of the par value of the classes of shares be eliminated; accordingly, as at 31.12.2011, the so-called “Implied par value” is indicated, which is obtained by dividing the total share capital amount by the number of shares in the same category, outstanding at the reference date.

Ordinary shares are registered and indivisible. Each share entitles to one vote. Information on the number of fully paid-up shares can be found in the notes to Table “15.2 Share capital – number of shares: annual changes”.

In November 2016, the extraordinary Shareholders’ Meeting of the Bank, taking into account (i) the financial position as at 30 September 2016 and the resulting losses for the period of EUR 1,398.7 mln, as well as (ii) prior losses of EUR 237.4 mln (carried forward on the basis of shareholders’ meeting resolution of 14 April 2016), decided to approve the coverage of the total loss of EUR 1,636.1 mln by means of a corresponding reduction in the share capital, which therefore amounts to EUR 7,365.7 mln.

As a result of the above, at the reporting date, the Parent Company’s share capital amounted to EUR 7,365,674,050.07, represented by 29,320,798 ordinary shares without a nominal value.

#### 15.1.b “Treasury shares”: breakdown

As at 31 December 2016, the Parent Company held no ordinary treasury shares.

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

Item/Type	31 12 2016	31 12 2015
	Ordinary	Ordinary
<b>A. Shares outstanding as at the beginning of the year</b>	2,932,079,864	5,116,513,875
- fully paid	2,932,079,864	5,116,513,875
- not fully paid	-	-
A.1 Treasury shares (-)	-	9
<b>A.2 Shares outstanding: opening balance</b>	<b>2,932,079,864</b>	<b>5,116,513,866</b>
<b>B. Increases</b>	-	2,676,254,180
B.1 New issuances	-	2,676,254,171
- Against payment:	-	2,676,254,171
- Business combinations	-	-
- Bond converted	-	-
- warrants exercised	-	-
- other	-	2,676,254,171
- without payment:	-	-
- to employees	-	-
- to directors	-	-
- other	-	-
B.2 Sale of treasury shares	-	-
B.3 Other increases	-	9
<b>C. Decreases</b>	<b>2,902,759,066</b>	<b>4,860,688,182</b>
C.1 Cancellation	-	-
C.2 Purchase of treasury shares	-	-
C.3 Business transferred	-	-
C.4 Other decreases	2,902,759,066	4,860,688,182
<b>D. Shares outstanding: closing balance</b>	<b>29,320,798</b>	<b>2,932,079,864</b>
D.1 Treasury shares (+)	-	-
D.2 Shares outstanding as at the end of the year	29,320,798	2,932,079,864
- fully paid	29,320,798	2,932,079,864
- not fully paid	-	-

Line C.4 "Other decreases" includes the grouping of the Parent Company's ordinary shares at a ratio of 1 new ordinary share for every 100 shares held, pursuant to the resolution passed by the Extraordinary Shareholders' Meeting of Banca Monte dei Paschi di Siena S.p.A. held on 24 November 2016, after the cancellation of 64 ordinary shares of the Parent Company for accounting reconciliation purposes.

**15.3 Share capital: other information**

On 1,476 ordinary shares a restriction exists on the payout of dividends since the Parent Company has acquired usufruct in these shares.





### 15.3a Equity instruments: breakdown and annual changes

As at 31 December 2016, the Group held no equity instruments.

### 15.4 Retained earnings: other information

See “Part F – Information on consolidated shareholders’ equity” of these notes to the financial statements.

### 15.5 Other information

See “Part F – Information on consolidated shareholders’ equity” of these notes to the financial statements.

## Section 16 – Non-controlling interests - Item 210

### 16.1 Details of item 210 “Non-controlling interests”

Company name	31 12 2016	31 12 2015
Equity investments in consolidated companies with significant non-controlling interests	-	-
Other equity investments	34,859	26,259
<b>Total</b>	<b>34,859</b>	<b>26,259</b>

### 16.2 Equity instruments: breakdown and annual changes

No such instruments are present within the Group.



## Other information

### 1 Guarantees and commitments

Transactions	Amount	Amount
	31 12 2016	31 12 2015
1) Financial guarantees given to	2,667,840	2,724,156
a) Banks	512,555	303,298
b) Customers	2,155,285	2,420,858
2) Commercial guarantees given to	4,146,156	3,817,032
a) Banks	295,912	205,132
b) Customers	3,850,244	3,611,900
3) Irrevocable commitments to disburse funds	6,633,037	7,774,317
a) Banks	161,748	66,148
i) drawdown certain	158,015	63,254
ii) drawdown uncertain	3,733	2,894
b) Customers	6,471,289	7,708,169
i) drawdown certain	4,086,218	5,623,345
ii) drawdown uncertain	2,385,071	2,084,824
4) Underlying commitments on credit derivatives: sales of protection	3,112,038	5,779,846
5) Assets pledged as collateral for third-party commitments	469,996	7,529
6) Other commitments	1,188,543	1,180,139
<b>Total</b>	<b>18,217,610</b>	<b>21,283,019</b>

### 2 Assets pledged as collateral for liabilities and commitments

Portfolios	31 12 2016	31 12 2015
1. Financial assets held for trading	4,302,070	6,852,151
2. Financial assets designated at fair value	-	-
3. Financial assets available for sale	15,248,469	7,877,115
4. Financial assets held to maturity	-	-
5. Loans to banks	2,104,241	5,874,919
6. Loans to customers	36,246,031	29,976,128
7. Property, plant and equipment	1,379,320	1,391,545

The table summarises the assets pledged by the Group as collateral for its liabilities, mainly represented by repurchase agreements. The amount in line “6. Loans to customers” includes approx. EUR 22.1 bn related to loans transferred to the vehicles MPS Covered Bond S.r.l. and MPS Covered Bond 2 S.r.l. as part of two programmes for the issue of covered bonds.



### 3 Operating leases

#### 3.1 Future minimum lease payments due under operating leases

Items/Amounts	31 12 2016
Up to 1 year	340
From 1 to 5 years	577
Over 5 years	-
Future minimum lease payments due	<b>917</b>
Non-cancellable future minimum lease payments receivable	-

### 4 Investments in unit-linked and index-linked policies: breakdown

The Group does not hold any such investments since no company of the Group issues insurance policies.

### 5 Asset management and trading on behalf of third parties

	Amount 31 12 2016
<b>1. Trading of financial instruments on behalf of third parties</b>	
a) Purchases	7,113,422
1. Settled	7,094,619
2. Unsettled	18,803
b) Sales	7,908,802
1. Settled	7,890,753
2. Unsettled	18,049
<b>2. Asset management accounts</b>	-
a) individual	4,494,025
b) collective	1,828
<b>3. Custody and administration of securities</b>	-
a) third party securities on deposit associated with custodian bank transactions (excluding asset management)	-
1. Securities issued by companies included in consolidation	-
2. Other securities	-
b) Other third party securities on deposit (excluding asset management)	63,718,517
1. Securities issued by companies included in consolidation	9,427,533
2. Other securities	54,290,984
c) third party securities deposited with third parties	57,743,846
d) own securities deposited with third parties	34,633,103
<b>4. Other transactions</b>	<b>41,304,528</b>



## 6 Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements.

Type	Gross amount of financial assets (a)	Amount of financial liabilities offset in balance sheet (b)	Net amount of financial assets recognised in the balance sheet (c=a-b)	Related amounts not subject to balance sheet offsetting		Net amount (f=c-d-e) 31 12 2016	Net amount 31 12 2015
				Financial instruments (d)	Deposits of cash collateral received (e)		
1. Derivatives	6,142,366	1,307,592	4,834,774	3,692,198	830,910	311,666	661,669
2. Repurchase agreements	9,271,398	-	9,271,398	9,271,241	-	157	1,344
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
<b>Total as at 31 12 2016</b>	<b>15,413,764</b>	<b>1,307,592</b>	<b>14,106,172</b>	<b>12,963,439</b>	<b>830,910</b>	<b>311,823</b>	<b>X</b>
<b>Total as at 31 12 2015</b>	<b>25,139,107</b>	<b>565,851</b>	<b>24,573,256</b>	<b>22,977,361</b>	<b>932,882</b>	<b>X</b>	<b>663,013</b>

## 7 Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements.

Type	Gross amount of financial liabilities (a)	Amount of financial assets offset in balance sheet (b)	Net amount of financial liabilities recognised in the balance sheet (c=a-b)	Related amounts not subject to balance sheet offsetting		Net amount (f=c-d-e) 31 12 2016	Net amount 31 12 2015
				Financial instruments (d)	Deposits of cash collateral received (e)		
1. Derivatives	5,192,915	1,307,592	3,885,323	3,694,685	145,030	45,608	81,046
2. Repurchase agreements	30,902,257	-	30,902,257	30,902,257	-	-	36,058
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
<b>Total as at 31 12 2016</b>	<b>36,095,172</b>	<b>1,307,592</b>	<b>34,787,580</b>	<b>34,596,942</b>	<b>145,030</b>	<b>45,608</b>	<b>X</b>
<b>Total as at 31 12 2015</b>	<b>34,295,764</b>	<b>565,851</b>	<b>33,729,913</b>	<b>32,573,772</b>	<b>1,039,037</b>	<b>X</b>	<b>117,104</b>

IFRS 7 requires disclosure of information for all financial instruments that:

- were offset in the balance sheet pursuant to IAS 32;
- could potentially be offset, given certain conditions, but presented in the balance sheet as open balances as they are governed by “framework offsetting agreements or similar agreements” which do not meet the criteria established in IAS 32 for offsetting.

The amount offset in the financial statements refers to trading in OTC derivatives managed through central counterparties of the subsidiary MPS Capital Services S.p.a. and the Parent Company.

For the purposes of reconciliation of the amounts shown in the column (c) “net amount of financial assets/liabilities recognised in the balance sheet” with the opening balances shown in “Part B – Information on the balance sheet”, it should be noted that:

- the amount related to both trading and hedging derivative financial instruments, aided by netting agreements or similar, is represented in asset items 20 “Financial assets held for trading” and 80 “Hedging derivatives” and in liability items 40 “Financial liabilities held for trading” and 60 “Hedging derivatives”;
- the amount relating to repurchase agreements covered by netting agreements or similar, are included in the item “Repurchase agreements/Reverse repurchase agreements” reported in the breakdown of items 20 “Financial assets



held for trading”, 60 “Loans to banks” and 70 “Loans to customers” under Assets and items 10 “Deposits from banks”, 20 “Deposits from customers” and 40 “Financial liabilities held for trading” under Liabilities.

It should also be noted that:

- with regard to securities lending transactions, in these tables transactions involving the payment of cash collateral fully owned by the lender are included in the item “Repurchase agreements”;
- the repurchase agreements are recognised in the tables at amortised cost and fair value for certain transactions of the subsidiary MPS Capital Services S.p.A., while the financial collateral and derivative transactions are reported at their fair value.

## 8 Securities lending transactions

In its capacity as borrower, the Parent Company has entered into a number of securities lending agreements with leading market counterparties. These agreements are backed by other securities and total approximately EUR 1.5 bn.

In its capacity as borrower, the Parent Company has also entered into securities lending agreements (mainly Italian government bonds) with customers, for a total of approximately EUR 2.3 bn.

These transactions, which in compliance with current accounting standards have no impact on the balance sheet, are carried out with the aim of increasing the Group’s counterbalancing capacity.

## 9 Information on joint control activities

This paragraph was not completed as no such activities are present within the Group.





## Part C – Information on the consolidated income statement

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

### 1.1 Interest income and similar revenues: breakdown

Item/Type	Debt securities	Loans	Other transactions	Total 31 12 2016	Total 31 12 2015
1. Financial assets held for trading	33,604	23,919	29,541	87,064	106,314
2. Financial assets designated at fair value	-	-	-	-	-
3. Financial assets available for sale	190,654	-	-	190,654	305,878
4. Financial assets held to maturity	-	-	-	-	-
5. Loans to banks	13,526	11,544	-	25,070	31,302
6. Loans to customers	44,022	2,965,211	-	3,009,233	3,628,349
7. Hedging derivatives	X	X	-	-	-
8. Other assets	X	X	5,212	5,212	15,637
<b>Total</b>	<b>281,806</b>	<b>3,000,674</b>	<b>34,753</b>	<b>3,317,233</b>	<b>4,087,480</b>

The amount in line “1. Financial assets held for trading”, in the “Other transactions” column, includes the positive net balance of spreads relating to derivatives connected with financial liabilities designated at fair value (fair value option), for an amount of EUR 29.5 mln (EUR 38.4 mln as at 31 December 2015).

Lines 5 and 6, “Loans to banks” and “Loans to customers”, in the “Debt securities” column, include interest income on treasury securities not listed in active markets and classified in these portfolios.

The amount in line “8. Other assets”, in the “Other transactions” column, shows mainly interest accrued on tax credits.

Interest other than that recognised in item 130 “Net impairment losses/reversals” and accrued during the year for positions that are classified as “non-performing” as at balance sheet date totalled EUR 629.3 mln (EUR 783.6 mln as at 31 December 2015). This interest is calculated for financial assets measured at amortised cost under the effective interest rate method and is entered in different columns based on the original ‘technical form’. Interest on arrears accrued during the year is posted to interest income only for the portion actually recovered. Any amounts recovered in subsequent years are treated as a write-back on receivables and recognised in Item 130 of the profit and loss statement, “Net impairment losses/reversals on loans”.

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

### 1.2 Interest income and similar revenues: spreads on hedging transactions

Information on spreads relating to hedging transactions is provided in Table 1.5.

### 1.3 Interest income and similar revenues: other information

#### 1.3.1 Interest income from financial assets denominated in foreign currency

Interest income from financial assets denominated in foreign currency for 2016 amounted to EUR 52.4 mln as compared to EUR 54.2 mln in 2015.

#### 1.3.2 Interest income from finance leases

Interest income from finance lease transactions for 2016 amounted to EUR 110.1 mln as compared to EUR 127.6 mln in 2015.



## 1.4 Interest expense and similar charges: breakdown

Item/Type	Deposits	Securities	Other transactions	Total 31 12 2016	Total 31 12 2015
1. Deposits from central banks	(5,821)	X	-	(5,821)	(11,989)
2. Deposits from banks	(78,376)	X	-	(78,376)	(98,481)
3. Deposits from customers	(367,861)	X	-	(367,861)	(598,486)
4. Debt securities issued	X	(770,743)	-	(770,743)	(1,019,596)
5. Financial liabilities held for trading	(19,109)	-	(1,657)	(20,766)	(2,816)
6. Financial liabilities designated at fair value	-	(41,432)	-	(41,432)	(66,233)
7. Other liabilities	X	X	(2,118)	(2,118)	(860)
8. Hedging derivatives	X	X	(28,099)	(28,099)	(59,552)
<b>Total</b>	<b>(471,167)</b>	<b>(812,175)</b>	<b>(31,874)</b>	<b>(1,315,216)</b>	<b>(1,858,013)</b>

Lines 2, “Deposits from banks” and 3, “Deposits from customers”, in the “Deposits” column, include interest on payables under repurchase agreements on: treasury securities recognised in the balance sheet or securities not recognised in the balance sheet obtained through repo transactions or from self-securitisations without derecognition.

Line 4, “Debt securities issued”, indicates the interest expense accrued during the year on bonds and certificates of deposit valued at amortised cost. Please note in particular that in 2015 this item included EUR 53.2 mln for interest accrued on the New Financial Instruments/former “Tremonti bonds”, securities repaid in 2015.

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

## 1.5 Interest expense and similar charges: spreads on hedging transactions

Items	Total 31 12 2016	Total 31 12 2015
A. Positive spreads on hedging transactions	465,332	530,796
B. Negative spreads on hedging transactions	(493,431)	(590,348)
<b>C. Balance (A+B)</b>	<b>(28,099)</b>	<b>(59,552)</b>

In line with its hedging objectives and consequent minimisation of risks in the banking book, the Group carries out both fair value and cash flow hedging transactions.

## 1.6 Interest expense and similar charges: other information

### 1.6.1 Interest expense on liabilities denominated in foreign currency

Interest expense on financial liabilities denominated in foreign currency for 2016 amounted to EUR 31.5 mln as compared to EUR 32.3 mln in 2015.

### 1.6.2 Interest expense on liabilities from finance leases

No values are shown in this table as no data is to be reported for either the current or the previous year.



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

### 2.1 Fee and commission income: breakdown

Type of service / Amount	Total 31 12 2016	Total 31 12 2015
a) guarantees issued	76,275	85,335
b) credit derivatives	-	-
c) management, brokerage and advisory services:	930,170	935,343
1. trading of financial instruments	44,650	32,947
2. currency trading	4,565	4,618
3. asset management	60,347	55,471
3.1 individual accounts	60,347	55,471
3.2. collective investment schemes	-	-
4. custody and administration of securities	9,279	9,338
5. custodian bank	-	-
6. placement of securities	24,387	6,220
7. client instructions	42,977	50,855
8. advisory on	10,555	5,486
8.1 investments	7,015	5,464
8.2 financial structure	3,540	22
9. distribution of third-party services	733,410	770,408
9.1. asset management	-	-
9.1.1 individual accounts	-	-
9.1.2 collective investment schemes	-	-
9.2 insurance products	175,881	213,859
9.3 other products	557,529	556,549
d) collection and payment services	353,047	356,882
e) servicing of securitisations	936	164
f) factoring transaction services	9,263	11,034
g) tax collection services	-	-
h) management of multilateral trade systems	-	-
i) current account keeping	517,821	536,572
j) other services	244,809	228,507
<b>Total</b>	<b>2,132,321</b>	<b>2,153,837</b>

Sub-item “j) other services” includes fee and commission income for an amount of EUR 2.5 mln (EUR 2.0 mln as at 31 December 2015) on securities lending.



## 2.2 Fee and commission expense: breakdown

Type of service / Amount	Total 31 12 2016	Total 31 12 2015
a) guarantees received	(34,203)	(44,016)
b) credit derivatives	-	-
c) management, brokerage and advisory services:	(82,545)	(103,429)
1. trading of financial instruments	(19,031)	(21,675)
2. currency trading	(23)	(43)
3. asset management:	(665)	(1,497)
3.1 own portfolio	(5)	(6)
3.2 third-party portfolios	(660)	(1,491)
4. custody and administration of securities	(7,452)	(9,381)
5. placement of financial instruments	(93)	(1,114)
6. off-site marketing of financial instruments, products and services	(55,281)	(69,719)
d) collection and payment services	(89,789)	(99,601)
e) other services	(86,428)	(96,894)
<b>Total</b>	<b>(292,965)</b>	<b>(343,940)</b>

Line “a) guarantees received” includes EUR 31.7 mln (EUR 41.4 mln as at 31 December 2015) of fees and commissions paid by the Parent Company for the guarantee pledged by the Italian Government on securities issued and concurrently repurchased, for a residual nominal amount of EUR 4,000.0 mln as at 31 December 2016, against Eurosystem financing transactions.

Line “c) 6 “off-site marketing of financial instruments, products and services” includes fees and commissions paid to Financial Advisors.

Line “e) other services” includes fee and commission expense for an amount of EUR 16.7 mln (EUR 29.5 mln as at 31 December 2015) on securities lending.

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



## Section 3 – Dividends and similar income – Item 70

### 3.1 Dividends and similar income: breakdown

Item/Income	31 12 2016			31 12 2015		
	Dividends	Income from units of UCITS	Total	Dividends	Income from units of UCITS	Total
A. Financial assets held for trading	2,858	337	3,195	3,266	476	3,742
B. Financial assets available for sale	10,311	-	10,311	9,091	5,805	14,896
C. Financial assets designated at fair value	-	-	-	-	-	-
D. Investments	-	-	-	-	-	-
<b>Total</b>	<b>13,169</b>	<b>337</b>	<b>13,506</b>	<b>12,357</b>	<b>6,281</b>	<b>18,638</b>

The table shows the amount of dividends received on shares traded within the trading book and non-controlling interest classified in the available-for-sale asset portfolio.

Line “B. Financial assets available for sale” includes the dividend of EUR 8.5 mln collected on the Bank of Italy shareholding.

Conversely, dividends relating to the Group’s subsidiaries and associates, consolidated line-by-line or under the equity method, are excluded.



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

### 4.1 Net profit (loss) from trading: breakdown

Transactions / P&L items	Unrealized Profits	Trading Profits	Unrealized Losses	Trading Losses	31 12 2016 Net Profit (Loss)	31 12 2015 Net Profit (Loss)
1. Financial assets held for trading	32,496	100,029	(64,916)	(148,706)	(81,097)	17,645
1.1 Debt securities	28,162	67,897	(62,617)	(115,086)	(81,644)	33,736
1.2 Equity instruments	3,711	4,911	(2,291)	(7,237)	(906)	(16,569)
1.3 Units of UCITS	623	1,411	(8)	(380)	1,646	(1,568)
1.4 Loans	-	-	-	-	-	(1,812)
1.5 Other	-	25,810	-	(26,003)	(193)	3,858
2. Financial liabilities held for trading	63,045	31,596	(4,242)	(7,724)	82,675	(1,570)
2.1 Debt securities	61,667	30,908	(1,740)	(4,686)	86,149	5,327
2.2 Deposits	-	-	-	-	-	-
2.3 Other	1,378	688	(2,502)	(3,038)	(3,474)	(6,897)
3. Other financial assets and liabilities: exchange differences	X	X	X	X	23,390	35,355
4. Derivatives	1,793,863	5,595,293	(1,500,075)	(5,779,959)	152,077	700,618
4.1 Financial derivatives:	1,762,091	5,341,168	(1,469,698)	(5,540,754)	135,762	202,282
- on debt securities and interest rates	1,612,887	3,865,846	(1,323,862)	(4,020,780)	134,091	389,779
- on equity instruments and stock indices	80,312	1,174,599	(62,031)	(1,137,862)	55,018	(94,112)
- on currency and gold	X	X	X	X	42,955	44,822
- other	68,892	300,723	(83,805)	(382,112)	(96,302)	(138,207)
4.2 Credit derivatives	31,772	254,125	(30,377)	(239,205)	16,315	498,336
<b>Total</b>	<b>1,889,404</b>	<b>5,726,918</b>	<b>(1,569,233)</b>	<b>(5,936,389)</b>	<b>177,045</b>	<b>752,048</b>

Please note that in 2015, line “4.2 credit derivatives” included the total positive contribution of the Alexandria transaction, amounting to EUR 608 mln.

The impact on this item deriving from the application of the Credit Value Adjustment (CVA) on OTC derivatives is a positive EUR 30.6 mln; likewise, the application of the Debt Value Adjustment (DVA) on OTC derivatives entailed a positive impact of EUR 13.8 mln.



## Section 5 – Net profit (loss) from hedging – Item 90

### 5.1 Net profit (loss) from hedging: breakdown

P&L items /Values	Total 31 12 2016	Total 31 12 2015
<b>A. Gains on:</b>		
A.1 Fair value hedging instruments	114,564	204,321
A.2 Hedged financial assets (fair value)	231,379	25,004
A.3 Hedged financial liabilities (fair value)	86,675	87,463
A.4 Cash-flow hedging derivatives	-	13,857
A.5 Assets and liabilities denominated in foreign currency	-	-
<b>Total gains on hedging activities (A)</b>	<b>432,618</b>	<b>330,645</b>
<b>B. Losses on:</b>		
B.1 Fair value hedging instruments	321,906	114,071
B.2 Hedged financial assets (fair value)	39,752	162,850
B.3 Hedged financial liabilities (fair value)	74,779	39,625
B.4 Cash-flow hedging derivatives	78,133	-
B.5 Assets and liabilities denominated in foreign currency	-	-
<b>Total losses on hedging activities (B)</b>	<b>514,570</b>	<b>316,546</b>
<b>C. Net profit (loss) from hedging activities (A - B)</b>	<b>(81,952)</b>	<b>14,099</b>

For information on hedging derivatives, the gains and losses on which are indicated in lines A.1 and A.4, B.1 and B.4 of this table, see Section 8, “Hedging derivatives – Item 80” of the Assets and Section 6, “Hedging derivatives – item 60” of the Liabilities in Part B of the notes to the financial statements.

More information on hedged assets and liabilities can be found in the tables in Part B of the notes for each section of the accounts to which hedges are posted.

This item includes the negative impact of EUR 78.7 mln deriving from the interruption of cash flow hedges on a subordinated security that will be subject to compulsory conversion into shares of the Bank pursuant to Law Decree 237 of 23 December 2016, converted with amendments into law no. 15 of 17 February 2017.



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

### 6.1 Gains (losses) on disposal / repurchase: breakdown

Items / P&L items	Total 31 12 2016			Total 31 12 2015		
	Gains	Losses	Net Profit (Loss)	Gains	Losses	Net Profit (Loss)
<b>Financial assets</b>						
1. Loans to banks	-	(204)	(204)	-	(911)	(911)
2. Loans to customers	20,616	(19,411)	1,205	23,873	(77,700)	(53,827)
3. Financial assets available for sale	117,430	(9,048)	108,382	305,902	(24,168)	281,734
3.1 Debt securities	87,439	(7,598)	79,841	302,420	(24,107)	278,313
3.2 Equity instruments	29,690	(1,406)	28,284	2,950	(17)	2,933
3.3 Units of UCITS	301	(44)	257	532	(44)	488
3.4 Loans	-	-	-	-	-	-
4. Financial assets held to maturity	-	-	-	-	-	-
<b>Total assets</b>	<b>138,046</b>	<b>(28,663)</b>	<b>109,383</b>	<b>329,775</b>	<b>(102,779)</b>	<b>226,996</b>
<b>Financial liabilities</b>						
1. Deposits from banks	37,546	-	37,546	-	-	-
2. Deposits from customers	-	-	-	-	-	-
3. Debt securities issued	16,422	(1,852)	14,570	1,546	(2,708)	(1,162)
<b>Total liabilities</b>	<b>53,968</b>	<b>(1,852)</b>	<b>52,116</b>	<b>1,546</b>	<b>(2,708)</b>	<b>(1,162)</b>

The amount of EUR 20.6 mln posted to line 2 “Loans to customers” – column “Gains”, includes the gain of EUR 7.8 mln related to the block sale without recourse of loans of the former subsidiary Consum.it S.p.a.

The negative amount of EUR 19.4 mln posted to line 2 “Loans to customers” – column “Losses”, includes the losses of EUR 12.8 mln deriving from certain non-recourse transfers of doubtful loans completed in 2016.





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

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

Transaction/P&L items	Unrealized profits (A)	Realized profits (B)	Unrealized Losses (C)	Realized losses (D)	Net Profit (loss) as at 31 12 2016	Net Profit (loss) as at 31 12 2015
1. Financial assets	-	-	-	-	-	-
1.1 Debt securities	-	-	-	-	-	-
1.2 Equity instruments	-	-	-	-	-	-
1.3 Units of UCITS	-	-	-	-	-	-
1.4 Loans	-	-	-	-	-	-
2. Financial liabilities	113,931	5,482	(216)	(556)	118,641	90,569
2.1 Debt securities issued	113,931	5,482	(216)	(556)	118,641	90,569
2.2. Deposits from banks	-	-	-	-	-	-
2.3. Deposits from customers	-	-	-	-	-	-
3. Financial assets and liabilities	X	X	X	X	-	-
4. Credit and financial derivatives	15,943	4,084	(30,345)	(9,001)	(19,319)	(40,293)
<b>Total</b>	<b>129,874</b>	<b>9,566</b>	<b>(30,561)</b>	<b>(9,557)</b>	<b>99,322</b>	<b>50,276</b>

The item includes solely the profit, loss, capital gains and capital losses from structured fixed-rate bonds included in the fair value option and derivative contracts through which these bonds receive natural hedging.

Line “2.1 Financial liabilities - debt securities issued” includes capital gains from changes in own creditworthiness during the year of EUR 98.5 mln (cumulative capital gains EUR 242.6 mln), compared to capital gains of EUR 51.9 mln in 2015; the amount of EUR 98.5 mln recorded in 2016 includes the capital gain of EUR 20.3 mln on a subordinated security that will be subject to compulsory conversion into shares of the Bank pursuant to Law Decree 237 of 23 December 2016, converted with amendments into Law no. 15 of 17 February 2017.

Changes in the fair value of liabilities issued due to changes in own creditworthiness are ‘immunised’ for the purpose of capital quantification.



## Section 8 – Net impairment losses/reversals – Item 130

### 8.1 Net impairment losses/reversals on loans: breakdown

Transaction/P&L items	Value Adjustments			Write - backs				Total 31 12 2016	Total 31 12 2015
				Specific		Portfolio			
	Write-off	Others	Portfolio						
				A	B	A	B		
A. Loans to banks	(10)	(4,401)	(1,518)	37	4,510	-	1,034	(348)	(25,337)
- Loans	(10)	(4,401)	(1,506)	37	4,510	-	942	(428)	(594)
- Debt securities	-	-	(12)	-	-	-	92	80	(24,743)
B. Loans to customers	(121,465)	(6,142,574)	(312,790)	649,489	1,249,213	-	211,451	(4,466,676)	(1,965,746)
Non performing loans purchased	(1,042)	(1,596)	-	143	816	-	-	(1,679)	(152)
- Loans	(1,042)	(1,596)	X	143	816	-	X	(1,679)	(152)
- Debt securities	-	-	X	-	-	-	X	-	-
Other receivables	(120,423)	(6,140,978)	(312,790)	649,346	1,248,397	-	211,451	(4,464,997)	(1,965,594)
- Loans	(120,423)	(6,140,005)	(312,746)	649,346	1,248,363	-	211,414	(4,464,051)	(1,964,867)
- Debt securities	-	(973)	(44)	-	34	-	37	(946)	(727)
C. Total	(121,475)	(6,146,975)	(314,308)	649,526	1,253,723	-	212,485	(4,467,024)	(1,991,083)

#### Legend

A = From interest

B= Other reversals

In impairment losses, the column “Write-off” shows losses recorded in relation to the derecognition of financial instruments, whereas the “Others” column includes specific write-downs on non-performing loans subject to analytical valuation. Portfolio value adjustments are quantified with reference to financial instruments that are not non-performing.

Column A (specific reversals) incorporates primarily the reversals represented by interest released on non-performing positions valued at amortised cost.

For further information on loans to banks and customers, see Section 1, “Credit risk”, in Part E of the notes to the financial statements.



## 8.2 Net impairment losses/reversals on financial assets available for sale: breakdown

Transactions/ P&L items	Value Adjustments		Write - backs		Total 31 12 2016	Total 31 12 2015
	Specific		Specific			
	Write-offs	Others	A	B		
A. Debt securities issued	-	-	-	339	339	(1,043)
B. Equity instruments	(161)	(26,278)	X	X	(26,439)	(24,369)
C. Units of UCITS	-	(15,662)	X	-	(15,662)	(510)
D. Loans to banks	-	-	-	-	-	-
E. Loans to customers	-	-	-	-	-	-
F. Total	(161)	(41,940)	-	339	(41,762)	(25,922)

### Legend

A = From interest

B= Other reversals

The column “Others” of the specific value adjustments above, in sub-item “B. Equity instruments”, includes the write-down of the contribution paid to the Voluntary Scheme for the intervention in favour of Cassa di Risparmio di Cesena, equal to EUR 4.7 mln, while sub-item “C. Units of UCITS” includes the write-down on units held in the Atlante Fund, equal to a total of EUR 10.0 mln.

## 8.3 Net impairment losses/reversals on financial assets held to maturity: breakdown

This table has not been completed since financial assets held to maturity were not present for the Group in 2016 or in the year of comparison.

## 8.4 Net impairment losses/reversals on other financial transactions: breakdown

Transactions / P&L items	Value Adjustments			Write-backs				Total 31 12 2016	Total 31 12 2015
	Specific		Portfolio	Specific		Portfolio			
	Write-offs	Others		A	B	A	B		
A. Guarantees issued	-	(36,697)	-	-	41,208	-	1,194	5,705	20,611
B. Credit derivatives	-	-	-	-	-	-	-	-	-
C. Commitments to disburse funds	-	-	(2)	-	108	-	10	116	678
D. Other transactions	-	(250)	-	-	2,325	-	-	2,075	2,576
E. Total	-	(36,947)	(2)	-	43,641	-	1,204	7,896	23,865

### Legend

A = From interest

B= Other reversals

This table shows impairment losses/reversals (against expected loss) on guarantees issued, if drawn down.



## Section 9 – Net premiums – Item 150

### 9.1 Net premiums: breakdown

The section was not completed, as net premiums do not exist in the Group either in the current or in the previous year.

## Section 10 – Other net insurance income/expense – Item 160

The tables of this section were not completed because there is no other net insurance income/expense in the Group, either in the current or in the previous year.

## Section 11 – Administrative expenses – Item 180

### 11.1 Personnel expenses: breakdown

Type of Expense / Area	Total 31 12 2016	Total 31 12 2015
1. Employees	(1,718,113)	(1,654,599)
a) wages and salaries	(1,157,653)	(1,193,257)
b) social-welfare charges	(318,746)	(328,361)
c) severance pay	(49,268)	(43,062)
d) social security expenses	-	-
e) provision for staff severance pay	(5,644)	(3,610)
f) pension fund and similar obligations:	(768)	(757)
- defined contribution	(430)	(367)
- defined benefit	(338)	(390)
g) contributions to external pension funds:	(19,817)	(18,441)
- defined contribution	(18,603)	(15,725)
- defined benefit	(1,214)	(2,716)
h) costs related to share-based payments	-	-
i) other employee benefits	(166,217)	(67,111)
2. Other staff	(44)	(1,208)
3. Directors and Statutory Auditors	(4,863)	(4,366)
4. Retired personnel	(4,523)	(10,037)
<b>Total</b>	<b>(1,727,543)</b>	<b>(1,670,210)</b>

Line f) “pension fund and similar obligations” includes amounts set aside for internal funds, while line g) “contributions to external pension funds” includes contributions paid and adjustments made to external pension funds.

Line “i) other employee benefits” includes the provision recognised for the early retirement incentives/solidarity fund pursuant to the agreement of 23 December 2016 entered into with the trade unions, for around EUR 117 mln; the amount of EUR 17.4 mln recognised in 2015 essentially referred to employment contract termination initiatives.



## 11.2 Average number of employees by category

Category / Average Number	31 12 2016	31 12 2015
<b>Employees:</b>	<b>24,557</b>	<b>25,234</b>
a) executives	335	347
b) middle managers	9,929	10,036
c) remaining staff	14,293	14,851
<b>Other personnel</b>	<b>3</b>	<b>3</b>
<b>Total</b>	<b>24,560</b>	<b>25,237</b>

## 11.3 Defined benefit company pension funds: costs and revenues

Items/Amounts	31 12 2016			31 12 2015		
	Defined benefit company pension funds		Provision for staff severance pay	Defined benefit company pension funds		Provision for staff severance pay
	Internal pension plan	External pension plan		Internal pension plan	External pension plan	
Interest income/expense	(338)	(673)	(5,630)	(360)	(693)	(3,597)
Current service cost and gains (losses) arising from settlements <sup>°</sup>	-	(541)	(13)	(30)	(2,023)	(13)
Past service cost	-	-	-	-	-	-
Gains (losses) arising from settlements <sup>°°</sup>	-	-	-	-	-	-
Other operating costs	-	-	(1)	-	-	-
<b>Total</b>	<b>(338)</b>	<b>(1,214)</b>	<b>(5,644)</b>	<b>(390)</b>	<b>(2,716)</b>	<b>(3,610)</b>

<sup>°</sup> Past service cost and gains and losses arising from settlements need not be distinguished if they occur together (IAS 19.100)

<sup>°°</sup> Only in the event of settlement not set out in the terms of the plan.

## 11.4 Other employee benefits

No information to report pursuant to sections 53, 158 and 171 of IAS 19.



## 11.5 Other administrative expenses: breakdown

Items/Amounts	31 12 2016	31 12 2015
Stamp duties	(216,327)	(229,169)
Indirect taxes and duties	(48,743)	(41,168)
Municipal real estate property tax	(22,350)	(22,554)
Subscription and purchase of publications	(92,687)	(102,057)
Property rentals	(14,741)	(16,381)
Cleaning service contracts	(31,750)	(25,365)
Insurance	(132,702)	(131,793)
Rentals	(202,593)	(157,556)
Remuneration of external professionals	(68,369)	(64,973)
Third-party data processing	(32,846)	(33,747)
Lease of equipment	(35,732)	(40,702)
Utilities	(39,511)	(29,879)
Maintenance of movable and immovable properties (used in the business )	(24,824)	(26,416)
Postage	(16,553)	(16,980)
Advertising, sponsorships and promotions	(5,535)	(6,985)
Membership dues	(9,571)	(10,633)
Reimbursement of employee car and travel expenses	(11,641)	(14,579)
Security services	(55,175)	(56,237)
Software	(4,070)	(3,232)
expenses for personnel training	(3,392)	(3,642)
Corporate entertainment expenses	(887)	(52)
Expenses for non-rented investment real estate	(8,014)	(7,589)
Printing and stationery	(5,459)	(5,142)
Transportation	(33,990)	(31,138)
Sundry occupancy expenses and refunds for release of immovable property used in the business	(6,676)	(6,345)
Contributions Resolution Funds (SRF) and Deposits Guarantee Schemes (DGS)	(241,071)	(195,478)
DTA fee	(70,396)	-
Others	(12,099)	(25,331)
<b>Total</b>	<b>(1,447,704)</b>	<b>(1,305,123)</b>

Line “Advertising, sponsorships and promotions” for an amount of EUR 16.5 mln includes advertising, events and printing (EUR 11.0 mln), sponsorships and promotions (EUR 4.9 mln) and other communication expenses (EUR 0.6 mln).

The sub-item “Remuneration of external professionals” also includes expenses linked to the recapitalisation (not completed successfully) of roughly EUR 37 mln.

Sub-item “Contributions Resolution Funds (SRF) and Deposits Guarantee Systems (DGS)”, equal to EUR 241 mln, consists of: EUR 71 mln and EUR 140 mln for charges associated with the SRF and NRF (National Resolution Fund), respectively, and EUR 30 mln for contributions to the DGS. The line “DTA fee” includes the expenses related to the fee paid on DTAs 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.

For a trend analysis of the remaining concerned items, reference should be made to the consolidated Report on Operations.



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

### 12.1 Net provisions for risks and charges: breakdown

Items/Amounts	31 12 2016				31 12 2015			
	Legal disputes	Personnel costs	Others	Total	Legal disputes	Personnel costs	Others	Total
Provisions for the year	(135,721)	(9,164)	(32,354)	(177,239)	(131,197)	(16,331)	(71,221)	(218,749)
Write-backs	125,633	14,548	81,486	221,667	74,415	9,963	70,333	154,711
<b>Total</b>	<b>(10,088)</b>	<b>5,384</b>	<b>49,132</b>	<b>44,428</b>	<b>(56,782)</b>	<b>(6,368)</b>	<b>(888)</b>	<b>(64,038)</b>

“Provisions for the year” include changes due to the time value of money, which show the amount of “time value” accrued during the year due to the expected imminent maturity of the estimated liability.

## Section 13 – Net impairment losses/reversals on property, plant and equipment – Item 200

### 13.1 Net impairment losses/reversals on property, plant and equipment: breakdown

Assets / P&L items	Amortization	Impairment losses	Write-backs	Net Profit (loss) 31 12 2016	Net Profit (loss) 31 12 2015
<b>Tangible assets</b>					
A.1 Owned	(109,417)	(2,405)	-	(111,822)	(126,942)
- used in the business	(99,932)	(2,032)	-	(101,964)	(115,622)
- held for investment	(9,485)	(373)	-	(9,858)	(11,320)
A.2 Leased	-	-	-	-	-
- used in the business	-	-	-	-	-
- held for investment	-	-	-	-	-
<b>Total</b>	<b>(109,417)</b>	<b>(2,405)</b>	<b>-</b>	<b>(111,822)</b>	<b>(126,942)</b>

Property and equipment with a finite life is tested for impairment.

## Section 14 – Net adjustments to (recoveries on) intangible assets – Item 210

### 14.1 Net adjustments to (recoveries on) intangible assets: breakdown

Assets/P&L items	Amortization ( a )	Impairment losses ( b )	Write-backs ( c )	Net profit (loss) (a+b-c) 31 12 2016	Net profit (loss) 31 12 2015
<b>A. Intangible assets</b>					
A.1 Owned	(133,861)	(769)	-	(134,630)	(116,631)
- generated internally by the company	(27,992)	(109)	-	(28,101)	(25,039)
- other	(105,869)	(660)	-	(106,529)	(91,592)
A.2 Leased	-	-	-	-	-
<b>Total</b>	<b>(133,861)</b>	<b>(769)</b>	<b>-</b>	<b>(134,630)</b>	<b>(116,631)</b>

Amortisation mainly relates to software held by the MPS Consorzio Operativo di Gruppo and finite life intangible assets identified during the PPA process for former subsidiary Banca Antonveneta.



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

### 15.1 Other operating expenses: breakdown

Items/Amounts	Total 31 12 2016	Total 31 12 2015
Costs of robberies	(5,258)	(5,824)
Write-downs on improvements of third-party goods recognized as "Other Assets"	(9,198)	(10,026)
Other expenses on real estate (real estate inventory)	(10,283)	(736)
Cost of financial lease transactions	(8,796)	(9,765)
Costs from judgments and settlement agreements	(76,220)	(65,643)
Other	(46,962)	(25,190)
<b>Total</b>	<b>(156,717)</b>	<b>(117,184)</b>

### 15.2 Other operating income: breakdown

Items/Amounts	Total 31 12 2016	Total 31 12 2015
Rents from investment real estate	23,291	23,646
Other revenues from real estate (real estate inventory)	4,655	1,002
Recovery of taxes	223,754	237,303
Recovery of insurance premiums	18,466	11,627
Recovery of other expenses	117,926	126,125
Income from financial lease transaction	2,590	3,744
Other	94,568	58,858
<b>Total</b>	<b>485,250</b>	<b>462,305</b>

The amount of EUR 117.9 mln classified under "Recoveries of other expenses" includes the "fast-track facility fee" introduced by Law Decree 201/2011 ("Save Italy Decree") amounting to EUR 33.9 mln (EUR 53.3 mln as at 31 December 2015) and the compensation of legal fees incurred for the enforced recovery of non-performing loans of EUR 47.8 mln (EUR 38.8 mln as at 31 December 2015).

Sub-item "Other" amounted to EUR 94.6 mln at 31 December 2016, includes the income linked to the VISA Europe transaction of EUR 13.9 mln and the return from the Interbank Deposit Protection Fund (FIDT) of the relative contribution to Tercas Bank for an amount of Eur 20.0 mln. This latter amount was contextually charged by the Voluteer Scheme specifically set up under the (FIDT), and recognized under the line "Other" in the table "Other operating expenses", with consequent neutral economic impact on the exercise 2016





## Section 16 – Gains (losses) on investments – Item 240

### 16.1 Gains (losses) on investments: breakdown

P&L items/Sectors	Total 31 12 2016	Total 31 12 2015
<b>1) Jointly owned companies</b>		
A. Income	25	4
1. Revaluations	25	4
2. Gains on disposal	-	-
3. Write-backs	-	-
4. Other income	-	-
B. Expense	(1,577)	(11,201)
1. Write-downs	(1,577)	(4,960)
2. Impairment losses	-	(6,241)
3. Losses on disposal	-	-
4. Other expenses	-	-
<b>Net Profit (Loss)</b>	<b>(1,552)</b>	<b>(11,197)</b>
<b>2) Companies subject to significant influence</b>		
A. Income	87,146	228,898
1. Revaluations	79,318	102,606
2. Gains on disposal	7,828	126,292
3. Write-backs	-	-
4. Other income	-	-
B. Expense	(6,141)	(7,261)
1. Write-downs	(4,497)	(1,758)
2. Impairment losses	(1,644)	(3,896)
3. Losses on disposal	-	(1,607)
4. Other expenses	-	-
<b>Net Profit (Loss)</b>	<b>81,005</b>	<b>221,637</b>
<b>Total</b>	<b>79,453</b>	<b>210,440</b>

The amount of EUR 7.8 mln shown on line “2.A.2 Gains on disposal” consists entirely of the gain from the sale of Fabbrica Immobiliare SGR S.p.a., an investee held for sale as at 31 December 2015.

The negative amount of EUR 1.6 mln reported on line “2.B.2 Impairment losses” refers in its entirety to the write-down of the associate Trixia S.r.l.

For further information on the methodology for determining impairment losses, please see section 10.5, part B, of these notes to the consolidated financial statements.



## Section 17 – Net gains (losses) on tangible and intangible assets measured at fair value – Item 250

### 17.1 Net gains (losses) on tangible and intangible assets measured at fair value (or revalued): breakdown

The section was not completed as tangible and intangible assets measured at fair value do not exist in the Group either in the current or in the previous period.

## Section 18 – Impairment of goodwill – Item 260

### 18.1 Impairment of goodwill: breakdown

Owing to its indefinite or unlimited useful life, goodwill is tested at the end of each year to assess whether its carrying value is fairly stated or recoverable. The impairment test conducted in 2016 did not result in any impairment losses on goodwill allocated to the Financial Advisory and Digital Banking CGU (Cash Generating Unit), as the recoverable amount is higher than the book value by EUR 85 mln.

For additional information concerning the methods for conducting impairment tests, see the appropriate section in Part B of the Notes to the Financial Statements, Section 12.1 of Assets “Intangible Assets: breakdown by type”.

## Section 19 – Gains (losses) on disposal of investments – Item 270

### 19.1 Gains (losses) on disposals of investments: breakdown

P&L items/Sectors	Total	Total
	31 12 2016	31 12 2015
A. Property	34,678	2,218
- Gains on disposal	34,738	2,254
- Losses on disposal	(60)	(36)
B. Other assets	(1,483)	637
- Gains on disposal	-	642
- Losses on disposal	(1,483)	(5)
<b>Net Profit (Loss)</b>	<b>33,195</b>	<b>2,855</b>

Please note that amongst gains on disposals, sub-item A. Property includes the capital gain of EUR 20.3 mln realised on the disposal of a property of the investee COEM.



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

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

P&L items/Sectors	Total	
	31 12 2016	31 12 2015
1. Current tax (-)	(11,073)	(55,614)
2. Adjustments to current tax of prior years (+/-)	8,533	(13,733)
3. Reduction of current tax for the year (+)	-	-
3.bis Reduction in current tax for the period due to tax credits under Law 214/2011	-	2,167,114
4. Changes in prepaid taxes (+/-)	37,820	(2,157,725)
5. Changes in deferred taxes (+/-)	(40,467)	67,235
<b>6. Tax expense for the year (-) (-1+/-2 +3+/-4+/-5)</b>	<b>(5,187)</b>	<b>7,277</b>



## 20.2 Reconciliation of theoretical to actual tax charge

Items/Amounts	31 12 2016	%	31 12 2015	%
<b>Pre-tax profit (loss) from continuing operations</b>	<b>(3,226,185)</b>		<b>382,591</b>	
<b>Theoretical IRES Payable</b>	<b>887,201</b>	<b>27.5%</b>	<b>(105,213)</b>	<b>27.5%</b>
<b>Permanent increases</b>	<b>(24,361)</b>	<b>0.0%</b>	<b>(34,968)</b>	<b>0.0%</b>
Non-deductible interest expense	(16,037)	-0.5%	(19,764)	5.2%
Losses on sale of AFS equity investmens	(2,800)	-0.1%	(4,830)	1.3%
Losses on the disposal/valuation of subsidiaries and associates	-	0.0%	-	0.0%
Non-deductible adimistrative expenses (Municipal real estate property tax, vehicles, telephone, etc.)	(5,524)	-0.2%	(10,374)	2.7%
Impairment on goodwill	-	0.0%	-	0.0%
<b>Permanent decreases</b>	<b>93,744</b>	<b>2.9%</b>	<b>145,554</b>	<b>-38.0%</b>
Gains on sale of AFS equity investments	7,404	0.2%	757	-0.2%
Gains on disposal of subsidiaries and associates	2,623	0.1%	38,491	-10.1%
Deduction IRAP	-	0.0%	1,948	-0.5%
Deduction ACE	83,717	2.6%	104,358	-27.3%
Excluded dividends	-	0.0%	-	0.0%
Reversal of impairment losses on subsidiaries and associates	-	0.0%	-	0.0%
Reversal of theoretical tax charge on profits / net losses of equity investments in associates (valued at equity method)	22,123	0.7%	27,926	-7.3%
DTA write-downs related to prior tax losses	(251,610)	-7.8%	-	0.0%
Effect due to non-registration of DTA on tax loss of current year	(817,059)	-25.3%	-	0.0%
Adjustment previous years tax	112,593	3.5%	-	0.0%
Tax disputes	-	0.0%	-	0.0%
Tax on revaluation of participation in Bankit	-	0.0%	-	0.0%
Other components (IRES relative to previous years, spreads between Italian and foreign tax rate, etc.)	(47,471)	-1.5%	(25,817)	6.7%
<b>Effective IRES payable</b>	<b>(24,840)</b>	<b>-0.8%</b>	<b>7,482</b>	<b>-2.0%</b>
<b>Theoretical IRAP payable</b>	<b>150,018</b>	<b>4.7%</b>	<b>(17,790)</b>	<b>4.6%</b>
<b>Economic items not relevant for IRAP purposes</b>	<b>(12,051)</b>	<b>-0.4%</b>	<b>(13,340)</b>	<b>3.5%</b>
Non-deductible interest expense	(7,795)	-0.2%	(9,432)	2.5%
Value adjustments and credit losses	663	0.0%	1,141	-0.3%
Non-deductible costs of personnel	(701)	0.0%	(1,778)	0.5%
Profit (loss) on subsidiaries and associates	780	0.0%	3,534	-0.9%
Other non-deductible administrative expences (10%)	(8,062)	-0.2%	(7,352)	1.9%
Amortization non-deductible (10%)	(359)	0.0%	(373)	0.1%
Impairment on goodwill	-	0.0%	-	0.0%
Other	3,423	0.1%	920	-0.2%
Excluded dividends	-	0.0%	-	0.0%
Reversal of impairment losses on subsidiaries and associates	-	0.0%	-	0.0%
Value adjustments on loans transferred	397	0.0%	25,209	-6.6%
Increase regional rates effect	28,600	0.9%	857	-0.2%
Charges from not recognised tax loss carryforward IRAP	(174,916)	-5.4%	-	0.0%
Adjustment previous years tax	20,391	0.6%	-	0.0%
Adjustments DTA / DTL for regulatory changes	-	0.0%	-	0.0%
Other components (IRAP relative to previous years, spreads between italian and foreign tax rate, etc.)	7,214	0.2%	4,859	-1.3%
<b>Effective IRAP payable</b>	<b>19,653</b>	<b>0.6%</b>	<b>(205)</b>	<b>0.1%</b>
<b>Total effective IRES and IRAP tax expense</b>	<b>(5,187)</b>	<b>-0.2%</b>	<b>7,277</b>	<b>-1.9%</b>

\* The amount of the write-down regards the DTAs from the tax loss recognised in the financial statements as at 31 December 2015, as well as those recognised in 2016 following the submission of the supplemental tax return including the higher costs emerging from the restatement of the 2015 financial statements for the Alexandria transaction.



## Section 21 – Profit (loss) after tax from assets held for sale and discontinued operations – Item 310

The tables in this section are not presented as there were no profits or losses from discontinued operations in 2016.

## Section 22 – Profit (loss) for the year: non-controlling interests – Item 330

### 22.1 Details of item 330 “profit (loss) for the year: non-controlling interests”

	Total 31 12 2016	Total 31 12 2015
Consolidated equity investments with significant non-controlling interests	-	-
Other equity investments	9,738	1,772
<b>Total</b>	<b>9,738</b>	<b>1,772</b>

## Section 23 – Other information

No additional disclosure to that presented in accordance with the international accounting standards and Circular letter no. 262 of the Bank of Italy is required.

## Section 24 – Earnings per Share (EPS)

### 24.1 Average number of diluted ordinary shares

Items/Amounts	(n. Shares)	
	31 12 2016	31 12 2015 *
Weighted average number of ordinary shares outstanding (+)	29,319,322	17,381,206
Dilutive effect from put options sold (+)	-	-
Dilutive effect from ordinary shares to be assigned as a result of treasury share-based payments (+)	-	-
Dilutive effect from convertible liabilities (+)	-	288,418
Dilutive effect from convertible liabilities (+)	-	-
<b>Weighted average number of ordinary shares outstanding by diluted earnings per share</b>	<b>29,319,322</b>	<b>17,669,624</b>

\* The “weighted average number of ordinary shares outstanding” as at 31 December 2015 was affected by the reverse split of the Parent Company’s ordinary shares at a ratio of 1 new ordinary share for every 100 shares held, which took place on 28 November 2016, pursuant to the resolution of the Extraordinary Shareholders’ Meeting of Banca Monte dei Paschi di Siena S.p.A. on 24 November 2016.

The average number of shares outstanding is net of the 1,476 ordinary shares on which the Parent Company has usufruct.



## 24.2 Other information

### 24.2a Reconciliation of net profit (loss) for the year - numerator for basic earnings per share

Item/Amount	31 12 2016			31 12 2015		
	Relating to continuing operations and pertaining to the Parent Company	Relating to discontinued operations and pertaining to the Parent Company	Total pertaining to the Parent Company	Relating to continuing operations and pertaining to the Parent Company	Relating to discontinued operations and pertaining to the Parent Company	Total pertaining to the Parent Company
Net Profit (Loss)	(3,241,110)	-	(3,241,110)	388,096	-	388,096
Profit (loss) attributable to other types of shares	-	-	-	-	-	-
<b>Net profit (loss) attributable to ordinary shares - numerator for basic earnings per share</b>	<b>(3,241,110)</b>	<b>-</b>	<b>(3,241,110)</b>	<b>388,096</b>	<b>-</b>	<b>388,096</b>

### 24.2.b Reconciliation of net profit (loss) – numerator for diluted earnings per share

Item/Amount	31 12 2016			31 12 2015		
	Relating to continuing operations and pertaining to the Parent Company	Relating to discontinued operations and pertaining to the Parent Company	Total pertaining to the Parent Company	Relating to continuing operations and pertaining to the Parent Company	Relating to discontinued operations and pertaining to the Parent Company	Total pertaining to the Parent Company
Net Profit (Loss)	(3,241,110)	-	(3,241,110)	388,096	-	388,096
Dilutive effect from convertible liabilities	-	-	-	23	-	23
<b>Net profit (loss) attributable to ordinary shares - numerator for diluted earnings per share</b>	<b>(3,241,110)</b>	<b>-</b>	<b>(3,241,110)</b>	<b>388,119</b>	<b>-</b>	<b>388,119</b>



## 24.2.c Basic and diluted earnings per share

(in units of Eur)

Item/Amount	31 12 2016			31 12 2015 *		
	Relating to continuing operations and pertaining to the Parent Company	Relating to discontinued operations and pertaining to the Parent Company	Total pertaining to the Parent Company	Relating to continuing operations and pertaining to the Parent Company	Relating to discontinued operations and pertaining to the Parent Company	Total pertaining to the Parent Company
Basic Earnings per Share	(110.545)	-	(110.545)	22.328	-	22.328
Diluted Earnings per Share	(110.545)	-	(110.545)	21.965	-	21.965

\* Basic and diluted earnings per share as at 31 December 2015 also include the grouping of the Parent Company's ordinary shares at a ratio of 1 new ordinary share to 100 shares held that was carried out on 28 November 2016, pursuant to the resolution issued by Banca Monte dei Paschi di Siena S.p.A.'s Extraordinary Shareholders Meeting held on 24 November 2016.

The basic earnings per share is calculated by dividing the Parent Company's overall net result by the weighted average of ordinary shares issued.

The compulsory conversion of all of the Group's subordinated liabilities, introduced as part of the precautionary recapitalisation by the State, did not have impacts on diluted earnings per share, as such convertible liabilities have an anti-dilutive impact.







## Part D – Consolidated statement of comprehensive income





## Consolidated Statement of Comprehensive Income

31.12.2016

Items	Gross	Income Tax	Net
<b>10. Profit (loss) for the period</b>	<b>X</b>	<b>X</b>	<b>(3,231,372)</b>
<b>Other income components without reversal to profit &amp; loss</b>			
20. Tangible assets	-	-	-
30. Intangible assets	-	-	-
40. Defined benefit plans	(11,350)	3,116	(8,234)
50. Non-current assets held for sale	(83)	-	(83)
60. Share of valuation reserves of equity instruments valued at equity <input type="checkbox"/>	(810)	259	(551)
<b>Other income components with reversal to profit &amp; loss</b>			
<b>70. Hedges of foreign investments:</b>	<b>-</b>	<b>-</b>	<b>-</b>
a) changes in fair value	-	-	-
b) reversal to profit & loss	-	-	-
c) other changes	-	-	-
<b>80. Exchange differences:</b>	<b>921</b>	<b>443</b>	<b>1,364</b>
a) changes in value	-	-	-
b) reversal to profit & loss	-	-	-
c) other changes	921	443	1,364
<b>90. Cash flow hedges:</b>	<b>163,858</b>	<b>(53,656)</b>	<b>110,202</b>
a) changes in fair value	100,193	(32,742)	67,451
b) reversal to profit & loss	-	-	-
c) other changes	63,665	(20,914)	42,751
<b>100. Financial assets available for sale:</b>	<b>(202,069)</b>	<b>64,994</b>	<b>(137,075)</b>
a) changes in fair value	(121,060)	39,429	(81,631)
b) reversal to profit & loss	(69,553)	22,826	(46,727)
- impairment provisions	2,186	(554)	1,632
- realised net gains/losses	(71,739)	23,380	(48,359)
c) other changes	(11,456)	2,739	(8,717)
<b>110. Non-current assets held for sale:</b>	<b>(4,585)</b>	<b>478</b>	<b>(4,107)</b>
a) changes in value	12,368	(832)	11,536
b) reversal to profit & loss	(21,057)	1,416	(19,641)
c) other changes	4,104	(106)	3,998
<b>120. Share of valuation reserves of equity investments valued at equity:</b>	<b>160,615</b>	<b>(53,056)</b>	<b>107,559</b>
a) changes in fair value	160,598	(53,056)	107,542
b) reversal to profit & loss	-	-	-
- impairment provisions	-	-	-
- realised net gains/losses	-	-	-
c) other changes	17	-	17
<b>130. Other income components</b>	<b>106,497</b>	<b>(37,422)</b>	<b>69,075</b>
<b>140. Total comprehensive income (Item 10 + 130)</b>	<b>106,497</b>	<b>(37,422)</b>	<b>(3,162,297)</b>
150. Consolidated comprehensive income attributable to non-controlling interests	13,894	(4,150)	9,744
<b>160. Consolidated comprehensive income attributable to Parent Company</b>	<b>X</b>	<b>X</b>	<b>(3,172,041)</b>





## Part E – Information on risks and hedging policies

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**Note: Public Disclosure (Basel III Pillar) is published on the Group's website: [www.mps.it/investors](http://www.mps.it/investors).**





## Foreword

A summary of the organisation of the Group's risk governance and the related processes and key functions is described below. An estimate of the Overall Internal Capital and a description of the relative assessment models are also provided.

For more detailed information on the Group's Risk Governance and risk culture, please refer to the Consolidated Report on Operations.

## Risk governance system

The risk governance system adopted by the Group is characterised by a clear-cut distinction of roles and responsibilities of the different functions at first, second and third level of control.

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

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

Specific Management Committees responsible for risk issues have been established in order to promote efficiency and flexibility in the decision-making process and facilitate interactions between the various company functions involved:

- The Risk Management Committee establishes Risk Management policies, evaluates the Group's risk appetite in accordance with annual and long-term Group value creation targets and ensures overall compliance with the limits defined for the various operating levels; proposes the allocation of capital to be submitted to the Board of Directors for approval; evaluates the risk profile reached and therefore the capital consumption at both Group level and for each individual company of the Group; analyses risk-return performance indicators;
- The Finance and Liquidity Committee formulates the principles and strategic guidelines relating to proprietary finance; it resolves upon and submits proposals regarding exposures to interest rate and liquidity risk in the banking book and defines capital management actions;
- The Credit and Credit Policies Committee formulates policies in relation to credit processes and formulates an opinion, at least once per year, on credit policies by verifying their commercial sustainability and consistency with risk appetite levels. It also approves, at least annually, company policies pertaining to 'credit assessment';
- Based on the authorities assigned to it, the Large Loans Committee is responsible for taking decisions with respect to lending and the management of problem receivables and assets.

As part of the Internal Control System, the Chief Audit Executive Division conducts third-level controls, the Chief Risk Officer Division and the Compliance Area carry out second-level controls and the Business Control Units (BCUs) carry out first-level controls.

- The Chief Audit Executive Division performs an independent and objective "assurance" and advising activity, aimed both at monitoring operations compliance and risk trends (including



through on-site audits) as well as assessing the efficiency of the overall internal control system in order to improve the effectiveness and efficiency of the organisation.

- The Chief Risk Officer Division, which reports directly to the Board of Directors and functionally reports to the CEO, includes a risk management function, the anti-money laundering function and the internal approval function. This Division therefore has the following tasks:
  - to guarantee the overall functioning of the risk management system;
  - to verify capital adequacy based on the ICAAP and liquidity adequacy based on the ILAAP;
  - to participate in the definition and control of the Risk Appetite Framework (RAF), as well as ensure that significant transactions are consistent with the RAF;
  - to perform the anti-money laundering duties envisaged by Law and the internal validation of risk management models;
  - to ensure the necessary reporting flows to the Group's Top Management and Governance bodies.
- Specifically, within the Chief Risk Officer Division:
  - the Risk Management Area defines the integrated methods of risk measurement/analysis and ensures they are constantly monitored, verifying their consistency with the risk appetite and compliance with the thresholds defined in terms of adequacy with respect to capital and liquidity reserves, participating in the definition of any mitigating actions required. It participates in the preparation, drafting and monitoring of the Recovery Plan. It develops the internal risk models used for regulatory management purposes and monitors compliance with the operational limits established by the Board of Directors.
  - the Validation, Monitoring and Institutional Reporting Area verifies the continuous reliability of the results of the risk measurement system and the maintenance of their consistency with regulatory instructions. It validates the risk models independently and autonomously from the units that develop and manage them, including those not used for regulatory purposes. This Area also prepares the mandatory disclosures on risks.
- The Compliance Area performs the function of control of compliance with regulations for the Parent Company. The function is directly responsible for managing risks relating to the violation of the most significant rules in bank-customer relations and it periodically reports to the company's top management and supervisory authorities regarding the overall state of compliance of the Bank's systems and operations. In compliance with the supervisory provisions, the Compliance function reports directly to the CEO.
- The outlying BCUs operating within the subsidiaries or main business areas, carry out compliance checks on the transactions which they are responsible for and are the first level of organisational supervision of transactions within the broader internal control system.
- In compliance with the requirements of autonomy and independence of each participating function, there is also a Function Coordination Committee in place with control responsibilities. The Committee promotes and shares operational and methodological aspects to identify possible synergies in control activities carried out by second and third-level Functions, coordinate methods and timing for planning and reporting to the Corporate Bodies and project initiatives connected with the Internal Control System, and share areas for improvement identified by all Functions with control responsibilities as well as the Supervisory Authorities.
- The Staff Regulatory Relationship, reporting directly to the CEO, was established for centralised oversight of management of relationships and assessments by the Supervisory Authorities, coordinating and monitoring planning of the commitments made and the main directions of evolution in the European regulatory environment.





### Requirements of autonomy and independence of the Risk Division

The Chief Risk Officer (CRO) is the head of the Parent Company's Risk Control Division.

The Division's autonomy and independence are ensured as it reports directly to the Corporate Body with strategic supervisory functions and only functionally to the Management Body. It has direct access to the Body with control functions and may communicate continuously with no restriction or intermediation. The CRO is also entitled at his or her discretion to participate in Risk Committee meetings to intervene or propose discussions on specific topics.

In particular, the Board of Directors appoints and removes the Chief Risk Officer, upon proposal by the Risk Committee, with the assistance of the Appointments Committee, having consulted the Board of Statutory Auditors.

The remuneration of the Parent Company's Chief Risk Officer is determined and approved by the Board of Directors upon proposal by the Remuneration Committee, having heard the opinion of the Risk Committee.

### Activities relating to the international Regulatory framework

- Pillar 1: since 2008, the Group has used internal models validated by the Bank of Italy for the measurement and management of credit risk (AIRB - Advanced Internal Rating Based) and operational risk (AMA - Advanced Measurement Approach). Over time, and in collaboration with the Supervisory Authorities, these models have been further enhanced and their scope of application extended to Group entities not originally included in the initial validation scope.
- Pillar 2: efforts to ensure compliance with the new Supervisory Review and Evaluation Process (SREP) framework and to further improve the Group's Internal Capital Adequacy Assessment Process (ICAAP) continued during the year, with the mandatory reporting provided to Supervisors. In 2016, the methodological, organisational and internal regulatory system concerning the ILAAP (Internal Liquidity Adequacy Assessment Process) was also finalised, and the overall internal reference framework for the determination of the risk appetite (Risk Appetite Framework - RAF) was further developed. In addition, the Group engaged in several risk management system improvement projects, especially with regard to credit, market, liquidity, banking book interest rate, business/strategic and reputational risk, aside from carrying out the regulatory EBA stress test.
- Pillar 3: public disclosure is provided on a quarterly basis through the Group's internet site [www.mps.it/investors](http://www.mps.it/investors) and is continuously updated in accordance with regulatory developments.



### An analysis of the Group's Internal Capital

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

The main types of risks incurred by the Group in its day-to-day operations can be summarily described as follows:

- Credit risk;
- Market risk;
- Operational risk;
- Banking book interest rate risk;
- Counterparty risk;
- Real estate risk;
- Issuer risk;
- Concentration risk;
- Equity investment portfolio risk;
- Business/Strategic risk;
- Liquidity risk;
- Reputational risk.

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

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

#### Risk assessment models

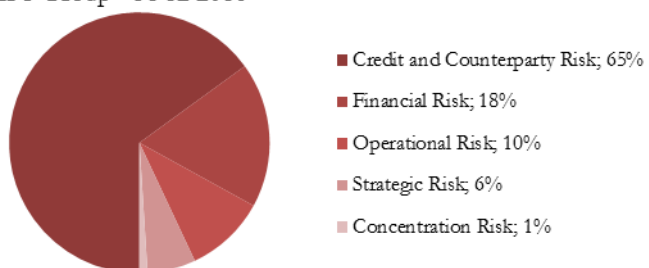
The Risk Management Area regularly quantifies the Group's Internal Capital for each type of risk and periodically reports these to the Risk Management Committee and to the Governing Bodies as part of the reporting flows prepared by the Chief Risk Officer Division.

The approach used to quantify and supplement the 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 inter-risk diversification, therefore by directly adding together the internal capital contributions of the individual risks (Building Block). This approach aims to incorporate the indications in the SREP (Supervisory Review and Evaluation Process) Guidelines published by the EBA in December 2014.



**Total Internal Capital**  
MPS Group - 31 12 2016



The Group also manages and quantifies liquidity risk on an ongoing basis (risk-to-liquidity, as defined in the SREP Guidelines) through internal organisational methodologies and policies.



## Section 1 – Risks of the banking group

### 1.1 – Banking group - Credit risk

#### Qualitative Information

##### 1.1.1 General aspects

Within the guidelines approved by the Parent Company's Board of Directors, and in line with the evolution of the supervisory regulatory framework, the Group pursues the primary objective of improving the quality of the managed loan book and consequently reducing the cost of credit.

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

##### 1.1.2 Credit risk management policies

#### Organisational aspects

As its distinctive mission, the Credit Division (which in 2017 took the name Chief Lending Officer Division) performs activities of credit risk taking and operational monitoring of credit quality, giving guidance and support to the network in credit activities, monitoring trends in the cost of credit and the direct management of impaired loans, including financial restructuring transactions.

The Credit Division includes two Divisions, in line with the operational credit management model, which entails the management of performing exposures, non-performing past due exposures and unlikely to pay positions within the sales network and the management of exposures that have been or are currently being restructured, higher risk unlikely to pay loans and doubtful loans under the responsibility of specialised head office units.

The Loan Disbursement and Governance Division (which in 2017 changed its mandate in part and took the name Performing Loan Division) is responsible, through the Loan Disbursement Area, for loan disbursement, manages country risk and monitors significant loan risks with reference to performing loans, non-performing past due loans and some unlikely to pay exposures.

This Division includes the Specialised Credit Services Area (which changed its mandate in part in 2017 and took the name Credit Portfolio Governance Area), which provides services to the credit chain to ensure its continuous functioning and is responsible for overseeing bank loan portfolio quality, in particular with respect to the prompt classification of counterparties within the monitoring process designed to acknowledge developments in supervisory legislation (update dated 20 January of Bank of Italy Circular 272). The Area is also committed to carrying out controls on the procedure for calculating specific write-downs, and providing post-disbursement services for the real-estate loan sector and servicing activities on securitisations and covered bonds. The Rating Service was created within the Area as well, with the task of determining the rating of Corporate customers with turnover exceeding EUR 10 mln. The Service began reporting to Risk Management in 2017.

The Problem Loan & Asset Division (which took the name Non-Performing Loan Division in 2017) is responsible for impaired loans.

In particular, the Restructured Loans and Problem Assets Area manages problematic loans that require the implementation of restructuring actions. Particular focus was given to the operational consequences of the new debt crisis solution tools for companies introduced by recent bankruptcy law amendments. This Area directly manages the Group's restructuring transactions underway and completed, including those for small amounts.



The Distressed Credit Risk Area manages higher risk unlikely to pay positions through local departments. Unlikely to pay positions are placed under the direct responsibility of specialists who receive the case from the sales manager when the counterparty's classification is changed. Their main goal is to protect the bank's credit claims and evaluate the best solution to collect the debt owed by the customer, possibly by helping it to overcome temporary difficulties.

The Debt Collection Area manages doubtful loans of larger amounts and pursues the mission of maximising collection results by using traditional recovery methods with legal proceedings, as well as more advanced methodologies such as out-of-court management and/or the assignment of individual positions that may considerably decrease collection timing.

Lastly, the Problem Loan & Asset Division manager is directly responsible for the unit that manages small ticket collection activities (with exposure below specific thresholds) through external debt collection companies appropriately selected based on the activities to be carried out and the type of work required. This activity is carried out on those positions irrespective of their classification. Indeed, doubtful loans, unlikely to pay exposures and positions with continuing overdrawn amounts on credit lines are all sent to collection companies. The Group continues to make all of the most important decisions regarding outsourced positions.

### Management, measurement and control systems

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

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

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

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

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

In order to increase efficiency levels in managing internal ratings, the locally situated Rating Agencies have become the single point of reference for all units on rating issues. The role of the Rating Agencies allows for a closer interaction with the Network to make assistance more effective, generate more synergies and enable a more efficient transfer of knowledge.



Credit risk is analysed in-house for management purposes using the Credit Portfolio Model, which was developed internally by the Parent Company and produces detailed outputs in the form of traditional risk measures such as Expected Loss, Unexpected Loss, both management (intra-risk diversified with a representative period of one year and a confidence interval calibrated to the target rating assigned to the Group) and regulatory. Several inputs are considered: probability of default (PD), obtained through validated and non-validated models, LGD rates (management and regulatory), number and types of guarantees supporting the individual credit facilities, regulatory and management CCF on the basis of which the regulatory and management EAD are estimated respectively.

The internal PD, LGD and EAD models for risk measurement are one of the main elements of assessment for all Group units involved in the credit industry, both at Head Office level (Risk Management, Credit Division, Chief Financial Officer, General Management, Risk Committee, Board of Directors) and at branch level (Rating agencies and Relationship Managers). The Group is currently authorised to use the Advanced Internal Rating Based (AIRB) models to determine capital requirements against credit risk on the portfolios of “exposures to businesses” and “retail exposures” of Banca Monte dei Paschi di Siena, MPS Capital Services and MPS Leasing & Factoring, and is awaiting validation of the EAD parameter and roll-out of the domestic NBF1 portfolio for these counterparties.

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

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

- for all validated regulatory portfolios, the rating is calculated with a counterparty-based approach for each individual borrower, in line with the accepted management practice which provides for the assessment of credit risk, both in the disbursement and monitoring phases;
- each individual counterparty is assigned a single rating at banking Group level, based on the set of information pertaining to all lending banks within the AIRB scope; the LGD is different for each company given the diversity of products issued and the type of customers to whom they are offered;
- the rating model segmentation is defined in such a way as to make the individual model clusters consistent with commercial objectives, credit processes and regulatory portfolios set out in the regulations;
- the calculation of the final rating is differentiated by type of counterparty. The credit process envisages a level of in-depth analysis proportional to counterparty risk: the assessment of loan disbursements is based on a complex multi-level structure for medium-large corporate counterparties, whose exposure and concentration risks are higher, and a simplified structure for Small Business and Retail clients;
- in line with this process, the final rating for medium-large corporate companies is the result of a number of different factors: statistical rating, qualitative rating, overrides and valuation of the ‘economic group’ which businesses belong to; for Small Business and Retail counterparties the rating is calculated only on the basis of statistical factors;
- the rating has a 12-month internal validity period and is usually reviewed on a yearly basis, except for rating reviews following well-structured codified practices or that are brought forward on client managers’ request or following serious counterparty deterioration;
- LGD reflects the economic (and not only the accounting) loss incurred; for this reason, LGD estimates must also include the costs incurred for the recovery process and a time factor;





- loss given default is differentiated by type of loans and a LGD value is assigned at the level of each individual transaction; it is differentiated by geographical area since historical and current recovery rates are different among Northern Italy, Central and Southern Italy and Islands;
- loss on defaulted positions other than doubtful loans is estimated with a Cure Rate approach. With regard to counterparties whose exposures are administratively classified as unlikely to pay and non-performing past due, the percentage of exposures reverting back to a performing status was calculated and used to adjust the estimated LGD, starting from doubtful loans.

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

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

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

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

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

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

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

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

The Group's methodological approach to stress-testing is based upon the identification of main risk factors whose objective is to select events or combinations of events (scenarios) which reveal specific vulnerabilities at Group-level. To this end, specific stress plans have been put in place on Pillar I risks (credit, market and operational) which were then made to converge – together with stress events



designed ad hoc on other risk factors – into an overall Pillar II stress test plan, aimed at determining the potential impact on the Group within the ICAAP process.

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

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

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

### Credit risk mitigation policies

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

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

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

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

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

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

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

- Guarantees (including omnibus guarantees and personal guarantees issued by third parties);
- Endorsement;
- Guarantee policy;
- Credit mandate;





- Strong/binding patronage letter;
- Negotiable instruments;
- Performance bond agreement;
- Debt delegation;
- Expromission;
- Assumption of debt;
- Personal Collateral governed by foreign law;
- Credit derivatives:
  - credit default swaps;
  - total return swaps;
  - credit linked notes.

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

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

Over 95% of personal guarantees are traceable to companies and individuals as guarantors. Only to a limited portion of these customers can an internal rating be assigned, since these guarantors are not borrowers of Group companies.

The main concentration of collaterals is linked with retail mortgage loans. However, it cannot be referred to as risk concentration by virtue of the principle of risk fragmentation which is implicit in this type of customers.

More generally, as regards mortgage collateral, an IT platform integrated within the Parent Company's systems has been introduced which is used to automatically transfer information about the property acquired from appraisers directly to those systems. The platform automatically updates all of the Parent Company's loan management applications and digitally archives the appraiser's documentation. It is also capable of standardising the set of information provided by the appraisers.

Appraisers are selected based on an individual analysis of their abilities, professional skill and experience, and are placed on a dedicated list of accredited professionals; their work is monitored continuously, including by checking any divergence between surveyed values and benchmark market data. Appraisers are required to prepare their estimates using valuation methods consistent with the Italian Banking Association's Guidelines for the appraisal of properties backing credit exposures.

For the phase of monitoring the assets pledged, the Group has a policy establishing the amounts of the secured exposure and the age of the appraisal, beyond which the properties are appraised again. For exposures lower than the thresholds defined, the Group in any event conducts half-yearly monitoring of the property value based on market data.

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

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



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

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

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

### Non-performing financial assets

Non-performing financial assets include loans which, following the occurrence of events subsequent to their disbursement, show objective evidence of a possible loss in value.

Non-performing exposures (e.g. doubtful, unlikely to pay and non-performing past due; together, non-performing exposures) are classified into different risk categories in accordance with the regulations issued by the Bank of Italy, supplemented with internal provisions which set automatic criteria and rules for the transfer of receivables between different risk categories. In particular, classification is carried out by bodies within the loan decision-making chain based on a process that provides for a series of codified controls aiming to guarantee proper asset classification, except for loans more than 90 days past due, which are measured using automated procedures. To activate the controls, default detection parameters have been integrated within the Group's business procedures (Credit Monitoring) so as to subject the most critical positions to assessment, including for any reclassification if required.

The Group's procedures also manage the phases for transfer to non-performing categories, in particular forbore positions. A "forborne exposure" (as defined in Bank of Italy circular 272) is a debt agreement for which measures of tolerance have been applied (otherwise identifiable as "forbearance measures"). The measures of tolerance consist of concessions - in terms of the amendment and/or refinancing of the pre-existing debt agreement - to the borrower who has or is on the verge of having difficulty in meeting its financial commitments (in other words, the borrower is in financial difficulty).

Forborne exposures are broken down into:

- non-performing exposures with forbearance measures, pursuant to the Implementing Technical Standards (ITS) issued by the EBA. These exposures represent a sub-category of, depending on the case, doubtful loans, unlikely to pay or non-performing past due; therefore, they do not make up their own category of non-performing exposures;
- forbore performing exposures, pursuant to the ITS.

If a new facilitation or a change in the credit line which amounts to a new concession is requested, the manager is asked to evaluate the counterparty's financial difficulty. With support from the procedure, the manager establishes whether the borrower is in financial difficulty and how severe it is. If the financial difficulty is serious, the manager should decide, in addition to the concession, on whether to change the counterparty's classification to unlikely to pay.

Positions are classified into the various categories of non-performing assets at the proposal of the regional network responsible for the commercial relationship as well as peripheral and central specialised functions responsible for loan control and management.

For non-performing past due loans, classification as non-performing takes place via automatic procedures if specific objective conditions of default have been satisfied.



Non-performing exposures are returned to performing status at the initiative of the above-mentioned structures responsible for loan control and management, after it is verified that the critical conditions and state of insolvency no longer apply. Non-performing past due loans are returned to performing automatically when the exposure is paid up.

Non-performing loan management begins at the first signs of impairment with the support of the Credit Monitoring procedure, which first identifies non-performing positions (Intercept phase) and subsequently routes them to dedicated management processes (Routing phase). More specifically:

- Intercept phase: identification of high insolvency risk positions

Ordinary-risk positions are scanned by a 'screening' engine which selects the highest-risk positions on a weekly basis, so as to identify the counterparties bound to become insolvent at a sufficiently early stage. Screening is based on a 'performance risk indicator' (it.: "indicatore di rischio andamentale", IRA) which summarises a set of critical elements including the worsening of leading indicators, ratings, information on related counterparties and days past due.

- Routing phase: customer-type differentiated treatment of positions

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

1. 'Mass Retail' procedure, dedicated to Retail clients for which it is possible to activate mass debt collection;
2. 'Standard Retail' procedure, dedicated to the remaining Retail customers with more limited exposures and small-sized businesses with limited exposure;
3. A dedicated Corporate procedure for corporate customers.

As regards assessment, doubtful loans, unlikely to pay and non-performing past due exposures with exposure above a given threshold value are valued analytically. For all non-performing exposures under a given threshold value, the valuation is carried out statistically on the basis of parameters determined by Risk Management.

The evaluation is carried out at the time of their classification, when significant events take place and, in any event, reviewed periodically. In particular, the loan valuation is subject to review any time knowledge is gained of significant events that could change prospects for recovery. For such events to be promptly taken into consideration, all borrower information is periodically monitored.



## Quantitative Information

### A. Credit quality

For the purposes of quantitative information on the credit quality, the term “credit exposures” does not include equity securities and Units of UCITS, whereas the term “exposures” includes equity securities and Units of UCITS.

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

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

						31 12 2016
	Doubtful loans	Unlikely to pay	Past-due Impaired exposures	Past-due not impaired exposures	Performing exposures	Total
1. Financial assets available for sale	-	-	-	-	16,178,758	16,178,758
2. Financial assets held to maturity	-	-	-	-	-	-
3. Loans to banks	447	508	-	1,750	8,933,534	8,936,239
4. Loans to customers	10,364,864	9,100,798	854,286	2,261,988	84,110,775	106,692,711
5. Financial assets designated at fair value	-	-	-	-	-	-
6. Financial assets held for sale	-	-	-	-	-	-
<b>Total 31 12 2016</b>	<b>10,365,311</b>	<b>9,101,306</b>	<b>854,286</b>	<b>2,263,738</b>	<b>109,223,067</b>	<b>131,807,708</b>
<b>Total 31 12 2015</b>	<b>9,734,200</b>	<b>12,328,110</b>	<b>2,095,569</b>	<b>3,079,458</b>	<b>109,106,937</b>	<b>136,344,274</b>

Since the entire portfolio of financial assets is subject to classification by credit quality, with the exception of equity securities and units of UCITS, it should be noted that the items “Loans to banks” and “Loans to customers” include not only loans but also other types of assets (debt securities, etc.). All amounts are book values, and thus, net of any related doubtful amounts.

Lastly, please note that, at the reporting date, line “3. Loans to banks” includes net performing forborne exposures equal to EUR 2.7 mln (EUR 2.1 mln as at 31 December 2015) and line “4. Loans to customers” includes net performing forborne exposures totalling EUR 2,625.0 mln (EUR 2,901.3 mln as at 31 December 2015) and net non-performing forborne exposures of EUR 6,123.2 mln (EUR 7,113.2 mln as at 31 December 2015).



The table below provides an ageing analysis of past due amounts on performing financial assets.

Portfolio/Quality	Performing Exposures					
	Past due up to 3 months	Past due 3 to 6 months	Past due 6 months to 1 year	Over 1 year	Not past due	Total 31 12 2016
1. Financial assets available for sale	-	-	-	-	16,178,758	16,178,758
2. Financial assets held to maturity	-	-	-	-	-	-
3. Loans to banks	1,607	-	-	142	8,933,535	8,935,284
4. Loans to customers	1,624,388	225,227	293,783	118,590	84,110,775	86,372,763
5. Financial assets designated at fair value	-	-	-	-	-	-
6. Financial assets held for sale	-	-	-	-	-	-
<b>Total 31 12 2016</b>	<b>1,625,995</b>	<b>225,227</b>	<b>293,783</b>	<b>118,732</b>	<b>109,223,068</b>	<b>111,486,805</b>



#### 4.1.2 Breakdown of credit exposures by portfolio and credit quality (gross and net values)

Portfolio/quality	Non performing assets			Performing			Total (Net exposure)
	Gross exposure	Specific write-downs	Net exposure	Gross exposure	Portfolio adjustments	Net exposure	
1. Financial assets available for sale	1,060	1,060	-	16,178,758	-	16,178,758	16,178,758
2. Financial assets held to maturity	-	-	-	-	-	-	-
3. Loans to banks	23,229	22,274	955	8,943,339	8,055	8,935,284	8,936,239
4. Loans to customers	45,785,468	25,465,520	20,319,948	87,060,896	688,133	86,372,763	106,692,711
5. Financial assets designated at fair value	-	-	-	X	X	-	-
6. Financial assets held for sale	-	-	-	-	-	-	-
<b>Total 31 12 2016</b>	<b>45,809,757</b>	<b>25,488,854</b>	<b>20,320,903</b>	<b>112,182,993</b>	<b>696,188</b>	<b>111,486,805</b>	<b>131,807,708</b>
<b>Total 31 12 2015</b>	<b>46,933,999</b>	<b>22,776,120</b>	<b>24,157,879</b>	<b>112,854,051</b>	<b>667,656</b>	<b>112,186,395</b>	<b>136,344,274</b>

At the reporting date, the Group had 999 positions (657 as at 31 December 2015) relating to creditors who had filed a “blank” request for a pre-insolvency creditor arrangement procedure “Concordato in bianco” for a net exposure of EUR 599.4 mln (EUR 556.59 mln as at 31 December 2015) and 8 positions (7 as at 31 December 2015) relating to creditors who had filed a request for a pre-insolvency creditor arrangement with going concern “Concordato in continuità” for a net exposure of approx. EUR 2.7 mln (EUR 3.1 mln as at 31 December 2015).

Partial derecognitions on non-performing financial assets carried out during the year totalled EUR 1,626.2 mln (EUR 231.5 mln as at 31 December 2015).

	Low quality assets		Other assets
	Cumulative losses	Net exposure	Net exposure
1 Financial assets held for trading	130,722	24,910	9,197,787
2 Hedging derivatives	-	-	327,349
<b>Total 31 12 2016</b>	<b>130,722</b>	<b>24,910</b>	<b>9,525,136</b>
<b>Total 31 12 2015</b>	<b>146,732</b>	<b>28,788</b>	<b>18,490,693</b>



#### 4.1.3 Banking Group - Balance sheet and off-balance sheet exposure to banks: gross and net amounts and past due ranges

31 12 2016

Portfolio/quality	Gross exposure				Performing Assets	Specific write-downs	Portfolio adjustments	Net Exposure
	Non-performing Assets							
	Past due up to 3 months	Past due 3 to 6 months	Past due 6 months to 1 year	Over 1 year				
A. Balance-sheet exposure								
a) Doubtful loans	-	-	-	22,611	X	22,164	X	447
- of which forborne	-	-	-	-	X	-	X	-
b) Unlikely to pay	617	-	-	-	X	110	X	508
- of which forborne	-	-	-	-	X	-	X	-
c) Past due	-	-	-	-	X	-	X	-
- of which forborne	-	-	-	-	X	-	X	-
d) Past-due not impaired	X	X	X	X	1,775	X	25	1,750
- of which forborne	X	X	X	X	-	X	-	-
e) Other assets not impaired	X	X	X	X	9,754,446	X	8,030	9,746,416
- of which forborne	X	X	X	X	2,722	X	-	2,722
Total A	617	-	-	22,611	9,756,221	22,274	8,055	9,749,121
B. Off-balance-sheet exposure								
a) Impaired	-	-	-	-	X	-	X	-
b) Not Impaired	X	X	X	X	2,565,928	X	1,399	2,564,529
Total B	-	-	-	-	2,565,928	-	1,399	2,564,529
Total (A+B)	617	-	-	22,611	12,322,149	22,274	9,454	12,313,650

The table provides a breakdown of exposure with banks by credit quality, using the definition of impaired exposures set out by the Bank of Italy and adopted for the purposes of the financial statements.

Thus, all balance sheet exposures are stated at book values, before and after any doubtful amounts. In particular, balance sheet exposures encompass all financial assets related to banks arising from financial statement Item 20 "Financial assets held for trading," Item 30 "Financial assets designated at fair value," Item 40 "Financial assets available for sale" and Item and 60 "Loans to banks" with the exception of derivative contracts which are considered as off-balance sheet in this section.

Off-balance sheet exposures include all financial transactions other than balance sheet transactions (guarantees issued, commitments and derivatives, including those used for hedging purposes) involving the assumption of credit risk and valued using the measurement criteria set forth by the Bank of Italy.



#### A.1.4 Banking Group - Balance sheet exposure to banks: changes in gross non-performing loans

31 12 2016

Source/Categories	Doubtful loans	Unlikely to pay	Non-performing Past due
<b>A. Gross exposure, opening balance</b>	<b>72,161</b>	<b>3,052</b>	<b>-</b>
- of which: transferred but not derecognised	-	-	-
<b>B. Increases</b>	<b>1,066</b>	<b>19</b>	<b>-</b>
B.1 Transfers from performing loans	-	-	-
B.2 Transfers from other impaired loans	-	-	-
B.3 Other increases	1,066	19	-
<b>C. Decreases</b>	<b>50,616</b>	<b>2,454</b>	<b>-</b>
C.1 transfers to performing loans	-	2,454	-
C.2 write-offs	85	-	-
C.3 collections	323	-	-
C.4 amounts realised upon disposal of positions	-	-	-
C.5 Losses from disposal	2,418	-	-
C.6 transfers to other categories of impaired exposure	-	-	-
C.7 other decreases	47,790	-	-
<b>D. Gross exposure, closing balance</b>	<b>22,611</b>	<b>617</b>	<b>-</b>
- of which: transferred but not derecognised	-	-	-

With regard to balance sheet exposures to banks, the table shows changes in non-performing exposures in the course of the year.

Since the entire portfolio of financial asset exposures to banks is subject to classification by credit quality, exposures include not only loans but also other types of assets (e.g. securities). Balance sheet exposures are expressed at book value.

The amount of EUR 47.8 mln recorded on line C.7 “Other decreases” includes EUR 42.6 mln relating to a subordinated security issued by Banca delle Marche, transferred to loans to customers following the change in the classification of the issuer subject to the bank resolution procedure.





*A.1.4 bis Banking Group - Balance sheet exposure to banks: changes in gross forborne exposures by credit quality*

31 12 2016

Source/Categories	Non performing forborne exposures	Performing forborne exposures
<b>A. Goss exposure, opening balance</b>	<b>2,454</b>	<b>-</b>
- of which: transferred but not derecognised	-	-
<b>B.Increases</b>	<b>-</b>	<b>2,722</b>
B.1 Transfers from performing loans	-	-
B.2 Transfers from performing forborne exposures	-	X
B.3 Transfers from Non-performing forborne exposures	X	2,454
B.4 Other increases	-	268
<b>C. Decreases</b>	<b>2,454</b>	<b>-</b>
C.1 Transfers to performing loans	X	-
C.2 Transfers to performing forborne exposures	2,454	X
C.3 Transfers to non-performing forborne exposures	X	-
C.4 Write-offs	-	-
C.5 Collections	-	-
C.6 Amounts realised upon disposal of positions	-	-
C.7 Losses from disposal	-	-
C.8 Other decreases	-	-
<b>D.Gross exposure, closing balance</b>	<b>-</b>	<b>2,722</b>
- of which: transferred but not derecognised	-	-



#### 4.1.5 Banking Group - Non-performing balance sheet exposure to banks: changes in overall value adjustments

Source/Categories	Doubtful loans		Unlikely to pay		Non-performing Past due	
	Total	of which forborne	Total	of which forborne	Total	of which forborne
<b>A. Opening balance of overall adjustments</b>	<b>70,754</b>	<b>-</b>	<b>412</b>	<b>339</b>	<b>-</b>	<b>-</b>
- of which: transferred but not derecognised	-	-	-	-	-	-
<b>B. Increases</b>	<b>1,255</b>	<b>-</b>	<b>55</b>	<b>-</b>	<b>-</b>	<b>-</b>
B.1 Value adjustments	1,219	-	55	-	-	-
B.2 Loss from disposal	-	-	-	-	-	-
B.3 Transfers from other categories of impaired exposures	-	-	-	-	-	-
B.4 Other increases	36	-	-	-	-	-
<b>C. Decreases</b>	<b>49,845</b>	<b>-</b>	<b>357</b>	<b>339</b>	<b>-</b>	<b>-</b>
C.1 Write-backs from valuation	4,454	-	18	-	-	-
C.2 Write-backs from collection	2,493	-	-	-	-	-
C.3 Profit from disposal	187	-	-	-	-	-
C.4 Write-offs	85	-	-	-	-	-
C.5 Transfers to other categories of impaired exposure	-	-	-	-	-	-
C.6 Other decreases	42,626	-	339	339	-	-
<b>D. Closing balance of overall adjustments</b>	<b>22,164</b>	<b>-</b>	<b>110</b>	<b>-</b>	<b>-</b>	<b>-</b>
- of which: transferred but not derecognised	-	-	-	-	-	-

With regard to balance sheet exposures to banks, the table shows changes in overall value adjustments on impaired exposure during the year.

Since the entire portfolio of financial assets to banks is subject to classification by credit quality, value adjustments shown refer not only to loans but also to other types of assets (e.g. securities). Balance sheet value adjustments are expressed at book value.

The amount of EUR 42.6 mln recorded on line C.6 “Other decreases” relates to a subordinated security issued by Banca delle Marche, transferred to loans to customers following the change in the classification of the issuer subject to the bank resolution procedure.



#### A.1.6 Banking Group - Balance sheet and off-balance sheet exposure to customers: gross and net amounts and past due ranges

31 12 2016

31.12.2016								
Portfolio/quality	Gross exposure				Performing Assets	Specific write-downs	Portfolio adjustments	Net Exposure
	Past due up to 3 months	Past due 3 to 6 months	Past due 6 months to 1 year	Over 1 year				
A. Balance-sheet exposure								
a) Doubtful loans	51,059	32,582	123,476	29,217,852	X	19,060,084	X	10,364,885
- of which forborne	1,401	4,352	32,816	1,933,326	X	863,441	X	1,108,454
b) Unlikely to pay	4,843,991	369,942	1,755,455	8,278,321	X	6,146,902	X	9,100,807
- of which forborne	3,187,086	181,568	1,111,396	3,359,115	X	2,907,481	X	4,931,684
c) Past due	128,210	114,485	279,729	592,044	X	260,162	X	854,306
- of which forborne	15,917	14,374	28,804	37,407	X	13,397	X	83,105
d) Past-due not impaired	X	X	X	X	2,334,017	X	69,141	2,264,876
- of which forborne	X	X	X	X	267,440	X	11,323	256,117
e) Other assets not impaired	X	X	X	X	105,185,667	X	668,316	104,517,351
- of which forborne	X	X	X	X	2,480,089	X	111,189	2,368,900
Total A	5,023,260	517,009	2,158,660	38,088,217	107,519,684	25,467,148	737,457	127,102,225
B. Off-balance-sheet exposure								
a) Impaired	924,283	-	-	2,444	X	154,353	X	772,374
b) Not Impaired	X	X	X	X	17,425,361	X	108,542	17,316,819
Total B	924,283	-	-	2,444	17,425,361	154,353	108,542	18,089,193
Total (A+B)	5,947,543	517,009	2,158,660	38,090,661	124,945,045	25,621,501	845,999	145,191,418

The table provides a breakdown of dealings with customers by credit quality, using the definition of impaired exposures set out by the Bank of Italy and adopted for the purposes of the financial statements.

Since the entire portfolio of financial assets is subject to classification by credit quality, with the exception of equity securities and units of UCITS, it should be noted that the item “Loans to customers” includes not only loans but also other types of assets (debt securities, etc.).

Thus, all balance sheet exposures are stated at book values, before and after any doubtful amounts. In particular, “Balance sheet exposure” summarises all financial assets related to customers arising from financial statement Item 20 “Financial assets held for trading,” Item 30 “Financial assets designated at fair value,” Item 40 “Financial assets available for sale” and Item 70 “Loans to customers” with the exception of derivative contracts that are considered as off-balance sheet in this section.

Please see the consolidated report on operations for quantification of and reporting on capital ratios for coverage of lending relationships.

Off-balance sheet exposures include all financial transactions other than balance sheet transactions (guarantees issued, commitments and derivatives, including those used for hedging purposes) involving the assumption of credit risk and valued using the measurement criteria set forth by the Bank of Italy.

In particular, please note that off-balance sheet exposures that are not impaired include exposures generated by derivative contracts with low credit quality for a gross value of EUR 103.3 mln; cumulative impairment losses amount to EUR 81.1 mln and are conventionally specified under “Portfolio value adjustments”. For additional details on the credit quality of derivative instruments and assets for trading, please refer to the disclosure provided in table A.1.2.

Lastly, please note that at the reporting date, gross non-performing forborne exposures with no past-due amounts in the cure period include unlikely to pay positions of EUR 3,203.2 mln and non-performing past due exposures of EUR 12.3 mln.



#### 4.1.7 Banking Group - Balance sheet exposure to customers: changes in gross non-performing loans

31 12 2016

Source / Categories	Doubtful loans	Unlikely to pay	Non-performing Past due
<b>A. Gross exposure, opening balance</b>	<b>26,627,473</b>	<b>17,400,516</b>	<b>2,834,296</b>
- of which: transferred but not derecognised	41,229	61,936	232,522
<b>B. Increases</b>	<b>5,328,375</b>	<b>3,300,210</b>	<b>757,218</b>
B.1 Transfers from performing loans	495,507	1,588,930	558,867
B.2 Transfers from other impaired loans	4,071,326	977,583	11,939
B.3 Other increases	761,542	733,697	186,412
<b>C. Decreases</b>	<b>2,530,879</b>	<b>5,453,017</b>	<b>2,477,046</b>
C.1 Transfers to performing loans	2,009	608,724	199,610
C.2 Write-offs	1,734,972	229,879	282,959
C.3 Collections	681,123	1,083,001	275,774
C.4 Amounts realised upon disposal of positions	53,352	152,166	44,287
C.5 Losses from disposal	18,134	81	-
C.6 Transfers to other categories of impaired exposure	35,448	3,368,270	1,657,130
C.7 Other decreases	5,841	10,896	17,286
<b>D. Gross exposure, closing balance</b>	<b>29,424,969</b>	<b>15,247,709</b>	<b>1,114,468</b>
- of which: transferred but not derecognised	58,721	91,163	110,399

With regard to balance sheet exposures to customers, the table shows changes in non-performing exposures during the year. Since the entire portfolio of financial asset exposures to customers is subject to classification by credit quality, it should be noted that exposure includes not only loans but also other types of assets (e.g. securities). Balance sheet exposures are expressed at book value.

Line C.2 "Write-offs" includes EUR 1,440.9 mln in the "Doubtful loans" column referring to the write-off of interest on arrears on positions with a given vintage level and roughly EUR 111.1 mln in write-offs of exposures resulting from several non-recourse transfers of doubtful loans in 2016. The loss of EUR 12.8 mln on those disposals is reported on lines C.5 and B.3.

Exposures sold but not derecognised, under captions "A" and "D", refer to non-performing assets in performing securitisations.



*A.1.7 bis Banking Group - Balance sheet exposure to customers: changes in gross forborne exposures by credit quality*

31 12 2016

Source/Categories	Non performing forborne exposures	Performing forborne exposures
<b>A. Goss exposure, opening balance</b>	<b>9,562,561</b>	<b>2,977,181</b>
- of which: transferred but not derecognised	<b>29,267</b>	<b>100,773</b>
<b>B. Increases</b>	<b>2,335,678</b>	<b>1,316,350</b>
B.1 Transfers from performing loans	149,788	658,083
B.2 Transfers from performing forborne exposures	473,400	X
B.3 Transfers from Non-performing forborne exposures	X	491,356
B.4 Other increases	1,712,490	166,911
<b>C. Decreases</b>	<b>1,990,677</b>	<b>1,546,002</b>
C.1 Transfers to performing loans	X	611,416
C.2 Transfers to performing forborne exposures	481,008	X
C.3 Transfers to non-performing forborne exposures	X	474,847
C.4 Write-offs	249,852	446
C.5 Collections	1,060,045	381,845
C.6 Amounts realised upon disposal of positions	120,925	-
C.7 Losses from disposal	1,851	-
C.8 Other decreases	76,996	77,448
<b>D. Gross exposure, closing balance</b>	<b>9,907,562</b>	<b>2,747,529</b>
- of which: transferred but not derecognised	38,693	85,347

Line B.4 “other increases” includes EUR 907.3 mln in the Non-performing forborne exposures column relating to non-performing credit exposures at the start of the year which were subjected to forbearance measures in the course of the year.



#### 4.1.8 Banking Group - Balance sheet exposure to customers: changes in overall value adjustments

31 12 2016

Source/Categories	Doubtful loans		Unlikely to pay		Non-performing Past due	
	Total	of which forborne	Total	of which forborne	Total	of which forborne
<b>A. Opening balance of overall adjustments</b>	<b>16,894,661</b>	<b>473,583</b>	<b>5,075,028</b>	<b>1,912,117</b>	<b>738,708</b>	<b>63,671</b>
- of which: transferred but not derecognised	12,860	663	17,306	6,933	87,887	2,826
<b>B. Increases</b>	<b>4,908,008</b>	<b>587,764</b>	<b>3,181,693</b>	<b>1,727,999</b>	<b>247,708</b>	<b>12,462</b>
B.1 Value adjustments	3,568,404	339,522	3,056,580	1,468,978	202,442	7,842
B.2 Loss from disposal	18,134	1,851	81	-	-	-
B.3 Transfers from other categories of impaired exposures	1,195,720	238,694	97,410	13,472	3,134	-
B.4 Other increases	125,750	7,697	27,622	245,549	42,132	4,620
<b>C. Decreases</b>	<b>2,742,585</b>	<b>197,906</b>	<b>2,109,819</b>	<b>732,635</b>	<b>726,254</b>	<b>62,736</b>
C.1 Write-backs from valuation	827,676	76,745	591,448	279,032	270,000	11,895
C.2 Write-backs from collection	143,364	11,332	109,710	39,152	888	1
C.3 Profit from disposal	1,429	-	12,552	11,581	6,585	-
C.4 Write-offs	1,734,667	103,731	232,286	145,251	283,059	839
C.5 Transfers to other categories of impaired exposure	8,686	1,674	1,127,748	197,430	159,830	49,080
C.6 Other decreases	26,763	4,424	36,075	60,189	5,892	921
<b>D. Closing balance of overall adjustments</b>	<b>19,060,084</b>	<b>863,441</b>	<b>6,146,902</b>	<b>2,907,481</b>	<b>260,162</b>	<b>13,397</b>
- of which: transferred but not derecognised	20,348	1,436	29,906	8,012	31,064	274

With regard to balance sheet exposures to customers, the table shows changes in non-performing exposures during the year. In particular, write-offs include reductions due to loan redemptions. Since the entire portfolio of financial asset exposures is subject to classification by credit quality, it should be noted that exposure includes not only loans but also other types of assets (e.g. securities). Balance sheet exposures are expressed at book value.

Exposures sold but not derecognised, under captions “A” and “D”, refer to non-performing assets in performing securitisations.



### 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 31 December 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.

(in million of EUR)

COUNTRY	DEBT SECURITIES				LOANS		CREDIT DERIVATIVES
	Financial assets held for trading		Financial asset available for sale		L&R		Financial Asset HFT
	Nominal	Fair value=Book value	Nominal	Fair value=Book value	Book value	Book value	Nominal
Argentina	7.59	0.38	-	-	-	-	-
Austria	0.06	0.08	-	-	-	-	-
Belgium	0.02	0.04	51.75	55.24	-	-	-
Bosnia	0.03	0.00	-	-	-	-	-
Brazil	0.11	0.14	-	-	-	-	-
Croatia	(0.57)	(0.63)	-	-	-	-	-
Philippines	0.09	0.14	-	-	-	-	-
France	0.15	0.16	3.50	4.12	-	-	53.00
Germany	0.10	0.65	20.00	20.81	-	-	-
Greece	4.23	0.08	-	-	-	-	-
Hong kong	-	-	30.58	30.58	-	-	-
Italy	1,577.64	1,538.64	13,754.03	15,127.71	534.02	2,747.08	1,963.25
Lithuania	0.01	0.01	9.00	9.90	-	-	-
Mexico	70.45	0.57	-	-	-	-	-
Holland	0.25	0.29	-	-	-	-	-
Poland	(1.61)	(1.37)	10.00	10.39	-	-	-
Portugal	2.89	2.75	46.00	49.12	-	-	-
United Kingdom	0.06	0.07	-	-	-	-	50.00
Romania	(0.16)	(0.19)	-	-	-	-	-
Russia	0.01	0.03	-	-	-	-	-
Spain	3.16	3.72	96.00	108.12	-	-	(3.20)
United States	4.91	5.07	-	-	-	-	-
Turkey	0.03	0.04	-	-	-	-	-
Hungary	2.53	2.86	-	-	-	-	-
Venezuela	0.36	0.23	-	-	-	-	-
<b>Total 31 12 2016</b>	<b>1,672.33</b>	<b>1,553.76</b>	<b>14,020.86</b>	<b>15,415.99</b>	<b>534.02</b>	<b>2,747.08</b>	<b>2,063.05</b>
<b>Total 31 12 2015</b>	<b>3,743.07</b>	<b>3,780.21</b>	<b>14,704.48</b>	<b>16,494.87</b>	<b>513.22</b>	<b>2,850.08</b>	<b>3,022.11</b>

Details on the Group's exposure is presented taking into consideration that, according to instructions from the European Securities and Markets Authority (ESMA), "sovereign debt" is defined as bonds



issued by central and local Governments and by government Entities, as well as loans disbursed to aforementioned entities.

These financial instruments were measured according to the standards applicable to the category to which they belong.

The overall exposure on loans and debt securities amounted to EUR 20,230.8 mln, almost entirely in Italian debt, and is concentrated under the AFS accounting category. Exposures to Italy are nearly exclusively level 1, with the exception of EUR 122.5 mln in government bonds.

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

AFS securities: Italy	31 12 2016	31 12 2015
Book value	15,127.7	16,310.4
AFS reserve (after tax)	(69.4)	78.7
of which: hedging effect (after tax)	(42.7)	42.0

Credit derivatives - Italy	31 12 2016	31 12 2015
<b>Purchase of protection</b>		
Nominal	(139.5)	(269.2)
Positive fair value	17.7	14.1
Negative fair value	-	-
<b>Sale of protection</b>	-	-
Nominal	2,102.7	3,263.7
Positive fair value	-	-
Negative fair value	(26.5)	(29.5)





## A2 Classification of exposure by external and internal ratings

### A.2.1 Banking Group - Breakdown of balance sheet and off-balance sheet exposures by external ratings

Exposures	External rating classes						No Rating	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
<b>A. Balance-sheet exposure</b>	933,435	2,304,989	21,771,660	1,043,875	391,238	94,043	110,497,739	137,036,979
<b>B. Derivatives</b>	<b>150,430</b>	<b>544,771</b>	<b>329,005</b>	<b>24,051</b>	<b>5,978</b>	-	<b>3,982,383</b>	<b>5,036,618</b>
B.1 Financial derivatives	130,141	399,356	244,034	2,886	5,654	-	1,492,236	2,274,307
<b>B.2 Credit derivatives</b>	<b>20,289</b>	<b>145,415</b>	<b>84,971</b>	<b>21,165</b>	<b>324</b>	-	<b>2,490,147</b>	<b>2,762,311</b>
<b>C. Guarantees issued</b>	<b>5,721</b>	<b>293,852</b>	<b>229,361</b>	<b>297,097</b>	<b>483,556</b>	<b>87</b>	<b>5,503,062</b>	<b>6,812,736</b>
<b>D. Commitments to disburse funds</b>	<b>6,628</b>	<b>293</b>	<b>2,024,742</b>	<b>354,479</b>	<b>7,977</b>	<b>1</b>	<b>5,623,892</b>	<b>8,018,012</b>
<b>E. Others</b>	-	136,850	187,041	-	-	-	462,467	786,358
<b>Total</b>	<b>1,096,214</b>	<b>3,280,755</b>	<b>24,541,809</b>	<b>1,719,502</b>	<b>888,749</b>	<b>94,131</b>	<b>126,069,543</b>	<b>157,690,703</b>

class 1=AAA/AA- class 2=A+/A- class 3=BBB+/BBB- class 4=BB+/BB- class 5=B+/B- class 6=lower than B-

The external rating categories used to complete the table are from Standard & Poor's. The exposures shown are those reported in Tables A.1.3 (exposures to banks) and A.1.6 (exposures to customers) above, in addition to units of UCITS. If multiple external ratings are assigned, the rating is selected based on Bank of Italy's criteria (when two ratings are available, the lower of the two is used, and when three or more ratings are assigned, the second highest rating is selected). To ensure relevance of information, internal cross-reference tables were used to convert classification by various rating agencies into classification by Standard & Poor's.



## 2.2 Banking Group - Breakdown of balance sheet and off-balance sheet exposures by internal ratings

Exposures	Internal rating classes							Total
	High quality	Average quality	Fair quality	Mediocre quality	Poor quality	Default	Group administrative default	
A. Balance-sheet exposure	9,678,461	15,462,550	27,981,121	12,759,706	1,480,203	20,270,232	66,383	136,851,345
B. Derivatives	16,015	59,881	165,599	73,526	4,356	24,315	237	5,036,618
B.1 Financial derivatives	16,015	42,732	165,524	73,526	4,356	24,315	237	2,274,307
B.2 Credit derivatives	-	17,149	75	-	-	-	-	2,762,311
C. Guarantees issued	656,544	1,671,978	2,355,750	573,128	28,725	410,042	-	6,812,736
D. Commitments to disburse funds	172,746	499,582	995,747	445,548	74,129	356,890	2,997	8,018,012
E. Others	-	-	-	-	-	-	-	786,358
<b>Total</b>	<b>10,523,766</b>	<b>17,693,991</b>	<b>31,498,217</b>	<b>13,851,908</b>	<b>1,587,413</b>	<b>21,061,479</b>	<b>69,617</b>	<b>157,505,069</b>

High Quality customers (Master Scale categories AAA and A1) Good Quality Customers (Master Scale categories A2, A3 and B1) Fair Quality customers (Master Scale categories B2, B3, C1 and C2) Mediocre Quality customers (Master Scale categories C3, D1, D2 and D3) Poor Quality customers (Master Scale categories E1, E2 and E3)

The table provides a breakdown of customers of the MPS Group by risk categories assigned on the basis of ratings arising from internal models. For this purpose, account is given only of exposures (borrowers) for which an internal rating is periodically recorded for models/legal entities/portfolios which have been subject to a validation process with the regulatory authorities without any cross-reference from official ratings to internal ratings especially with regard to the following customer segments: "Banks," "Non-banking financial institutions," and "Governments and Public Administration". Thus, based on this provision, exposures related to the latter segments, even if covered by official ratings, were reported as "unrated" in the internal rating models.



### A.3 Breakdown of secured exposures by type of collateral

#### A.3.1 Banking Group - Secured exposures to banks

31 12 2016

	Amount of Net Exposure	Real guarantees				Personal guarantees								Total real and personal guarantees	
						Credit derivatives				Unsecured signature loans					
		Other derivatives													
		Real estate mortgages	Real estate leasing	Securities	Other collaterals	CLN	Governments and central banks	Other public entities	Banks	Other entities	Governments and central banks	Other public entities	Banks		Other entities
1. Secured balance-sheet exposures:	213,598	1,327	-	212,244	-	-	-	-	-	-	-	-	-	24	213,595
1.1 totally secured	213,593	1,327	-	212,244	-	-	-	-	-	-	-	-	-	23	213,594
- of which non performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2 partially secured	5	-	-	-	-	-	-	-	-	-	-	-	-	1	1
- of which non performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Secured off-balance sheet exposures:	740,334	-	-	33,976	647,152	-	-	-	-	-	-	-	-	-	681,128
2.1 totally secured	189,327	-	-	33,976	155,351	-	-	-	-	-	-	-	-	-	189,327
- of which non performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 partially secured	551,007	-	-	-	491,801	-	-	-	-	-	-	-	-	-	491,801
- of which non performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

The table shows the amount of balance sheet exposures to banks that are partially or fully secured. In addition to balance sheet exposures to banks, the table shows the amount of off-balance sheet exposures, including derivative contracts with banks, which are fully or partially secured. As regards personal guarantees, the economic segments to which guarantors and sellers of protection belong (in the case of unsecured loans and credit derivatives, respectively) are identified making reference to the classification criteria provided for in the brochure “classification of customers by segments and groups of economic activity” published by the Bank of Italy.

Exposures are classified as either “fully secured” or “partially secured” by comparing the gross exposure with the amount of the guarantee established in the contract; for that purpose, any supplemental guarantees are also considered.

The fair value of collaterals estimated as at the balance sheet date is shown in the columns “Real guarantees” and “Personal guarantees”; if such information is not available, the contractual value is reported. Both values cannot be higher than the book value of secured exposures, in line with the 4th update of Bank of Italy circular 262.



### A.3.2 Banking Group – Secured exposures to customers

	31.12.2016	Amount of Net Exposure									
		Real guarantees					Personal guarantees				
							Credit derivatives				
							Unsecured signature loans				
		Real estate mortgages	Real estate leasing	Securities	Other collaterals	CLN	Governments and central banks	Other public entities	Banks	Other entities	Total real and personal guarantees
<b>1. Secured balance-sheet exposures:</b>		<b>79,222,637</b>	<b>50,525,380</b>	<b>2,839,377</b>	<b>10,121,856</b>	<b>1,504,247</b>	<b>859</b>	<b>1,165,589</b>	<b>12,091</b>	<b>10,956,468</b>	<b>77,125,867</b>
1.1 Totally secured		75,242,875	50,170,133	2,839,377	9,811,601	1,452,383	358	664,828	8,051	9,855,662	74,802,393
- of which non performing		14,976,451	11,431,765	719,014	60,718	278,206	282	62,960	5,264	2,393,803	14,952,012
1.2 Partially secured		3,979,762	355,247	-	310,255	51,864	501	500,761	4,040	1,100,806	2,323,474
- of which non performing		1,136,688	305,743	-	77,889	7,934	105	9,731	969	521,920	924,291
<b>2. Secured off-balance sheet exposures:</b>		<b>5,536,451</b>	<b>230,454</b>	<b>-</b>	<b>2,118,105</b>	<b>1,089,245</b>	<b>-</b>	<b>5,241</b>	<b>54,523</b>	<b>1,704,654</b>	<b>5,202,222</b>
<b>2.1 Totally secured</b>		<b>4,816,156</b>	<b>221,778</b>	<b>-</b>	<b>2,074,851</b>	<b>853,822</b>	<b>-</b>	<b>3,837</b>	<b>53,877</b>	<b>1,577,788</b>	<b>4,785,953</b>
- of which non performing		326,618	128,998	-	3,509	6,021	-	1,595	52,777	130,567	323,467
<b>2.2 Partially secured</b>		<b>720,295</b>	<b>8,676</b>	<b>-</b>	<b>43,254</b>	<b>235,423</b>	<b>-</b>	<b>1,404</b>	<b>646</b>	<b>126,866</b>	<b>416,269</b>
- of which non performing		49,602	8,533	-	302	2,942	-	396	188	16,407	28,768

In addition to balance sheet exposures to customers, the table shows the amount of off-balance sheet exposures, including derivative contracts with customers, which are fully or partially secured. As regards personal guarantees, the economic segments to which guarantors and sellers of protection belong (in the case of unsecured loans and credit derivatives, respectively) are identified making reference to the classification criteria provided for in the brochure “classification of customers by segments and groups of economic activity” published by the Bank of Italy. Exposures are classified as either “fully secured” or “partially secured” by comparing the gross exposure with the amount of the guarantee established in the contract; for that purpose, any supplemental guarantees are also considered.

The fair value of collaterals estimated as at the balance sheet date is shown in the columns “Real guarantees” and “Personal guarantees”; if such information is not available, the contractual value is reported. Both values cannot be higher than the book value of secured exposures, in line with the 4th update of Bank of Italy circular 262.



## BREAKDOWN AND CONCENTRATION OF CREDIT EXPOSURE

### B.1 Banking Group - Breakdown of on- and off-balance sheet exposures to customers by business segment (book values)

Exposure/ Customers	Governments			Other public entities			Financial companies			Insurance companies			Non financial companies			Other entities		
	Net exposure	Specific write-downs	Portfolio adjustments	Net exposure	Specific write-downs	Portfolio adjustments	Net exposure	Specific write-downs	Portfolio adjustments	Net exposure	Specific write-downs	Portfolio adjustments	Net exposure	Specific write-downs	Portfolio adjustments	Net exposure	Specific write-downs	Portfolio adjustments
<b>A. Balance-sheet exposure</b>																		
A.1 Doubtful loans	-	-	X	447	1,625	X	94,393	400,018	X	-	-	X	8,758,880	16,690,696	X	1,511,165	1,967,745	X
- of which forborne	-	-	X	-	-	X	10,824	10,838	X	-	-	X	899,259	762,619	X	198,369	89,984	X
A.2 Unlikely to pay	1	-	X	280,036	57,395	X	388,106	397,499	X	-	-	X	7,423,814	5,240,673	X	1,008,850	451,335	X
- of which forborne	-	-	X	749	361	X	145,352	147,387	X	-	-	X	4,337,049	2,623,360	X	448,533	136,373	X
A.3 Past-due Impaired	264	205	X	-	-	X	5,235	2,060	X	4	1	X	382,884	138,540	X	465,919	119,356	X
- of which forborne	-	-	X	-	-	X	817	301	X	-	-	X	47,116	8,682	X	35,172	4,414	X
A.4 Other Performing exposures	20,190,149	X	1,005	2,279,962	X	3,429	12,978,253	X	58,562	475,477	X	1,280	42,048,508	X	601,796	28,809,878	X	71,385
- of which forborne	-	X	-	-	X	-	96,321	X	467	-	X	-	1,877,522	X	104,847	651,175	X	17,198
<b>Total A</b>	<b>20,190,414</b>	<b>205</b>	<b>1,005</b>	<b>2,560,445</b>	<b>59,020</b>	<b>3,429</b>	<b>13,465,987</b>	<b>799,577</b>	<b>58,562</b>	<b>475,481</b>	<b>1</b>	<b>1,280</b>	<b>58,614,086</b>	<b>22,609,909</b>	<b>601,796</b>	<b>31,795,812</b>	<b>2,538,456</b>	<b>71,585</b>
<b>B. Off-balance-sheet exposures</b>																		
B.1 Doubtful loans	-	-	X	-	-	X	30	141	X	-	-	X	43,054	62,429	X	1,613	253	X
B.2 Unlikely to pay	-	-	X	-	-	X	13,742	1,524	X	-	-	X	698,188	87,074	X	1,958	235	X
B.3 Other non-performing exposures	-	-	X	-	-	X	-	-	X	-	-	X	10,457	978	X	3,332	1,719	X
B.4 Other performing exposures	4,627,695	X	-	711,553	X	616	3,555,072	X	1,333	13,263	X	8	8,091,579	X	106,341	317,657	X	244
<b>Total B</b>	<b>4,627,695</b>	<b>-</b>	<b>-</b>	<b>711,553</b>	<b>-</b>	<b>616</b>	<b>3,568,844</b>	<b>1,665</b>	<b>1,333</b>	<b>13,263</b>	<b>-</b>	<b>8</b>	<b>8,843,278</b>	<b>150,481</b>	<b>106,341</b>	<b>324,560</b>	<b>2,207</b>	<b>244</b>
<b>Total (A+B) 31.12.2016</b>	<b>24,818,109</b>	<b>205</b>	<b>1,005</b>	<b>3,271,998</b>	<b>59,020</b>	<b>4,045</b>	<b>17,034,831</b>	<b>801,242</b>	<b>59,895</b>	<b>488,744</b>	<b>1</b>	<b>1,288</b>	<b>67,457,364</b>	<b>22,220,390</b>	<b>708,137</b>	<b>32,120,372</b>	<b>2,540,643</b>	<b>71,629</b>
<b>Total (A+B) 31.12.2015</b>	<b>30,154,153</b>	<b>189</b>	<b>1,118</b>	<b>2,804,840</b>	<b>2,001</b>	<b>4,576</b>	<b>18,017,240</b>	<b>509,296</b>	<b>11,558</b>	<b>523,386</b>	<b>-</b>	<b>1,358</b>	<b>75,748,917</b>	<b>19,953,986</b>	<b>754,226</b>	<b>33,637,137</b>	<b>2,401,847</b>	<b>67,216</b>

Balance sheet exposures to customers reported in the table below are the same as those reported in the financial statements, net of any doubtful amounts and inclusive of specific/portfolio value adjustments, while off-balance sheet transactions include all financial transactions other than balance sheet transactions (guarantees issued, commitments and derivatives) involving the assumption of credit risk and valued using the measurement criteria set forth by the Bank of Italy. The business segments to which borrowers and collateral providers belong are identified making reference to the classification criteria provided for in the brochure "Classification of customers by segments and groups of economic activity" published by the Bank of Italy.

## B.2 Banking Group - Breakdown of on- and off-balance sheet exposures to customers by geographic area (book values)

Exposure/Geographic Areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments
<b>A. Balance-sheet exposures</b>										
A.1 Doubtful loans	10,318,128	18,877,946	42,505	167,245	1,603	2,909	1,975	10,721	674	1,263
A.2 Unlikely to pay	8,970,121	6,110,235	117,029	30,944	352	193	4,682	1,292	8,623	4,238
A.3 Past-due Impaired	834,698	258,881	17,839	640	415	97	1,290	527	64	17
A.4 Other performing exposures	102,774,104	721,368	3,259,947	12,314	431,364	1,798	297,472	1,803	19,340	174
<b>Total A</b>	<b>122,897,051</b>	<b>25,968,430</b>	<b>3,437,320</b>	<b>211,143</b>	<b>433,734</b>	<b>4,997</b>	<b>305,419</b>	<b>14,343</b>	<b>28,701</b>	<b>5,692</b>
<b>B. Off-balance-sheet exposures</b>										
B.1 Doubtful loans	42,052	62,713	2,632	1	12	109	-	-	-	-
B.2 Substandard loans	713,749	88,833	139	-	-	-	-	-	-	-
B.3 Other non performing exposures	13,781	2,697	9	-	-	-	-	-	-	-
B.4 Other performing exposures	14,622,687	107,613	2,445,800	674	183,035	70	48,750	176	16,547	9
<b>Total B</b>	<b>15,392,269</b>	<b>261,856</b>	<b>2,448,580</b>	<b>675</b>	<b>183,047</b>	<b>179</b>	<b>48,750</b>	<b>176</b>	<b>16,547</b>	<b>9</b>
<b>Total (A+B) 31 12 2016</b>	<b>138,289,320</b>	<b>26,230,286</b>	<b>5,885,900</b>	<b>211,818</b>	<b>616,781</b>	<b>5,176</b>	<b>354,169</b>	<b>14,519</b>	<b>45,248</b>	<b>5,701</b>
<b>Total (A+B) 31 12 2015</b>	<b>153,141,478</b>	<b>23,516,135</b>	<b>6,544,534</b>	<b>169,465</b>	<b>696,502</b>	<b>5,153</b>	<b>442,258</b>	<b>14,178</b>	<b>60,899</b>	<b>2,240</b>

Balance sheet exposures to customers reported in the table below are the same as those reported in the financial statements, while off-balance sheet transactions include all financial transactions other than balance sheet transactions (guarantees issued, commitments and derivatives) involving the assumption of credit risk and valued using the measurement criteria set forth by the Bank of Italy. Amounts are stated before and after any doubtful amounts. Exposures are broken down geographically by the country of residence of the borrower.



### B.3 Banking Group - Breakdown of on- and off-balance sheet exposures to banks by geographic area (book values)

Exposure/Geographic Areas	ITALY			OTHER EUROPEAN COUNTRIES			AMERICA			ASIA			REST OF THE WORLD		
	Net exposure	Overall value adjustments		Net exposure	Overall value adjustments		Net exposure	Overall value adjustments		Net exposure	Overall value adjustments		Net exposure	Overall value adjustments	
<b>A. Balance-sheet exposures</b>															
A.1 Doubtful loans	-	-		291	1,041		49	21,033		-	-		107	-	90
A.2 Unlikely to pay	-	-		508	110		-	-		-	-		-	-	-
A.3 Past-due Impaired	-	-		-	-		-	-		-	-		-	-	-
A.4 Other performing exposures	6,542,791	731		2,660,512	6,194		263,216	168		148,932	863		132,715	-	99
<b>Total A</b>	<b>6,542,791</b>	<b>731</b>		<b>2,661,311</b>	<b>7,345</b>		<b>263,265</b>	<b>21,201</b>		<b>148,932</b>	<b>863</b>		<b>132,822</b>	-	<b>189</b>
<b>B. Off-balance-sheet exposures</b>															
B.1 Doubtful loans	-	-		-	-		-	-		-	-		-	-	-
B.2 Substandard loans	-	-		-	-		-	-		-	-		-	-	-
B.3 Other non performing exposures	-	-		-	-		-	-		-	-		-	-	-
B.4 Other performing exposures	1,171,806	63		666,774	785		233,972	32		82,836	125		85,251	-	394
<b>Total B</b>	<b>1,171,806</b>	<b>63</b>		<b>666,774</b>	<b>785</b>		<b>233,972</b>	<b>32</b>		<b>82,836</b>	<b>125</b>		<b>85,251</b>	-	<b>394</b>
<b>Total (A+B) 31 12 2016</b>	<b>7,714,597</b>	<b>794</b>		<b>3,328,085</b>	<b>8,130</b>		<b>497,237</b>	<b>21,233</b>		<b>231,768</b>	<b>988</b>		<b>218,073</b>	-	<b>583</b>
<b>Total (A+B) 31 12 2015</b>	<b>6,710,932</b>	<b>44,322</b>		<b>4,006,949</b>	<b>14,720</b>		<b>586,342</b>	<b>20,067</b>		<b>203,624</b>	<b>1,043</b>		<b>161,164</b>	-	<b>563</b>

Balance sheet exposures to banks reported in the table below are the same as those reported in the financial statements, while off-balance sheet transactions include all financial transactions other than balance sheet transactions (guarantees issued, commitments and derivatives) involving the assumption of risk and valued using the measurement of criteria set forth by the Bank of Italy. Amounts are stated before and after any doubtful amounts. Exposures are broken down geographically by the country of residence of the borrower.



#### B.4 Large exposures

Item/Amount	31 12 2016	31 12 2015
a) Book value	75,524,335	67,256,987
b) Weighted value	6,572,291	4,499,110
c) Number	16	11

Regulations provide for positions to be defined as “large exposures” by making reference to credit-risk unweighted exposures.

An exposure is deemed as a “large exposure” when its amount is equal to or greater than 10% of Regulatory capital.

Pursuant to the afore-mentioned regulations, exposures in government securities were also included.





## C. SECURITISATION TRANSACTIONS

### C.1 Securitisation transactions

#### Qualitative Information

##### Structures, processes and goals

In keeping with the organisational model established at Group level for the governance and management of risks, securitisation risk is governed by a specific Group directive.

The Parent Company's Structural Liquidity Service establishes general practices and coordinates activities in relation to securitisation transactions. The criteria and rules for managing securitisation transactions are instead determined by the Parent Company's "Specialised Credit Services" Area. More specifically, the Special-purpose Loans and Securitisations service within this Area is responsible for establishing operational guidelines and general practices for the securitisation of performing loans. For this purpose, it looks after related aspects and obligations associated with servicing activities and monitors the performance of existing transactions through monthly and quarterly reports on collections of remaining principal, positions in arrears and disputed positions arising from securitisation transactions.

The Special-purpose Loans and Securitisations Service prepares summary reports on portfolios sold. As part of critical situation management, this Service notifies cases that may pose potential risks for noteholders to the relevant functions in the organisation.

In its capacity as third-level control body, the Risk Audit Service uses sampling procedures to periodically validate:

- whether the degree of recoverability of loans sold is accurate and, as a result, whether the fair value of securities issued is appropriate;
- whether line checks assigned to the various units have been carried out and roles and responsibilities properly identified; it also verifies:
- the compliance of reporting/accounting procedures with current regulations in collaboration with other units, as necessary;
- the existence of any conflicts of interest with respect to noteholders; and compliance, on a sampling basis, with the obligations of Law 197/91, as amended.

Non-performing securitisations, on the other hand, are handled by the Distressed Credit Risk Departmental Sector.



**C.1 Banking Group - Exposures arising from major own securitisation transactions broken down by type of securitised assets and type of exposure**

Quality of underlying assets/Exposures	Balance-sheet exposure						Guarantee issued						Lines of credit					
	Senior			Mezzanine			Junior			Senior			Mezzanine			Junior		
	Gross exposure			Net exposure			Gross exposure			Gross exposure			Gross exposure			Gross exposure		
	2016	2015	2014	2016	2015	2014	2016	2015	2014	2016	2015	2014	2016	2015	2014	2016	2015	2014
<b>A. Fully derecognised</b>	<b>905,926</b>	<b>-</b>	<b>3,558</b>	<b>131,327</b>	<b>16,749</b>	<b>632</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Bond	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Non-performing loans</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Mortgages Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Residential mortgages</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Non residential mortgages	905,926	(3,558)	-	131,327	16,749	632	-	-	-	-	-	-	-	-	-	-	-	-
<b>Bonds and Credit derivatives</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>B. Partially derecognised</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>C. Not derecognised</b>	<b>20,383</b>	<b>63</b>	<b>3,803,789</b>	<b>28,406</b>	<b>371,767</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Consumer credit	-	-	343,393	-	88,930	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Non-performing loans</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Mortgages Loans	20,383	63	1,651,606	-	76,507	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Residential mortgages</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Corporate Loans	-	-	1,183,179	-	3,800	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>926,309</b>	<b>(3,495)</b>	<b>3,935,116</b>	<b>45,155</b>	<b>372,399</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>of which non-performing</b>	<b>-</b>	<b>-</b>	<b>142,638</b>	<b>14,753</b>	<b>12,578</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Others	926,309	(3,495)	3,792,478	30,402	359,821	-	-	-	-	-	-	-	-	-	-	-	-	-

In relation to securitisation transactions with own underlying assets, the table indicates balance sheet exposures, unsecured exposures, and other forms of 'credit enhancement'.



### C.2 Banking Group - Exposures arising from major 'third-party' securitisation transactions broken down by type of securitised asset and type of exposure

Type of securitised asset/Exposure	Balance-sheet exposure						Guarantees issued						Lines of credit					
	Senior			Mezzanine			Junior			Senior			Mezzanine			Junior		
	write-downs/ write-backs			write-downs/ write-backs			write-downs/ write-backs			write-downs/ write-backs			write-downs/ write-backs			write-downs/ write-backs		
	Book value			Book value			Book value			Book value			Book value			Book value		
Other assets	10,814	12	22,593	87	5,004	1	-	-	-	-	-	-	-	-	-	-	-	-
Residential mortgages	27,964	111	8,849	36	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non residential mortgages	20,540	23	1,265	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	59,318	146	32,707	123	5,004	1	-	-	-	-	-	-	-	-	-	-	-	-

The table indicates the exposures assumed by the Group in relation to each third-party securitisation transaction, and also reports the contractual type of assets sold. The column "Write-downs/write-backs" indicates the amount of any write-downs or write-backs during the year as well as depreciations and revaluations posted to profit and loss or directly to equity reserves, in the case of AFS securities



### C.3 Banking Group - Stakes in special purpose securitisation vehicles

31 12 2016

Securitisation/Vehicle company name	Registered office	Consolidation	Assets			Liabilities		
			Credit	Debt securities	Other	Senior	Mezzanine	Junior
Bcc Mortgages PLC	Herbert Street, 30 Dublin	NO	77,248	-	-	90,986	42,400	-
Berica ABS 3 S.r.l.	Via Battaglione Framarin, 18 Vicenza	NO	647,951	-	-	395,564	93,900	115,012
Bumper 7 S.A.	Av. Du XX Sept. 52-54 Luxembourg	NO	720,543	-	39,937	500,000	-	49,100
Cassa Centrale Securitisation S.r.l.	Via Segantini, 5 Trento	NO	88,938	-	-	60,873	17,500	-
Castoro RMBS	Foro Buonaparte, 70 Milan	NO	99,258	-	-	16,231	26,000	51,678
Colombo S.r.l.	Via Pontaccio, 10 Milan	NO	19,784	-	-	-	61	19,722
CR Firenze Mutui S.r.l.	Via V. Alfieri, 1 Conegliano (TV)	NO	20,316	-	-	-	13,650	8,205
F-E Mortgages S.r.l.	Piazzetta Monte, 1 Verona	NO	213,205	-	-	129,254	36,864	32,289
Fip Funding S.r.l.	Via Parigi, 11 Rome	NO	2,049,655	-	-	962,005	-	-
Marche Mutui 2 Societa per la Cartolar. S.r.l.	Via Barberini, 47 Rome	NO	1,350,309	-	-	914,609	-	496,566
Mars 2600 S.r.l.	Via V. Alfieri, 1 Conegliano (TV)	NO	285,991	-	-	209,314	-	67,700
Moda 2014 S.r.l.	Via V. Alfieri, 1 Conegliano (TV)	NO	117,472	-	-	78,586	22,113	16,784
Patrimonio Uno CMBS S.r.l.	Via E. Duse, 53 Rome	NO	152,157	-	-	-	134,013	248,244
Tagus Sociedade de Titularizacao de Creditos	Rua Castilho, 20 Lisbon	NO	831,821	-	-	813,638	5,236	854
Towers CQ S.r.l.	Via A. Pestalozza, 12/14 Milan	NO	1,230,095	-	-	1,043,006	87,100	121,720
Tricolore 2014 SPV S.r.l.	Via G. Fara, 26 Milano	NO	114,217	-	-	29,797	20,000	60,000
Siena Mortgages 10-7 S.r.l.	Via V. Alfieri, 1 Conegliano (TV)	YES	542,819	-	231	543,744	-	(694)
Casaforte S.r.l.	Via Eleonora Duse 53 Rome	YES	1,354,066	-	27,944	1,172,155	-	209,855
Siena Consumer 2015 S.r.l.	Via V. Alfieri, 1 Conegliano (TV)	YES	311,485	-	15	259,264	-	52,236
Siena Lease 2016 2 S.r.l.	Via V. Alfieri, 1 Conegliano (TV)	YES	454,636	-	36	454,627	-	45
Siena PMI 2015 S.r.l.	Via A. Pestalozza 12/14, Milan	YES	624,732	-	338	626,002	-	(932)
<b>Total</b>			<b>11,306,698</b>	<b>-</b>	<b>68,501</b>	<b>8,299,655</b>	<b>498,837</b>	<b>1,548,384</b>

Liabilities of third-party securitisation transactions do not have the remaining items different from the financial instruments issued, including cumulative profit (loss) for the year.

As regards the “Casaforte Srl” own securitisation with the derecognition of underlying assets, please note that the assets acquired from the originator are included under “Loans”. As regards the other own securitisation transactions, all without the derecognition of the underlying assets, the item “Loans” does not include the receivables acquired from the originator, but rather includes primarily the liquidity held by the vehicles at the reporting date.



## C.4 Banking Group - Non-consolidated special purpose securitisation vehicles

31 12 2016

Balance-sheet item/Type of structured entity	Accounting portfolio: Assets	Total assets (A)	Accounting portfolio: Liabilities	Total liabilities (B)	Net book (C=A-B)	Maximum exposure to loss (D)	Difference between exposure to loss and book value (E=D-C)
	Financial assets held for trading		Financial Liabilities held for trading				
BCCM 1 B TV 38 SUB	385	385	-	-	385	385	-
BERICA- TV 14/61 SUB	7,158	7,158	-	-	7,158	7,158	-
BUMP 7B-TV 16/26 SUB	5,004	5,004	-	-	5,004	5,004	-
CASSA CENTR-TV 07/43	4,467	4,467	-	-	4,467	4,467	-
CASTO 1A-TV 05/41	524	524	-	-	524	524	-
COLOMBO 01/26 TV	9	9	-	-	9	9	-
F E MOR 05/43 TV	28	28	-	-	28	28	-
FIP FUND 05/23 TV	16,209	16,209	-	-	16,209	16,209	-
FIREN 1B-TV02/34	1,307	1,307	-	-	1,307	1,307	-
MARCH 6A2-TV 13/64	21,626	21,626	-	-	21,626	21,626	-
MARSS A1-TV 14750	1,319	1,319	-	-	1,319	1,319	-
MODA-TV 14/19	4,331	4,331	-	-	4,331	4,331	-
PATRIMON 6/21 TV B SUB A	501	501	-	-	501	501	-
PATRIMON 6/21 TV C SUB B	764	764	-	-	764	764	-
TOWCQ-TV 16/33 SUB	15,071	15,071	-	-	15,071	15,071	-
TRICO B-14/41 SUB	7,512	7,512	-	-	7,512	7,512	-
VERSE 14/21 2.98	1,603	1,603	-	-	1,603	1,603	-
VERSE -TV 15/19	1,268	1,268	-	-	1,268	1,268	-
VERSE4 16/21 2.423	7,943	7,943	-	-	7,943	7,943	-
<b>Total</b>	<b>97,029</b>	<b>97,029</b>	<b>-</b>	<b>-</b>	<b>97,029</b>	<b>97,029</b>	<b>-</b>

In column 'Financial assets held for trading', the table includes the interests held by the subsidiary MPS Capital Services S.p.A. as described below:

- BCCM 1 B TV 38 SUB: vehicle established pursuant to Law no. 130/1999. Originator: 25 Cooperative Banks and 18 Rural Banks. This is a portfolio of performing residential and commercial mortgages.
- BERICA – TV 14/61 SUB: vehicle established pursuant to Law no. 130/1999. Multi-originator securitisation (Banca Popolare di Vicenza and Banca Nuova S.p.A.), which entails the non-recourse transfer of performing loans consisting of residential mortgages in favour of individuals residing in Italy.
- BUMP 78-TV 16/26 SUB: Germany loan securitisation company. Originator: LeasePlan Deutschland GmbH. The portfolio consists of 36,580 operating lease contracts granted to consumer or public customers residing in Germany.
- CASSA CENTR-TV 07/43: vehicle which manages a portfolio of performing mortgage loans granted to customers residing in Italy. Originator: a pool of cooperative credit banks.
- CASTO 1A-TV 05/41: vehicle established pursuant to Law no. 130/1999. Originator: Unipol Banca S.p.A. This is a portfolio of performing mortgage loans granted to private consumers residing in Italy.
- COLOMBO 01/26 TV: vehicle established pursuant to Law no. 130/1999. Originator: Credito Fondiario. It is a portfolio of Italian loans to the Italian public administration. Specifically, it includes 97 loans to institutions like Italian Regions (52.7%), Ministry of Treasury (13.2%), Provinces and Municipalities (28.8%) and ASLs (Local Healthcare Companies) (5.3%).
- F E MOR 05/43 TV: vehicle established pursuant to Law no. 130/1999. Originator: ex Finecobank S.p.A. A portfolio of mortgage loans issued to individuals residing in Italy.



- FIP FUND 05/23 TV: FIP Funding is the first investment fund promoted by the Italian Republic as part of a more extensive enhancement process promoted by the Ministry of Economy and Finance (MEF) through the transfer/contribution of real estate assets to mutual real estate investment funds.
- FIREN 1B-TV02/34: vehicle established in 2002 by Banca CR Firenze S.p.A (Originator). A portfolio of 8,968 performing mortgages, more than 99% granted in central Italian regions.
- MARCH 6A2-TV 13/64: vehicle established pursuant to Law no. 130/1999. Originator: Banca Marche S.p.A. A portfolio of performing loans deriving from residential first mortgages.
- MARSS A1-TV 14/50: vehicle which manages a portfolio of performing residential mortgage loans granted to customers residing in Italy. Originator: Banca Sella S.p.A.
- MODA -TV 14/19: vehicle established pursuant to Law no. 130/1999. A securitisation of commercial mortgages granted by Goldman Sachs International Bank (Originator).
- PATRIMON 6/21 TV SUB A-B: vehicle established pursuant to Law no. 130/1999. Multi-originator securitisation (Banca Intesa S.p.A., Banca Nazionale del Lavoro S.p.A., Morgan Stanley Bank International Limited) established in 2006, with commercial mortgages granted primarily in central and northern Italy as the underlying assets.
- TOWCQ-TV 16/33 SUB: vehicle established pursuant to Law no. 130/1999. A securitisation of salary/pension-backed loans granted by Accedo S.p.A. (Originator). TRICO B-14/41 SUB: vehicle established pursuant to Law no. 130/1999. A securitisation of lease agreements granted by Banca Privata Leasing S.p.A. (Originator).
- VERSE 14/21 2.98- VERSE4 16/21 2.423- VERSE -TV 15/19: vehicle subject to Portuguese law with a portfolio of electricity receivables as collateral. Originator: EDP Servico Universal SA.

Maximum exposure to the risk of loss has been determined to be equal to book value. During the year under review, the Group did not provide and does not intend to provide financial or other support.



**C.5 Banking Group - Servicer activities - Own securitisations: collections of securitised loans and redemptions of securities issued by the special purpose vehicle**

		31.12.2015									
Servicer	Special Purpose Vehicle	Securitised assets (year-end data)		Loans collected during the year		Percentage of securities redeemed (year-end data)					
						Senior		Mezzanine		Junior	
		Impaired	Performing	Impaired	Performing	Impaired assets	Performing loans	Impaired assets	Performing loans	Impaired assets	Performing loans
BMP S	Casaforte S.r.l.	-	1,318,072	-	137,590	0.0%	28.7%	0.0%	0.0%	0.0%	0.0%
Total 31.12.2016		-	1,318,072	-	137,590						
Total 31.12.2015		-	1,365,767	-	140,835						

The table shows the Casaforte securitisation of assets transferred and derecognised, for which the Parent Company carries out servicer activities, although this is a consolidated vehicle.



## C.6 Banking Group - Consolidated special purpose securitisation vehicles

The Group carried out securitisation transactions chiefly to optimise its liquidity profile; besides placement on the market, the securities were sold to perform refinancing transactions with the ECB and repurchase agreements with the market.

The paragraphs below describe the characteristics of the Group's securitisation transactions originated in previous years and ongoing as at 31 December 2016 where the securities were partly placed on the market or with retail customers, as well as information on the nature of the risks associated with the interests in consolidated securitisation vehicles.

In view of these transactions, the Parent Company allocated reserves in support of the vehicles, should such funds be needed upon occurrence of certain events. As at 31 December 2016, these reserves amounted to EUR 154.8 mln.

### Own securitisations with derecognition of the underlying assets

#### Casaforte

This securitisation was carried out in 2010 and consisted in the transfer to Vehicle Casaforte S.r.l. of a pool of receivables arising from a mortgage loan granted to the consortium company, Perimetro Gestione Proprietà Immobiliari. As at 31 December 2016 the residual debt amounts to EUR 1,318.1 mln. In December 2013 the Parent Company announced the completed buyback in full of the PGPI 2010 equity financial instruments and related Class Z Notes for a value of approximately EUR 70 mln. As a result of these purchases, the Parent Company acquired control of the Company, which was subsequently consolidated in the Financial Statements.

At the reporting date, Casaforte Class A Notes amounting to EUR 149.5 mln placed with third-party investors are posted under item "30 – Debt securities issued" of the liabilities in the consolidated balance sheet. The Group is committed to repurchasing these securities from investors at a price calculated on the basis of the equivalent issue spread.

### Own securitisations without derecognition of the underlying assets

#### Siena Mortgages 10-7

On 30 September 2010, a portfolio of 34,971 performing residential mortgages originated by the Parent Company was sold for approx. EUR 3.5 bn. As at 31 December 2016, the remaining debt balance amounted to EUR 2,091.1 mln (24,302 outstanding mortgages).

To fund the acquisition of the portfolio, the Vehicle issued residential mortgage-backed securities (RMBS); Class A1 and A2 notes - now fully repaid - were placed with market investors, whereas the remaining classes of notes issued were underwritten by the Parent Company and part of them were subsequently placed with market investors (class A3).

Market placement of these classes did not entail the derecognition of the underlying assets from the balance sheet of the Parent Company (transferor), which has substantially retained all risks and rewards associated with the ownership of the assets sold.

#### Siena Consumer 2015

On 27 February 2015, the former subsidiary Consum.it S.p.A., now absorbed into the Parent Company, carried out a second securitisation transaction with the disposal of a portfolio of 198,371 personal, auto and special purpose loans, all disbursed by Consum.it S.p.A. As at 31 December 2016, the remaining debt balance amounted to EUR 596.7 mln (192,308 outstanding loans).

To finance the purchase of this portfolio the Vehicle issued various classes of ABS securities, of which those in the Senior Class were placed with an institutional investor; the remaining mezzanine and





junior classes were subscribed by the Parent Company. This transaction also did not entail the derecognition of the underlying loans from the transferor's financial statements.

#### *Siena PMI 2015*

On 26 June 2015, in order to optimise the Group's liquidity profile, the Parent Company transferred a portfolio of 24,683 performing, unsecured or mortgage loans disbursed to Italian SMEs totalling EUR 3,002.7 mln to the vehicle company "Siena PMI 2015 Srl". As at 31 December 2016, the remaining debt balance amounted to EUR 1,679.0 mln (19,480 outstanding mortgages).

To fund the acquisition of the portfolio, the Vehicle issued ABS securities on 6 August 2015. In the senior tranche, Senior classes A1A and A1B - now fully repaid - were placed with institutional investors, while classes A2A and A2B were placed with the European Investment Bank. The remaining classes of notes issued were initially repurchased by the Parent Company (transferor), to be subsequently sold in part (class B).

The Senior and Mezzanine classes were rated by Moody's and DBRS.

The placement of part of the notes did not entail the derecognition of the underlying assets from the balance sheet of the Parent Company, which has substantially retained all risks and rewards associated with the ownership of the assets sold.

#### *Siena Lease 2016-2*

On 3 December 2015, the subsidiary MPS Leasing & Factoring Banca per i Servizi Finanziari alle Imprese sold a portfolio consisting of 13,181 performing finance leases totalling EUR 1,622.4 mln to the vehicle company "Siena Lease 2016-2 S.r.l.". As at 31 December 2016, the remaining debt balance amounted to EUR 1,282.8 mln (11,344 outstanding contracts).

To fund the acquisition of the portfolio, the Vehicle issued ABS securities on 28 January 2016. In particular, the senior tranche was placed with institutional investors, while the remaining classes of securities issued were repurchased by the Originator.

The Senior and Mezzanine classes were rated by Moody's and Fitch.

The placement did not entail the derecognition of the underlying assets from the balance sheet of MPS Leasing & Factoring Banca per i Servizi Finanziari alle Imprese, which has substantially retained all risks and rewards associated with the ownership of the assets sold.

#### *Redemption of securitisations*

The Patagonia Finance S.A. securitisation, with subordinated securities issued by the Parent Company as the underlying, repaid the notes (ABS) on the market at the end of 2016. The vehicle was liquidated in January 2017.

The Siena Consumer S.r.l. securitisation is not included in this Section as, following the repayment of the senior securities on the market in 2016, it became a self-securitisation (Liquidity Risk Sect.).

For all securitisations specified above, during the period under review the Parent Company and its subsidiaries have not provided any financial or other support without being obliged under the contract. There are no cases of financial or other support to a previously non-consolidated structured entity as a result of which the structured entity was controlled by the Group.

The Group does not intend to provide financial or other support to consolidated securitisation vehicles, nor to assist entities in obtaining financial support.



## D. Information on structured entities (other than securitisation vehicles)

### D.1 Consolidated structured entities

This paragraph was not completed as no such entities are present.

### D.2 Structured entities not consolidated for accounting purposes

#### D.2.1 Structured entities consolidated for supervisory purposes

This paragraph was not completed as no such entities are present.

#### D.2.2 Other structured entities

### Qualitative Information

For disclosures pursuant to IFRS 12 please refer to the comments provided under the tables below.

### Quantitative Information

31 12 2016

Balance sheet item/Type of structured entity	Accounting portfolio: Assets		Total assets (A)	Accounting portfolio: Liabilities		Total liabilities (B)	Net book value (C=A-B)	Maximum exposure to loss (D)	Difference between exposure to loss and book value (E=D-C)
	Held for trading	Available for sale		held for trading					
1. Special Purpose vehicles	-	-	-	-	-	-	-	-	
2. UCITS	997,243	181,103	1,178,346	271,897	271,897	906,449	1,316,911	410,462	
Total	997,243	181,103	1,178,346	271,897	271,897	906,449	1,316,911	410,462	

### UCITS

The aggregate includes, in the column 'Financial assets held for trading':

- EUR 12.1 mln (EUR 3.7 mln as at 31 December 2015) relating to the interests held by the subsidiary MPS Capital Services S.p.A in units of open-ended asset funds and Exchange Traded Funds investing in stocks, bonds and derivatives. These units are purchased for the hedging of risks associated with the issue of fund structured bonds placed through the network by the Parent Company or for repurchase on the secondary market of the structured funds that had been originally structured;
- EUR 985 mln (EUR 1,240.8 mln as at 31 December 2015) relating to exposures in credit and financial derivatives with a positive fair value to the counterparties Rainbow (EUR 614.9 mln; EUR 795.5 mln as at 31 December 2015) and Axa Im Deis asset fund (EUR 370.1 mln; EUR 413.8 mln as at 31 December 2015). Rainbow and Axa Im Deis are funds under Irish law managed by Anima Asset Management and AXA Investment Managers, respectively. These funds are divided into subfunds purchased by MPS AXA Financial Limited, which are the funds to which are linked the services of the Unit Linked policies placed with the latter's customers with the name "AXA MPS Valore Performance". The bank operates with Rainbow and Axa Im Deis as counterparty with which the derivatives included in the fund assets are negotiated.

The column 'Financial assets available for sale' includes:

- EUR 147.4 mln (EUR 105.7 mln as at 31 December 2015) relating to interests held by the Parent Company in private equity funds, whose purpose is to increase the value of the respective equity through mainly medium to long-term investments chiefly in the purchase and/or subscription of shares, units and securities in general representing the equity of target enterprises, exclusively in the best interest of the investors;



- EUR 14.3 mln relating to units of a multi-segment closed-end Italian alternative asset investment fund (Idea CCR I) held by the Parent Company and the subsidiary MPS Capital Services S.p.A. The fund's purpose is to contribute to the re-launch of medium-sized Italian companies in financial difficulty, but with solid fundamentals;
- EUR 6.3 mln relating to units - held by the Parent Company and by the subsidiaries MPS Capital Services S.p.A. and MPS Leasing & Factoring S.p.A - of a closed-end private contribution real estate fund for qualified investors only (*Athens RE Fund B*). The fund, managed by Unipol Sai Investimenti SGR, holds prestigious tourism complexes located in Tuscany and Sicily.
- EUR 4.4 mln relating to the units of two closed-end real estate investment funds for qualified investors only (Fondo Leopardi and Fondo Cosimo I), held by the Parent Company and the subsidiary MPS Capital Services S.p.a., respectively. The objective of the funds is to maximise income for its investors through a growing dividend yield as well as increased value of portfolio assets;
- EUR 8.7 mln (EUR 15.8 mln as at 31 December 2015) includes interests of the Parent Company in hedge funds, particularly side pockets and funds under liquidation.

The column 'Financial liabilities held for trading' includes:

- EUR 100.4 mln (EUR 77.9 mln as at 31 December 2015) relating to uncovered positions on UCITS units held by the subsidiary MPS Capital Services S.p.A in open-ended asset funds which invest mainly in bonds in euro and with ratings higher than investment grade. The subsidiary finances short selling by borrowing securities, indirectly, from the Parent Company's customers and concomitantly enters into a Total Return Swap where it receives the instruments' performance and pays an interest rate;
- EUR 171.5 mln (EUR 253.1 mln as at 31 December 2015) relating to the negative fair value of financial and credit derivatives with the counterparties Rainbow (EUR 135.9 mln; EUR 178.8 mln as at 31 December 2015) and the AXA IM DEIS asset funds managed by AXA Investment Managers (EUR 35.6 mln; EUR 45.4 mln as at 31 December 2015).

The entities in question raise funds through the issue of units, making recourse to the capital that investors committed to paying upon placement and forms of borrowing in line with their respective management regulations.

Maximum exposure to the risk of loss was determined to be equal to book value for exposures to UCITS units other than the financial and credit derivatives for which reference is made to positive fair value plus the add-on (calculated also taking into account positions with a negative fair value). For UCITS, the maximum risk exposure also includes the Group's commitments not yet called up by the funds, to subscribe additional units.

During the year under review, the Group did not provide and does not intend to provide financial or other support to the non-consolidated structured entities referred to above.

There are no sponsored non-consolidated entities for which the Group holds no interests at the reporting date.



## **E. Transfers**

### **A. Financial assets sold and not fully derecognised**

#### **Qualitative Information**

For a description of the transactions contained in the tables reported in this section, please refer to the footnotes of the tables themselves.



## Quantitative Information

### E.1 Banking Group - Financial assets sold and not derecognised: book value and full value

Type/portfolio	31 12 2016																		Total		
	Financial assets held for trading			Financial assets designated at fair value			Financial assets available for sale			Financial asset held to maturity			Loans to banks			Loans to customers					
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C			
A. Balance-sheet assets	4,299,467	-	-	-	-	-	14,078,883	-	-	-	-	-	726,598	-	-	-	6,010,282	-	-	25,115,230	20,304,172
1. Debt securities	4,276,760	-	-	-	-	-	14,078,883	-	-	-	-	-	726,598	-	-	-	360,734	-	-	19,442,975	13,918,526
2. Equity instruments	22,707	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	X	22,707	30,691
3. UCITS	-	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	-	-
4. Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,649,548	-	-	5,649,548	6,354,955
B. Derivatives	-	-	-	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	-	-
Total 31 12 2016	4,299,467	-	-	-	-	-	14,078,883	-	-	-	-	-	726,598	-	-	-	6,010,282	-	-	25,115,230	X
of which non performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	178,965	-	-	178,965	X
Total 31 12 2015	6,852,151	-	-	-	-	-	6,265,797	-	-	-	-	-	747,875	-	-	-	6,438,349	-	-	X	20,304,172
of which non performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	217,289	-	-	X	217,289

#### Legend:

- A = Financial assets sold and fully recognised (book value)
- B = Financial assets sold and partially recognised (book value)
- C = Financial assets sold and partially recognised (full value)

The table reports the book value of financial assets sold but not derecognised, and still partially or fully reported in balance sheet assets. Line "1. Debt securities" exclusively includes securities sold in repurchase agreements; the amount in line "4. Loans" refers to performing loans included in securitisation transactions without derecognition described in this section.



### E.1.1 – Types of transfers of financial assets not derecognized

Item/Amount	Total 31 12 2016	Total 31 12 2015
Repurchase agreements	19,450,638	13,949,217
Securitisations	5,649,548	6,354,955
Others	15,044	-
<b>Total</b>	<b>25,115,230</b>	<b>20,304,172</b>

### E.2 Banking Group - Financial liabilities associated with transferred financial assets that are not derecognised: book value

Liabilities/ Asset Portfolios	Financial assets held for trading	Financial assets designated at fair value	Financial assets available for sale	Financial assets held to maturity	Loans to banks	Loans to customers	Total
<b>1. Deposits from customers</b>	<b>2,464,573</b>	<b>-</b>	<b>13,343,937</b>	<b>-</b>	<b>-</b>	<b>1,386,408</b>	<b>17,194,918</b>
a) relating to fully recognised assets	2,464,573	-	13,343,937	-	-	1,386,408	17,194,918
b) relating to partially recognised assets	-	-	-	-	-	-	-
<b>2. Deposits from banks</b>	<b>228,042</b>	<b>-</b>	<b>152,149</b>	<b>-</b>	<b>-</b>	<b>737,108</b>	<b>1,117,299</b>
a) relating to fully recognised assets	228,042	-	152,149	-	-	737,108	1,117,299
b) relating to partially recognised assets	-	-	-	-	-	-	-
<b>3. Debt securities issued</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
a) relating to fully recognised assets	-	-	-	-	-	-	-
b) relating to partially recognised assets	-	-	-	-	-	-	-
<b>Total 31 12 2016</b>	<b>2,692,615</b>	<b>-</b>	<b>13,496,086</b>	<b>-</b>	<b>-</b>	<b>2,123,516</b>	<b>18,312,217</b>
<b>Total 31 12 2015</b>	<b>3,764,947</b>	<b>-</b>	<b>7,148,527</b>	<b>-</b>	<b>632,354</b>	<b>2,259,987</b>	<b>13,805,815</b>

The table indicates the book value of financial liabilities posted as offsetting entries to financial assets sold and not derecognised partially or in their entirety from balance sheet assets. This category only involves liabilities posted against repurchase agreements.



*E.3 Banking Group - Sales transactions relating to financial liabilities with repayment exclusively based on assets sold and not derecognised: fair value*

Type/ Portfolio	Financial assets held for trading		Financial assets designated at fair value		Financial assets available for sale		Financial assets held to maturity (fair value)		Loans to banks (fair value)		Loans to customers (fair value)		Total	
	A	B	A	B	A	B	A	B	A	B	A	B	31 12 2016	31 12 2015
A. Balance-sheet assets	-	-	-	-	-	-	-	-	-	-	6,005,722	-	6,005,722	6,731,774
1. Debt securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Equity instruments	-	-	-	-	-	-	X	X	X	X	X	X	-	-
3. UCITS	-	-	-	-	-	-	X	X	X	X	X	X	-	-
4. Loans	-	-	-	-	-	-	-	-	-	6,005,722	-	-	6,005,722	6,731,774
B. Derivatives	-	-	X	X	X	X	X	X	X	X	X	X	-	-
Total assets	-	-	-	-	-	-	-	-	-	6,005,722	-	-	6,005,722	6,731,774
C. Associated financial liabilities	-	-	-	-	-	-	-	-	-	1,453,609	-	-	X	X
1. Deposits from customers	-	-	-	-	-	-	-	-	-	1,453,609	-	-	X	X
2. Deposits from banks	-	-	-	-	-	-	-	-	-	-	-	-	X	X
3. Debt securities issued	-	-	-	-	-	-	-	-	-	-	-	-	X	X
Total liabilities	-	-	-	-	-	-	-	-	-	1,453,609	-	-	1,453,609	2,694,924
Net value as at 31 12 2016	-	-	-	-	-	-	-	-	-	4,552,113	-	-	4,552,113	X
Net value as at 31 12 2015	-	-	-	-	-	-	-	-	-	4,036,850	-	-	X	4,036,850

**Legend:**

A = Financial assets sold and fully recognised (book value), B = Financial assets sold and partially recognised (book value)

The amount reported in the column “Loans to customers – fair value” exclusively refers to the fair value of receivables sold with own securitisations without derecognition which continue to be fully recognised in the Group’s balance sheet assets. The amount of EUR 1,453.6 mln reported under associated liabilities refers substantially to the fair value of the portion of senior notes sold to market counterparties as part of the same securitisation. The Bank recognised a liability with the notes-issuing vehicles as an offsetting entry for the cash flows arising from this disposal. Against this liability, the creditor’s entitlement to repayment is limited to cash flows arising from the assets underlying senior notes sold.



## B. Financial assets sold and fully derecognised with assessment of “continuing involvement”

### Qualitative Information

### Quantitative Information

None to report as at 31 December 2016.

## E.4 Banking Group – Covered bond transactions

### Characteristics of the Covered Bond Issuance Programmes

The Group has two Covered Bond Issuance Programmes.

The first Programme, meant for institutional investors, was launched in 2010 for an amount of EUR 10,000 mln. The programme is intended to place a secured product on the market, offering covered bonds as a preferred instrument for financial profile improvement in the mid and long term. In light of the developments in the financial markets, the Programme should be considered as part of a wider strategy, aimed at:

- curbing the costs of funding: covered bonds are widely preferred, inasmuch as they are issued directly by the Bank and their repayment is also guaranteed by a segregated pool of assets (in this case, residential mortgage loans); in the event of issuer bankruptcy, covered bond holders enjoy a right of recourse on a portfolio of segregated high-quality assets and are, therefore, willing to accept a lower yield than the one offered by similar uncovered bonds;
- diversifying the Bank's funding sources on the international market;
- lengthening its average debt maturity profile.

On 26 June 2015, the First Programme's meeting of the covered bond holders approved the proposed amendments in order to:

- i. amend the Programme, to obtain a rating from DBRS (in addition to Moody's and Fitch) for the covered bonds issued and to be issued as part of the Programme; and
- ii. activate, if specific cases of default take place pursuant to the Programme, a “conditional pass through” type mechanism for the repayment of the bonds issued.

With a view to improving the efficiency and stability of the Group's Counterbalancing Capacity, in 2012 a second Bond Issuance Programme was authorised, collateralised by separate assets consisting of residential and commercial mortgage loans for a maximum of EUR 20,000 mln.. The programme is not intended for the market but for instruments eligible as collateral in refinancing transactions through the European Central Bank. The programme, which did not have an explicit rating at its launch, was rated by DBRS in 2013.

The structure of the Group's Covered Bond programmes requires fulfilment of the following activities:

a) the Parent Company or another Group company transfers, without recourse, a pool of assets, which may consist of cash and other assets as appropriate (real-estate backed, residential and commercial mortgage loans), to the vehicles MPS Covered Bond S.r.l. and MPS Covered Bond 2 S.r.l., thereby forming a segregated cover pool;

b) the Transferor grants a subordinated loan to the vehicle, for the purpose of financing payment of the assets' purchase price by the vehicle;

c) the Parent Company issues covered bonds secured by an autonomous, irrevocable and unconditional first-demand guarantee issued by the vehicle for the only benefit of the bond-holding investors and senior debtors in the Programme: the guarantee involves limited recourse to the assets of the Cover Pool owned by the vehicle which acts as Guarantor.





### Accounting treatment

Pursuant to IAS 39, the derecognition of a financial instrument from the balance sheet of the transferor is determined on the basis of the substance of the contract, not its legal form.

Having said this, the deal is recognised as follows:

- transferred loans continue to be reported in the Parent Company's balance sheet under sub-item "Loans" of item 70 "Loans to customers" on the asset side, as for as the Parent Company retains the risks and rewards of ownership of the loans transferred;
- the loan disbursed by the Parent Company to the Vehicle is not classified as a separate item in the balance sheet, since it is offset with the amount due to the Vehicle in which the initial transfer price was recognised. The loan, therefore, is not subject to credit risk assessment, because this risk is entirely reflected in the assessment of transferred loans, which continue to be reported in the Parent Company's balance sheet.
- loans are subject to movements based on own events (figures and assessment); instalments collected by the Parent Company (which also acts as a servicer) are reallocated daily to the Vehicle's "Collection Account" and accounted for by the Parent Company as follows:
- collection of principal from borrower is recognised as an offsetting entry to the reduction in the loan to the borrower;
- reallocation of principal to the Vehicle is recognised as an offsetting entry to the recognition of a loan to the Vehicle;
  - this loan is paid off upon repayment of the subordinated loan;
  - interest from borrower is recognised as an offsetting entry to Item 10 "Interest income: loans to customers" (interest on loans continues to be recognised on an accrual basis);
  - reallocation of interest to the Vehicle is recognised as an offsetting entry to the recognition of a loan to the Vehicle;
  - this loan is paid off upon collection of interest on the subordinated loan.
- the vehicles "MPS Covered Bond S.r.l." and "MPS Covered Bond 2 S.r.l." are invested in by the Parent Company for a control stake of 90%, recognised under Item 100 "Equity Investments" and included in the Group's consolidated financial statements under the comprehensive approach;
- bonds issued are posted to Item 30 "Debt securities issued" on the liabilities side, and related interest expense is recognised on an accrual basis.

In consideration of the characteristics and accounting treatment of the deal, the swaps associated to the transaction are not recognised in the balance sheet, since their recognition would entail, pursuant to par. AG49 of IAS 39, a duplication of rights and obligations already recognised due to loans transferred being maintained on the balance sheet.

### Risks and Control Measures

In order to allow the transferee to meet the obligations of the collateral pledged, the Parent Company uses appropriate Asset & Liability Management techniques to secure a trend of substantial balance between the maturities of cash flows arising from the assets sold and maturities of payments due in relation with the covered bonds issued and other costs of the transaction.

The Programmes were structured in compliance with applicable rules and regulations which authorise the issuance of covered bonds only if the transferring and issuing banks meet certain capital requirements.

The structure of the debt issuance programmes of the Parent Company (in the role of transferor and servicer) is subject to stringent regulatory requirements and calls for continuous actions by the



Specialised Credit Processes and Services Area; Finance, Treasury & Capital Management and Risk Management Areas, as well as supervision by the Risk Audit Service and an external auditor (Deloitte & Touche) as Asset Monitors. In particular, these actions include:

- assessment of capital requirements mandated by Supervisory Instructions when it comes to covered bond issuance programmes;
- assessment of the quality and integrity of assets transferred with regard, in particular, to the estimated value of properties, both residential and commercial, on which a mortgage in relation with the asset-backed loans is placed; this assessment may result in repurchases, integrations and additional transfers of supplemental assets;
- assessment of an appropriate ratio being maintained between bonds issued and assets transferred as collateral (Cover Pool - mortgage and residential assets for the first programme and residential and commercial assets for the second programme);
- assessment of transfer limits and integration practices;
- assessment on whether risks are effectively and adequately hedged by derivative contracts in relation to the transaction.

During the 2013, the mitigation strategy for interest rate risk on the first Programme was restructured in order to minimise the Vehicle's exposure to market counterparties. In particular, the newly-defined strategy aims to only cover the Vehicle's net exposure to interest rate risk, as opposed to the nominal amount. At the same time, the outsourcing of Covered Bond Swaps outstanding with market counterparties was carried out.

The paragraphs below provide information on the nature of the risks associated with the interest in the MPS Covered Bond S.r.l. vehicle, whose assets are pledged as collateral of bond issues of the Parent Company partly placed with the market.

In particular, the terms of the agreements that could require the Group to provide financial support to the vehicle MPS Covered Bond S.r.l. are as follows:

- the Parent Company undertakes, in accordance with the programme's terms, to ensure compliance over time with the regulatory and contractual tests determined according to the methodologies set by the rating agencies from time to time;
- if the Parent Company's rating decreases below "BBB (low)" (DBRS), "BBB-" (Fitch) and "Baa3" (Moody's), the repayment of each subordinated loan will be delayed by 6 months after the original expiry;
- in accordance with the Master Definition Agreement, the Parent Company shall allocate and change the amount of the variable liquidity reserve according to criteria agreed upon with the rating agencies.

As concerns the second programme, the terms of the agreements that could require the Group to provide financial support to the vehicle MPS Covered Bond 2 S.r.l. are as follows:

- the Parent Company undertakes, in accordance with the programme's terms, to ensure compliance over time with the regulatory and contractual tests determined according to the methodologies set by the rating agencies from time to time;
- in accordance with the Master Definition Agreement, the Parent Company shall allocate and change the amount of the variable liquidity reserve according to criteria agreed upon with the rating agency.

During the period under review the Parent Company and its subsidiaries have not provided any financial or other support without being obliged under the contract.

There are no cases of financial or other support to a previously non-consolidated structured entity as a result of which the structured entity was controlled by the Group.



The Group does not intend to provide financial or other support to the vehicle, nor to assist the entity in obtaining financial support.

### Description of individual disposals and issuances

For the first Programme, 31 October 2016 saw the disposal of a portfolio of 7,630 performing mortgages granted to natural persons residing in Italy, with no outstanding instalments at the date of portfolio valuation and meeting other identified selection criteria, substantially comparable to those used for previous disposals, for an amount of approximately EUR 775.9 mln.

22 December 2016 saw the disposal of a portfolio of 1,903 performing mortgages granted to natural persons residing in Italy, with no outstanding instalments at the date of portfolio valuation and meeting other identified selection criteria, substantially comparable to those used for previous disposals, for an amount of approximately EUR 237.8 mln.

Here follows a summary of the main characteristics regarding transfers in the first Programme:

31 12 2016

Cover Pool transfer date	Type of securitised assets	Transferor	Total value of asset transferred (in units of €)	No. Of mortgage loans transferred	Breakdown of transferred debtors by business sectors
25 05 2010	Residential mortgage loans	Banca MPS	4,413,282,561	36,711	100% natural persons
19 11 2010	Residential mortgage loans	Banca MPS	2,400,343,585	19,058	100% natural persons
25 02 2011	Residential mortgage loans	Banca MPS	3,887,509,799	40,627	100% natural persons
25 05 2011	Residential mortgage loans	Banca MPS (ex Banca Antonveneta)	2,343,824,924	26,804	100% natural persons
16 09 2011	Residential mortgage loans	Banca MPS	2,323,368,355	27,973	100% natural persons
14 06 2013	Residential mortgage loans	Banca MPS	415,948,266	4,259	100% natural persons
18 09 2015	Residential mortgage loans	Banca MPS	1,529,531,983	15,080	100% natural persons
31 10 2016	Residential mortgage loans	Banca MPS	775,933,585	7,630	100% natural persons
22 12 2016	Residential mortgage loans	Banca MPS	237,758,336	1,903	100% natural persons
<b>Total</b>			<b>18,327,501,394</b>	<b>180,045</b>	

As part of the first Programme, the Parent Company completed a total of twenty-six issuances, twelve of which had not yet matured or been repaid early for a total, as at 31 December 2016, of EUR 8,920 mln, of which EUR 5,194 mln were placed on the market, while EUR 3,726 mln were repurchased by the Parent Company and by the subsidiary MPS Capital Services.

The remaining debt balance on the portfolio as at 31 December 2016 amounted to EUR 11,531.6 mln for 138,913 mortgages.



In 2016, four notes were issued for a total of EUR 2,000 mln, fully repurchased by the Bank.

Date of issue	Notional Amount	Coupon	Frequency	Date of maturity
24 06 2016	500,000,000	3mE+0,80%	Quarterly	july - 2019
18 07 2016	350,000,000	3mE+0,80%	Quarterly	september - 2019
20 10 2016	700,000,000	3mE+0,80%	Quarterly	january - 2020
02 12 2016	450,000,000	3mE+0,90%	Quarterly	march - 2020
<b>Total</b>	<b>2,000,000,000</b>			

Here follows a summary of the main characteristics regarding transfers in the second Programme:

31 12 2016

Cover Pool transfer date	Type of securitised assets	Transferor	Total value of asset transferred (in units of €)	No. Of mortgage loans transferred	Breakdown of transferred debtors by business sectors
27 04 2012	Residential mortgage loans	Banca MPS	2,384,995,478	27,047	100% natural persons
22 06 2012	Residential and commercial mortgage loans	Banca MPS	2,478,270,455	13,993	Mixed
24 08 2012	Residential and commercial mortgage loans	Banca MPS	1,401,965,498	17,353	Mixed
21 09 2012	Residential and commercial mortgage loans	Banca MPS	2,473,677,574	9,870	Mixed
15 02 2013	Residential and commercial mortgage loans	Banca MPS	1,286,740,404	9,033	Mixed
21 06 2013	Residential and commercial mortgage loans	Banca MPS	2,147,692,217	12,771	Mixed
29 03 2014	Residential and commercial mortgage loans	Banca MPS	1,464,170,335	5,645	Mixed
16 10 2015	Residential and commercial mortgage loans	Banca MPS	977,548,353	5,671	Mixed
18 07 2016	Residential and commercial mortgage loans	Banca MPS	2,010,907,198	24,162	Mixed
26 08 2016	Residential and commercial mortgage loans	Banca MPS	813,253,156	7,211	Mixed
<b>Total</b>			<b>17,439,220,668</b>	<b>132,756</b>	

As part of the second Programme, the Parent Company completed twenty-nine issuances (of which nineteen not yet matured or redeemed early), which were not intended for the market but repurchased by the Parent Company and used as collateral for refinancing transactions in the Eurosystem, for a total as at 31 December 2016 of EUR 10,200 mln.

The remaining debt balance on the portfolio as at 31 December 2016 amounted to EUR 10,527.8 mln for 99,439 mortgages.



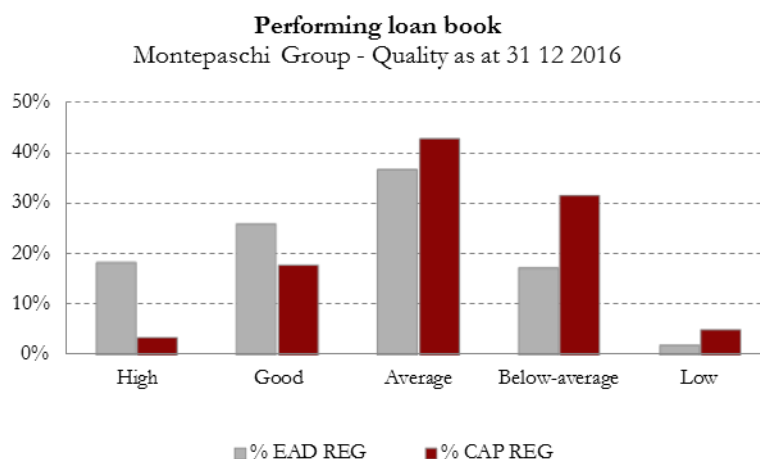
As part of the second Covered Bond Programme, the following issues were made in 2016:

Date of issue	Notional Amount	Coupon	Frequency	Date of maturity
02 02 2016	700,000,000	3mE + 1,00%	Quarterly	january - 2019
02 02 2016	700,000,000	3mE + 1,00%	Quarterly	april - 2019
18 03 2016	600,000,000	3mE + 1,00%	Quarterly	july - 2019
04 05 2016	500,000,000	3mE + 0,85%	Quarterly	october - 2019
26 07 2016	600,000,000	3mE + 0,85%	Quarterly	january - 2020
26 07 2016	600,000,000	3mE + 0,85%	Quarterly	april - 2020
26 07 2016	600,000,000	3mE + 0,85%	Quarterly	july - 2020
02 08 2016	700,000,000	3mE + 0,85%	Quarterly	october - 2020
23 09 2016	200,000,000	3mE + 0,85%	Quarterly	january - 2021
24 10 2016	400,000,000	3mE + 0,85%	Quarterly	april - 2021
24 10 2016	400,000,000	3mE + 0,85%	Quarterly	july - 2021
04 11 2016	700,000,000	3mE + 0,85%	Quarterly	october - 2021
<b>Totale</b>	<b>6,700,000,000</b>			

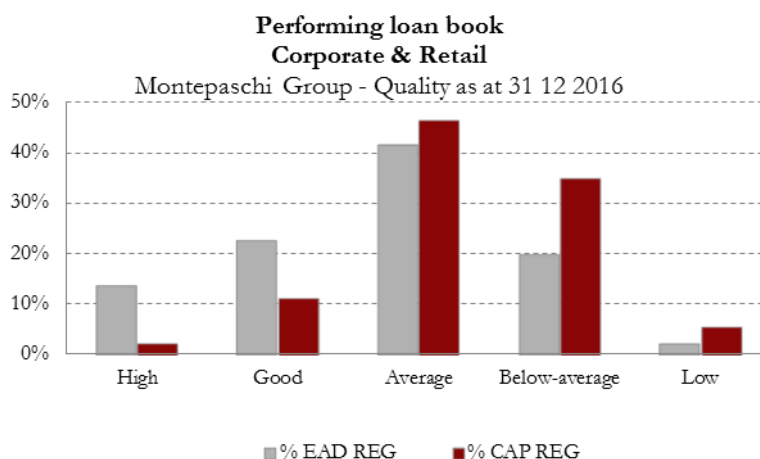


## F. Banking group - Credit risk measurement models

The chart below provides a credit quality breakdown of the Group portfolio as at 31 December 2016 by Exposure to Risk (EAD REG) and Regulatory Capital (CAP REG). The following graph shows that about 44% of risk exposure is to high and good quality customers (positions in financial assets are excluded). It should be noted that the ranking below also includes exposure to banks, government agencies and non-regulated financial and banking institutions, which are not included in the AIRB approaches. As borrowers, these entities are nevertheless subject to a credit standing assessment using official ratings, if any, or appropriate benchmark values that have been determined internally.



On the other hand, the following chart provides a breakdown of credit quality only for Corporate and Retail portfolios (which are largely validated by regulatory authorities for the use of internal PD and LGD models). As at 31 December 2016, high or good quality exposure accounted for approximately 36% of total exposure.

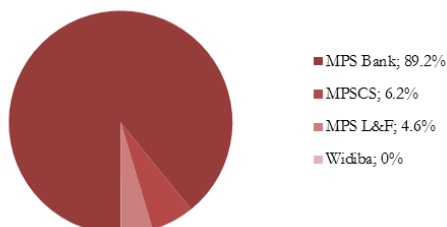


With reference to Risk Exposure, the Parent Company covers 89.2% of the Group's total, while MPS Capital Services, MPS Leasing e Factoring and Widiba jointly cover the remaining 10.8%.

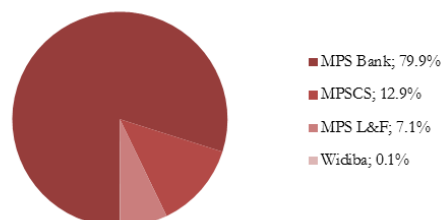
The Regulatory Capital for credit risk is absorbed mainly by the Parent Company (79.9%), followed by MPS Capital Services (12.9%) and MPS Leasing e Factoring (7.1%).



**Risk Exposure**  
Montepaschi Group - 31 12 2016



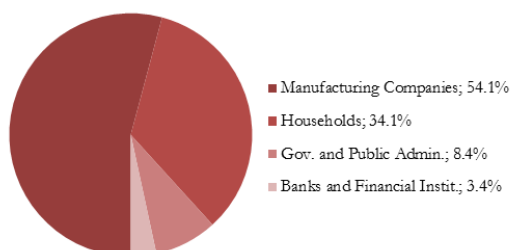
**Regulatory Capital**  
Montepaschi Group - 31 12 2016



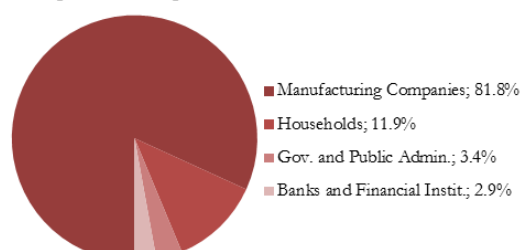
An analysis conducted at the end of 2016 shows that the Group's risk exposure is mainly toward "Manufacturing Companies" (54.1% of total loans disbursed) and "Households" (34.1%). The remaining portion is broken down between "Government and Public Administration" and "Banks and Financial Institutions", respectively at 8.4% and 3.4%.

In terms of Regulatory Capital, 81.8% is absorbed by the "Manufacturing Companies" customer segment. The "Households" segment stands at 11.9%; followed by "Government and Public Administration" and "Banks and Financial Institutions" with 3.4% and 2.9% respectively:

**Risk Exposure**  
Montepaschi Group - 31 12 2016



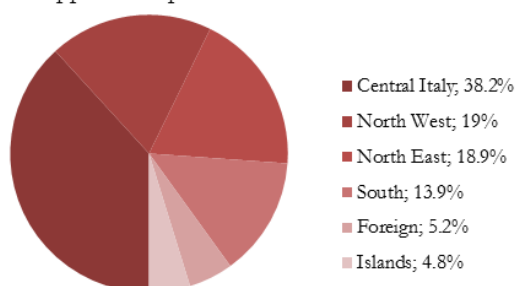
**Regulatory Capital**  
Montepaschi Group - 31 12 2016



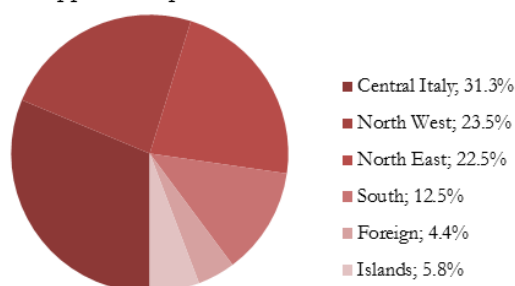
An analysis of the geographical breakdown of Group customers shows that exposure to risk is primarily concentrated in Italy's Central regions (38.2%), followed by the North West and North East (19% and 18.9%), Southern Italy (13.9%), foreign countries (5.2%) and Italy's islands (4.8%).

Regulatory Capital absorption is also higher in Central Italy (31.3%), in North West Italy (23.5%) and North East Italy (22.5%) due to the greater concentration of loans in those areas. These are followed by Southern Italy (12.5%), Italy's Islands (5.8%) and Foreign Countries (4.4%):

**Risk Exposure**  
Gruppo Montepaschi - 31 12 2016



**Regulatory Capital**  
Gruppo Montepaschi - 31 12 2016



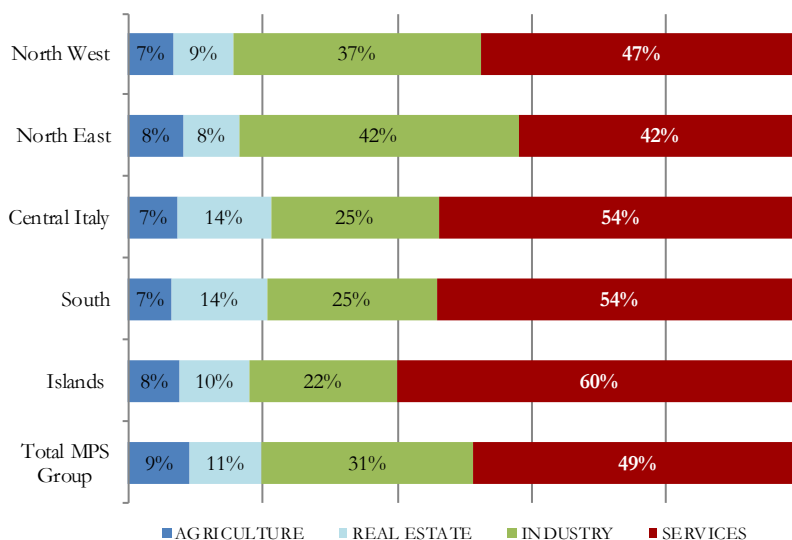


Lastly, the following graphs show, solely for Italian corporate customers, the percentage breakdown of Default Exposure by individual Geographic Area and Regulatory Capital absorption by Business Sector.

The largest share of Default Exposure for businesses in all Geographic Areas is accounted for by the “Services” sector. Out of the Group’s total exposure, the share of Services accounts for 49% and is followed by Industry (31%), Building (11%) and Agriculture (9%).

#### Italian Corporate customers – performing loan book as at 31 12 2016

*EAD REG by geography and business segment*

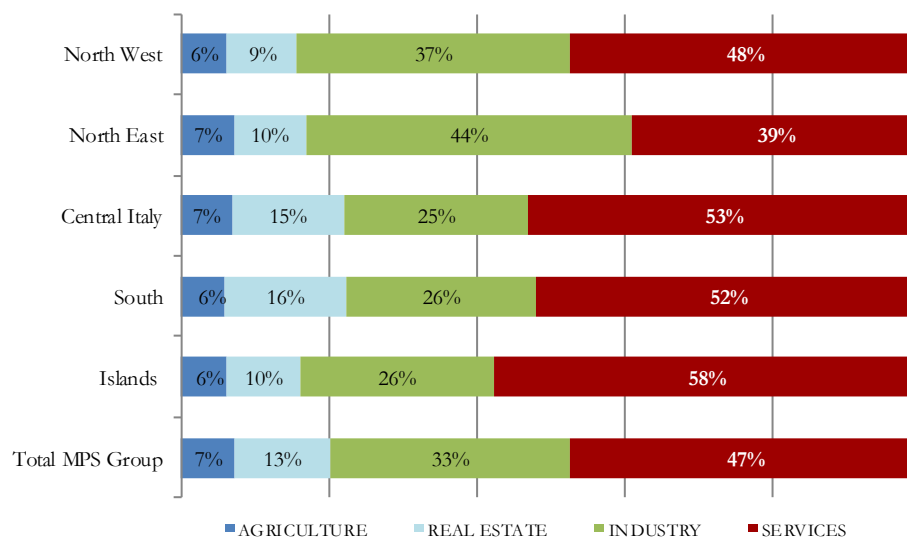


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Also as regards Regulatory Capital (CAP), the greatest concentration relates to the Services sector in all Geographic Areas, with the exception of the North East:

#### Italian Corporate customers – performing loan book as at 31 12 2016

*CAP REG by geography and business segment*



The comparison between expected loss and actual loss is performed on an annual basis by the internal control function as part of PD and LGD backtesting procedures.





## 1.2 – Banking group - Market risks

### 1.2.1 Interest rate and price risk – regulatory trading book

#### Market risks relating to the Trading Book

##### *Market risk management model for the Trading Book*

The Group's Regulatory Trading Portfolio (RTP), or Trading Book, is made up of all the Regulatory Trading Books managed by the Parent Company (BMPS) and MPS Capital Services (MPSCS). The Trading Portfolios of the other subsidiaries are immune to market risk. Trading in derivatives, which are brokered on behalf of customers, calls for risk to be centralised at, and managed by, MPS Capital Services.

The market risks in the trading book are monitored in terms of Value-at-Risk (VaR) for operational purposes. The Group's Finance and Liquidity Committee is responsible for directing and coordinating the overall process of managing the Group's proprietary finance thereby ensuring that the management strategies of the various business units are consistent.

The Group's Trading Book is subject to daily monitoring and reporting by the Risk Management Area of the Parent Company on the basis of proprietary systems. VaR for management purposes is calculated separately from the operating units, using the internal risk measurement model implemented by the Risk Management function in keeping with international best practices. However, the Group uses the standardised methodology in the area of market risks solely for reporting purposes.

Operating limits to trading activities, which are established by the Parent Company's Board of Directors, are expressed by level of delegated authority in terms of VaR, which is diversified by risk factors and portfolios, monthly and annual stop losses and Stress. Furthermore, the trading book's credit risk, in addition to being included in VaR computations and in the respective limits for the credit spread risk component, is also subject to specific operating limits for issuer and bond concentration risk which specify maximum notional amounts by type of guarantor and rating class.

VaR is calculated with a 99% confidence interval and a holding period of 1 business day. The Group adopts the method of historical simulation with daily full revaluation of all basic positions, out of 500 historical entries of risk factors (lookback period) with daily scrolling. The VaR calculated in this manner takes account of all diversification effects of risk factors, portfolios and types of instruments traded. It is not necessary to assume, a priori, any functional form in the distribution of asset returns, and the correlations of different financial instruments are implicitly captured by the VaR model on the basis of the combined time trend of risk factors. The trend-based scenarios used in the model are constructed as the daily change, in terms of the ratio, of the individual risk factors; the shock is applied to the current market level, making the VaR measure reactive to changes in market conditions.

The management reporting flow on market risks is periodically transmitted to the Risk Management Committee, the Group's Top Management and the Parent Company's Board of Directors in a Risk Management Report, which keeps Executive Management and governing bodies up to date on the overall risk profile of the Group.

The macro-categories of risk factors covered by the Internal Market Risk Model are IR, EQ, CO, FX and CS as described below:

- IR: interest rates on all relevant curves, inflation curves and related volatilities;
- EQ: share prices, indexes, baskets and relative volatilities;
- CO: commodity prices, indexes and baskets;
- FX: exchange rates and related volatilities;
- CS: credit spread levels.



VaR (or diversified or net VaR) is calculated and broken down daily for internal management purposes, even with respect to other dimensions of analysis:

- organisational/management analysis of portfolios,
- analysis by financial instrument,
- analysis by risk family.

It is then possible to assess VaR along each combination of these dimensions in order to facilitate highly detailed analyses of events characterising the portfolios.

In particular, with reference to risk factors the following are identified: Interest Rate VaR (IR VaR), Equity VaR (EQ VaR), Commodity VaR (CO VaR), Forex VaR (FX VaR) and Credit Spread VaR (CS VaR). The algebraic sum of these items gives the so-called Gross VaR (or non-diversified VaR), which, when compared with diversified VaR, makes it possible to quantify the benefit of diversifying risk factors resulting from holding portfolios on asset class and risk factor allocations which are not perfectly correlated. This information can also be analysed along all the dimensions referenced above.

The model enables the production of diversified VaR metrics for the entire Group in order to get an integrated overview of all the effects of diversification that can be generated among the various banks on account of the specific joint positioning of the various business units.

Moreover, scenario and stress-test analyses are regularly conducted on various risk factors with different degrees of granularity across the entire tree structure of the Group's portfolios and for all categories of instruments analysed.

Stress tests are used to assess the bank's capacity to absorb large potential losses in extreme market situations, so as to identify the measures necessary to reduce the risk profile and preserve assets.

Stress tests are developed on the basis of discretionary and trend-based scenarios. Trend-based scenarios are defined on the basis of previously-registered real situations of market disruption. Such scenarios are identified based on a time frame in which risk factors were subjected to stress. No particular assumptions are required with regard to the correlation among risk factors since trend-based data for the stress period identified has been measured.

Stress tests based upon discretionary scenarios assume extreme changes occurring to certain market parameters (interest rates, exchange rates, stock indices, credit spreads and volatility) and measure the corresponding impact on the value of portfolios, regardless of their actual occurrence in the past. Simple discretionary scenarios are currently being developed (variation of a single risk factor) as are multiple ones (variation of several risk factors simultaneously). Simple discretionary scenarios are calibrated to independently deal with one category of risk factors at a time, assuming shocks do not spread to the other factors. Multiple discretionary scenarios, on the other hand, aim to assess the impact of global shocks that simultaneously affect all types of risk factors.

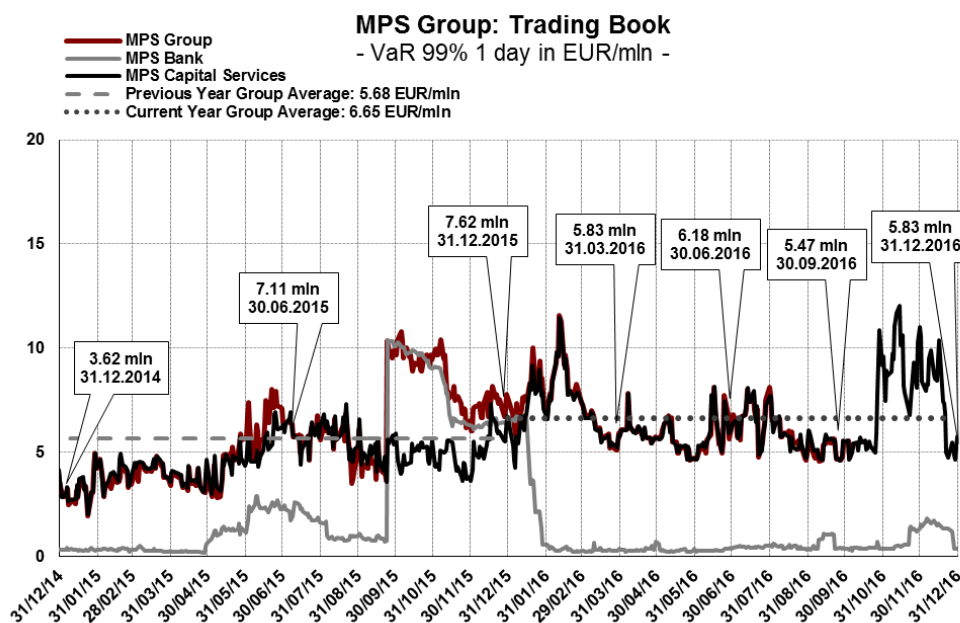
In terms of the methodology adjustment, the internal model now includes the revision relating to the management of negative rates. The methodological changes implemented, and in particular the new framework on the generation of time series scenarios, make it possible to overcome the distortions present in the internal model in terms of the breadth of the simulated scenarios, while maintaining the reactivity of risk measures as market conditions change. The impacts in terms of VaR were primarily in reduction and associated with lower volatility in the interest rate and credit spread risk factors.

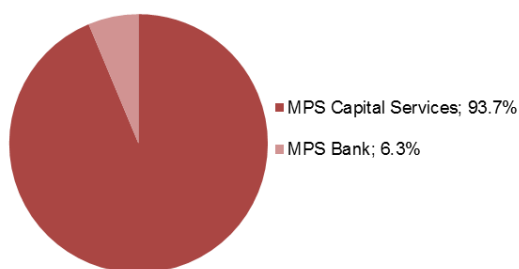
It should be noted that the VaR methodology described above is, for operational purposes, also applied to the portion of the Banking Book consisting of financial instruments that are similar to trading instruments (e.g. AFS bonds/Equity instruments). The measurements and charts below refer to the Regulatory Trading Portfolio only.



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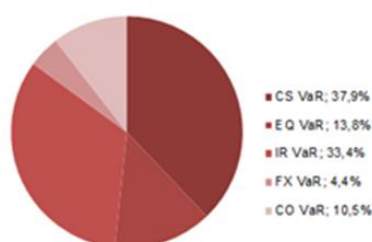
In terms of VaR, in 2016 the market risk trends of the Group's Regulatory Trading Portfolio were influenced by changes in market parameters and by the trading activities of the subsidiary MPS Capital Services (proprietary trading and structuring and hedging activities, mostly related to policies.) The Parent Company's contribution to the total VaR during the year was limited due to the closure in January of the remaining derivative positions, classified as held for trading, "acquired" during the closing of the Alexandria transaction which took place in late September 2015. In the last quarter, VaR trends related to the trading activities of the subsidiary MPS CS in Italian government bonds and long futures, as well as the considerable rise in interest rates, the impact of which was amplified by the assumptions underlying the VaR model. In late December, following the methodological revision on the management of negative rates described above, the Group's VaR decreased to EUR 5.83 mln as at 31 December 2016.



**MPS Group: Trading Book**  
*VaR by Bank as at 31/12/2016*

With regard to the legal entities, MPS CS accounted for 93.7% and the Parent Company for 6.3% of overall risk as at 31 December 2016.

A breakdown of VaR by risk factors shows that approx. 37.9% of the Group's portfolio was allocated to Credit Spread risk factors (CS VaR), 33.4% was absorbed by interest rate risk factors (IR VaR), 13.8% was absorbed by equity risk factors (EQ VaR), 10.5% by commodity risk factors (CO VaR) and the remaining 4.4% by foreign exchange risk factors (FX VaR)

**VaR Gruppo Montepaschi**  
*Portafoglio di Negoziazione di Vigilanza*  
*VaR Breakdown per Risk Factor: 31/12/2016***MPS Group: Trading Book**  
**VaR 99% 1 day in EUR/mln**

	VaR	Date
End of Period	5.83	31/12/2016
Min	4.41	09/09/2016
Max	12.06	11/02/2016
Average	6.65	

In 2016, the VaR of the Group's Regulatory Trading Book ranged between a low of EUR 4.41 mln recorded on 9 September 2016 and a high of EUR 12.06 mln on 11 February 2016 with an average value of EUR 6.65 mln. The Regulatory Trading Book VaR as at 31 December 2016 amounted to EUR 5.83 mln.

***VaR model backtesting***

The Group has implemented a backtesting procedure compliant with current regulations governing Market Risk as part of its own risk management system.

Backtesting refers to a series of tests conducted on VaR model results against day-to-day changes in the trading book value, with a view on assessing the model's forecasting capacity as regards the accuracy of risk metrics generated. If the model is robust, by periodically comparing the estimated daily VaR against daily trading losses from the previous day, the result should be that actual losses greater than the VaR occur with a frequency consistent with that defined by the confidence level.

Based on current supervisory instructions, the Risk Management Area considered it appropriate to apply the theoretical and actual backtesting methods and integrate these into the Group's management reporting system.

The first type of test (**theoretical backtesting**) has a stronger statistical significance in reference to measuring the accuracy of the VaR model ("uncontaminated test").

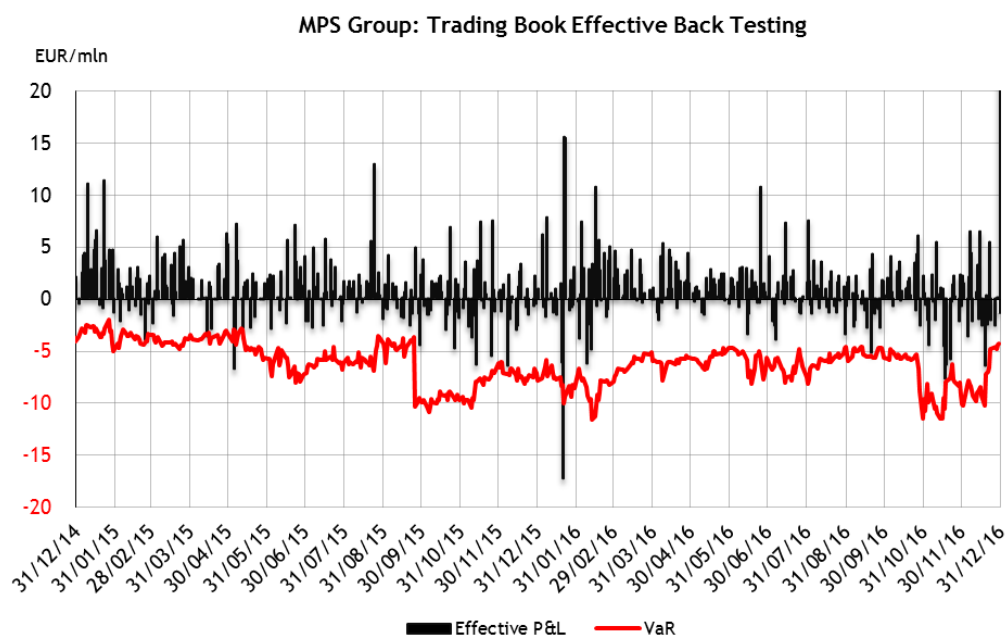
The second type of test (**actual backtesting**) meets the need for verifying the VaR model's forecasting reliability in reference to actual Bank operations (daily trading P&L) less the effect of any



interest accrued between trading days t-1 and t on the securities and less the effect of fees and commissions.

These “clean” P&L results (the “actual P&L”) are compared with the previous trading day VaR. If the losses are greater than those forecast by the model an “exception” is recorded.

The chart below shows the Actual Backtesting results of the internal Market Risks model in relation to the Group’s Regulatory Trading Book:



The backtesting shows one exception during the first quarter of 2016 on the Group trading book, details of which are as follows:

- 20 January 2016: negative day for the market (negative shift in 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.



## Structured Credit Products

### Management Model

As at 31 December 2016, the Group did not have a significant portfolio of structured credit products compared to its total assets. These investments are subject to risk limits set by the Board of Directors and monitored daily by Risk Management. Stop Loss, risk and nominal limits are defined for maximum exposure for major issuer categories, broken down by rating.

The data reported in this section refer to the entire Group.

Note that no Structured Credit Products considered in this disclosure have embedded credit derivatives that need to be separated from their host contract for IAS/IFRS purposes.

As at 31 December 2016, there were no direct or indirect exposures to US subprime, Alt-A or monoline insurers.

### Positions in Securitisations of third-party issuers

As at 31 December 2016, the securities positions on structured credit products other than own securitisations had an accrued net carrying amount of EUR 97.6 mln, compared to EUR 63.21 mln as at 31 December 2015.

In terms of profit and loss, there was a positive component of EUR 0.4 mln in the “Net profit (loss) from trading - item 80”.

With regard to the Regulatory classification, the positions are primarily held by the subsidiary MPS Capital Services and allocated to the Trading Portfolio (99.25% in terms of carrying amount) and to a marginal extent to the Banking Book, deriving from one position of the subsidiary Monte Paschi Banque.

The underlying assets transferred as part of the securitisation transaction are predominantly Residential mortgages (37.7%), Commercial mortgages (22.63%) and Personal Loans (26.5%).

Geographically speaking, 83.1% of the loans transferred were granted in Italy.

Overall, 99.2% of the carrying amount of the exposures consists of investment grade securities (with rating up to BBB-, inclusive).

The senior tranche accounts for 61.4% of the exposures in terms of carrying amount, and the mezzanine tranche for 33.5%.

### Credit Derivative Positions

All exposures analysed are standardised credit indices and synthetic tranches and single-name CDS.

As at 31 December 2016, net exposures to this type of derivatives have a carrying amount of EUR -8.6 mln; they are almost entirely (99.67%) held by the subsidiary MPS Capital Services. They are all attributable to the Trading Book.

They basically had no impact on profit and loss.



## Qualitative Information

### A. General aspects

Each bank of the MPS Group which is relevant as a market risk-taking centre contributes to the generation of interest rate risk and price risk in the overall Trading Book.

#### A.1 Interest rate risk

With reference specifically to the Parent Company, the Finance, Treasury & Capital Management Area (FTCMA) is the Business Area in charge of trading, while the Global Markets Division carries out trading activities for MPS CS.

The FTCMA manages a proprietary portfolio which takes trading positions on interest rates and credit. In general, interest rate positions are taken by purchasing or selling bonds, and by creating positions in listed derivatives (futures) and OTCs (IRS, swaptions). Trading is carried out exclusively on the Bank's own behalf, with objectives of absolute return, in compliance with the delegated limits of monthly and yearly VaR and Stop Loss.

In particular, the FTCMA operates in the short-term portion of the main interest rate curves, mostly through bonds and listed derivatives.

With regard to credit risk in the trading book, the equity positions are generally managed through the purchase or sale of bonds issued by companies or by creating synthetic positions in derivatives. The activity is oriented to achieve a long or short position on individual issuers, or a long or short exposure on specific commodities. The activity is carried out solely on the Bank's own behalf with objectives of absolute return and in compliance with other specific issuer and concentration risk limits approved by the Board of Directors.

#### A.2 Price risk

The Business Area in charge of the Parent Company's trading activity with respect to price risk is the FTCMA which manages a proprietary portfolio and takes trading positions on equities, Stock Exchange indexes and commodities. In general, positions on equity securities are taken both through the purchase/sale of equities and through the positions created in listed derivatives (e.g. futures) and OTC (e.g. options). Trading is carried out exclusively on the Bank's own behalf, with objectives of absolute return, in compliance with the delegated limits of monthly and yearly VaR and Stop Loss. Similarly, the Global Markets Division carries out trading activities for MPS CS.

### B. Interest rate and price risk: operational procedures and measurement methods

With regard to the market risk management process concerning the management and methods for measuring interest rate and price risk, see the above paragraph entitled "Market risk management model for the trading book".





## Quantitative Information

### 1. Regulatory trading book: breakdown of balance sheet assets/liabilities and financial derivatives by residual life (repricing date).

This table has not been prepared since an analysis of the regulatory trading book's sensitivity to interest rate risk and price risk is produced based on internal models.

### 2. Regulatory trading book: breakdown of exposures in equity instruments and stock indices by major countries of the listing market.

This table has not been prepared since an analysis of the regulatory trading book's sensitivity to interest rate risk and price risk is produced based on internal models.

### 3. Regulatory trading book: internal models and other sensitivity analysis methods

The rate and price risk of the Trading Book is monitored in terms of VaR and scenario analysis.

#### 3.1 Regulatory trading book: Interest rate risk

Each business unit within the Group operates independently on the basis of the objectives and powers it has been assigned. The positions are managed by special desks provided with specific operational limits. Each desk adopts an integrated risk management approach (covering more than rate risk, when allowed) in order to benefit from the natural hedge resulting from simultaneously holding positions on risk factors that are not perfectly correlated. The VaR by risk factor (specifically, Interest Rate VaR) has operational relevance for the purpose of risk management analyses, even though it is the global VaR diversified among risk factors and portfolios that is used by the operating units. Below is information on the Group's diversified Interest Rate VaR:



The trend in Interest Rate VaR during 2016 was influenced by the trading activities of the subsidiary MPSCS, primarily in bonds and in long futures and interest rate future options. The effect of interest rate fluctuations on VaR measurements was particularly relevant, through the daily updating of the





internal historical simulation model parameters. The temporary increase in the Interest Rate VaR in the final quarter of the year is ascribable to the significant rise in rates during the period, amplified by the methodological assumptions described above.

■ MPS Group: Trading Book VaR Interest Rate 99% 1 day in EUR/mln		
	VaR	Date
End of Period	3.50	31/12/2016
Min	0.88	10/08/2016
Max	5.29	11/11/2016
Average	2.10	

Simulations include the following interest rate risk scenarios:

- +100 bps parallel shift for all interest rate and inflation curves,
- -100 bps parallel shift for all interest rate and inflation curves,
- +1 point parallel shift for all volatility surfaces of all interest rate curves.

All positions related to the Trading Book are classified as HFT for accounting purposes, with changes in market value posted directly to profit and loss. Below is the overall effect of the scenario analyses.

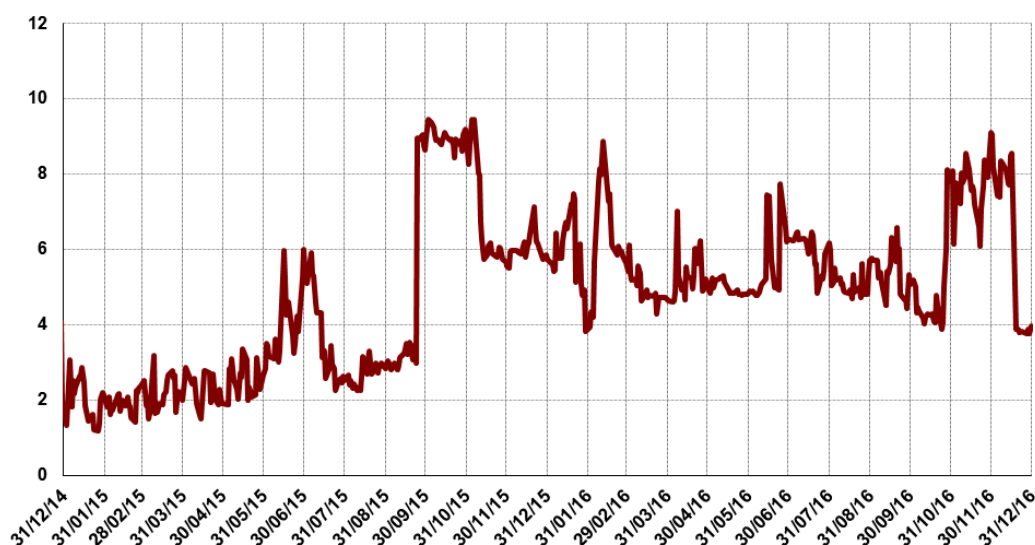
■ MPS Group: Trading Book EUR/mln		
Risk Family	Scenario	Global Effect
Interest Rate	+100bp all Interest Rate Curves	(14.18)
Interest Rate	-100bp all Interest Rate Curves	(2.55)
Interest Rate	+1% all Interest Rate Volatility	0.25

The asymmetry in the +100 bps and -100 bps interest rate scenarios is mainly due to the exposure to options of the interest rate segment of the subsidiary MPS CS (primarily swaptions).

To complete the interest rate risk analysis, details are also provided on the credit spread risk of the Group's Trading Book associated with the volatility of issuers' credit spreads. The VaR by risk factor (specifically, Credit Spread VaR) has operational relevance for the purpose of risk management analyses, even though it is the overall VaR diversified among all risk factors and portfolios that is used by the operating units.



**MPS Group: Trading Book**  
- VaR Credit Spread 99% 1 day in EUR/mln -



In 2016, the trend in Credit Spread VaR was mainly influenced by the trading activities of the subsidiary MPSCS, primarily in bonds and in long futures and interest rate future options. In the last quarter, the rise in the Credit Spread VaR related to the trading activities described above and the considerable rise in government bond yields, the impact of which was amplified by the assumptions underlying the VaR model. In late December, following the methodological revision on the management of negative rates described above, the Group's Credit Spread VaR decreased to EUR 3.97 mln as at 31 December 2016.

■ MPS Group: Trading Book VaR Credit Spread 99% 1 day in EUR/mln		
	VaR	Date
End of Period	3.97	31/12/2016
Min	3.75	27/12/2016
Max	9.09	30/11/2016
Average	5.69	

For the purposes of sensitivity analysis, the simulation scenario is as follows:

- +1 bp parallel shift for all credit spreads.

All positions related to the Trading Book are classified as HFT for accounting purposes, with changes in market value posted directly to profit and loss. Below is the overall effect of the scenario analyses.

■ MPS Group: Trading Book		
EUR/mln		
Risk Family	Scenario	Global Effect
Credit Spread	+1bp all Curves	(0.62)



### 3.2 Regulatory trading book: Price risk

Each business unit within the Group operates independently on the basis of the objectives and powers it has been assigned. The positions are managed by special desks provided with specific operational limits. Each desk adopts an integrated risk management approach (covering more than price risk, when allowed) in order to benefit from the natural hedge resulting from simultaneously holding positions on risk factors that are not perfectly correlated. The VaR by risk factor (specifically, Equity VaR and Commodity VaR) has management relevance for the purpose of risk management analyses, even though it is the global VaR diversified among risk factors and portfolios that is used by the operating units.

Below is information on the Group's diversified Equity VaR.



In 2016 the Equity VaR was influenced by activities related to the structuring and coverage of policies and other structured products of the subsidiary MPS CS, and by the trading activity, also of MPS CS, mostly on options and futures with key market indexes as underlying (significant effect on the risk measurement's volatility). At the end of December, the Equity VaR came to EUR 1.45 mln, the lowest levels of the year.

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

	VaR	Date
End of Period	1.45	31/12/2016
Min	1.24	29/06/2016
Max	6.14	21/01/2016
Average	2.36	

The simulated price scenarios are as follows:

- +1% of each equity or index price;
- -1% of each equity or index price;
- +1 point of all volatility surfaces of all equity risk factors.



All positions related to the Trading Book are classified as HFT for accounting purposes, with changes in market value posted directly to profit and loss. Below is the overall effect of the scenario analyses for the equity component:

#### ■ MPS Group: Trading Book

EUR/mln

Risk Family	Scenario	Global Effect
Equity	+1% Equity Prices (prices, indices, basket)	0.03
Equity	-1% Equity Prices (prices, indices, basket)	0.03
Equity	+1% Equity Volatility	(0.61)

In terms of exposure to commodity risk, in 2016 trends in the Commodity VaR were influenced by trading activities of the subsidiary MPS Capital Services, mainly on options and futures with key commodity indexes as underlying (significant effect on the risk measurement's volatility and level). At the end of December, the Commodity VaR came to EUR 1.11 mln, in line with the average for the year.

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





■ **MPS Group: Trading Book**  
**VaR Commodity 99% 1 day in EUR/mIn**

	VaR	Date
End of Period	1.11	31/12/2016
Min	0.39	29/04/2016
Max	2.12	29/02/2016
Average	1.19	

The simulated price scenarios are as follows:

- +1% of each commodity price,
- -1% of each commodity price,
- +1 point of all volatility surfaces of all commodity risk factors.

Below is the overall effect of the scenario analyses.

■ **MPS Group**

EUR/mIn

Risk Family	Scenario	Global Effect
Commodity	+1% Commodity Prices	0.11
Commodity	-1% Commodity Prices	(0.05)
Commodity	+1% Commodity Volatility	(0.01)



## 1.2.2 Interest rate and price risk - banking book

### Qualitative Information

#### A. Interest rate risk and price risk: general aspects, management processes and measurement methods

##### A.1 Interest rate risk

In accordance with international best practices, the Banking Book refers to all of the commercial operations of the Bank in relation to the transformation of maturities with respect to balance sheet assets and liabilities, Treasury, foreign branches and hedging derivatives of reference. The definition of the scope of the Banking Book and the ALM centralisation process are set out in a resolution by the Parent Company's Board of Directors in compliance with the framework described in the regulatory provisions (Bank of Italy Circ. 285). The framework sets the rules for the centralisation of Asset & Liability Management under the Parent Company's Finance, Treasury and Capital Management Area (FTCMA) and the definition and monitoring of operating limits for interest rate risk in the Group's Banking Book. The Banking Book also includes bond receivables held for investment purposes, classified as either AFS or L&R.

The operational and strategic choices for the Banking Book, adopted by the Finance and Liquidity Committee and monitored by the Risk Management Committee of the Parent Company, are based first on exposure to interest rate risk for a variation in the economic value of the assets and liabilities of the Banking Book by applying a set of rate scenarios including parallel shifts of 25 bps, 100 bps and 200 bps, the latter in accordance with the requirements set out in the "second pillar" of the Basel Accord. Also, sensitivity analyses are regularly conducted on net interest income for various cases of changes in rates.

Risk metrics for the Group's retail banks are calculated by using, among other things, a model for the valuation of demand items or core deposits, whose characteristics of stability and partial insensitivity to interest rate changes are described in the systems with a statistical/predictive model (replicating portfolio), which takes into consideration an extensive time series of past customer behaviours. In addition, the Group's ALM model includes, within rate risk measurements, a behavioural model which takes into account the aspect of mortgage prepayment (so-called prepayment risk).

The economic value sensitivity measures are determined by clearing the origination of the cash flows of the components not directly relating to interest rate risk.

The Group is committed to the continual updating of risk measurement methodologies by gradually fine-tuning the estimation models so as to include all major factors that progressively modify the interest rate risk profile of the banking book.

The Group adopts an interest rate risk governance and management system which, in accordance with the provisions of the Supervisory Authority, avails itself of:

- a quantitative model, which provides the basis for calculation of risk indicators for the interest rate risk exposure of the Group and Group companies/entities;
- risk monitoring processes, aimed at verifying compliance with the operational limits assigned to the Group overall and to the individual business units;
- risk control and management processes, geared toward bringing about adequate initiatives for optimising the risk profile and activating any necessary corrective actions.



Within the above system, the following responsibilities are centralised in the Parent Company:

- definition of policies for managing the Group's Banking Book and controlling its interest rate risk;
- coordination of Group policies' implementation by the companies included in the scope;
- governance of the Group's short-, medium- and long-term rate risk position, both overall and at individual company level, through centralised operational management.

In its governance function, the Parent Company therefore defines criteria, policies, responsibilities, processes, limits and instruments for rate risk management.

The Group Companies included in the scope of application are responsible for abiding by the rate risk policies and limits defined by the Parent Company and the capital requirements set by the relevant Supervisory Authorities.

Within the model defined, the Finance, Treasury and Capital Management Area of the Parent Company is responsible for the operational management of the Group's overall rate and liquidity risk.

Specifically, within the FTCM Area, the Group Treasury Service manages the short-term rate risk and liquidity risk for the Group. In addition, the Area carries out hedge monitoring and management activities consistent with accounting policies, involving centralised oversight for definition of the network's internal rates (BMPS and other Group companies) for Euro and foreign currency transactions with maturities beyond the short term.

#### A.2 Price risk

The Group's Banking Book consists primarily of equity investments, AFS securities and UCITS. Trading in UCITS is carried out exclusively through the direct purchase of the funds/SICAVs, with no use being made of derivative contracts.

Price risk is measured on equity positions held primarily for strategic or institutional/instrumental purposes other than equity investments (AFS securities and UCITS).

Value-at-Risk (VaR), the methodology of which is described in Section 2 - "Market risks", is used to measure price risk.

Stress tests are conducted regularly as part of price risk governance strategies for the banking book in order to assess the Group's ability to absorb potential losses resulting from extreme events.

With reference to the equity investments component, the internal measurement system uses one of the metrics from the standardised Supervisory approach for the determination of the Internal Capital. This method calls for exposures to equity instruments to be assigned a risk weighting factor of 100% or 150% if high risk, unless they need to be deducted from Capital. The Capital deduction mechanisms were updated with the new supervisory rules (CRD4/CRR), which further expanded the perimeter to also include non-significant investments in financial sector entities (<10%) and introduced deduction exemptions. It is worth noting that the most significant portion of the MPS Group's investment portfolio is included within the aggregate of significant investments in other financial sector entities (roughly 94% is the equity investment in the AXA Group).

### **B. Fair value hedging**

### **C. Cash-flow hedging**

The Group - and within it therefore the Parent Company - uses IAS compliant hedges for interest rate risk management. The main types of hedging used include:



- Micro Fair Value Hedges: hedging of non-trading assets (loans/mortgage loans), securities and bonds held;
- Macro Fair Value Hedges: hedging of non-trading assets (loans/mortgage loans) and corporate funding (time deposits);
- Micro Cash Flow Hedges: hedging of floating-rate deposits.

In addition to the above, the Group, and within it therefore the Parent Company, uses the Fair Value Option for some types of business activities. In particular, the Fair Value Option was used for (structured and fixed rate) debt securities having the following characteristics:

- the risk of fair value changes has been hedged upon issuance, with the intention of maintaining the hedge for the contractual duration and entire amount of the hedged position;
- normally for issuances in which the Group has committed to buyback at issuance spread.

## Quantitative Information

### 1. Banking book: breakdown of financial assets and liabilities by residual life (repricing date)

This table has not been prepared since an analysis of the banking book's sensitivity to interest-rate risk and price risk is produced based on internal models.

### 2. Banking book: internal models and other sensitivity analysis methods

#### 2.1 Interest rate risk

The sensitivity of the Group, at the end of 2016, was indicative of exposure to rate hike risk. The amount of economic value at risk in the event of a +100 bps parallel shift of the rate curve came to EUR -216.44 mln at the end of 2016 (vs. EUR -2.68 mln for a shift of -100 bps). However, if benchmarked against Capital, these values are below the level considered as the attention threshold by the Bank of Italy.

The sensitivity of the Group's net interest income (margin sensitivity) if rates increase by 25 bps amounts to EUR -6.90 mln at the end of 2016 (EUR -1.09 mln for -25 bps).

The internal measurement system is autonomously and independently developed by the Risk Management Area of the Parent Company, which periodically reports on the extent of portfolio risks and their changes over time. The results are regularly brought to the attention of the Parent Company's Risk Management Committee and governing bodies.

#### 2.2 Price risk

Shown below is a scenario analysis which includes all directional positions assumed, based on instructions from the Board of Directors or including those that operationally fall under the Banking Book of the Parent Company's Finance, Treasury and Capital Management Area (e.g. AFS securities) and which are not equity investments and are not included in the previously-reported scenario analyses for price risk in the Trading Book.

#### ■ MPS Group: Banking Book

EUR/mln		
Risk Family	Scenario	Global Effect
Equity	+1% Equity Prices (prices, indices, basket)	1.98
Equity	-1% Equity Prices (prices, indices, basket)	(1.98)
Equity	+1% Equity Volatility	0.00





## 2.3 Foreign exchange risk

### Qualitative Information

#### A. Foreign exchange risk: general aspects, operational processes and measurement methods.

Foreign exchange operations are mainly based on short-term trading, with the systematic balance of the transactions originated by the franchise and the retail banks which automatically feed into the Group's position.

Trading is mainly carried out by the Parent Company's Finance, Treasury & Capital Management Area; trading in the FX options segment is carried out by subsidiary MPSCS, with active management of foreign exchange risk. The foreign branches of the Parent Company maintained modest forex positions exclusively originated by funds available for commercial purposes. The turnover in cash allocated to Group portfolios and OTC derivatives for MPSCS remained stable in terms of risk, with ongoing and careful use of delegated powers. Foreign currency equity investments are typically financed by funds denominated in the same currency, with no assumption of foreign exchange risk.

For a description of stress tests used in the risk governance strategy on exchange rates and the model applied, please refer to the section "Market risk management model for the Trading Book".



## B. Hedging of exchange rate risk

### Quantitative Information

#### 1. Breakdown by currency of assets, liabilities and derivatives

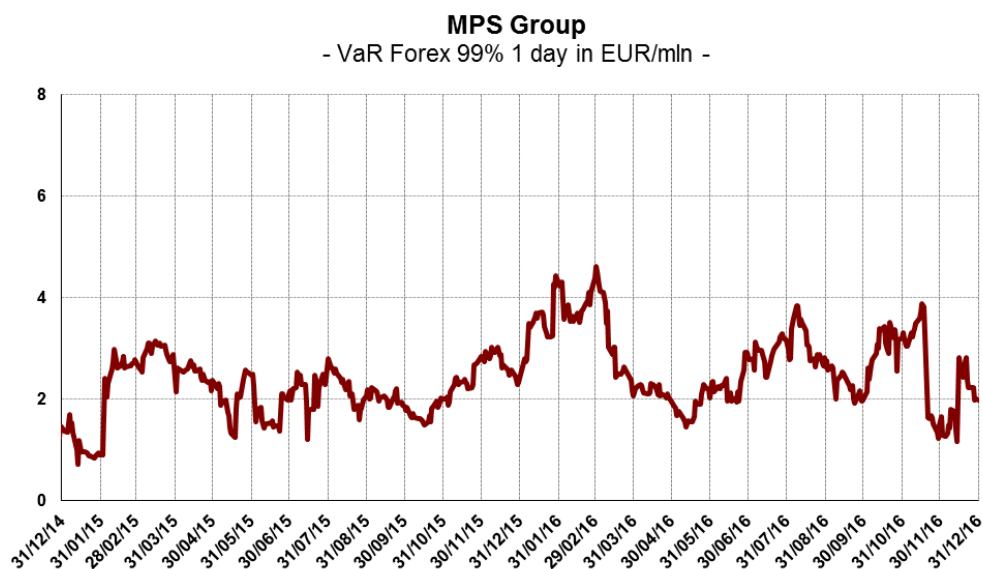
31.12.2016

Items	Currencies					
	US dollar	Pound sterling	Swiss Franc	Yen	Hong Kong dollar	Other currencies
<b>A. Financial assets</b>	<b>2,276,020</b>	<b>116,860</b>	<b>26,964</b>	<b>22,296</b>	<b>54,709</b>	<b>40,077</b>
A.1 Debt securities	417,032	2,061	12	-	30,582	21
A.2 Equity securities	6,502	351	263	52	330	1
A.3 Loans to banks	519,988	18,847	2,539	5,933	3,895	30,919
A.4 Loans to customers	1,332,498	95,601	24,150	16,311	19,902	8,900
A.5 Other financial assets	-	-	-	-	-	236
<b>B. Other assets</b>	<b>58,682</b>	<b>4,775</b>	<b>1,417</b>	<b>207</b>	<b>444</b>	<b>2,608</b>
<b>C. Financial liabilities</b>	<b>605,386</b>	<b>34,070</b>	<b>17,971</b>	<b>2,641</b>	<b>1,087</b>	<b>19,528</b>
C.1 Deposits from banks	84,294	2,713	13,580	66	-	1,751
C.2 Customer accounts	366,663	31,357	4,391	2,575	1,087	10,793
C.3 Debt securities	154,429	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	6,984
<b>D. Other liabilities</b>	<b>22,431</b>	<b>2,863</b>	<b>100</b>	<b>445</b>	<b>301</b>	<b>1,659</b>
<b>E. Financial derivatives</b>						
- Options						
+ Long positions	329,580	40,561	284	25,787	4,780	59,469
+ Short positions	281,870	11,864	212	46,305	9,410	35,103
- Other						
+ Long positions	2,432,907	122,439	30,233	34,643	5,213	236,772
+ Short positions	4,935,089	185,885	9,381	41,641	47,884	251,133
<b>Total assets</b>	<b>5,097,189</b>	<b>284,635</b>	<b>58,898</b>	<b>82,933</b>	<b>65,146</b>	<b>338,926</b>
<b>Total liabilities</b>	<b>5,844,776</b>	<b>234,682</b>	<b>27,664</b>	<b>91,032</b>	<b>58,682</b>	<b>307,423</b>
<b>Difference (+/-)</b>	<b>(747,587)</b>	<b>49,953</b>	<b>31,234</b>	<b>(8,099)</b>	<b>6,464</b>	<b>31,503</b>



## 2. Internal models and other sensitivity analysis methods

Exchange risk is monitored in terms of VaR and scenario analysis (for the methodology see the paragraph “Market Risk Management Model for the Trading Book”). Shown below is information concerning the Group’s diversified Forex VaR.



■ **MPS Group**  
**VaR Forex 99% 1 day in EUR/mlin**

	VaR	Date
End of Period	1.99	31/12/2016
Min	1.17	14/12/2016
Max	4.61	01/03/2016
Average	2.72	

The following scenarios were used for foreign exchange rate simulations:

- +1% for all foreign exchange rates to the Euro,
- -1% for all foreign exchange rates to the Euro,
- +1 point for all volatility surfaces of all foreign exchange rates.

The impact on Income from banking activities and profit/loss for the year was estimated taking account only of HFT positions, with market value changes posted directly to Profit and Loss. The effect on equity, instead, is estimated with reference to all positions classified as AFS and related Fair Value Hedges (FVH). The total effect is the result of the algebraic sum of the two components. Below is a summary of the scenario analyses.

Risk Family	Scenario	Impact on income from banking activities and net profit	Impact on Net equity	Global Effect
Forex	+1% Exchange rate against EUR	(0.05)	0.00	(0.05)
Forex	-1% Exchange rate against EUR	0.13	0	0.13
Forex	+1% Forex Volatility	0.19	0.00	0.19



#### 1.2.4 Derivatives

##### A. Financial derivatives

In the following tables, a distinction is drawn between derivatives classified in the regulatory Trading Book and derivatives included in the Banking Book, in accordance with Bank of Italy regulations for Prudential Supervision. This differs from a IAS-based classification for financial statement purposes, which distinguishes between trading derivatives and hedge accounting derivatives.

Regulatory classification is fundamental in order to more accurately discern between instruments intended for trading - and thus for generating absorption of capital for market risk - and those intended for other purposes which fall within the framework of credit risk absorption.

For the Parent Company, derivatives included in the Regulatory Trading Book generally correspond to those present in the regular balance sheet trading book. These do not include, for example, derivatives connected to instruments for which the fair value option was adopted, which are intended to hedge against market risks on fair-valued deposits, and derivatives separated from or operationally connected to other financial instruments in the Banking Book.



#### 4.1 Regulatory trading book: end of period notional amounts

Underlying asset/Type of derivative	Total 31 12 2016		Total 31 12 2015	
	Over the counter	Central counterparts	Over the counter	Central counterparts
<b>1. Debt securities and interest rate</b>	<b>509,401,108</b>	<b>-</b>	<b>137,178,673</b>	<b>21,843,635</b>
a) Options	367,745,504	-	20,354,521	21,332,093
b) Swaps	140,692,295	-	116,750,187	-
c) Forward	5,197	-	73,965	-
d) Futures	958,112	-	-	511,542
e) Other	-	-	-	-
<b>2. Equity securities and stock indices</b>	<b>15,980,757</b>	<b>182,243</b>	<b>10,289,598</b>	<b>11,952,438</b>
a) Options	15,324,512	140,900	10,161,513	10,486,533
b) Swaps	199,841	-	128,085	-
c) Forward	-	-	-	-
d) Futures	456,404	41,343	-	1,465,905
e) Other	-	-	-	-
<b>3. Exchange rates and gold</b>	<b>8,185,127</b>	<b>-</b>	<b>8,810,535</b>	<b>-</b>
a) Options	1,607,333	-	1,816,677	-
b) Swaps	1,933,598	-	2,312,568	-
c) Forward	4,644,196	-	4,681,290	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
<b>4. Commodities</b>	<b>604,072</b>	<b>-</b>	<b>413,908</b>	<b>625,689</b>
<b>5. Other underlying</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>534,171,064</b>	<b>182,243</b>	<b>156,692,714</b>	<b>34,421,762</b>



## 4.2 Banking book: end of period notional amounts

### 4.2.1 Hedging derivatives

Underlying asset/Type of derivative	Total 31 12 2016		Total 31 12 2015	
	Over the counter	Central counterparts	Over the counter	Central counterparts
<b>1. Debt securities and interest rate</b>	<b>29,034,868</b>	<b>-</b>	<b>24,131,407</b>	<b>-</b>
a) Options	2,885,437	-	1,865,899	-
b) Swaps	26,149,431	-	22,265,508	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
<b>2. Equity securities and stock indices</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
<b>3. Exchange rates and gold</b>	<b>412,319</b>	<b>-</b>	<b>501,170</b>	<b>-</b>
a) Options	-	-	-	-
b) Swaps	412,319	-	501,170	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
<b>4. Commodities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>5. Other underlying</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>29,447,187</b>	<b>-</b>	<b>24,632,577</b>	<b>-</b>



#### 4.2.2 Other derivatives

Underlying asset/Type of derivative	Total 31 12 2016		Total 31 12 2015	
	Over the counter	Central counterparts	Over the counter	Central counterparts
<b>1. Debt securities and interest rate</b>	<b>358,549</b>	<b>-</b>	<b>1,534,349</b>	<b>-</b>
a) Options	37,000	-	677,770	-
b) Swaps	321,549	-	856,579	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
<b>2. Equity securities and stock indices</b>	<b>279</b>	<b>-</b>	<b>541,357</b>	<b>-</b>
a) Options	-	-	541,080	-
b) Swaps	279	-	277	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
<b>3. Exchange rates and gold</b>	<b>8,046</b>	<b>-</b>	<b>25,175</b>	<b>-</b>
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forward	8,046	-	25,175	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
<b>4. Commodities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>5. Other underlying</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>366,874</b>	<b>-</b>	<b>2,100,881</b>	<b>-</b>



### 4.3 Financial derivatives: gross positive fair value - breakdown by products

Portfolios/Types of derivatives	Positive Fair value			
	Total 31 12 2016		Total 31 12 2015	
	Over the counter	Central counterpart	Over the counter	Central counterpart
<b>A. Regulatory trading book</b>	<b>5,222,140</b>	<b>2,919</b>	<b>5,519,557</b>	<b>251,721</b>
a) Options	471,333	2,919	389,565	251,165
b) Interest rate swaps	4,571,771	-	4,911,571	-
c) Cross currency swaps	95,162	-	87,816	-
d) Equity swaps	8,946	-	6,296	-
e) Forward	58,738	-	75,183	-
d) Futures	893	-	-	556
g) Other	15,297	-	49,126	-
<b>B. Banking book - Hedging</b>	<b>485,460</b>	<b>-</b>	<b>538,235</b>	<b>-</b>
a) Options	4,864	-	3,938	-
b) Interest rate swaps	464,805	-	525,511	-
c) Cross currency swaps	15,791	-	8,786	-
d) Equity swaps	-	-	-	-
e) Forward	-	-	-	-
d) Futures	-	-	-	-
g) Other	-	-	-	-
<b>C. Banking book - Other derivatives</b>	<b>38,401</b>	<b>-</b>	<b>149,061</b>	<b>-</b>
a) Options	3,322	-	27,587	-
b) Interest rate swaps	34,936	-	121,296	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forward	143	-	178	-
d) Futures	-	-	-	-
g) Other	-	-	-	-
<b>Total</b>	<b>5,746,001</b>	<b>2,919</b>	<b>6,206,853</b>	<b>251,721</b>





#### A.4 Financial derivatives: gross negative fair value - breakdown by products

Portfolios/Types of derivatives	Negative fair value			
	Total 31 12 2016		Total 31 12 2015	
	Over the counter	Central counterparties	Over the counter	Central counterparties
<b>A. Regulatory trading book</b>	<b>3,433,640</b>	<b>2,096</b>	<b>3,682,654</b>	<b>137,429</b>
a) Options	664,273	2,096	711,652	134,269
b) Interest rate swaps	2,547,131	-	2,762,164	-
c) Cross currency swaps	88,682	-	91,615	-
d) Equity swaps	4,274	-	1,948	-
e) Forward	106,742	-	80,608	-
d) Futures	2,933	-	-	3,160
g) Other	19,605	-	34,667	-
<b>B. Banking book - Hedging</b>	<b>1,109,408</b>	<b>-</b>	<b>1,101,969</b>	<b>-</b>
a) Options	91,925	-	97,583	-
b) Interest rate swaps	970,544	-	954,947	-
c) Cross currency swaps	46,939	-	49,439	-
d) Equity swaps	-	-	-	-
e) Forward	-	-	-	-
d) Futures	-	-	-	-
g) Other	-	-	-	-
<b>C. Banking book - Other derivatives</b>	<b>38,400</b>	<b>-</b>	<b>150,672</b>	<b>-</b>
a) Options	-	-	24,832	-
b) Interest rate swaps	38,255	-	125,570	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	2	-	2	-
e) Forward	143	-	268	-
d) Futures	-	-	-	-
g) Other	-	-	-	-
<b>Total</b>	<b>4,581,448</b>	<b>2,096</b>	<b>4,935,295</b>	<b>137,429</b>



4.5 OTC financial derivatives: regulatory trading book - notional amounts, gross positive and negative fair value by counterparties - contracts not subject to netting agreements

31.12.2016

Contracts not subject to netting agreements	Governments and central banks	Other public entities	Banks	Financial Companies	Insurance Companies	Non financial companies	Other entities
<b>1. Debt securities and interest rates</b>							
- notional value	-	238,587	86,075	506,412	-	6,393,511	375,242
- positive fair value	-	21,597	13,631	10,397	-	266,758	4,005
- negative fair value	-	101	617	1,347	-	9,133	1,500
- future exposure	-	1,056	594	1,498	-	29,679	187
<b>2. Equity securities and stock indices</b>							
- notional value	42	26	16,108	7,277	-	1,797	23,334
- positive fair value	10	21	14,209	7,333	-	-	-
- negative fair value	-	-	-	-	-	15	137
- future exposure	4	2	1,288	634	-	-	-
<b>3. Exchange rates and gold</b>							
- notional value	183,953	-	1,970,275	664,655	-	2,480,289	3,877
- positive fair value	832	-	7,112	85	-	41,971	124
- negative fair value	16	-	40,213	46,062	-	43,558	73
- future exposure	1,826	-	18,320	6,532	-	21,135	71
<b>4. Other underlying</b>							
- notional value	-	-	-	-	-	311,011	-
- positive fair value	-	-	-	-	-	16,759	-
- negative fair value	-	-	-	-	-	17,099	-
- future exposure	-	-	-	-	-	27,834	-



4.6 OTC financial derivatives: regulatory trading book - notional amounts, gross positive and negative fair value by counterparties - contracts subject to netting agreements

31.12.2016

Contracts subject to netting agreements	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
<b>1. Debt securities and interest rates</b>							
- notional value	-	-	53,243,241	448,364,416	193,624	-	-
- positive fair value	-	-	1,727,623	2,624,003	35,937	-	-
- negative fair value	-	-	1,224,492	1,461,260	-	-	-
<b>2. Equity securities and stock indices</b>							
- notional value	-	-	3,078,842	12,591,389	261,946	-	-
- positive fair value	-	-	86,401	216,070	-	-	-
- negative fair value	-	-	107,439	304,461	85,169	-	-
<b>3. Exchange rates and gold</b>							
- notional value	-	-	2,359,313	522,766	-	-	-
- positive fair value	-	-	120,005	6,244	-	-	-
- negative fair value	-	-	69,745	14,306	-	-	-
<b>4. Other underlying</b>							
- notional value	-	-	50,571	240,726	-	1,764	-
- positive fair value	-	-	119	893	-	-	-
- negative fair value	-	-	3,656	3,028	-	212	-



4.7 OTC financial derivatives: banking book - notional amounts, gross positive and negative fair value by counterparties - contracts not subject to netting agreements

31.12.2016

Contracts not subject to netting agreements	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
<b>1. Debt securities and interest rates</b>							
- notional value	-	-	1,296,164	9,474	-	1,757	-
- positive fair value	-	-	-	141	-	70	-
- negative fair value	-	-	90,897	-	-	-	-
- future exposure	-	-	-	-	-	-	-
<b>2. Equity securities and stock indices</b>							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
<b>3. Exchange rates and gold</b>							
- notional value	-	-	1,147	-	-	6,900	-
- positive fair value	-	-	3	-	-	140	-
- negative fair value	-	-	1	-	-	142	-
- future exposure	-	-	-	-	-	-	-
<b>4. Other underlying</b>							
- notional value	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-



4.8 OTC financial derivatives: banking book - notional amounts, gross positive and negative fair value by counterparties - contracts subject to netting agreements

31.12.2016

Contracts subject to netting agreements	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
<b>1) Debt securities and interest rates</b>							
- notional amount	-	-	25,141,507	2,944,515	-	-	-
- positive fair value	-	-	476,023	31,694	-	-	-
- negative fair value	-	-	892,268	117,559	-	-	-
<b>2) Equity securities and stock indices</b>							
- notional amount	-	-	278	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	2	-	-	-	-
<b>3) Exchange rates and gold</b>							
- notional amount	-	-	412,319	-	-	-	-
- positive fair value	-	-	15,791	-	-	-	-
- negative fair value	-	-	46,939	-	-	-	-
<b>4) Other amounts</b>							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-



#### 4.9 OTC financial derivatives - residual life: notional amounts

Underlying asset/residual life	Up to 1 year	1 to 5 years	Over 5 years	Total
<b>A. Regulatory trading book</b>	<b>269,921,542</b>	<b>212,057,403</b>	<b>52,192,124</b>	<b>534,171,069</b>
A.1 Financial derivatives on debt securities and interest rates	254,370,843	204,161,670	50,868,599	509,401,112
A.2 Financial derivatives on equity securities and stock indices	8,517,240	6,169,993	1,293,525	15,980,758
A.3 Financial derivatives on exchange rates and gold	6,479,754	1,675,373	30,000	8,185,127
A.4 Financial derivatives on other underlying assets	553,705	50,367	-	604,072
<b>B. Banking book</b>	<b>3,824,834</b>	<b>20,548,190</b>	<b>5,441,037</b>	<b>29,814,061</b>
B.1 Financial derivatives on debt securities and interest rates	3,404,469	20,548,190	5,440,759	29,393,418
B.2 Financial derivatives on equity securities and stock indices	-	-	278	278
B.3 Financial derivatives on exchange rates and gold	420,365	-	-	420,365
B.4 Financial derivatives on other underlying assets	-	-	-	-
<b>Total 31 12 2016</b>	<b>273,746,376</b>	<b>232,605,593</b>	<b>57,633,161</b>	<b>563,985,130</b>
<b>Total 31 12 2015</b>	<b>37,742,137</b>	<b>78,838,750</b>	<b>66,845,285</b>	<b>183,426,172</b>



#### A.10 OTC financial derivatives: Counterparty risk/Financial risk – internal models

As at today, EPE models are not used for either internal operational or reporting purposes.

#### A.11 OTC derivatives traded with customers for hedging purposes

The Group's trading in OTC derivatives is exclusively intended to meet customers' hedging needs and is targeted at the Group's corporate customers classified as Retail clients or Professional/Qualified investors under the MiFID directive. "Public Institutions" customers are excluded from those offered OTC derivative products and transactions, with the exception of the cases expressly set forth in Law no. 147 of 27/12/2013, art. 1, paragraph 572.

In addition to being included in the afore-mentioned categories, target customers must qualify as having the required qualitative and quantitative standing in terms of business carried out, corporate structure, assets and creditworthiness.

As at today, the catalogue of OTC derivative products on offer includes approximately 150 products and strategies.

These products are broken down into two types:

- derivatives for new hedges,
- debt-rescheduling hedges for transactions already in place.

The Catalogue is then subdivided into three classes depending on the type of underlying assets:

- interest rate hedges;
- foreign exchange hedges;
- commodity hedges.

Within each class, the products are then differentiated based on basic technical form and structure, which may involve a single, basic transaction or multiple transactions organised into strategies.

Among these products, the Parent Company's Risk Management function has identified a set of products classifiable as "plain vanilla" because of their basic structure, sensitivity to one risk factor and easy understandability. "Plain vanilla" products have been identified as the only type eligible for inclusion in the offer for Retail customers.

The class of Non Plain Vanilla products generally includes mixed, structured strategies showing more or less complex exotic features (e.g. digital payment profiles, barriers, etc.) or resulting from the combination of multiple basic financial components. This class of products is for Professional/Qualified investors.

Group trading in OTC derivatives is regulated according to the following main guidelines:

- Trading in derivatives by customers is conditional upon ascertaining and monitoring that they are only used for hedging purposes. Three types of hedging relationships are possible:
  - micro hedges: i.e. hedging of individual, well-defined items in the customer's assets and/or liabilities held with the Group or other intermediaries;
  - macro hedges: i.e. hedging of a portfolio of assets and/or liabilities, or a part of it, held with the Group or other intermediaries;



- forward transaction hedges: by way of example, hedging through OTC derivatives in which the underlying is an exchange rate against future settlement of specific business transactions;
- Customer trading shall not in any case have a leverage effect on hedged positions;
- Trading must occur in compliance with the requirement of appropriateness (to ensure the highest level of customer protection) and adequate financial advice;
- Trading under the appropriateness regime is only allowed as a marginal option for participation in tenders, for a subset of Corporate clients with proven high level of financial culture (Large Experienced Corporate of “LEC”) and for Financial Institutions. The execution of transactions qualifying as inappropriate is in any case prevented.

Trading in OTC derivatives involves, first of all, the assumption of market risk by the Group, defined as potential loss that may be incurred on positions held subsequent to unfavourable variations in specific market parameters. The main risk factors this type of trading is subject to include: interest rate, foreign exchange, market index, commodities and related volatility and correlations. At the same time, the Group also takes on the risk that the counterparty of a derivative-based transaction is in default prior to settlement (counterparty risk).

Trading in derivatives with customers involves the centralisation of the product factory and market risk monitoring in MPSCS, whereas the allocation, management and monitoring of counterparty risk with customers lie with the Group’s Retail Banks.

The estimation of counterparty risk on Over the Counter (OTC) derivatives with customers is based on the fair value determination of positions held.

OTC derivatives traded with customers are comprised in level 2 of the Fair Value Hierarchy on the basis of which fair value is calculated through proprietary valuation methods and assessment models fed with parameters available on the market. The models used are discussed among the Operating Units and specialised Risk Management and Quantitative Analysis functions and submitted for validation to the Parent Company’s Risk Management function. These models are subject to periodic review so as to guarantee constant alignment between the model approach adopted and prevailing domestic and international best practices. Furthermore, the pricing models for OTC derivatives with customers are consistent with the methodological criteria used by the Group for the valuation of its own positions.

Group customers holding positions in OTC derivatives numbered approximately 5,000 as at 31 December 2016.

The following table reports the fair value of positions in OTC derivatives for the Group, by type of products (“Plain Vanilla” / “Non Plain Vanilla”).

#### ■ OTC derivatives hedging with customers

Montepaschi Group - EUR/mln of 31 12 2016

Product	Net Fair Value	of which	
		Positive Fair Value	Negative Fair Value
Plain Vanilla	215.95	286.41	(70.46)
Non-plain Vanilla	32.08	52.04	(19.96)
<b>Total</b>	<b>248.03</b>	<b>338.45</b>	<b>(90.42)</b>

As at 31 December 2016, the net fair value of these products was, on the whole, positive for the Group and therefore negative for customers, at approx. EUR 248 mln.





## B. CREDIT DERIVATIVES

### B1. Credit derivatives: end of period notional amounts

Transaction categories	Regulatory trading book		Banking book	
	single name	with multiple counterparties (basket)	single name	with multiple counterparties (basket)
<b>1. Purchases of protection</b>				
a) Credit default products	1,012,952	38,360	-	-
b) Credit spread products	-	-	-	-
c) Total rate of return swap	-	-	-	-
d) Others	-	-	-	-
<b>Total 31 12 2016</b>	<b>1,012,952</b>	<b>38,360</b>	<b>-</b>	<b>-</b>
<b>Total 31 12 2015</b>	<b>2,570,369</b>	<b>183,180</b>	<b>-</b>	<b>-</b>
<b>2. Sales of protection</b>				
a) Credit default products	3,098,678	13,360	-	-
b) Credit spread products	-	-	-	-
c) Total rate of return swap	-	-	-	-
d) Others	-	-	-	-
<b>Total 31 12 2016</b>	<b>3,098,678</b>	<b>13,360</b>	<b>-</b>	<b>-</b>
<b>Total 31 12 2015</b>	<b>5,586,282</b>	<b>193,564</b>	<b>-</b>	<b>-</b>

The end of period notional amounts is not significantly different from the average value during the year.

**B2. OTC credit derivatives: gross positive fair value - breakdown by products**

Portfolios/Types of derivatives	Positive Fair Value	
	Total 31 12 2016	Total 31 12 2015
<b>A. Regulatory trading book</b>	<b>39,929</b>	<b>79,363</b>
a) Credit default products	39,929	47,836
b) Credit spread products	-	-
c) Total rate of return swap	-	31,527
d) Other	-	-
<b>B. Banking book</b>	<b>-</b>	<b>-</b>
a) Credit default products	-	-
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
<b>Total</b>	<b>39,929</b>	<b>79,363</b>

**B3. OTC credit derivatives: gross negative fair value - breakdown by products**

Portafogli/Tipologie derivati	Negative Fair value	
	Total 31 12 2016	Total 31 12 2015
<b>A. Regulatory trading book</b>	<b>48,496</b>	<b>72,044</b>
a) Credit default products	48,496	72,044
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
<b>B. Banking book</b>	<b>-</b>	<b>-</b>
a) Credit default products	-	-
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
<b>Total</b>	<b>48,496</b>	<b>72,044</b>



#### B.4 OTC credit derivatives: gross (positive and negative) fair value / counterparty risk - contracts not subject to netting agreements

No transactions of this nature are recorded at the reporting date.

#### B.5 OTC credit derivatives: gross (positive and negative) fair value / counterparty risk- contracts subject to netting agreements

31.12.2016

Contracts not subject to netting agreements	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
<b>Regulatory trading</b>							
1) Purchases of protection							
- notional amount	-	-	677,237	374,076	-	-	-
- positive fair value	-	-	2,938	20,850	-	-	-
- negative fair value	-	-	14,816	1,257	-	-	-
2) Sales of protection	-	-	-	-	-	-	-
- notional amount	-	-	639,582	2,284,975	187,480	-	-
- positive fair value	-	-	5,495	10,646	-	-	-
- negative fair value	-	-	4,144	26,557	1,722	-	-
<b>Banking book</b>							
1) Purchases of protection	-	-	-	-	-	-	-
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
2) Sales of protection	-	-	-	-	-	-	-
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-

**B.6. Credit derivatives - residual life: notional amounts**

Underlying asset/residual life	Up to 1 year	1 to 5 years	Over 5 years	Total
<b>A. Regulatory trading book</b>	<b>1,052,236</b>	<b>1,775,740</b>	<b>1,335,374</b>	<b>4,163,350</b>
A.1 Credit derivatives with qualified reference obligation	910,273	1,658,810	1,335,374	3,904,457
A.2 Credit derivatives with non-qualified reference obligation	141,963	116,930	-	258,893
<b>B. Banking book</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
B.1 Credit derivatives with qualified reference obligation	-	-	-	-
B.2 Credit derivatives with non-qualified reference obligation	-	-	-	-
<b>Total 31 12 2016</b>	<b>1,052,236</b>	<b>1,775,740</b>	<b>1,335,374</b>	<b>4,163,350</b>
<b>Total 31 12 2015</b>	<b>3,009,519</b>	<b>2,552,705</b>	<b>2,971,171</b>	<b>8,533,395</b>

**B.7 Credit derivatives: counterparty risk/financial risk – internal models**

As at today, EPE models are not used for either internal operational or reporting purposes.



## C. FINANCIAL AND CREDIT DERIVATIVES

### C.1 OTC financial and credit derivatives: net fair value and future exposure by counterparty

31/12/2016

	Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
<b>1) Financial derivatives, bilateral agreements</b>							
- positive fair value	-	-	16,433	208,813	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	61,791	1,117,425	-	-	-
- net counterparty risk	-	-	60,412	1,258,654	-	-	-
<b>2) Credit derivatives, bilateral agreements</b>							
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	341	-	-	-
- future exposure	-	-	-	1,000	-	-	-
- net counterparty risk	-	-	-	1,000	-	-	-
<b>3) "Cross product" agreements</b>							
- positive fair value	-	-	789,045	933,224	-	-	-
- negative fair value	-	-	734,582	159,726	50,954	212	-
- future exposure	-	-	418,916	414,506	11,693	85	-
- net counterparty risk	-	-	565,922	340,466	11,693	85	-



### 1.3 – Liquidity risk

#### Qualitative Information

##### A. Liquidity risk: general aspects, operational processes and measurement methods

In 2016, the Group concentrated on updating its strategic and operating liquidity risk management processes, placing attention on the integration of the Internal Liquidity Adequacy Assessment Process (ILAAP) within company decision-making processes and the Liquidity Risk Framework.

#### *Group Liquidity Risk Framework*

The Group has used a **Liquidity Risk Framework** for many years now, intended as the set of tools, methodologies, organisational and governance setups which ensures both compliance with national and international regulations and adequate liquidity risk governance in the short (Operating Liquidity) and medium/long (Structural Liquidity) term, under business as usual and stress conditions.

Management of the Group's **Operating Liquidity** is intended to ensure the Group is in a position to meet cash payment obligations in the short term. The essential condition for a normal course of business in banking is the maintenance of a sustainable imbalance between cash inflows and outflows in the short term. The benchmark metric in this respect is the difference between net cumulative cash flows and Counterbalancing Capacity, i.e. reserve of liquidity in response to stress conditions over a short time horizon. From the extremely short-term perspective, the Group adopts a system for the analysis and monitoring of intraday liquidity, with the goal of ensuring normal development during the day of the bank's treasury and its capacity to meet its intraday payment commitments.

Management of the Group's **Structural Liquidity** is intended to ensure the structural financial balance by maturity buckets over a time horizon of more than one year, both at Group and individual company level. Maintenance of an adequate dynamic ratio between medium/long term assets and liabilities is aimed at preventing current and prospective short-term funding sources from being under pressure. The benchmark metrics, mitigated by specific internal operating limits set by the Board of Directors, include gap ratios which measure both the ratio of total loans over more-than-1-year and more-than-5-year maturity deposits and the ratio of loans to retail/corporate deposits regardless of their maturities. The Group defined and formalised the asset encumbrance management and monitoring framework with the goal of analysing:

- the overall degree of encumbrance of total assets;
- the existence of a sufficient quantity of assets that may be encumbered but which are free, with respect to what is defined in the liquidity risk tolerance;
- the Group's capacity to transform bank assets into eligible assets (or in an equivalent manner, to encumber non-eligible assets in bilateral transactions).

The liquidity position is monitored under both business-as-usual conditions and under specific and/or system-wide **stress scenarios** based on the Liquidity Stress test Framework formalised during the year. The exercises have the twofold objective of timely reporting the Group's major vulnerabilities in exposure to liquidity risk and allowing for prudential determination of the required levels of Counterbalancing Capacity (liquidity buffer), intraday liquidity reserves and medium/long-term structural balance.

The **Contingency Funding Plan**, drafted by the Finance, Treasury & Capital Management Area, is the document which describes the set of tools, policies and processes to be enforced under stress or liquidity crisis conditions.



### Liquidity limits

As part of the overall budgeting process and particularly within the scope of Risk Appetite Framework, the Liquidity Risk Framework identifies the tolerance thresholds for liquidity risk, that is to say the maximum risk exposure deemed sustainable in a business-as-usual scenario and under stress conditions. The short/medium and long-term liquidity risk limits derive from the setting of these risk appetite thresholds.

The short-term limit system is organised into three different levels that provide for a timely reporting of proximity to the operating limits, i.e. the maximum liquidity risk appetite set within the annual Liquidity Risk Tolerance process.

In order to immediately identify the emergence of vulnerabilities in the Bank's position, the Group has developed a range of **Early Warnings**, classified as generic or specific depending on whether the individual indicator is designed to detect potential vulnerabilities in the overall economic context of reference or in the Group structure. The triggering of one or more early warning indicators is a first level of alert and contributes to the overall assessment of the Group's short-term level of liquidity position.

### Liquidity position: regulatory indicators

The Group uses the following main indicators to assess its liquidity profile:

- Liquidity Coverage Ratio (LCR), which is the short-term liquidity indicator corresponding to the ratio between the amount of high quality liquid assets and the total net cash outflows in the subsequent 30 calendar days. Since October 2015, the indicator has been subject to a minimum regulatory requirement of 60% in 2015, 70% in 2016, 80% in 2017 and 100% in 2018;
- Net Stable Funding Ratio (NSFR), which is the structural 12-month liquidity indicator corresponding to the ratio between the available stable funding amount and the compulsory stable funding amount. Although there is no minimum regulatory requirement for this indicator, it is included in supervisory reporting every quarter; and
- Loan to Deposit Ratio, representing the ratio between loans to customers and direct funding, excluding transactions with central counterparties.

Trends in these three indicators during the reference period are shown below.

	Regulatory requirement	31 December 2016	31 December 2015
LCR (*)	70%	108%	222%
NSFR (*)	-	88%	101%
Loan to Deposit Ratio (**)	-	99.2%	93.4%

(\*) Note that the NSFR figure represents a calculation provided exclusively for informational purposes and is calculated in accordance with the provisions laid out in the document published by the Basel Committee in October 2014 (Basel III: The net stable funding ratio, Basel Committee on Banking Supervision), pending regulatory provisions, which could be different with reference to the aggregates to be considered as well as any weighting factors to be applied to them.

(\*\*) Calculated as Loans to customers / (Deposits from customers + Debt securities issued + Financial liabilities designated at fair value) using data extracted from the 2016 and 2015 interim financial statements, respectively.



The short-term liquidity indicator, the Liquidity Coverage Ratio (LCR), was 108% as at 31 December 2016, higher than the minimum regulatory requirement of 70% for 2016, but down significantly since December 2015 (222%). Moreover, please note that the quantification of the aggregates at the basis of the calculation of the liquidity indicators described above does not contain discretionary assessments by the Bank.

The medium/long-term liquidity indicator, the Net Stable Funding Ratio (NSFR), was 88% as at 31 December 2016, representing a decline since December 2015 (101.0%).

Pressure received in 2016 was particularly high in January and February, after the entry into force of the BRRD, and in July and August due to the negative results of the stress tests. The deterioration continued gradually in September, October and November as well, as a result of uncertainties surrounding the Parent Company's implementation of the capital increase and press speculation about the possible repercussions of its failure. Lastly, in December, the ECB denying its authorisation to postpone the capital increase and the market transaction not coming to fruition engendered further serious concerns amongst customers, triggering new, significant withdrawals. The Group's liquidity situation stabilised following the approval of Law Decree no. 237 (Chapter 1) of 23 December 2016, whereby the Ministry of Treasury laid out a series of Italian bank liquidity support measures, including the government guarantee on bond issues (Government Guaranteed Bonds).

The Group monitors its Counterbalancing Capacity (understood as the Bank's capacity to meet its liquidity requirements, consisting of available cash in the RTGS account at the European Central Bank and stocks of eligible unencumbered assets available for use in financing transactions) and liquidity profile on a daily basis. In addition, the liquidity position is also analysed through the Bank's "time-to-survival" in ordinary and stress conditions. Indeed, the "Time-to-Survival" and the "Time-to-Survival under stress" are calculated as the time in which the liquidity reserve is fully absorbed in business-as-usual conditions and under stress: in the second case, this amount defines the Bank's survival time in the case of simultaneous adverse market trends and specific situations. As at 31 December 2016 the operating liquidity position showed an unencumbered Counterbalancing Capacity of EUR 6.9 bn, down by roughly EUR 17.1 bn compared to the figure as at 31 December 2015 (EUR 24 bn).

#### Main events in 2017

In January 2017, the Parent Company completed the first two issues of government backed securities pursuant to Law Decree no. 237/2016, for a total amount of EUR 7 bn. The securities, backed by the government guarantee pursuant to Law Decree no. 237/2016, were subscribed in full by the issuer. In February, the above-mentioned securities were used in full in sales transactions in the market and as collateral to back funding transactions.

The liquidity indicators have improved since 31 December 2016, with the short-term liquidity indicator, the Liquid Coverage Ratio (LCR), at 136% as at 28 February 2017, and the operating liquidity position having an unencumbered counterbalancing capacity of EUR 14.7 bn as at 09 March 2017.





## Quantitative Information

### Breakdown of financial assets and liabilities by residual contractual duration - Currency: Euro

Account / Maturity	On demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	over 5 years	Unspecified maturity
<b>Balance-sheet assets</b>	16,391,062	3,016,207	3,043,492	4,442,080	7,156,372	5,743,653	9,123,408	37,993,883	45,743,490	3,990,619
A.1 Government securities	51	21	5,322	181	298,611	625,423	1,209,085	9,964,785	5,890,200	-
A.2 Other debt securities	17,556	62,127	2,497	77,266	53,036	60,695	109,703	1,055,515	982,550	424,016
A.3 Units of UCITS	175,100	-	-	-	822	-	-	-	4,036	-
A.4 Loans	16,198,355	2,954,059	3,035,693	4,364,633	6,805,903	5,057,545	7,804,610	25,963,593	38,866,704	3,566,601
- Banks	3,741,580	26,290	17,997	55,595	82,240	73,934	71,294	75,451	183,968	3,566,601
- Customers	12,456,775	2,925,779	3,017,696	4,309,038	6,723,663	4,983,611	7,733,326	25,884,142	38,682,736	-
<b>Balance-sheet liabilities</b>	42,437,283	15,126,161	5,458,094	8,530,344	13,597,512	4,655,403	4,923,155	34,961,474	6,752,415	1,315,944
B.1 Deposits and current accounts	40,758,924	207,960	249,003	405,295	2,045,464	2,094,201	1,664,481	3,755,874	382,673	-
- Banks	150,799	-	-	-	975	82	14,516	511,752	305,343	-
- Customers	40,608,125	207,960	249,003	405,295	2,044,489	2,094,119	1,649,965	3,244,122	77,330	-
B.2 Debt securities	12,005	1,980	1,810	55,138	4,543,459	1,340,031	2,167,190	9,768,854	4,627,871	1,315,944
B.3 Other liabilities	1,666,354	14,916,221	5,208,271	8,069,911	7,008,569	1,221,171	1,091,494	21,446,746	1,741,071	-
<b>Off-balance-sheet transactions</b>	-	-	-	-	-	-	-	-	-	-
C.1 Financial derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	89,443	921,360	169,576	1,094,566	2,450,692	1,832,546	495,057	934,588	653,931	429,974
- short positions	1,030	2,184,625	286,418	429,504	1,123,918	676,891	469,354	1,154,757	701,359	430,024
C.2 Financial derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	4,452,360	-	-	3,957	81,456	52,396	49,041	-	211	-
- short positions	2,752,335	446	-	5,684	47,457	36,152	103,983	-	3,278	-
C.3 Deposits and borrowings to be received	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	294	-	-	-	-	-	-	-
- short positions	-	-	294	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	-	-	-	-	-	-	-	-	-	-
- long positions	840,431	1,925,588	31,190	17,232	93,982	169,458	554,702	225,396	957,402	529,347
- short positions	4,774,587	3,189	30,000	-	-	-	-	26,700	-	360,008
C.5 Financial guarantees given	34,821	49	870	405	3,293	7,245	8,901	31,571	153,254	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	227,700	227,560	234,506	916,043	1,231,110	-
- short positions	-	-	-	-	250,600	222,560	334,012	1,008,587	2,072,219	-
C.8 Credit derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	341	-	-	-	-	-	-	-	-	-



Breakdown of financial assets and liabilities by residual contractual duration - Currency: Other

		31.12.2016						
Account / Maturity	On demand	1 to 7 days		15 days to 1 month		3 to 6 months		Unspecified maturity
		1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	
<b>Balance-sheet assets</b>	<b>420,534</b>	<b>33,088</b>	<b>43,166</b>	<b>157,777</b>	<b>277,400</b>	<b>167,504</b>	<b>104,821</b>	<b>734,495</b>
A.1 Government securities	31,162	-	4	1	103	2,605	128	17,005
A.2 Other debt securities	5	-	3	5	938	1,379	12,854	417,942
A.3 Units of UCITS	5,677	-	-	-	-	-	-	-
A.4 Loans	383,700	33,088	43,166	157,777	276,359	163,520	91,839	299,548
- Banks	142,439	14,308	16,524	54,134	68,743	46,119	25,454	11,324
- Customers	241,261	18,780	27,536	103,637	207,616	117,401	66,385	298,548
<b>Balance-sheet liabilities</b>	<b>437,212</b>	<b>49,476</b>	<b>19,466</b>	<b>62,020</b>	<b>17,419</b>	<b>5,146</b>	<b>52,133</b>	<b>3,569</b>
B.1 Deposits and current accounts	410,771	2,042	19,466	61,963	4,374	4,729	4,308	343
- Banks	28,182	-	-	-	-	-	-	-
- Customers	382,579	2,042	19,466	61,963	4,374	4,729	4,308	343
B.2 Debt securities	-	-	-	122	8,301	408	47,754	63,011
B.3 Other liabilities	26,441	47,434	-	35	4,744	9	71	204
<b>Off-balance-sheet transactions</b>								
C.1 Financial derivatives with exchange of principal	-	-	-	-	-	-	-	-
- long positions	90,323	391,575	423,789	523,175	889,687	475,359	135,474	90,841
- short positions	79,979	185,053	204,503	1,158,724	2,589,416	702,062	228,807	116,135
C.2 Financial derivatives without exchange of principal	-	-	-	-	-	-	-	-
- long positions	340,418	-	-	-	-	-	-	-
- short positions	216,396	-	-	-	-	-	-	-
C.3 Deposits and borrowings to be received	-	-	-	-	-	-	-	-
- long positions	-	-	237	-	-	-	378	-
- short positions	-	-	237	-	-	-	378	-
C.4 Irrevocable commitments to disburse funds	-	-	-	-	-	-	-	-
- long positions	112,009	-	34	3,771	3,057	10,073	34,971	211,532
- short positions	237,116	-	-	-	3,070	149	23,727	164,329
C.5 Financial guarantees given	1,346	-	-	-	5	1	12	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	301,734	381,656	88,907	1,250,151
C.8 Credit derivatives without exchange of principal	-	-	-	-	390,734	371,656	113,907	1,237,951
- long positions	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-



### Self-securitisations

The securitisation transactions whereby the Group underwrites securities issued by vehicle companies (self-securitisations) are not shown in the tables of Part E of the Consolidated Notes to the Financial Statements, section C “Asset securitisation and disposal transactions”, pursuant to the provisions of Circ. 262 of the Bank of Italy.

Self-securitisations of performing assets are transactions aimed at improving liquidity risk management by optimising the amount of assets readily available to cover liquidity requirements.

Although the Group’s direct and full underwriting of the notes issued by the vehicles does not make it possible to obtain direct liquidity from the market, it still provides the Group with securities that could be used for ECB refinancing and repo transactions on the market, thereby improving the Group’s safety margin against liquidity risk.

These sale transactions had no economic impact on the financial statements: loans continue to be reported under Item 70 “Loans to customers” on the assets side, while underwritten notes are not reported.

As at 31 December 2016, this category includes the self-securitisations entered into in December 2007 (Siena Mortgages 07-5), in March 2008 (Siena Mortgages 07-5 2nd tranche), in February 2009 (Siena Mortgages 09-6) and in October 2016 (Siena PMI 2016), in addition to Siena Consumer which became a self-securitisation in 2016.

#### *Siena Mortgages 07-5, 1st and 2nd series*

On 21 December 2007, through the purchase of securities issued by the vehicle, the Group finalised a securitisation of performing loans consisting of a portfolio of 57,968 residential mortgages for a total of EUR 5,162 mln, of which a balance of EUR 1,523.0 mln (27,342 mortgage loans) outstanding as at 31 December 2016.

In order to fund the acquisition, the Vehicle issued Residential mortgage-backed floating-rate securities (RMBS) in the following classes, rated by Moody’s and Fitch as at 31 December 2016:

- Class A notes (A2 and AA+) for an amount of EUR 4,765.9 mln, of which EUR 3,620.7 mln redeemed;
- Class B notes (A1 and A), for an amount of EUR 157.45 mln;
- Class C notes (B3 and BBB-), for an amount of EUR 239.0 mln.

To support the transaction, EUR 124.0 mln in Junior securities were also issued. As at 31 December 2016, they amount to EUR 12.4 mln, under asset item 70 “Loans to customers”. The transaction reached the Protection Ratio (ratio between total Class B and C notes and total Class A, B and C notes) which allowed for the gradual reduction of the cash reserve to the target amount of EUR 38.7 mln.

The first series was followed on 31 March 2008 by the second series (Siena Mortgages 07-5 second series), collateralised by a separate pool of assets consisting of an additional sale of a portfolio of performing loans composed of 41,888 residential mortgages for a total of EUR 3,461 mln and with a residual life of about 20 years.

As at 31 December 2016, 16,122 loans were outstanding for a balance of EUR 1,108.2 mln.

In order to fund the acquisition of loans, the Vehicle (the existing Siena Mortgages 07-5 S.p.a., already used for the securitisation of performing residential mortgages which was completed in December 2007) issued RMBS (Siena Mortgage 2nd series) in the following classes, rated by Moody’s and Fitch as at 31 December 2016:

- Class A notes (Aa2 and AA+) for an amount of EUR 3,129.4 mln, of which EUR 2,299.9 mln redeemed;



- Class B notes (A1 and A), for an amount of EUR 108.3 mln;
- Class C notes (NR and BBB-), for an amount of EUR 178.3 mln.

To support the transaction, EUR 82.1 mln in Junior securities were also issued. As at 31 December 2016, they amount to EUR 8.2 mln, under asset item 70 “Loans to customers”. The transaction reached the Protection Ratio (ratio between total Class B and C notes and total Class A, B and C notes) which allowed for the gradual reduction of the cash reserve to the target amount of EUR 26.7 mln.

#### *Siena Mortgages 09-6, 1st and 2nd series*

In 2009 the Group carried out two securitisations through the vehicle named Siena Mortgages 09 – 6 Srl. The first series was finalised on 20 February 2009 through the sale of a portfolio of performing mortgages in real estate and building by the Parent Company for a total of EUR 4,436 mln. As at today, the remaining debt balance stands at EUR 1,891.9 mln, for a total of 27,053 loans.

In order to fund the acquisition of the portfolio sold, the Vehicle issued Residential mortgage-backed floating-rate securities (RMBS) in the following classes, rated by Moody’s and Fitch as at 31 December 2015:

- Class A notes (Aa2 and AA+) for an amount of EUR 3,851.3 mln, of which EUR 2,558.4 mln redeemed;
- Class B notes (NR and A), for an amount of EUR 403.7 mln;
- Class C notes (NR and BBB-), for an amount of EUR 181.4 mln;
- Class D notes (not rated), for an amount of EUR 106.7 mln.

The first series was followed, on 26 June 2009, by an additional securitisation of EUR 4,101 mln. That transaction was closed on 14 June 2016 with the full repayment of the notes.

#### *Siena Consumer*

This securitisation transaction was carried out in 2013 through the sale to the vehicle Siena Consumer S.r.l. of a portfolio of approximately EUR 1.5 mln consisting of 200,542 personal loans, auto loans, and special-purpose loans originated by Consum.it S.p.A., now absorbed by Banca Monte dei Paschi di Siena S.p.A. As at 31 December 2016, the remaining debt balance amounted to EUR 307.6 mln (194,960 outstanding loans).

To fund the acquisition of the portfolio, the Vehicle issued unrated asset-backed securities. Class A was placed with an institutional investor, while the remaining classes were subscribed by the Originator. As at 31 December 2016, Class A was repaid in full; therefore, the Group holds all securities issued by the vehicle (self-securitisation).

As subordinated lender, upon occurrence of a Commingling Reserve Trigger (Rating MPS < BBB- for Fitch and BBB (low) for DBRS) the Parent Company was contractually required to pay to the vehicle the amount of the Commingling Reserve up to a maximum of EUR 188 mln. However, after that event took place, a Back-up Servicer was appointed on 8 September 2016 and no amount was paid for the reserve.



### Siena PMI 2016

In 2016 the Group carried out a securitisation through the vehicle named Siena PMI 2016 S.r.l. The transaction was finalised on 30 September 2016 through the sale by the Parent Company of a portfolio of performing loans to Italian small and medium enterprises, for a total of EUR 1,739.7 mln. As at today, the remaining debt balance stands at EUR 1,513.6 mln, for a total of 17,515 loans.

In order to fund the acquisition of the portfolio sold, on 27 October 2016 the Vehicle issued asset-backed securities (ABS) in the following classes, rated by Fitch and DBRS as at 31 December 2016:

- Class A1 notes (rated AA+ and AAA), for an amount of EUR 470.0 mln;
- Class A2 notes (rated AA+ and AAH), for an amount of EUR 400.0 mln;
- Class B notes (A- and AH), for an amount of EUR 150.0 mln;
- Class C notes (B- and BL), for an amount of EUR 313.0 mln;
- Class J notes (not rated), for an amount of EUR 406.3 mln.



## 1.4 – Operational risk

### Qualitative Information

#### A. Operational risk: general information, operational procedures and measurement methods

##### General information and Framework structure

By an administrative ruling dated 12 June 2008, the Bank of Italy authorised the Group to use internal models for the determination of capital requirements for credit and operational risks.

The adoption of the advanced model (AMA) calls for banks to:

1. adopt an internal organisation which defines the roles of the corporate bodies and functions involved in the operational risk management process;
2. establish a control function for data gathering and storing, capital requirement calculation, risk profile assessment and reporting;
3. perform ongoing checks on the quality of the management system and its compliance with regulatory provisions;
4. delegate the internal auditing body to perform periodic audits on the operational risk management system;
5. ensure over time that the system is actually made use of in the usual course of business (use test).

For this purpose, the Group has adopted an integrated system for operational risk management, i.e. an internal framework built around a governance model that involves all companies included in the AMA model scope of application. The approach defines the standards, methods and instruments that make it possible to measure risk exposure and the effects of mitigation by business area.

The advanced approach is designed to integrate all major qualitative and quantitative (LDA-Scenario mixed model) information sources (information or data).

The quantitative Loss Distribution Approach component is based on the collection, analysis and statistical modelling of internal and external time series of loss data (the latter supplied by the Italian Database of Operational Losses, DIPO).

The qualitative component focuses on the evaluation of the risk profile of each unit and is based on the identification of relevant scenarios. In this framework, the companies included in the AMA scope area are involved in the: identification of the processes and risks to be assessed; assessment of risks by process managers in charge; identification of possible mitigation plans; discussion of priorities and technical-economic feasibility of mitigating actions with Head Office functions.

Next is a phase for monitoring progress on the implementation of actions scheduled and compliance with objectives and deadlines.

The Framework identifies Group Operational Risk Management (ORM) as the operational risk control function (within Parent Company Risk Management).

The Parent Company's ORM calculates the capital required to hedge operational risks by the use of different components of the model (internal data, external data, contextual and control factors, qualitative analyses), supports decision-making by Top Management from the standpoint of creating



value by containment, mitigation and transfer of the risks detected, and as it does for other companies included in the scope, it gathers internal loss data and identifies the risks to be evaluated in qualitative analyses.

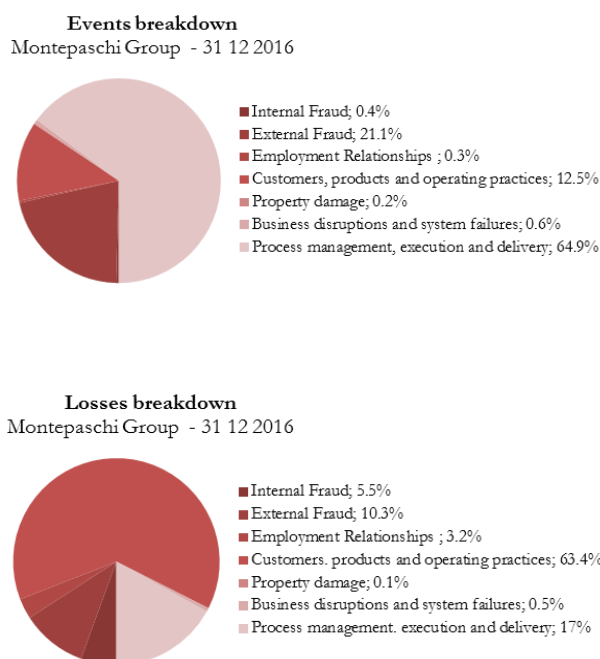
The Advanced Measurement Approach (AMA) is applied to all domestic financial and banking entities, while the foundation model is used for remaining components and foreign companies. As at 31 December 2016 internal model coverage in terms of the relevant indicator exceeded 95%.

ORM has also set up a reporting system which ensures timely information on operational risks for the Top Management, which transposes the strategic principles of the management system into specific operating policies. Reports are regularly submitted to the Risk Management Committee and governing bodies.

Over time, the adoption of the AMA model has ensured better-informed management of operational risk, guaranteeing a material progressive reduction of the Group's operational risk.

### Quantitative Information

The percentage breakdown of events and operational losses recognised in 2016 is reported below, divided into various risk classes.



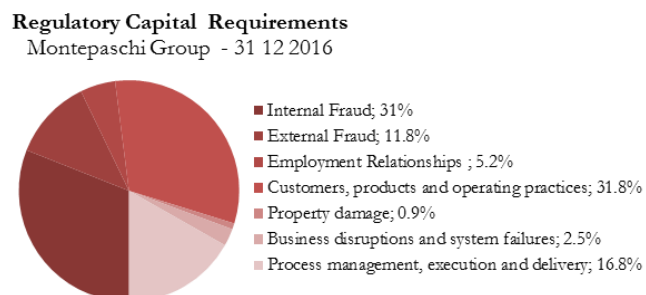
As at 31 December 2016, the number of operational risk events remained largely stable as compared to December 2015, while operational losses declined. Therefore the downward trend in comparison with previous years is confirmed.

The types of event with the greatest impact on the income statement remain attributable to non-fulfilment of professional obligations with customers (under “Customers, products and operating practices”: approximately 63% of the total) and operational and process management shortfalls (under “Process management, execution and delivery”: 17% of the total).

With regard to “non-fulfilment of professional obligations with customers”, risk events are mainly associated with claims due to the application of compound interest.



By contrast, the graph below shows the breakdown of regulatory requirements by risk class:



The Regulatory Requirement as at 31 December 2016 was down slightly compared to December 2015.

The breakdown of losses recognised in the period clearly differs from the breakdown of the capital in that the latter is calculated using a 5-year time series and the incidence of the unexpected loss component prevails.





## Main types of legal action

The 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 relative amount can be reliably estimated, allocations are made to the Provision for Risks and Charges using statistical or analytical criteria.

The key characteristics of significant cases, by macro-category or individually, are described below:

### A) Significant cases by macro-category

The cases brought against the Group belonging to sufficiently homogeneous types for which the risk has been estimated using analytical and/or statistical criteria can be grouped for the most part into macro-categories, characterised individually by a common denominator represented by alleged critical elements of products, operations, services or relationships for which or in which the Group banks played the role of disbursement or placement entities.

The main macro-categories are related to situations concerning:

- 1) compound interest and in general the application of interest and conditions;
- 2) bankruptcy rescindments;
- 3) the placement of bonds issued by Countries or Companies that subsequently defaulted, and financial plans.

The table below presents the data of the main macro-categories as at 31 December 2016:

Type of dispute	No. of cases	Petitem (EUR mln)	Funds (EUR mln)
Interest compounding	3,656	473	190
Claw-backs of payments received from defaulted entities	371	432	81
Defaulting obligations and financial plans	928	59	15

#### 1) Disputes concerning compound interest, interest and conditions

Following the change in orientation by the Supreme Court of Cassation (Corte di Cassazione) on the legitimacy of the practice of capitalising on a quarterly basis the interest payable accrued on current accounts, as of 1999 there has been a progressive increase in claims for the return of interest expense resulting from quarterly compound interest. In these lawsuits, the plaintiffs also contest the legitimacy of the interest rate and the methods to determine the commissions applied to the accounts. In this



regard, the interpretation introduced since 2010 by the Supreme Court on usury - according to which overlimit fees (Commissioni di Massimo Scoperto, CMS), even before Italian Law no. 2/2009 was enforced, should have been calculated on the basis of the effective global rate (Tasso Effettivo Globale - TEG), contrary to Bank of Italy guidelines - is frequently the pretext for the actions brought by customers. The plaintiffs most often claim irregularities in current account balances; however, claims concerning compound interest are also increasingly frequent: these cases are based on the alleged illegitimacy of the so-called “French-style amortisation” in mortgage loans, and violation of Italian Law no. 108/1996 on usury in term loans. Aware that the jurisprudential interpretation is often disadvantageous (although not univocal), at least with respect to certain issues, the Group is committed to maximising the arguments in its defence - which do exist, particularly concerning the statute of limitations - identifiable in the regulatory and interpretative framework. Thinking in terms of macro-categories, the total provisions estimated for this type of disputes appear to be adequate relative to the risk.

### 2) Disputes concerning bankruptcy rescindments

The reform implemented from 2005 has reduced and limited the scope of bankruptcy rescindments, particularly those relating to current account remittances. For those that can still be filed, or already pending at the effective date of the reform, the Group is giving maximum emphasis to all the arguments available in defence.

### 3) Disputes concerning bonds issued by Countries or Companies that subsequently defaulted, and financial plans

The considerable defensive efforts made in this type of lawsuit resulted over the years in the emergence of some favourable jurisprudential orientations, at least with respect to certain specific cases, which are allowing balanced risk control. In 2015 there were some negative decisions, particularly as regards financial plans, which as things currently stand have not had tangible negative impacts, but the developments of which will be closely monitored to ensure proper oversight over any greater risk factors.

## **B) Individually significant cases**

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

The action, brought 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 Banca MPS), 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 Bank 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 Ministries 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 were scheduled on 15 July and 4 October 2016, respectively.

During the hearing of 4 October 2016, the Court of Appeals of Milan ordered that the appeals be consolidated, reserving its decision on the petition to suspend execution of the judgment of first instance. On 21 October 2016, the Court lifted its reservation and suspended execution of the judgment appealed against. The next hearing is set for 16 June 2017.

#### **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 322.8 mln.

The Parent Company’s defence aims to demonstrate the total groundlessness of the claim, the extraordinary administrators’ lack of interest and legitimacy to bring the action, and the fact 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 financial report, a settlement agreement is in the advanced state of definition, envisaging, among other things, dismissal of the action by the Extraordinary Administrators.

#### **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 Parent Company 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 Parent Company 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 BMPS 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 Parent Company be ordered to pay, under its contractual liability, for alleged contingent liabilities of Monte Paschi Serit S.p.A./Serit Sicilia S.p.A.

The Parent Company duly appeared before the court with a cross-action against Riscossione Sicilia S.p.A.

**Banca Monte dei Paschi di Siena S.p.a. vs. Fatrorek**

The action was brought by the company Fatrotek against the Parent Company (and other credit institutions); the plaintiff asks the Court to recognise the alleged unlawfulness by BMPS and the other banks of reporting doubtful loans to the Central Credit Bureau, and claim monetary and non-monetary damages suffered by the company amounting to EUR 157.1 mln.

The plaintiff also asks that the defendant banks be found jointly liable, each proportionately to the seriousness of its behaviour. The Parent Company's defence was based on the fact that the company's extremely severe financial situation fully justified the Parent Company's initiatives.

At the hearing on 2 February 2017, the new Judge withheld judgement in the case due to the queries to be submitted to the expert witness, whose engagement is currently being renewed.

**Banca Monte dei Paschi di Siena S.p.A. vs. Fallimento Medeghini Spa in liquidazione**

In 2012, Fallimento Medeghini S.p.A. in liquidazione served a complaint on the Parent Company charging it with an alleged unlawful behaviour, in contract and in tort, in relation to accounting movements between the company, which subsequently went bankrupt, and other companies (controlled by the Medeghini family), at the time of a capital increase by Medeghini S.p.A. The claim amounts to EUR 155.0 mln.

The Bank's defence was based on various considerations in fact and in law, and was aimed at demonstrating the absolute groundlessness of the claims brought by the bankruptcy procedure due to total lack of a causal link between management acts that led to the default and BMPS's conduct.

During the technical appraisal ordered by the Court, the opposite party's demands that a link of causality be recognised between the capital increase and the subsequent transactions that worsened the company's financial difficulties - in which the Bank acted as a mere executor - were repeatedly and effectively rebutted by BMPS's expert witness.

During the appraisal, the Court-appointed expert witness accepted almost entirely the arguments of the defendant BMPS, and in any case the plaintiff's claim, as formulated, appears to be groundless in terms of damages to be awarded, as no damage has been suffered.

The case was officially deferred to 8 March 2018 for closing arguments.

**Former Banca Antoniana Popolare Veneta S.p.A. (BAV) vs Elipso Finance s.r.l.**

The dispute was originated by 3 loan assignment transactions identifiable in bulk in accordance with Italian Law no. 130 of 30/4/1999, carried out or mediated by former BAV, following which since 2008 the assignee Elipso Finance s.r.l. has submitted complaints, invoking the guarantees given by the assignors, mainly concerning the lack of documentary evidence supporting the credit. The claim amounts to EUR 100.0 mln.

Specifically, the 3 assignments were carried out by former BAV, Antenore Finance S.p.A. and Theano Finance S.p.A. (both of which are 98% owned by former BAV, originator of the relevant loans, and subsequently merged into BMPS).

As a settlement could not be reached, in compliance with the arbitration clause contained in the contracts Elipso initiated the arbitration procedure at the Arbitration Chamber of Milan.



The Parent Company's defence aims to demonstrate that, in accordance with contractual provisions, even if the claim should be accepted, damages can only be awarded for positions for which Elipso can actually prove that damage has been suffered.

The Arbitration Board ordered an expert appraisal in order to verify compliance by Elipso with the contractual provisions with regard to guarantee activation methods and times, and the final defence briefs were subsequently filed.

On 17 January 2017, the partial award rejecting the counterparty's claims was issued.

### **Banca Monte dei Paschi di Siena S.p.A. vs. CHI. DEM srl and other De Masi Group companies**

The action was brought by the company CHI. DEM S.r.l. and by the other companies of the De Masi Group.

Co-defendants with Parent Company are two other credit institutions and Bank of Italy. The plaintiff seeks relief for alleged damage suffered by the De Masi Group as a result of the aforesaid banks having exceeded threshold rates (with the joint liability of Bank of Italy for failure to supervise) following decision no. 46669/2011 by the Criminal Division of the Court of Cassation, which has ascertained that in certain periods the threshold rate was actually exceeded. The claim amounts to EUR 100.0 mln.

BMPS's defence is essentially based on lack of evidence of the monetary and non-monetary damages claimed by the plaintiff, as well as lack of any link of causality.

Beyond the difficulty of demonstrating the existence of the damage, an element in favour of the Parent Company is the dismissal of a first request for a Court order, which the plaintiffs applied for as a precautionary measure under article 700 of the Italian Code of Civil Procedure (the dismissal was confirmed during the claim proceeding), as well as the dismissal, on 9 July 2014, of a second request for Court order which the plaintiffs again submitted.

Another element in favour of the Bank is the fact that some accounts that were the subject of a criminal proceeding ended with judgement no. 46669/2011 were also discussed in a civil proceeding before the Court of Palmi: the judgement issued on 13 May 2013 at the end of this proceeding dismissed the other party's claim, and for these accounts the Bank invoked the plea of *res judicata*.

The proceeding is under preliminary investigation and at the hearing on 1 March 2017, the new Judge withheld judgement in the case at the request of the parties.

### **Banca Monte dei Paschi di Siena S.p.A. vs. Codacons and the Italian Association of Users of Financial, Banking and Insurance Services**

In January 2013, Codacons and the Italian Association of Users of Financial, Banking and Insurance Services brought an action - which was notified, among others, to the Ministry of Economy and Finance, the Bank of Italy, Consob, the President of the Court of Auditors, and two auditing firm - before the Administrative Court of Lazio (TAR) requesting the cancellation of the documents related to the procedure for the issue of the New Financial Instruments (Monti-bond), as well as damages in the same amount.

The Parent Company's defence was based on various considerations in fact and in law, and was aimed at demonstrating not only the total groundlessness, but also the inadmissibility of the claims brought by the plaintiffs.



At the hearings before a single judge and a Court, held in February and March 2013 before the TAR and the Council of State all of the plaintiffs' requests for precautionary measures, aimed at blocking the procedure for the issue of the New Financial Instruments, were rejected and, during the hearing of 3 April 2013, the TAR adjourned the discussion of the case to a date to be determined. The discussion hearing was subsequently scheduled for 14 February 2017.

With the judgment published on 20 February 2017, the Lazio Regional Administrative Court declared that the action was inadmissible, thereby accepting the defence of the Parent Company.

#### **Banca Monte dei Paschi di Siena S.p.A. vs. receivership estate of Antonio Amato & C. Molini e Pastifici in Salerno S.p.A. in liquidazione**

The receivership estate of 'Antonio Amato & C. Molini e Pastifici in Salerno S.p.A. in liquidazione' brought an action against the Parent Company, with the former Directors of the Company in bonis and other Creditor Banks as co-defendants, before the Court of Naples, requesting that the Court ascertain and recognise the joint liability of the defendants for their unlawful conduct. According to the plaintiff, they formed a pool that granted a loan to the company, thus worsening its state of financial distress and causing severe damage to its business and its equity and financial integrity; they therefore asked the Court to order the defendants to pay damages to the receivership estate in the amount of EUR 90 mln, i.e. the presumable difference between the estate's liabilities and assets, or a different amount that the Court should deem suitable to award upon completion of the investigative phase; as a secondary claim, the receivership estate asks that each of the defendants be found liable for the part attributable to them for the damage suffered by the company, amounting to EUR 90 mln, equal to the presumable difference between the estate's liabilities and assets.

The Parent Company rose preliminary objections and filed a motion to dismiss the case for lack of venue jurisdiction and of active legitimation; in the merits, the Bank asked the Court to dismiss the plaintiff's claims as inadmissible and/or groundless or, as a secondary request, to reduce the amount of compensation awarded in consideration of the different degree of guilt in causing the damage, in accordance with art. 2055, paragraph 2 of the Italian Civil Code.

The case is under preliminary investigation and the next hearing will be held on 6 June 2017.

#### **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 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 Parent Company, 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 Parent Company during the period 2008-2015, requests total damages of EUR 85.5 mln, essentially claiming the false nature of the prospectuses relating to the aforementioned capital increases. Specifically, the counterparty claims 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 of the Italian Civil Code for the actions of the Authority and those of its commissioners and officials, with regard to the 2014 capital increase, regarding capital losses incurred as well as loss of profit to be determined during the course of the proceedings. The Parent Company duly appeared before the court with its defence pleadings.

### **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 Parent Company, 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 Parent Company during the period 2008-2015, requests total damages of EUR 51.6 mln, essentially claiming the false nature of the prospectuses relating to the aforementioned capital increases. Specifically, the counterparty claims 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 of the Italian Civil Code for the actions of the Authority and those of its commissioners and officials, with regard to the 2014 capital increase, regarding the capital losses incurred as well as loss of profit to be determined during the course of the proceedings. The Parent Company duly appeared before the court with its defence pleadings.

### **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 10 lawsuits are currently pending, brought forward by shareholders and/or former shareholders for a total claim of approximately EUR 44 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 within 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 the Parent



Company, including the transactions connected to the restructuring of the “Santorini” transaction and the “Alexandria” notes, 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 report, also as a result of the outcome of criminal proceeding 29634/14 r.g.n.r. (General Criminal Records Registry) pending at the Court of Milan and involving the Parent Company.

#### **Out-of-court claims for the repayment of sums and/or compensation for damages by Shareholders and Investors of Banca Monte dei Paschi di Siena S.p.A. in relation to the 2008 and/or 2011 share capital increases**

For complete disclosure, note that, in relation to capital increases and the allegedly incorrect information contained in the prospectuses and/or in the financial statements and/or in the price sensitive information issued by the Parent Company since 2008, the Parent Company has received 478 requests, for a total of approximately EUR 118 mln in quantified claims, aimed at obtaining reimbursement of the amounts invested and/or compensation for monetary and non-monetary damages following the alleged losses suffered. Of said claims, 75 names, which had quantified the amount in approximately EUR 69 mln out of court, filed civil suits (the majority of which as part of the case filed by Marangoni Arnaldo + 124 as mentioned above).

These claims – brought individually or collectively, through professionals or consumer associations – although heterogeneous, are mostly justified by generic references to the Parent Company’s alleged violation of the industry legislation governing disclosure, and were rejected in that they were considered generic, unfounded, not backed by suitable documentary evidence, and in some cases past the statute of limitations.

In this regard, further requests for compensation totalling EUR 522 mln were received from several shareholders and investors in January 2017.

#### **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 598 due to waivers and deaths) initiated legal proceedings before the Courts of Siena, Rome, Mantua and Lecce to demand, among other things, the continuation of the employment relationship with BMPS, upon the declaration of ineffectiveness of the transfer agreement entered into with Fruendo S.r.l.

To date, for 499 plaintiffs, a first instance ruling has already been handed down (245 at the Court of Siena, 142 at the Court of Rome, 89 at the Court of Mantua and 23 at the Court of Lecce) after a hearing on the full merits.

Moreover, in this regard, it is necessary to note that an appeal was filed against the Court of Siena’s rulings before the Court of Appeals of Florence which - after joining the appeals lodged by the Parent Company and those lodged by Fruendo S.r.l. - at the hearing on 18 October 2016 rejected the appeals of BMPS and Fruendo, with respect to 245 workers, for which therefore the case was also resolved in the second instance.

As a result of the aforesaid rulings, 399 workers are currently entitled to rehiring (i.e., the plaintiffs in the cases brought before the Court of Siena, and subsequently also tried by the Court of Appeals of Florence, the Court of Lecce, the Court of Mantua, and the Court of Rome, limited, for the latter, to the cases decided in favour of 42 plaintiffs).

The unfavourable rulings by the Court of Rome were appealed against by the Parent Company before the Rome Court of Appeals, and the discussion hearings are scheduled in February and April 2018.





The workers who were unsuccessful in the other proceedings before the Court of Rome have lodged an appeal and the relevant hearing is scheduled on 17 March 2017.

As regards the unfavourable judgments of the Court of Lecce, appeals have already been filed against seven: the date of the first hearing has been scheduled for four of these, for 5 November 2018, 26 November 2018 (two cases) and 9 January 2019. The other judgements will be appealed against within the appropriate time limits.

The unfavourable judgment of the Court of Mantua was also appealed against before the Court of Appeals of Brescia, and the hearing was scheduled for 1 June 2017.

For the sake of full disclosure, note that both the Parent Company and Fruendo have filed a petition to the Courts of Appeals of Rome, Lecce and Brescia for submission to the European Court of Justice of preliminary matters that are essential for the purposes of a decision. In particular, an assessment was requested regarding the conformity with EC Directive 2001/23 of art. 2112 of the Italian Civil Code, as interpreted by the decisions of the Supreme Court of Cassation (Corte di Cassazione), with which the appealed judgments comply, and it also asked whether:

- the transfer of an economic entity, functionally autonomous though not pre-existing, as it was identified by the transferor and the transferee at the time of the transfer, would not allow for the automatic transfer of employment relationships pursuant to art. 2112 of the Italian Civil Code and therefore would require the consent of the workers concerned; and
- the automatic transfer of the employment relationships pursuant to art. 2112 of the Italian Civil Code would not be permitted and therefore if the consent of the workers concerned would be required if, in the case of the transfer of an economic entity carrying out bank back office activities, the transferring Bank maintained ownership of the applications and IT infrastructure, only granting them to the transferee for use for valuable consideration.

With regard to the overall situation, to date and while the current scenario remains unchanged, no economic impact on the Parent Company is expected as a result of paying salary arrears to the rehired employees. Indeed, as the plaintiffs retained the pay they had been receiving from BMPS when the business unit was transferred, they would not be due any back pay, but rather would be entitled to be rehired, if the unfavourable rulings (for the Parent Company) were to be enforced.

Given the above, the Parent Company, jointly with Fruendo S.r.l., is analysing the matters arising from the rulings of the Court of Appeals of Florence, the Court of Rome, the Court of Lecce and the Court of Mantua, in order to identify the best solutions.

#### **Banca Monte dei Paschi di Siena S.p.A./civil action and third-party action of the Bank as civilly liable party- criminal proceedings relating to the “Alexandria” case**

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 the Parent Company by the performance of these agreements are definitively fixed in time. In particular, the Parent Company reduced its claim for damages to an amount not lower than EUR 866.3 mln (compared to an initial civil claim of approx. 1 billion euro).

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 Banca MPS and two members of the Management of Nomura for false corporate disclosures and market manipulation.



As regards the offences allegedly committed by the above-mentioned individuals, the Public Prosecutor also sought the committal for trial of Banca MPS and Nomura for administrative offences pursuant to Legislative Decree 231/2001.

In March 2016 this proceeding was combined with the other legal action pending before 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 involved in the proceedings as defendants pursuant to Legislative Decree 231/2001.

On 2 July 2016, with the approval of the Public Prosecutor, the Parent Company filed a request for plea bargain in the criminal proceedings, in relation to the objections made against the Bank in accordance with Legislative Decree 231/2001.

After the request for plea bargain, the Parent Company’s position was closed. With the plea bargain, accepted by the Preliminary Hearing Judge on 14 October 2016, the Parent Company 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 of EUR 600 thousand and a confiscation, for EUR 10 mln, without exposing itself to the risk of higher penalties.

Lastly, with regard to the above, on 1 October 2016 the Preliminary Hearing Judge ordered the committal for trial of the defendants other than the Parent Company. At the hearing on 15 December 2016, the civil parties, those already admitted in the previous “Alexandria” proceedings as well as the new civil parties, requested that Banca MPS, Nomura and Deutsche Bank be summoned as civilly liable parties in relation to the offences with which the former directors and executives committed for trial were charged.

Following an extensive closed session meeting, the Court summoned the banks as civilly liable parties, providing the notification deadline to the parties of 10 January 2017, allowing for the completion of notifications at the latest by 31 January 2017 and scheduling the hearing for 21 February 2017.

The civil party notifications to the Parent Company are still ongoing. To date, 1,650 positions have summoned the Parent Company as a civilly liable party. At the hearing on 21 February 2017, the Parent Company appeared before the court as a civilly liable party.



### 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 Reserve for risks and charges.

As reported in previous disclosures, on 1 October 2015, the Siena Guardia di Finanza (Tax Police Department) began a tax audit on the Parent Company in order to verify, for tax periods from 2010 to 2015, the proper fulfilment of tax application obligations with reference to Tier 1 capital strengthening structures put into place, starting in 2000, with the specific, formal authorisation of Bank of Italy. After the audit, based on the requalification of financial instruments which gave rise to the payment of interest expenses by the Bank (without the application of withholdings) in different financial instruments (with the application of withholdings), as well as contesting an autonomous financing transaction with a foreign counterparty, the Tax Police sent two distinct tax audit reports, on 14 October 2015 and 29 July 2016, with reference to the year 2010 and the years from 2011 to 2013, respectively, accusing the Parent Company of not applying withholding taxes in the total amount of approximately EUR 24.2 million, plus legal penalties (quantifiable at around EUR 26.6 million) and interest.

With regard to the objections raised, the Parent Company filed a petition for a tax assessment settlement and statement of defence in order to submit to the Revenue Agency reasonable arguments to defend the appropriateness of its actions. Following the discussions that took place, although the Parent Company believes that it acted correctly, taking into account the opinion of its advisors as well as the timing, costs and uncertainties that would arise from the initiation of litigation, on 18 May 2016 and 15 December 2016, the Parent Company accepted a settlement of the above-mentioned disputes, resulting in a total outlay of EUR 11.8 million, including interest.

An investigation was 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. As already reported in previous disclosures, in relation to that transaction, on 16 September 2013 the Guardia di Finanza served an official tax audit report challenging the legitimacy of using the tax regime applied to the contribution in question and the subsequent failure to pay VAT of around EUR 27 million and direct taxes (IRES and IRAP) of approximately EUR 4 million, in addition to penalties totalling approximately EUR 35 million. Following the subsequent intense discussions in 2016 with the Revenue Agency, the Agency accepted several relevant defence claims and as a result cancelled its VAT findings and ceased application of all penalties. Although the Parent Company believes that the merged company acted correctly, taking into account the opinion of its advisors as well as the timing, costs and uncertainties that would arise from the initiation of litigation, on 21 December 2016, it settled the dispute, resulting in a total outlay of EUR 4.9 million, for only direct taxes and interest.

As presented in previous interim disclosures, lastly, on 27 April 2016 the Guardia di Finanza, Tax Police Unit of Siena, began an assessment of subsidiary Consorzio Operativo Gruppo Montepaschi, with regard to direct taxes (IRES and IRAP) and VAT, for the period from 1 January 2011 to 27 April 2016. Upon completion of the assessment, on 20 October 2016 a tax audit report was served on the company, in which the latter is required to pay additional taxes for the years 2011 through 2015 (EUR 17.5 million for Ires and Irap and EUR 9.1 million for VAT), plus applicable penalties.



□ Although the Consortium believes that it acted correctly, taking into account the opinion of its advisors as well as the timing, costs and uncertainties that would arise from the initiation of litigation, on 13 December 2016, it accepted the tax assessment settlement proposed by the tax authorities with regard to the year 2011. This agreement, which calls for the cancellation of all IRES and IRAP findings, partial acquiescence with respect specifically and mainly to the VAT finding, and the almost entire cancellation of the relative penalties, resulted in the payment of higher VAT, interest and penalties to a reduced extent totalling EUR 9.3 million; part of the tax, with a minimum of EUR 4.6 million, can be recovered by making recourse to the counterparty to the transaction subject to the dispute. With reference to certain other VAT findings regarding the 2011 tax period, which were not settled, the Revenue Agency partially confirmed the claims made by the Tax Police, sending the notice of the application of penalties amounting to EUR 0.4 million on 22 December 2016.

With respect to this measure, as well as the claims regarding the years from 2012 to 2015, for a total potential liability of roughly EUR 8.5 million (for IRES and IRAP taxes and IRES, IRAP and VAT penalties), the company, assisted by its consultants, is considering appropriate actions to protect its interests.



## Financial risks of investment services

### Foreword

The following section on financial risks of investment services was written as part of the “Operational Risk” section in line with the compulsory framework for preparation of the Notes to the Financial Statements, even though this subject presents specific characteristics and involves organisational levels of authority that are not directly traceable to operational risk management.

### Wealth risk management process and methods

The 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.

Organisational responsibility at Group level for supervising financial risk measurement, monitoring and control activities and for mapping investment products/services for the purposes of MiFID adequacy is an integral part of the Group’s integrated risk management responsibilities, and is assigned centrally to the Wealth Risk Management Service, within the Risk Management Area of the Parent Company’s Chief Risk Officer Division. This is to ensure centralised governance of the direct and indirect risks which the Group incurs during the course of its operations.

“Wealth risk management” focuses on the overall set of operational and management processes as well as measurement and monitoring tools/methods used to ensure overall consistency between customers’ risk profiles and the risk of investment products and portfolios offered to -or in any case held by- customers.

The 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.

For the sake of simplicity, investment product risk mapping, performed with reference to individual risk macro-factors, is grouped under specific risk categories.

A special focus is given by the Group to the monitoring and prevention of potential financial and reputational risks which investment services, particularly in contexts of financial crisis, may generate as a consequence of increased market volatility. The fast-moving and not always predictable market trends may result in rapid changes in product risks and generate potential financial losses, as well as prompting a changing attitude by customers towards their own financial investments.

Customers have regularly been informed of changes in the risk of financial instruments held, so as to ensure timely disclosure transparency and facilitate possible decisions aimed at rebalancing the risk profile of their investments.



Advisory services on offer, customer risk profile and risk of investment products/portfolios

The strategic choice of the Parent Company 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. Again, with a view to protecting customers, the obligation to verify appropriateness has also been extended to the trading activities on the secondary market of the certificates issued by the Group.

The advisory service is offered by the Parent Company on the basis of two different methods:

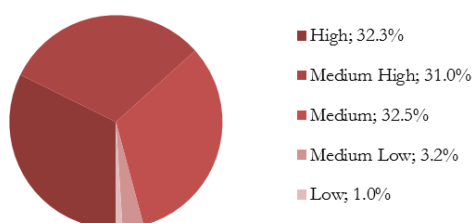
- “Basic” transactional advisory is aimed at verifying the suitability of the individual investments recommended in relation to the risk of the customer’s investment portfolio as a whole. In this regard, the transactional adequacy model adopts a multivariate control approach to the individual risk factors, taking the risk of the customer’s portfolio, including the recommended investment product, as a reference.
- “Advanced” advisory is instead aimed at verifying the suitability of the overall set of transactions, advising on them based on their impact on a suggested investment portfolio of the customer in order to obtain optimum asset allocation and maximised prospective returns over a certain time horizon, given the customer’s risk profile.

Wealth risk management activities cover the entire distribution perimeter of the network of Group branches, the investment services operated by Banca Widiba and by MPS Capital Services.

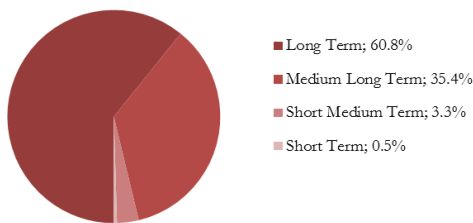
Through the responses provided to the MiFID profiling questionnaire, the customer gives information to the Group on its characteristics and needs (particularly investment objective, knowledge, experience; time horizon), which is used to determine the customer’s more general risk profile.

An analysis of the questionnaires completed at the end of 2016 shows that roughly 63% of the Group customers in the “Consumer/Retail” macro-segment, namely retail customers which represent almost the entire customer base of the Group, and which hold investment products, declared a “high” or “consistent” investment objective and the remaining 37% a positioning in lower objective classes. In addition, mainly long-term investment time horizons were preferred.

**Retail Clients - Risk Profile**  
Montepaschi Group - 31/12/2016



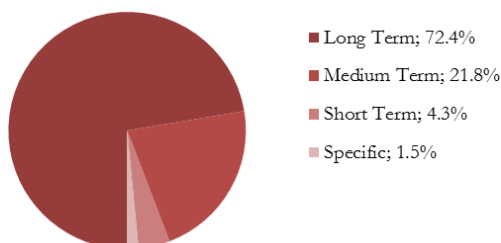
**Retail Clients - Preferred Investment Time Horizons**  
Montepaschi Group - 31/12/2016





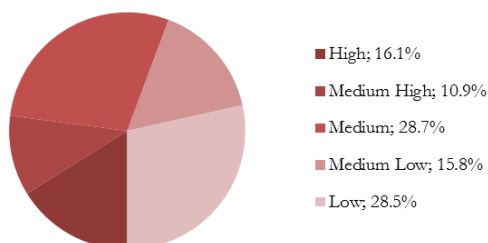
At the end of 2016, the portfolios held by Consumer/Retail customers on the basis of formalised “advanced” advisory proposals to obtain optimum asset allocation, were mainly distributed into the recommended, especially long-term, Asset Allocation macro-classes.

**Retail Clients - Portfolio Management Advisory  
Preferred Asset Allocations**  
Montepaschi Group - 31/12/2016



The investment products held by “Consumer/Retail” customers showed, at the end of 2016, a distribution concentrated on average for market risk on medium-low levels.

**Market Risk (VaR99%1gg)**  
**Financial Instruments Held by Retail Clients**  
Montepaschi Group - 31/12/2016









## **Part F – Information on consolidated shareholders' equity**

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## Section 1 - Consolidated shareholders' equity

### A. Qualitative information

The Group pursues strategic objectives focused on quantitative and qualitative strengthening of capital, structural rebalancing of liquidity and achievement of sustainable profitability levels. In this perspective, capital management, planning and allocation activities play a crucial role in ensuring compliance over time with the minimum capitalisation requirements set by the regulations and the supervisory authorities, as well as with the risk appetite level approved by the Group's strategic supervision body.

This is the purpose served by the Risk Appetite Framework (RAF) through which the target capitalisation levels are estimated on a yearly basis and capital is allocated to the business units according to expected development and estimated risk levels, making sure that the allocated capital is sufficient to ensure compliance with minimum requirements, under both normal and stress conditions. In the context of the RAF it is used to perform prospective capital adequacy assessments over a multiyear period, under both normal and stress conditions. The analyses are carried out both at Group level and by each individual legal entity subject to regulatory capital requirements.

The achievement of objectives and compliance with regulatory minimum requirements is constantly monitored throughout the year.

The formal corporate processes to which the RAF is applied at least on an annual basis are the budget, the risk appetite and the ICAAP.

The Group defines its targets on the basis of a Risk Adjusted Performance Measurement (RAPM), which measures profitability net of the cost of capital to be held for regulatory purposes relative to the assumed risk level.

The definitions of equity applied are those used in Supervisory Regulations: Common Equity Tier 1, Tier 1 and Capital; moreover, the RAPM metrics also include Invested Capital, i.e. the amount of Shareholders' equity needed to achieve Common Equity Tier 1 values, whether determined ex ante as target levels or realised ex post.

The Capital at Risk concepts applied are those used in the regulatory requirements and correspond to the risk weighted assets (RWA), determined on the basis of the rules set out in the supervisory regulations, and the economic capital corresponding to the maximum losses estimated on measurable risks at a predetermined confidence interval and on the basis of the Group's internal models and rules. Both measurements are used as part of RAPM metrics.



## B. Quantitative Information

### B.1 Consolidated shareholders' equity: breakdown by business areas

31 12 2016							
Net equity items	Banking group	Insurance companies	Other companies	Consolidation cancellations and adjustments	Total	of which Group	of which minority interests
Shareholders' equity	7,379,059	304,317	232,932	(537,249)	7,379,059	7,365,674	13,385
Share premium	195	-	53,402	(53,402)	195	-	195
Reserves	2,263,901	252,257	74,727	(326,984)	2,263,901	2,253,601	10,300
Equity instruments	-	-	-	-	-	-	-
Treasury shares (-)	-	-	-	-	-	-	-
Valuation reserves	48,491	205,756	7,196	(212,952)	48,491	47,251	1,240
- Financial assets available for sale	(44,043)	-	-	-	(44,043)	(44,043)	-
- Tangible assets	-	-	-	-	-	-	-
- Intangible assets	-	-	-	-	-	-	-
- Hedges of foreign investments	-	-	-	-	-	-	-
- Cash flow hedges	(28,400)	-	-	-	(28,400)	(28,401)	1
- Exchange difference	8,165	-	-	-	8,165	8,165	-
- Non-current assets held for sale	15,451	-	-	-	15,451	15,451	-
- Actuarial gains (losses) on defined benefit plans	(117,909)	-	(31)	31	(117,909)	(117,908)	(1)
- Share of valuation reserves of equity investments valued at equity	202,490	201,870	617	(202,487)	202,490	202,490	-
- Special revaluation laws	12,737	3,886	6,610	(10,496)	12,737	11,497	1,240
Profit (loss) for the year - Group and minority interests	(3,231,372)	67,654	18,075	(85,729)	(3,231,372)	(3,241,110)	9,738
<b>Net equity</b>	<b>6,460,274</b>	<b>829,984</b>	<b>386,332</b>	<b>(1,216,316)</b>	<b>6,460,274</b>	<b>6,425,415</b>	<b>34,859</b>



## B.2 Valuation reserves for financial assets available for sale: breakdown

Asset/Amount	Banking Group		Insurance companies		Other companies		Consolidation cancellations and adjustments		TOTAL	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	358,535	(154,750)	254,576	-	794	-	(255,370)	-	358,535	(154,750)
2. Equity instruments	9,284	(25,332)	2,594	(25,313)	-	-	(2,594)	25,313	9,284	(25,332)
3. Units of UCITS	5,933	(34,564)	84	(29,489)	-	(98)	(84)	29,587	5,933	(34,564)
4. Loans	-	-	-	-	-	-	-	-	-	-
<b>Total 31 12 2016</b>	<b>373,752</b>	<b>(214,646)</b>	<b>257,254</b>	<b>(54,802)</b>	<b>794</b>	<b>(98)</b>	<b>(258,048)</b>	<b>54,900</b>	<b>373,752</b>	<b>(214,646)</b>
<b>Total 31 12 2015</b>	<b>273,000</b>	<b>(84,361)</b>	<b>131,346</b>	<b>(35,158)</b>	<b>-</b>	<b>(582)</b>	<b>(131,346)</b>	<b>35,740</b>	<b>273,000</b>	<b>(84,361)</b>

## B.3 Valuation reserves for financial assets available for sale: annual changes

31 12 2016

	Debt securities	Equity instruments	Units of UCITS	Loans
<b>1. Opening balance</b>	<b>213,870</b>	<b>1,088</b>	<b>(26,318)</b>	<b>-</b>
<b>2. Increases</b>	<b>178,709</b>	<b>25,821</b>	<b>22,475</b>	<b>-</b>
2.1 Increases in fair value	173,427	2,681	8,261	-
2.2 Reversal to profit and loss of negative reserves	5,264	23,140	14,138	-
- due to impairment	4,990	23,092	14,111	-
- following disposal	274	48	27	-
2.3 Other changes	18	-	76	-
<b>3. Decreases</b>	<b>188,794</b>	<b>42,957</b>	<b>24,788</b>	<b>-</b>
3.1 Decreases in fair value	135,998	9,535	12,925	-
3.2 impairment provisions	-	28,888	11,672	-
3.3 Reversal to profit and loss of positive reserves: following disposal	47,811	707	189	-
3.4 Other changes	4,985	3,827	2	-
<b>4. Closing balance</b>	<b>203,785</b>	<b>(16,048)</b>	<b>(28,631)</b>	<b>-</b>

**B.4 Valuation reserves for defined benefit plans: annual changes**

	Internal funds	External funds	Provisions for employees severance pay	31 12 2016
<b>Opening balance</b>	<b>(34,363)</b>	<b>437</b>	<b>(75,740)</b>	<b>(109,666)</b>
<b>Remeasurement of net defined benefit liability (asset):</b>	<b>(608)</b>	<b>(2,604)</b>	<b>(5,027)</b>	<b>(8,239)</b>
Return on plan assets excluding interests	(128)	(10,053)	-	(10,181)
Actuarial gains (losses) arising from changes in demographic assumptions	310	521	(598)	233
Actuarially gains (losses) arising from experience adjustments	1,026	10,075	1,173	12,274
Actuarial gains (losses) arising from changes in financial assumptions	(3,149)	(15,989)	(5,602)	(24,740)
Changes in effect of limiting net defined benefit asset to asset ceiling	1,333	12,842	-	14,175
Gains (losses) on settlements	-	-	-	-
Others	(45)	-	(500)	(545)
<b>Closing balance</b>	<b>(35,016)</b>	<b>(2,167)</b>	<b>(81,267)</b>	<b>(118,450)</b>



## Section 2 –Regulatory banking capital and ratios

### 2.1 The regulatory framework - scope of application

The prudential supervisory provisions for banks and banking groups became operational as of 1 January 2014 with the aim of aligning national regulations with the changes introduced to the international regulatory framework (Basel 3), particularly the European Union's new regulatory and institutional framework for banking supervision.

The regulatory framework in force aims to improve the ability of banks to absorb shocks arising from financial and economic stress, whatever the source, improve risk management and governance and strengthen the bank's transparency and disclosures, while taking into account developments from the financial crisis.

The approach based on three pillars aims to reinforce the quantity and quality of banks' capital base as well as establish counter-cyclical supervisory tools and new standards for liquidity risk management and financial deleveraging.

In particular, Pillar 1 governs capital requirements to reflect the potential risk of activities as well as capital endowment requirements.

In addition to the system of capital requirements aimed at covering credit, counterparty, market and operational risk, there is a plan to introduce leverage caps (including off-balance sheet exposures) as a backstop to capital requirements based on risk and to reduce excessive leverage across the system.

"Basel 3" also includes liquidity risk monitoring requirements and tools which focus on short-term liquidity resilience (Liquidity Coverage Ratio - LCR) and longer term structural balance (Net Stable Funding Ratio - NSFR) as well as providing standards for liquidity risk management and monitoring at both individual and system-wide level.

Pillar 2 requires banks to adopt a strategy and process for controlling current and future capital adequacy, assigning the supervisory authorities with the task of verifying the reliability and consistency of results and of implementing the appropriate corrective measures, where necessary. Growing importance is attached to the corporate governance structure and internal control systems of banks as a determining factor for the stability of individual institutions and the financial system as a whole. In this area, the following have been strengthened: (i) regulatory requirements concerning the role, (ii) qualification and composition of governing bodies; (iii) awareness by these bodies and top management regarding organisational structure and risk for the Bank and banking group; (iv) corporate control functions, with a particular focus on the independence of those in positions of responsibility, the recognition of risk in off-balance sheet assets and securitisations, asset valuation and stress testing; (v) remuneration and incentive systems.

Pillar 3 – regarding the obligation of public disclosure on capital adequacy, risk exposures and general characteristics of management and control systems, with a view to promoting market discipline – establishes transparency requirements concerning securitisation exposures and detailed information on the composition of regulatory capital and the methods adopted by the Parent Company to calculate capital ratios.

The Basel 3 framework is subject to a transition period that extends the full application of the rules to 2019 (2022 for the phase-out of certain capital instruments) and during which the new rules are applied in an increasing proportion.

Regulatory capital, an element of Pillar 1, is therefore calculated according to Basel 3 rules implemented in Europe through a comprehensive body of regulations, consisting of the Capital Requirements Regulation (CRR), European Regulation no. 575/2013, and supplements thereto, the Capital Requirements Directive (CRD IV), the Regulatory Technical Standards and the Implementing Technical Standards issued by the EBA, and the supervisory instructions issued by Bank of Italy (specifically, Circular nos. 285 and 286).



## 2.2 Own Funds

### A. Qualitative information

Own funds are made up of the following:

- Tier 1 (T1) capital, consisting of:
  - Common equity Tier 1 (CET1);
  - Additional Tier 1 (AT1);
- Tier 2 (T2).

As with other regulatory indicators, capital is subject to specific transition rules. Therefore, there are full application requirements and requirements for the transition period.

#### 1. Common equity Tier 1 (CET1)

##### Full application requirements

Common equity Tier 1 (CET1) mainly consists of:

- ordinary shares;
- share premium reserve resulting from the calculated share capital;
- retained earnings;
- valuation reserves.

The requirements for including capital instruments in CET1 are very stringent. They include the following:

- capital instruments must be classified as equity for accounting purposes;
- the nominal amount cannot be reduced except in cases of liquidation or discretionary repurchases by the issuer, with the appropriate authorization by the Supervisory Authority;
- they must have perpetual duration;
- the issuer is not obliged to distribute dividends;
- the issuer can only distribute dividends from distributable profits;
- there can be no preferential treatment in distributions, unless as a reflection of different voting rights;
- there are no caps on distribution;
- the cancellation of distributions does not result in restrictions on the issuer;
- compared to the other issued capital instruments, CET1 instruments absorb losses first and to a proportionally greater extent at the time they occur;
- they represent the most subordinated instruments in the event of the Parent Company's bankruptcy or liquidation;
- the holders have the right to the issuer's residual assets in the event of the issuer's liquidation;
- they are not subject to guarantees or contractual provisions that increase their seniority.

Profit for the period can be included in CET1 before final approval of the annual report only with the authorisation by the Supervisory Authority and only if the following conditions are met: the profit must be audited by the external auditors and any dividends the Parent Company is going to distribute must be deducted from the profit for the period.





The CET1 calculation excludes the valuation reserve generated by cash flow hedges and the gains/losses from changes in the Bank's credit standing (fair value option liabilities and derivative liabilities).

Furthermore, CET1 includes additional value adjustments ("prudent valuation"). These adjustments are made to fair value exposures in the financial statements and must include the uncertainty of the parameters (model risk, unwinding costs, etc.) and potential future costs (operational risks, concentration risk, liquidity risk, etc.). The adjustments vary according to the financial instruments' classification as Level 1, 2 or 3.

In addition to these components, which represent the prudential filters, CET1 is subject to the following deductions:

- loss for the period;
- intangible assets, including the goodwill implicit in the equity investments under significant influence or joint control, valued according to the equity method;
- tax assets that are based on future profitability and do not derive from temporary differences (tax losses and ACE);
- deferred tax assets that depend on future profitability and derive from temporary differences (net of the corresponding deferred tax liabilities). On the other hand, deferred tax assets that do not depend on future profitability and can be transformed into tax credits as per Law no. 214/2011 are not deducted. Instead, these latter assets are included in RWA and weighted at 100%;
- deferred tax assets associated with multiple tax alignments of the same goodwill item for the portion that has not yet been transformed into current taxes;
- the surplus of expected losses on portfolio impairments validated for purposes of adopting the AIRB approach (so-called "expected loss delta");
- direct, indirect and synthetic investments in the Bank's CET1 instruments;
- non significant (<10%) direct, indirect and synthetic investments in CET1 instruments of financial institutions;
- significant (>10%) direct, indirect and synthetic investments in CET1 instruments of financial institutions;
- any deductions in excess of the AT1 instruments.

Deductions for equity investments in financial institutions and deferred tax assets are applicable only for the portions that exceed established CET1 thresholds, known as exemptions, according to the specific mechanism described below:

- insignificant investments in CET1 instruments of financial institutions are deducted, for the portion of the aggregate of insignificant investments in CET1, AT1 and T2 instruments of financial institutions that exceeds 10% of the CET1, in proportion with the CET1 instruments themselves. The portions referring to AT1 and T2 instruments are instead deducted from the AT1 and T2 aggregates, respectively. The CET1 on which to calculate the 10% is obtained after applying the prudential filters and all deductions other than those for deferred tax assets that are dependent on future profitability and derive from temporary differences, to direct, indirect and synthetic investments in CET1 instruments of financial institutions, to any deductions in excess of the AT1 capital instruments and deductions in qualified equity investments in financial businesses;
- net deferred tax assets that depend on future profitability and derive from temporary differences are deducted for the portion that exceeds 10% of the CET1 that is obtained after applying the prudential filters and all deductions other than those for deferred tax assets that are dependent on future profitability and derive from temporary differences, to any deductions in excess of the AT1 capital instruments and deductions in qualified equity investments in financial businesses;



- significant investments in CET1 capital instruments of financial institutions are deducted for the portion that exceeds 10% of the CET1 that is obtained after applying the prudential filters and all deductions other than those for deferred tax assets that are dependent on future profitability and derive from temporary differences, to any deductions in excess of the AT1 capital instruments and deductions in qualified equity investments in financial businesses;
- amounts not deducted as a result of the 10% exemption of significant investments in CET1 capital instruments of financial institutions and net deferred tax assets that depend on future profitability and derive from temporary differences, added together, are deducted only for the portion that exceeds 17.65% of the CET1 that is obtained after applying the prudential filters and all deductions, including investments in financial institutions and deferred tax assets, with the exception of any deductions in excess of the AT1 capital instruments.

Amounts not deducted as part of the exemptions are included in the RWA with 250% weighting.

Non-controlling interests are calculated in CET1 to the extent to which they cover the corresponding minimum capital requirements of the subsidiary. Hence, any excess cannot be calculated in the CET1.

As concerns special provisions against the Parent Company Banca Monte dei Paschi di Siena, the Supervisory Authority requested the exclusion of the share of Fresh notes falling under the indemnity issued by the Parent Company to Bank of New York S.A. The negative impact on Tier 1 due to this exclusion amounted to EUR 76 mln.

#### Transition requirements

The following are the key aspects of the transition requirements:

- the losses for the period are calculated in CET1 with a progressive introduction of 20% per year (60% in 2016 and 100% from 2018); the portion temporarily not deducted from CET1 is calculated as a negative element of AT1;
- actuarial gains/losses arising from the measurement of liabilities connected with Employee benefits (staff severance pay, defined-benefit pension funds, etc.) are recognised, net of tax effect, in valuation reserves and are included in CET1, with a gradual introduction (40% in 2016 and 100% in 2019);
- unrealised gains on financial instruments classified in the AFS portfolio are calculated in CET1 beginning in 2015 at 40% and then with a gradual introduction of 20% per year (60% in 2016 and 100% in 2018). Unrealised losses on financial instruments classified in the AFS portfolio are calculated in CET1 with a gradual introduction of 20% per year (60% in 2016 and 100% in 2018). With EU Reg. 2016/445 of 14 March 2016, unrealised gains and losses relating to exposures to central administrations of EU countries, classified as AFS, are treated in the same way as those deriving from AFS exposures to other types of counterparties, or with the same transition regime, without prejudice to the sterilisation of the portion not calculated in CET 1, for which the previous domestic regulations continue to apply; on the other hand, until 30 September 2016, the Group, due to the regulations in force until that date, exercised its right to exclude such unrealised gains and losses from CET 1;
- deferred tax assets that depend on future profitability and do not derive from temporary differences are deducted at 60% for 2016 (100% from 2018). These are essentially deferred financial assets associated with tax losses and the ACE benefit;
- deferred tax assets that depend on future profitability and derive from temporary differences, exceeding the exemptions referred to above, existing as at 1 January 2014 are deducted from CET1 with a gradual introduction of 10% per year beginning in 2015 (20% in 2016 and 100% in 2024);



- other deferred tax assets that depend on future profitability and derive from temporary differences, exceeding the exemptions referred to above, generated after 1 January 2014 are deducted from CET1 with a gradual introduction of 20% per year beginning in 2014 (60% in 2016 and 100% in 2018);
- non-significant investments in CET1 instruments of financial institutions held directly, indirectly or synthetically and exceeding the above-mentioned exemptions are deducted from CET1 with a gradual introduction of 20% per year beginning in 2014 (60% in 2016 and 100% in 2018). Direct investments in financial institutions not deducted from CET1 during the transition phase are deducted at 50% from AT1 and 50% from T2. Indirect and synthetic investments are subject to capital requirements and included in RWA;
- significant investments in CET1 instruments of financial institutions held directly, indirectly or synthetically and exceeding the above-mentioned exemptions are deducted from CET1 with a gradual introduction of 20% per year beginning in 2014 (60% in 2016 and 100% in 2018). Direct investments in financial institutions not deducted from CET1 during the transition phase are deducted at 50% from AT1 and 50% from T2, while indirect and synthetic investments are subject to capital requirements and included in RWA;
- the excess of expected losses on impairments (expected loss delta) is deducted from CET1 with a gradual introduction of 20% per year beginning in 2014 (60% in 2016 and 100% in 2018). The portion not deducted from CET1 during the transition phase is deducted at 50% from AT1 and 50% from T2.

Additional impairments to assets and liabilities designated at fair value are calculated in proportion to the amount with which said assets and liabilities are calculated in CET1 during the transition period.

The following table reports the main characteristics of instruments included in Common Equity Tier 1.

31.12.2016

Features of subordinated instruments	Interest rate	Step up	Issue Date	Maturity Date	Early redemption as of	Currency	Grandfathering	Original amount in currency units	Contribution to capital (€/000)
Ordinary shares	N.A.	NO	N.A.	N.A.	N.A.	EUR	NO	7,372,841,916	7,167,866
<b>Total Equity Instruments (Common Equity Tier 1 - CET1)</b>									<b>7,167,866</b>



## 2. Additional Tier 1 (AT1)

### Full application requirements

The main requirements for including capital instruments in AT1 are:

- the subscription and acquisition must not be financed by the Parent Company or its subsidiaries;
- they are subordinated to T2 instruments in the event of bankruptcy;
- they are not subject to guarantees that increase their seniority issued by the Parent Company, its subsidiaries or other companies with close ties to the Bank and its subsidiaries;
- they have indefinite duration and do not include incentives for repayment;
- call options may be exercised only at the issuer's discretion and, in any event, no earlier than 5 years, unless authorised by the Supervisory Authority related to specific circumstances;
- interest is paid as a function of distributable profits;
- the Parent Company has full discretion in paying interest and at any moment may decide to not pay for an unlimited period; the cancellation is not cumulative;
- cancellation of interest does not constitute issuer default;
- in the event of trigger events, the nominal value may be reduced permanently or temporarily or the instruments may be converted into CET1 instruments.

AT1 is subject to the following deductions for Montepaschi Group:

- direct, indirect and synthetic investments in the Bank's AT1 instruments;
- direct, indirect and synthetic investments in AT1 instruments of financial institutions which it owns a significant stake;
- direct, indirect and synthetic investments in AT1 instruments of financial institutions, which it does not own a significant stake, for the portion that exceeds the exemption of 10%, proportionally attributable to AT1 instruments;
- any adjustments exceeding T2.

As a result of these provisions, some Tier 1 instruments issued by GMPS in previous years do not meet the requirements to be included in AT1.

It should be noted that in accordance to the provisions of Art. 23 of Decree Law 237/2016, converted into Law on 17 February 2017, as part of the "Precautionary recapitalisation" realised by the State, will be subject to mandatory conversion in 2017 bond for a total nominal value of Eur 1,350 mln.

### Transition requirements

The following are the key aspects of the transition requirements for 2016:

- non-significant investments in AT1 instruments of financial institutions held directly, indirectly or synthetically, temporarily not deductible from AT1 due to the transition period are deducted from AT1 at 50% and from T2 at 50%;
- significant investments in CET1 and AT1 instruments of financial institutions held directly, indirectly or synthetically, temporarily not deductible from CET1 and AT1 due to the transition period, are deducted from AT1 at 50% and from T2 at 50%;
- the excess of expected losses on impairments (expected loss delta), temporarily not deductible from CET1 due to the transition period, is deducted from AT1 at 50%.



The following tables report the main contractual features of instruments included in the calculation of AT1:

Features of subordinated instruments	Interest rate	Step up	Issue Date	Maturity Date	Early redemption as of	Currency	Grandfathering	Original amount in currency units	Contribution to capital (€/000)
F.R.E.S.H. - principal not computable in CET1	N.A.	NO	N.A.	N.A.	(a)	EUR	NO	197,808,167	181,985
F.R.E.S.H. (Floating Rate Equity-Linked Subordinated Hybrid)	Euribor 3m + 88 bps.	NO	30/12/03	N.A.	(b)	EUR	NO	700,000,000	27,915
Capital Preferred Securities I <sup>tranche</sup>	Euribor 3m + 6,3%	YES	21/12/00	N.A.	(c)	EUR	YES	80,000,000	48,000
Capital Preferred Securities II <sup>tranche</sup>	Euribor 3m + 6,3%	YES	27/06/01	N.A.	(c)	EUR	YES	220,000,000	106,503
Preferred Capital I LLC	Euribor 3m + 6,3%	YES	07/02/01	N.A.	(d)	EUR	YES	350,000,000	210,000
<b>Total Additional Tier 1 capital instruments (AT-1)</b>									<b>574,403</b>

- a) F.R.E.S.H. 2008 refers to the EUR 950 mln capital increase reserved to JP Morgan. On 16 April 2008, pursuant to art. 2352 of the Civil Code, the Parent Company and J.P. Morgan entered into a usufruct agreement, according to which J.P. Morgan maintains bare ownership of the shares, while the Parent Company is entitled to usufruct, which may be terminated in advance in a series of cases. As long as the usufruct is in force, the voting right relating to the FRESH 2008 Shares is suspended and no right to dividends is associated with them, while the option rights are held by J.P. Morgan, which will be required to transfer them to Mitsubishi UFJ Investor Services & Banking (Luxembourg) S.A. under the terms set forth in the documentation relating to FRESH 2008 for the purpose of transfer to FRESH 2008 holders pursuant to the terms of the instruments themselves. The consideration for the usufruct is equal to the 3M Euribor + 425 basis points, applied to a notional value of EUR 1 bn, under the conditions described below.

That amount should be paid to J.P. Morgan, based on the usufruct agreement, on specific payment dates (16 January, 16 April, 16 July and 16 October of each year), if and only if:

- the Parent Company has realised distributable profits based on the separate financial statements approved before that date; and
- also on the basis of those financial statements, dividends in cash have been paid out to shareholders.

When both of these conditions are met for one year, the amount due for the four payment dates subsequent to the shareholders' meeting approving the financial statements referring to the same year may be paid only to the extent of the difference between distributable profits as set forth in the financial statements and the total amount of cash dividends paid to shareholders.

Following a free share capital increase of EUR 750 mln approved in 2012 applicable to the share premium reserve, the portion of the 2008 reserved capital increase that has AT1 characteristics as at 31 December 2016 amounts to EUR 182 mln.

- b) The innovative capital instruments F.R.E.S.H. (Floating Rate Equity-linked Subordinated Hybrid notes) issued by the vehicle "MPS Preferred Capital II LLC", for an original nominal value of EUR 700 mln, are perpetual instruments and as such contain no redemption or step-up clauses but are convertible into shares. In September of each year from 2004 through 2009 and however, at any time effective as of 1 September 2010, the instruments are convertible upon the investor's initiative. In addition, an automatic conversion clause is provided for in the event that, after the seventh year from date of issue, the reference price of the ordinary shares should exceed a set amount. For the portion still outstanding, it is noted that the return is non-cumulative, with an option for it not to be paid if, during the previous year, the Parent Company did not register any distributable profits and/or did not pay any dividends to its shareholders. Any unpaid consideration shall be considered as forfeited. The rights of the note holders are guaranteed on a subordinated basis. In the event of liquidation of the Parent Company, the rights of the investors will be subordinated to all of the Parent Company's creditors who are not equally subordinated, including holders of securities coming under Tier 2 capital and will override the rights of Parent Company's shareholders. Within the overall structure, a limited liability company and a business Trust were set up, which have



respectively issued convertible preferred and convertible trust securities. The Parent Company underwrote an on-lending contract in the form of a subordinated deposit agreement. The conditions of the on-lending agreement are substantially the same as the conditions of the convertible preferred securities. For these securities, the issuer exercised the option not to proceed with payment of interest accrued on the coupon dates scheduled, as of 30 September 2013.

- c) Capital Preferred Securities, Antonveneta Capital Trust I and Antonveneta Capital Trust II are non-redeemable securities. For these securities, the issuer exercised the option not to proceed with payment of interest accrued on the coupon dates scheduled, starting from 21 September 2013 and 27 September 2013, respectively.
- d) Preferred Capital Shares I LLC are also non-redeemable. For these securities, the issuer exercised the option not to proceed with payment of interest accrued on the coupon dates scheduled, as of 7 February 2013.

### 3. Additional Tier 2 (T2)

#### Full application requirements

The main requirements for including capital instruments in T2 are:

- the subscription and acquisition must not be financed by the Parent Company or its subsidiaries;
- they are not subject to guarantees that increase their seniority issued by the Parent Company, its subsidiaries or other companies with close ties to the Bank and its subsidiaries;
- the original duration is not less than 5 years and there are no incentives for early repayment;
- call options may be exercised only at the issuer's discretion and, in any event, no earlier than 5 years, unless authorised by the Supervisory Authority related to specific circumstances;
- interest does not vary based on the Parent Company's credit standing;
- amortisation of these instruments for purposes of inclusion in the T2 calculation is pro-rata temporis in the last 5 years.

T2 is subject to the following deductions:

- direct, indirect and synthetic investments in the Bank's T2 instruments;
- direct, indirect and synthetic investments in T2 instruments of financial institutions, which it owns a significant stake;
- direct, indirect and synthetic investments in T2 instruments of financial institutions, which it does not own a significant stake, for the portion that exceeds the exemption of 10%, proportionally attributable to T2 instruments.

It should be noted that in accordance to the provisions of Art. 23 of Decree Law 237/2016, converted into Law on 17 February 2017, as part of the "Precautionary recapitalisation" realised by the State, will be subject to mandatory conversion in 2017 bond for a total nominal value of Eur 1,350 mln.

#### Transition requirements

The following are the key aspects of the transition requirements for 2016:

- non significant investments in T2 instruments of financial institutions held directly are deducted from T2 at 100%; non significant investments in T2 instruments of financial institutions held indirectly or synthetically are deducted with a phase-in of 20% per year as of 2014 (60% in 2016 and 100% in 2018). Indirect and synthetic investments, not deducted during the transition phase, are subject to capital requirements and included in RWAs;
- significant investments in T2 instruments of financial institutions held directly are deducted from T2 at 100%; significant investments in T2 instruments of financial institutions held indirectly or synthetically are deducted with a phase-in of 20% per year as of 2014 (60% in 2016 and 100% in





2018). Indirect and synthetic investments, not deducted during the transition phase, are subject to capital requirements and included in RWAs;

- significant investments in CET1 and AT1 instruments of financial institutions held directly, indirectly or synthetically, temporarily not deductible from CET1 and AT1 due to the transition period, are deducted from AT1 at 50% and from T2 at 50%;
- the excess of expected losses on impairments (expected loss delta), temporarily not deductible from CET1 due to the transition period, is deducted from T2 at 50%.

The following table reports the main contractual features of instruments included in the calculation of Tier 2.

31 12 2016

Features of subordinated instruments	Interest rate	Step up	Issue Date	Maturity Date	Early redemption as of	Currency	Grandfathering	Original amount in currency units	Contribution to capital (EUR/000)
Subordinate bond loan	Euribor 6m+2,50%	NO	15 05 2008	15 05 2018	N.A.	EUR	NO	2,160,558,000	560,633
Subordinate bond loan	5,6% fixed	NO	09 09 2010	09 09 2020	N.A.	EUR	NO	500,000,000	279,375
Subordinate bond loan	Euribor 3m+0,40 % until 30/11/2012, then Euribor 3m+1%	NO	30 11 2005	30 11 2017	N.A.	EUR	NO	500,000,000	67,356
Subordinate bond loan	7% fixed	NO	04 03 2009	04 03 2019	N.A.	EUR	NO	500,000,000	217,141
Subordinate bond loan	5% fixed	NO	21 04 2010	21 04 2020	N.A.	EUR	NO	500,000,000	243,551
<b>Total equity instruments Tier 2 (T2)</b>									<b>1,368,056</b>

### Transition requirements

A gradual exclusion from the relevant capital level is envisaged for capital instruments issued previously and calculated in regulatory capital through 31 December 2013 that do not meet the requirements of the new regulatory framework. Specifically, in 2016 60% of the nominal value may be included in the CET1, AT1 and T2 calculation, decreasing 10% per year until its full exclusion in 2022, for those instruments issued or calculated in the regulatory capital prior to 31 December 2011 that do not meet the new requirements.

**B. Quantitative Information**

	31 12 2016	31 12 2015
<b>A. Tier 1 before prudential filters</b>	<b>6,243,430</b>	<b>9,414,501</b>
of which CET1 instruments subject to transitional provisions	-	-
B. Tier I prudential filters	(204,241)	(34,704)
<b>C. Tier I capital gross of items to be deducted (A+B)</b>	<b>6,039,189</b>	<b>9,379,797</b>
D. Items to be deducted from Tier I	1,493,822	1,003,472
E. Transitional regime - Impact on CET1 (+/-)	808,032	126,820
<b>F. Total Common Equity Tier 1 (CET1) (C - D +/- E)</b>	<b>5,353,399</b>	<b>8,503,145</b>
G. Additional Tier 1 (AT1) gross of items to be deducted and transitional regime effects	574,403	611,956
of which AT1 instruments subject to transitional provisions	364,503	402,056
H. Items to be deducted from AT1	-	-
I. Transitional regime - Impact on AT1 (+/-)	(574,403)	(13,647)
<b>L. Total additional Tier 1 (AT1) - (G - H +/- I)</b>	<b>-</b>	<b>598,309</b>
M. Tier2 (T2) gross of items to be deducted and transitional regime effects	1,549,962	2,232,361
of which T2 instruments subject to transitional provisions	-	-
N. Items to be deducted from T2	63,173	63,598
O. Transitional regime - Impact on T2 (+/-)	(22,865)	27,506
<b>P. Total Tier 2 (T2) (M - N +/- O)</b>	<b>1,463,924</b>	<b>2,196,269</b>
<b>Q. Total capital (F + L + P)</b>	<b>6,817,323</b>	<b>11,297,723</b>

Unrealised losses relating to exposures to central administrations classified as AFS amount to EUR -66.4 mln and are included in the Capital calculation for EUR -39.8 mln.

The prudential filter to absorb gradually the effects of application of the new IAS 19 amounts to EUR 52.5 mln, and the values of net liabilities for defined benefits according to the rules of the old and new IAS 19 amount to EUR -31.1 mln and -118.5 mln respectively.





## 2.3 Capital adequacy

### A. Qualitative information

Under the prudential regulation (art. 92 CRR), the minimum equity requirements for 2016 are as follows:

- CET1 ratio of at least 4.5% of the Group's total risk exposure;
- AT1 ratio of at least 6% of the Group's total risk exposure;
- Total Capital ratio of at least 8% of the Group's total risk exposure.

Additionally, banks must have the following reserves:

- capital conservation buffer; this reserve, consisting of CET1 capital, is aimed at conserving the minimum level of regulatory capital during difficult periods in the market, through the allocation of high quality capital in periods in which there are no market tensions. This reserve is mandatory and must be at least 2.5% of the Bank's total risk exposure in 2016; in 2017, the reserve must be equal to 1.25%;
- countercyclical capital buffer - aimed at protecting the banking sector in phases of excessive growth in loans. The buffer provides for the accumulation of CET1 capital during phases of rapid growth in the credit cycle, which can then be used to absorb losses in the downward phase of the cycle. As opposed to the capital conservation buffer, the countercyclical buffer is imposed only during periods of loan growth and is calculated according to pre-established criteria; in the fourth quarter of 2016, the countercyclical buffer coefficient for Italy was kept at zero percent;
- the systemic risk buffer, meant to deal with non-cyclical systemic risk in the financial sector through CET 1; at the moment, no systemic risk buffer is required;
- G-SII buffer for global systemically important banks and O-SII buffer for other systemically important entities - impose higher capital requirements on those entities based on their systemic relevance, at a global or national level, which pose greater risks for the financial system and for which a crisis could have impacts on contributors. The Group is not a global systemically important bank (G-SII), but it is included among 'Other systemically important entities' (O-SII), as defined by the Bank of Italy. For each bank or banking group, this identification took into consideration the contribution of the four characteristics (size, relevance for the Italian economy, complexity and interconnection with the financial system) specified in the EBA guidelines to establish the systematic relevance of each entity at the level of individual jurisdiction. The Bank of Italy's decision established an O-SII buffer of zero percent for 2016 and 2017.

The combination of these buffers determines the Combined Buffer Requirement (CBR).

As concerns capital requirements, for credit risks the Group uses the Advanced Internal Rating Based (AIRB) method with reference to the "Credit Exposures to Retail" and "Credit Exposures to Entities" regulatory portfolios. The scope of application of the AIRB method currently includes the Parent Company Banca MPS, MPS Capital Services and MPS Leasing & Factoring. For the remaining portfolios and Group entities, capital requirements relative to credit risks are calculated according to the standard method.

Conversely, capital requirements relative to market risk are calculated according to the standard method for all Group entities.

Capital requirements relative to the operational risk calculated according to the AMA method cover the entire Banking Group perimeter almost completely. For the remaining part of the perimeter, the base method applies.

As regards the Supervisory Review and Evaluation Process (SREP), it should be noted that in November 2015 the ECB asked the Bank to comply on a consolidated basis as at 31 December 2016 with a Common Equity Tier 1 target ratio of 10.75%, up compared to 10.2% requested at 31 December 2015.

The target ratios required by the ECB must be complied with at all times when the Authority's Decision is in force; similarly, at those times the Bank may not distribute dividends to shareholders or pay cash flows to holders of AT1 instruments.



The Bank's situation as at 31 December 2016 had a CET 1 ratio of 8.17%, higher than the minimums set forth in art. 92 of the CRR, but lower than the target ratio set by the ECB and the Combined Buffer Requirement laid out in regulations (likewise, the Tier 1 ratio and the Total Capital Ratio are higher than the requirements laid out in art. 92 of the CRR). Failure to meet the CBR means that the Bank cannot:

- 1) distribute dividends;
- 2) assume obligations for the payment of variable remuneration or discretionary pension benefits or pay variable remuneration if the payment obligation was assumed when the combined capital buffer requirement was not respected;
- 3) make payments on AT1 instruments.

The reduction in the CET 1 ratio as at 31 December 2016 to below the SREP threshold and the CBR derives primarily from the loss recorded in 2016 and the impossibility of completing the EUR 5 billion capital strengthening measure announced in 2016 as a part of a more complex transaction also meant to reduce non-performing loans.

On 29 July, the results of the EBA's EU-wide stress test were published, showing a serious reduction in the fully loaded CET1 ratio at the end of 2018, equal to -2.44% in the adverse scenario.

Law Decree 237/2016 - Urgent provisions for the protection of savings in the credit sector - was approved on 23 December and its conversion into law was definitively approved on 17 February 2017. As a result of this, on 30 December 2016 the Parent Company sent the MEF, the ECB and the Bank of Italy a request for extraordinary, temporary financial support involving access to the "precautionary recapitalisation" measure under articles 13 et seq. of the Decree.

Subsequently, the Parent Company received from the MEF the assessments conducted by the ECB which, in addition to confirming the existence of the requirements to access the precautionary recapitalisation measure in accordance with the applicable regulation, showed, based on the results of the stress test of 2016 and of the shortfall identified in the adverse scenario, in the CET 1 parameter, an estimated capital requirement of EUR 8.8 billion, inclusive of all components of regulatory capital as set forth in applicable legislation, taking into account the fact that as part of the precautionary recapitalisation, there would be "burden sharing" resulting in the conversion of subordinated instruments into CET 1 capital.

The completion of the "Precautionary recapitalisation" requires the submission of a "Restructuring Plan" to the Domestic authorities (Ministry of Economy and Finance) as well as the European Commission. On March 9, 2017, the Board of Directors approved a preliminary proposal for the Restructuring Plan, which was sent to the competent authority to start the comparison to finalization of the plan itself and its approval by the Authority.

Moreover, please note that in the course of 2016 and in the opening months of 2017, the ECB conducted an on-site inspection regarding in particular the classification of performing exposures, the provisioning rate and the value of guarantees on non-performing exposures of certain credit portfolios with reference to the situation as at 31 December 2015. However, at the date of approval of the draft financial statements, it has not yet concluded the process to communicate the official results of the inspection.

Lastly, another relevant regulatory indicator is the Leverage Ratio, calculated with a denominator that is based on the assets and off-balance sheet elements not risk weighted at the end of the quarter. Please note that the indicator becomes binding in 2018 and a transition observation phase will take place from 2014 to 31 December 2017. To date, the Supervisory Authorities have not yet determined the minimum Leverage Ratio thresholds.

The Group's leverage ratio was 3.17% as at 31 December 2016. Using regulatory capital calculated by applying the rules established for full implementation, the ratio stands at 2.62%.



## B. Quantitative Information

Categories / Amounts	Non-Weighted amounts		Weighted amounts/requirements	
	31 12 2016	31 12 2015	31 12 2016	31 12 2015
<b>A. RISK ASSETS</b>				
<b>A.1 Credit and counterparty risk</b>	<b>169,998,089</b>	<b>178,933,561</b>	<b>53,520,804</b>	<b>57,804,266</b>
1. Standardized Approach	57,785,767	60,744,295	23,196,227	24,322,177
2. Internal rating-based (IRB) approach	112,174,932	118,175,488	30,317,670	33,430,850
2.1 Foundation	-	-	-	-
2.2 Advanced	112,174,932	118,175,488	30,317,670	33,430,850
3. Securitisations	37,390	13,778	6,907	51,239
<b>B. REGULATORY CAPITAL REQUIREMENTS</b>				
<b>B.1 Credit and counterparty risk</b>			<b>4,281,664</b>	<b>4,624,341</b>
<b>B.2 Credit valuation adjustment risk</b>			<b>38,362</b>	<b>64,487</b>
<b>B.3 Settlement risk</b>			<b>-</b>	<b>-</b>
<b>B.4 Market risk</b>			<b>243,645</b>	<b>274,556</b>
1. Standardized Approach			243,645	274,556
2. Internal models			-	-
3. Concentration risk			-	-
<b>B.5 Operational risk</b>			<b>678,061</b>	<b>702,894</b>
1. Foundation			15,234	18,507
2. Standardized approach			-	-
3. Advanced			662,827	684,387
<b>B.6 Other prudential requirements</b>			<b>-</b>	<b>-</b>
<b>B.7 Other calculation elements</b>			<b>-</b>	<b>-</b>
<b>B.8 Total prudential requirements</b>			<b>5,241,732</b>	<b>5,666,278</b>
<b>C. RISK ASSETS AND CAPITAL RATIOS</b>				
<b>C.1 Risk-weighted assets</b>			<b>65,521,653</b>	<b>70,828,477</b>
<b>C.2 CET1 capital/Risk-weighted assets (CET1 capital ratio)□</b>			<b>8.17%</b>	<b>12.01%</b>
<b>C.3 Tier 1 capital/Risk-weighted assets (Tier1 capital ratio)</b>			<b>8.17%</b>	<b>12.85%</b>
<b>C.4 Total capital/Risk-weighted assets (Total capital ratio)</b>			<b>10.40%</b>	<b>15.95%</b>



### **Section 3 - Insurance regulatory capital and ratios**

The Group does not include exclusively or jointly controlled companies subject to insurance supervision.

### **Section 4 – Capital adequacy of the financial conglomerate**

The MPS Group is not a financial conglomerate.



## Part G – Business combinations

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## **Section 1 – Business combinations during the period**

### **1.1 Business combinations**

No business combinations, as defined by IFRS 3, were carried out in 2016.

## **Section 2 - Business combinations completed after the period**

There are no transactions to report.

## **Section 3 – Retrospective adjustments**

No retrospective adjustments are reported.







## Part H – Related-party transactions

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## 1 Compensation of key management personnel

Items/Amounts	Total	Total
	31 12 2016	31 12 2015
Short-term benefits	8,139	7,890
Post-retirement benefits	-	-
Other long-term benefits	-	-
Termination benefits	4,533	-
Share-based payments	-	-
Other compensation	-	-
<b>Total compensation paid to key management personnel</b>	<b>12,672</b>	<b>7,890</b>

Considering the 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, please refer to the document “Remuneration Report pursuant to art. 123 ter of the Consolidated Law on Finance” which contains the data specified below and reported in the 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;
- quantitative information on the remuneration of “Key employees”;
- monetary incentive plans in favour of members of the Administration and Control Body, the General Managers, the Deputy General Managers and other Key Management Personnel;
- information on the equity investments of members of the Administration and Control Body, the General Managers and other Key Management Personnel.

The amount on line ‘Termination benefits’ refers to the amount recognised for early termination of the employment relationship for 4 Key Management Personnel, including the former General Manager of the Parent Company, Fabrizio Viola, and another three managers, two of whom recipients of shares to be paid over a five year period and for at least 50% through the assignment of performance shares.

The methods for paying out the amounts recognised to the three managers mentioned above, comprehensive of the cost of notice indemnity and a “severance” share, are noted below:

- in cash at the date of termination of employment, for the amount corresponding to the cost of notice indemnity (a total of EUR 1,644,792) and 20% of severance indemnity (a total of EUR 511,533);
- through the assignment of performance shares on the date of termination of employment, for a further portion of 20% of the severance indemnity (a total of EUR 511,533);
- five annual instalments for the balance severance indemnity, or EUR 1,534,660 for the three positions (of which 50% in cash and 50% through the assignment of performance shares).

In the case of the General Manager, severance indemnity includes compensation for termination of the office of Chief Executive Officer, equal to the remuneration that would have accrued until the natural expiry of the office in April 2018, i.e. a gross total of EUR 749,096.

The total number of performance shares for the three managers is calculated based on the valuation of the BMPS security at the respective dates of confirmation of the termination agreements in protected negotiations.

The total number of phantom shares - subject to the verification of malus and claw-back conditions - will be assigned in 5 annual tranches over a five year period and settled one year from the relative assignments, on the basis of the market price applicable from time to time, without adopting, in compliance with regulatory provisions, any correction aimed at neutralising or mitigating any negative effects of possible transactions on the Parent Company’s capital.



## 2. Related-party transactions

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

In its meeting of 10 November 2010, the Parent Company’s Board of Directors established the “Committee of Independent Directors” which, as of 18 July 2013, was renamed “Committee on Related-Party Transactions”; the Committee is composed solely of independent directors pursuant to the principles and criteria of the Corporate Governance Code of listed companies, which Banca MPS 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 Company 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. 263/2006, 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).

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 Parent Company’s and the Group Companies’ 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 Parent Company’s website and is therefore available in full-text version at the following links:

[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](https://www.mps.it/investors/corporate-governance/sistema-di-governance-e-policy/Sistema%20di%20governance%20e%20policy/Operazioni%20con%20parti%20correlate%20e%20soggetti%20collegati%20obbligazioni%20degli%20esponenti%20bancari.pdf)

Following the analyses carried out during the first half of 2016, the Parent Company’s Board of Directors formally resolved to approve inclusion of the MEF and of the relevant directly and indirectly controlled companies within the scope of related parties, on a discretionary basis pursuant to the provisions of the Global Policy, excluding the prudential regulation.

With reference to the MEF scope, the Parent Company has availed itself of the exemption provided 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 completion of financing and funding transactions, mention also goes to the amount of Italian government securities recorded in the HFT and AFS portfolio (for a nominal amount of EUR 1,577.64 and EUR 13,754.03 mln, respectively).

Information is provided below regarding transactions carried out during 2016, which deserve specific mention and were conducted based on reciprocal assessments of economic advantages.



## February 2016

- On 25 February 2016, the Parent Company Board of Directors' resolution of 10 September 2015 in favour of INTERMONTE SIM SPA was implemented, regarding the renewal and increase of the credit lines, from 31 December 2015 to 13 December 2016, for the portion relating to extension of the transitional credit line of EUR 150.0 mln. The transaction falls within the scope of application of CONSOB Regulation no. 17221/2010, as the Parent Company 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 Parent Company's Board of Directors, with the favourable opinion of the Committee on Related-Party Transactions, authorised signing of an insurance policy distribution agreement between BMPS and a new insurance company to be established on a joint venture basis between AXA ASSICURAZIONI SPA (related party of Banca MPS 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, the content of said agreement will be an integral part of the bancassurance agreement concluded in 2007 and still in place between the Bank and AXA S.A., which is a related party of the Bank as a result of said Joint Venture as well as in consideration of the stake held by the AXA Group in the Parent Company's share capital.

## April 2016

- On 7 April 2016, the Parent Company's 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 Parent Company's Board of Directors resolved to grant a new credit line to SAIPEM SPA, in addition to the partial restoration of previously granted 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 MEF through ENI SPA, both of which have become related parties of the Bank;
- also on 7 April 2016, the Parent Company's 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 Parent Company's 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 Parent Company's 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 Parent Company's Credit and Credit Policies Committee expressed its approval of the disposal without recourse of the existing loan of MPS CAPITAL SERVICES SPA (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.

### July 2016

- On 25 July 2016, as part of the restructuring agreement under article 182-bis of the Bankruptcy Law and following the entry into force of the decree of approval in April 2016, as described above, the Parent Company's Credit and Credit Policies Committee authorised with regard to SANSEDONI SIENA SPA the finalisation of the sale to third parties of three real estate properties, under the plan for the disposal of properties included in the restructuring agreement, as well as a waiver by SANSEDONI SPA of employment indemnities accrued but not paid by one of the promissory buyers starting June 2016, in the event of prompt conclusion of the relevant deed of sale. It should be noted that the overall exposure of SANSEDONI SIENA SPA amounts to EUR 104.7 million. The transaction falls within the scope of application of CONSOB Regulation no. 17221/2010, as SANSEDONI SIENA SPA is subject to significant influence by BMPS, which holds a stake of 21.75% of the share capital;
- on 29 July 2016, the Parent Company's Board of Directors authorised with regard to MPS COVERED BOND 2 SRL the sale in one or more tranches in accordance with Law no. 130/99 of a portfolio of performing residential mortgages and commercial loans of a maximum amount of EUR 2,000 million as well as the granting, where necessary, of a subordinated loan to the vehicle company up to the amount of the carrying value of the sold portfolio. Nine sales had already been finalised as part of the second Covered Bond Programme. The transaction falls within the scope of application of CONSOB Regulation no.



17221/2010, as BMPS holds a controlling interest in the share capital of MPS COVERED BOND 2 SRL (90% of the shares with voting rights);

- on 29 July 2016 the Parent Company's Board of Directors authorised with regard to SORGENIA GROUP – as part of the restructuring agreement under article 182-bis of the Bankruptcy Law, which became fully effective following the decree of approval by the Court of Milan dated 27 March 2015 - the signing of a moratorium and standstill agreement effective until December 2016, on condition of reaching a quorum of 100% of the banks, as well as the issue of a comfort letter by the banks aimed, once the wording is agreed, to convey the lack of any insurmountable impediments preventing from continuing to analyse the new business plan and to reach a negotiated solution of the Group's temporary crisis. BMPS's total exposure to the SORGENIA GROUP amounts to around EUR 591 mln, as at the date of the resolution. The transaction falls within the scope of application of CONSOB Regulation no. 17221/2010, as it refers to the companies SORGENIA SPA, SORGENIA POWER SPA and SORGENIA PUGLIA SPA, subsidiaries of NUOVA SORGENIA HOLDING SPA (the SORGENIA GROUP's holding company) and subject to significant influence by BMPS, which holds a stake of 16.67% of the share capital of the aforesaid holding company.

#### August 2016

- On 31 August 2016 the Parent Company's Credit and Credit Policies Committee approved the renewal of a framework resolution for the performance of credit line transactions secured by guarantees issued by FIDI TOSCANA SPA, up to a maximum of EUR 98 million, for a maximum period of 1 year of the date of approval. The transaction falls within the scope of application of CONSOB Regulation no. 17221/2010, as FIDI TOSCANA SPA is subject to significant influence by BMPS, which holds a stake of 27.46% of the shares with voting rights.

#### September 2016

- As part of a securitisation transaction, on 8 September 2016 the Parent Company's Board of Directors authorised the sale, in one or more tranches, in accordance with Law no. 130/99, of portfolios of performing loans originated by BMPS and consisting of mortgage and unsecured loans, up to an amount of EUR 2,500 mln in favour of the new vehicle SIENA PMI 2016 SRL. The transaction falls within the scope of application of CONSOB Regulation no. 17221/2010, as BMPS de facto controls SIENA PMI 2016 SRL, the new vehicle company included in the MPS Banking Group.
- On 30 September 2016, the Parent Company's Loan Disbursement Area authorised (i) the cancellation of an ordinary non-revolving current account overdraft line of credit of EUR 10.3 mln and (ii) the simultaneous issue of a mixed facility with a limit of EUR 10.4 mln in favour of FONDAZIONE MONTE DEI PASCHI DI SIENA. This transaction is part of the application of Consob Regulation no. 17221/2010 in consideration of the investment in the share capital traditionally held in the Bank, amounting to 1.488% at the transaction date, and the shareholders' agreement in force during the appointment of the Bank representatives for the 2015-2017 period.

#### October 2016

- On 14 October 2016, the Parent Company's Board of Directors resolved to authorise the adoption of a Framework Resolution, of up to a cumulative amount of EUR 1,000 mln, valid from 15 October 2016 to 14 October 2017, concerning the Bank's acquisition of financial resources - for the disbursement of medium/long-term loans to customers - from funding made available by CASSA DEPOSITI E PRESTITI SPA (CDP) as part of the agreements entered into by the CDP and the Italian Banking Association (ABI), under favourable and





uniform conditions for banking institutions participating in such CDP/ABI Agreements. The transaction in question falls within the scope of application of CONSOB regulation no. 17221/2010, as CASSA DEPOSITI E PRESTITI SPA is a direct subsidiary of the MEF. Considering the amount, the Framework Resolution is classified as a “transaction of greater relevance”; the relative disclosure, which should be referred to for additional information, was made available to the public along with the favourable opinion of the Committee on Related-Party Transactions on 21 October 2016, within the terms and with the procedures laid out in the Consob regulation.

### November 2016

- On 30 November 2016, the Parent Company’s Board of Directors authorised the ten-year renewal of the bancassurance agreement with AXA S.A., which was finalised on 22 March 2007 (“Framework Agreement”). The transaction falls within the scope of application of CONSOB Regulation no. 17221/2010 since AXA S.A. is a related party of the Bank as a result of the joint venture in place with the Bank under the aforesaid Framework Agreement of 2007, as well as in consideration of the stake held by the AXA Group in the Bank’s share capital. The transaction in question is classified as a “transaction of greater relevance”, also pursuant to the Bank’s Global Policy; pursuant to regulations in force, once the joint venture agreement renewal is signed, a disclosure in this regard will be issued. Lastly, please note that in relation to the procedure followed to renew the agreement, the Parent Company’s Committee for Related-party Transactions was involved and issued its preventive favourable opinion to the Board of Directors resolution.

### December 2016

- On 14 December 2016 the Parent Company’s Board of Directors authorised with regard to SORGENIA GROUP – as part of the restructuring agreement under article 182-bis of the Bankruptcy Law, which became fully effective following the decree of approval by the Court of Milan dated 27 March 2015 - an extension until 30 April 2017, subject to reaching a quorum of 100% of the banks concerned, of a moratorium and standstill agreement signed on 2 August 2016, with original expiry date at 31 December 2016 (cf. commented transaction approved in July 2016), amounting to EUR 475.2 mln. The transaction falls within the scope of application of CONSOB Regulation no. 17221/2010, as it refers to the companies SORGENIA SPA, SORGENIA POWER SPA and SORGENIA PUGLIA SPA, subsidiaries of NUOVA SORGENIA HOLDING SPA (the SORGENIA GROUP’s holding company) and subject to significant influence by the Bank, which holds a stake of 16.67% of the share capital of the aforesaid holding company;
- on 22 December 2016, the Parent Company’s Credit and Credit Policies Committee - as part of the restructuring agreement pursuant to art. 182-bis of the bankruptcy law, which became fully effective following the decree of approval by the Court of Milan dated 27 March 2015 and following the acceptance of the moratorium and standstill agreement - authorised SORGENIA PUGLIA SPA and SORGENIA POWER SPA to open one new securities deposit each and to pledge them in favour of the banks participating in the restructuring agreement, subject to the achievement of a quorum of 66.67% and 100% of the creditors, respectively, in order to settle investments in government bonds, through the use by the above-mentioned companies of part of the liquidity deposited at the Bank, for a maximum total value of EUR 54 mln. The transactions fall within the scope of application of CONSOB Regulation no. 17221/2010, as they refer to the companies SORGENIA POWER SPA and SORGENIA PUGLIA SPA, subsidiaries of NUOVA SORGENIA HOLDING SPA (the SORGENIA GROUP holding company) and subject to significant influence by the Bank, which holds a stake of 16.67% of the share capital of the aforesaid holding company.





The following tables summarise the relationships and economic effects of transactions carried out in the year with associates, key management personnel and other related parties as at 31 December 2016.

## 2.a Related-party transactions: balance sheet items

	Value as at 31 12 2016					
	joint venture	Associated companies	Executives with strategic responsibility	altre parti correlate	Other related parties	% on consolidated
Financial assets held for trading	-	38,528	-	-	38,528	0.42%
Financial assets available for sale	-	23,661	-	-	23,661	0.14%
Loans to banks	-	-	-	-	-	0.00%
Loans to customers	98,955	609,159	3,281	2,937	714,332	0.67%
Other assets	-	16	-	-	16	0.00%
<b>Total assets</b>	<b>98,955</b>	<b>671,364</b>	<b>3,281</b>	<b>2,937</b>	<b>776,537</b>	<b>-</b>
Deposits from banks	-	-	-	-	-	0.00%
Deposits from customers	2,652	360,132	1,889	22,965	387,638	0.48%
Debt securities issued	-	7,139	177	-	7,316	0.03%
Financial liabilities	-	89,356	186	236	89,778	1.38%
Other liabilities	41	5,829	-	-	5,870	0.18%
<b>Total liabilities</b>	<b>2,693</b>	<b>462,456</b>	<b>2,252</b>	<b>23,201</b>	<b>490,602</b>	<b>-</b>
Guaranties issued and Commitments	16,267	107,738	2	-	124,007	0.68%

## 2.b Related-party transactions: income statement items

	Value as at 31 12 2016					
	joint venture	Associated companies	Executives with strategic responsibility	altre parti correlate	Other related parties	% on consolidated
Interest income and similar revenues	2,239	7,664	31	122	10,056	0.30%
Interest costs and similar charges	-	(665)	(4)	(204)	(873)	0.07%
Fee and commission income	288	164,997	8	34	165,327	7.75%
Fee and commission expense	-	(2,969)	-	(60)	(3,029)	1.03%
Net adjustments/impairments	(475)	(139,718)	1	(9,512)	(149,704)	3.33%
Operating costs	-	(2,458)	(12,671)	(298)	(15,427)	0.51%





## Part I –Share Based Payments





## Qualitative Information

### Description of share-based payment agreements

Supervisory Provisions on pay and incentive policies and practices establish that at least 50% of variable remuneration provided to “key employees” should be paid in the form of shares or associated financial instruments over a period of at least 3-5 years. “Variable remuneration” refers to variable performance-linked components as well as incentives paid for the early termination of the employment relationship exceeding the amount due by law (“severance”).

As the Parent Company had no treasury shares at the date on which it set up its 2016 Remuneration Policies and the legal requirements were not met to pass a resolution to purchase them, it decided to adopt a Performance Shares Plan. The Plan, approved by the Parent Company’s Shareholders’ Meeting on 14 April 2016, fulfilled regulatory requirements while also aiming to align the management’s interests with those of the shareholders in the medium-long term.

Originally, the Plan called for the assignment of a certain number of Performance Shares to employees as the variable incentive component of remuneration attributed based on the 2016 performance assessment process, or as part of a consensual agreement for the early termination of the employment relationship (in this case, until the approval of the 2017 Remuneration Policies).

However, after the Shareholders’ Meeting approval of the Plan, the implementation of performance-linked incentive systems for 2016 was suspended due to changed conditions within the company. Therefore, the only Performance Shares assigned this year were provided as compensation for the early termination of the employment relationship with three top executives.

Please note that the 2016 Performance Shares Plan was the first Plan implemented by the Group for the payment of variable components to “key employees”, either as an incentive or linked to the early termination of the employment relationship. As the provision of performance shares does not require the material assignment of shares, but rather the payment of an amount pegged to the share value reported over time, for accounting purposes it is considered a cash settled share based payment pursuant to IFRS 2 “Share-based payments”. The corresponding cost is accounted for at the end of the year of service considering the best estimate of the amount due (fulfilment of conditions, etc.), valued at fair value taking into account the number of shares assigned from year to year and the Parent Company’s share value.

### Quantitative Information

During the year, 54,676 Performance Shares were accounted for (at an average price of EUR 23.39, taking into account the grouping that took place on 28 November 2016), of which 21,870 assigned up-front; the 32,805 deferred shares will be assigned - subject to the verification of pre-established malus conditions - in 5 annual tranches over a five-year period and settled one year after the relative assignments.

The fair value of the Performance Shares assigned is determined - pursuant to art. 9, paragraph 4 of the TUIR - on the basis of the arithmetic average of the MPS share prices reported in the thirty days leading up to the assignment date.

In compliance with the accounting standards, the assignment of Performance Shares linked to variable personnel remuneration is accounted for in the income statement as a cost - equal to the value of the consideration at the moment of assignment - in connection with the services provided during the reference period.





## Part L – Segment reporting







## Introduction

This section of the Notes to the Consolidated Financial Statements is prepared in accordance with the IAS/IFRS international accounting principles, with particular reference to IFRS8 “Operating Segments”.

The aforementioned accounting standard, applied as of 1 January 2009 to replace IAS14 “Segment reporting” and the adoption of which has no effect on the valuation of balance sheet items, requires reports to be drafted in relation to operating segments on the basis of the internal reporting actually used by management to take decisions on the allocation of resources to various segments and to conduct performance analyses.

## Group operations by business segment

The Group operates in the following business areas:

- Retail and commercial banking: includes lending activities, traditional banking services, financial advisory and digital banking services, the offering of banking and insurance products through the strategic partnership with AXA, wealth management and investment products;
- Leasing and Factoring: includes the offering of leasing and factoring packages for businesses, artisans and professionals;
- Corporate finance: mid- and long-term lending, corporate finance, capital markets and structured finance;
- Investment banking: trading and global markets;
- Foreign banking: products and services in support of market expansion and investments of Italian companies abroad.

Operations in the business areas are conducted by the following operating units of the Group:

- sales & distribution network, comprising the branches and specialised centres of Banca Monte dei Paschi di Siena;
- Banca Widiba SpA, which includes the business of the Financial Advisory Network and Digital Banking;
- product factories<sup>9</sup>, i.e. Group banks and companies expressly dedicated to developing specialised financial instruments to be offered to the market, particularly including: MPS Capital Services (specialised in corporate finance, capital market and structured finance), MPS Leasing & Factoring (specialising in the provision of leasing and factoring services to businesses);
- foreign network, geographically present in all major financial and economic markets as well as in emerging countries with the highest rates of growth and/or key relations with Italy. It includes the foreign units of Banca Monte dei Paschi di Siena (4 operational branches, 10 representative offices) and 2 banks under foreign law (MP Belgio: 9 branches; MP Banque: 18 branches).

The Group also includes service operations dedicated to the management of IT and telecommunications (Consorzio Operativo di Gruppo).

For the purpose of identifying the Operating Segments provided for by IFRS 8, the Montepaschi Group has adopted the business approach. Income statement/balance sheet data are then aggregated based on criteria including business area and operating unit of reference, relevance and strategic importance of operations involved, and cluster of clients served.

<sup>9</sup> Please recall that on 1 June 2015, the merger by incorporation of Consum.it SpA (Group consumer credit company) into Banca Monte dei Paschi di Siena SpA became effective, the accounting and tax effects of which are applicable as of 1 January 2015.



Based on the aggregation criteria specified above, which guide reporting at the highest decision-making level, the breakdown of the Group's Operating Segments as at 31 December 2016 is therefore the following:

- Retail Banking: includes income statement and balance sheet results pertaining to clusters of Retail customers, Small and Medium-Sized Enterprises and Institutions and Public Administration, and the results of the subsidiaries Banca Widiba SpA and MPS Fiduciaria;
- Corporate Banking: includes income statement and balance sheet results pertaining to clusters of Top Corporate and Major Groups of Banca Monte dei Paschi di Siena, the results of activities by MPS Capital Services and those provided by MPS Leasing & Factoring as well as the foreign banks MP Banque and MP Belgio. The results of Banca Monte dei Paschi di Siena's foreign branches are also included in this Operating Segment;
- Corporate Centre: in addition to cancellations of intragroup entries, this Operating Segment incorporates the results of the following business centres:
  - ✓ 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.



### Income statement criteria by operating segment

The net operating income by operating segments was constructed based on the following criteria:

- **Net interest income:** in relation to the business centres of Banca Monte dei Paschi di Siena, it is calculated by way of contribution on the basis of internal transfer rates broken down by products and maturities. With reference to non-divisionalised entities, net interest income is the difference between “interest income and similar revenues” and “interest expense and similar charges”.
- **Net fee and commission income** is determined by direct allocation of commissions to the operating segments.
- **Operating expenses:** the aggregate includes Administrative Expenses (after recovery of expenses) and net value adjustments to tangible and intangible assets. The operating expenses of non-divisionalised entities (mono-segments) are directly allocated to their corresponding Operating Segments while, for Banca Monte dei Paschi di Siena, they are allocated to their respective Segments of reference by using a “cost allocation” model. With regard to Other administrative expenses and Net value adjustments to tangible and intangible assets, the model allocates external and intragroup cost components to the business centres either directly or by means of specific drivers, starting from a set of previously identified and priced services. With reference, however, to “Personnel costs”, the model allocates costs to Business Centres on the basis of the unique functional position of the resources, or, if this is not possible, according to specific criteria relating to the operations performed.
- **Net impairment losses/reversals on loans** are analytically allocated to the individual operating segments

### Balance sheet criteria by operating segment

Balance sheet aggregates were developed by precisely surveying the balances on individual customers and subsequently aggregating them by service model/operating segment. Such accounts are also related to the income/expenses allocated to each segment. In particular:

- **interest-bearing loans to customers** are the interest-bearing assets used for the operations of a business segment, which are directly attributable to the segment itself;
- **deposits from customers and debt securities issued** are the interest-bearing liabilities arising from the operations of an operating segment, which are directly attributable to the segment itself.

### Transactions between operating segments

Each segment's income and results include transfers between operating segments (Internal Transfer Rates). These transfers are reported in accordance with the best practices accepted by the market (i.e. the fair value method or cost method increased by a proper margin) both with respect to commercial and financial transactions.

The income of each operating segment is determined before intragroup balances and intragroup transactions are eliminated during the process of consolidation. In line with the internal reporting system used by the Montepaschi Group, balances of intragroup transactions are not shown separately.



## Basis of preparation

In accordance with the recommendations of IFRS 8, the table below presents the Group's income statement and balance sheet results as at 31 December 2016, developed according to the Operating Segments defined above:

SEGMENT REPORTING		Business segments		Corporate Center	Total MPS Group
Primary segment		Retail banking	Corporate banking		
(million of Eur)		31/12/16	31/12/16	31/12/16	31/12/16
PROFIT AND LOSS AGGREGATES					
INCOME FROM BANKING AND INSURANCE		4,054.4	659.6	(432.0)	4,282.0
Operating expenses		(2,350.2)	(268.7)	(2.5)	(2,621.3)
PRE PROVISION PROFIT		1,704.2	390.9	(434.4)	1,660.7
Net impairment losses (reversals) on loans and financial assets		(2,963.1)	(1,418.3)	(119.5)	(4,500.9)
NET OPERATING INCOME		(1,258.9)	(1,027.4)	(553.9)	(2,840.2)
BALANCE SHEET AGGREGATES					
Interest-bearing loans to customers		65,906.0	20,792.7	9,629.0	96,327.8
Deposits from customers and debt securities issued		53,574.8	5,594.6	45,404.1	104,573.5

The following table summarises the values relating to the year 2015.

SEGMENT REPORTING	Retail & Corporate Banking division		Corporate Center	Total MPS Group
	Primary segment	Retail banking		
	(million of Eur)	31/12/15	31/12/15	31/12/15
PROFIT AND LOSS AGGREGATES				
INCOME FROM BANKING AND INSURANCE	4,558.4	747.6	(90.4)	5,215.5
Operating expenses	(2,378.1)	(272.2)	21.8	(2,628.6)
PRE PROVISION PROFIT	2,180.3	475.3	(68.7)	2,587.0
Net impairment losses (reversals) on loans and financial assets	(1,599.2)	(347.7)	(46.3)	(1,993.1)
NET OPERATING INCOME	581.1	127.6	(114.9)	593.8
BALANCE SHEET AGGREGATES				
Interest-bearing loans to customers	73,378	22,945	5,311	101,634
Deposits from customers and debt securities issued	73,022	17,159	29,093	119,275



## Public disclosure pursuant to art. 89 - Communication by country of Directive 2013/36/EU (“CRD IV”)

The 4th update to Bank of Italy Circular no. 285/2013, Part One (Title III, Chapter 2), transposes into the Italian legal framework the public disclosure set out in art. 89 - Communication by country - of Directive 2013/36/EU (“CRD IV”), which introduces the obligation to disclose information concerning banking activities, subdivided by country where each bank is based; the disclosure is to be provided in the financial statements or posted on the entity’s website.

In particular, the Parent Companies of banking groups are required to provide on a consolidated basis the following information, subdivided by country:

- a) Names of the companies based in the country and nature of the business
- b) Turnover
- c) Number of Full-time equivalent employees
- d) Profit or loss before tax
- e) Tax on profit or loss
- f) Public subsidies received

The tables below present the required information for the Group, with reference to the situation as at 31 December 2016.

The term “Turnover” refers to the total banking income as recorded in item 120 of the consolidated income statement.

The term “Number of Full-time equivalent employees” refers to the ratio between the total number of hours worked by all employees, excluding overtime, and the total annual number of hours contractually required of full-time employees.

“Profit or loss before tax” means the sum of items 280 and 310 (the latter before taxes) of the consolidated income statement.

“Tax on profit or loss” means the sum of taxes recorded in item 290 of the consolidated income statement and income taxes on groups of assets held for sale.

The item “Public subsidies received” should indicate any grants received directly from the public administrations. This item does not include transactions performed by central banks for purposes of financial stability or transactions carried out to facilitate the monetary policy transmission mechanism. Similarly, transactions included in government aid schemes approved by the European Commission should not be taken into consideration.



31.12.2016					
Country	Turnover (€/1000)	Number of FTEs	Profit or loss before tax (€/1000)	Tax on profit or loss (€/000)	Public subsidies received (€/000)
Algeria	-	1	-	-	-
Belgium	23,034	108	(12,731)	-	-
China	9,904	45	8,325	(903)	-
Egypt	-	4	-	-	-
France	43,917	279	(26,758)	(416)	-
Germany	-	2	-	-	-
India	-	2	-	-	-
Italy	4,111,876	25,066	(4,457,556)	(198,046)	205
Luxembourg	3,258	1	3,688	(1,071)	-
Morocco	-	3	-	-	-
Russia	-	3	-	-	-
Tunisia	-	2	-	-	-
Turkey	-	3	-	-	-
U.K.	8,811	26	4,908	(291)	-
U.S.A.	64,184	22	58,438	(10,045)	-
Total Group companies	4,264,984	25,567	(4,421,686)	(210,772)	205
Companies under significant influence valued at equity	-	-	73,269	-	-
Consolidation adjustments	(54,189)	-	1,122,232	205,585	-
Total Montepaschi's Group	4,210,795	-	(3,226,185)	(5,187)	205



## List of Montepaschi Group companies by location and business type

Country	Company name	type of business	
Algeria	BANCA MONTE DEI PASCHI DI SIENA S.p.A.	Retail & Corporate banking service	Representative office in Algeria
Belgium	BANCA MONTE PASCHI BELGIO S.A.	Retail & Corporate banking service	Retail & Corporate banking service
China	BANCA MONTE DEI PASCHI DI SIENA S.p.A.	Retail & Corporate banking service	Shanghai and Hong Kong branches, representative office in Guangzhou and Beijing
Egypt	BANCA MONTE DEI PASCHI DI SIENA S.p.A.	Retail & Corporate banking service	Representative office in Cairo
France	MONTE PASCHI BANQUE S.A.	Retail & Corporate banking service	
Germany	BANCA MONTE DEI PASCHI DI SIENA S.p.A.	Retail & Corporate banking service	Representative office in Frankfurt
India	BANCA MONTE DEI PASCHI DI SIENA S.p.A.	Retail & Corporate banking service	Representative office in Mumbai
Italy	AIACE REOCO S.r.l.	Real estate	
Italy	CO.E.M. COSTRUZIONI ECOLOGICHE MODERNE SPA	Real estate	
Italy	ENEA REOCO S.r.l.	Real estate	
Italy	PERIMETRO GESTIONI PROPRIETA' IMMOBILIARI S.p.a.	Real estate	
Italy	MPS TENIMENTI POGGIO BONELLI E CHIGI SARACINI SOCIETA' AGRICOLA S.p.a.	Winery	
Italy	MONTE PASCHI FIDUCIARIA S.p.a.	Trust management	
Italy	G.I.M.M. ASTOR S.r.l.	Real estate leasing	
Italy	MAGAZZINI GENERALI FIDUCIARI DI MANTOVA S.p.a.	Warehousing	
Italy	BANCA MONTE DEI PASCHI DI SIENA S.p.A.	Retail & Corporate banking service	
Italy	MPS CAPITAL SERVICES BANCA PER LE IMPRESE S.p.a.	Retail & Corporate banking service	
Italy	MPS LEASING & FACTORING BANCA PER I SERVIZI FINANZIARI	Retail & Corporate banking service	Leasing e factoring
Italy	WISE DIALOG BANKS p.a. - WIDIBA	Retail & Corporate banking service	Banca on line
Italy	CASAFORTE S.r.l.	Financial services for business	Special Purpose Entity (SPE)
Italy	CIRENE FINANCE S.r.l.	Financial services for business	Special Purpose Entity (SPE)
Italy	MPS COVERED BOND 2 S.r.l.	Financial services for business	Special Purpose Entity (SPE)
Italy	MPS COVERED BOND S.R.L.	Financial services for business	Special Purpose Entity (SPE)
Italy	SIENA CONSUMER 2015 S.R.L.	Financial services for business	Special Purpose Entity (SPE)
Italy	SIENA CONSUMER S.r.l.	Financial services for business	Special Purpose Entity (SPE)
Italy	SIENA MORTGAGES 10-7 S.r.l.	Financial services for business	Special Purpose Entity (SPE)
Italy	SIENA LEASE 2015 2 SRL	Financial services for business	Special Purpose Entity (SPE)
Italy	SIENA MORTGAGES 07-5 S.P.A.	Financial services for business	Special Purpose Entity (SPE)
Italy	SIENA MORTGAGES 09-6 S.R.L.	Financial services for business	Special Purpose Entity (SPE)
Italy	SIENA PMI 2015 SRL	Financial services for business	Special Purpose Entity (SPE)
Italy	SIENA PMI 2016 SRL	Financial services for business	Special Purpose Entity (SPE)
Italy	CONSORZIO OPERATIVO GRUPPO MONTEPASCHI	IT Services	
Luxembourg	MONTEPASCHI LUXEMBOURG S.A.	Financial services for business	Special Purpose Entity (SPE)
Luxembourg	PATAGONIA FINANCE SA	Financial services for business	Special Purpose Entity (SPE)
Morocco	BANCA MONTE DEI PASCHI DI SIENA S.p.A.	Retail & Corporate banking service	Representative office in Casablanca
Russia	BANCA MONTE DEI PASCHI DI SIENA S.p.A.	Retail & Corporate banking service	Representative office in Moscow
Tunisia	BANCA MONTE DEI PASCHI DI SIENA S.p.A.	Retail & Corporate banking service	Representative office in Tunis
Turkey	BANCA MONTE DEI PASCHI DI SIENA S.p.A.	Retail & Corporate banking service	Representative office in Istanbul
U.K.	BANCA MONTE DEI PASCHI DI SIENA S.p.A.	Retail & Corporate banking service	London branch
U.S.A.	BANCA MONTE DEI PASCHI DI SIENA S.p.A.	Retail & Corporate banking service	New York branch
U.S.A.	MPS PREFERRED CAPITAL I LLC	Financial services for business	Special Purpose Entity (SPE)
U.S.A.	MPS PREFERRED CAPITAL II LLC	Financial services for business	Special Purpose Entity (SPE)







**CERTIFICATION OF THE CONSOLIDATED FINANCIAL  
STATEMENTS PURSUANT TO ART. 81-TER OF CONSOB  
REGULATION NO. 11971 OF 14 MAY 1999, AS SUBSEQUENTLY  
AMENDED AND SUPPLEMENTED**

1. The undersigned, Alessandro Falciai, as Chairman of the Board of Directors, and Nicola Massimo Clarelli, 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
  - effective application of administrative and accounting procedures used in the preparation of the consolidated financial statements for fiscal year 2016.
2. The verification of the adequacy and effective application of administrative and accounting procedures for the preparation of the consolidated financial statements during 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 consolidated financial statements:
    - 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 Report on Operations includes a reliable analysis of the trends and results of operations as well as of the position of the issuer and of all entities included within the scope of consolidation, together with a description of the main risks and uncertainties they are exposed to.

Siena, 9 March 2017

*On behalf of the Board of Directors*

*Signed by The Chairman*

*Alessandro Falciai*

*The Financial Reporting Officer*

*Signed by*

*Nicola Massimo Clarelli*





## INDEPENDENT AUDITORS' REPORT



INDEPENDENT AUDITOR'S REPORT IN ACCORDANCE WITH ART. 14 AND 16 OF LEGISLATIVE  
DECREE N. 39, DATED 27 JANUARY 2010  
(Translation from the original Italian text)

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

Report on the consolidated financial statements

We have audited the consolidated financial statements of Banca Monte dei Paschi di Siena S.p.A. and its subsidiaries (the "Montepaschi Group"), which comprise the balance sheet as at December 31, 2016, the income statement, the statement of comprehensive income, the statement of changes in equity, the cash flow statement for the year then ended, and the related explanatory notes.

*Directors' responsibility for the consolidated financial statements*

The Directors are responsible for the preparation of these consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union as well as with the regulations issued to implement art. 9 of Legislative Decree 38/05 and art. 43 of Legislative Decree August 2015, 18, n. 136.

*Auditor's responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) implemented in accordance with art. 11, paragraph 3 of Legislative Decree 39/10. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Montepaschi Group as at December 31, 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union as well as with the regulations issued to implement art. 9 of Legislative Decree 38/05 and art. 43 of Legislative Decree August 2015, 18, n. 136.

*Emphasis paragraph*

Without modifying our conclusions, we draw attention on the information provided in paragraph "Going Concern" of the notes, in which the directors inform about the failure to meet the prudential capital requirements set forth by the ECB with the SREP Decision 2015 and the Combined Buffer Requirement, as well as on the analysis performed of the elements on which the assessment of the ability of the Parent Company and of the Group to continue to operate as a going concern in the foreseeable future is based. In this scenario, the Directors inform that they have identified certain factors of material uncertainty, mainly related to:

- the authorizations required to access the Precautionary Recapitalization measures which assume the approval of the Restructuring Plan;
- the potential impacts of the On Site Inspection on the solvency assessment by the ECB, and
- the implementation of the actions envisaged in the Restructuring Plan.

The Directors, after evaluating the positive evolution of the legal framework following the conversion of Law Decree n. 237/2016 into law, and assessing the improved liquidity position obtained through the market placements and the use as funding instrument of the state guaranteed bonds issued by the Parent Company, having assessed the uncertainties described above and subject to the successful execution of the Precautionary Recapitalization, confirmed the appropriateness of the going concern assumption for the preparation of the financial statements as at December 31, 2016.

Report on other legal and regulatory requirements

*Opinion on the consistency with the consolidated financial statements of the Report on Operations and of specific information of the Report on Corporate Governance and the Shareholding Structure*

We have performed the procedures required under audit standard SA Italia n. 720B in order to express an opinion on the consistency of the Report on Operations and of specific information of the Report on Corporate Governance and the Shareholding Structure as provided for by art. 123-bis, paragraph 4 of Legislative Decree 58/98, with the consolidated financial statements, as required by the law. The Directors of Banca Monte dei Paschi di Siena S.p.A. are responsible for the preparation of the Report on Operations and of the Report on Corporate Governance and the Shareholding Structure in accordance with the applicable laws and regulations. In our opinion, the Report on Operations and the specific information of the Report on Corporate Governance and the Shareholding Structure are consistent with the consolidated financial statements of the Montepaschi Group as at December 31, 2016.

Milan, March 17, 2017

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.*



## ANNEXES

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

### Foreword

As 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 consolidated notes to the financial statements for 2015, which should be referred to for more information, the Parent Company, in implementation of what was laid out by Consob in resolution no. 19459 of 11 December 2015, retrospectively restated the previous financial statements (referred to as the “2015 restatement”) according to the rules laid out in IAS 8, adjusting the accounting representation of the “Alexandria” transaction by bringing it into line with that of a CDS.

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

Considering that the “Alexandria” transaction was wound up based on a settlement agreement in September 2015, the pro-forma statements below present:

- for 31 December 2016, the balance sheet, income statement and statement of comprehensive income with no pro forma adjustment, as the “Alexandria” transaction was wound up in the previous year;
- for 31 December 2015:
  - in the first column (“31 12 2015”), the balance sheet, income statement and statement of comprehensive income approved for 31 December 2015 (after the 2015 restatement with accounting as a CDS derivative);
  - in the second column (“pro-forma adjustments for classification as long-term repo”), pro-forma adjustments estimated to be made to the accounts, had the Parent Company continued to classify the “Alexandria” transaction as a long-term repo;
  - in the third and final column (“31 12 2015 pro-forma”), the estimated pro-forma balance sheet, income statement and statement of comprehensive income.

In more detail, accounting representation as a long-term repo in 2015 entails the following pro-forma adjustments and reclassifications, considering that the “Alexandria” transaction was closed via a settlement agreement in the same year and therefore it has no balance sheet balances as at 31 December 2015:

- income statement:
  - recognition in “Interest income and similar revenues” and “Interest expense and similar charges” respectively of: interest income from government bonds classified as “Assets available for sale” and interest expense on the long term repo classified as “Deposits from customers”, both posted by using the effective interest rate method;
  - recognition in “Interest income and similar revenues” or “Interest expense and similar charges” of amounts accrued on interest rate hedging swaps;
  - recognition in “Net profit (loss) from hedging” of: fair value changes attributable to the interest rate risk of hedged government bonds, accounted for against the valuation reserve of assets available for sale; and fair value changes in the interest rate swaps, net of any accrued income;





- elimination from “Net profit (loss) from trading” of: the result deriving from the closure of the transaction in 2015, in addition to cash flows (coupons and floating spreads) paid on government bonds and long term repos and fair value changes in IRSs and CDSs;
  - recognition under item 100 “Gains (losses) on disposals or repurchases” of the profit and loss deriving from the winding up of the transaction;
  - ensuing tax effects;
- statement of comprehensive income:
  - recognition of changes in “Financial assets available for sale” following adjustment to valuation reserves.



### Pro-forma consolidated balance sheet

Assets	31 12 2016	31 12 2015	pro-forma adjustments for classification "Alexandria transaction" as LTR	31 12 2015 pro-forma
10 Cash and cash equivalents	1,084,510	1,188,761	-	1,188,761
20 Financial assets held for trading	9,266,150	18,017,359	-	18,017,359
40 Financial assets available for sale	16,663,117	17,191,196	-	17,191,196
60 Loans to banks	8,936,239	8,242,056	-	8,242,056
70 Loans to customers	106,692,711	111,366,383	-	111,366,383
80 Hedging derivatives	327,349	556,425	-	556,425
90 Change in value of macro-hedged financial assets (+/-)	113,300	139,582	-	139,582
100 Equity investments	1,031,678	908,365	-	908,365
120 Property, plant and equipment	2,597,434	2,741,723	-	2,741,723
130 Intangible assets	345,513	400,103	-	400,103
<i>of which: goodwill</i>	<i>7,900</i>	<i>7,900</i>	-	<i>7,900</i>
140 Tax assets	4,147,512	5,542,518	76,162	5,618,680
150 Non-current assets and groups of assets held for sale and discontinued operations	60,684	29,267	-	29,267
160 Other assets	1,912,269	2,688,239	-	2,688,239
<b>Total Assets</b>	<b>153,178,466</b>	<b>169,011,977</b>	<b>76,162</b>	<b>169,088,139</b>



Liabilities		31 12 2016	31 12 2015	pro-forma adjustments for classification "Alexandria transaction" as LTR	31 12 2015 pro-forma
10	Deposits from banks	31,469,061	17,493,110	-	17,493,110
20	Deposits from customers	80,702,762	87,806,329	-	87,806,329
30	Debt securities issued	22,347,465	29,394,436	-	29,394,436
40	Financial liabilities held for trading	4,971,802	15,921,727	-	15,921,727
50	Financial liabilities designated at fair value	1,523,223	2,073,915	-	2,073,915
60	Hedging derivatives	1,018,291	1,205,267	-	1,205,267
80	Tax liabilities	75,342	91,456	(43,079)	48,377
90	Liabilities associated with non-current assets held for sale and discontinued operations	10,402	-	-	-
100	Other liabilities	3,238,931	4,039,948	-	4,039,948
110	Provision for employee severance pay	252,858	246,170	-	246,170
120	Provisions for risks and charges	1,108,054	1,116,913	-	1,116,913
140	Valuation reserves	47,251	(21,817)	-	(21,817)
160	Equity instruments carried at equity	-	-	-	-
170	Reserves	2,253,601	222,086	619,234	841,320
180	Share premium	-	6,325	-	6,325
190	Share Capital	7,365,674	9,001,757	-	9,001,757
200	Treasury shares (-)	-	-	-	-
210	Non-controlling interests (+/-)	34,859	26,259	-	26,259
220	Profit (loss) (+/-)	(3,241,110)	388,096	(499,993)	(111,897)
Total liabilities and Shareholders' Equity		153,178,466	169,011,977	76,162	169,088,139



## Pro-forma consolidated income statement

Items	31 12 2016	pro-forma adjustments for classification "Alexandria transaction" as LTR		
		31 12 2015	31 12 2015	31 12 2015
10 Interest income and similar revenues	3,317,233	4,087,480	113,685	4,201,165
20 Interest expense and similar charges	(1,315,216)	(1,858,013)	(90,983)	(1,948,996)
30 Net interest income	2,002,017	2,229,467	22,702	2,252,169
40 Fee and commission income	2,132,321	2,153,837	-	2,153,837
50 Fee and commission expense	(292,965)	(343,940)	-	(343,940)
60 Net fee and commission income	1,839,356	1,809,897	-	1,809,897
70 Dividends and similar income	13,506	18,638	-	18,638
80 Net profit (loss) from trading	177,045	752,048	(608,602)	143,446
90 Net profit (loss) from hedging	(81,952)	14,099	4,116	18,215
100 Gains/losses on disposal/repurchase	161,501	225,834	-	225,834
110 Net profit (loss) from financial assets and liabilities designated at fair value	99,322	50,276	(131,977)	(81,701)
120 Net interest and other banking income	4,210,795	5,100,259	(713,761)	4,386,498
130 Net impairment losses (reversals)	(4,500,890)	(1,993,140)	-	(1,993,140)
140 Net income from banking activities	(290,095)	3,107,119	(713,761)	2,393,358
180 Administrative expenses	(3,175,247)	(2,975,333)	-	(2,975,333)
190 Net provisions for risks and charges	44,428	(64,038)	-	(64,038)
200 Net adjustments to (recoveries on) property, plant and equipment	(111,822)	(126,942)	-	(126,942)
210 Net adjustments to (recoveries on) intangible assets	(134,630)	(116,631)	-	(116,631)
220 Other operating expenses/income	328,533	345,121	-	345,121
230 Operating expenses	(3,048,738)	(2,937,823)	-	(2,937,823)
240 Gains (losses) on investments	79,453	210,440	-	210,440
260 Impairment on goodwill	-	-	-	-
270 Gains (losses) on disposal of investments	33,195	2,855	-	2,855
280 Profit (loss) before tax from continuing operations	(3,226,185)	382,591	(713,761)	(331,170)
290 Tax expense (recovery) on income from continuing operations	(5,187)	7,277	213,768	221,045
300 Profit (loss) after tax from continuing operations	(3,231,372)	389,868	(499,993)	(110,125)
310 Profit (loss) after tax from groups of assets held for sale and discontinued operations	-	-	-	-
320 Profit (loss)	(3,231,372)	389,868	(499,993)	(110,125)
330 Profit (loss) for the period attributable to non - controlling interests	9,738	1,772	-	1,772
340 Parent company's net profit (loss)	(3,241,110)	388,096	(499,993)	(111,897)



### Pro-forma consolidated statement of comprehensive income

Items		31 12 2015	31 12 2015	pro-forma adjustments for classification "Alexandria transaction" as LTR	31 12 2015 pro-forma
10	Profi (loss)	(3,231,372)	389,868	(499,993)	(110,125)
	Other comprehensive income after tax not recycled to profit and loss	(8,868)	16,758	-	16,758
40	Actuarial gains (losses) on defined benefit plans	(8,234)	16,681	-	16,681
50	Non-current assets held for sale	(83)	-	-	-
60	Share of valuation reserves of equity-accounted investments	(551)	77	-	77
	Other comprehensive income after tax recycled to profit and loss	77,943	269,308	423,123	692,431
80	Exchange differences	1,364	5,649	-	5,649
90	Cash flow hedges	110,202	44,263	-	44,263
100	Financial assets available for sale	(137,075)	202,511	423,123	625,634
110	Non-current assets held for sale	(4,107)	17,877	-	17,877
120	Share of valuation reserves of equity-accounted investments	107,559	(992)	-	(992)
130	Total other comprehensive income after tax	69,075	286,066	423,123	709,189
140	Total comprehensive income (Item 10+130)	(3,162,297)	675,934	(76,870)	599,064
150	Consolidated comprehensive income attributable to non-controlling interests	9,745	1,767	-	1,767
160	Consolidated comprehensive income attributable to Parent Company	(3,172,042)	674,167	(76,870)	597,297



## Disclosure of audit firm fees

With the aim of making reporting on the Parent Company's relations with its own Auditors more transparent, Consob, with its resolutions No. 15915 of 3 May 2007 and No. 15960 of 30 May 2007, implemented the delegation of authority contained in art. 160 of the Consolidated Law on Finance (Incompatibility), introducing Part III, Section VI, of the Issuers' Regulation, Part I-bis (Incompatibility) which contains articles from 149-bis to 149-duodecies.

With this amendment, Consob chose to include this disclosure in the documents accompanying the financial statements with a mandatory requirement to disclose payments received for auditing and other services supplied by the Auditors or by entities forming part of their network.

The table below shows all payments made to the Auditors and to others forming part of its network, broken down by type of service.

*Disclosure of fees for the independent Audit firm and other entities of its network (pursuant to art. 149 duodecies of CONSOB resolution no. 15915 of 3 May 2007)*

31 12 2016		
Type of services	Service provider	Total
Auditing	Ernst & Young S.p.A.	2,272
Other attest services	Ernst & Young S.p.A.	3,168
Other services	Tax and legal Firm	87
Other services	Ernst & Young Financial Business Advisory S.p.a.	284
<b>Total</b>		<b>5,811</b>

Amounts are exclusive of V.A.T. and ancillary expenses.



## PENSION FUNDS – Defined-benefit pension funds without plan assets

### Supplementary Pension Fund for personnel of former Tax Collection Agencies

Accounting statement as at 31 12 2016	(in units of Eur)
Opening balance as at 01 01 2016	23,790,489
Increases	559,781
- provisions for the year	162,500
- Other	397,281
Decreases	1,806,398
- Benefit paid	1,806,398
- Other	-
Closing balance as at 31 12 2016	22,543,872

### Supplementary Pension Fund for personnel of former Banca Operaia di Bologna

Accounting statement as at 31 12 2016	(in units of Eur)
Opening balance as at 01 01 2016	6,548,991
Increases	71,691
- provisions for the year	71,691
- Other	-
Decreases	482,581
- Benefit paid	399,906
- Other	82,675
Closing balance as at 31 12 2016	6,138,101

### Supplementary Pension Fund for personnel of former Banca di Credito Popolare e Cooperativo di Reggio Emilia

Accounting statement as at 31 12 2016	(in units of Eur)
Opening balance as at 01 01 2016	724,537
Increases	38,208
- provisions for the year	9,520
- Other	28,688
Decreases	38,685
- Benefit paid	38,685
- Other	-
Closing balance as at 31 12 2016	724,060

**Supplementary Pension Fund for personnel of former Banca Popolare Veneta**

Accounting statement as at 31 12 2016	(in units of Eur)
<b>Opening balance as at 01 01 2016</b>	<b>1,224,466</b>
Increases	75,592
- provisions for the year	8,019
- Other	67,573
Decreases	192,892
- Benefit paid	192,892
- Other	-
<b>Closing balance as at 31 12 2016</b>	<b>1,107,166</b>

**Supplementary Pension Fund for personnel of former General Managers**

Accounting statement as at 31 12 2016	(in units of Eur)
<b>Opening balance as at 01 01 2016</b>	<b>3,691,174</b>
Increases	178,594
- provisions for the year	25,192
- Other	153,402
Decreases	286,002
- Benefit paid	286,002
- Other	-
<b>Closing balance as at 31 12 2016</b>	<b>3,583,766</b>

**Supplementary Pension Fund for personnel of former MPS Capital Services Banca per l'impresa S.p.A.**

Accounting statement as at 31 12 2016	(in units of Eur)
<b>Opening balance as at 01 01 2016</b>	<b>5,365,819</b>
Increases	246,890
- provisions for the year	-
- Other	246,890
Decreases	577,074
- Benefit paid	526,615
- Other	50,459
<b>Closing balance as at 31 12 2016</b>	<b>5,035,635</b>





### Supplementary Pension Fund for personnel of former Credito Lombardo.

Accounting statement as at 31 12 2016	(in units of Eur)
<b>Opening balance as at 01 01 2016</b>	-
Increases	3,276,556
- provisions for the year	27,076
- Other	3,249,480
Decreases	279,377
- Benefit paid	279,377
- Other	-
<b>Closing balance as at 31 12 2016</b>	<b>2,997,179</b>



## PENSION FUNDS – defined benefit and defined contribution pension funds with plan assets

### Supplementary Pension Fund for personnel of former BNA – Defined benefit section

#### BALANCE SHEET

(in units of Eur)				
	Assets	31 12 2016	31 12 2015	Changes
<b>10</b>	<b>Direct investments</b>	<b>25,668,958</b>	<b>26,941,214</b>	<b>(1,272,256)</b>
	a) Deposits	339,641	404,547	(64,906)
	b) Receivables from repo transactions	-	-	-
	c) Securities issued by Governments and other international institutions	-	-	-
	d) Listed debt securities	25,187,866	26,315,820	(1,127,954)
	e) Listed equity securities	-	-	-
	f) Unlisted debt securities	-	-	-
	g) Unlisted equity securities	-	-	-
	h) Units of UCITS	-	-	-
	i) Options purchased	-	-	-
	l) Accrued income and prepayments	220,847	#RIF!	(79,396)
	m) Profit guarantees released to pension fund	-	-	-
	n) Other assets from financial activities	-	-	-
	o) Accrued income not yet received	-	-	-
<b>20</b>	<b>Managed investments</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>30</b>	<b>Profit guarantees on individual accounts</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>40</b>	<b>Assets from administrative activities</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>50</b>	<b>Tax receivables</b>	<b>-</b>	<b>-</b>	<b>-</b>
	<b>TOTAL ASSETS</b>	<b>25,668,958</b>	<b>26,941,214</b>	<b>(1,272,256)</b>
	Liabilities	31 12 2016	31 12 2015	Changes
<b>10</b>	<b>Liabilities from social security</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>20</b>	<b>Liabilities from financial activities</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>30</b>	<b>Profit guarantees on individual accounts</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>40</b>	<b>Liabilities from administrative activities</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>50</b>	<b>Tax payables</b>	<b>6,738</b>	<b>55,961</b>	<b>- 49,223</b>
	b) tax payables for current period	-	(17,309)	17,309
	a) tax credit for prior period	6,738	73,270	(66,532)
	<b>TOTAL LIABILITIES</b>	<b>6,738</b>	<b>55,961</b>	<b>(49,223)</b>
<b>100</b>	<b>Net assets available for payment of benefits</b>	<b>25,662,220</b>	<b>26,885,253</b>	<b>(1,223,033)</b>
	Net assets available for payment of benefits in previous year	26,885,253	27,805,769	(920,516)
	<b>Changes in net assets available payment of benefits</b>	<b>(1,223,033)</b>	<b>(920,516)</b>	<b>(302,517)</b>



## INCOME STATEMENT

(in units of Eur)

	31 12 2016	31 12 2015	Changes
<b>10 Balance of social security management</b>	<b>(1,270,197)</b>	<b>(1,294,854)</b>	<b>24,657</b>
a) Contributions for benefits	-	-	-
b) Advances	-	-	-
c) Transfers and redemptions	-	-	-
d) Transfers to annuities	-	-	-
e) Payments in capital	-	-	-
f) Premiums for additional benefits	-	-	-
g) Payments in annuities	(1,270,197)	(1,294,854)	24,657
h) Other payments	-	-	-
<b>20 Profit (loss) from direct financial activities</b>	<b>53,902</b>	<b>447,608</b>	<b>(393,706)</b>
a) Interest and profit on bonds and government securities	1,055,857	1,156,273	(100,416)
b) Interest on cash equivalents	(1,001,954)	(708,665)	(293,289)
c) Profits and losses from financial transactions	-	-	-
d) Interest (expense) from repo transactions	-	-	-
e) Pension fund profit guarantee difference	-	-	-
f) Contingent assets	-	-	-
g) Forfeitures charged to the participants	-	-	-
h) Kickbacks from UCITS	-	-	-
i) Commission expense	-	-	-
<b>30 Profit (loss) from indirect financial activities</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>40 Operating expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>
a) Management companies	-	-	-
b) Custodian bank	-	-	-
c) Insurance policy	-	-	-
d) "State supervision" contribution	-	-	-
<b>50 Financial and insurance income (loss) (20+30+40)</b>	<b>53,902</b>	<b>447,608</b>	<b>(393,706)</b>
<b>60 Balance from administrative activities</b>	<b>-</b>	<b>-</b>	<b>-</b>
a) General and administrative expenses	-	-	-
<b>70 Changes in net assets available for payment of benefits before substitute tax (10+50+60)</b>	<b>(1,216,295)</b>	<b>(847,246)</b>	<b>(369,049)</b>
<b>80 Substitute tax</b>	<b>(6,738)</b>	<b>(73,720)</b>	<b>66,982</b>
<b>Changes in net assets available for payment of benefits (70+80)</b>	<b>(1,223,033)</b>	<b>(920,966)</b>	<b>(302,067)</b>



## Supplementary Pension Fund for personnel of former Banca Toscana - Defined benefit section

### BALANCE SHEET

(in units of Eur)			
Assets	31 12 2016	31 12 2015	Changes
<b>10 Direct investments</b>	<b>106,409,341</b>	<b>114,787,736</b>	<b>(8,378,395)</b>
a) Deposits	91,473,437	100,088,571	(8,615,134)
b) Receivables from repo transactions	-	-	-
c) Securities issued by Governments and other international institutions	-	-	-
d) Listed debt securities	14,661,564	14,425,574	235,990
e) Listed equity securities	-	-	-
f) Unlisted debt securities	-	-	-
g) Unlisted equity securities	-	-	-
h) Units of UCITS	-	-	-
i) Options purchased	-	-	-
l) Accrued income and prepayments	274,340	273,591	749
m) Profit guarantees released to pension fund	-	-	-
n) Other assets from financial activities	-	-	-
o) Accrued income not yet received	-	-	-
<b>20 Managed investments</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>30 Profit guarantees on individual accounts</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>40 Assets from administrative activities</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>50 Tax receivables</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL ASSETS</b>	<b>106,409,341</b>	<b>114,787,736</b>	<b>(8,378,395)</b>
Liabilities	31 12 2016	31 12 2015	Changes
<b>10 Liabilities from social security</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>20 Liabilities from financial activities</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>30 Profit guarantees on individual accounts</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>40 Liabilities from administrative activities</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>50 Tax payables</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>100 Net assets available for payment of benefits</b>	<b>106,409,341</b>	<b>114,787,736</b>	<b>(8,378,395)</b>
Net assets available for payment of benefits in previous year	114,787,736	110,590,505	4,197,231
<b>Changes in net assets available payment of benefits</b>	<b>(8,378,395)</b>	<b>4,197,231</b>	<b>(12,575,626)</b>



## INCOME STATEMENT

(in units of Eur)			
	31 12 2016	31 12 2015	Changes
<b>10 Balance of social security management</b>	<b>(9,165,322)</b>	<b>3,561,987</b>	<b>(12,727,309)</b>
a) Contributions for benefits	-	13,108,983	(13,108,983)
b) Advances	-	-	-
c) Transfers and redemptions	-	-	-
d) Transfers to annuities	-	-	-
e) Payments in capital	-	-	-
f) Premiums for additional benefits	-	-	-
g) Payments in annuities	(9,165,322)	(9,546,996)	381,674
h) Other payments	-	-	-
<b>20 Profit (loss) from direct financial activities</b>	<b>786,926</b>	<b>641,798</b>	<b>145,128</b>
a) Interest and profit on bonds and government securities	550,937	1,522,099	(971,162)
b) Interest on cash equivalents	235,989	(880,301)	1,116,290
c) Profits and losses from financial transactions	-	-	-
d) Interest (expense) from repo transactions	-	-	-
e) Pension fund profit guarantee difference	-	-	-
f) Contingent assets	-	-	-
g) Forfeitures charged to the participants	-	-	-
h) Kickbacks from UCITS	-	-	-
i) Commission expense	-	-	-
<b>30 Profit (loss) from indirect financial activities</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>40 Operating expenses</b>	<b>-</b>	<b>(6,554)</b>	<b>6,554</b>
a) Management companies	-	-	-
b) Custodian bank	-	-	-
c) Insurance policy	-	-	-
d) "State supervision" contribution	-	(6,554)	6,554
<b>50 Financial and insurance income (loss) (20+30+40)</b>	<b>786,926</b>	<b>635,244</b>	<b>151,682</b>
<b>60 Balance from administrative activities</b>	<b>-</b>	<b>-</b>	<b>-</b>
a) General and administrative expenses	-	-	-
<b>70 Changes in net assets available for payment of benefits before substitute tax (10+50+60)</b>	<b>(8,378,395)</b>	<b>4,197,231</b>	<b>(12,575,626)</b>
<b>80 Substitute tax</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Changes in net assets available for payment of benefits (70+80)</b>	<b>(8,378,395)</b>	<b>4,197,231</b>	<b>(12,575,626)</b>



**MONTE  
DEI PASCHI  
DI SIENA**  
BANK SINCE 1472