Banca Monte dei Paschi di Siena

Una storia italiana dal 1472

Restructuring Plan 2013-2017

Guidelines

Siena, 7 October 2013

MONTE DEI PASCHI DI SIENA
BANCA DAL 1472

A new equity story with attractive growth and risk-return…

- ***Repositioning BMPS as a lean, leading Italian commercial bank with an attractive risk-reward profile***
- ***Solid plan*** built upon strong turnaround track record, clearly identified actions and prudent macroeconomic assumptions
- ***Restored profitability and capital generation***, targeting ~ 9% RoTE and ~ EUR 900m net income in 2017 via, inter alia, productivity and funding gap recovery and significant cost optimization initiatives
- ***Contingent cost optimisation measures*** in case certain commercial and profitability targets are not achieved
- Clear path to a ***strengthened capital position*** via a EUR 2.5bn capital increase allowing for acceleration of NFI reimbursement (~ 70% of total by 2014, in full by 2017)
- ***Fully audited and de-risked balance sheet*** (~ 10% Italian govies / tot. assets and ~ 90% loans / deposits[1] by 2017, with full repayment of ECB funding by 2015)
- ***Significant additional upside potential***, stemming from unique operating leverage to macro recovery, conservative assumptions and extraordinary actions not factored in
- ***Fully transparent, effective and modernised governance structure*** focused on shareholder value creation

1 Customer loans / customer deposits and securities issued. Excluding wholesale funding, the customer loans / customer deposits ratio is estimated at 100% in 2017

…building on strong momentum…

Simplified group structure and governance

- Introduction of a new management team, a new mindset and a new culture
- Group simplification completed, with renewed focus on core business
- Overhaul of credit, risk and compliance functions completed
- In-depth review of bank's governance conditions, with 4% shareholding cap removed

Improved balance sheet structure

- Balance sheet significantly derisked and deleveraged (RWA down by 8.7% y/y[1])
- Full audit of financial assets and asset quality completed in 1H 13
- Enhanced liquidity position (EUR 21bn unencumbered counterbalancing capacity in 1H 13, rebalanced L/D[2] ratio from 109% in 1H 12 to 101% in 1H 13)

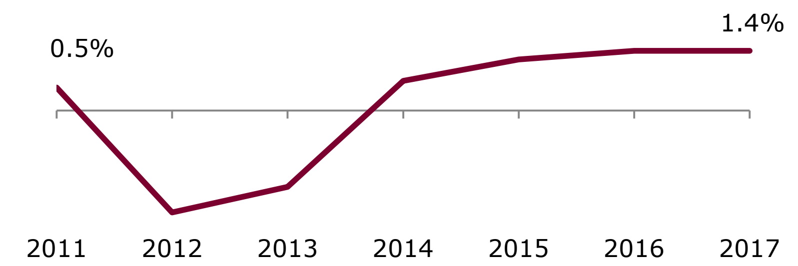
Delivering Business Plan 2012-2015

- Strong business performance (+22% AUM commission income and +60% dividend from AXA JV from 1H12 to 1H13)
- Cost optimisation targets completed ahead of schedule
  - 400 branches closed (100% of target), two years ahead of schedule
  - Headcount reduction via 2,700 exits (58% of target) already achieved

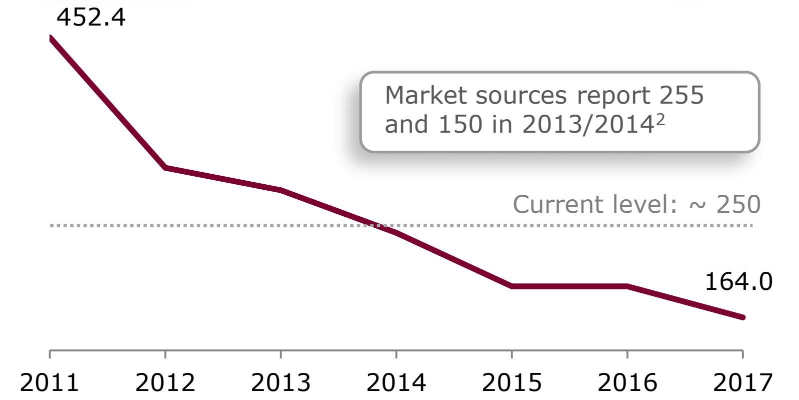
1 From June 2012 to June 2013
2 Customer loans / deposits from customer and securities issued

…and underpinned by conservative macro assumptions

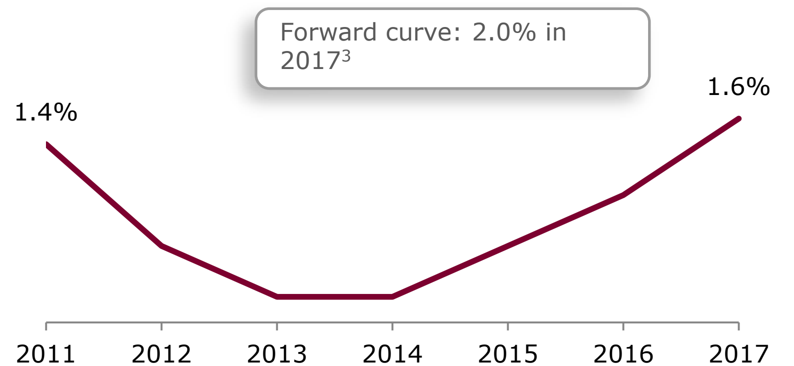
Gross Domestic Product[1] (YoY %)



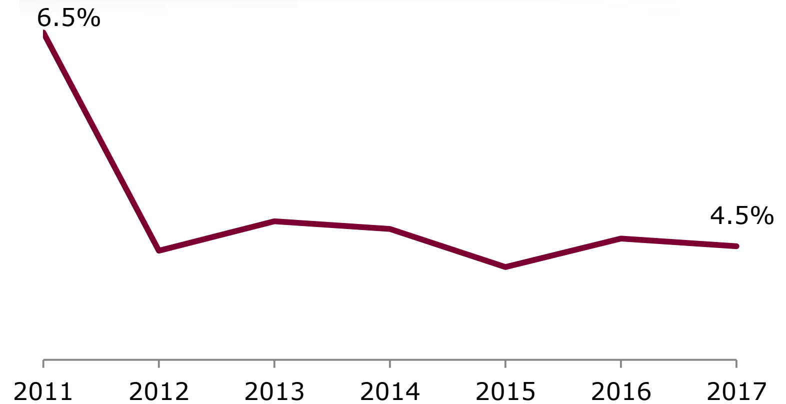
BTP – BUND Spread[1] (bps)



3 month Euribor – annual average[1] (%)



10-year BTP[1] (%)



1 Source: BMPS Research
2 Source: UBS Research
3 Source: Bloomberg

Key targets 2017

Growth (CAGR 12-17)	Revenues (%)	+0.8
	Operating expenses (%)	-4.8
Efficiency	Cost / income (%)	~ 50
Risk	Cost of credit (bps)	90
	Δ Italian Govies 1H13 - 2017 (EUR bn, AFS)	~ -6
Balance sheet structure	Loans / deposits[1] (%)	~ 90
	CET1 (phased-in)[2] (%)	~ 10
Profitability	RoTE (%)	~ 9
	ROA (%)	~ 0.5
	Net income (EUR m)	~ 900

1 Customer loans / customer deposits and securities issued. Excluding wholesale funding, the customer loans / customer deposits ratio is estimated at 100% in 2017

2 Basel III CET1 Ratio 80% phased-in in 2017, assuming ~ 160bps BTP-Bund spread. CET1 fully phased-in expected at 9.3% in 2017

Main drivers

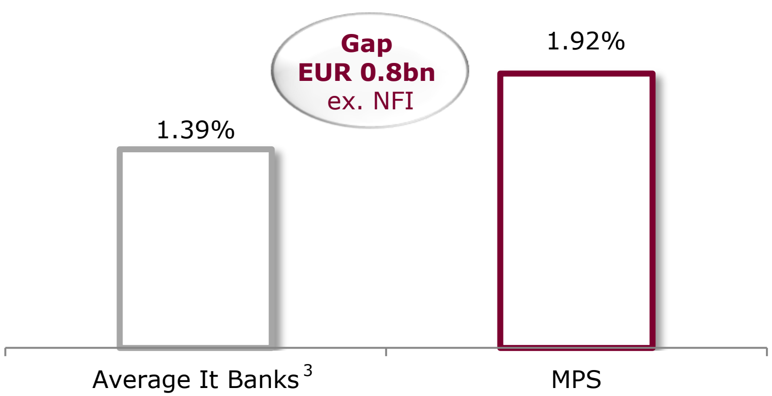
1	**Revenue Increase**	❑ ***Funding cost reduction*** leveraging the opportunity to close the gap vs. the Italian system ❑ ***Commercial productivity recovery***, realigninig MPS performance to Italian peers' average levels via targeted initiatives
2	**Operating Cost Efficiency**	❑ **Total headcount reduction 11-17**: **~ 8,000 exits** (o/w ~ 2,700 already achieved from 2011 to 1H 13) ❑ **Other administrative expenses reduction 11-17**: **~ EUR 440m** (o/w ~ EUR 140m to be achieved by the end of 2013) ❑ **Additional contingent cost measures to be implemented** if certain business and profitability targets are not achieved
3	**Derisking**	❑ **Prudent provisioning policy** on credit portfolio across the plan ❑ Further **reduction of financial assets:** Italian sovereign bonds (whose interest rate risk has been largely hedged) held in AFS down from EUR 23bn[1] to approx EUR 17bn[2] at the end of 2017 ❑ **Rebalancing L/D ratio**
4	**Capital Strengthening**	❑ **EUR 2.5bn capital increase**[3] ❑ **Full repayment of New Financial Instruments (NFIs)** by 2017, of which EUR 3bn (~ 70% of total) already in 2014 ❑ **Continued deleveraging** of assets with low "unappealing" added value

Full details of the plan and actions to be presented after European Commission approval

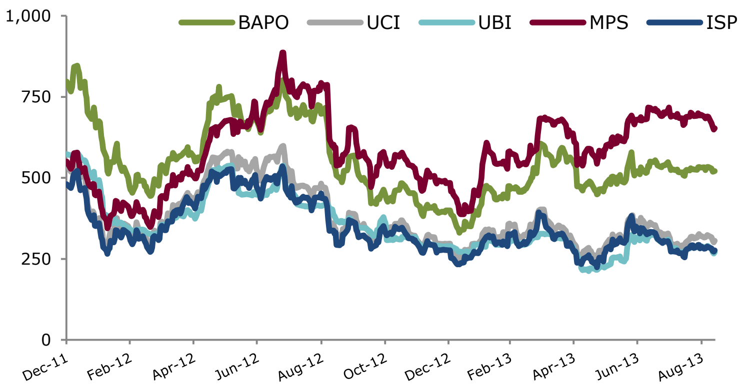
1 As at 1H13
2 Nominal value
3 Subject to Shareholders' Meeting approval

❶ Funding cost reduction

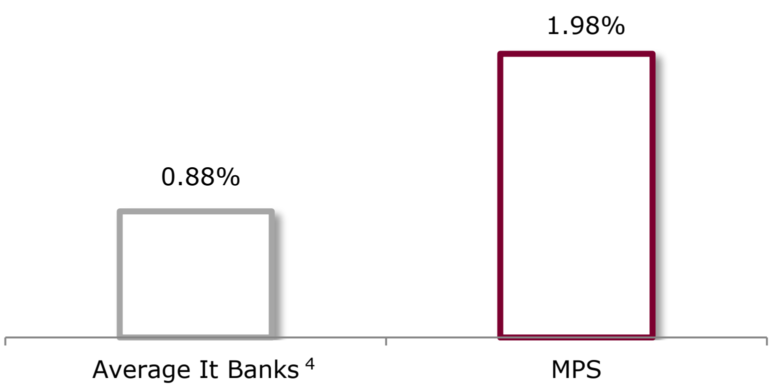
Total Cost of Funding[1]/Volumes[2]



Italian Banks 5Y CDS



Cost of Corporate Funding (EUR 17bn stock)

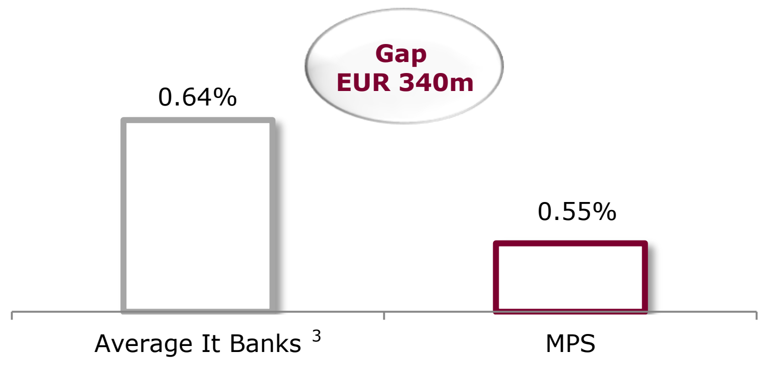


- **Drivers of revenue recovery**, despite deleveraging of financial assets, from:
  - **Improved cost of funding** currently significantly above peers (cost of corporate loans 110bps higher than peers[5], cost of securities already issued (stock of EUR 45bn) ~ 30bps higher than peers[5])
  - **Reduction of debt bail-in risk** following approval of Restructuring Plan by DG Comp and completion of the rights issue

1 1H 13 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
5 UCI, ISP, BAPO, UBI, BPM and BPER

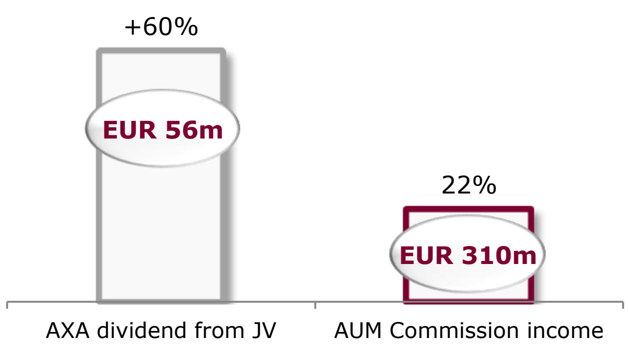
1 Commercial productivity recovery

Average Net Commissions[1]/Total volumes[2]

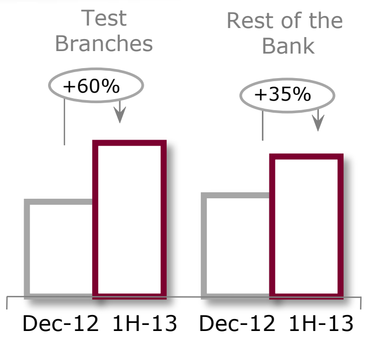


- **Drivers of revenue recovery** from:
  - **Increasing sales productivity,** closing the performance gap vs. peers
  - **Better product mix** as evidenced by 1H 13 results
  - **Reducing LTRO** costs equivalent to EUR 100m for FY13

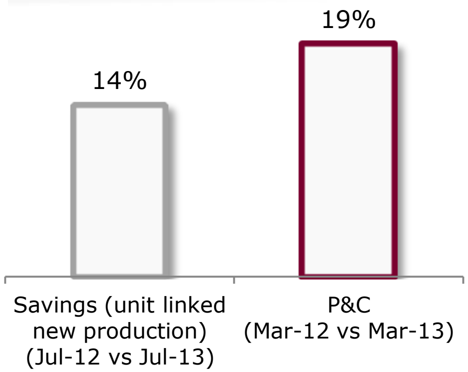
Early Progress: Results 1H13 vs 1H12



Contact Rate



Bancassurance Market Share Increase (%)



1 Includes total commissions flows as total bancassurance fees, LTRO fees rebate, Civs fees rebate, Chianti Classico fees rebate
2 Direct and indirect funding plus loans to customers
3 ISP, BAPO, UBI, BPM and BPER. No public available data for UCI

2 Commercial productivity recovery - new initiatives

Launch of new **Private Banking Area**

- New rules for sales and distribution supply chain for Private customers
- Multiple initiatives in place to **relaunch asset management and advisory services**, with a special focus on "high value" customers
- Addition of **new private bankers**

Launch of the new **Online Bank Project**

widiba

- **Launch of the new On Line Bank Project "Widiba"**
- **New Head** hired

Leadership in **Bancassurance, Wealth Mngmt, payments** revamping

AXA MPS ridefiniamo la protezione in banca — CartaMontepaschi — ANIMA

- **Life policies**: strong remix towards high profitable vs. traditional policies (Unit Linked market share 27% on new business Jul-13)
- **Positive Net Inflow on UCITs** thanks to strong placement of Target Date Fund (EUR2.3bn[1])
- **Protection Insurance**: overall production **+31% YoY and increase in market share** (**+19%** as at 1Q13)
- New **Cards & Acquiring offering** in place

Enhancement of **Retail Productivity**

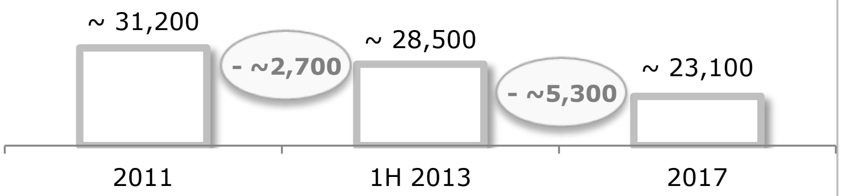
PROGETTO REGATA

- Structured and continuous plan **of targeted microcampaigns with positive impact on contact** (+30/40% 2Q vs 1Q 2013)
- Design and testing of new industrialized **sales management processes** (i.e. Regata project) within the distribution network
- **Strong migration to online channels** thanks to new IB platform and Apps (+34% number of transactions in IB; +205% apps download)[2]

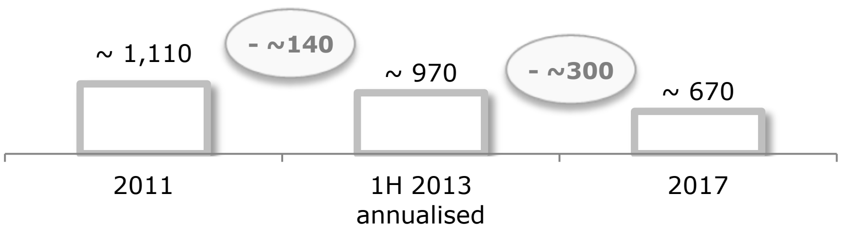
1 As at September 2013
2 June 2013 YoY

2 Operating cost optimisation

Headcount: trend line

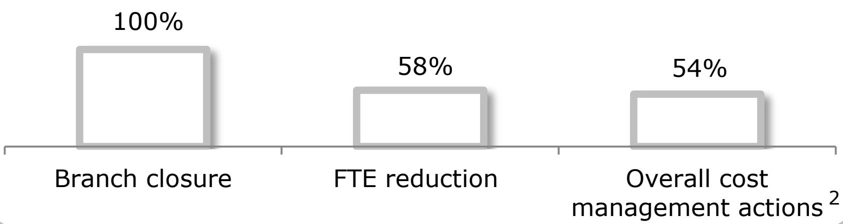


Other admin. Expenses: trend line (EUR m)



Track record of delivery

% achieved vs. previous plan target (11-15)



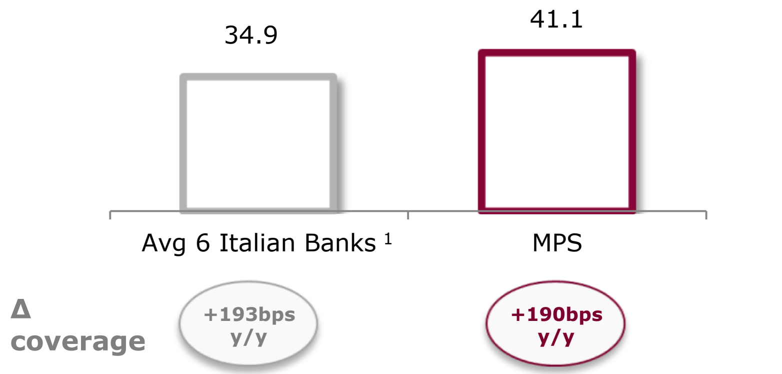
Reduction

- Headcount reduction of ~ 8,000 by 2017 (~ EUR 500m cost reduction)
  - Reduction of ~2,700 already realised from 2011 to 1H13, thanks to staff rearrangement initiatives
  - Remaining 5,300 to be achieved through non-core asset disposals, outsourcing and other initiatives
- ~ EUR 440m reduction in other administrative expenses
  - Reduction of ~ EUR 140m[1] to be achieved by the end of 2013 through closure of 400 low profitability branches, simplification of group structure and asset disposals
  - Remaining ~ EUR 300m cost savings to be achieved through additional 150 branch closures, restructuring of the "Chianti Classico" transaction, space management actions, renegotiation of vendor agreements, reduction in IT costs and asset disposals
- Further cost measures will be implemented if business and profitability targets are not achieved

1 Estimated as difference between 1H 2013 annualized and 2011 figure
2 Excluding Back Office project cost and included benefits expected in 2014-2015 from actions already implemented /already identified and in progress

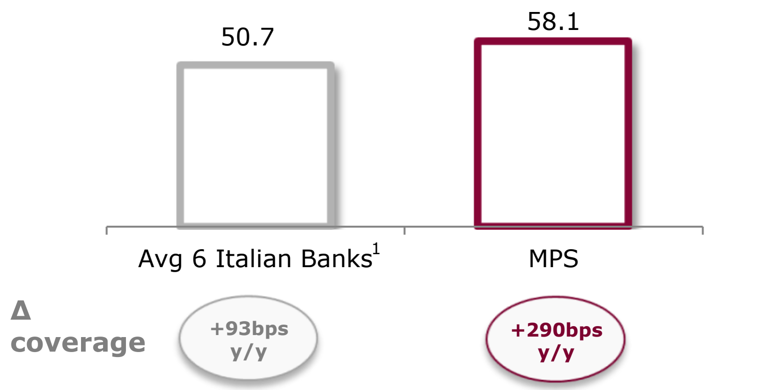
❸ De-risking via strict credit risk management…

Impaired loans coverage 1H13 (%)

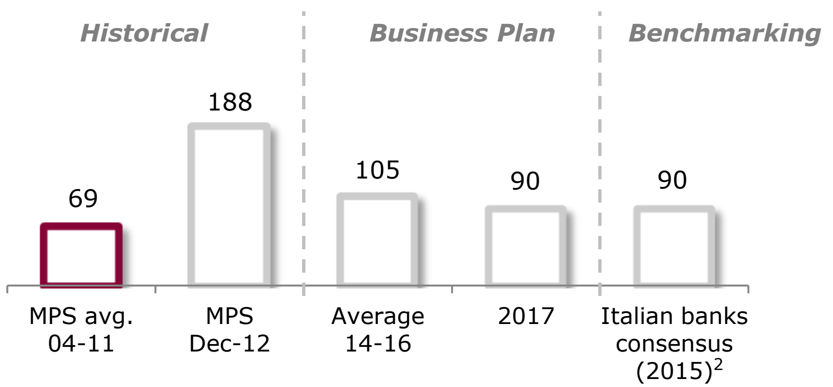


- Significant shift to less risky loan portfolio mix supporting lower cost of risk
- Coverage confirmed above Italian system average
- Review of problem loan management processes
- Several actions planned to reduce riskier portfolios and improve write backs
- Conservative provisioning policy, with 2017 LLP target (90bps) set prudently at well above the pre crisis run rate and consensus

NPLs coverage 1H13 (bps)



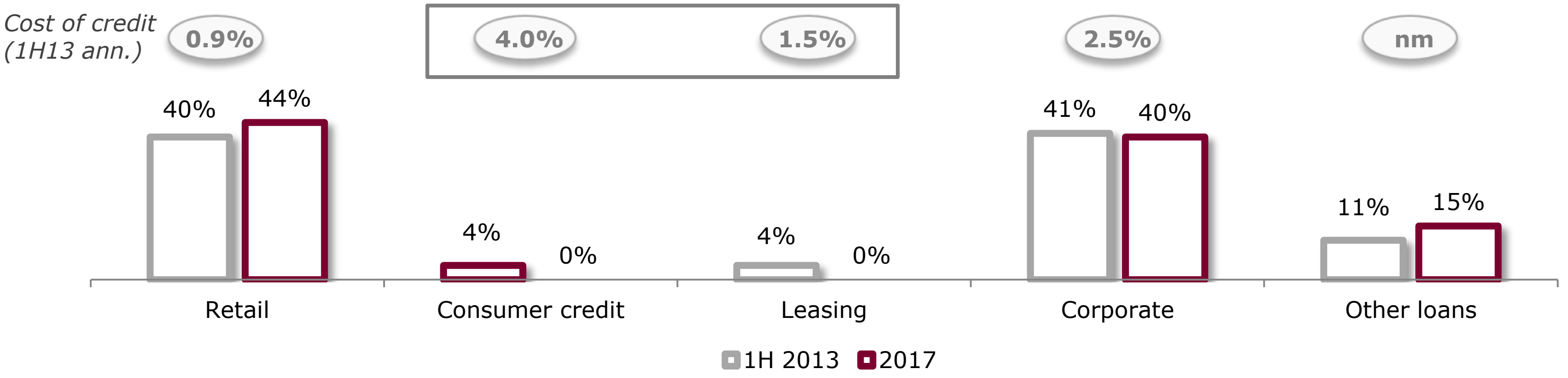
2017 Cost of credit target (bps)



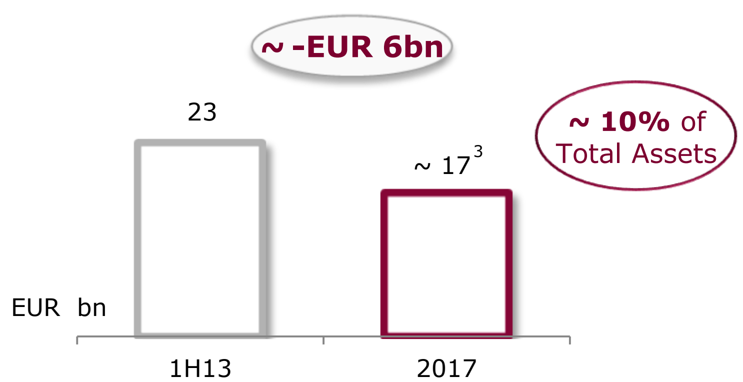
1 UCI, ISP, BAPO,UBI, BPM, BPER. Source: 1H13 Company Reports
2 UCI, ISP, BAPO,UBI, BPM, BPER. Source: Research reports

3 …asset deleveraging and exiting higher risk businesses…

Loans breakdown 2017 vs 1H 2013[1]



Italian Sovereign Bonds in AFS Portfolio

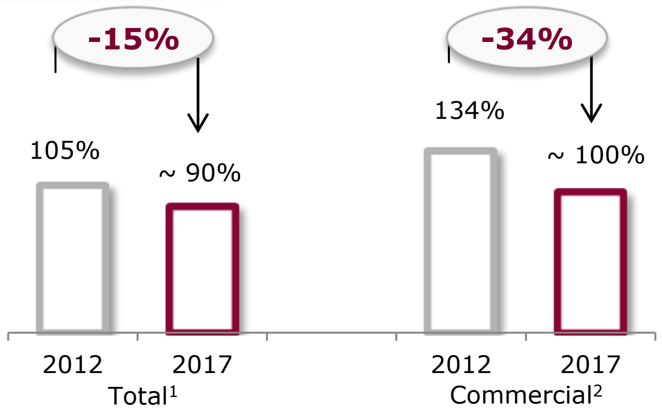


- «Run-off» of negative EVA (Economic Value Added) loan book
- Level 3 assets at ~ EUR 260m[2], already among the lowest in Europe at 0.1% of total assets vs 0.9% for major Italian peers
- Complete exit of leasing and consumer credit portfolios with higher provisioning rate by 2017
- Reduction of the AFS portfolio and VAR in the trading portfolio

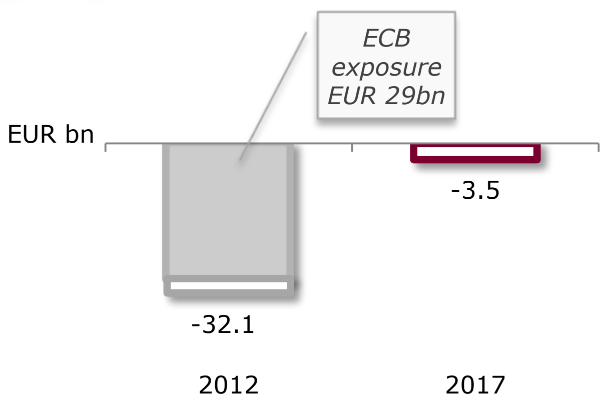
1 Figures from operational data management system (Planning Area)
2 Financial assets designated at fair value
3 Nominal value

❸ …and improving liquidity…

Loan/deposit ratio (%)



Interbank funding, including ECB



- **Reduction of loan/deposit ratio**
- Stronger **unencumbered counterbalancing capacity** (already at EUR 21bn in 1H13 vs EUR 8bn 1H12)
- **Less reliance on institutional funding,** with full phase-out of ECB funding by 2015

Zero LTRO

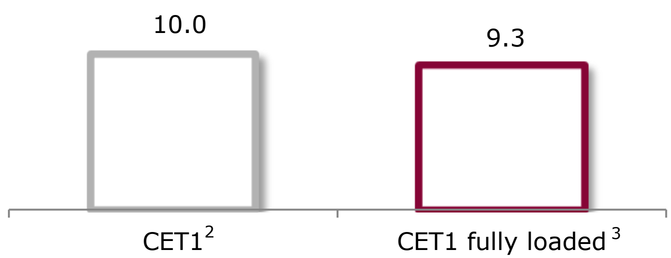
Greater focus on commercial funding

1 Customer loans / customer deposits and securities issued
2 Customer loans / customer deposits and securities issued, excluding wholesale funding

4 …whilst restoring MPS to standalone financial strength

- **Planned capital increase of EUR 2.5bn to be carried out in 2014**
  - ✓ **Enhanced capital quality via repayment of the New Financial Instruments** (of which EUR 3bn in 2014 and the residual more gradually by 2017)
  - ✓ **Minimise coupons on NFIs and cost of reimbursement**[1]
  - ✓ **Accelerated recovery of profitability**
  - ✓ Potential benefits with rating agencies, reduced funding cost and improved access to wholesale funding markets
- **In the event that the capital increase is not completed by 31 December 2014, the NFIs shall be converted by BMPS** in accordance with the terms and conditions of the Decree of the Ministry of Economy and Finance of 21 December 2012

Target capital ratios 2017 (%)



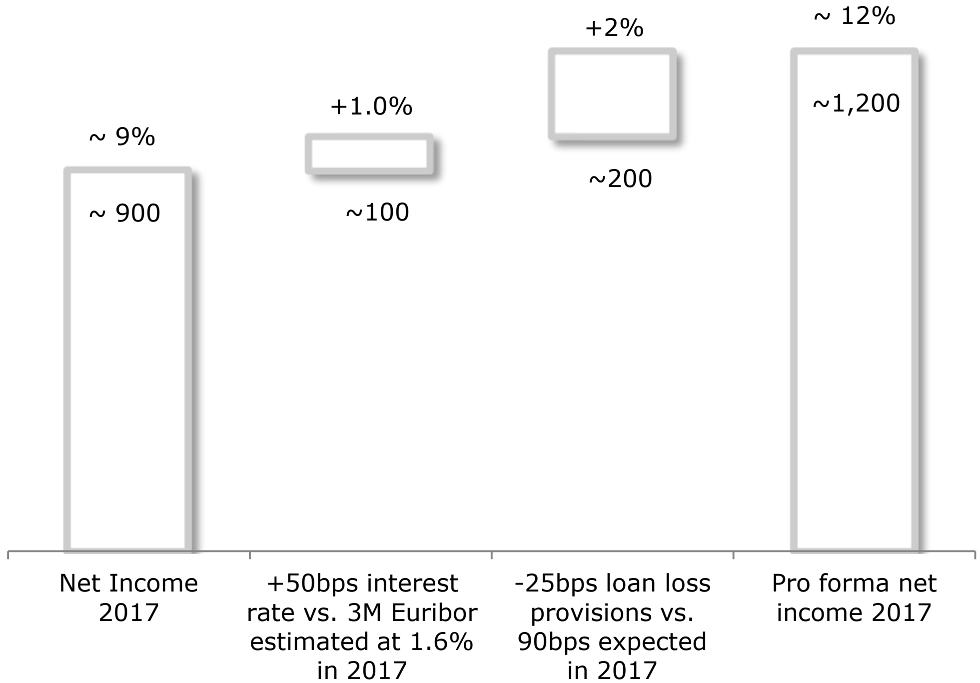
Additional potential upside from:

- ***Spread trends***
- ***Legal claims***
- ***Macro upside vs. current scenario***

1 Coupons: 9% in 2013, 9.5% in 2014 and 2015, 10% in 2016 and 2017. Cost of reimbursement: 100% until 1 July 2015, 105% from 1 July 2015 to 30 June 2017
2 Basel III CET1 Ratio 80% phased-in in 2017, assuming ~ 160bps BTP-Bund spread
3 Basel III CET1 Ratio fully phased-in, assuming ~ 160bps BTP-Bund spread

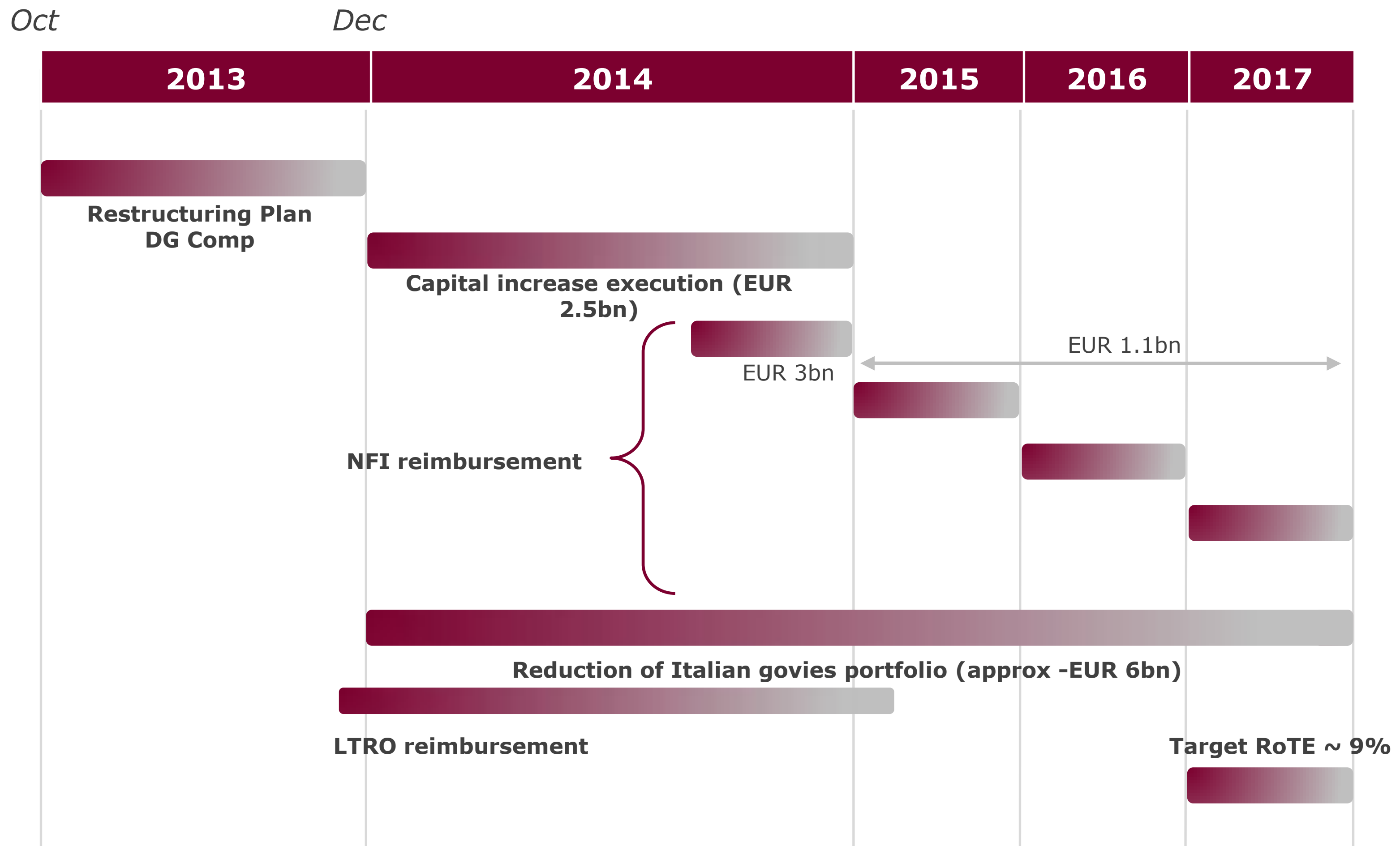
Significant additional potential upside

RoTE and Net Income (EUR m)



- By way of illustration, a better macroeconomic scenario would enable BMPS to significantly increase profitability
  - Up to ~ EUR 300m additional net income
  - RoTE comfortably above CoE

The 2013-2017 roadmap



Full details of the plan and actions to be presented after DG Comp approval

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