Banca Monte dei Paschi di Siena

Una storia italiana dal 1472

2013-2017 Business Plan

Strategic Guidelines of the Restructuring Plan '13-'17

Update for the financial community

MONTE DEI PASCHI DI SIENA
BANCA DAL 1472

Siena, 28 November 2013

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Contents

2013–17 Business Plan highlights

Strategic priorities	➢ Reposition BMPS as a lean, leading Italian commercial bank with an attractive risk-reward profile ➢ Focus on transforming the earnings power of BMPS based on a significantly strengthened balance sheet
Business Plan	**Approved by the Board of Directors of BMPS and now signed-off by the EC, the Business Plan fully aims to deliver the strategic priorities** ➢ Radical transformation of the customer service model, revenue productivity and operating efficiency ➢ Capital increase, deleveraging and disposals towards a right-sized balance sheet ➢ Overhaul of credit function and credit portfolio quality ➢ Normalization of group funding

Plan into action

- ➢ Refreshed and change-driven management team motivated to execute the plan and already delivering meaningful progress, ahead of schedule
- ➢ Delivery puts BMPS at the forefront of the banking sector transformation in Italy

2015 and 2017 financial targets

	2012	2015	2017
Revenues / Assets	2.3%	2.4%	2.9%
Net Commissions / Revenues	33%	47%	46%
Cost / Income	66%	56%	50%
Cost of risk[1] *(bps)*	191	106	90
Net income *(€bn)*	-3.2	~0.2	0.9
ROTE	n.m.	~2%	~9%
Loan to Deposit[2]	105%	92%	90%
RWAs[3] *(€bn)*	92.8	86.6	80.9
Common Equity Tier 1[3]	8.9%	9.4%	10.0%

CAGR '12-17:
Revenues +0.8%
Operating costs -4.8%

1 Computed on customer loans at end of period excluding debt securities
2 Customer loans / customer deposits and securities issued
3 For 2012: Core Tier 1 and RWA according to Basel II methodology. For 2015 and 2017: Common Equity Tier 1 (Basel III, Phased in) and RWA according to Basel III methodology

Motivated management team with strong track record

Highly successful track record in cost optimization and superior human resources management

- **-15% operating costs** ('11 – '13) vs. peers -5%[1], achieving more than 40% of 2017 objectives[2]
- **3,800 employees leaving in 2012 and 2013** (~85% of previous plan target)
- **400 branch closures already achieved**, customer attrition in line with best practice (2-3% on top of natural churn[3])
- First player to launch a significant **industrial partnership for back office** activities, involving ~1,100 employees (by end of 2013)

Balance sheet improvement on track

- **Balance sheet de-risked and deleveraged** (-8,7% RWA yoy[4])
- **Improving funding mix**, with decrease in more expensive funding sources

Refreshed and change-driven top management team

- **Management team completely renovated** (20 new executives in bank's key positions)
- New managers come from innovation-intense industries

1 Including UGC, ISP, UBI, BAPO, BPM, BNL and BPER
2 New plan objectives (Δ12-17)
3 Based on 12 months data
4 1H12 vs. 1H13

Contents

Profound business transformation, the first one in Italy

- ✓ Recent events have required a **fundamental restructuring of the bank**
- ✓ Unique opportunity for a **radical business transformation**
- ✓ We are **anticipating changes** that the whole market will face
- ✓ **Bank P&L and identity will significantly change**

	2012	Target 2017
Headcount	~31,200[1]	~23,200
Branches	~2,750[2]	~2,200
Cost-to-serve[3] *(€)*	~650	~500
Cost / income	66%	50%
Sales / employee *(k€)*	~165	~225
Sales / sqm *(k€)*	~5.5	~6.7
Digital customers	~ 1%	10%

1 As at Dec-11; in 2012 ~30,300 employees
2 Data as at Jun-12
3 Operating Costs per client

Key pillars of the new business plan

Existing plan priorities	Key pillars		
Profitability	1 *New customer proposition: quality of service and satisfaction*	1.1 **Target distribution model** *More accessible and richer for customers, less expensive for the bank*	*Business transformation*
		1.2 **Evolution of intermediation** *More intermediated products, for a leaner balance sheet*	
		1.3 **Strengthening of operating efficiency** *More productive, more digital, leaner with less wastage*	
		1.4 **Reshaping of human resources profile** *More productive and merit based professional development*	
	2 **Enhancement of commercial productivity**		*Short term impact*
Capital	3 **Improvement of credit portfolio quality**		
Liquidity	4 **Increase of quantity and quality of capital and normalization of funding**		

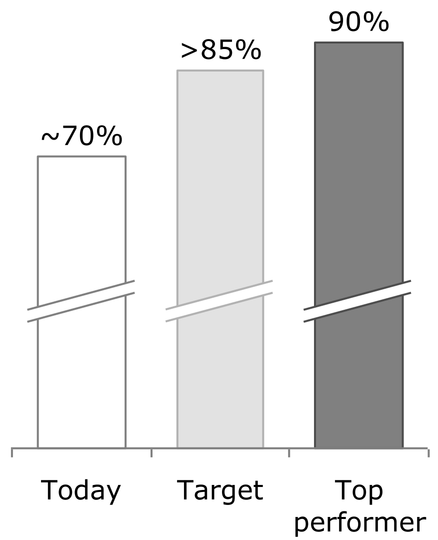
1 New customer proposition: quality of service and satisfaction

Strategic guidelines

- Enhance **service offering focusing on customer quality perception**, aligned with best practice in other industries
- Listen carefully and continuously to evolving customer needs
- **Ensure a high quality end-to-end service,** consistent across all channels
  - Quick response times
  - Good accessibility
  - Personalized service
- Ensure customer experience above expectations, to generate **loyalty and proactive advocacy**

Targets

Customer satisfaction level[1]



Target customers generating advocacy higher than 20%

1 Customer Satisfaction Retail 2012

1.1 Target distribution model guidelines

widiba

The new on-line bank is moving forward at full speed

A bank with fewer branches, more adequate, flexible and cost efficient sales points. More effective and profitable customer interactions

A new way of looking at customers

- ✓ Higher customer retention, acquisition
- ✓ Better brand equity and MPS reputation

Network restructuring

- ✓ More attractive layout
- ✓ Opex and cost-to-serve reduction

Review of branch roles

- ✓ Stronger sales focus in branches
- ✓ Higher network productivity

Remote channels enhancement

- ✓ Better quality of service to customer
- ✓ More sales leads

Customer Relationship Management (CRM) strengthened within a multichannel framework

Evolution of intermediation

1.2

More intermediated products, for a leaner balance sheet

Strategic guidelines

Develop third party distribution agreements and focus on advisory services

- New distribution agreements on leasing and consumer credit
- Multibrand offer with segment-specific approach

Boost bancassurance productivity, in both life and P&C

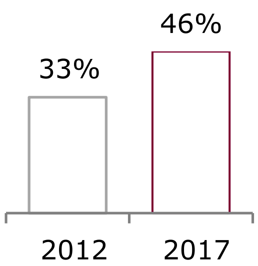
- Strengthening of AXA-MPS synergies
- Extension of bancassurance to corporate clients

Launch innovative solutions to support SME growth

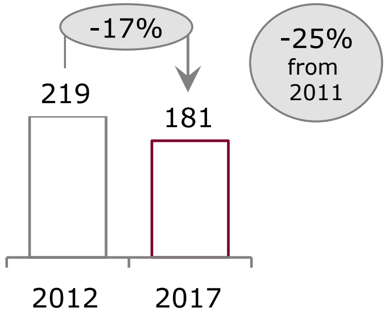
- 1st Italian Minibond fund (€150m)
- Originate-to-distribute model in attractive sectors
- Higher exploitation of third party funding

Targets

Net commissions/ revenues



Total assets *(€bn)*



1.3 Strengthening of operating efficiency

More productive, more digital, leaner with less wastage

Strategic guidelines	Targets

Achieve a leaner organization with streamlined processes

- Leaner organizational structure for both network and central functions
- Streamlined front-to-back processes in order to release capacity for sales and distribution activities
- Industrial partnership for back-office activities

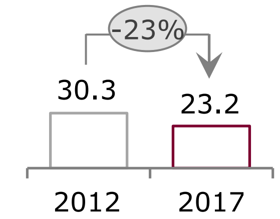
Reduce administrative expenses by reviewing the procurement operating model

- Pricing optimization
- Supplier performance monitoring
- Revise process for investment/expenses requests

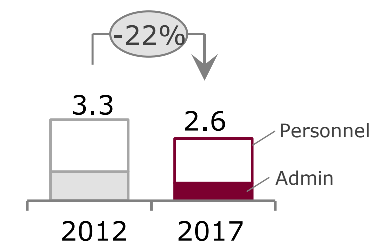
Reduce IT costs by innovating and optimizing the technology platforms

Targets

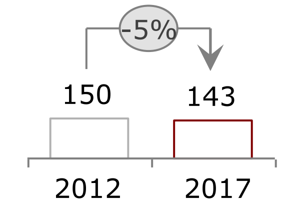
Group headcount *('000)*



Operating costs *(€bn)*



Costs / assets *(bps)*



1.4

Reshaping of human resources profile

More productive and merit-based professional development

Strategic guidelines

Focus on meritocracy and promote a results-oriented culture throughout the organization

- Incentive system (MBO) evolving from general bank objectives to team/ individual budgets
- New talent and performance management processes, towards a more merit-based professional development

Establish a culture of continuous improvement

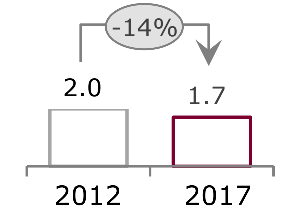
- Strategic workforce planning implemented through job rotations and job posting programs
- New training system: MPS Academy

Continue the union relationship model based on dialog, to enable the achievement of the industrial plan

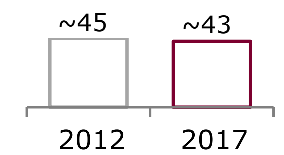
- For the search of agreed solutions with unions towards smoother exits
- Strengthening of welfare packages for group resources

Targets

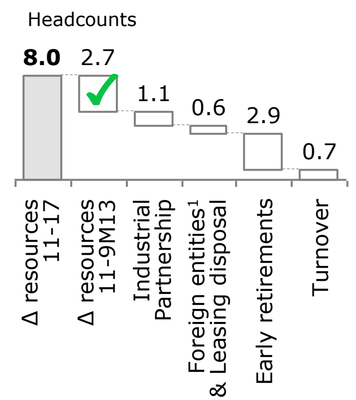
Personnel costs *(€bn)*



Average age



Exits levers *('000)*



1 MP Banque, MP Belgium, New York branch

2 Enhancement of commercial productivity

Strategic guidelines

Industrialized model to increase retail productivity

PROGETTO REGATA

- "Regata Project" already yielding tangible results
- Monthly sales plans rolled out to branches with focus on high potential clients
- More contacts with customers and higher commissions
- Higher engagement of sales network
- Leverage existing branch sales tools (e.g. Paschi Face, Advice)

Focus on Corporate growth, to become the reference bank for SMEs

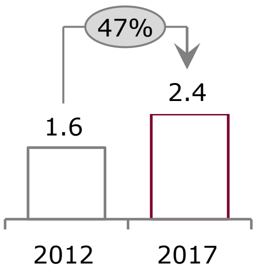
- Focus on transaction banking, international services, forex, advisory services and credit risk
- Introduction of industry-specific specialization
- Further deleveraging in Large Corporate

Exploit untapped private banking potential

- Hiring of new Private Bankers
- Private-Corporate synergies

Targets

Net commissions *(€bn)*



3 Improvement of credit portfolio quality

Strategic guidelines

Prevent performing loans stock deterioration
- Efficient application of new credit policies
- Proactive recognition and specific treatment of riskier performing positions

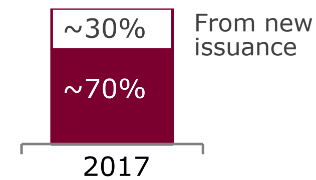
Reduce default stock and maximize recoveries
- Strengthening of credit quality workforce in the network
- Recovery anticipation to Watchlist and Past Due
- New recovery processes on defaulted positions

Improve portfolio through new credit policies/ strategies
- Portfolio requalification towards shorter durations
- New credit strategies for credit issuing and revamping

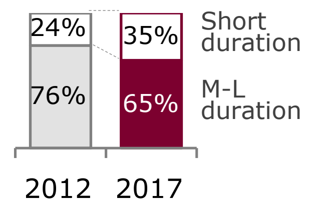
Optimize the organizational set-up of central credit department and network deployment
- Improved structure for central credit department
- Standardization of workforce deployment in the network

Targets

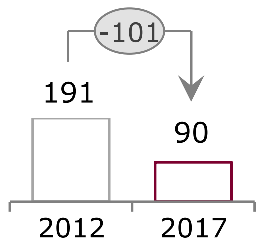
Credit stock



Duration mix



Cost of risk[1] *(bps)*



1 Computed on customer loans at end of period excluding debt securities

4 Increase of quantity and quality of capital and normalization of funding

Strategic guidelines

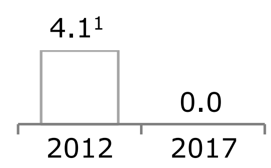
✓ **Increase of quantity and quality of capital**
- Up to €3bn of capital increase
- State Aid fully paid back (€4.1bn) by 2017
- ~10% CET1 "Phased in" 2017

✓ **Rigorous risk management and asset portfolio rationalization, through deleveraging and asset disposals**
- AFS govies deleveraging (from €23bn to €17bn)
- Reduction of VaR trading book
- Progressive decrease of Consum.it and Leasing
- Disposal of MPS Banque and Belgium and NY branch closure

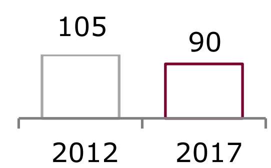
✓ **Normalization of funding**
- Increase customer deposits (~+€11bn)
- Strengthen counterbalancing capacity (~€19bn increase)
- LTRO entirely paid back by 2015

Targets

NFI *(€bn)*



Total LTD[2] *(%)*



1 As at March 2013
2 Calculated as customer loans divided by customer deposits plus securities issued

Contents

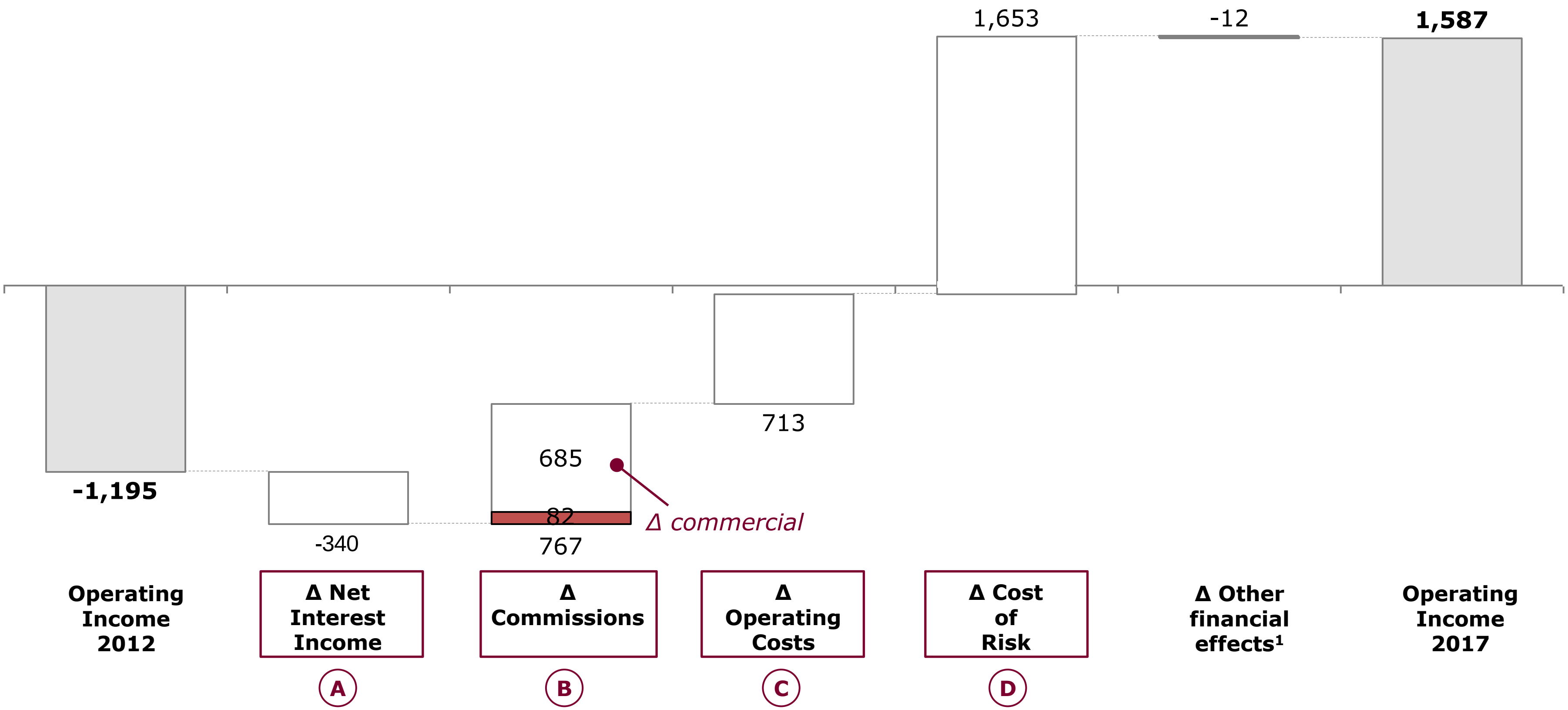
2013-17 Business Plan key financial targets

(€bn)	2012	2017	CAGR '12–'17
Revenues	5.0	5.2	+ 1%
Net interest income	2.8	2.5	- 3%
Net fee and commission income	1.6	2.4	+ 8%
Operating Costs	-3.3	-2.6	-5%
Loan Loss Provisions	-2.7	-1.0	- 18%
Operating income	-1.2	1.6	-
Net Income	- 3.2	0.9	-
Customer Loans[1]	139.8	113.0	- 4%
Direct funding	133.4	125.7	- 1%
Indirect funding	114.2	127.2	+ 2%
Revenues / Assets	2.3%	2.9%	+0.6 p.p.[5]
Cost / Income Ratio	66%	50%	-16 p.p.[5]
Loan to Deposit Ratio[2]	105%	90%	- 15 p.p.[5]
Cost of risk[3] *(bps)*	191	90	-101 bps[5]
ROTE	-	~9%	-
Common Equity Tier 1[4]	8.9%	10.0%	+1.1p.p.[5]
RWAs[4]	92.8	80.9	-3%

1 Not including debt securities 2 Customer loans / customer deposits and securities issued 3 Calculated on customer loans at end of period excluding debt securities
4 For 2012: Core Tier 1 and RWA according to Basel II methodology. For 2017: Common Equity Tier 1 (Basel III, Phased in) and RWA according to Basel III methodology, based on information available today 5 Δ 12-17 (not CAGR)

Breakdown of the operating income growth '12–'17

Operating income evolution 2012–2017 *(€m)*

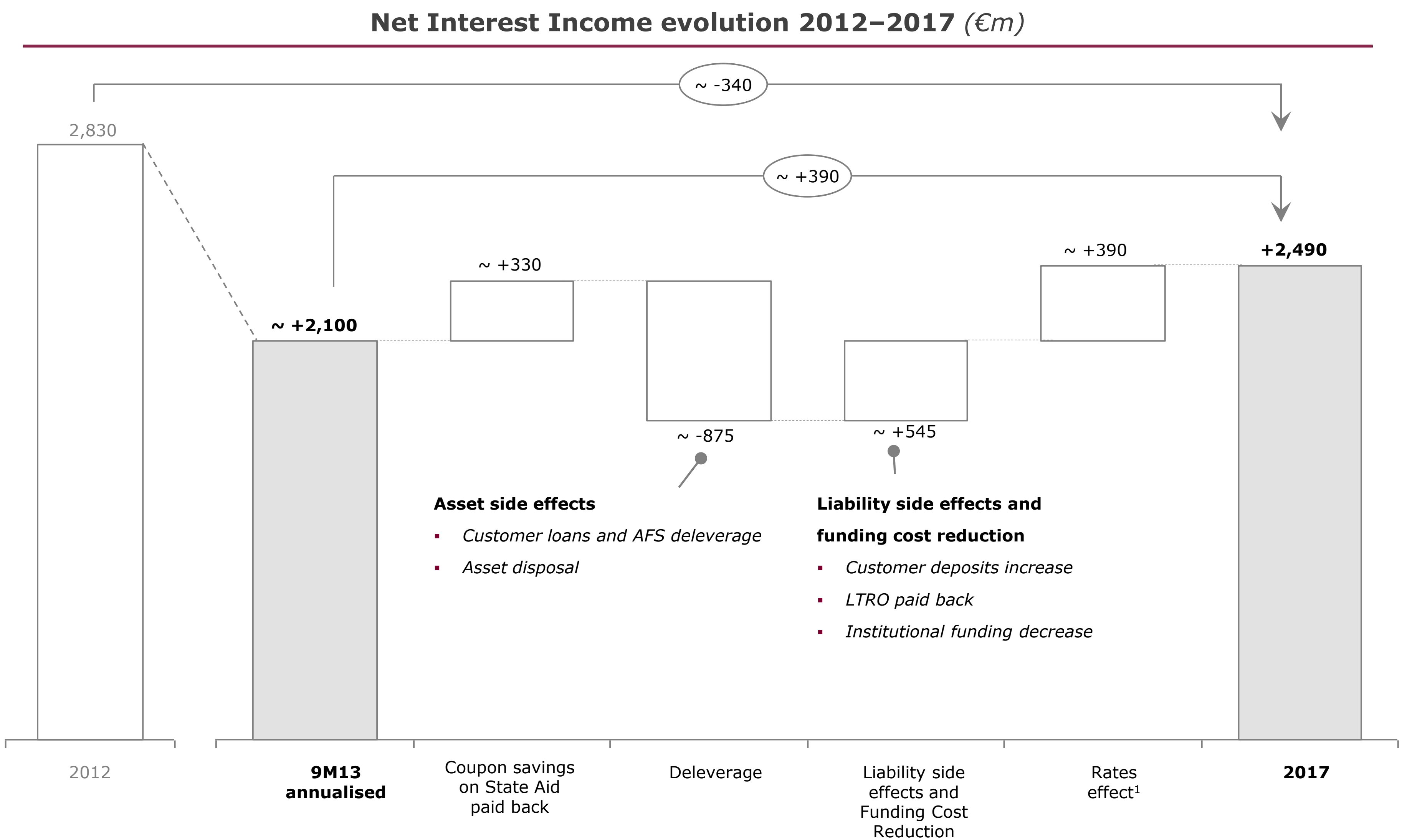


Δ (%) vs baseline	-12%	+47%	-22%	-62%

1 Mainly related to impairment on financial assets and results from trading activites

Contents

A Net interest income evolution driven by asset deleveraging, funding cost reduction and rates increase

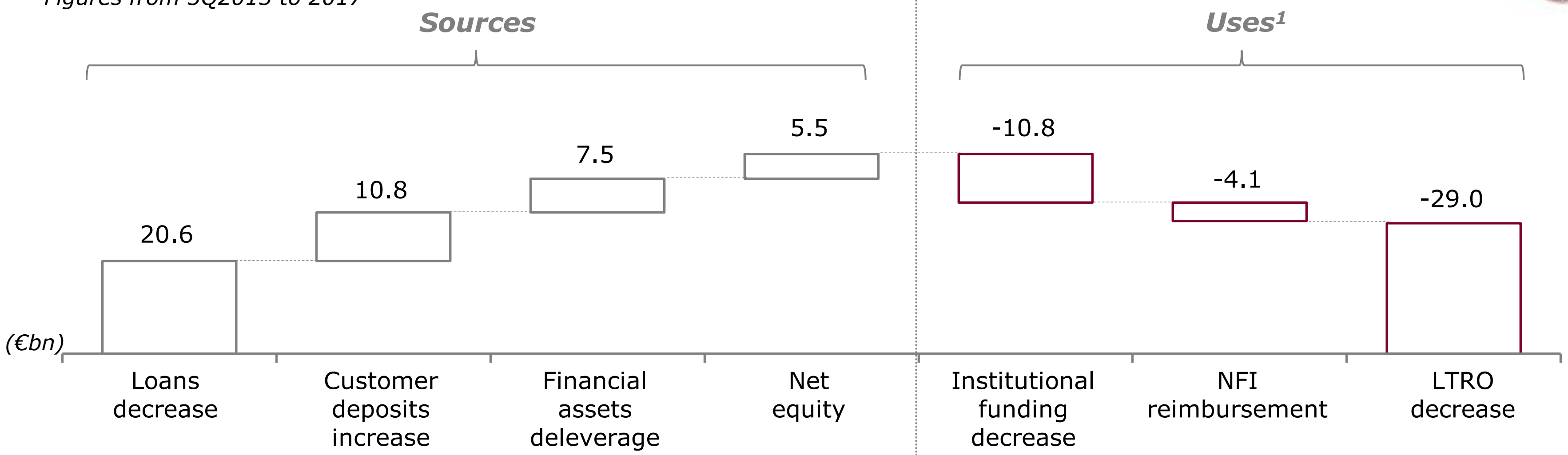


1 Approximately 125bps increase on €31bn of net assets sensitive to rates increase

Deleveraging, customer deposits and capital increase to drive the normalization of the bank's funding sources

A

Figures from 3Q2013 to 2017



Loan decrease ~€21 bn
- Loan deleverage ~€9bn
- Progressive reduction Consum.it ~€5bn,
- Foreign entities disposals ~€2bn and Leasing disposal ~€4.5bn

Customer deposits increase ~€11bn
- Reduction of gap on deposits per client

Financial assets reduction ~€7bn
- Driven by maturity of current positions (mainly sovereign)

Net Equity increase of ~€5.5bn
- Capital increase (up to €3bn)
- Retained earnings and AFS revaluation

Maturity of institutional bonds ~€11bn
- Mainly in 2014 and 2015

NFI reimbursement of €4bn
- Of which €3bn in 2014
- The remaining part gradually in 2015-17

LTRO decrease ~€29bn (LTRO)
- By 2017 increase of ~€19bn of counterbalancing capacity
- In the short term the counterbalancing will be used as needed to cover the LTRO decrease

1 Includes other uses for approx €0.5bn

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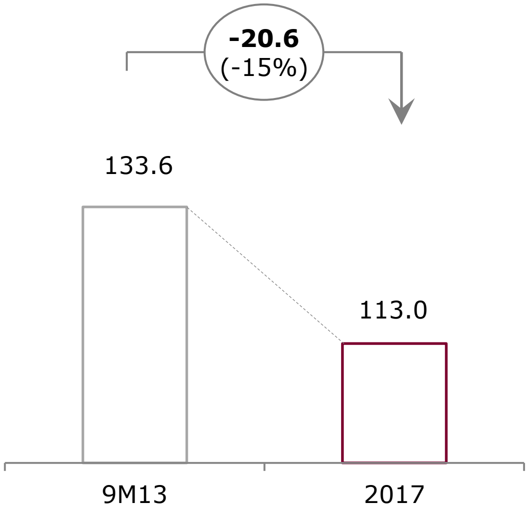
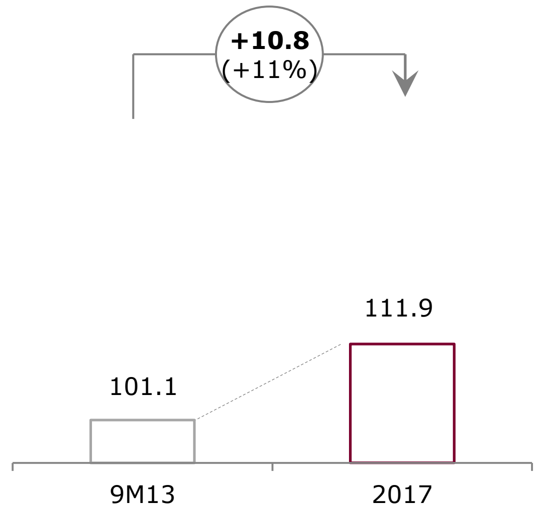
Significantly improved loan to deposit ratio due to deleveraging and increased customer deposits

Assets[1] deleveraging *(€bn)*



+

Customer deposits[2] increase *(€bn)*



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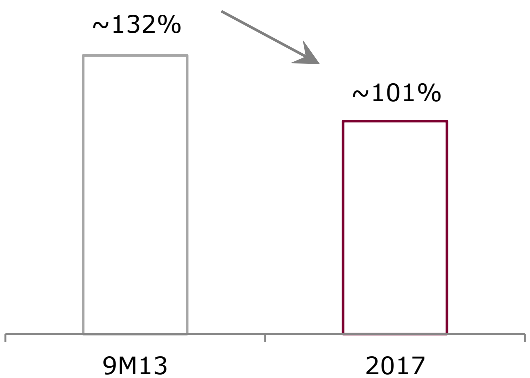
Commercial Loan to Deposit ratio



Product factories disposals and network deleveraging

- Loan deleverage ~€9bn
- Progressive reduction of Consum.it ~€5bn
- Foreign entities disposals ~€2bn and Leasing disposal ~€4.5bn

Portfolio rebalancing towards short term maturities

- Short term from ~24% to ~35%

Reduction of funding gap per client

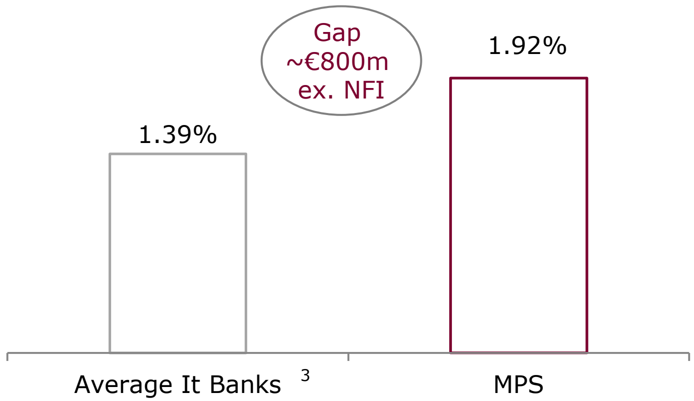
- Customer deposits per client lower than main competitors (-11%: ~€25k vs. ~€28k)
- Deposits market share lower than fair share (6% vs. fair share ~7.5%)

1 Loans and receivable to customers net of debt securities
2 Customer deposits (net of Repos) and Bonds

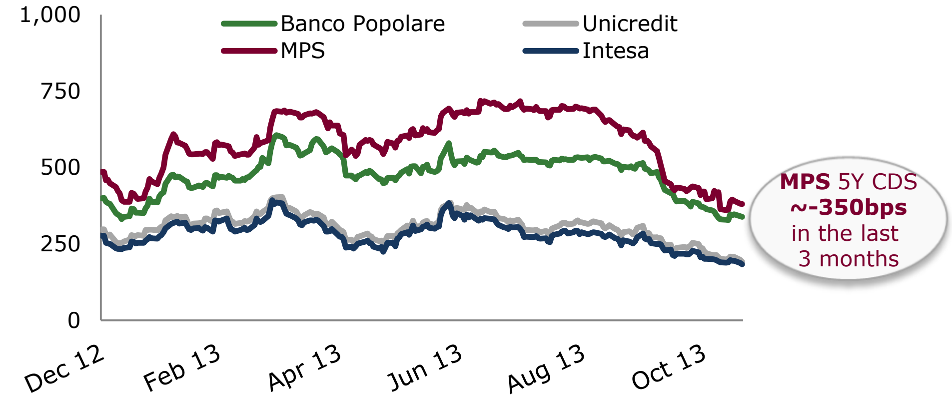
A

Currently MPS has a significant funding cost gap to be closed

Total Cost of Funding[1]/Volumes[2]

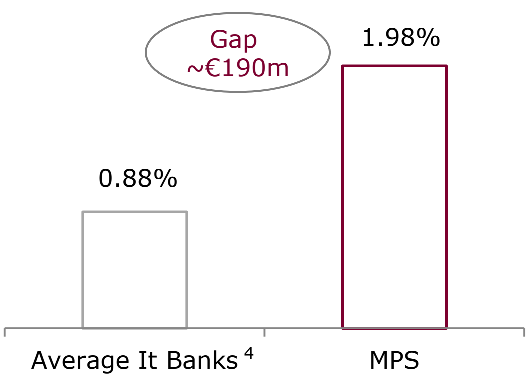


Italian Banks 5Y CDS

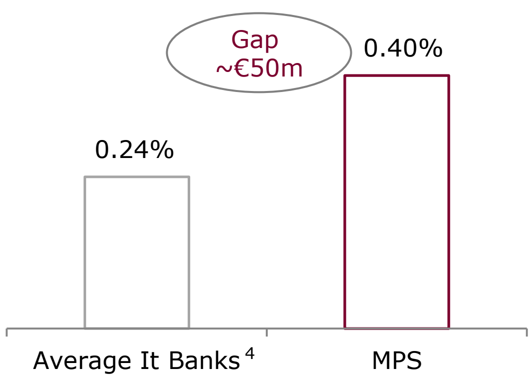


of which

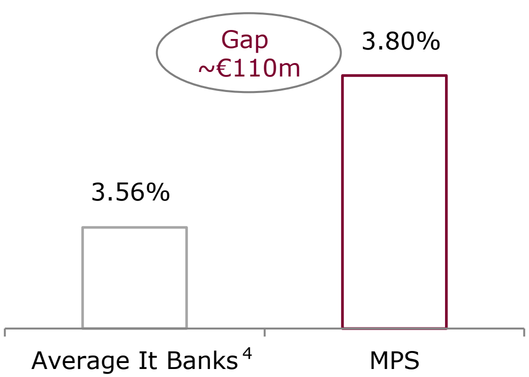
Cost of Corporate Funding (€17bn stock)



Cost of Retail (CA) Funding (€29bn stock)



Cost of Bond (€44.5bn stock)



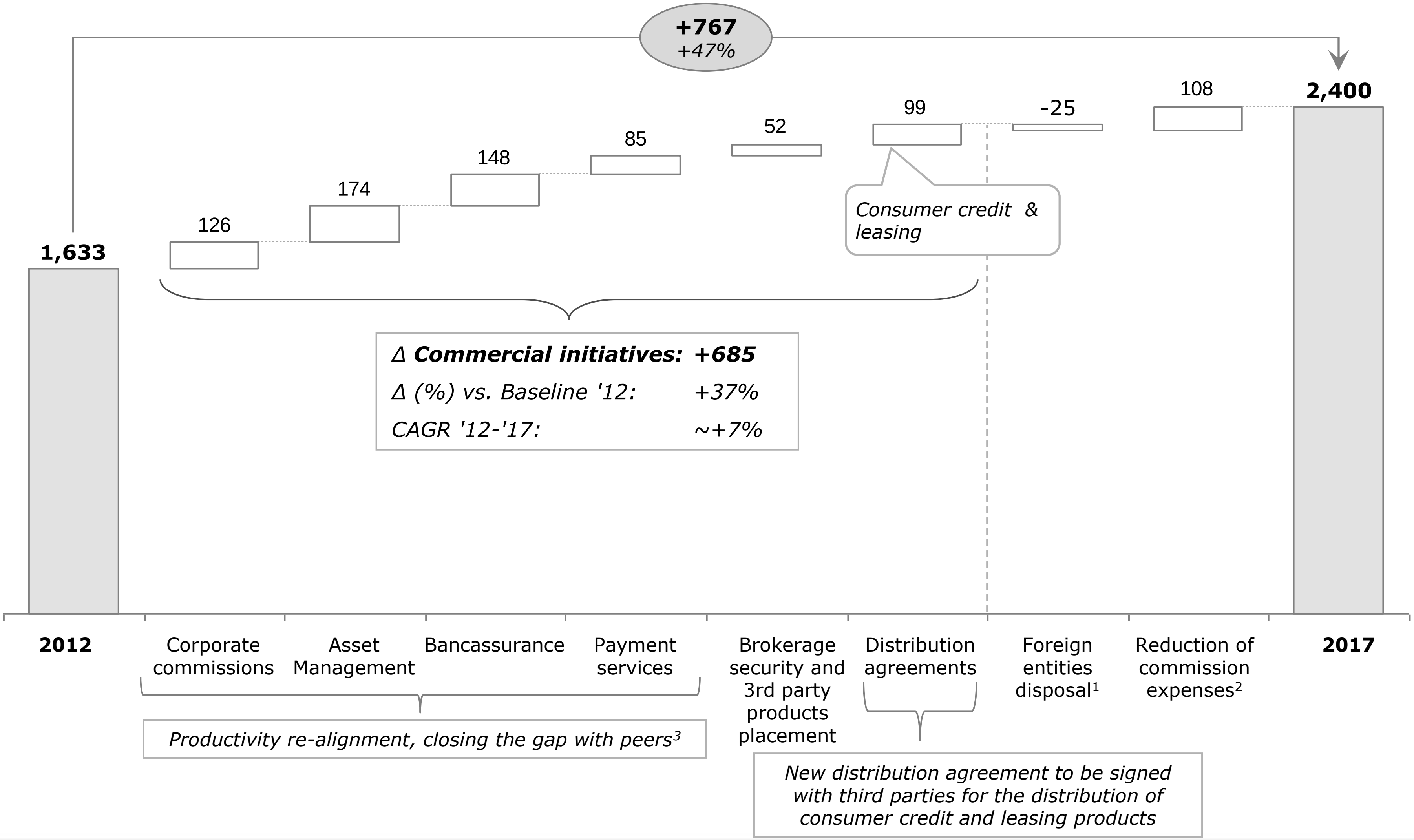
1 1H13 figures annualised. Computed as interest expenses. Source: 1H13 report
2 Total liabilities excluding shareholders' equity
3 UCI, UBI, BPM and BPER. No public data available for ISP and BAPO
4 ABI sample of "Banche Maggiori e Grandi" comprising 10 Italian banks

Contents

Net commissions increase driven by very specific but broadly spread growth areas

B

Net Commissions evolution 2012–2017 *(€m)*

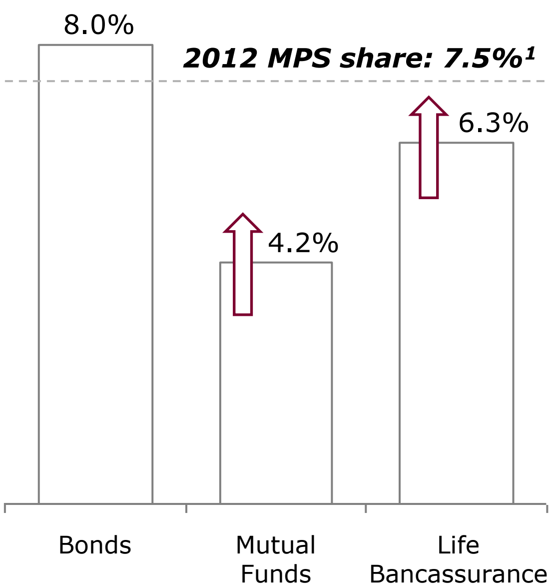


1 MPS Banque and Belgium, NY branch
2 Of which +€102m lower warranty commissions on Monti Bonds
3 Including ISP, UCG, BAPO, UBI

B There is an addressable commission gap vs. peers both in terms of volumes and profitability

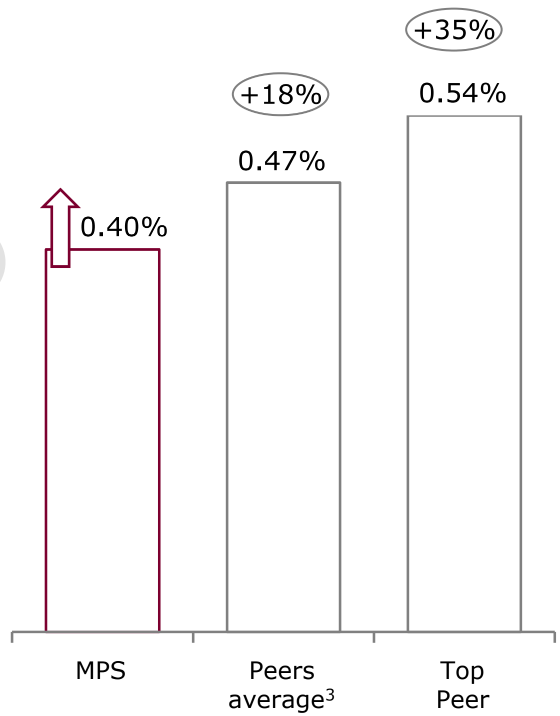
MPS market share
Volumes gap

As of December 2012



Net commissions/volumes[2]
Profitability gap

Public data, 2012



Net commissions/customer

Public data, 2012

Client base of over 5.3 million[4]
of which more than 1 million are affluent

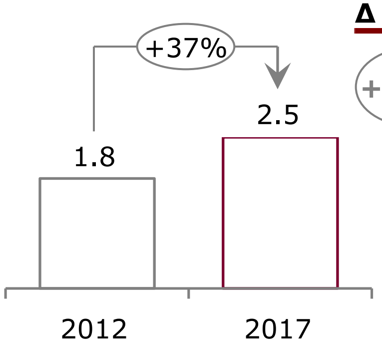
1 Based upon branch and salesforce market share
2 2012 average of the sum of direct, indirect funding and customer loans. For BMPS the amount as at 31 December 2012 was €410bn
3 ISP, UCG, BAPO, UBI
4 With regard to the number of customers, it should be noted that as of the beginning of 2013 it has been decided that more stringent requirements are to be applied to monitor the consistency of the customer base, excluding analysis of the so-called "active-status customers". This figure is thus not comparable with the one reported in the Consolidated Annual Report as at 31/12/2012

Gap to be closed through 2 main levers: increase in network productivity and increase in commercial workforce

B

Commissions *(€bn)*

Commercial commissions



Δ 12-17

+685m

Total commissions (€bn)

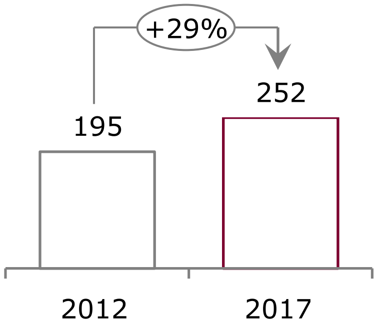
1.6 2.4

+767m

x

Network productivity

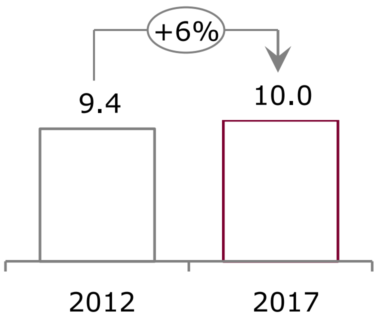
Commissions / commercial FTEs[1] (€k)



- ✓ More contact opportunities per client
- ✓ More contacts per relationship manager
- ✓ Higher conversion ratio
- ✓ Higher sales per relationship manager

Commercial workforce

Commercial FTEs[1] ('000)



- ✓ New distribution model
- ✓ More commercial time in branches

1 FTEs dedicated to commercial activities

Ⓑ Significant potential to boost Corporate profitability

A new service model for Corporate

Become the reference bank for SMEs segment
- Introduce industry-specific competencies

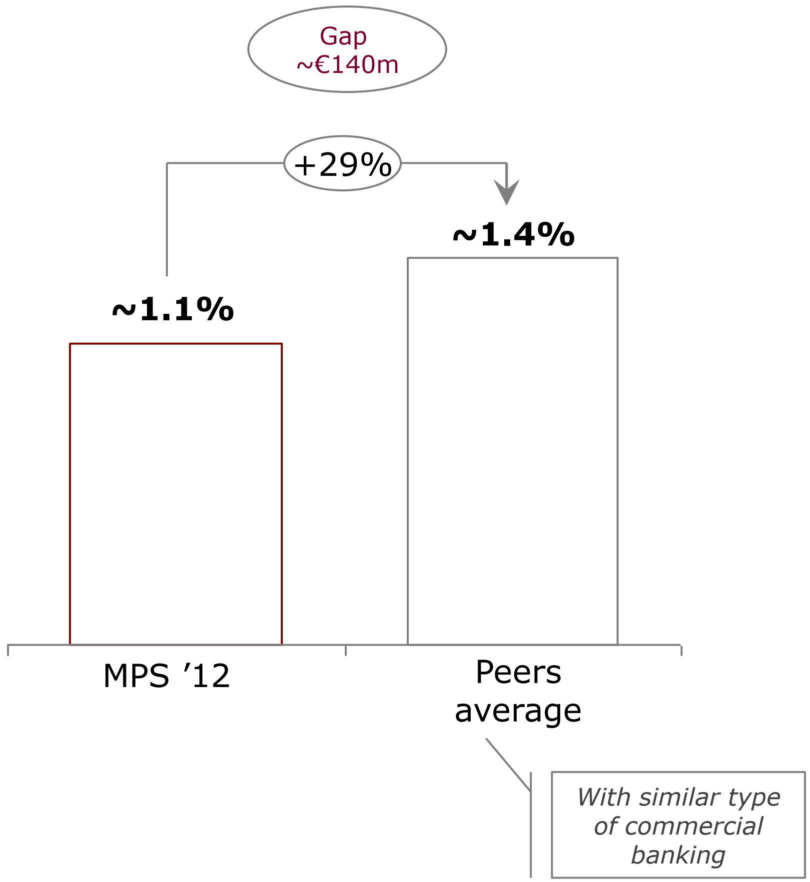
Enhance fee-based transaction banking
- E.g. advisory, international services, forex, corporate banking, credit risk solutions

Dedicated, tailored commercial approach for high-potential clients
- E.g. capital and dedicated processes

Further deleveraging in Large Corporate

Commissions Gap

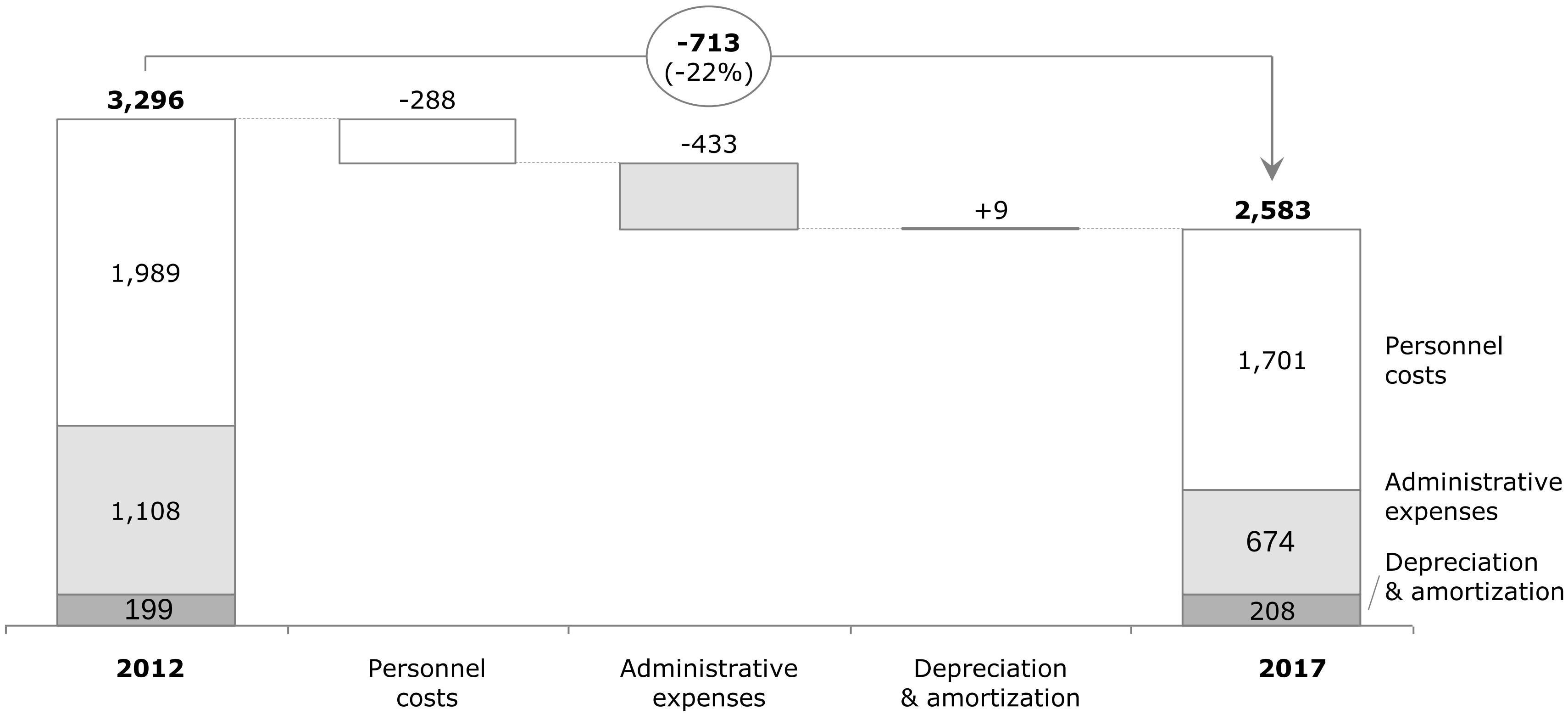
Corporate Net Commissions / Corporate RWA



Contents

c Optimization of operating costs through reduction of personnel costs and review of administrative expenses

2012–2017 Operating costs evolution *(€m)*

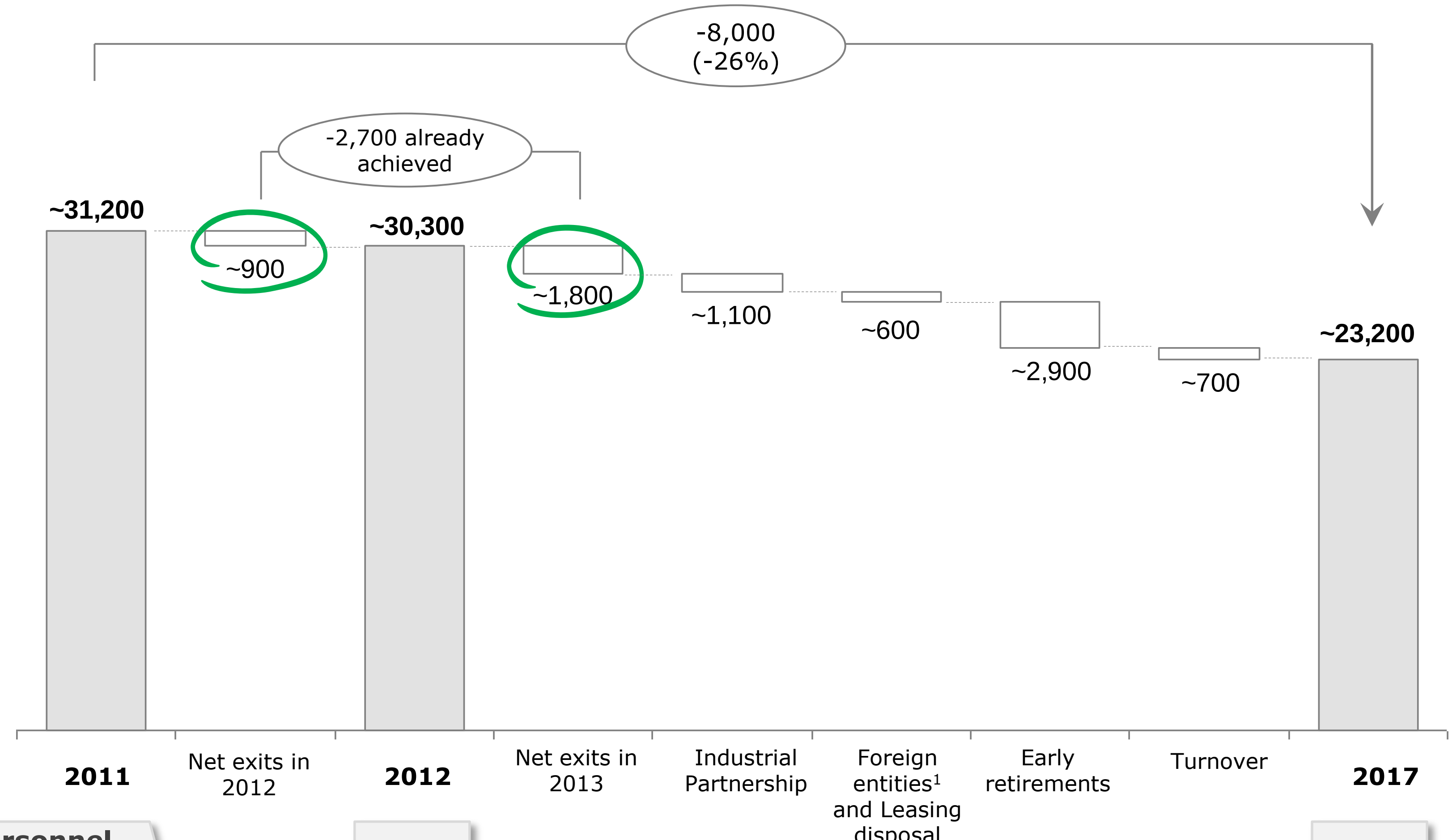


Δ vs. baseline 2012	Personnel costs	Administrative expenses	Depreciation & amortization
	-14%	-39%	+4%

Workforce reduction achievable through a solid HR plan, based on actionable levers with high probability of success

C

Evolution of number of employees by operational lever 2011–2017



Personnel costs (*€bn*)	2012: ~2.0	2017: ~ 1.7

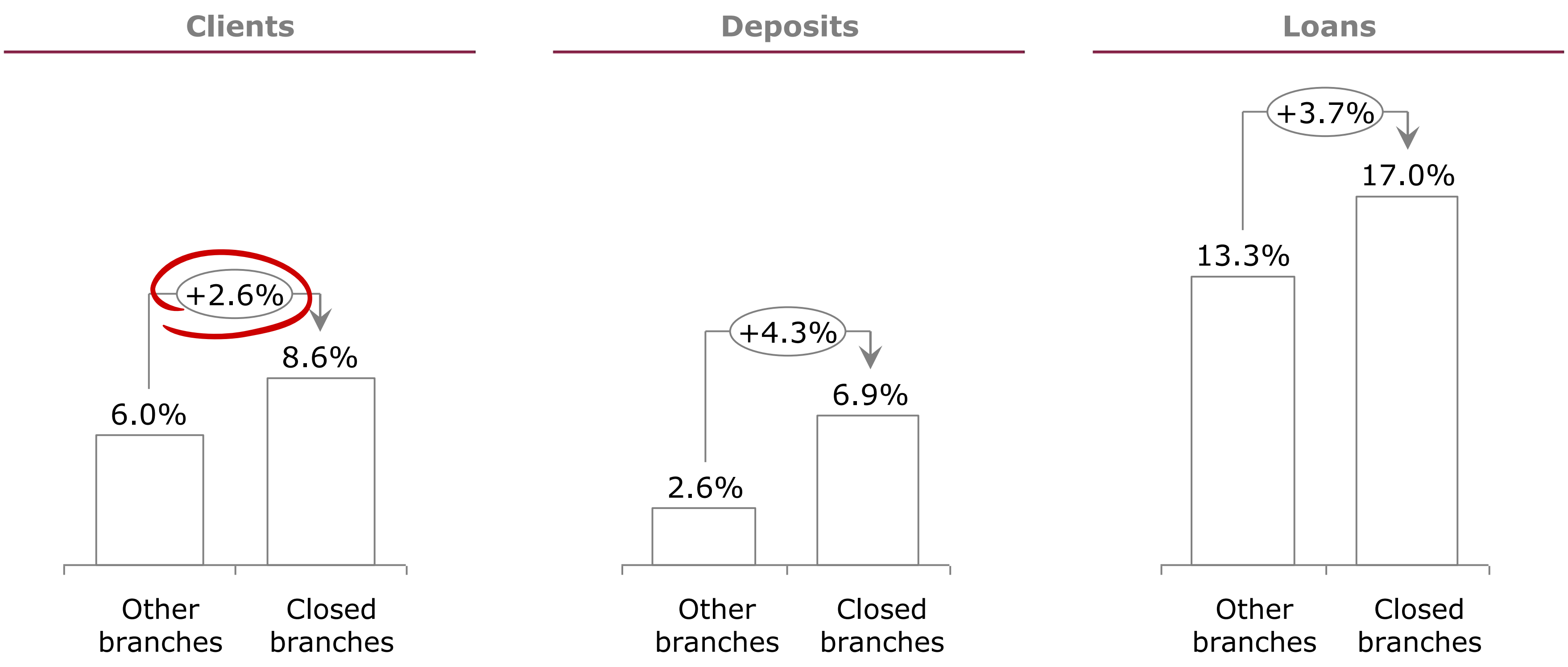
1 MP Banque, MP Belgio, and New York branch

C Administrative expenses reduction breakdown

Cost reductions initiatives have limited impact on revenues

c

Impacts due to branch closures—Churn Rate



Note: Churn data 12 months after closure

Contents

D Industrial levers and macroeconomic scenario underlying credit quality enhancement

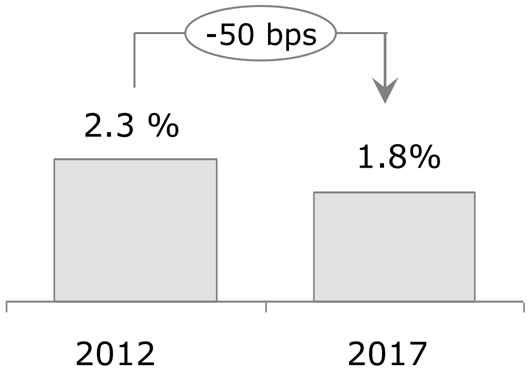
Component	Main drivers
Industrial levers	✓ **Better credit selection in the issuing phase** ▪ Credit issuing bound to credit policies target ▪ ~30% of 2017 portfolio consisting of new credit issues in the 13-17 period ✓ **Portfolio requalification towards shorter durations** ▪ Short duration credits from ~24% to ~35% of total portfolio ✓ **Regularization (back-to-performing) rate improvement** ▪ +1.8 p.p. of regularization rate from Past Due, Restructured and Watchlist ✓ **Effectiveness recovery** ▪ +2.5 p.p. of NPL recovery rate
Macro-economic scenario improvement	✓ **Italian GDP upswing from 2014 and progressive growth towards 2017** ▪ +0.70% 2014; +1.40% 2017 ✓ **Containment of flows from Bonis to Default and within Default stages** ▪ -0.5 p.p. of NPL deterioration rate

Improving deterioration and recovery rates in the plan
Focus on NPLs

D

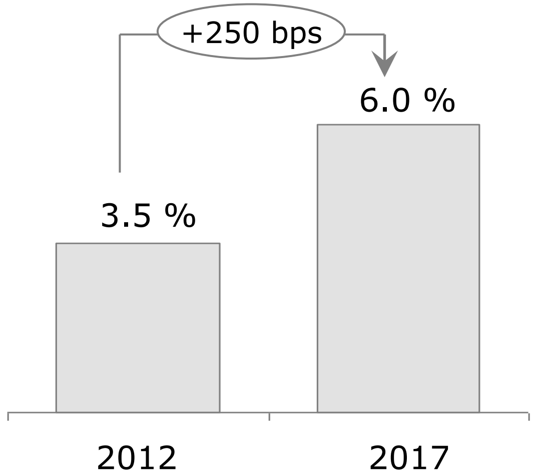
Decreasing deterioration rate of NPLs

New NPLs in the year/non-NPLs stock at beginning of year



Increasing recovery rates from net NPLs

Recovery from net NPLs in the year/net NPLs stock at beginning of year

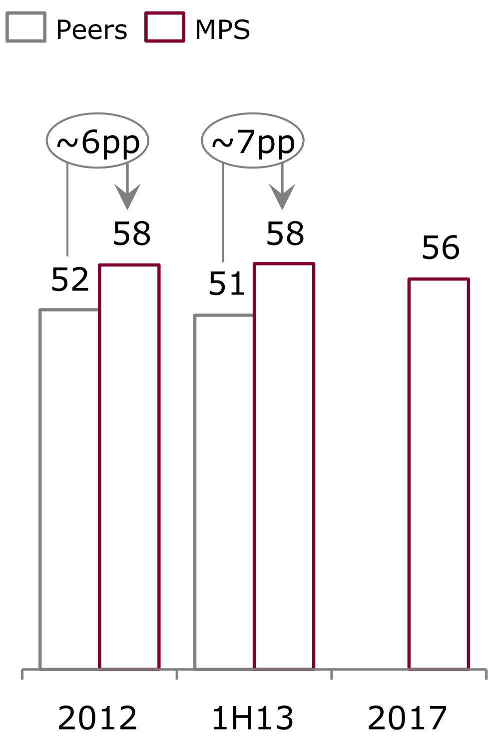


- ✓ **Reduce default stock and maximize recoveries**
  - Strengthening of credit quality workforce in the network
  - New recovery processes on defaulted positions
- ✓ **Optimize the organizational set-up of central credit department and network deployment**

D MPS currently more conservative approach vs. peers to continue in the future

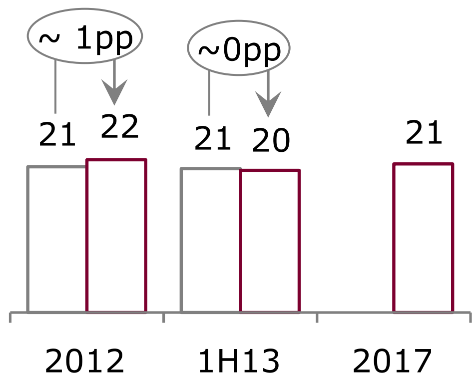
NPLs coverage

7pp higher than peers



Watchlist coverage

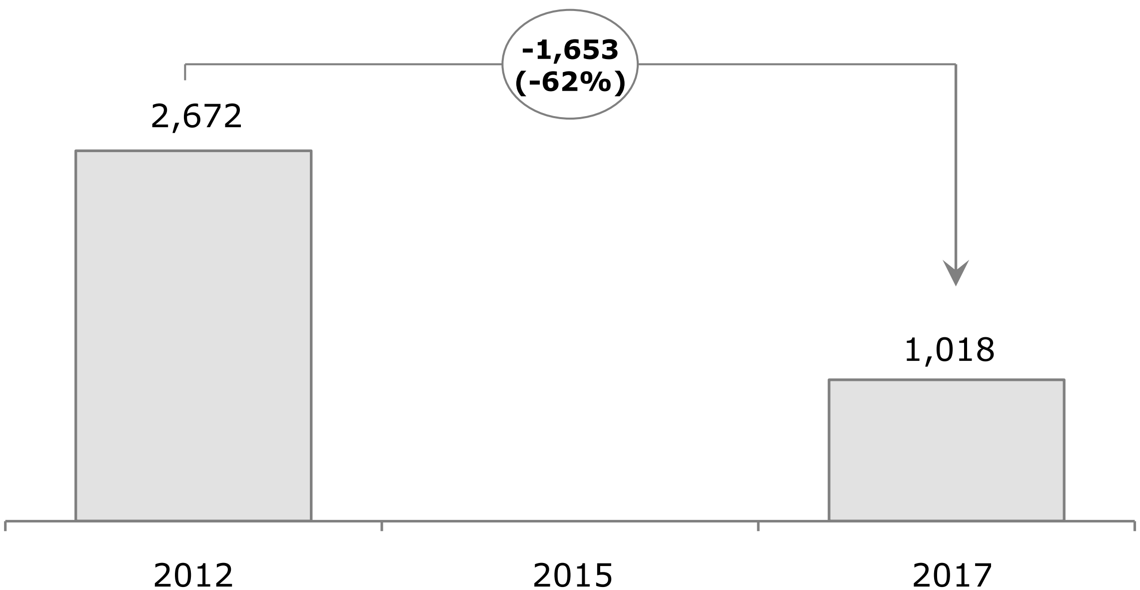
in line with peers



- ✓ Italian banks have more prudent supervisory standards (e.g. more stringent definition of problematic loans, arose of collaterals, pooling method, no inclusion of generic reserve, etc)
  - If Italian banks were to follow the standards used in other jurisdictions, NPL ratio would be lower by 1/3 and coverage higher by 20 p.p. (source: Bank of Italy)
- ✓ MPS in line with best in class coverage ratios in Italy
- ✓ MPS portfolio mainly represented by mortgage loans, with high level of collateralization mainly related to Real Estate assets

D Cost of risk prudently set above 100bps until 2016

Loan loss provisions evolution 2012–2017 *(€m)*



- ✓ Increase of Retail component from 40% to 44%, with a cost of risk of ~80 bps (9M13 annualized)
- ✓ Progressive reduction of Consum.it, with a cost of risk of ~500 bps (9M13 annualized)
- ✓ Strong focus on Corporate credit risk management

	2012	2015	2017	**Δ 12-17**
Cost of Risk[1] *(bps)*	**191**	**106**	**90**	**-101**

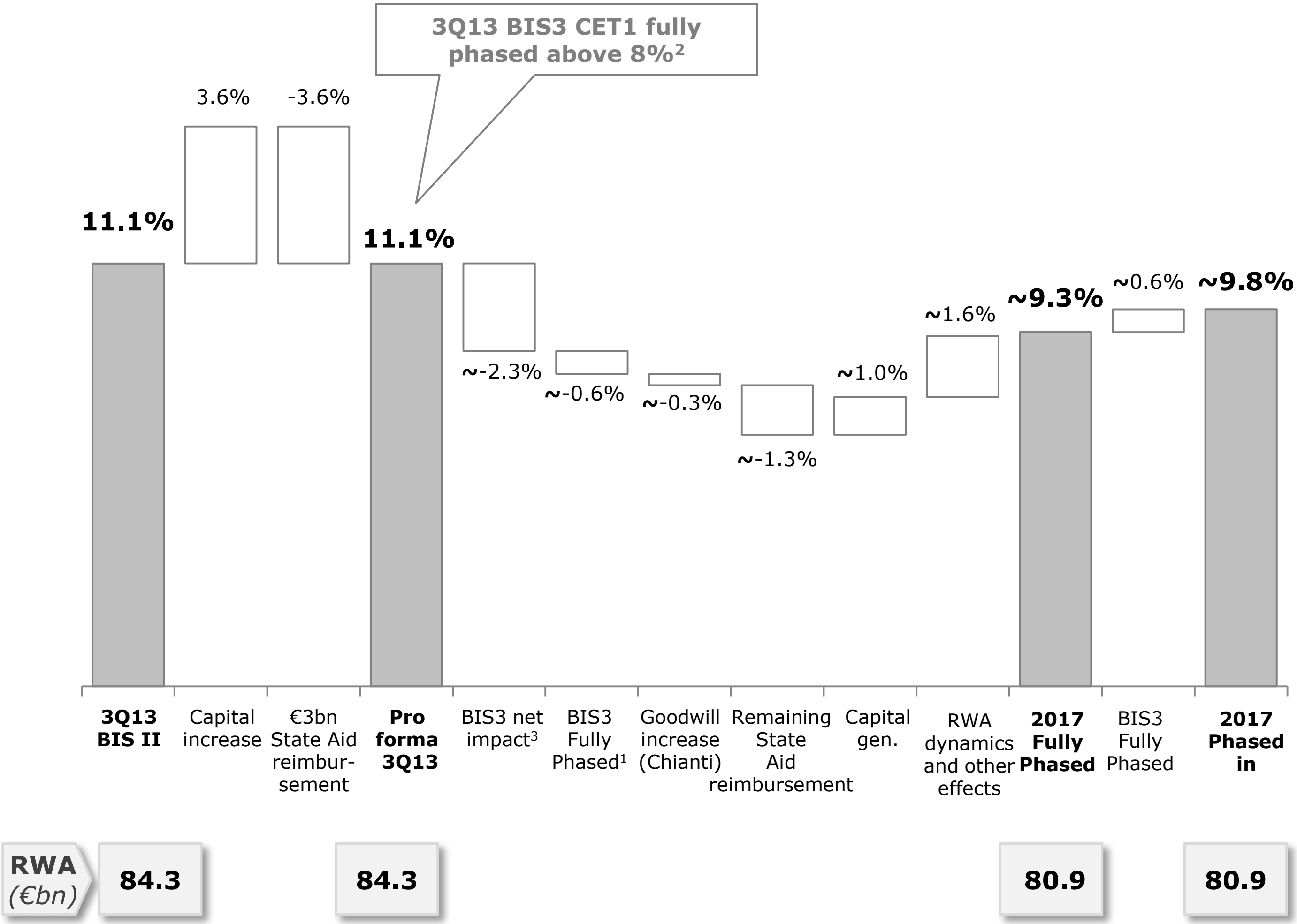
More conservative than market consensus for Italian banks[2] in 2015 (90 bps)

1 Computed on customer loans at end of period excluding debt securities
2 UCG, ISP, BAPO,UBI, BPM, BPER. Source: Research reports

Contents

Capital increase to allow the repayment of the NFI while strengthening the Core Tier 1 *ratio*

Core Tier 1 Evolution[1] *(%)*



Several capital buffers including inter alia

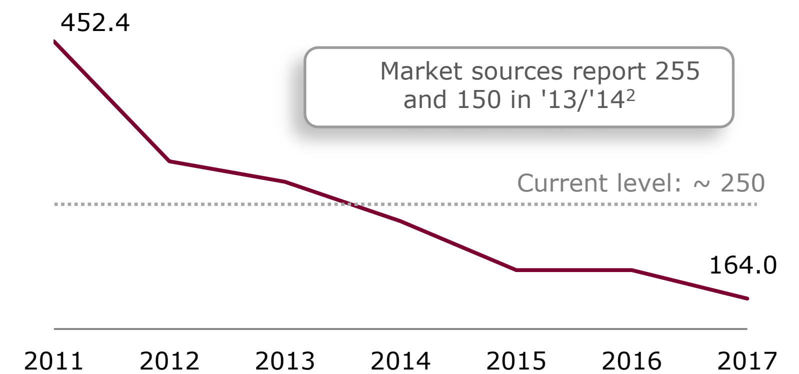
- **The potential application of the Stability Law** inclusion of loan loss provisions in IRAP tax base (20% first year and 80% in the next 4 years)
- **SME supporting factor**: lower weight in RWA on specific SMEs loans (from 2014)
- **Bank of Italy equity investment:** potential removal of the prudential filter applied to Bank of Italy's participation
- **DTA related to IRAP tax excluded from deductions:** potential transformation of part of DTAs arising from IRAP tax into DTAs
- **AFS Reserve:** potential extension of current filter on the EU Government bonds AFS reserve, until the approval of the new IAS 39

1 Estimated impact according to information available so far; the actual impact is subject to the implementation of the relevant regulations
2 Estimated impact according to the information available so far; the actual impact is subject to the implementation of relevant regulations. Estimated impact is fully phased-in Basel 3 and based on 30.09.13 financial statements assuming AFS net reserves on European Government bonds (spread BTP Bund 164 bps) and related DTAs as 2017 (Restructuring Plan).
3 Estimated impact according to information available so far; the actual impact is subject to the implementation of the relevant regulations. Net impacts of BIS 3 introduction on Restructuring plan dynamics

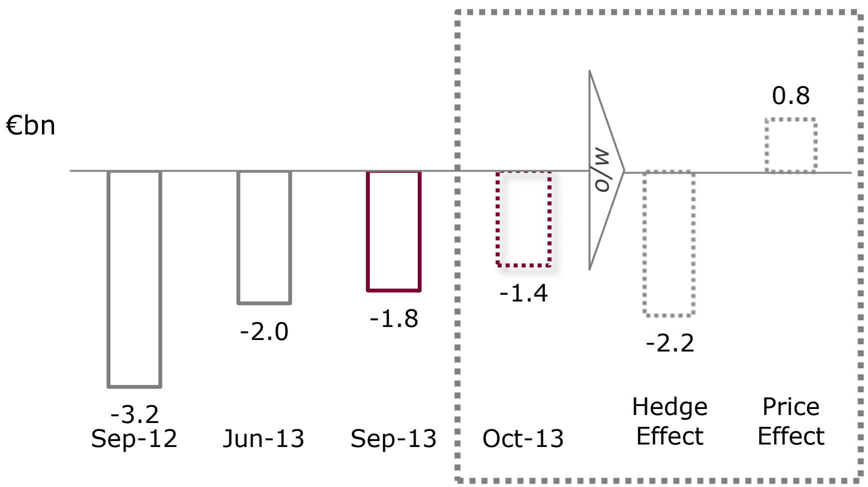
Capital position to continue benefiting from the sovereign spread normalisation

Evolution of BTP–Bund spread since 2011 to today

BTP–BUND Spread[1] *(bps)*



EBA AFS Reserve[2] over time

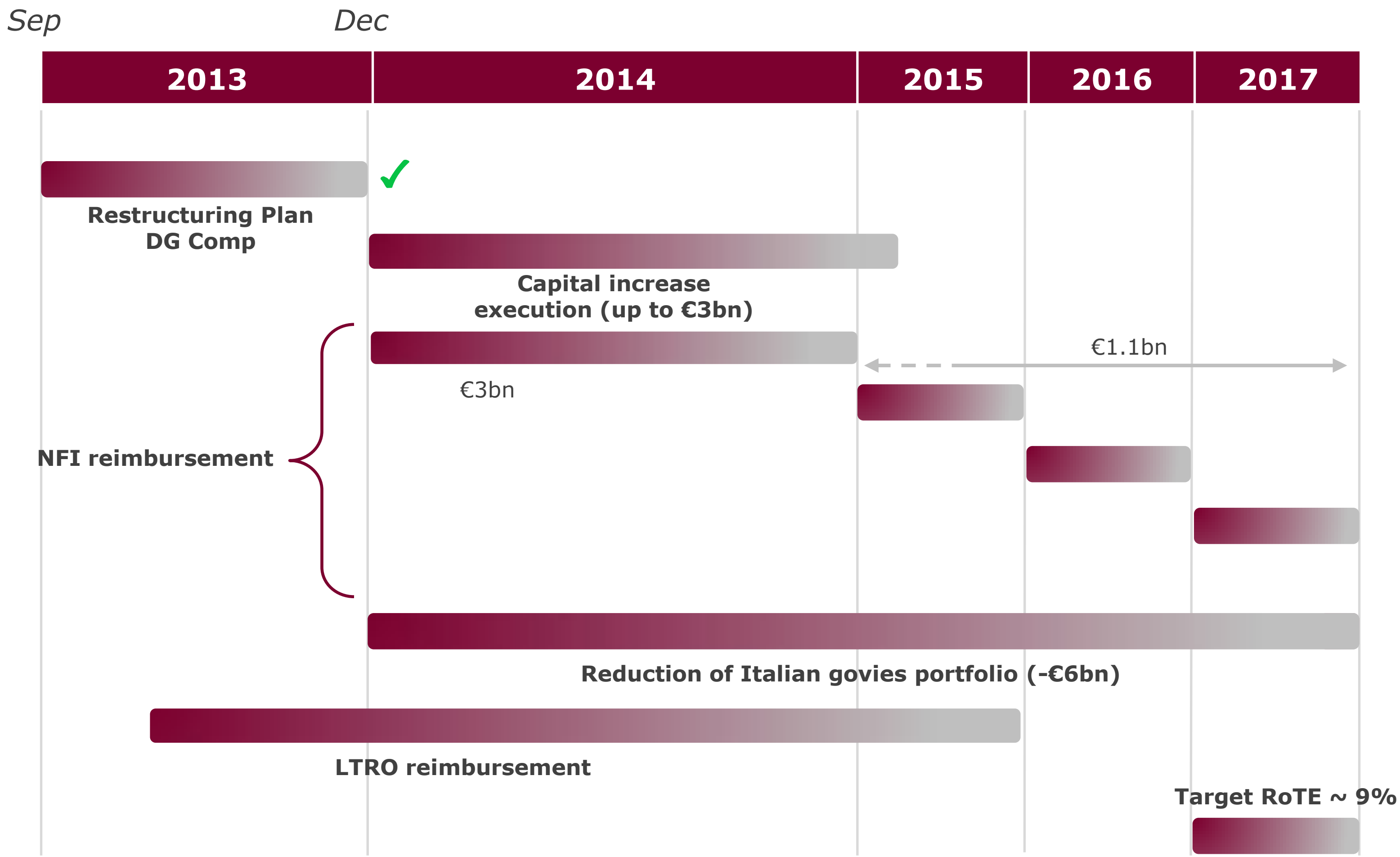


- **AFS reserve** at Oct-13 was -€1.4bn (vs. €3.2bn at time of EBA stress test on Sep-11)
- Estimated sensitivity of Banca MPS' Italian Govies AFS reserve (based on 2012 figures):
  - Credit spread sensitivity[3]: ranging from €10.1m to €14.6m/bps (positive effect of tighter credit spread on AFS)
  - Rates sensitivity[4]: €3.6 €m/bps (positive effect of higher rates on AFS)

1 Source: UBS Research
2 Figures from operational data management system (Risk management Area)
3 Defined as 1 basis point decrease in Italy yields while swap rates unchanged or increase in swap rates while BTP yields unchanged
4 Defined as 1 basis point increase in both Italy yields and swap rates (i.e. credit spread unchanged)

Contents

The 2013–2017 roadmap



The Restructuring Plan is already in motion

Conclusions

- ✓ Business Plan to radically transform BMPS operating and financial profile
- ✓ Focus on reduction of productivity, efficiency and funding cost gaps underpins the success of delivery
- ✓ Right management team in place, motivated to execute the plan and already delivering progress ahead of schedule

Reposition BMPS as a lean, leading Italian commercial bank with an attractive risk-reward profile

Delivery puts BMPS at the forefront of the coming transformation of the Italian banking sector

Thank you for your attention

Q&A

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