GRUPPO **MONTEPASCHI**

# Quarterly Report as at 31 March 2012

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## 2012 first quarter results in brief

Against the backdrop of a **domestic economic recession now underway, financial market tensions and the weight of the sovereign debt crisis gradually eased off in the first three months of 2012.** The ECB refinancing transactions ensured liquidity to the system, which helped **stabilise the money market, although no clear signs of reopening wholesale funding markets emerged.** On the other hand, **spreads on government bonds started to increase again as of April**, albeit at levels below the January highs, as a result of growing concerns regarding prospects for recovery in certain eurozone countries and fears of a more pronounced slowdown in world economic growth.

In this still uncertain and extremely complex scenario, the Montepaschi Group proceeded with the objective of **optimising the mix of funding sources**, by stabilising funding from the market and curbing costs. At the same time, **financial assets** (interbank deposits and securities) **were reduced**, while the **loan book showed a substantially stable trend during the quarter**, primarily on the back of low demand for loans from households and businesses and more selective credit policies induced by the worsening economic situation.

The combined effect from management actions and external conditions reverberated positively on earnings, with the Group experiencing a **significant rise in revenues compared to the previous quarter,** benefitting from improved financial market conditions which propped up the results achieved in trading and enabled a more profitable development of existing customer relationships. At the same time, **the cost of credit, although lower than in the last part of 2011, still remained high**, as a result of the current economic difficulties which constitute a risk factor for the entire banking industry. Actions aimed at improving operational efficiency continued, although the new regulatory framework has narrowed the room for cost reduction, particularly in the area of human resources.

In particular:

- As at 31 March 2012, **total funding volumes** for the Group came to approx. EUR **278** bln (-1.1% on 31/12/2011; -9.5% on 31/03/2011), with **direct funding** accounting for approx. EUR **137 bln** (-6.1% on 31/12/2011; -13.8% on 31/03/2011) and **indirect funding** approx. EUR **141 bln** (+4.5% on 31/12/2011; -4.9% on 31/03/2011). The quarterly trendline of this aggregate can primarily be traced back to changes in institutional funding (particularly repurchase agreements and wholesale CDs), as a result of initiatives put in place with a view to optimising the Group's liquidity profile in parallel with reductions in loans to banks. Funding from consumer and corporate customers remained substantially unchanged. As for indirect funding, **assets under management** closed the quarter with volumes in the region of **EUR 47 bln** (+1% from 31/12/2011), benefitting from the revaluation of financial assets due to improved market responsiveness, as against moderately negative net funding. **Assets under custody**, amounting to approx. **EUR 94 bln**, were up 6.3% as compared to 31/12/2011 on the back of a positive market effect.
- At the end of March 2012, Group **loans to customers** amounted to approx.**EUR 147 bln,** in line with levels as at 31/12/2011, although down 4.6% on the same period of the previous year. This result is to be seen in correlation with both the decline in demand for loans as a result of the sluggish economic cycle, which has particularly penalised current accounts and short-term lending, and more selective credit policies adopted by the Group.
- With respect to **credit quality**, the **"net doubtful to total loan ratio"** came to **4.56%** as at 31 March 2012 with **coverage of non-performing loans** standing at **39.8%**, down 160 bps from 31/12/2011. This reduction is primarily to be seen in correlation with the growth in past-due exposures, for which the 180-day 'late payment' or 'ongoing overdraft' was lowered from 180 days to 90 days (net impact of EUR 724 mln; gross impact of EUR 754 mln). Being lower in severity, these exposures have lower coverage ratios than the other classes of non-performing loans (impact of approx. 110 bps). Net of this component, coverage continues to be just below 2011 year-end levels. With a specific regard to doubtful loans, the coverage ratio

climbed to 55.8% (vs. 55.5% as at 31/12/2011), while substandard loans stood at 21.6% (22.2% as at 31/12/2011).

- With reference to capital ratios, as at 31 March 2012, **the Tier I ratio BIS II was estimated at 11.3%** (11.1% at the end of 2011) **with a BIS II solvency ratio at 15.9%** (15.7% at the end of 2011).
- With regard to the development of total revenues from financial activities and servicies, in the first quarter of 2012, the Group's **income from banking and insurance** amounted to approx. **EUR 1,504 mln**, up on the previous quarter (+235.8 mln; +18.6%) on the back of gains from financial assets and a pick up innet fee and commission income. With respect to the same period of last year, the aggregate shows a 1.4% increase.
- As to the cost of credit, the **provisioning rate**[1], which came to **118 bps**, was up from the overall 89 bps registered for 2011 but down on the 128 bps registered in Q4 2011, and is expected to decline in the second half of the year. In terms of operational efficiency, the **cost-to-income** ratio stood at **56.2%** (vs. 63.6% as at 31/12/2011).
- The consolidated net profit of the Montepaschi Group before Purchase Price Allocation (PPA) stood at approx. EUR 70.4 mln (EUR 166.1 mln as at 31/03/2011). Considering the net effects of PPA (-15.9 mln), **net profit for the period came to EUR 54.5 mln** (vs. 140.3 mln in Q1 2011).

[1] Provisioning rate: ratio between annualised net adjustments due to impairment of loans and customer loans at the end of the period (Item 70 in the Balance Sheet).

## Basis of preparation for the interim report on operations

The quarterly report on operations gives an account of the performance and results of the Montepaschi Group, both as a whole and in the various business sectors into which consolidated operations are organised.

To allow for a better understanding of how the major factors of value creation were developed for the Group and for all its stakeholders (both in the short and long term), the report integrates economic and financial aspects with qualitative and non-financial components.

These non-financial components particularly include the main activities and results achieved by the Group in implementing *Corporate Social Responsibility* (CSR) objectives relating to Customer relations, HR management and the impact of business on Society and the Environment. For additional information on this topic please refer to the Annual Report on Corporate Social Responsibility which can be found on our website www.mps.it under "Our Values".

## Notes to the financial statements

**General aspects**

Pursuant to art. 154 ter paragraphs 5 and 6 of the Consolidated Law on Finance, the Montepaschi Group's consolidated interim report on operations as at 31 March 2012 was prepared in compliance with the international accounting standards (IAS/IFRS) issued by the International Accounting Standards Board (IASB) including interpretations by the International Financial Reporting Standards Interpretations Committee (IFRS IC), as endorsed by the European Commission and effective at the time the current document was prepared, as provided for by EC Regulation No.1606 of 19 July 2002.

The international and accounting principles have been applied with reference to the "Framework for the preparation and presentation of financial statements" (hereinafter Framework).

The accounting principles used for the preparation of this Consolidated Interim Report are the same as those used for the preparation of the Consolidated Annual Report as at 31 December 2011, which should be referred to for further details:

For information purposes it should be noted that the amendment to IFRS 7 "Financial instruments: additional disclosures", issued by IASB on 7 October 2010 and approved by the European Commission with Regulation 1205/2011 of 22 November 2011, is to be mandatorily applied as of 1 January 2012. However, the amendment has no impact on the P&L and balance sheet contained in this consolidated interim financial report, since increased disclosure is only required in the Notes to the Financial Statements for transactions involving transfers of financial assets.

**Scope of consolidation**

The Consolidated interim 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 them being going concerns or wound-up companies, or of whether the equity investment consists in a merchant banking transaction. Similarly, special purpose entities/vehicles (SPEs/SPVs) are included when the requirement of actual control recurs, even if there is no stake in the company.

Minor entities are not included in the scope if their consolidation proves immaterial for the purpose of the consolidated financial statements. For further information on the methods of consolidation, reference should be made to the Notes to the Full-Year 2011 Consolidated Financial Statements, Part A "Accounting Policies".

**Changes to the scope of consolidation**

Following its liquidation, the subsidiary Giotto Finance 2 S.p.A was removed from the scope of consolidation during the quarter.

## Reclassified financial assets

In addition to illustrating the book values and fair values of financial instruments reclassified in 2008 as at 31/03/2012, the table also reports (columns 6 and 7) financial results in terms of "value relevance" and "other" (realised profit/loss and interest), which the same financial instruments would have produced for the Group in the quarter had they not been transferred in 2008.

Columns 8 and 9, on the other hand, contain the financial results in terms of "value relevance" and other" (realised profit/loss and interest) which the Group actually posted for these instruments as at 31 March 2012.

(Euro thousand)

| Type of financial instrument (1) | Portfolio prior to transfer (2) | Portfolio after transfer (3) | Book value at 3103 2012 (4) | Fair value at 3103 2012 (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) |
| Debt Securities | Trading | Available for sale | 5.124 | 5.124 | 53 | 59 | 119 | 58 |
| UCITS | Trading | Available for sale | 276.759 | 276.759 | 8.396 | (327) | 8.396 | (3.431) |
| Debt Securities | Trading | Loan to banks | 105.346 | 96.825 | 5.489 | 710 | 138 | 925 |
| Debt Securities | Trading | Loan to customers | 534.352 | 426.656 | 30.985 | 5.613 | (2.154) | 4.875 |
| Debt Securities | Available for sale | Loan to banks | 285.922 | 280.421 | 9.802 | (1.604) | (2.417) | 1.565 |
| Debt Securities | Available for sale | Loan to customers | 1.566.869 | 1.213.631 | 4.487 | 5.317 | (113) | 6.775 |
| **Total** | | | **2.774.371** | **2.299.417** | **59.212** | **9.767** | **3.969** | **10.767** |

## Major events in the first quarter of 2012

As previously reported, an exercise was conducted by the EBA in the second half of 2011 on the capital requirements of major European banks (71 lenders were involved), which revealed that Banca Monte dei Paschi di Siena's capital requirement amounted to EUR 3,267 mln as at 30 September 2011.

For this purpose, Banca Monte dei Paschi di Siena has approved an action plan aimed at strengthening its capital requirements on the basis of:

- **Capital management initiatives**, through capital increase without consideration for the purpose of allocating part of the "Share Premium Reserve" to equity for a sum equal to the premium on the ordinary BMPS shares underlying the "2008 F.R.E.S.H." notes; conversion by the sharehoder, MPS Foundation, of the "2003 F.R.E.S.H." notes into ordinary shares and conversion of savings shares into ordinary shares;
- **Optimisation of RWAs**, including a review of the internal models in use and their roll-out to other Group entities;
- **Disposal of assets.**

It is noted that most of the plan actions concerning the former two areas of improvement have already been completed. This has brought about benefits covering slightly more than half of the identified shortfall.

With regard to the third item in the action plan, activities are underway to assess any expressions of interest and non-binding offers received or to be received, as well as to define the final phase in the negotiating process. These activities are expected to be completed by the first half of June since, currently, the Bank is not in a position to foresee their outcome.

Should the plan not be completed under the terms and by the deadlines appropriate for inclusion in core capital under the EBA exercise and should the capital shortfall persist, Banca MPS will consider alternative (and, if viable, temporary) capital strengthening actions.

## Reclassified accounts

**MPS GROUP RECLASSIFICATION PRINCIPLES**

The following accounting statements illustrate balance-sheet and profit-and-loss accounts reclassified on the basis of operating criteria. The figures for 2011 comparison are those published in the consolidated Annual Report as at 31 December 2011.

Following are the reclassifications made to the consolidated profit and loss account as at 31 March 2012:

a) **"Net trading income from financial assets"** in the reclassified income statement, includes the sub-items under Item 80 "Net profit/loss) from trading", Item 100 "Gains (losses) on disposal / repurchase of loans, financial assets available for sale or held to maturity and financial liabilities" and Item 110 "Net profit/loss from financial assets and liabilities designated at fair value". The item incorporates dividends earned on securities held in the Group's securities and derivatives portfolio (approx. EUR 2.9 mln).

b) **"Dividends, similar income and gains (losses) on investments"** in the reclassified income statement incorporates item 70 "Dividends and similar income" and a portion of item 240 "Gains (losses) on investments" (approx. EUR 10.5 mln, corresponding to the contribution to profit and loss for the period that is 'guaranteed' by the portion of profit arising from investments in associates, valued at equity). Dividends earned on securities held in the securities and derivatives portfolio, as outlined under item a) above, have also been eliminated from the aggregate;

c) **"Net impairment losses (reversals) on loans"** in the reclassified income statement was determined by excluding charges relating to financial plans (EUR 0.4 mln), which are more properly classified under "Net provisions for risks and charges and other operating expenses (income)".

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

e) The income statement account "**Personnel expenses**" was reduced by EUR 1.1 mln due to early-retirement outflows, with the amount reclassified under"Integration costs/ One-off charges";

f) **"Other administrative expenses"** in the reclassified income statement was deducted of the portion of recovered stamp duty and recovered client expenses (EUR 72.3 mln) posted in the balance sheet under item 220 "Other operating expenses/income/".

g) The item **"Net provisions for risks and charges and other operating expenses (income)"** in the reclassified income statement, which incorporates item 190 "Net provisions for risks and charges" and 220 "Other operating expenses (income)", includes value adjustments to financial plans described under item c) and stamp duty and client expense recovery as described under item f) above.

h) "**Integration costs/one-off charges**" in the reclassified income statement includes EUR 1.1 mln in "One-off charges" associated with early retirement outflows. This value was reclassified out of Personnel expenses (see item e).

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

j) The effects of *Purchase Price Allocation* (PPA) were reclassified out of other items (in particular "**Interest income"** for approx. EUR 13.5 mln and **depreciation/amortisation** for approx. EUR 10.1 mln, net of a theoretical tax burden of approx. - EUR 7.6 mln which integrates the item).

Following are the major reclassifications made to the consolidated **Balance Sheet:**

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

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

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

n) "**Other liabilities**" on the liabilities side of the reclassified balance-sheet incorporates item 60 "Hedging derivatives", item 70 "Changes in value of macro-hedged financial liabilities", item 80 "Tax liabilities", item 90 "Liabilities associated with non-current assets held for sale and discontinued operations" and item 100 "Other liabilities".

## CONSOLIDATED REPORT ON OPERATIONS

### Highlights at 31/03/12

### ■ INCOME STATEMENT AND BALANCE SHEET FIGURES AND KEY INDICATORS

| MPS GROUP | | | |
|---|---|---|---|
| **INCOME STATEMENT FIGURES (in EUR mln)** | **31/03/12** | **31/03/11** | **% chg** |
| Income from banking activities | 1,327.7 | 1,350.4 | -1.7% |
| Income from financial and insurance activities | 1,503.8 | 1,482.6 | 1.4% |
| Net operating income | 219.1 | 348.7 | -37.2% |
| Parent company's net profit (loss) for the period | 54.5 | 140.3 | -61.2% |
| **BALANCE SHEET FIGURES AND INDICATORS (in EUR mln)** | **31/03/12** | **31/12/11** | **% chg** |
| Direct funding | 137,325 | 146,324 | -6.1% |
| Indirect funding | 140,578 | 134,550 | 4.5% |
| *of which: assets under management* | *46,868* | *46,426* | 1.0% |
| *of which: assets under custody* | *93,710* | *88,124* | 6.3% |
| Loans to customer | 146,627 | 146,608 | 0.0% |
| Group net equity | 12,277 | 10,765 | 14.0% |
| **KEY CREDIT QUALITY RATIOS (%)** | **31/03/12** | **31/12/11** | |
| Net doubtful loans/Loans to Customers | 4.56 | 4.39 | |
| Net substandard loans/Loans to Customers | 3.31 | 3.04 | |
| **PROFITABILITY RATIOS (%)** | **31/03/12** | **31/12/11** | |
| Cost/Income ratio | 56.2 | 63.6 | |
| R.O.E. (on average equity) (1) | 1.89 | -33.56 | |
| R.O.E. (on end-of-period equity)(2) | 2.02 | -27.58 | |
| Net loan loss provisions / End-of-period loans | 1.18 | 0.89 | |
| **CAPITAL RATIOS (%)** | **31/03/12** | **31/12/11** | |
| Solvency ratio | 15.9 | 15.7 | |
| Tier 1 ratio | 11.3 | 11.1 | |
| **INFORMATION ON BMPS STOCK** | **27/04/2012(3)** | **31/12/11** | |
| Number of ordinary shares outstanding | 11,681,539,706 | 10,980,795,908 | |
| Number of preference shares outstanding | | 681,879,458 | |
| Number of savings shares outstanding | | 18,864,340 | |
| Price per ordinary share: | from **31/12/11** to **31/03/12** | from **31/12/10** to **31/12/11** | |
| average | 0.33 | 0.56 | |
| low | 0.20 | 0.24 | |
| high | 0.42 | 0.86 | |
| **OPERATING STRUCTURE** | **31/03/12** | **31/12/11** | **Abs. chg** |
| Total head count - end of period | 31,156 | 31,170 | -14 |
| Number of branches in Italy | 2,909 | 2,915 | -6 |
| Financial advisory branches | 143 | 143 | |
| Number of branches & representative offices abroad | 42 | 41 | 1 |

(1) R.O.E. on average net equity: net income for the period / average between net equity at the end of the previous year (inclusive of net income and valuation reserves) and net equity for the current year.

(2) R.O.E. on end-of-period equity: net equity for the period / net equity at the end of the previous year (inclusive of valuation reserves) purged of shareholder's payout.

(3) - Updated as at the date of shareholders meeting for the approval of 2011 Annual Report and election of new board members. As set out in the Articles of Association, the transfer of 681,879,458 preference shares by the MPS Foundation in 2012 determined their automatic conversion at-par into ordinary shares. In addition, on 1 February 2012, the extraordinary shareholders' meeting approved the mandatory conversion at-par of all 18,864,340 savings shares into ordinary shares.

■ **RECLASSIFIED INCOME STATEMENT (in EUR mln)**

| MPS Group | 31/03/12 | 31/03/11 (*) | Change Ins. | Change % |
|---|---|---|---|---|
| Net interest income | 893.5 | 876.8 | 16.8 | 1.9% |
| Net fee and commission income | 434.1 | 473.7 | -39.5 | -8.3% |
| **Income from banking activities** | **1,327.7** | **1,350.4** | **-22.8** | **-1.7%** |
| Dividends, similar income and gains (losses) on investments | 10.6 | 27.4 | -16.7 | -61.2% |
| Net profit (loss) from trading | 161.9 | 103.9 | 58.0 | 55.8% |
| Net profit (loss) from hedging | 3.6 | 0.9 | 2.8 | n.s. |
| **Income from financial and insurance activities** | **1,503.8** | **1,482.6** | **21.3** | **1.4%** |
| Net impairment losses (reversals) on: | **-439.6** | **-278.7** | **-160.9** | **57.8%** |
| a) loans | -434.0 | -274.6 | -159.4 | 58.1% |
| b) financial assets | -5.6 | -4.1 | -1.5 | 37.6% |
| **Net income from financial and insurance activities** | **1,064.2** | **1,203.9** | **-139.7** | **-11.6%** |
| Administrative expenses: | -799.1 | -813.7 | 14.7 | -1.8% |
| a) personnel expenses | -531.1 | -543.5 | 12.5 | -2.3% |
| b) other administrative expenses | -268.0 | -270.2 | 2.2 | -0.8% |
| Net losses/reversal on impairment on property, plant and equipment / Net adjustments to (recoveries on) intangible assets | -46.0 | -41.5 | -4.5 | 10.9% |
| **Operating expenses** | **-845.1** | **-855.2** | **10.1** | **-1.2%** |
| **Net operating income** | **219.1** | **348.7** | **-129.6** | **-37.2%** |
| Net provisions for risks and charges and other operating expenses/income | -28.5 | -38.6 | 10.1 | -26.1% |
| Gains (losses) on investments | 4.0 | 0.1 | 3.9 | n.s. |
| Integration costs / one-off charges | -1.1 | | -1.1 | n.s. |
| Gains (losses) on disposal of investments | 0.3 | 0.1 | 0.1 | 128.9% |
| **Profit (loss) before tax from continuing operations** | **193.7** | **310.3** | **-116.5** | **-37.6%** |
| Tax expense (recovery) on income from continuing operations | -121.6 | -145.0 | 23.4 | -16.1% |
| **Profit (loss) after tax from continuing operations** | **72.2** | **165.3** | **-93.1** | **-56.3%** |
| Profit (loss) after tax from groups of assets held for sale and discontinued operations | | 2.8 | -2.8 | -100.0% |
| **Net profit (loss) for the period including non-controlling interests** | **72.2** | **168.1** | **-95.9** | **-57.1%** |
| Net profit (loss) attributable to non-controlling interests | -1.7 | -1.9 | 0.2 | -11.2% |
| **Profit (loss) for the period before PPA , impairment on goodwill, intangibles and writedown of investment in AM** | **70.4** | **166.1** | **-95.7** | **-57.6%** |
| PPA (Purchase Price Allocation) | -15.9 | -25.8 | 9.9 | -38.2% |
| **Parent company's net profit (loss) for the period** | **54.5** | **140.3** | **-85.8** | **-61.2%** |

(*) Figures restated, where necessary, following clarifications provided by Bank of Italy regarding recognition of securities lending with collateral other than cash fully owned by the lender.

| **Earnings per share (in EUR)** | **31/03/12** | **31/03/11** |
|---|---|---|
| **Basic** | **0.001** | **0.015** |
| **Diluted** | **0.001** | **0.015** |

**QUARTERLY TREND IN RECLASSIFIED INCOME STATEMENT (in EUR mln)**

| MPS Group | 2012<br>1st quarter | 2011 (*)<br>4th quarter | 3rd quarter | 2nd quarter | 1st quarter |
|---|---|---|---|---|---|
| Net interest income | 893.5 | 930.9 | 874.7 | 817.8 | 876.8 |
| Net fee and commission income | 434.1 | 409.7 | 457.4 | 460.2 | 473.7 |
| **Income from banking activities** | **1,327.7** | **1,340.6** | **1,332.2** | **1,278.0** | **1,350.4** |
| Dividends, similar income and gains (losses) on investments | 10.6 | 9.4 | 15.4 | 20.1 | 27.4 |
| Net profit (loss) from trading | 161.9 | -51.0 | -5.6 | 118.5 | 103.9 |
| Net profit (loss) from hedging | 3.6 | -30.9 | -0.8 | -1.1 | 0.9 |
| **Income from financial and insurance activities** | **1,503.8** | **1,268.1** | **1,341.1** | **1,415.4** | **1,482.6** |
| Net impairment losses (reversals) on: | **-439.6** | **-527.4** | **-342.9** | **-314.9** | **-278.7** |
| a) loans | -434.0 | -470.3 | -271.2 | -294.8 | -274.6 |
| b) financial assets | -5.6 | -57.1 | -71.8 | -20.1 | -4.1 |
| **Net income from financial and insurance activities** | **1,064.2** | **740.6** | **998.2** | **1,100.5** | **1,203.9** |
| Administrative expenses: | -799.1 | -899.6 | -795.3 | -798.4 | -813.7 |
| a) personnel expenses | -531.1 | -607.1 | -526.1 | -518.1 | -543.5 |
| b) other administrative expenses | -268.0 | -292.4 | -269.2 | -280.3 | -270.2 |
| Net losses/reversal on impairment on property, plant and equipment / Net adjustments to (recoveries on) intangible assets | -46.0 | -73.9 | -40.8 | -39.2 | -41.5 |
| **Operating expenses** | **-845.1** | **-973.5** | **-836.2** | **-837.6** | **-855.2** |
| **Net operating income** | **219.1** | **-232.8** | **162.0** | **262.9** | **348.7** |
| Net provisions for risks and charges and other operating expenses/income | -28.5 | -200.7 | -66.1 | -69.7 | -38.6 |
| Gains (losses) on investments | 4.0 | -9.5 | -7.8 | -7.1 | 0.1 |
| Integration costs / one-off charges | -1.1 | -10.1 | -15.7 | | |
| Impairment on goodwill | | -0.4 | | | |
| Gains (losses) on disposal of investments | 0.3 | 0.3 | 33.9 | 0.3 | 0.1 |
| **Profit (loss) before tax from continuing operations** | **193.7** | **-453.2** | **106.3** | **186.4** | **310.3** |
| Tax expense (recovery) on income from continuing operations | -121.6 | -15.8 | -45.1 | -42.4 | -145.0 |
| **Profit (loss) after tax from continuing operations** | **72.2** | **-469.0** | **61.2** | **144.0** | **165.3** |
| Profit (loss) after tax from groups of assets held for sale and discontinued operations | | 3.9 | 2.9 | 8.1 | 2.8 |
| **Net profit (loss) for the period including non-controlling interests** | **72.2** | **-465.1** | **64.1** | **152.0** | **168.1** |
| Net profit (loss) attributable to non-controlling interests | -1.7 | 7.2 | -1.0 | -0.8 | -1.9 |
| **Profit (loss) for the period before PPA , impairment on goodwill, intangibles and writedown of investment in AM Holding** | **70.4** | **-457.9** | **63.1** | **151.3** | **166.1** |
| PPA (Purchase Price Allocation) | -15.9 | -16.9 | -20.9 | -30.2 | -25.8 |
| Impairment on goodwill, intangibles and writedown of investment in AM Holding | | -4,514.0 | | | |
| **Parent company's net profit (loss) for the period** | **54.5** | **-4,988.8** | **42.2** | **121.1** | **140.3** |

(*) Figures restated, where necessary, following clarifications provided by Bank of Italy regarding recognition of securities lending with collateral other than cash fully owned by the lender. Since the impact of these lending transactions was of low significance until October 2011, adjustments to the quarters were made by a linear estimate of the 2010 effect.

**Montepaschi Group**

■ **RECLASSIFIED BALANCE SHEET (in EUR mln)**

| **ASSETS** | **31/03/12** | **31/12/11** | **31/03/11** (*) | **Chg. Q/Q** abs. | % | **Chg. YoY** abs. | % |
|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 676 | 878 | 850 | -202 | -23.0% | -174 | -20.5% |
| Receivables : | | | | | | | |
| a) Loans to customers | 146,627 | 146,608 | 153,633 | 19 | 0.0% | -7,005 | -4.6% |
| b) Loans to banks | 14,877 | 20,695 | 10,420 | -5,819 | -28.1% | 4,457 | 42.8% |
| Financial assets held for trading | 52,341 | 55,482 | 45,307 | -3,141 | -5.7% | 7,034 | 15.5% |
| Financial assets held to maturity | 0 | 0 | 0 | | | 0 | -22.8% |
| Equity investments | 940 | 895 | 926 | 45 | 5.1% | 15 | 1.6% |
| Property, plant and equipment / Intangible assets | 4,369 | 4,365 | 8,943 | 3 | 0.1% | -4,575 | -51.2% |
| *of which:* | | | | | | | |
| *a) goodwill* | *2,216* | *2,216* | *6,474* | | | *-4,257* | -65.8% |
| Other assets | 10,847 | 11,779 | 9,385 | -932 | -7.9% | 1,461 | 15.6% |
| **Total assets** | **230,676** | **240,702** | **229,464** | **-10,025** | **-4.2%** | **1,213** | **0.5%** |

| **LIABILITIES** | **31/03/12** | **31/12/11** | **31/03/11** (*) | **Chg. Q/Q** abs. | % | **Chg. YoY** abs. | % |
|---|---|---|---|---|---|---|---|
| Payables | | | | | | | |
| a) Deposits from customers and securities issued | 137,325 | 146,324 | 159,330 | -8,999 | -6.1% | -22,005 | -13.8% |
| b) Deposits from banks | 44,848 | 46,793 | 22,360 | -1,945 | -4.2% | 22,488 | 100.6% |
| Financial liabilities held for trading | 26,235 | 26,329 | 20,515 | -94 | -0.4% | 5,721 | 27.9% |
| Provisions for specific use | | | | | | | |
| a) Provisions for staff severance indemnities | 265 | 266 | 288 | -1 | -0.5% | -24 | -8.3% |
| b) Pensions and other post retirement benefit obligations | 193 | 193 | 202 | 0 | 0.0% | -10 | -4.8% |
| c) Other provisions | 1,040 | 1,056 | 888 | -15 | -1.4% | 152 | 17.2% |
| Other liabilities | 8,260 | 8,760 | 8,110 | -500 | -5.7% | 149 | 1.8% |
| Group net equity | 12,277 | 10,765 | 17,497 | 1,512 | 14.0% | -5,221 | -29.8% |
| a) Valuation reserves | -2,399 | -3,854 | 53 | 1,455 | -37.8% | -2,452 | n.s. |
| c) Equity instruments | 1,903 | 1,903 | 1,949 | | | -46 | -2.4% |
| d) Reserves | 1,893 | 6,577 | 6,887 | -4,684 | -71.2% | -4,994 | -72.5% |
| e) Share premium | 3,366 | 4,118 | 3,989 | -752 | -18.3% | -624 | -15.6% |
| f) Share capital | 7,485 | 6,732 | 4,502 | 752 | 11.2% | 2,982 | 66.2% |
| g) Treasury shares (-) | -25 | -26 | -23 | 2 | -6.7% | -1 | 5.8% |
| h) Net profit (loss) for the year | 54 | -4,685 | 140 | 4,740 | -101.2% | -86 | -61.2% |
| Non-controlling interests | 234 | 217 | 273 | 17 | 7.8% | -38 | -14.1% |
| **Total Liabilities and Shareholders' Equity** | **230,676** | **240,702** | **229,464** | **-10,025** | **-4.2%** | **1,213** | **0.5%** |

(*) Figures restated, w here necessary, follow ing clarifications provided by Bank of Italy regarding recognition of securities lending w ith collateral other than cash fully ow ned by the lender.

(**) The item "Reserves" as at 31/03/2012 w as conventionally reduced by the total loss for the year 2011. The loss w as allocated in April upon approval of the Accounts.

**Montepaschi Group**

■ **RECLASSIFIED BALANCE SHEET- Quarterly Trend (in EUR mln)**

| **ASSETS** | **31/03/12** | **31/12/11** | **30/09/11** (*) | **30/06/11** (*) | **31/03/11** (*) |
|---|---|---|---|---|---|
| Cash and cash equivalents | 676 | 878 | 760 | 979 | 850 |
| Receivables : | | | | | |
| a) Loans to customers | 146,627 | 146,608 | 155,061 | 156,394 | 153,633 |
| b) Loans to banks | 14,877 | 20,695 | 16,294 | 10,793 | 10,420 |
| Financial assets held for trading | 52,341 | 55,482 | 59,464 | 54,295 | 45,307 |
| Financial assets held to maturity | 0 | 0 | 0 | 0 | 0 |
| Equity investments | 940 | 895 | 873 | 916 | 926 |
| Property, plant and equipment / Intangible assets | 4,369 | 4,365 | 8,949 | 8,936 | 8,943 |
| *of which:* | | | | | |
| *a) goodwill* | *2,216* | *2,216* | *6,474* | *6,474* | *6,474* |
| Other assets | 10,847 | 11,779 | 10,410 | 9,220 | 9,385 |
| **Total assets** | **230,676** | **240,702** | **251,811** | **241,533** | **229,464** |

| **LIABILITIES** | **31/03/12** | **31/12/11** | **30/09/11** (*) | **30/06/11** (*) | **31/03/11** (*) |
|---|---|---|---|---|---|
| Payables | | | | | |
| a) Deposits from customers and securities issued | 137,325 | 146,324 | 160,237 | 165,612 | 159,330 |
| b) Deposits from banks | 44,848 | 46,793 | 32,553 | 23,219 | 22,360 |
| Financial liabilities held for trading | 26,235 | 26,329 | 30,854 | 25,507 | 20,515 |
| Provisions for specific use | | | | | |
| a) Provisions for staff severance indemnities | 265 | 266 | 268 | 287 | 288 |
| b) Pensions and other post retirement benefit obligations | 193 | 193 | 196 | 199 | 202 |
| c) Other provisions | 1,040 | 1,056 | 942 | 898 | 888 |
| Other liabilities | 8,260 | 8,760 | 9,994 | 8,567 | 8,110 |
| Group net equity | 12,277 | 10,765 | 16,527 | 16,979 | 17,497 |
| a) Valuation reserves | -2,399 | -3,854 | -2,809 | -193 | 53 |
| c) Equity instruments | 1,903 | 1,903 | 1,933 | 1,933 | 1,949 |
| d) Reserves | 1,893 | 6,577 | 6,558 | 6,558 | 6,887 |
| e) Share premium | 3,366 | 4,118 | 3,917 | 3,938 | 3,989 |
| f) Share capital | 7,485 | 6,732 | 6,654 | 4,502 | 4,502 |
| g) Treasury shares (-) | -25 | -26 | -30 | -21 | -23 |
| h) Net profit (loss) for the year | 54 | -4,685 | 304 | 261 | 140 |
| Non-controlling interests | 234 | 217 | 240 | 265 | 273 |
| **Total Liabilities and Shareholders' Equity** | **230,676** | **240,702** | **251,811** | **241,533** | **229,464** |

(*) Figures restated, where necessary, following clarifications provided by Bank of Italy regarding recognition of securities lending with collateral other than cash fully owned by the lender.

(**) The item "Reserves" as at 31/03/2012 was conventionally reduced by the total loss for the year 2011. The loss was allocated in April upon approval of the Accounts

## Group Profile

The Montepaschi Group is one of the leading banking and credit institutions on the Italian financial scene and holds significant market shares in the following **areas of business** in which it operates:

- Retail & commercial banking: includes lending, traditional banking services, the offer of banking and insurance products (through the strategic partnership with AXA), financial advisory, wealth management and the offer of investment products (through the associate AM Holding);
- Leasing and factoring: offer of integrated leasing and factoring packages for businesses, artisans and professionals;
- Consumer lending: special-purpose loans, personal loans, credit cards (option and revolving);
- Corporate finance: medium-long term credit facilities, corporate finance, capital markets and structured finance;
- *Investment banking*: includes trading and global markets;
- Foreign banking: supports the internationalisation processes of Italian corporate clients in all major international financial markets as well as some emerging countries that have business relations with Italy.

The Group oversees the business areas in which it operates through an **organisational structure** which, as at 31 March 2012, included:

- a **central managing and operating coordinating unit**, headed by Banca Monte dei Paschi di Siena which, in addit ion to its consumer banking activities, in its role as Parent Company is also responsible for the comprehensive direction, governance and control of its subsidiaries; Founded in 1472 as as a public pawnbroking establishment (Monte di Pietà), Banca Monte dei Paschi di Siena has been a member of FTSE MIB40 since September '99 with market capitalisation in the region of EUR 3.7 bln as at 31 March 2012.

**BMPS shareholders***

| Shareholder | % equity |
|---|---|
| Fondazione MPS | 36.35% |
| Finamonte Srl | 4.00% |
| AXA S.A. | 3.72% |
| Unicoop Firenze | 2.73% |
| J.P. Morgan Chase & Co. | 2.53% |
| *Other shareholders (equity < 2%)* | *50.67%* |

* Updated as at 27 April 2012, date of the shareholders' meeting for approval of the 2011 Annual Report and election of new board members.

- **a product factory,** consisting of the Group's banks and financial companies which are specifically dedicated to the development of specialised financial instruments for the market (a.k.a Product Companies). Among these, particular mention is made of: Consum.it (consumer credit company), MPS Capital Services (specialised in corporate finance, capital markets and structured finance), MPS Leasing&Factoring (specialised in leasing and factoring services for businesses);
- a **franchise** which, in Italy, comprises the banking networks of Banca Monte dei Paschi di Siena (2,411 branches), Banca Antonveneta (376), Biverbanca (122), supported also by Banca Popolare di Spoleto (26.005% shareholding). The Group is present nationwide with 276

specialised business centres dedicated to specific target client segments, such as Private, SMEs and Institutions, as well as 143 financial advisory offices with 828 advisors:

**MONTEPASCHI GROUP - DISTRIBUTION NETWORK AS AT 31/03/2012**

| | MONTE DEI PASCHI DI SIENA | | | | ANTONVENETA | | | | BIVERBANCA | | | | Domestic branches(*) | | | Client Centres | | Financial Advisory Offices | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Regione | Domestic branches | Client Centres | | | Domestic branches | Client Centres | | | Domestic branches | Client Centres | | | Total | % | Market share (**) | Total | % | Total | % |
| | | SME | Private | Istitutions | | SME | Private | Istitutions | | SME | Private | Istitutions | | | | | | | |
| Emilia Romagna | 207 | 11 | 6 | 5 | | | | | | | | | **207** | 7.1% | 5.9% | **22** | 8.0% | **5** | 1.8% |
| Friuli Venezia Giulia | 6 | 1 | | | 66 | 2 | 1 | 1 | | | | | **72** | 2.5% | 7.6% | **5** | 1.8% | **4** | 1.4% |
| Liguria | 39 | 2 | 1 | 1 | | | | | | | | | **39** | 1.3% | 4.0% | **4** | 1.4% | **5** | 1.8% |
| Lombardia | 387 | 20 | 13 | 10 | | | | | 1 | | | | **388** | 13.3% | 5.9% | **43** | 15.6% | **11** | 4.0% |
| Piemonte | 67 | 4 | 2 | 2 | | | | | 116 | 3 | 3 | | **183** | 6.3% | 6.8% | **14** | 5.1% | **5** | 1.8% |
| Trentino Alto Adige | 4 | | | | 2 | | | | | | | | **6** | 0.2% | 0.6% | **0** | 0.0% | **0** | 0.0% |
| Valle d'Aosta | 6 | | | | | | | | 5 | | | | **11** | 0.4% | 11.2% | **0** | 0.0% | **0** | 0.0% |
| Veneto | 44 | 3 | 2 | 1 | 308 | 17 | 8 | 6 | | | | | **352** | 12.1% | 9.8% | **37** | 13.4% | **8** | 2.9% |
| ***Northern Italy*** | **760** | **41** | **24** | **19** | **376** | **19** | **9** | **7** | **122** | **3** | **3** | **0** | **1,258** | **43.2%** | **6.5%** | **125** | **45.3%** | **38** | **13.8%** |
| Abruzzo | 63 | 3 | 2 | 1 | | | | | | | | | **63** | 2.2% | 9.1% | **6** | 2.2% | **4** | 1.4% |
| Lazio | 239 | 11 | 5 | 3 | | | | | | | | | **239** | 8.2% | 8.6% | **19** | 6.9% | **20** | 7.2% |
| Marche | 98 | 5 | 3 | 2 | | | | | | | | | **98** | 3.4% | 8.2% | **10** | 3.6% | **5** | 1.8% |
| Molise | 15 | 1 | | | | | | | | | | | **15** | 0.5% | 10.4% | **1** | 0.4% | **1** | 0.4% |
| Toscana | 529 | 23 | 23 | 8 | | | | | | | | | **529** | 18.2% | 20.8% | **54** | 19.6% | **8** | 2.9% |
| Umbria | 67 | 3 | 3 | 1 | | | | | | | | | **67** | 2.3% | 11.4% | **7** | 2.5% | **4** | 1.4% |
| ***Central Italy*** | **1011** | **46** | **36** | **15** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **1,011** | **34.8%** | **12.7%** | **97** | **35.1%** | **42** | **15.2%** |
| Basilicata | 14 | 1 | | 1 | | | | | | | | | **14** | 0.5% | 5.6% | **2** | 0.7% | **3** | 1.1% |
| Calabria | 64 | 3 | | 2 | | | | | | | | | **64** | 2.2% | 12.4% | **5** | 1.8% | **3** | 1.1% |
| Campania | 158 | 8 | 5 | 3 | | | | | | | | | **158** | 5.4% | 9.7% | **16** | 5.8% | **24** | 8.7% |
| Puglia | 181 | 7 | 5 | 3 | | | | | | | | | **181** | 6.2% | 12.7% | **15** | 5.4% | **18** | 6.5% |
| Sardegna | 18 | 1 | 1 | | | | | | | | | | **18** | 0.6% | 2.7% | **2** | 0.7% | **2** | 0.7% |
| Sicilia | 205 | 7 | 2 | 5 | | | | | | | | | **205** | 7.0% | 11.8% | **14** | 5.1% | **13** | 4.7% |
| ***Southern Italy and island*** | **640** | **27** | **13** | **14** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **640** | **22.0%** | **10.3%** | **54** | **19.6%** | **63** | **22.8%** |
| ***Total*** | **2,411** | **114** | **73** | **48** | **376** | **19** | **9** | **7** | **122** | **3** | **3** | **0** | **2,909** | **100.0%** | **8.7%** | **276** | **100.0%** | **143** | **51.8%** |

(*) as reported to the Bank of Italy
(**) at 31/12/2011

- a **foreign network**, that is geographically distributed across all major financial markets as well as in emerging countries with the highest rates of growth and/or key relations with Italy. The network is currently structured as follows: 4 operational branches (located in London, New York, Hong Kong and Shanghai), 11 representative offices (located in various "target areas" of the EU, Central-Eastern Europe, North Africa, India and China), 2 banks governed by foreign law (MP Belgium with 8 branches, MPS Banque with 18 branches), 1 Italian Desk (in Spain);
- a **services organisation**, made up of the companies in the Group that oversee the IT and telecommunication systems (MPS Group Operating consortium) and manage the collection of non-performing loans (MPS Gestione Crediti Banca);

The Group is present across the country with **3,601 ATMs**, of which 383 cash-in machines, with the aim of giving a sharp boost to the migration of low added-value transactions. ATMs are mainly located in traditional branches (3,124 machines, of which 2,859 in locations with a separate entrance that can also be accessed outside branch hours) but also have a significant presence in public places with high operational potential (342) and in companies/organisations (135).

| **Montepaschi Group**<br>**ATM as at 31/03/2012** | …. with traditional functions | …. with Cash-in functions also | **Total** |
|---|---|---|---|
| In Self Service areas (24/7 access) | 2,652 | 207 | **2,859** |
| In branches (access during branch hours) | 89 | 176 | **265** |
| In companies/institutions | 135 | 0 | **135** |
| In public places | 342 | 0 | **342** |
| **Total** | **3,218** | **383** | **3,601** |

In addition to its physical presence in the area, the Group maintains its customer relations partly through the use of **innovative channels** whose development is aimed at bolstering electronic services especially with the promotion of integrated multi-channels which, within one single package, include Internet Banking, Mobile Banking and Phone Banking services. As at 31 March 2012, there were over

1.6 million existing contracts with Consumer customers, up 3% from the end of 2011 (+5% on Corporate customers), with a shift for "Internet Banking" contracts (digitally certified) towards Integrated Multichannels. The segment also registered a rise in active users (+3% from 31/12/2011), with a sharp increase in "query" transactions. Among the initiatives aimed at reducing environmental impact, communications through digital channels (OnLine Documents) achieved positive results, both in terms of active customers, which grew 8% from 31/12/2011, and quantity of digital documents produced, with a consequent reduction in paper-based documents being printed and sent.

As part of its strategic distribution, the Montepaschi Group affirms its multi-channel structure, boosting the traditional network with remote banking and financial advisory channels.

The Group performs its banking activities with approx. **6.2 million customers**, of whom around 5.8 million are managed by the Distribution Networks of Banca Monte dei Paschi di Siena, Banca Antonveneta and Biverbanca, while the remainder (around 400 thousand customers) are managed exclusively by Consum.it, the group company specialised in consumer loans, and by the Financial Advisory network. In the first quarter of 2012 the Group acquired approximately 38,600 new customers, with an **acquisition rate** of **1.9%**, an improvement on the values registered in both the first quarter of 2011and in the same period of 2010. The **98.8% customer retention rate** is in line with levels in Q1 2011.

The customer's level of satisfaction and the factors which determine this are monitored by the Group through the analysis, among other things, of key indicators such as:

- **Loyalty** (in terms of relationship length): over 60% of consumer and corporate customers have had a business relationship with the Group for at least 11 years, with the portion of lower seniority (1-3 years) greater for Corporate than for Consumer, reflecting a higher turnover linked to the company's business cycle.
- **Customer Satisfaction**: Satisfaction levels in relation to quality of products and services provided by the Group are monitored through periodic surveys (including internal clients, ie. branch employees) as well as the analysis of performance/operational efficiency indicators.
- **Claims**: 2,463 complaints were reported in the first quarter of 2012, down 4.5% from Q4 2011 (-14% on Q1 2011), with an average response time, calculated on the basis of data for Banca Monte dei Paschi di Siena and Banca Antonveneta alone (which provide sufficient reprentation), of less than 17 days, falling well within the limits set by the Bank of Italy in its new transparency regulations (30 days).

# Macroeconomic and banking scenario

**MACRO ENVIRONMENT**

The **sovereign debt crisis, tensions in the major financial markets** and the ongoing uncertainty regarding the **consolidation of national public accounts,** which appeared set to ease earlier in the year, escalated once again with the consequence of aggravating a recession already in progress in some advanced economies, conditioned further by a **slowdown in international foreign trade**.

In the **Eurozone**, political decisions (new bailout for Athens, expansion of anti-crisis measures, the Fiscal Compact) and the hefty amounts of liquidity injected into the banking system by the ECB seemed to have restored some confidence among investors. Once again, however, trepidations regarding the stability of certain national accounts (those of Spain in particular) have become more acute and fears of contagion have returned. Within this climate of uncertainty, rising social tensions, the record-level of unemployment and a halting German economy are also cause for concern. Within the Eurozone, **Italy** was among the countries most affected, with growth **expected to drop by 1.2% in 2012,** according to government data, and which, in the coming years, will be weighted down heavily by budgetary austerity measures and mounting concerns over unemployment (one in three young people in Italy is jobless).

The **USA** continued to **consolidate** its growth though at a more modest pace that was far from ensuring a return to full employment. Recovery remains uncertain and the stimulus measures introduced by FED may still not be completed. Among the critical points, in addition to a slowly stabilising real estate market, there remains the problem of high federal debt.

Though continuing to advance at a sustained rate, the **Asian economies** also "cooled". China's growth may be affected by the further decline in foreign demand, a more sluggish real estate sector and tensions surrounding public accounts.

Recovery strengthened in the **USA**. According to the IMF, the U.S. economy will grow **2.1% this year** and 2.4% in 2013. The "pace", however, remains "modest to moderate" and unemployment (8.2% in March) continues to be high, renewing the debate on the need for new monetary stimulus (QE, Quantitative Easing) which the FED may launch to support growth. The possibility of an early exit strategy becomes more remote while Bernanke confirms exceptionally low interest rates at least until the end of 2014. The States will have to live with the problem of substantial federal debt: the efforts undertaken so far ("Budget Control Act" and extension of tax cuts on salaries and subsidies) remain insufficient and rating agencies continue to be concerned. The escalation of the European Crisis may significantly perturb US recovery as the electoral campaign for the presidency approaches.

Among **emerging countries,** China's economic slowdown may be more pronounced than the previously anticipated "*soft landing*", with a growth rate that should nevertheless remain above 8% for the year; the decline in imports registered in January (the first in almost two years) corroborates the cooldown of an economy that is strongly linked to global trade. Persisting uncertainties include tensions in the real estate market, the critical state of public accounts in certain regions, shadow financing[2] and inflation in the region of 4%. The People's Bank of China intends to adopt stimulus measures to avert the risk of an economic slowdown that is too pronounced. A similar situation was also registered in other Asian economies, especially in India.

A mild recession has been predicted for the **Eurozone** in 2012 (-0.3% according to the IMF). According to ECB President, Mario Draghi, economic activity stabilised at a low level early on in the year and recovery is expected in 2012, albeit at at a very gradual pace. The recent improvement of leading indicators (Zew, Ifo) would seem to confirm this point of view, however less encouraging signs came from production (-1.8% YoY in February) and orders (-3.3% YoY in January), partly the result of slowing

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[2] A strongly growing phenomenon in China, consisting in the borrowing of money by small and medium businesses from non-bank lenders (eg. companies, associations, families, etc).

global demand. The job market continues to suffer increasingly stronger tensions (unemployment at 10.8% in February).

European growth was affected by **the German economic performance** (in February trends showed that production retracted for the first time since 2009), the **recession underway** in some EU countries compounded further by the tough **austerity plans launched by national governments,** the **EBA's bank recapitalisation plans** (EUR 15.4 bln for Italian banks by June against EUR 114.6 bln for the whole of Europe) and, above all, the uncertainty as to **developments in the debt crisis,** to which EU leaders have sought to respond with a series of initiatives:

- namely, the introduction of the "Fiscal Compact" (not signed by the United Kingdom and the Czech Republic), which will enforce tighter budgetary rules as of 2013;
- strengthening the anti-crisis measures (ESM + EFSF + bilateral loans + EFSM[3]) to EUR 800 bln and bringing the enactment of the European Stability Mechanism forward to July 2012;
- providing Athens with a new aid scheme of EUR 130 bln after having reached the Swap agreement on Greek debt.

Nevertheless, after a period of relative stability, the markets judged the measures undertaken as insufficient and concerns re-emerged over the sustainability of European peripheral debt and possible effects of contagion. Under watch and of more significance than Greece, Portugal and Ireland is Spain: in addition to efforts of budgetary consolidation necessary in Madrid, there are also concerns regarding the stability of the Spanish banking system (the total of doubtful loans held by Spanish institutions has risen to its highest level since 1994) and rating agencies are poised for a new spate of downgrades, which, starting with Spain, may involve several Eurozone economies. **Markets remain highly volatile** as they nervously react to outcomes from the placement of sovereign bonds. After the significant slide in the first three months of the year, yields on bonds of peripheral countries have recently picked up again, with the 10Y Italian treasury bond back to around 5.7%, the Spanish bond at 6% and the Portuguese government bond at 12%. A similar trend was also seen for 5-year Credit Default Swaps, with the Spanish CDS peaking at over 500 points.

**Italy** is facing a recession which may prove to be severe and drawn out. Since August 2011, leading indicators have remained below the contraction threshold with orders and production continuing to downtrend ( -13.2% YoY, -6.8% YoY respectively, as at February). Consumption is sluggish though some positive signs emerge from exports. The greatest cause for concern, however, comes from employment: unemployment in February touched a record 9.3% (with youth unemployment at 31.9%) and a further rise is predicted. Inflation, firmly above 3%, is likely to remain at this level following the recent increases in excise duties, tariff adjustments and a further possible increase in VAT. According to the Document of Economics and Finance (DEF), submitted by the Government, the country's **GDP will experience a decline of 1.2% in 2012 and a modest upturn in 2013 (+0.5%)**. The impact from recent corrective measures ought to bring the Deficit/GDP ratio to 1.7% this year and 0.5% in 2013 with the achievement of a balanced budget between 2014-2015; the fiscal burden is expected to exceed 45% in 2012. Simplification, liberalisation and a reformed job market are the objectives which the Government will aim for in order to pull the country out of the crisis, but the situation remains "delicate" as demonstrated by the ratings of major agencies.

Concerns regarding the sustainability of European peripheral debt continue to shift the **preference of investors towards financial assets believed to be safer,** with yields on the German 10-year bonds remaining well below 2%. Thus the 2-10 year yield curve in Europe has remained substantially unchanged since the start of the year. In the USA, the hypothesis of new accomodative measures by

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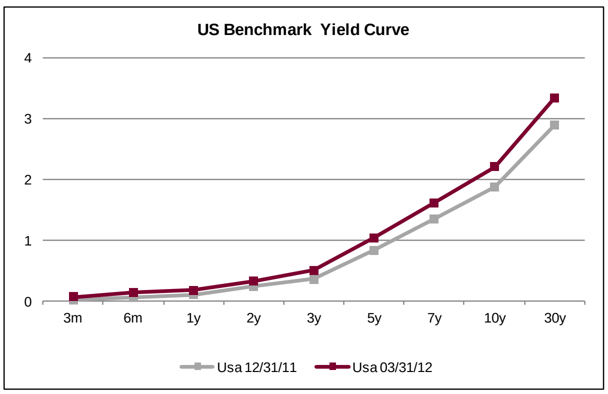
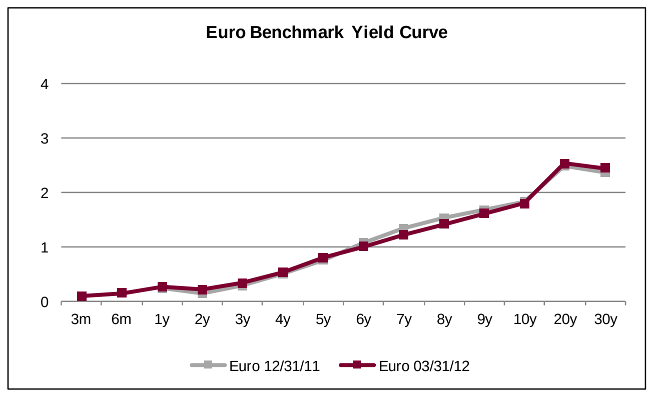
[3] The European Stability Mechanism (ESM) is the permanent rescue funding programme, created from the amendments to the European Treaty approved by the Eurogroup on 23 March 2011.
The European Financial Stability Facility (EFSF) is a Special Purpose Vehicle (SPV) created on 9 May 2010, and has the function of issuing bonds on the secondary market with a view to raising the funds necessary to provide loans to countries experiencing difficulties.
The European Financial Stabilisation Mechanism (EFSM) is a fund created alongside the EFSF to provide financial assistance (for up to EUR 60 bln) to countries in financial distress.

the FED further flattened the curve. Since the start of the year, the U.S. Libor rate fell on all key maturities and subsequently stabilised pending further developments in the actions to be taken by the FED.

In the **money market,** Euribor rates fell sharply in the first quarter of the year due to the ECB's extraordinary refinancing transactions over a period of 36 months (the second of which was on 29 February 2012), which, in the intention of the Authority, are aimed at ensuring adequate liquidity to the system and lending to households and businesses. The 1M Euribor thus fell to below 0.41% (over 60 basis points less than levels registered in December). Moreover, the ECB has kept the **cost of money unchanged at 1%**. Owing to the recent rise in oil prices and indirect taxation, inflation is expected to remain above 2% throughout the year before decreasing in 2013. Nevertheless, against a backdrop of subdued growth, inflation expectations remain well anchored; thus the possibility of benchmark rates fixed at 1% throughout 2012 is plausible. Should tensions persist regarding the debt of peripheral countries, the ECB will be called to reactivate its seemingly "frozen" plan to purchase bonds from countries in distress, despite resistance from Germany. Any reasoning on a possible exit strategy by the Authority has been judged as "premature" by Draghi in this phase of uncertainty.




Following a turbulent 2011, the major **global financial markets** regained some ground, however volatility remains high and leaves room for sharp corrections which, especially in Europe, are already in place. From 31/12/2011 to 31/03/2012, the Dow Jones gained almost 8% and the S&P 500 index 11%; a significant upswing was also seen in Europe (Dax picked up approx. 18%); April, however, was marked by a return of tensions regarding the peripheral countries with the stock markets reacting nervously: the FTSE Mib index which, in the first quarter of 2012, climbed approx. 6%, has gone back to below the levels registered at the start of the year. In Japan, the Nikkei gained 16% before backtracking (the Japanese economy is expected to return to growth over the next two years). In Italy, the 10Y BTP-Bund spread went from over 500 bps at the start of the year to below 300 bps before climbing again to 400 bps, in the wake of fears over a more acute debt crisis. From 7% at the end of 2011, the yield on the 10Y BTP fell by over 200 bps, though it has recently returned close to 5.7%. The Italian 5Y CDS fell considerably in the first quarter before climbing back up to stand at around 465 basis points.

In the **currencies market,** after sliding, in January, to its lowest level against the dollar in over a year, the Euro appears to have regained some ground against the greenback to stabilise within a range of $1. 30-1.33. The yen depreciated against all major currencies, including the Euro, in the wake of recent guidance from the BoJ which increased its asset-purchasing plan by $128 bln, pointing to a new target for inflation. The Swiss Central Bank declared its readiness to intervene so as to defend the CHF-EUR exchange rate threshold of 1.2. Signs of opening up to an appreciation of the Yuan have arrived from China, following the announcement by the People's Bank of China that is has doubled the daily trading range of the domestic currency against the dollar (from +/-0.5% to +/-1%).

## IMPACT OF THE REGULATORY FRAMEWORK ON BANKS

**Agreement between Italian Banking Association-Consumer Associations:** Extension of deadline to 31 July 2012 for submission of applications for the 12-month suspension of mortgage repayments on the purchase of a first home for households who have experienced an adverse event (job loss, temporary lay-off, death or lack of self-sufficiency).

**New measures for credit to SMEs**: three types of action are included under the new grace period set up by the Italian Banking Association (in accordance with leading business organisations and the government): a) 12-month suspension of principal on mortgage repayments and operating leases; b) extension of mortgage loans and advances; c) loans to SMEs that use tax incentives for recapitalisation introduced by the government last December. The transactions are carried out at the same rate of interest as in the original contract and are exempt from fees and charges, except for those which may be incurred against third parties. The percentage of domestic banks joining the initiative stood at 83.5% at the end of March.

**Basel 2 Directive (2006/48/EC)**: on 31 December 2011, the exemption expired whereby Italian banks could report past dues after 180 days instead of after 90 days. The permanent exemption remains in force for banks using internal rating systems validated by the Supervisory Authority, limited to retail portfolios and public and local government agencies; however, the proposal for a directive transposing Basel 3 provides for the abolition of this exemption also.

**Law on liberalisation and competition (no. 27/2012):** The deadline within which the Italian Banking Association, Poste Italiane and business associations must identify general rules for the reduction of fees charged to retailers accepting payment cards has been extended to 1 June 2012; the rules are to be applied within the subsequent three months. The opening and management of basic payment accounts for the crediting of pensions of up to EUR 1,500 monthly must be guaranteed to be free of charge, with the exception of expenses relating to any additional services required. Furthermore, all bank fees and commissions on credit facilities (disbursement, provision, maintenance, use) were cancelled, however a subsequent corrective decree (Decree 29/2012) limits the revocation for cases that are in violation of the transparency regulations established by the ICRC and that exceed 0.5% quarterly. Banks in which a life insurance policy is one of the conditions for the provision of a home mortgage or consumer loan are obliged to submit quotations to their customers from at least two different companies; the customer can, in any case, choose the insurance policy on the market that he deems best. The period within which loan subrogation must be completed has been established at ten days from the date of the customer's request.

**Law decree on tax simplification (no.16/2012):** includes, among other things, the application of stampy duty to bank and postal deposits in the amount of 1 per thousand in 2012 and 1.5 per thousand in 2013.

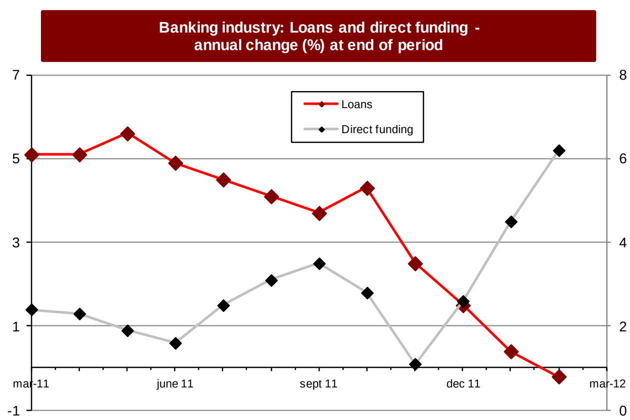
## BANKING ACTIVITIES AND GROUP MARKET SHARES

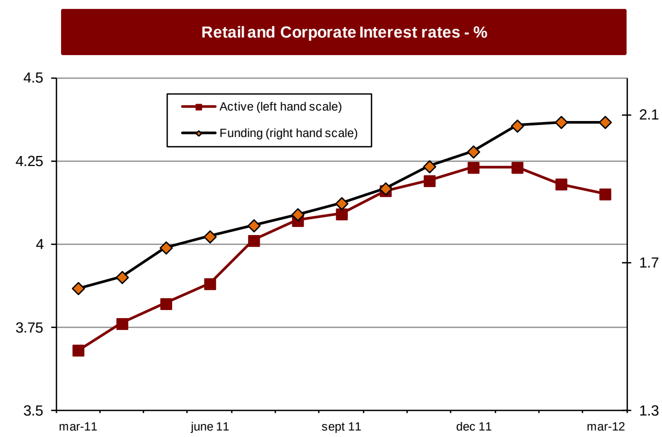
The performance of leading banks was especially conditioned by the following events:

- a decline in production and income;
- tensions surrounding the sovereign debt of some Eurozone countries;
- refinancing transactions of banks with the ECB;

Against this backdrop, **direct funding showed an upward trend, against loans which were substantially at a standstill on a yearly basis**; interest rate margins in traditional activities shrank from levels at the end of 2011.

The trend in **direct funding** revealed a sharp upturn, from +2.6% at the end of 2011 to +6.2% in February. A closer analysis shows that trends are highly differentiated with bonds and time deposits growing strongly and a negative performance for the more liquid instruments. The performance of bonds (at around +17% for the year in the quarter) impacted the issuances aimed at creating collateral for the ECB's refinancing auctions (in the last ten days of December and at the end of February). The increase in deposits with agreed maturity, which almost doubled compared to the previous twelve months, reflects the growing demand for simple, guaranteed liquid products, which are, however, distinguished by higher returns than those on current accounts. It also reflects an increased level of competition in the retail funding market; standardised taxation on financial income is also considered to have been a contributing factor to the greater success of the product. A sharper fall was registered for current accounts (approx. -5.5% for the year in the first two months), driven largely by the partial shift of household savings towards higher-yield investments. The trend for repurchase agreements (down by over 20% for the year) reflects operations with financial institutions, which were affected by the reduction in guaranteed interbank activities following the greater recourse to ECB funding. The MPS Group's market share for direct funding stood at just below 7% in February.




In the asset management market, **mutual fund** flows in the quarter were - EUR 4.7 bln, according to monthly data by Assogestioni, although a positive trend was registered for March (almost 2 bln) after more than a year of downward spiraling. More specifically, an interest in bonds appears to have resurfaced (+4.6 bln in the quarter, of which 3.8 in March), driven by the demand for government bonds in addition to the offer of new products having a maturity and coupon plan. Other categories of products are still showing negative net flows, with the exception of monetary products which, in March, registered positive net inflows, albeit for just EUR 112 mln. Signs pointing to a resurgence of interest in mutual funds seem to highlight the propensity of savers (within a context of caution) to search for higher returns in order to offset the unsatisfactory trend in work and business income. Assets managed by funds increased by almost 4% on the end of 2011 as a result of better stock performance.

Negative flows continued on new retail **assets under management** which registered net funding of - EUR 2.3 bln in the first quarter of 2012 (in line with the overall figure for 2011: - EUR 10 bln), with a decline of almost 5% in terms of volumes when compared to December 2011.

With regard to the life branch of **bankassurance**, new production in the first two months of the year registered a sharp fall (-40% for the year, a more pronounced downturn compared to the previous year), confirming certain market trends seen in 2011. Indeed, traditional products and conventional unit-linked products were again the most adversely affected, with a fall of almost 50%, while index-linked products fared better (-8%); against this, multiline policies remained positive (+3%) and secured and protected unit-linked products continued to grow (+17%), though they still accounted for less than 10% of total flows.

The slowdown in **bank loans** continued with an annual growth close to zero in the first two months of the year, although, excluding business with financial companies and the public administration, the increase amounts to around 1.5% (still down when compared to the +3.6% at the end of 2011). Loans to the manufacturing sectors stepped up by approximately 1% whereas loans to consumer households were up by around 3.3%. The lower aggregate was largely due to the worsening recession and the economic deterioration experienced by the real estate market, as well as to aspects of the offering and, in particular, the attention being paid to risk. The first, in December, of the two three-year refinancing transactions launched by the ECB in recent months (the provision of liquidity in the Italian Banking System was approx. EUR 60 bln), limited the effects that the European sovereign debt crisis and, consequently, the performance of international wholesale funding markets have on the granting of credit. Additional expansionary effects on the offer of credit are likely over the coming months, as a result of the second refinancing transaction (at the end February, amounting to EUR 80 bln) and in light of technical delays in the enactment of monetary policy actions. In the first two months of the year, the share of **debt registered as doubtful** remained high though it was down from the closing quarter of 2011 when the annualised rate of impairment climbed to 2%; however, loans to businesses experiencing temporary financial difficulties (substandard and restructured debt) grew from 6.2% in November 2011 to 6.6% last February. The stock of doubtful loans, on the other hand, is showing a slowdown, up by just 0.5% in February compared to the end of 2011; the net doubtfulto total loan ratio thus fell below the 3% threshold , which was exceeded in December 2011. The MPS Group's market share for lending remained at around 7.3%.

In the first quarter, **bank interest rates** overall experienced a decrease on loans whereas they continued to trend upwards on the cost of direct funding. More specifically, interest rates on loans to households lost 8 bps in the period; against a counter-trend for interest rates on current accounts (+24 bps), a downturn was observed above all for interest rates on medium-long term loans to businesses (-10 bp in two months) and households (-13 bps for home loans). With respect to new issuances, the interest rate on loans to businesses fell below 4% (-48 bps in three months), while the cost of home loans increased by 30 bps to stand at 4.32%. The cost of funding shifted to above 2%, reflecting the rise in interest rates on deposits (+4 bps overall, despite a decline of 7bps for interest rates on current accounts), and on repurchase agreements (from 2.77% in December 2011 to 3.3% in March), against substantially stable bond yields which have steadied just below 3.4% as of November last year. The spread between the lending and funding rate fell to 2.07 percentage points in March (-16 bp from the end of 2011), thereby returning to levels registered around 12 months before.

**In the first quarter, the leading banking groups released their profit & loss results for 2011,** which showed a decline in profitability with an overall loss, largely determined by substantial one-off impairment of goodwill, carried out in order to align the financial statements with developments in the markets in recent months, thereby increasing the level of transparency. Among the key performance indicators, there was a reduction in net interest income (approx. -2%), which was not offset by the slight increase in net revenues; the decline in net operating income (-5%) is partly reflective of the rise in costs. **Tier 1 capital** of the five major banking groups shifted from 9% at the end of 2010 to 10.1% last December; significant additional strengthening took place at the start of this year.

## The Group's profit & loss and balance sheet results

Against the backdrop of a **domestic economic recession now underway, financial market tensions and the weight of the sovereign debt crisis gradually eased off in the first three months of 2012.** The ECB refinancing transactions ensured liquidity to the system, which helped **stabilise the money market, although no clear signs of reopening wholesale funding markets emerged.** On the other hand, **spreads on government bonds started to increase again as of April**, albeit at levels below the January highs, as a result of growing concerns regarding prospects for recovery in certain eurozone countries and fears of a more pronounced slowdown in world economic growth.

In this still uncertain and extremely complex scenario, the Montepaschi Group proceeded with the objective of **optimising the mix of funding sources**, by stabilising funding from the market and curbing costs. At the same time, **financial assets** (interbank deposits and securities) **were reduced**, while the **loan book showed a substantially stable trend during the quarter**, primarily on the back of low demand for loans from households and businesses and more selective credit policies induced by the worsening economic situation.

The combined effect from management actions and external conditions reverberated positively on earnings, with the Group experiencing a **significant rise in revenues compared to the previous quarter,** benefitting from improved financial market conditions which propped up the results achieved in trading and enabled a more profitable development of existing customer relationships. At the same time, **the cost of credit, although lower than in the last part of 2011, still remained high**, as a result of the current economic difficulties which constitute a risk factor for the entire banking industry. Actions aimed at improving operational efficiency continued, although the new regulatory framework has narrowed the room for cost reduction, particularly in the area of human resources.

## BALANCE SHEET

### DIRECT FUNDING

**As at 31 March 2012, total funding volumes for the Group came to approx. EUR 278 bln, down 1.1% on 31/12/2011 owing to the fall in direct funding (-6.1%), while indirect funding registered an upturn (+4.5% YoY). Total funding was down 9.5% on 31 March 2012:**

**CUSTOMER FUNDING** (in millions of euros)

| | 31/03/12 | 31/12/11 | (*) 31/03/11 | Chg % vs 31/12/11 | Chg % vs 31/03/11 | Inc. % 31/03/12 |
|---|---|---|---|---|---|---|
| **Direct funding** | **137,325** | **146,324** | **159,330** | **-6.1%** | **-13.8%** | **49.4%** |
| **Indirect funding** | **140,578** | **134,550** | **147,840** | **4.5%** | **-4.9%** | **50.6%** |
| *assets under management* | *46,868* | *46,426* | *49,938* | 1.0% | -6.1% | 16.9% |
| *assets under custody* | *93,710* | *88,124* | *97,902* | 6.3% | -4.3% | 33.7% |
| **Total funding** | **277,903** | **280,874** | **307,170** | **-1.1%** | **-9.5%** | **100.0%** |

(*) Figures on Direct Funding were restated following clarifications provided by Bank of Italy regarding recognition of securities lending with collateral other than cash fully owned by the lender.

More specifically:

- **Direct funding**, totalling approx. **EUR 137 bln**, registered a drop of 6.1% on 31/12/2011 and 13.8% on 31/03/2011, with **Group market share** remaining slightly lower than 7% in February. The quarterly trendline of this aggregate is primarily to be traced back to changes in **institutional funding**, particularly **repurchase agreements (- EUR 7 bln on 31/12/2011) and wholesale CDs (-EUR 1.1 bln)** , as a result of the above-cited initiatives put in place with a view to optimising the Group's liquidity profile in parallel with reductions in loans to banks. **Funding from consumer and corporate customers** remained substantially unchanged (for further details, please refer to the chapter "*Financial highlights and main activities of the business segments*").

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

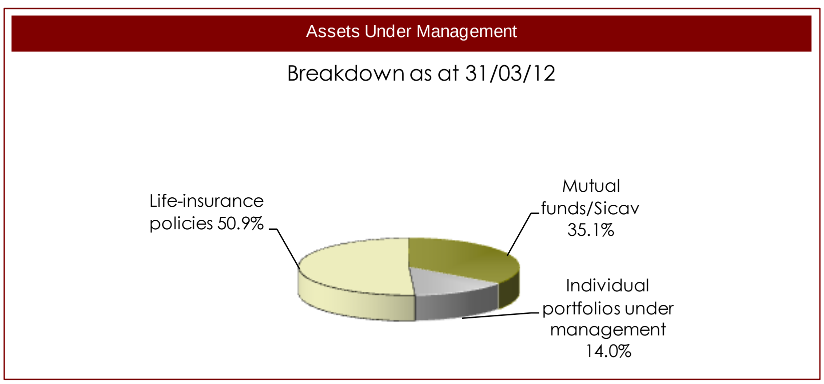
**Direct funding (€/mln)**

| Type of transaction | 31/03/12 | 31/12/11 | (*) 31/03/11 | Q/Q change Abs. | Q/Q change % | Y/Y change Abs. | Y/Y change % |
|---|---|---|---|---|---|---|---|
| Current accounts | 59.666 | 62.196 | 65.178 | -2.530 | -4,1% | -5.512 | -8,5% |
| Time deposits | 3.519 | 1.515 | 2.232 | 2.004 | 132,3% | 1.287 | 57,7% |
| Repurchase agreements | 6.926 | 14.352 | 17.288 | -7.426 | -51,7% | -10.362 | -59,9% |
| Bonds | 60.317 | 60.265 | 60.334 | 52 | 0,1% | -17 | 0,0% |
| Other types of direct funding | 6.897 | 7.996 | 14.298 | -1.099 | -13,7% | -7.400 | -51,8% |
| **Total** | **137.325** | **146.324** | **159.330** | **-8.999** | **-6,1%** | **-22.005** | **-13,8%** |

(*) Figures restated, where necessary, following clarifications provided by Bank of Italy regarding recognition of securities lending with collateral other than cash fully owned by the lender.

- **Indirect funding**, which amounted to approx. **EUR 141 bln**, registered a 4.5% climb from 31/12/2011 (-4.9% on 31/03/2011), as a result of the upturn for both **assets under management** and **assets under custody** when compared to the previous quarter. More specifically:

  - **Assets under management** closed the quarter with volumes in the region of **EUR 47 bln**, up 1% on 31/12/2011, benefitting from the revaluation of financial assets due to improved market responsiveness, as against moderately negative net funding (approx. -EUR 517 mln). A further breakdown of volumes – according to a Mifid-based approach structurally aimed at selecting the most suitable investment solutions for customers (products, investment lines, Group and Third-party Asset Management Companies) – shows that the prevailing segment is that of life insurance policies, Funds and Sicavs. In the **insurance segment**, technical reserves, amounting to approx. EUR 24 bln, were substantially in line with levels as at 31/12/2011, with premiums collected in the quarter exceeding EUR 1 bln, driven by Unit Linked products (EUR 948 mln, more than three times the amount of the previous quarter) and traditional policies (EUR 104 mln). **Mutual investment funds and open-end collective investment schemes (Sicavs)**, amounting to EUR 16.4 bln, were up 2.2% on 31/12/2011 with quarterly net funding at approx. -EUR 218 mln. Finally, **wealth management** totalled EUR 6.6 bln, up 4.28% on the end of the previous year, benefitting from moderately positive net funding volumes (EUR 62 mln) after the negative trend recorded in 2011.




  - **Assets under custody**, amounting to approx. EUR 93.7 bln, were up 6.3% as compared to 31/12/2011 on the back of a positive market effect.

## LOANS TO CUSTOMERS

At the end of March 2012, Group **loans to customers** amounted to approx. **EUR 147 bln,** in line with levels as at 31/12/2011, although down 4.6% on the same period of the previous year. This result is to be seen in correlation with both the decline in demand for loans as a result of the sluggish economic cycle, which has particularly penalised current accounts and short-term lending, and more selective credit policies adopted by the Group. The **Group's market share for lending** continued to stand at around 7.3%.

**Loans to customers (€/mln)**

| Type of transaction | 31/03/12 | 31/12/11 | (*) 31/03/11 | Q/Q Change Abs. | Q/Q Change % | Y/Y Change Abs. | Y/Y Change % |
|---|---|---|---|---|---|---|---|
| Current accounts | 17,397 | 17,002 | 19,382 | 395 | 2.3% | -1,986 | -10.2% |
| Mortgages | 87,298 | 87,829 | 89,898 | -532 | -0.6% | -2,600 | -2.9% |
| Other forms of lending | 37,685 | 37,785 | 40,521 | -100 | -0.3% | -2,836 | -7.0% |
| Repurchase agreements | 1,191 | 882 | | 309 | 35.0% | 1,191 | n.s. |
| Loans represented by Securities (^) | 3,057 | 3,110 | 3,832 | -53 | -1.7% | -775 | -20.2% |
| **Total** | **146,627** | **146,608** | **153,633** | **19** | **0.0%** | **-7,005** | **-4.6%** |

(*) Figures restated, where necessary, following clarifications provided by Bank of Italy regarding recognition of securities lending with collateral other than cash fully owned by the lender.

(^) Amount included in the Group's "Securities and Derivatives portfolio", under accounting category 'Loans & Receivables' (L&R).

The aggregate includes approx. EUR 87 bln in **mortgages**, which accounts for the predominant form of lending with new contracts in **Q1 2012** totalling approx. EUR **700 mln**.

As for **'special purpose' loans**, which are disbursed by the Group through dedicated product companies, **new flows** in Q1 2012 totalled **EUR 1.1 bln** (down 23.1% on Q4 2011 and 34.2% on the previous year). In terms of **consumer credit**, loans totalling **EUR 618 mln** were disbursed over the reporting period, down from both the previous quarter and from Q1 2011 (-8.5% and -9.7% respectively) as a result of the challenging economic cycle. As for **small business and corporate lending**, factoring turnover came to EUR 2.3 bln, continuing on the upward trend registered as of Q3 2011 though falling from the previous year (-2.5%).

**Special purpose loans and corporate finance**

| *EUR mln* | 31/03/12 | 4Q11 | 3Q11 | 2Q11 | 1Q11 | Chg 1Q12 vs 4Q11 Ass. | Chg 1Q12 vs 4Q11 % | Chg. YoY Ass. | Chg. YoY % |
|---|---|---|---|---|---|---|---|---|---|
| **MPS Capital Services** (disbursements) | **355** | **502** | **458** | **398** | **731** | **-147** | **-29.3%** | **-376** | **-51.5%** |
| **MPS Leasing & Factoring** | | | | | | | | | |
| incl.: leases negotiated | **131** | **260** | **343** | **410** | **261** | **-129** | **-49.5%** | **-130** | **-49.8%** |
| factoring turnover | **2,312** | **2,191** | **2,093** | **2,480** | **2,371** | **121** | **5.5%** | **-59** | **-2.5%** |
| **Consumit** (disbursements) | **618** | **675** | **615** | **725** | **684** | **-57** | **-8.5%** | **-66** | **-9.7%** |

## NON-PERFORMING LOANS

As at the end of March 2012, the Montepaschi Group recorded a net exposure of EUR 15,191 mln in non-performing loans, accounting for approx. 10.36% of total customer loans.

Volumes during the quarter rose by around EUR 1.7 bln, largely owing to past due loans (+1 bln) which were affected by the "alignment" with European regulations in Q1 lowering the deadline on late payments or ongoing overdrafts from 180 days to 90 days (with a net impact of EUR 724 mln; 754 mln gross). Volumes of doubtful loans increased from 31 December 2011 (approx. + EUR 246 mln), as did substandard loans (approx. + EUR 395 mln) and restructured loans (approx. + EUR 40 mln).

With regard to the quality of **performing loans**, as at 31/03/2012 the ***average probability of default* came to 2.16%** (2.23% as at 31/12/2011).

**CUSTOMER LOANS BY RISK**

| Risk category - Net book values<br>*in million EUR* | 31/03/12 | 31/12/11 | 30/09/11 (*) | 30/06/11 (*) | 31/03/11 (*) | weight % 31/03/12 | weight % 31/12/11 | weight % 31/03/11 |
|---|---|---|---|---|---|---|---|---|
| **A) Non performing loans** | **15,191** | **13,480** | **13,231** | **12,853** | **12,002** | **10.36** | **9.19** | **7.81** |
| a1) Doubtful loans | 6,688 | 6,442 | 6,348 | 6,055 | 5,605 | 4.56 | 4.39 | 3.65 |
| a2) Substandard loans | 4,854 | 4,459 | 4,269 | 4,168 | 4,102 | 3.31 | 3.04 | 2.67 |
| a3) Restructured loans | 1,474 | 1,435 | 1,443 | 1,472 | 1,370 | 1.01 | 0.98 | 0.89 |
| a4) Past due | 2,175 | 1,144 | 1,171 | 1,158 | 925 | 1.48 | 0.78 | 0.60 |
| **B) Performing loans** | **131,436** | **133,128** | **141,830** | **143,541** | **141,631** | **89.64** | **90.81** | **92.19** |
| **Total customer loans** | **146,627** | **146,608** | **155,061** | **156,394** | **153,633** | **100.00** | **100.00** | **100.00** |

(*) Figures restated, where necessary, following clarifications provided by Bank of Italy regarding recognition of securities lending with collateral other than cash fully owned by the lender.

**Coverage of non-performing loans** came to **39.8%**, down by 160 bps as compared to 31/12/2011. This reduction is primarily to be seen in correlation with the growth in the above-analysed past-due exposures which, being lower in severity, have lower coverage ratios than the other classes of non-performing loans (impact of approx. 110 bps). Net of this component, coverage continues to be just below 2011 year-end levels. With a specific regard to **doubtful loans**, the coverage ratio climbed to **55.8%** (vs. 55.5% as at 31/12/2011), while **substandard loans** stood at **21.6%** (22.2% as at 31/12/2011).

### Provisioning ratios

| | 31/03/12 | 31/12/11 | 30/09/11 | 30/06/11 | 31/03/11 |
|---|---|---|---|---|---|
| **"provisions for non performing loans" / "gross non performing loans"** | **39.8%** | **41.4%** | **40.9%** | **40.7%** | **41.4%** |
| **"provisions for substandard loans" / "gross substandard loans"** | **21.6%** | **22.2%** | **20.6%** | **20.3%** | **20.8%** |
| **"provisions for doubtful loans" / "gross doubtful loans"** | **55.8%** | **55.5%** | **55.2%** | **55.4%** | **56.2%** |

The table below reports the figures for the Group's major companies, within which Banca Monte dei Paschi di Siena and Banca Antonveneta show a provisioning ratio for doubtful loans which, on average, stands at around 58.5%. For an accurate interpretation of the details contained in the table, it should be noted that doubtful loans under litigation are normally written down by direct amortisation also, while mid-long term loans are generally supported by collaterals thus requiring more limited provisioning. This is particularly evident in MPS Capital Services (coverage of doubtful loans came to 35.8%), whose business is mainly characterised by the disbursement of mortgage loans:

**DOUBTFUL AND SUBSTANDARD LOANS BY BUSINESS UNIT**

| **Risk category - Net values at 31/03/2012** *in million EUR* | **Group** | **BMPS** | **BAV** | **MPS Capital Services Banca per le Imprese** | **MPS Leasing & Factoring** | **Consum.it** | **Biverbanca** |
|---|---|---|---|---|---|---|---|
| Doubtful loans | 6,688 | 3,847 | 642 | 1,683 | 265 | 129 | 70 |
| % of total customer loans | 4.56% | 3.04% | 4.66% | 11.39% | 3.57% | 2.14% | 3.09% |
| **"loan loss provisions" / "gross doubtful loans"** | **55.8%** | **58.3%** | **60.0%** | **35.8%** | **60.7%** | **80.7%** | **65.1%** |
| Substandard loans | 4,854 | 3,283 | 218 | 744 | 468 | 55 | 49 |
| % of total customer loans | 3.31% | 2.59% | 1.58% | 5.04% | 6.30% | 0.91% | 2.14% |
| **"loan loss provisions" / "gross substandard loans"** | **21.6%** | **22.5%** | **21.2%** | **16.5%** | **17.8%** | **52.7%** | **22.7%** |

With regard to **gross performing loans,** provisions continued to stand at around 0.6%, substantially in line with levels as at 31/12/2011.

As for doubtful loan book management, which is assigned groupwide to the Group company specialising in this area, MPS Gestione Crediti Banca, **recoveries totalled approx. EUR 107 mln** (-42% on Q4 2011 and -27% YoY). This result was affected by the challenging economic and financial environment which, in particular, led to an average depreciation of properties pledged as collateral for loans granted.

## THE GROUP'S SECURITIES AND DERIVATIVES PORTFOLIO

The Group's reclassified securities and derivatives portfolio amounted to **EUR 38.9 bln** as at 31 March 2012, up by approx. EUR 748 mln as compared to the end of 2011. The aggregate was driven by a pick up in stock prices in the AFS accounting category, which grew by EUR 2.1 bln. The HFT component dropped by around EUR 834 mln, reflective of the MPS Capital Services performance, while the reduction in the L&R portfolio (EUR -522 mln) is primarily attributable to the natural maturity of securities.

**PORTFOLIO OF TREASURY SECURITIES AND DERIVATIVES (€/million)**

| **MONTEPASCHI GROUP** Type of portfolio | **31/03/12** | **31/12/11** | **30/09/11** | **30/06/11** | **31/03/11** | **Chg. Q/Q** | | **Chg. Y/Y** | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | **Abs.** | **%** | **Abs.** | **%** |
| *Held For Trading (HFT)* [1] | 9,133 | 9,967 | 10,723 | 9,744 | 6,464 | -833.6 | -8.4% | 2,668.5 | 41.3% |
| *Available For Sale (AFS)* [2] | 25,007 | 22,905 | 23,980 | 24,935 | 21,642 | 2,102.8 | 9.2% | 3,365.1 | 15.5% |
| *Loans & Receivable (L&R)* [3] | 4,805 | 5,326 | 5,491 | 5,465 | 5,703 | -521.5 | -9.8% | -898.0 | -15.7% |
| **Total** | **38,945** | **38,198** | **40,193** | **40,145** | **33,810** | **747.6** | **2.0%** | **5,135.6** | **15.2%** |

(1) "Financial Assets Held for Trading" excluding "Loans" and net of the value of derivatives recognised under "Financial Liabilities held for Trading"

(2) "Financial Assets Held for Sale" excluding "Loans", including Equity Investments.

(3) Securities classified as "Loans and Receivables" posted to "Loans to Customers" e "Loans to banks".

The portfolio's exposure is concentrated in Italian government bonds, mainly allocated to the AFS portfolio and, to a lesser degree, the HFT component. The breakdown reflects the Group's policy of boosting interest income through investments, both strategic and short-term, within a market framework that continues to be characterised by a steep yield curve.

Regarding the treatment of market risk in the Group's "Regulatory Trading Book", which is operationally monitored using VaR (Value-at-Risk), please refer to the chapter on "Integrated risk and capital management".

## INTERBANK POSITION

As at 31 March 2012, the Group's net interbank position reached EUR 30.5 **bln in deposits**, up by approx. EUR 4.8 bln on 31/12/2011 and approx. EUR 20.9 bln compared to 31/03/2011. The increase registered for the quarter was attributable to the simultaneous reduction in customer deposits, represented by repo transactions primarily with institutional counterparties. The quarterly trend is **primarily to be seen in correlation with the decline in interbank loans (approx. -6 bln)** as compared to the peak reached at the end of December, **when temporary surpluses of liquidity were deposited. Interbank funding**, in turn, **fell by approx. EUR 1.5 bln** on 31/12/2011**,** owing to lower level of participation in ECB auctions:

**INTERBANK BALANCES (end-of-period; EUR mln)**

| | 31/03/12 | 31/12/11 | (*) 31/03/11 | Chg. Q/Q Abs. | Chg. Q/Q % | Chg. Y/Y Abs. | Chg. Y/Y % |
|---|---|---|---|---|---|---|---|
| Loans to banks | 16,101 | 22,395 | 14,913 | -6,294 | -28.1% | 1,188 | 8.0% |
| Deposits from banks | 46,594 | 48,094 | 24,536 | -1,500 | -3.1% | 22,058 | 89.9% |
| **Net position (**)** | **-30,493** | **-25,699** | **-9,623** | **-4,795** | **18.7%** | **-20,870** | **216.9%** |

(*) Figures restated, where necessary, following clarifications provided by Bank of Italy regarding recognition of securities lending with collateral other than cash fully owned by the lender.

(**) Loans to banks/Deposits from banks are inclusive of loans to banks/deposits from banks comprised in financial assets/liabilities held for trading.

At the end of March 2012 the short-term and structural liquidity position showed a **non-committed counterbalancing capacity of approx. EUR 12.4 bln** (approx EUR 9.5 bln as at 31/12/2011).

## CAPITAL FOR REGULATORY PURPOSES AND CAPITAL RATIOS

In continuity with the approach adopted at the end of 2011, **regulatory capital** was estimated on the basis of calculation metrics introduced by Basel 2 (Advanced Internal Rating Based (IRB) and Advanced Measurement Approach (AMA) methodologies for legal entities and portfolios that are subject to validation).

**As at 31/03/2011 the Group's regulatory capital** amounted to approx. EUR 16,351 mln, with **Tier 1 at 11.3%** (11.1% as at 31 December 2011) and **Total Capital Ratio at 15.9%** (15.7% as at 31 December 2011).

**Regulatory capital (EUR mln)**

| | 31/03/12 | 31/12/11 | Chg. % |
|---|---|---|---|
| Tier I capital | 11,607 | 11,649 | -0.35% |
| Tier II capital | 5,255 | 5,357 | -1.91% |
| Items to be deducted | 511 | 502 | 1.65% |
| **Total regulatory capital (before Tier III)** | 16,351 | 16,503 | -0.92% |
| **Total regulatory capital** | 16,351 | 16,503 | -0.92% |
| **Tier 1 Ratio** | 11.3% | 11.1% | |
| **Total Capital Ratio** | 15.9% | 15.7% | |

In particular, **Tier I** came to approx. EUR 11,607 mln, down by approx. EUR 42 mln on 31.12.11 (when it was 11,649 mln). Reductions in Tier 1 include, in particular, the combined effect of the increase in deductions from the surplus of expected losses against total Group adjustments, partially offset by the P&L results for the period.

**Tier II** stood at approx. EUR 5,255 mln, down from the end of 2011 (approx. 5,357 million) largely owing to growing surplus of expected losses. The items to be deducted from Tier 1 and Tier 2 were slightly up compared to year end, amounting to EUR 511 mln.

Risk Weighted Assets (RWA) came to approx. EUR 103 bln as at 31 March 2012 (approx. EUR 105 bln as at 31/12/11). The reduction in the quarter can be justified by both the trends observed in credit risk and the reduction in floor level on Basel 1 requirements.

# INCOME STATEMENT

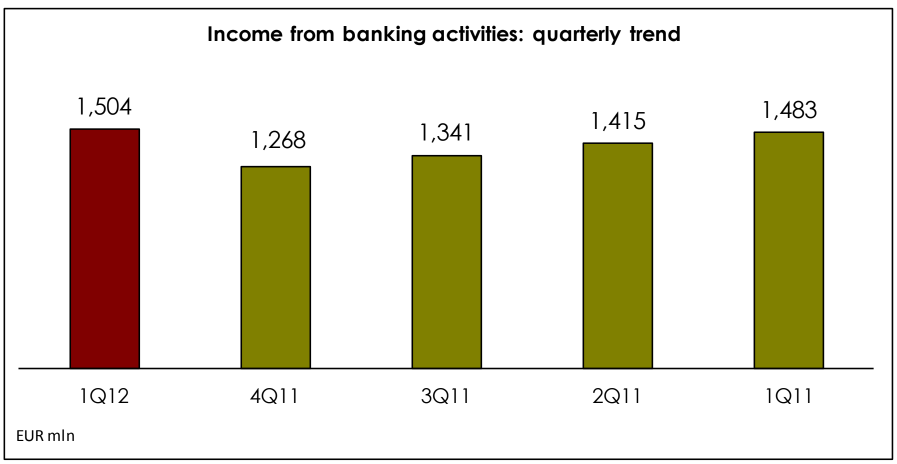
## TRENDS IN OPERATING INCOME: NET INCOME FROM BANKING AND INSURANCE ACTIVITIES:

**Income from banking and insurance** totalled approx. **EUR 1,504 mln** as at 31 March 2012, up on Q4 2011 (+ EUR 235.8 mln; +18.6%), on the back of good results from the management of financial assets and a pick up in net fee and commission income. With respect to the same period of last year, the aggregate shows a 1.4% increase.

**FINANCIAL AND INSURANCE INCOME (EUR mln)**

| | 1Q12 | (*) 4°Q11 | (*) 3°Q11 | (*) 2°Q11 | (*) 1°Q11 | Chg. QoQ Abs. | Chg. QoQ % | Chg. YoY Abs. | Chg. YoY % |
|---|---|---|---|---|---|---|---|---|---|
| Net interest income | 893.5 | 930.9 | 874.7 | 817.8 | 876.8 | -37.4 | -4.0% | 16.8 | 1.9% |
| Net fee and commission income | 434.1 | 409.7 | 457.4 | 460.2 | 473.7 | 24.4 | 6.0% | -39.5 | -8.3% |
| **Income from banking activities** | **1,327.7** | **1,340.6** | **1,332.2** | **1,278.0** | **1,350.4** | **-12.9** | **-1.0%** | **-22.8** | **-1.7%** |
| Dividends, similar income and gains (losses) on equity investments | 10.6 | 9.4 | 15.4 | 20.1 | 27.4 | 1.2 | 12.9% | -16.7 | -61.2% |
| Net trading income (loss) / valuation of financial assets | 161.9 | -51.0 | -5.6 | 118.5 | 103.9 | 212.9 | n.s. | 58.0 | 55.8% |
| Net hedging income (loss) | 3.6 | -30.9 | -0.8 | -1.1 | 0.9 | 34.6 | n.s. | 2.8 | n.s. |
| **Financial and insurance income** | **1,503.8** | **1,268.1** | **1,341.1** | **1,415.4** | **1,482.6** | **235.8** | **18.6%** | **21.3** | **1.4%** |

(*) Figures restated, where necessary, following clarifications provided by Bank of Italy regarding recognition of securities lending with collateral other than cash fully owned by the lender. Since the impact of these lending transactions was of low significance until October 2011, adjustments to the quarters were made by a linear estimate of the 2010 effect.




A closer look at the aggregate reveals the following:

- **Income from banking activities** at the end of March 2012 reached approx. **EUR 1,328 mln** (approx. 1,350 mln in Q1 2011; -1.7%) continuing to be substantially in line with Q4 2011in terms of days on a like-for-like basis. More specifically:
  - **<u>Net interest income</u>** amounted to approx. **EUR 894 mln**, down 4% on Q4 2011 but up 1.9% on 31/03/2011. Developments with respect to the previous quarter are primarily to be seen in correlation with non-recurring components (for an amount of approx. EUR 25 mln) affecting the fourth quarter of 2011 and the «short-month effect» (one business day less has an impact of approx. EUR 10 mln). **Excluding these effects, net interest income would show a substantially stable trendline.** The negative impact from reduced average lending volumes in connection with 2011 end-of-quarter trends and higher costs of bond issues and time deposits, was offset by the positive effect from the repricing of on-demand/short-term loans and a shift from market funding to less expensive funding sources.

- **Net fee and commission income** totalled approx. **EUR 434 mln**, up 6% on Q4 2011 mainly as a result of revenues from the placement of insurance products (three times those of the previous quarter), which more than offset the downturn in fees on lending. As compared to 31/03/2011, net fees and commissions showed an 8.3% decline, primarily due to institutional funding charges (particularly commissions on state-guaranteed 'Monti bonds') as against a substantially stable trend in revenues from consumer and corporate funding and lending.

- **Net trading income (loss)/valuation of financial assets** totalled around **EUR 162 mln as at 31 March 2012**, up significantly on Q4 2011when it stood at - EUR 51 mln. Approximately EUR 140 mln came from **trading**, which benefitted from market recovery and spread reduction, whereas **gains (losses) on disposal/repurchase of loans and financial assets available for sale**, which came to EUR 19 mln (24.3 mln in Q4 2011), is largely attributable to capital gains from the disposal of assets (particularly equity securities) in the AFS portfolios. **Net profit/loss on financial assets and liabilities designated at fair value** came to EUR 2.8 mln (5.8 mln in Q4 2011).

**NET TRADING INCOME (LOSS) / VALUATION OF FINANCIAL ASSETS (in millions of euros)**

| | | | | | | Chg. QoQ | | Chg. YoY | |
|---|---|---|---|---|---|---|---|---|---|
| | 1Q12 | 4°Q11 | 3°Q11 | 2°Q11 | 1°Q11 | Abs. | % | Abs. | % |
| Net profit (loss) from trading | 140.1 | -81.2 | -37.8 | 25.5 | 84.1 | 221.2 | n.s. | 56.0 | 66.5% |
| Gains (losses) on disposal/repurchase of loans, financial assets available for sale and financial liabilities | 19.1 | 24.3 | 10.7 | 96.6 | 40.1 | -5.3 | -21.6% | -21.0 | -52.4% |
| Net profit (loss) from financial assets and liabilities designated at fair value | 2.8 | 5.8 | 21.5 | -3.6 | -20.3 | -3.1 | -52.5% | 23.1 | n.s. |
| **Net profit (loss) from trading** | **161.9** | **-51.0** | **-5.6** | **118.5** | **103.9** | **212.9** | **n.s.** | **58.0** | **55.8%** |

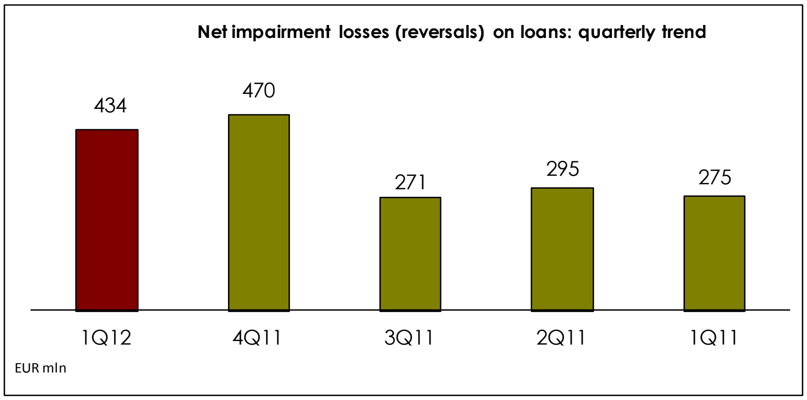
Net income from banking and insurance activities also includes:

- **Dividends, similar income and gains (losses) on investments, which** showed a positive balance of **EUR 10.6 mln** (vs. EUR 27.4 mln as at 31/03/2011; EUR 9.4 mln in Q4 2011), primarily attributable to gains from investments consolidated at equity with the largest share coming from insurance (AXA-MPS: EUR 8.5 mln).

- **Net profit (loss) from hedging** which stood at **EUR 3.6 mln** (EUR 0.9 mln in Q1 2011) up on the previous quarter when the figure was approx. 31 mln.

## THE COST OF CREDIT: NET IMPAIRMENT LOSSES (REVERSALS) ON LOANS AND FINANCIAL ASSETS

Against revenues from the disbursement of loans, in Q1 2012 the Group posted **approx. EUR 434 mln in net adjustments for impairment of loans** (-7.7% on Q4 2011). The amount was primarily attributable to an increase by roughly EUR 640 mln in the gross stock of non-performing loans (depreciated on average by 61%) and approx. EUR 450 mln in the gross stock of sub-standard loans (subject to a depreciation of around 16%, in connection with the high percentage of 'objective sub-standard loans' and retail mortgages). Within a consistently rigorous framework in terms of provisions, the ratio of annualised loan loss provisions over total loans to customers for the period is expressive of a provisioning rate of 118 bps, higher than the 2011 full-year rate of 89 bps but lower than the 128 bps rate registered in Q4 2011, which is expected to decrease in the second half of the year.




**Net impairment losses (reversals) on financial assets** amounted to **- EUR 5.6 mln** (- EUR 4.1 mln as at 31/03/2011; -EUR 57.1 mln in Q4 2011) mainly due to the depreciation of listed equity securities and units in UCITS classified as AFS, subject to impairment.

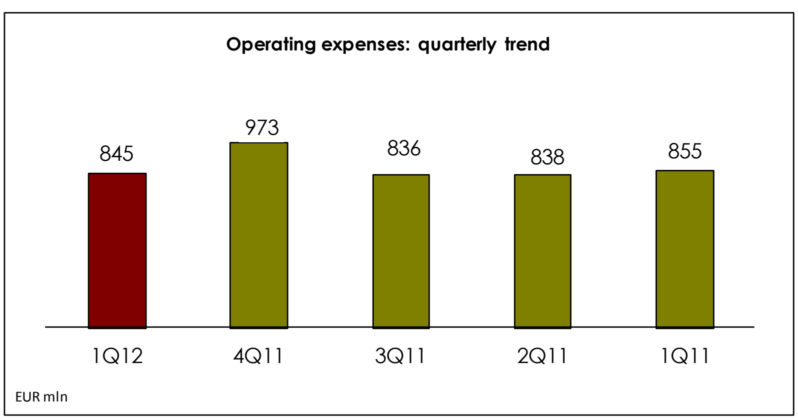
Consequently, **income from banking and insurance totalled approximately EUR 1,064 mln**, down 11.6% on the same period of last year but up significantly on Q4 2011 (+43.7%).

## COST OF OPERATIONS: OPERATING EXPENSES

**Operating expenses** totalled approximately **EUR 845 mln** in the first quarter of 2012, down 1.2% on the same period of last year (-3.5% as compared to the quarterly average value in 2011). Tracking of the aggregate confirms that the Group's strategy is aimed at further improving operational efficiency, albeit against the backdrop of a regulatory framework that is unfavourable in terms of both personnel and other administrative expenses.

**OPERATING EXPENSES (EUR mln)**

| | 1Q12 | 4°Q11 | 3°Q11 | 2°Q11 | 1°Q11 | Chg. QoQ Abs. | Chg. QoQ % | Chg. YoY Abs. | Chg. YoY % | Avg 2011 | 1°Q12 vs Avg 2011 Abs. | 1°Q12 vs Avg 2011 % |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Personnel expenses | 531.1 | 607.1 | 526.1 | 518.1 | 543.5 | -76.1 | -12.5% | -12.5 | -2.3% | 548.7 | -17.7 | -3.2% |
| Other administrative expenses(*) | 268.0 | 292.4 | 269.2 | 280.3 | 270.2 | -24.4 | -8.3% | -2.2 | -0.8% | 278.0 | -10.0 | -3.6% |
| **Administrative expenses** | **799.1** | **899.6** | **795.3** | **798.4** | **813.7** | **-100.5** | **-11.2%** | **-14.7** | **-1.8%** | **826.8** | **-27.7** | **-3.4%** |
| Net losses/reversal on impairment on property, plant and equipment / Net adjustments to (recoveries on) intangible assets | 46.0 | 73.9 | 40.8 | 39.2 | 41.5 | -27.9 | -37.7% | 4.5 | 10.9% | 48.9 | -2.8 | -5.8% |
| **Operating expenses** | **845.1** | **973.5** | **836.2** | **837.6** | **855.2** | **-128.4** | **-13.2%** | **-10.1** | **-1.2%** | **875.6** | **-30.5** | **-3.5%** |




In particular:

A) **Administrative expenses** amounted to approx. EUR 799 mln (-3.4% on the quarterly average in 2011; -1.8% on 31/03/2011) due to:

- **Personnel costs**, amounting to roughly **EUR 531 mln**, were down 3.2% on average levels in 2011 (-2.3% YoY). Results in this area benefitted from the structural effects of the headcount reduction/redeployment process implemented in the course of 2011 together with savings on non-structural variables, which more than offset the natural growth of base salaries;
- **Other administrative expenses** (after stamp duty and customer expense recovery), amounting to roughly **EUR 268 mln**, were down 3.6% on average levels in 2011 (-0.8% YoY), thanks to targeted cost management actions, additional initiatives to reduce discretional spending and lower costs for certain production-related items .

B) **net adjustments to PPE and intangible assets** amounted to approx. **EUR 46 mln,** up 10.9% compared to 31 March 2011.

**As a result of the above, Net Operating Income came to approximately EUR 219 mln, a noticeable improvement on Q4 2011 (when it was around -EUR 233 mln). The cost-to-income ratio stood at 56.2%, a significant improvement (-740 bps) from the end of 2011 (63.6% as at 31/12/11).**

## NON-OPERATING INCOME, TAX AND NET PROFIT (LOSS) FOR THE PERIOD

**Profit for the period** included:

- **Net provisions for risks and charges and other operating expenses (income)**, which includes provisions totalling approx. - EUR 18.9 mln, down significantly on the previous quarter (-86%) primarily on the back of lower appropriations for lawsuits, clawback actions and contractual obligations. The aggregate shows a decline of 26.4% compared to 31/03/2011. Other operating expenses (income), amounting to - EUR 9.6 mln, was down 85% on Q4 2011 and 25% on 31/03/2011), mainly as a result of charges in connection with lawsuit settlements and contingent liabilities.
- **Gains on investments**, totalling approx. EUR 4 mln;
- **Integration costs/ one-off charges**, came to approx. - EUR 1.1 mln and were related to incentive-based severance under early retirement schemes.
- **Gains on disposal of investments**, for an amount of approx. EUR 0.3 mln.

As a result of the above, **profit (loss) before tax on income from continuing operations amounted to approx. EUR 193.7 mln** as at 31 March 2012 (EUR 310.3 mln as at 31/03/2011; - EUR 453.2 mln in Q4 2011).

**PROFIT (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS (in EUR mln)**

| | | | | | | Chg. QoQ | | Chg. YoY | |
|---|---|---|---|---|---|---|---|---|---|
| | 1Q12 | 4°Q11 | 3°Q11 | 2°Q11 | 1°Q11 | Abs. | % | Abs. | % |
| **Net operating income** | **219.1** | **-232.8** | **162.0** | **262.9** | **348.7** | **452.0** | **n.s.** | **-129.6** | **-37.2%** |
| Net provisions for risks and charges and other operating expenses/income | -28.5 | -200.7 | -66.1 | -69.7 | -38.6 | 172.1 | -85.8% | 10.1 | -26.1% |
| Gains (losses) from Investments | 4.0 | -9.5 | -7.8 | -7.1 | 0.1 | 13.5 | n.s. | 3.9 | n.s. |
| Integration costs / one-off charges | -1.1 | -10.1 | -15.7 | | | 9.0 | -89.5% | -1.1 | n.s. |
| Profit (loss) before tax from continuing operations | | -0.4 | | | | 0.4 | n.s. | | n.s. |
| Gains (losses) on disposal of investments | 0.3 | 0.3 | 33.9 | 0.3 | 0.1 | -0.1 | -25.6% | 0.1 | n.s. |
| **Profit (Loss) before tax from continuing operations** | **193.7** | **-453.2** | **106.3** | **186.4** | **310.3** | **647.0** | **n.s.** | **-116.5** | **-37.6%** |

Profit (loss) for the period was also affected by the following items:

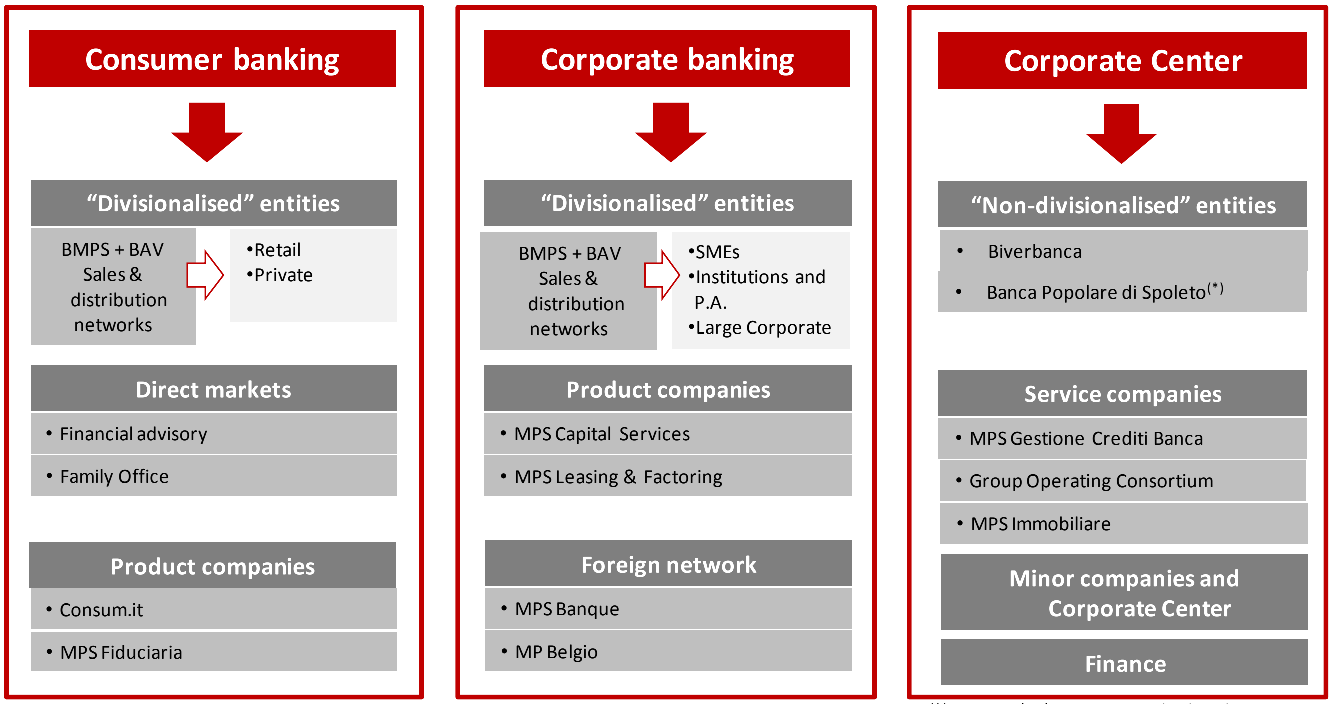
- **Tax expense (recovery) on income for the period from continuing operations** came to approximately - EUR 122 mln (approx. -145 mln in Q1 2011).

- **profit for the period attributable to non-controlling interests** stood at EUR -1.7 mln (-1.9 mln in Q1 2011).

**The Montepaschi Group's net profit for the period before Purchase Price Allocation (PPA) came to EUR 70.4 mln (EUR 166.1 mln as at 31/03/2011). Considering the net effects of PPA (-15.9 mln), net profit for the period came to EUR 54.5 mln (vs. 140.3 mln in Q1 2011).**

## Financial highlights and main activities of the Business Segments

In the interest of identifying its reportable Business Segments as provided for by IFRS 8, the Montepaschi Group adopted a business approach that selected the main business sectors into which the Group's business operations are organized (and whose results are periodically reported to the highest decision-making levels) as the basis of representation for a breakdown of its income/capital aggregates. Consumer banking, Corporate banking and the Corporate Centre. These business segments coherently aggregate the Group's different organisational units as at 31/03/2012, as outlined below (for further details please refer to the 2011 Annual Report - Consolidated Notes - Part L "Segment reporting"):



(*) Up to 31/03/2011; Consumer banking division

The following table summarises the main economic and financial components within the Group's Business Segments in the first quarter of 2012:

**SEGMENT REPORTING - Primary segment**

(EUR mln)

| March 2012 | Consumer Banking | % chg yoy | Corporate Banking | % chg yoy | Corporate Center | % chg yoy | Total Reclassified Group | % chg yoy |
|---|---|---|---|---|---|---|---|---|
| **PROFIT AND LOSS AGGREGATES** | | | | | | | | |
| **Financial and insurance income** | 857.7 | 13.3% | 620.2 | 14.4% | 25.9 | -85.9% | 1,503.8 | 1.4% |
| Net impairment losses (reversals) on loans and financial assets (*) | 244.4 | 141.3% | 249.0 | 34.4% | -53.7 | n.s. | 439.6 | 57.8% |
| Operating expenses | 616.8 | -0.3% | 186.8 | -1.2% | 41.5 | -12.4% | 845.1 | -1.2% |
| **Net operating income** | -3.6 | -109.7% | 184.5 | 9.9% | 38.2 | n.s. | 219.1 | -37.2% |
| **BALANCE SHEET AGGREGATES** | | | | | | | | |
| Interest-bearing loans to customers | 62,116 | -4.6% | 69,487 | -4.5% | 8,337 | 165.0% | 139,939 | -0.8% |
| Deposits from customers and debt securities issued - Distribution network(**) | 76,354 | -1.1% | 22,776 | -14.9% | 38,195 | -9.8% | 137,325 | -6.1% |
| Indirect funding - Distribution network | 68,469 | -3.9% | 41,129 | -10.8% | 30,980 | 80.3% | 140,578 | 4.5% |
| *Assets under management* | 41,707 | -6.4% | 1,578 | -24.8% | 3,583 | n.s. | 46,868 | 1.0% |
| *Assets under custody* | 26,762 | 0.2% | 39,551 | -10.1% | 27,397 | 57.3% | 93,710 | 6.3% |
| **PROFITABILITY RATIOS** | | | | | | | | |
| Cost Income | 71.9% | | 30.1% | | | | 56.2% | |

(*) The value relating to the Corporate Centre includes writebacks not allocated to the Consumer and Corporate business segments

(**) Values relating to the Consumer banking division reflect data from the BMPS and BAV distribution networks

As of 2012, as part of the Segment Reporting process, certain innvoations were introduced with the aim of more accurately defining the performance of the various business units in relation to the Group's overall results. More specifically, novelties concern the following cost components:

- **Financial expenses**: the rules applied to determine the internal cost of funding have been updated, with particular reference to the product companies (of both the Consumer and Corporate banking divisions) and to the banking book;
- **Operating expenses**: techniques used to allocate "non-itemised" costs to the divisionalised entities of the Consumer and Corporate banking divisions were fine-tuned, in order to ensure a more accurate allocation of Group costs to respective profit centres.

The changes introduced to operating costs have resulted in the need to restate values for 2011 so as to allow for a like-for-like comparison of the items in question.

Furthermore, as already explained in the Consolidated Report on Operations as at 31/12/2011, in the second quarter of 2011 the investee, Banca Popolare di Spoleto, was excluded from the organisational scope of the Consumer banking division and its results – consolidated using the proportional method - are now allocated to the Corporate Centre. Given this variation, data as at 31/03/2011 was recalculated and is thus different from the figures published in the Consolidated Quarterly Report as at 31 March 2011.

## Consumer Banking

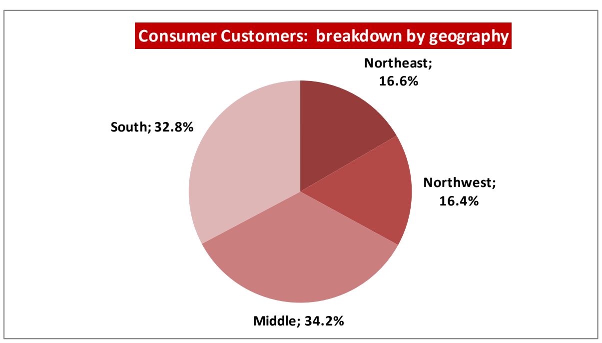
### Areas of business

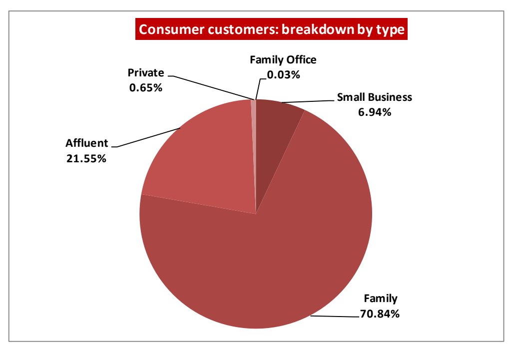
- Funding from and provision of financial and non-financial services (among other things through the management of electronic payment instruments) to Retail customers (Family, Affluent and Small Business segments);
- Consumer lending;
- Services and products for *Private* customers in the areas of wealth management and financial planning, advisory on non-strictly financial services (*tax planning, real estate, art & legal*) and financial advisory.

### Target customers

The Consumer banking division includes **over 5.8 million customers,** distributed across the country with a stronger presence in the areas of central Italy. Within this client segment, the largest share (70.8%) is made up by Consumer households (**Family**), who mainly apply for loans (consumer credit and mortgages) and investment services for smaller portfolios. This is followed by clients with larger portfolios (21.6%) who require a more customised approach (**Affluent**), small businesses (**Small Business,** 6.9%) and high-net worth (**Private**) individuals who make up 0.6% of total clients.

To provide a complete overview of the Consumer banking division, the "**Family Office**" segment specifically involves a "direct management" of the customer so as to create and consolidate long-term relations with high-worth families while offering a tailored service that covers all of their financial and non-financial assets and provides "value-protection" through careful planning of inter-generational transfers.



**Profit & loss and balance sheet results**

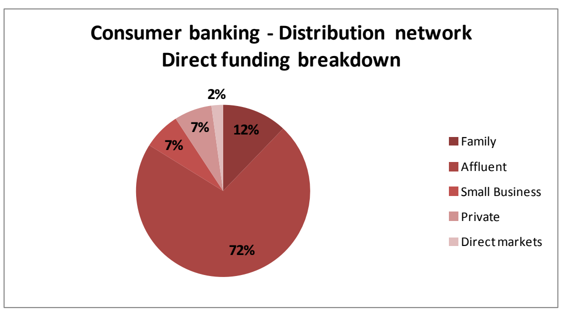
At the end of March 2012, the distribution network of the Consumer Banking division posted approx. EUR **145 bln** in **total funding**, an increase on 2011 year-end levels (+0.9%) though down on 31 March 2011 (-2.5%). **Direct funding**, mainly from on-demand items and the placement of bonds, stood at **EUR 76.4 bln**, falling just below levels at December 2011 and down 1.1% from 31/03/2011. The trend is to be traced back to the reduction in deposits and short-term funding, only partially offset by the increase in medium-long term investments. **Indirect funding**, which came to **EUR 68.5 bln**, benefitted from the revival of financial markets in the quarter, which had a positive impact on the value of asset management products and on the development of assets under custody. A comparison with the previous year shows a decline of 3.9% in indirect funding, attributable to assets under management.

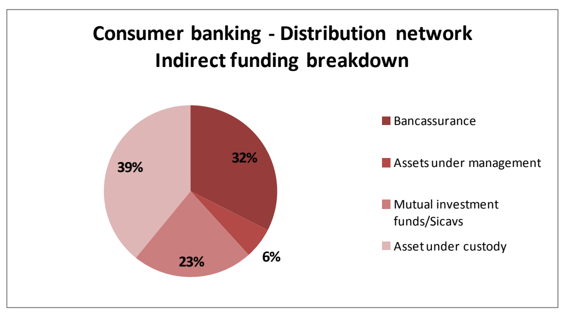
In terms of credit management, **interest-bearing loans**, which stood at approx. **EUR 62 bln**, remain substantially in line with levels at the end of 2011 (- EUR 626 mln; -1%), while they were down from the previous year (-4.6%), largely owing to the falling demand for credit by households and small businesses which reverberated into a more marked reduction in forms of medium-long term financing.

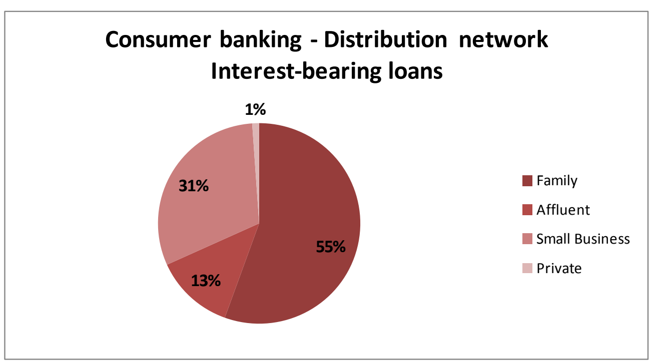
**CONSUMER BANKING - BALANCE SHEET AGGREGATES**

| *(million of Euro)* | **31/03/12** | **31/03/11** | **Var. a/a** |
|---|---|---|---|
| **DEPOSITS FROM CUSTOMERS AND DEBT SECURITIES ISSUED - DISTRIBUTION NETWORK(** | **76,354.1** | **77,194.5** | **-1.1%** |
| *Assets under management* | *41,706.9* | *44,554.5* | *-6.4%* |
| *Assets under custody* | *26,762.4* | *26,716.1* | *0.2%* |
| **INDIRECT FUNDING - DISTRIBUTION NETWORK** | **68,469.2** | **71,270.6** | **-3.9%** |
| **TOTAL FUNDING - DISTRIBUTION NETWORK** | **144,823.3** | **148,465.1** | **-2.5%** |
| **INTEREST-BEARING LOANS TO CUSTOMERS** | **62,115.7** | **65,108.0** | **-4.6%** |

(*) Franchise of Banca Monte dei Paschi di Siena and Banca Antonveneta



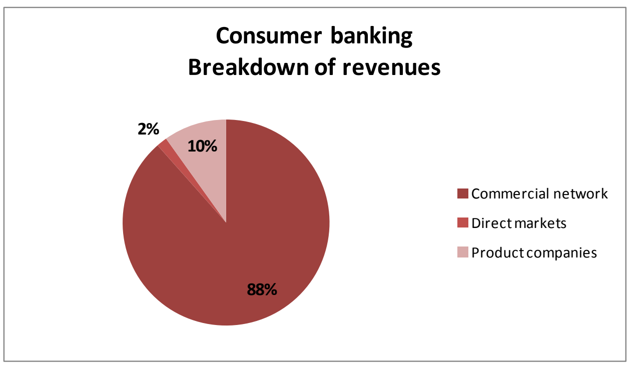

With regard to economic performance, in the first quarter of 2012 the Consumer banking division achieved **total revenues** of approx. **EUR 858 mln**, a 13.3% improvement on the level reached in the same period of 2011. The aggregate includes an increase in net interst income, owing largely to the repricing of interest-bearing assets, the substantial stability of net fee and commission income (+0.3%)

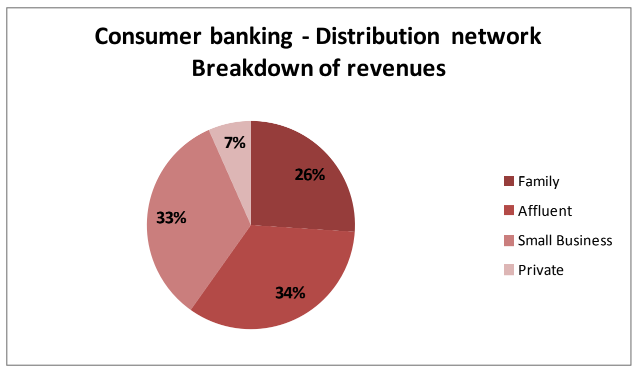
boosted by higher revenues from the placement of asset management products, and the greater input from "other revenues" (EUR 53.6 mln vs. EUR 6.3 mln in Q1 2011).

With regard to cost components, there was a reduction in operating costs (-0.3%) and a significant growth in net impairment (losses) reversals on loans and financial assets which reflect the ongoing difficult economic cycle.

As a result of the above components, in the first quarter of 2012 the Consumer banking division posted a **Net Operating Income** of **- EUR 3.6 mln**, with a **cost-to-income ratio of 71.9%**.

| CONSUMER BANKING - PROFIT AND LOSS AGGREGATES | | | |
|---|---|---|---|
| *(million of Euro)* | 31/03/12 | 31/03/11 | Var. a/a |
| *Net interest income* | *482,3* | *429,8* | *12,2%* |
| *Net fee and commission income* | *321,8* | *320,8* | *0,3%* |
| *Other income* | *53,6* | *6,3* | *749,6%* |
| **INCOME FROM BANKING AND INSURANCE** | **857,7** | **756,9** | **13,3%** |
| *Net impairment losses (reversals) on loans and financial assets* | *244,4* | *101,3* | *141,3%* |
| *Operating expenses* | *616,8* | *618,7* | *-0,3%* |
| **NET OPERATING INCOME** | **-3,6** | **36,9** | **-109,7%** |




| PERFORMANCE OF COMPANIES REPORTING TO THE CONSUMER BANKING DIVISION | | | |
|---|---|---|---|
| *(million of Euro)* | 31/03/12 | 31/03/11 | Var. a/a |
| **CONSUM.IT (net profit for the period)** | **-15.3** | **13.4** | **-214.2%** |
| **MPS FIDUCIARIA (net profit for the period)** | **0.3** | **0.4** | **-6.3%** |

## Sales & distribution activities and innovation in the offer of products and services

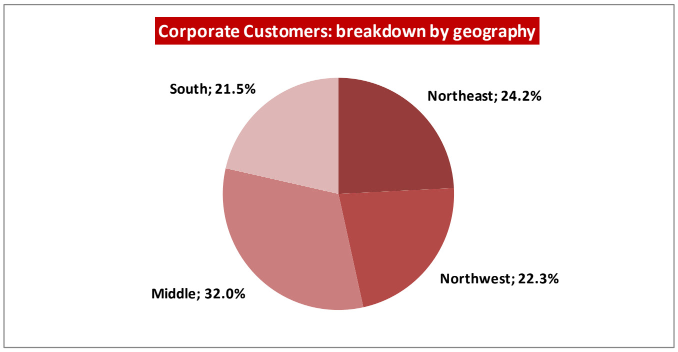
Within a context characterised by a persisting economic crisis, tensions on the financial markets, reduced purchasing power of household salaries, lower investments by small businesses and new regulations (taxes, pensions, traceability of payments, etc.), the Consumer banking division pursued its sales and distribution strategy by operating along the guidelines summarised in the table below, which also illustrates the key initiatives implemented during the quarter:

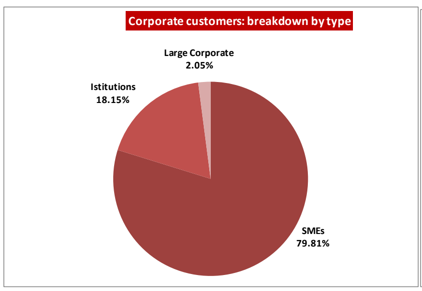
| Sales and distribution strategy | Key initiatives in the quarter |
|---|---|
| Development of core banking | • Launch of the referral initiative "Uno di Noi" (One of Us), allowing Group employees to provide friends and relatives with a form enabling them to sign up for current accounts and ancillary services at particularly favourable conditions;<br>• Initiatives to meet the needs of pensioners and Public Administration employees who, as a result of newly introduced regulations, will need to have their pensions channelled to bank accounts or prepaid cards.<br>• Marketing of Conto Italiano Zip – Base, a low-cost account for new traditional low-transaction customers.<br>• Marketing campaigns for different forms of deposit (repos, time deposits, certificates of deposit) with priority given to initiatives aimed at inflows of new funds.<br>• Marketing of "Conto Italiano di Deposito".<br>• Direct marketing sales campagins, with the marketing of AXA-MPS insurance products, which registered positive results both in terms of data processed and in terms of useful contacts and sales (with a redemption of between 8% and 10% depending on the MDS considered). |
| Protection and Pension | • Marketing of automobile liability insurance policies through the Group's franchise.<br>• The AXA MPS Personal and Property Protection insurance offering was confirmed to cover for property damage of businesses, personal damage caused to the "key man" and to employees as well, through the "Infortuni Business" (Business Injury) policy for protection from occupational risk.<br>• New product "AXA MPS Mia Protezione", an insurance solution for consumer banking customers and families in general, which strongly breaks from the past insofar as it adopts a "customer oriented" approach as opposed to a "product-driven" one. With a single contract, up to a maximum 0f 5 people and/or 5 properties may be insured, with the option to choose ceilings that are flexible and adaptable to individual needs.<br>• New product "AXA MPS Pronto Tutela Plus", a damage insurance policy which upgrades some pre-existing guarantees.<br>• New product "AXA-MPS Pronto Vita", whose first premium is offered free of charge, which, in the event of premature death of the insured party for any reason, guarantees the intended beneficiaries a prefixed principal amount. Insured capital is doubled in the event of death resulting from a car accident. |
| Credit support and quality of lending | • Support to customers in temporary financial difficulty, through the Group's participation in banking system initiatives and the implementation of independently developed projects.<br>• Initiatives aimed at increasing short-term consumer lending.<br>• Continuation of actions aimed at safeguarding Credit Quality.<br>• Hedging of financial risks to protect small-sized enterprises from unfavourable market rate trends. The internal sales policy provides for the underwriting of OTC derivative contracts to be strictly correlated with the underlying loans in terms of duration, nominal amount and interest rate index.<br>• New product, "Mutuo Natura", a fixed rate and variable mortgage loan for the purchase or restructuring of high energy performance buildings, in compliance with bio-energy criteria. The loan in question was conferred the top "Product Innovation Award" (category: Loans) by the Italian financial weekly "Milano Finanza". |
| Promoting e-money instruments | • Promoting the use of payment cards and related functions available on Group ATMs, partly through sales agreements with leading industry players. As at 31/03/2012, the total number of payment cards distributed by Banca Monte dei Paschi di Siena, Banca Antonveneta and Biverbanca stood at approx.3.4 mln (+2% from 31/12/2011). |

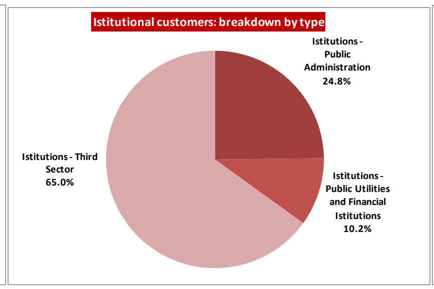
| | |
|---|---|
| | • Promoting the use of POS terminals, whose functions are being further implemented with the addition of new services. |
| Wealth management and advisory | • Initiatives aimed at boosting the funding capacity of the Small Business segment.<br>• Use of the new platform, *MPS Advice*. Approximately 64,700 advanced advisory proposals were formalised in the first quarter of 2012, in line with figures from the same period in the previous year.<br>• Advisory in the area of high net worth financial planning and "inter-generational" transfers with reference to customers belonging to the "family office" segment.<br>• Use of the Financial Advisory channel for the acquisition of market shares on Affluent and Upper Affluent customers. |

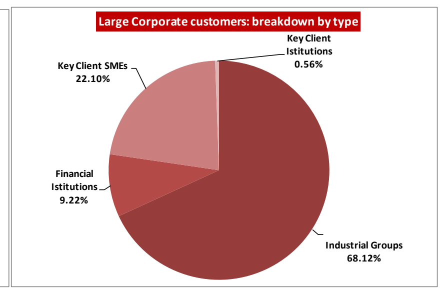
## CORPORATE BANKING

The Corporate banking division oversees the Group's business strategies targeted to Small/Medium Enterprises, Institutions and Public Administration as well as legal persons consisting in Large Corporate groups and financial institutions having a particularly significant annual turnover or otherwise characterised by specific needs and operational complexities. As at 31 March 2012 the customerbase consisted in **78,400 clients** (primarily SMEs), mainly concentrated in Northern Italy but with a significant footprint in Central Italy also.




The division is active in corporate banking through its offer of several financial products and services in terms of *lending* as well as forms of strategic collaboration which include trade associations and Confidi credit guarantee consortia.

The placement of products and delivery of services to target customers are ensured through the Group's distribution network which, for more highly-specialised offerings, relies on the support of the product companies which report directly to the division: MPS Capital Services (corporate finance, capital markets and structured finance) and MPS Leasing & Factoring (specialised in the offer of leasing and factoring solutions for businesses).

The Corporate banking division is also responsible for the activities carried out by banks and branches abroad to support the operations of domestic customers in the foreign markets (especially in emerging or developing countries), with particular reference to the development and completion of internationalisation projects for Small and Medium Enterprises.

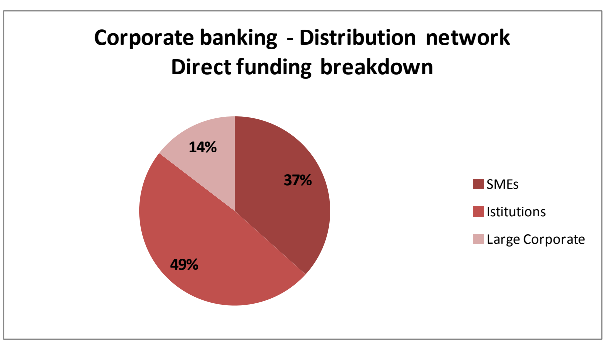
## Profit & loss and balance sheet results

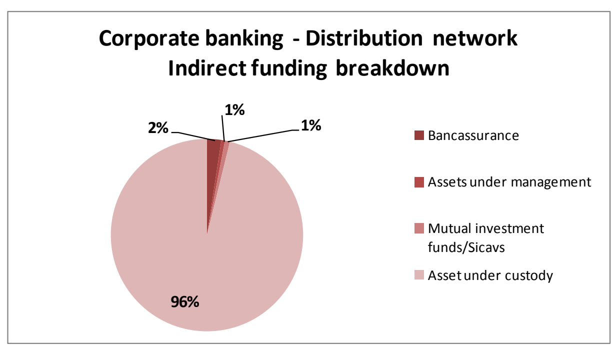
As at 31 March 2012, volumes of **total funding with Consumer and Corporate customers** amounted to approx. **EUR 64 bln**, up 3.7% from the end of 2011 although down on the previous year (-12.3%). **Direct funding**, which accounts for approx. **EUR 23 bln**, increased over the quarter (+4.8%) thanks to on-demand and short-term funding, the latter of which was propped up by the operations of Large Corporates. Compared with the previous year, a decline of 14.9% was registered for direct funding volumes owing to the fall in short-term investments. **Indirect funding**, consisting largely in assets under custody, stood at approx. **EUR 41 bln** as at the end of March, down from 31/03/2011 (-10.8%), reflecting, in particular, the downturn in operations with Large Corporates, though some signs of recovery were evident in the quarter which saw an increase in volumes of 3% as compared to 31/12/2011.

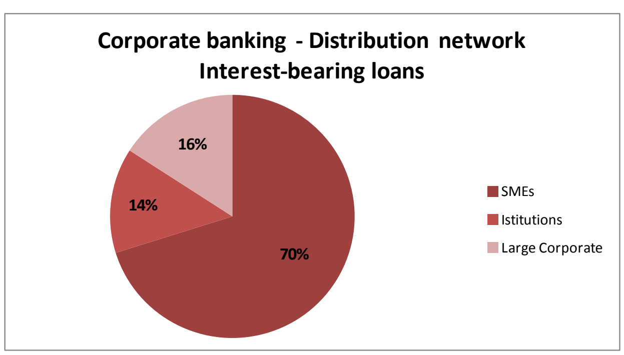
With regard to credit activities, **interest-bearing loans** for the Corporate division rose 2% in the first quarter to stand at **EUR 69.5 bln** (-4.5% from the previous year) on the back of short-term funding to SME customers.

| CORPORATE BANKING - BALANCE SHEET AGGREGATES | | | |
|---|---|---|---|
| *(million of Euro)* | 31/03/12 | 31/03/11 | Var. a/a |
| **DEPOSITS FROM CUSTOMERS AND DEBT SECURITIES ISSUED - DISTRIBUTION NETWORK(*)** | **22,776.2** | **26,771.9** | **-14.9%** |
| *Assets under management* | *1,578.1* | *2,099.4* | *-24.8%* |
| *Assets under custody* | *39,550.6* | *43,993.4* | *-10.1%* |
| **INDIRECT FUNDING - DISTRIBUTION NETWORK** | **41,128.7** | **46,092.8** | **-10.8%** |
| **TOTAL FUNDING - DISTRIBUTION NETWORK** | **63,904.9** | **72,864.7** | **-12.3%** |
| **INTEREST-BEARING LOANS TO CUSTOMERS** | **69,486.9** | **72,748.5** | **-4.5%** |

(*) Franchise of Banca Monte dei Paschi di Siena and Banca Antonveneta



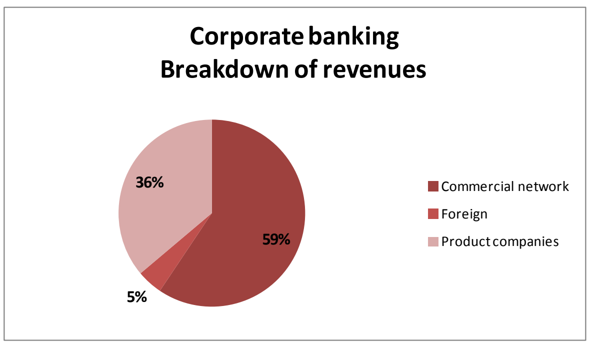



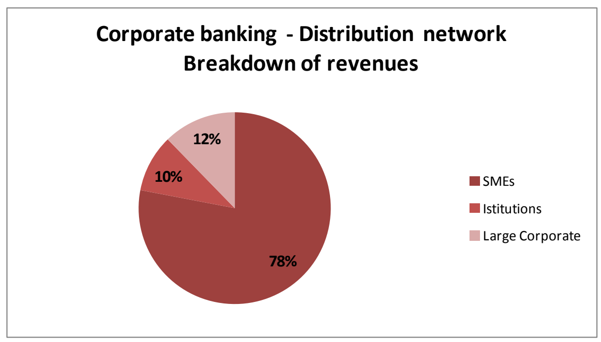



With reference to profit and loss aggregates, **total revenues** for the Corporate banking division came to approx. **EUR 620 mln** (+14.4% on the previous year) thanks to the growth in income from banking activities (+7.5% YoY) which was boosted by both net interest income (+12.7% YoY) and higher revenues from trading of MPS Capital Services. **Net operating income** totalled approx. **EUR 185 mln** (+9.9% YoY) reflecting the higher net impairment losses on loans and financial assets compared to the previous year, while there was a reduction in operating costs. The cost-to-income ratio for the sector stands at 30.1%.

**CORPORATE BANKING - PROFIT AND LOSS AGGREGATES**

| *(million of Euro)* | 31/03/12 | 31/03/11 | Var. a/a |
|---|---|---|---|
| *Net interest income* | *362,9* | *321,9* | *12,7%* |
| *Net fee and commission income* | *140,4* | *146,4* | *-4,1%* |
| *Other income* | *116,9* | *73,9* | *58,3%* |
| **INCOME FROM BANKING AND INSURANCE** | **620,2** | **542,2** | **14,4%** |
| *Net impairment losses (reversals) on loans and financial assets* | *249,0* | *185,2* | *34,4%* |
| *Operating expenses* | *186,8* | *189,2* | *-1,2%* |
| **NET OPERATING INCOME** | **184,5** | **167,8** | **9,9%** |




**PERFORMANCE OF COMPANIES REPORTING TO THE CORPORATE BANKING DIVISION**

| *(million of Euro)* | 31/03/12 | 31/03/11 | Var. a/a |
|---|---|---|---|
| **MPS CAPITAL SERVICES (net profit for the period)** | **60.7** | **54.4** | **11.4%** |
| **MPS LEASING & FACTORING (net profit for the period)** | **-1.3** | **4.5** | **-130.1%** |
| **MONTE PASCHI BANQUE (profit for the period before tax)** | **2.4** | **1.6** | **54.0%** |
| **MONTE PASCHI BELGIO (profit for the period before tax)** | **0.8** | **1.1** | **-32.3%** |

**Sales & distribution activities and innovation in the offer of products and services**

Against an economic-financial backdrop that is still particularly challenging, the Group continued to ensure its support to businesses, while seeking the best opportunities for capital growth in its activities with Institutions and Public Administration, despite regulatory changes that have somewhat hampered development. Within this framework, the initiatives implemented by the Corporate banking division in the quarter involved the following key drivers:

- sales coverage aimed at maintaining market shares in terms of volumes, partly through a selective acquisition approach, with a particular focus on the Mid Corporate segment;
- focus on unfunded loans, including signature loans and bankers acceptances;
- development and requalification of chanelled, advance cash flows by favouring, among other things, export advances in sectors deemed high priority;
- use, wherever possible, of third-party funds (eg. the "Cassa Depositi e Prestiti"- Loan and Deposit Fund) for the issue of medium-long term loans;
- use of collaterals (with preference given to Confidi guarantees) to support new loans and as a lever for credit risk monitoring;
- synergies with Group's product companies to encourage both the placement of "high-advisory" products (project financing, derivatives on commodities/non-speculative interest rates, advisory, factoring, leasing, financial products) and the acquisition of new customers.

Focus on the needs of the manufacturing industries is also confirmed by the Group's participation in the following banking system agreements, operational as of the second quarter of the current year:

- agreement "**New measures for credit to SMEs**", signed on 28 February 2012 by the Italian Banking Association, the Ministry of Economy and Finance, the Ministry of Economic Development and leading Trade Associations, designed to finance businesses that launch a capital strengthening process through loans proportional to their increase in equity;
- **Fourth ABI-CDP Agreement for loans to SMEs**, which allows for a new SME credit facility for the Italian banking system in the amount of EUR 10 bln, of which 8 bln for the financing of investment expenditures and the increase in working capital requirements of the entrepreneurial sector ( PMI-I Credit facility) and 2 bln for banks' purchasing of receivables owed to SMEs by the Public Administration ( PMI-C Credit facility);
- Participation of Banca Monte dei Paschi di Siena and Banca Antonveneta in the **"Bank Export" system**, to acquire SACE's "first demand" guarantee covering 100% of financing given to customers operating in foreign markets, with consequent benefits in terms of risk mitigation.

With regard to **product innovation,** a new medium term loan was launched in the period with gradual repayment of principal, characterised by qualitative and quantitative forecasts on specific contractual commitments (covenants), including those based on economic-financial indicators.

Through its subsidiary, MPS Capital Services, the Group operates actively in areas such as **investment banking**, **subsidised financing, infrastructures[4] and energy from renewable sources[5]**; in addition, it also carried out activities in **acquisition financing** through transactions with high-standing counterparties characterised by strong industrial capacities, and distinguishes itself in the **Private Equity** market thanks to closed-end real estate investment funds for professional investors managed by MPVENTURE SGR (associate company of MPS Capital Services).

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[4] The first financial action was completed in Q1 2012 for the construction of a new stretch of toll motorway between Brescia and Milan (BreBeMi).

[5] In Q1 2012 MPSCS took part in a syndicated loan of EUR 104 mln in cash (our quota: EUR 28 mln) as Coordination Bank, Mandated Lead Arranger and Facility Agent for the construction of a wind farm in the province of Foggia. MPSCS also took part in a transaction aimed at the revamping of a river hydroelectric power plant in the province of Lecco (loan of EUR 15.3 mln) as sole financer.

With regard to **syndicated loans in which the company acts as a lead arranger,** in the first quarter of 2012 MPS Capital Services placed 3 transactions on the market for approx.EUR 32 mln (MPSCS contributing approx. EUR19 mln), acting as Mandated Lead Arranger and Joint Arranger. At the end of the quarter, a further 2 transactions were under development for a total of EUR 23.5 mln.

## International banking

In the area of **domestic foreign banking**, coverage of the SME and Small business segments was primarily focused on manufacturers of plants, machinery and consumer goods mainly destined for the Export markets. The activity was aimed at developing operations in Export and Import signature loans, seizing the opportunities arising, firstly, from the provision of credit facilities to support hedging of Country Risk and, secondly, from the increased demand in documentary credit following the heightened perception of Italy Risk.

As to **international activities**, the Group operates with a view to supporting Italian customers and researching local business opportunities. In the first quarter of 2012, the sales & distribution activities of the International Network were carried out according to guidance from the Domestic Network and focussed on the precise tracking of current customers and prospects, both through targeted visits and special meetings at trade fairs.

As part of the services aimed at supporting the **operations of corporate customers in international markets**, it should be remembered that an agreement is in place with SACE for a plan of medium-term guaranteed loans granted by the banks of the Group and used to support costs and investments in the development of activities relating to the internationalisation process of SMEs. In view of this agreement, a total of EUR 6.6 mln was disbursed in the first quarter of 2012. Operations with SACE were further developed with the completion of guaranteed export credit transactions which, in the first three months of 2012, amounted to EUR 11.1 mln.

## CORPORATE CENTRE

The **Corporate Centre** is an aggregation of:

a) operating units which, on an individual basis, are below the benchmarks required for primary reporting;

b) the Group's head office units (including governance and support, proprietary finance, equity investments and segments of divisionalised entities, which include in particular ALM, Treasury and Capital Management);

c) service units providing support to Group units, particularly with regard to collection of doubtful loans (reporting to the Credit Governance Area), real estate management, and IT systems management and development (all reporting to the "Human Resources, Property and Facility Management" area).

The Corporate Centre also incorporates the results of Biverbanca (not yet reporting to the bank's divisions), the pro-rata interest of Banca Popolare di Spoleto (included under Consumer banking until 31/03/2011), the profit & loss of companies consolidated at equity and those held for sale, as well as cancellations of intragroup entries.

### Group equity investments

The process of rationalisation of the Group's equity investment portfolio saw **Banca Monte dei Pasci di Siena** involved in the following major transactions in the first quarter of 2012:

- divestment of the non-controlling interest in Mittel SpA, amounting to 0.3% of share capital;
- divestment of the non-controlling interest in Aeroporto di Firenze SpA, amounting to 4.893% of share capital;

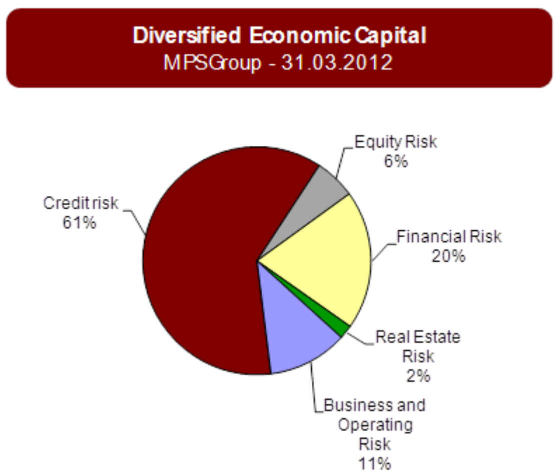
## Integrated risk and capital management

### The Risk Measurement and Control Process

Please refer to the relative chapter in the Consolidated Financial Report and to Part E of the Consolidated Notes to the Financial Statements as at 31.12.2011 for a description of the Group's internal risk measurement and control process. Following is an outline of the main results obtained from an analysis of the Montepaschi Group's Economic Capital and Risks as at 31.03.2012.

### An analysis of the Montepaschi Group's Economic Capital

As at 31 March 2012, the Overall Economic Capital of the Montepaschi Group was broken down as follows: credit risk 61% (including counterparty and issuer risk), equity investments risk 6%, operational and business risks 11% and real estate risk (2%). The working capital against financial risks (mainly consisting in the typical risks of the Trading Book and ALM Banking Book) amounts to approx. 20% of the Overall Economic Capital.




### Credit Risk

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

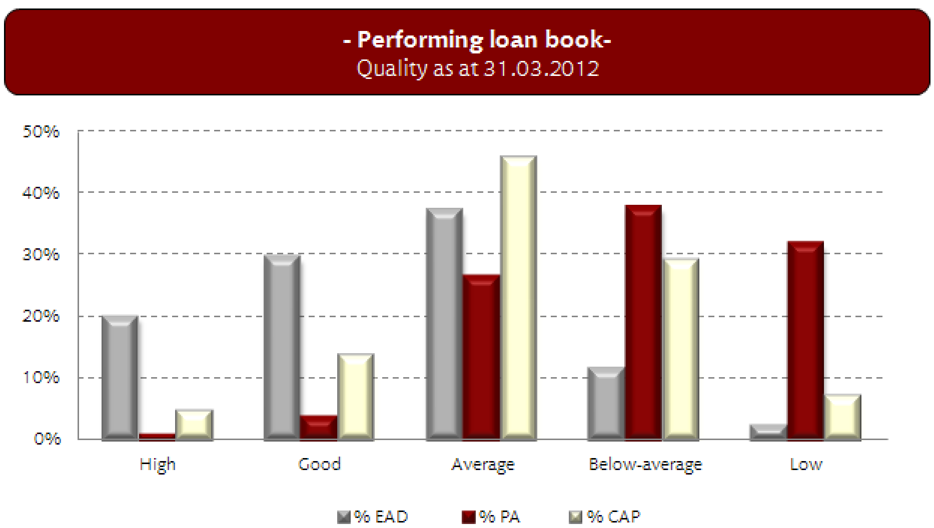
The Credit Portfolio Model developed within the Montepaschi Group uses a Merton approach to represent the insolvency of each counterparty in the portfolio. According to this approach, a counterparty becomes insolvent when a synthetic variable expressing its creditworthiness falls below a pre-determined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

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

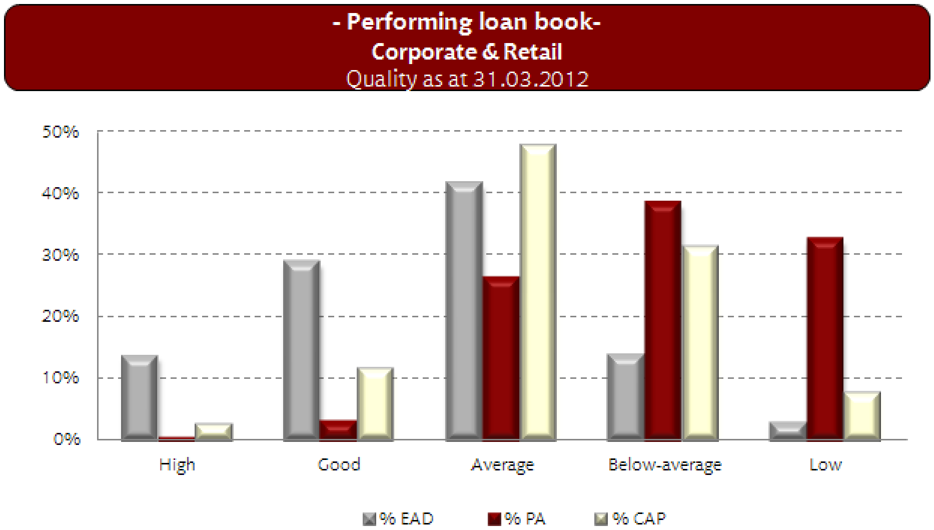
The model displays the change in credit risk over time based on various combinations of the variables under analysis, by legal entity, customer type, geographical area, business area, rating class and continental area. Other information derived from the Credit Portfolio Model concerns "what-if" analyses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

In accordance with the provisions of the Second Pillar of Basel 2, the Montepaschi Group is committed to the continuous development of methodologies and models in order to assess the impact on the loan portfolio of stress conditions produced using sensitivity analyses with respect to individual risk factors or through scenario analyses.

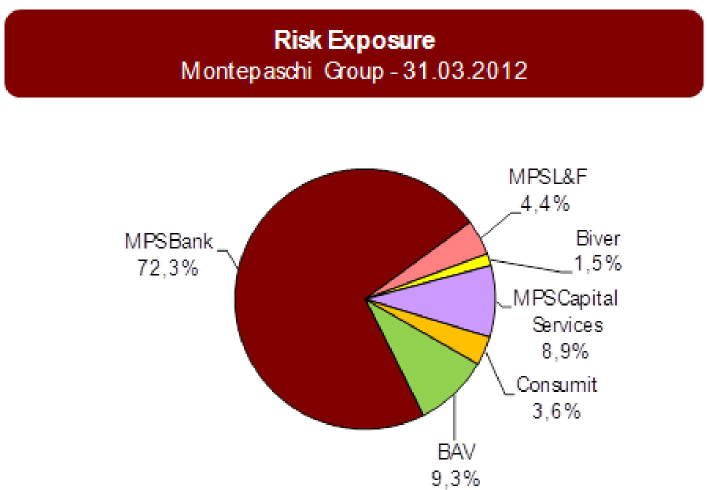
The chart below provides a breakdown of the credit quality of the Montepaschi Group portfolio as at 31 March 2012 (excluding financial asset positions). The graph below shows that about 49% of risk exposure  is to high and good quality customers. It should be noted that the ranking below also includes exposure to banks, government agencies and non-regulated financial and banking institutions, which are not included in the AIRB approaches. As borrowers, these entities are nevertheless subject to a credit standing assessment using official ratings, if any, or appropriate benchmark values that have been determined internally.



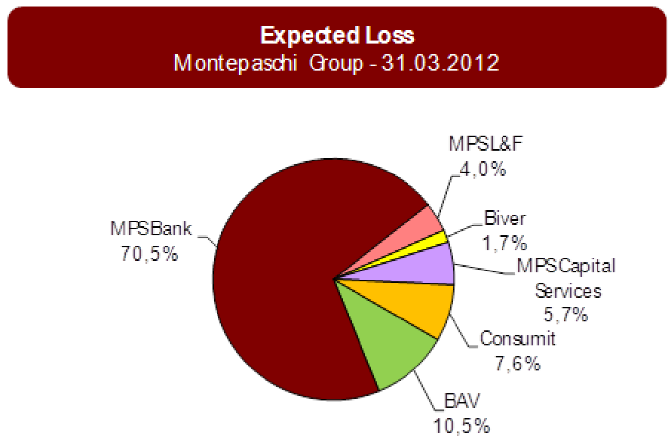

On the other hand, the following chart provides a breakdown of credit quality only for Corporate and Retail portfolios (which are largely validated by regulatory authorities for the use of internal PD and LGD models). It should be noted that as at 31 March 2012, exposure of a high or good quality accounted for 42% of total Consumer and Corporate exposure.



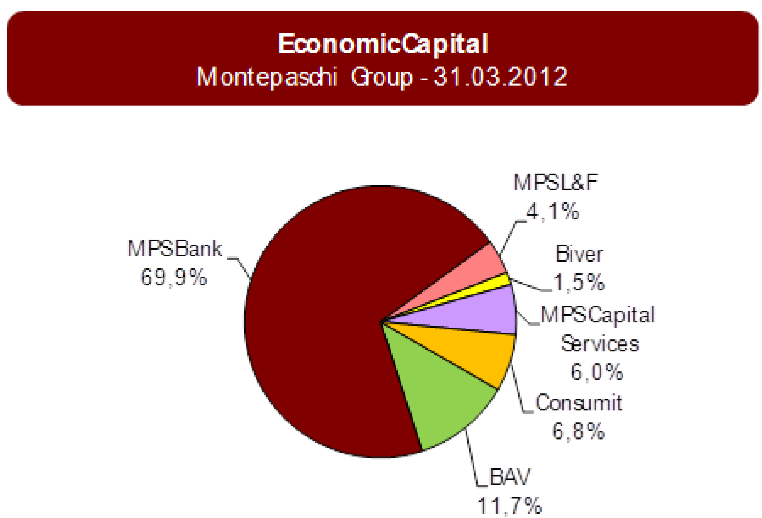

The following chart shows that the three retail banks (Banca MPS, Banca Antonveneta and BiverBanca) contribute to approximately 83% of the total Montepaschi Group's exposure to risk, whereas the companies MPS L&F, MPS Capital Services and Consum.it account for the remaining 17%.



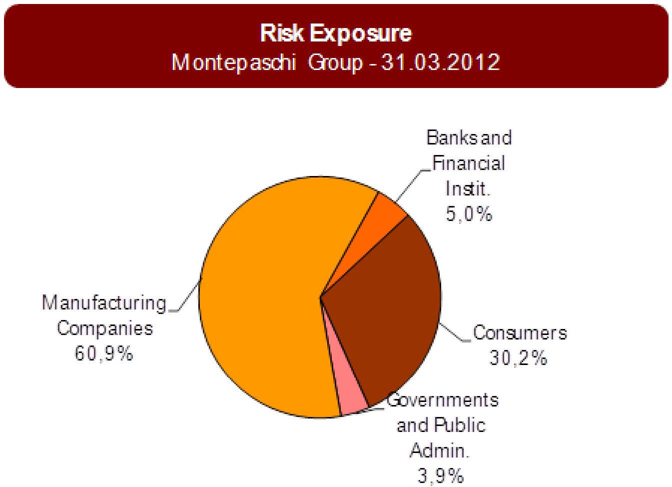

With regard to risk measures, the highest percentage of Expected Loss is attributable to the Parent Bank (70.5%), followed by Banca Antonveneta with 10.5% and Consum.it and MPS Capital Services (7.6% and 5.7% respectively), with the remainder (5.7%) assigned to cover the risks of MPS L&F and BiverBanca.



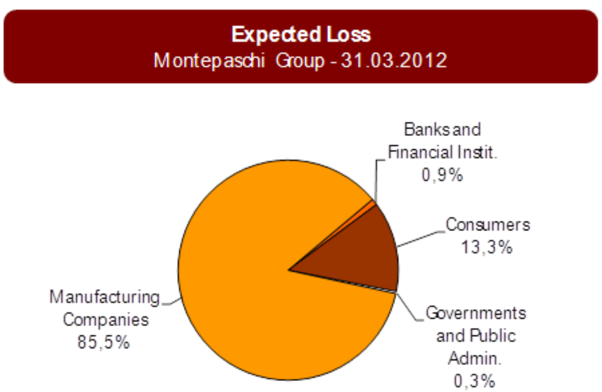

Most of the overall amount of Economic Capital to cover credit risk is absorbed by the Parent Bank (about 69.9%), followed by Banca Antonveneta and MPS Capital Services (11.7% and 6.8% respectively) with the remaining 11.6% absorbed by the other legal entities.

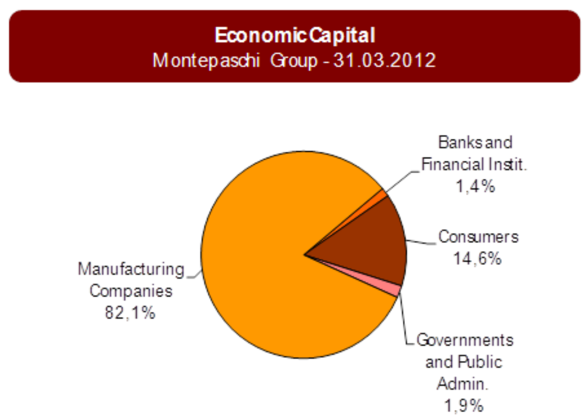



An analysis conducted as at 31 March 2012 shows that the risk exposure of the Montepaschi Group is mainly toward "Manufacturing Companies" (60.9% of total loans disbursed) and "Households" (30.2%). The remaining portion is broken down between "Banks and Financial Institutions", which makes up 5% and "Government and Public Administration" for 3.9%.

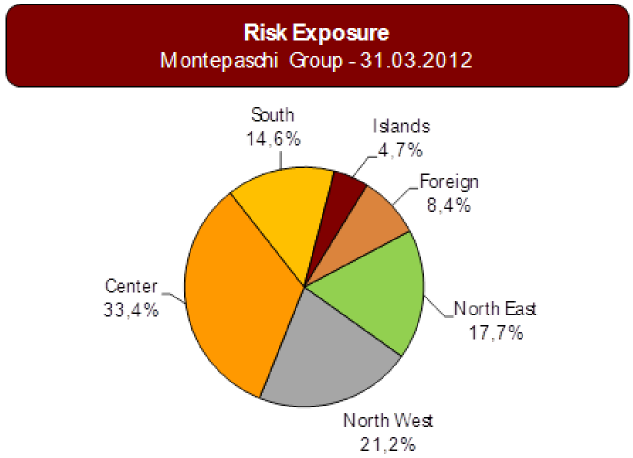



In terms of risk measures, it should be noted that Manufacturing Companies account for 85.5% of the Expected Loss and 82.1% of the Economic Capital. The portion for "Households" comes to 13.3% for Expected Loss and 14.6% for Economic Capital.

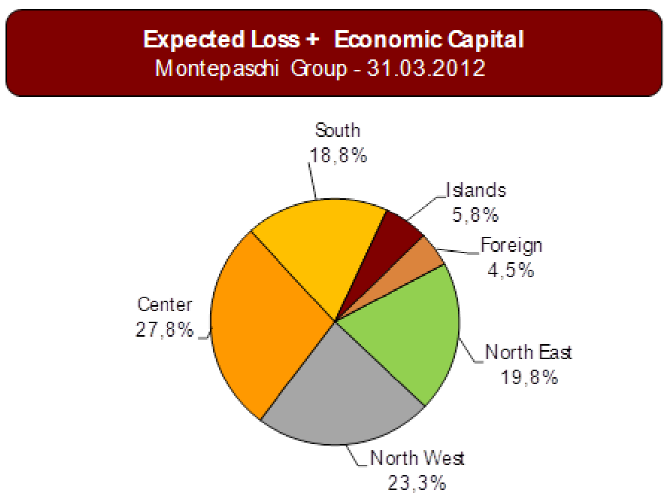



An analysis of the geographical breakdown of customers of the Montepaschi Group shows that exposure to risk is primarily concentrated in Italy's Central regions (33.4%) followed by the North-West and North-East (21.2% and 17.7% respectively), Southern Italy (14.6%), foreign countries (8.4%) and Italy's islands (4.7%).

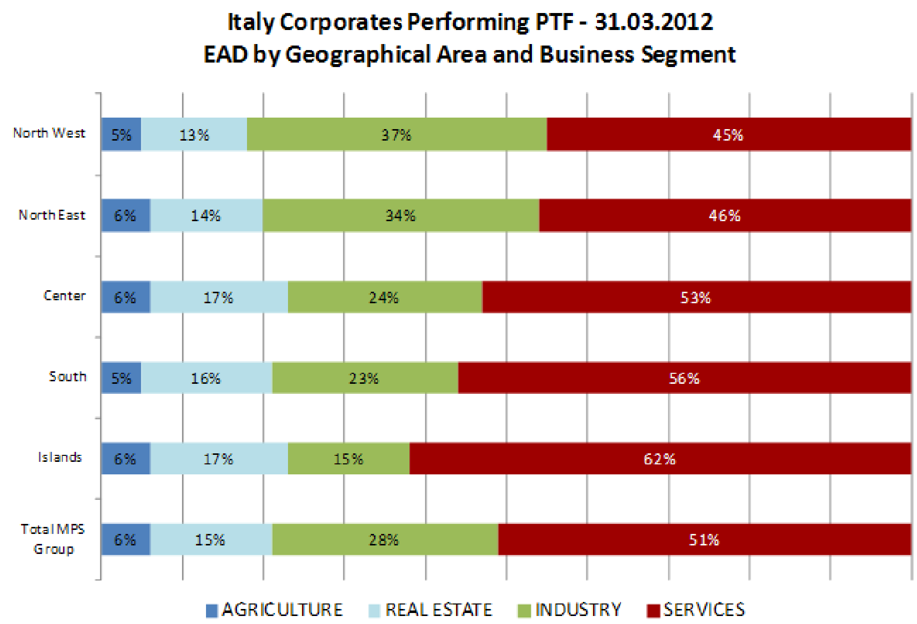



Overall risk measures (expected loss + economic capital) are also higher (27.8%) in Central Italy due to the greater concentration of loans in that area. The North-West (23.3%), North-East (19.8%), Southern Italy (18.8%) and the Islands (5.8%) follow, whereas the contribution to risk measures by foreign customers is marginal (4.5%).

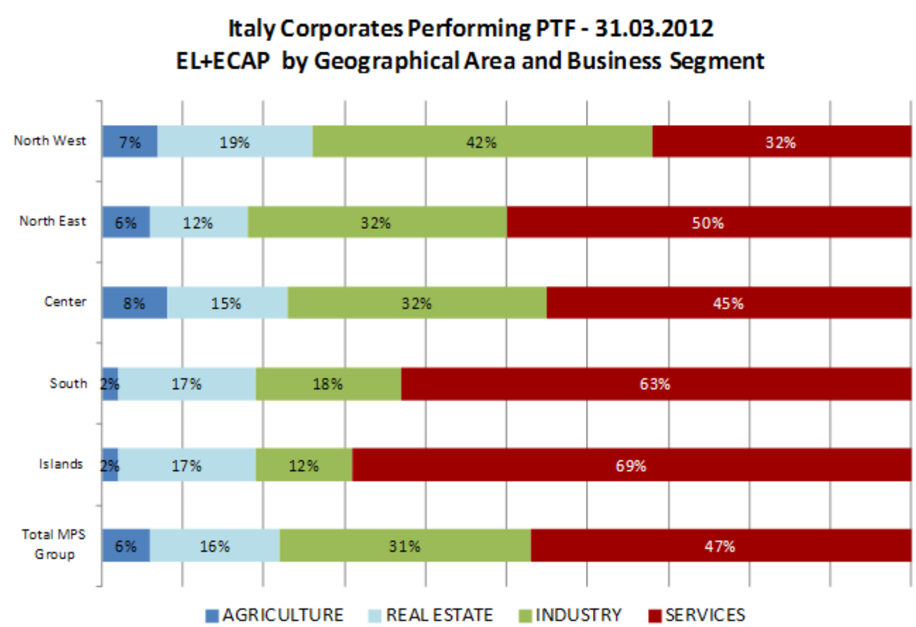



Finally, the graphs below show the percentage breakdown of Exposure to Risk by Geographic Area for Corporate Clients in Italy together with overall risk measures (Expected Loss + Economic Capital) for each branch of economic activity.

Companies belonging to the Services sector have the highest concentration of Exposure to default across all geographic areas. Against the MPS Group total, it accounts for 51%, followed by Industry (28%), Building & Construction (15%) and, finally, Agriculture with 6%.




As regards overall risk measures, the greatest concentration is also in the Services sector for all geographic areas with the exception of the North-West where 42% of risk measures comes from the Industrial sector.




## Equity investments risk

At the end of the first quarter 2012, the VaR for equity investments (calculated in terms of a 99% VaR for a retention period of 1 quarter) accounted for 23% of the portfolio fair value.

**Interest rate risk - Banking Book**

The sensitivity of the Montepaschi Group at the end of Q1 2012 was indicative of asset-sensitive exposure to rate risk, particularly in the event of rate hikes. The amount of economic value at risk in the event of a +100 bp parallel shift of the rate curve came to EUR -772.57 mln (EUR 839.41mln for a shift of -100bp) as at 31 March 2012. However, if benchmarked against Regulatory Capital, these values are below the level considered as the attention threshold by the Bank of Italy.

**Liquidity Risk**

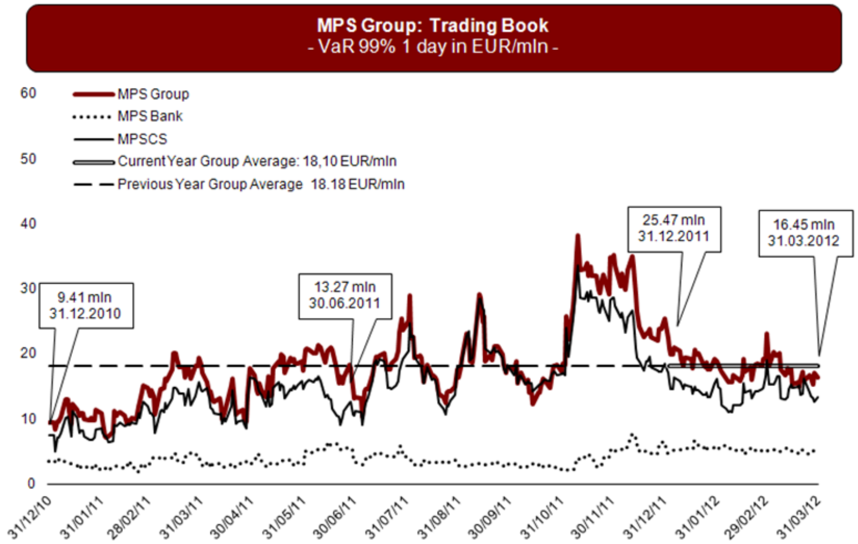
The overall structural liquidity profile is monitored by quantifying the mismatches of cash flows coming due, by maturity date. Items of an optional nature have representative models consistent with those used for interest rate risk.

The planning of Group-wide funding policies (Funding Plan) is coordinated and steered by the Treasury and Capital Management Area (in cooperation with the Planning Area), which:

- submits the plan of the initiatives to be taken in the financial markets to the Finance Committee for approval, with a view to achieving the objectives set by the business plan and in accordance with capital management requirements;
- coordinates access to domestic and international long- and short-term capital markets for all the banks belonging to the Group, as well as access to the European Central Bank re-financing transactions and centralised management of statutory reserves;
- makes projections on future liquidity on the basis of different market scenarios.

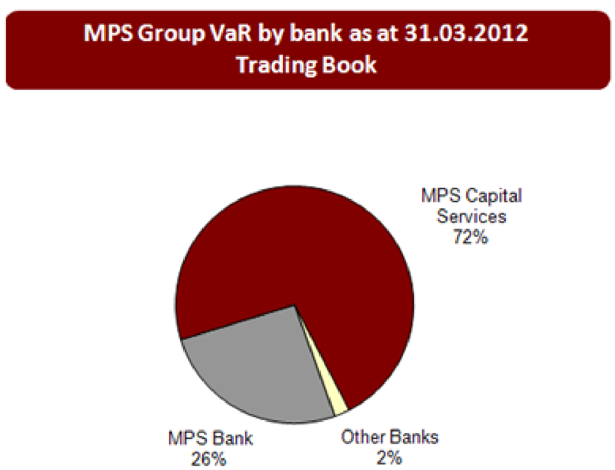
**Trading Book Market Risk**

In the first quarter of 2012, market risk in the Group's Trading Book in terms of VaR showed an overall downward trend. At the end of March 2012, it stood at EUR 16.45 mln, down by approx. EUR 9 mln from the end of 2011. The reduction in VaR over the quarter was largely due to the lower yields on Italian government bonds in the short and medium term, which determine the level of risk in the securities portfolio of the subsidiary, MPS Capital Services (MPSCS). This development, triggered by the ECB's banking system support plan in mid-December 2011 and by the level of market confidence in the austerity measures launched by the Italian Prime Minister Monti, , came to a halt in the last ten days of March, following renewed fears over the sovereign debt crisis in peripheral Eurozone countries.



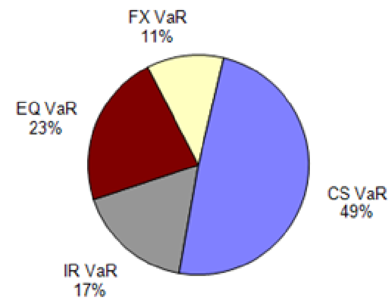

With regard to legal entities, the Group's market risks continue to be concentrated on MPS Capital Services and Banca MPS.

At the end of March 2012, MPS Capital Services accounted for 72% of overall risk, the Parent Company approx. 26% while the remaining 2% was attributable to other banks.




A breakdown of VaR by risk factors as at 31 March 2012 shows that 49% of the Group's portfolio was allocated to risk factors such as Credit Spread (CS VaR), 23% was absorbed by equity risk factors (EQ VaR), 17% was absorbed by interest rate risk factors (IR VaR) and the remaining 11% by foreign exchange risk factors (FX VaR).

**MPS Group VaR by Risk Factor as at 31.03.2012**
**Trading Book**




During the first quarter of 2012, the Group's VaR ranged between a low of EUR 14.99 mln recorded on 20 March 2012 and a high of EUR 23.14 mln on 1 March 2012. The Group's average VaR stood at EUR 18.10 mln in the first quarter of 2012.

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

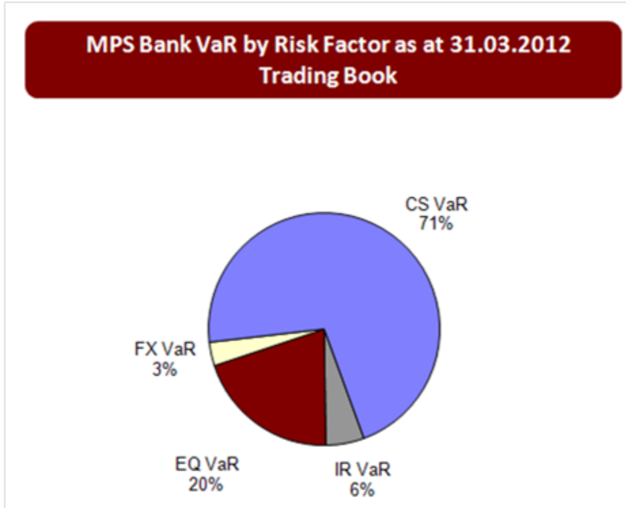
| | VaR | Date |
|---|---|---|
| End of Period | 16.45 | 31/03/2012 |
| Min | 14.99 | 20/03/2012 |
| Max | 23.14 | 01/03/2012 |
| Average | 18.10 | |

During the first quarter of 2012, the Parent Company's VaR ranged between a low of EUR 4.54 mln recorded on 26 March 2012 and a high of EUR 6.68 mln on 18 January 2012. On average, the Parent Company's VAR stood at EUR 5.30 mln in the first quarter. The end-of-period figure as at 31 March 2012 was EUR 4.77 mln.

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

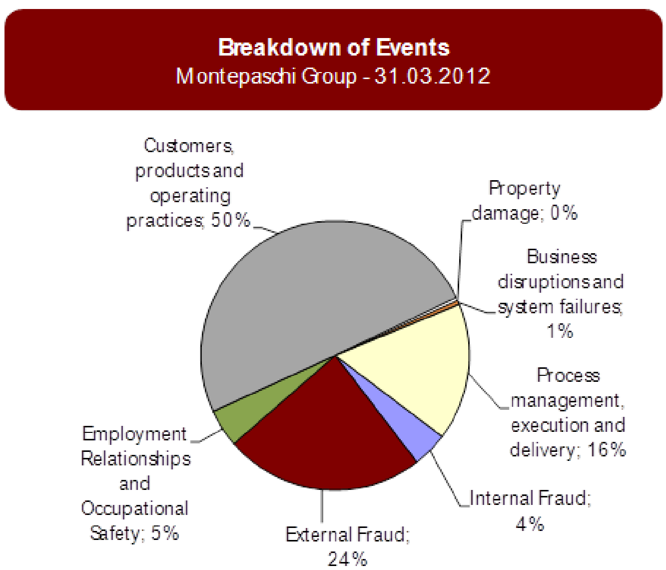
| | VaR | Date |
|---|---|---|
| End of Period | 4.77 | 31/03/2012 |
| Min | 4.54 | 26/03/2012 |
| Max | 6.68 | 18/01/2012 |
| Average | 5.30 | |

A breakdown of VaR by risk factor as at 31 March 2012 shows that 71% of the Parent Company's portfolio was allocated to risk factors such as Credit Spread (CS VaR), 20% was absorbed by equity risk factors (EQ VaR), 6% was absorbed by interest rate risk factors (IR VaR) and the remaining 3% by foreign exchange risk factors (FX VaR).




### Operational risk

The percentage breakdown of operational losses, accounted for in Q1 2012, is reported below, divided into various risk classes:




With respect to the same period in 2011, a decrease was recorded both in the number of operational risk events and in the extent of losses incurred, confirming the positive trend already observed in previous years.

The type of event with the greatest impact on the profit and loss statement remains the one attributable to "non-fulfilment of professional obligations with customers" (50% of total losses) and "external fraud" (24% of total).

With regard to non-fulfillment of professional obligations with customers", the risk is primarily associated with consumer litigation on the following issues:

- application of compound interest;

- selling of Argentinian, Cirio, Parmalat bonds and For you and My way Financial Plans.

It follows that a large part of the operational risk events have a date of occurrence prior to 2003, but still have accounting effects on the 2011 and 2012 financial years.

With regard to "External fraud", which accounts for 24% of the total, cases having the highest impact are as follows:

- fraud perpetrated in the supply of credit (ie. fraud committed by use of false or forged documentation during the disbursement of credit facilities, also through intermediaries; typical cases include mortgages, funding and loans);
- robberies in the branches and vandalised ATMs;
- payment card fraud (credit / debit cards).

## Organisational set-up and processes and human resource management

In the first quarter of 2011, the **organisational redesigning of Banca Monte dei Paschi di Siena** was completed through a set of initiatives aimed at achieving **significant improvements in terms of effectiveness** (governance, geographic footprint, competitive edge) **and efficiency** (streamlining central functions, shortening the operational supply chain).

**Parent Company restructuring** was combined with **Network reorganisation**, with the creation of **Local Market Units** (LMUs)with a view to strengthening market coverage,enhancing relations with businesses and households and achieving expansion in the socio-economic areas of choice. Likewise, the organisational structures of the **Regional Areas** and **Departments** were improved and new credit disbursement processes were launched.

During the first quarter of 2012, operating guidelines were directed towards the fine-tuning of this structure. Furthermore, the effort aimed at boosting the efficiency of the operational architecture and system continued, **with the structural revision of processes** - according to an industry-based logic - to contain costs, improve resource deployment and the service delivered to customers in terms of quality, speed and transparency.

### ❑ HEADCOUNT

As at 31/03/2012, Group personnel in terms of actual "workforce"[6] came to 31,156 units, with a slight decrease (-14 resources) as compared to the beginning of the period:

**HEADCOUNT OVER TIME**

| | 31/12/10 | 31/12/11 | 31/03/12 |
|---|---|---|---|
| Head Office Units | 10,200 | 9,547 | 9,561 |
| Distribution Network | 21,295 | 21,623 | 21,595 |
| **TOTAL** | **31,495** | **31,170** | **31,156** |

with inflows amounting to 46[7] and outflows totalling 60[8].

**EMPLOYEE TURNOVER**

| | From 31/12/11 to 31/03/2012 |
|---|---|
| Hirings | 46 |
| Outflows | -60 |
| **TOTAL** | **-14** |

The table below shows a breakdown of the MPS Group workforce by operational location:

**EMPLOYEES BY OPERATING UNITS**

| MACROSTRUCTURE | 31/03/12 | % OF TOTAL |
|---|---|---|
| Local Business Functions | 21,595 | 69.3% |
| *Local Market Units* | *1,115* | *3.6%* |
| *Branches* | *17,131* | *55.0%* |
| *Client Centres and other functions* | *3,349* | *10.7%* |
| Administrative and Operating Functions, of witch: | 8,161 | 26.2% |
| *Headquarters* | *4,967* | *15.9%* |
| *Italian Banks* | *2,512* | *8.1%* |
| *Local Market Areas* | *1,146* | *3.7%* |
| *Local Units* | *1,309* | *4.2%* |
| *Consorzio Operativo Gruppo Montepaschi* | *2,825* | *9.1%* |
| *MPS Gestione Crediti Banca* | *369* | *1.2%* |
| Product Companies | 1,400 | 4.5% |
| **TOTAL** | **31,156** | **100%** |

6 Value obtained by deducting from personnel on payroll (31,229) all resources seconded to non-Group companies and those belonging to Professional Area Band I working short-time (17 cleaning staff).

7 Of which, 17 against the stabilisation of the Parent Company's external personnel, 14 from Protected Categories and the remaining number from the "market".

8 Resignations, deaths, dismissals and retirements.

The table below shows a breakdown of the MPS Group workforce by job category:

**NUMBER OF EMPLOYEES BY CATEGORY**

| CATEGORY | 31/03/12 | % OF TOTAL | % IN THE BANKING SYSTEM |
|---|---|---|---|
| Executives | 500 | 1.6% | 2.1% |
| Managers | 11,852 | 38.0% | 38.3% |
| Remainig Employees | 18,804 | 60.4% | 59.6% |
| **TOTAL** | **31,156** | **100%** | **100%** |

The average age of staff stood at around 44 years, largely in line with the System average.[9]

Female staff in the Group accounted for 45% of total employees, against a System average of 43%.

## ❑ OPERATING STRATEGIES

### HUMAN RESOURCES DEVELOPMENT AND TRAINING

As in recent years, the quarter continued to see the pursuit of objectives aimed at **developing and enhancing the value of human resources** (employees and managers) by putting in place **professional and geographical mobility** processes with a view to ensuring optimal coverage of organisational positions (approx. 440 resources were involved) and industrialising **know-how** (to drive HR "continuity plans). **Training** focussed on the **quality of commercial behaviour at the *front end***, **credit monitoring**, and **Protection/Pension planning**, with strong, specific focus being given to the **role of the Branch Manager**.

In the area of HR development, the following factors acquired significance during the reporting period:

- launch for staff of the Banca Monte dei Paschi di Siena network of the annual session of the **Professional Skills Review (PaschiRisorse)**, a fundamental **planning and monitoring** tool used to define the skills distinctive to each role and test individuals' competency with respect to a benchmark profile that also provides support for all of the other processes concerning human resource growth;
- implementation of **Professional career paths**[10], involving a total of approximately 1,300 resources (identified through yearly editions).
- increasing use of the **Self-development Workshop,** which aims to support individual aptitudes in order to reinforce individuals' behaviour, steer their professional growth and create a systematic channel to fill the Group's future management positions (the initiative has involved over 1,700 resources so far). In the quarter, **sections "dedicated" to new hires** were put underway (following the conversion to an open-ended contract for professional apprenticeships).

The **2012 Training** programme was defined and, in February,. the financing plan was submitted to the FBA fund which gave its approval, granting the maximum amount attainable in relation to the size of the Bank (EUR 4 mln ). In addition, the individual training action plan for all Network staff was prepared and is to be integrated with the "holiday plan" so as to ensure its overall sustainability (excluding business meetings). The training per capita average for the year is planned to be 5 days.

Main activities include:

- **enhancing the level of professionalism of resources assigned to credit management** (both in terms of risk coverage and the development of business opportunities); approx. 1,000 resources were involved in the first quarter, also through the skills certification provided ("**Credit Academy**"

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9 **2011 Italian Banking Association Report on the job market in the financial industry**, referring to data as at 31/12/2010.

10 Vertical paths regulate upgrading to target positions up to second-level middle managers, whereas horizontal paths encourage skill integration in same-level positions.

project); a 30% increase in skills emerged from tests conducted prior to and at the end of the course, with a 5.3 level of perceived usefulness (on a scale of 1 - 6). A similar initiative was launched on **financial contents for affluent client managers** (approx. 450) with qualitative results of the same tenor;

- **developing relationship skills** for both roles with a commercial component (managers of affluent and small business clients, etc.) and roles of a managerial nature, in terms of a more proactive approach to commercial contact with clients; in the quarter there were **over 1,000** participants who expressed an evaluation of 5.3 in terms of usefulness?. These participants are part of an ongoing survey (also involving line managers) designed to track the workplace application of behaviours acquired with training;
- **expanding the training programmes for business-critical roles** (branch managers and key Network roles) and **alignment of "role qualifying/compulsory" training** with statutory provisions (ISVAP, money laundering, Legislative Decree 231 on Transparency, Privacy, Workplace Safety[11], Patti Chiari, etc.); **1,540** resources were trained under D. 81;
- in terms of **bankassurance**, implementing training initiatives carried out in close collaboration with **AXAMPS**. On this front, mention is made of the specialised path "Obiettivo Protezione" ("Objective Protection") within the framework of the "**Obiettivo Protezione Campus Expert**" initiative for all new branch managers and personnel selected for Professional paths of growth with an "academic" approach to protection; overall, activities attributable to this area (including training that qualifies personnel for the placement of policies) involved **1,900** resources in the quarter;
- a **training plan on Corporate Social Responsibility** aimed at improving the skills and level of internal engagement, which also includes training for all Human Resource managers (classroom-based and coaching).

For **newly-appointed branch managers**, the professional tutorship initiative based on **the role of "masters of the trade"** (persons with extensive experience in issuing loans, managing risks and ensuring commercial coverage of local areas) saw the involvement of over 80 resources in the first quarter.

**Management training for all Local Market Units**(100) was concluded in the quarter, with particular prominence having been given to developing employee motivation, direction and leadership skills in addition to the quality and consistency of behaviours of the entire structure with respect to corporate strategies (including Credit Coordinators and Sector Specialists) as well as mentoring and coaching of Branch managers and other "front end" resources (Branches and Centres); overall, participants assessed the training as highly useful (5.5).

The launch of the project "**Knowledge experience**" (approx. 100 resources) was completed during the quarter. Aimed at personnel of the Parent Company, especially younger resources, the project was designed to encourage the growth and enhancement of skills particularly in the realms of innovation, proactivity and self-development.

Training since the start of the year totalled **approx. 200 thousand hours** (of which 25% *on -line*) in Banca Monte dei Paschi di Siena alone, with a per capita average of around 8 hours.

° ° °

With regard to the implementation of the **Group's remuneration policies,** approved by Shareholders in April 2011 and in conformity with regulatory provisions issued by the Bank of Italy in March, it should be remembered that the variable component was aligned for top management (General Manager, Deputy General Managers, Head of Credit and Local Markets) and risk takers. Both steps – involving other Group companies also, inclusive of the Group's foreign banks – were subsequently formalised through individual contract letters.

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[11] It should be noted that **MPS Capital Services** obtained certification during the year for its Occupational Health and Safety Management System in accordance with **standard OHSAS 18001**. The certification is in addition to those already in place since 2008 in Banca MPS and the Operating Consortium.

Moreover, the scope of "identified personnel", determined on the basis of criteria established by the Shareholders meeting in April 2011, was changed following therecruitment/ departure involving top management and risk takers as of December 2011.

For further details regarding the Group's remuneration polices, please refer to the "Remuneration report", published under the section Corporate Governance of the Bank's website.

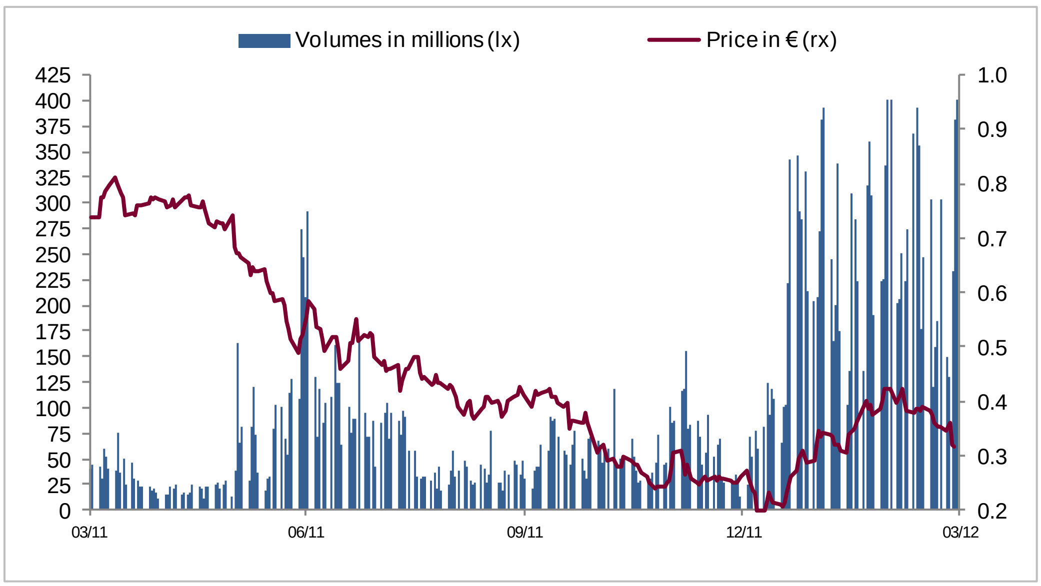
## Market values and Investor Relations

**SHARE PRICES**

In the first quarter of 2012, the sovereign debt crisis in the Eurozone and tensions in the major financial markets began to ease. In Italy, the 10Y BTP-Bund spread stood at 330 bps at the end of March from 528 bps at the start of the year. Contributing to the return of investor confidence were the activities of the EU leaders (new bailout for Athens, expansion of anti-crisis firewalls, the Fiscal Compact) and the extraordinary injection of liquidity by the ECB into the banking system. The positive trend, however, lost some of its momentum in the second half of the quarter as a result of trepidations regarding the stability of certain national accounts (those of Spain in particular), with fears of contagion subsequently becoming more acute.
Consequently, all major exchangesreported values as at 31 March 2012 which were, on average, above those recorded at the end of 2011 (DAX +17.8%, CAC +8.4%, FTSE MIB +5.9%, London FTSE +3.5% and IBEX -6.5%) A positive performance was also registered for the banking sector (DJ EURO STOXX BANKS +7.6% and FTSE IT BANKS +3.8%).

Within this framework, BMPS stock closed the first quarter of the year at 0.3161 euro, up 25.5% on the end of 2011, compared to an average increase of 11.5% for other major Italian banks listed on the Milan Bourse.

**BMPS SHARE PRICE** (from 31/03/2011 to 31/03/2011)




**BMPS SHARE PRICE: STATISTICAL SUMMARY** (from 31/12/2011 to 31/03/2012)

| | |
|---|---|
| Average | 0.33 |
| Lowest | 0.20 |
| Highest | 0.42 |

In the first quarter of 2012 the number of BMPS shares traded on a daily basis averaged approx. 226.4 million with a peak of 401.7 million in March and a low of 24.9 million in January.

**MONTHLY VOLUMES OF SHARES TRADED**

2012 volumes summary (€/mln)

| | |
|---|---|
| January | 3,523 |
| February | 5,322 |
| March | 5,846 |

## Ratings

Following are the credit ratings assigned as at 31 March 2012:

| Rating Agencies | Short-term debt | Long-term debt |
|---|---|---|
| Moody's Investors Service | P - 2 | Baa1 |
| Standard & Poor's | A - 2 | BBB |
| Fitch Ratings | F - 3 | BBB |

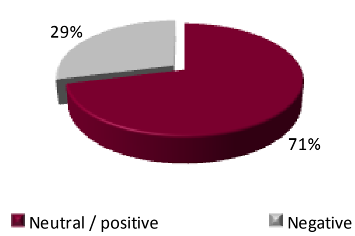
- On 2 February 2012, the rating agency Moody's placed the ratings of Banca Monte dei Paschi di Siena on creditwatch for possible downgrade;
- Following downgrade of Italy's sovereign debt rating, on 6 February 2012 the agency, Fitch Ratings, lowered BMPS's ratings. Among these, the long-term rating was lowered from 'BBB+' to 'BBB' and the short-term rating from 'F2' to 'F3'. The outlook is stable.
- Following Italy's downgrade, on 10 February 2012 Standard & Poor's revised its rating on MPS. In particular, S&P's lowered the bank's long-term rating from 'BBB+' to 'BBB'. The 'A-2' short-term rating remains unchanged. Outlook is negative.

## INVESTOR RELATIONS IN THE FIRST QUARTER OF 2012

In the belief that a cooperative approach with stakeholders is capable of generating a surplus of social value, in the first quarter of 2012 the Investor Relations team's interaction with the financial community continued to be highly proactive. Furthermore, since the start of the year, around 8 days of meetings were held between the Top Management of the Montepaschi Group and institutional investors, 6 in Italy and 2 in the UK.

## Guidance on MPS shares

With regard to guidance on BMPS shares as at 31 March 2012, 71% of analysts covering BMPS shares maintained a positive/neutral outlook whereas 29% expressed themeselves negatively.



## Corporate Governance and other information

The **corporate governance** system chosen by the Group is a key framework that has guided both its business approach and relations with stakeholders. In line with the Corporate Governance Code for Listed Companies, the system is characterised in particular by a clear-cut distinction of roles and responsibilities, an appropriate balance of powers and level composition of corporate bodies, while its organisational basis rests on the effectiveness of controls, management of corporate risk, adequacy of information flows and corporate social responsibility.

The information relating to the Corporate Governance system ownership structure of Banca Monte dei Paschi di Siena – prepared in accordance with art. 123 bis of the Consolidated Law of Finance – may be found in the separate "Report on Corporate Governance" which is available on the Bank's internet site www.mps.it under the section Investors & Research > Corporate Governance.

With regard to **Related-party transactions**, the "Regulations containing provisions relating to transactions with related parties" (the Regulation) was adopted by Consob in 2010 with Resolution no. 17221 of 12 March 2010 and later amended by Resolution no. 17389 of 23 June 2010.

The new framework combines into a new and comprehensive Regulation all principles regarding prompt and periodic disclosure obligations pursuant to articles 114 and 154-ter of the Consolidated Law on Finance and superseding the rules already set out by Consob's Issuer Regulations, and principles pursuant to Article 2391-bis of the Civil Code.

Banca Monte dei Paschi di Siena has complied with the new regulations as set forth in the "Procedures for Related-party transactions", published on the bank's internet site at:

http://www.mps.it/Investor+Relations/Corporate+Governance/Procedura+in+materia+di+operazioni+con+parti+correlate.htm.

## Events after 31 March 2012

The Parent Company's Annual Report as at 31 December 2011 was approved on 27 April 2012, during the ordinary session of the Shareholders' Meeting of Banca Monte dei Paschi di Siena. A net loss of EUR 4,644,377,577 was posted, with consolidated net losses amounting to EUR 4,685,274,102. Shareholders have resolved to entirely cover the annual loss of EUR 4,644,377,577 and eliminate negative reserves pursuant to art. 7, paragraphs 3 and 7 of Legislative Decree no. 38/2005, arising from the first-time adoption of the International Accounting Standards (IAS), respectively for an amount of EUR 533,607,980 and EUR 446,708,738 by drawing:

- EUR 26,966 from Retained Earnings;
- EUR 1,191,871 from the Employee profit-sharing Reserve;
- EUR 1,806,408,371 from the Extraordinary Reserve;
- EUR 18,941,877 from the Reserve pursuant to art. 7, paragraph 4 of Legislative Decree no. 38/2005;
- EUR 318,638,918 from the Special Reserve pursuant to art. 23 of Legislative Decree no. 153/99;
- EUR 12,218,866 from the Reserve pursuant to art. 13 of Legislative Decree no. 124/93;
- EUR 3,110,509,187 from the Share Premium Reserve, which is consequently down to EUR 255,099,523;
- EUR 356,758,239 from the Statutory Reserve, which is consequently down to EUR 1,423,018,260.

In its ordinary session, after having determined that the Board of Banca Monte dei Paschi should be composed of 12 Directors and 2 Deputy Chairmen, the Shareholders' Meeting resolved to appoint the following as Directors for fiscal years 2012, 2013 and 2014:

- from list no. 1 submitted by the Monte dei Paschi di Siena Foundation, which gained the majority of votes:

  - Alessandro Profumo, independent pursuant to art. 148, paragraph 3 of the Italian Consolidated Law on Finance and the Corporate governance code for listed companies
  - Fabrizio Viola
  - Paola Demartini, independent pursuant to art. 148, paragraph 3 of the Italian Consolidated Law on Finance and the Corporate governance code for listed companies
  - Angelo Dringoli, independent pursuant to art. 148, paragraph 3 of the Italian Consolidated Law on Finance and the Corporate governance code for listed companies
  - Tania Groppi, independent pursuant to art. 148, paragraph 3 of the Italian Consolidated Law on Finance and the Corporate governance code for listed companies
  - Marco Turchi, independent pursuant to art. 148, paragraph 3 of the Italian Consolidated Law on Finance and the Corporate governance code for listed companies

- from list no. 2, jointly submitted by Unicoop Firenze s.c., Finamonte S.r.L. and Mr. Lorenzo Gorgoni (on his own behalf and under power of attorney for 58 shareholders):

  - Turiddo Campaini
  - Alberto Giovanni Aleotti
  - Michele Briamonte, independent pursuant to art. 148, paragraph 3 of the Italian Consolidated Law on Finance and the Corporate governance code for listed companies
  - Lorenzo Gorgoni
  - Pietro Giovanni Corsa, independent pursuant to art. 148, paragraph 3 of the Italian Consolidated Law on Finance and the Corporate governance code for listed companies

- from list no. 3 submitted by the company, AXA S.A.
  - Frédéric Marie de Courtois d'Arcollières.

Alessandro Profumo was elected Chairman, while Marco Turchi and Turiddo Campaini were elected Deputy Chairmen of the Board of Directors.

For the same fiscal years, the following nominees were elected as standing members of the Board of Statutory Auditors: Paolo Salvadori (Chairman), included in list no. 2, jointly submitted by Unicoop Firenze s.c., Finamonte S.r.L. and Mr. Lorenzo Gorgoni (on his own behalf and under power of attorney for 58 shareholders), Paola Serpi and Claudio Gasperini Signorini from the list submitted by the MPS Foundation, which gained the majority of votes. Elected as alternate auditors were Stefano Andreadis, from the list submitted by the MPS Foundation, and Gianni Tarozzi, included in list no.2.

The remuneration of Directors, Chairman of the Board of Directors and Auditors was also decided upon and approval was given to the Remuneration Report as required by art. 123-ter of the Consolidated Law on Finance.

In the extraordinary session of the meeting, shareholders approved the two proposed mergers by absorption of Agrisviluppo S.p.A. and Ulisse 2 S.p.A. by and into Banca Monte dei Paschi di Siena.

## Outlook on operations

The macro-economic environment in which the Group operates continues to be particularly challenging, with strong elements of uncertainty regarding possible future prospects, even in the short term. Domestic economy, weighted down by the drop in domestic demand and anti-cyclical effects from public finance stabilisation reforms, has slipped into recession. Trends in sovereign debt spreads and the evolving national and European political framework do not provide, at the moment, any clear signs that the economic cycle will improve in the medium term.

Against this backdrop, the Montepaschi Group intends to undertake all viable operational solutions aimed at further expanding the business and fostering a recovery in corporate profitability. To this end, the Group's business plan is being revised with a view to updating the strategic guidelines on the basis of the new scenario.

With regard to the indications contained in Document no. 2 of 6 February 2009, issued jointly by the Bank of Italy, Consob and Isvap as later amended, the Group reasonably expects to continue operating in the foreseeable future and has therefore prepared the consolidated interim report on the assumption of business continuity since the uncertain climate arising from the current economic scenario affords no doubt as to the company's ability to continue operating as a going concern.

# Equity investments

Reported below is the table "Investments in associates and joint ventures (proportionate consolidation)".

31 03 2012

| | | Name | Registered Office | Type of relationship (*) | Ownership Relationship | | Available votes %(**) |
|---|---|---|---|---|---|---|---|
| | | | | | Held by | Shareholding % | |
| A | | **Companies** | | | | | |
| A.0 | | BANCA MONTE DEI PASCHI DI SIENA S.p.A. | Siena | | | | |
| | | **A.1 Fully consolidated companies** | | | | | |
| A.1 | | MPS CAPITAL SERVICES BANCA PER LE IMPRESE S.p.a. | Florence | 1 | A.0 | 99,918 | 99,919 |
| | | | | | A.28 | 0,001 | |
| A.2 | | MPS GESTIONE CREDITI BANCA S.p.a. | Siena | 1 | A.0 | 100,000 | |
| | 2.1 | AIACE REOCO S.r.l. | Siena | 1 | A.2 | 100,000 | |
| | 2.2 | ENEA REOCO S.r.l. | Siena | 1 | A.2 | 100,000 | |
| A.3 | | MPS LEASING E FACTORING BANCA PER I SERVIZI FINANZIARI ALLE IMPRESE S.p.a. | Siena | 1 | A.0 | 100,000 | |
| A.4 | | BANCA ANTONVENETA S.p.a. | Padua | 1 | A.0 | 100,000 | |
| A.5 | | BIVERBANCA CASSA DI RISPARMIO DI BIELLA E VERCELLI S.p.a. | Biella | 1 | A.0 | 60,419 | |
| A.6 | | MONTE PASCHI IRELAND LTD | Dublin | 1 | A.0 | 100,000 | |
| A.7 | | MONTE PASCHI FIDUCIARIA S.p.a. | Siena | 1 | A.0 | 100,000 | |
| A.8 | | CONSUM.IT S.p.a. | Florence | 1 | A.0 | 100,000 | |
| A.9 | | MPS TENIMENTI POGGIO BONELLI E CHIGI SARACINI SOCIETA' AGRICOLA S.p.a. | Siena | 1 | A.0 | 100,000 | |
| A.10 | | MPS IMMOBILIARE S.p.a. | Siena | 1 | A.0 | 100,000 | |
| A.11 | | G.IMM ASTOR S.r.l. | Lecce | 1 | A.0 | 52,000 | |
| A.12 | | CONSORZIO OPERATIVO GRUPPO MONTEPASCHI | Siena | 1 | A.0 | 99,730 | 99,940 |
| | | | | | A.1 | 0,060 | |
| | | | | | A.2 | 0,030 | |
| | | | | | A.3 | 0,030 | |
| | | | | | A.4 | 0,030 | |
| | | | | | A.5 | 0,030 | |
| | | | | | A.8 | 0,030 | |
| A.13 | | AGRISVILUPPO S.p.a. | Mantua | 1 | A.0 | 99,710 | |
| A.14 | | MAGAZZINI GENERALI FIDUCIARI DI MANTOVA S.p.a. | Mantua | 1 | A.0 | 100,000 | |
| A.15 | | BANCA MONTE PASCHI BELGIO S.A. | Brussels | 1 | A.0 | 99,900 | 100,000 |
| | | | | | A.4 | 0,100 | |
| A.16 | | MPS PREFERRED CAPITAL I LLC | Delaware | 1 | A.0 | 100,000 | |
| A.17 | | MPS PREFERRED CAPITAL II LLC | Delaware | 1 | A.0 | 100,000 | |
| A.18 | | MONTE PASCHI BANQUE S.A. | Paris | 1 | A.0 | 100,000 | |
| | 18.1 | MONTE PASCHI CONSEIL FRANCE SOCIETE PAR ACTIONS SEMPLIFIEE | Paris | | A.18 | 100,000 | |
| | 18.2 | MONTE PASCHI INVEST FRANCE SOCIETE PAR ACTIONS SEMPLIFIEE | Paris | | A.18 | 100,000 | |
| | 18.3 | MONTE PASCHI ASSURANCES FRANCE S.A. | Paris | | A.18 | 99,400 | |
| | 18.4 | IMMOBILIERE VICTOR HUGO S.C.I. | Paris | | A.18 | 100,000 | |

| | | Name | Registered Office | Type of relationship (*) | Ownership Relationship | | Available votes % (**) |
|---|---|---|---|---|---|---|---|
| | | | | | Held by | hareholding | |
| A.19 | | MONTEPASCHI LUXEMBOURG S.A. | Luxembourg | 1 | A.0 | 99,200 | 100,000 |
| | | | | | A.18 | 0,800 | |
| A.20 | | ULISSE 2 S.p.a. | Milan | 1 | A.0 | 100,000 | |
| A.21 | | MPS COVERED BOND S.r.l. | Conegliano | 1 | A.0 | 90,000 | |
| A.22 | | CIRENE FINANCE S.r.l. | Conegliano | 1 | A.0 | 60,000 | |
| A.23 | | ANTONVENETA CAPITAL L.L.C. I | Delaware | 1 | A.0 | 100,000 | |
| A.24 | | ANTONVENETA CAPITAL L.L.C. II | Delaware | 1 | A.0 | 100,000 | |
| A.25 | | ANTONVENETA CAPITAL TRUST I | Delaware | 1 | A.0 | 100,000 | |
| A.26 | | ANTONVENETA CAPITAL TRUST II | Delaware | 1 | A.0 | 100,000 | |
| A.27 | | SIENA MORTGAGES 03-4 S.r.l. | Rome | 1 | A.0 | 100,000 | |
| | | **A.2. Proportionately consolidated companies** | | | | | |
| A.28 | | BANCA POPOLARE DI SPOLETO S.p.a. | Spoleto | 7 | A.0 | 26,005 | |
| | | Book value: 26.005% of nominal value | | | | | |
| A.29 | | INTEGRA S.p.a. | Florence | 7 | A.8 | 50,000 | |
| | | Book value: 50% of nominal value | | | | | |

(*) Type of relationship:
1 majority of voting rights at ordinary shareholders' meetings
2 dominant influence at ordinary shareholders' meetings
3 agreements with other shareholders
4 other forms of control
5 unified management under art. 26. 1. of Leg. Decree 87/92
6 unified management under art. 26. 2. of Leg. Decree 87/92
7 joint control
(**) Voting rights are disclosed only if different from the percentage of ownership.

## Declaration of the Financial Reporting Officer

Pursuant to para. 2, article 154-bis of the Consolidated Law on Finance, the Financial Reporting Officer, Mr. Daniele Bigi, declares that the accounting information contained in this Quarterly Report as at 31 March 2012 corresponds to the underlying documentary evidence and accounting records.

**Daniele Bigi**
The Financial Reporting Officer
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