Monte dei Paschi di Siena Group

Annual Report 2020

Consolidated financial report as at 31 December 2020

Banca Monte dei Paschi di Siena S.p.a.

Share Capital: € 9,195,012,196.85 fully paid in

Registered with the Arezzo-Siena Company Register – registration no. and tax code 00884060526

MPS VAT Group - VAT number 01483500524

Member of the Italian Interbank Deposit Protection Fund. Registered with the Register of Banks under no. 5274

Monte dei Paschi di Siena Banking Group, registered with the Register of Banking Groups.

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GOVERNING AND CONTROL BODIES

BOARD OF DIRECTORS

Maria Patrizia GRIECO	Chairman
Francesca BETTÌO	Deputy Chairman
Rita Laura D'ECCLESIA	Deputy Chairman
Guido BASTIANINI	Chief Executive Officer
Luca BADER	Director
Alessandra Giuseppina BARZAGHI	Director
Marco BASSILICHI	Director
Francesco BOCHICCHIO	Director
Rossella CASTELLANO	Director
Olga CUCCURULLO	Director
Paola DE MARTINI	Director
Raffaele DI RAIMO	Director
Marco GIORGINO	Director
Nicola MAIONE	Director
Roberto RAO	Director

BOARD OF STATUTORY AUDITORS

Enrico CIAI	Chairman
Luigi SOPRANO	Standing Auditor
Piera VITALI *	Standing Auditor

* Following the resignation of the Standing Auditor Ms Alessia Bastiani, from 26 January 2021 Ms Piera Vitali took over the position of Standing Auditor pursuant to art. 2401 of the Italian Civil Code until the next BMPS Shareholders' Meeting, called for 6 April 2021.

SENIOR MANAGEMENT

Guido BASTIANINI	General Manager

FINANCIAL REPORTING OFFICER	Nicola Massimo Clarelli
INDEPENDENT AUDITORS	PricewaterhouseCoopers SpA

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General accounting standards

The Consolidated Report on Operations as at 31 December 2020 provides a snapshot of the activities and results which largely characterised the Group's operations during the year, both as a whole and in the various business sectors.

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

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

In addition, the Report incorporates non-financial company information providing the details on the activities, capital, risks and relations that are significant to the Group's current and future performance. This information is also more thoroughly analysed in the corporate communications found on the Banca MPS website www.mps.it., such as: the "Consolidated Non-Financial Statement", "Report on Corporate Governance and Ownership Structure", the "Remuneration Report" and the "Pillar 3 Disclosure".

Results in brief

Below are the main economic and financial values of the Montepaschi Group as at 31 December 2020, compared with those for the previous year. In addition, the key economic and financial indicators[1] are provided, based on accounting data, corresponding to those used in internal performance management and management reporting systems, and consistent with the most commonly used metrics within the banking industry, thereby ensuring the comparability of reported figures.

The Alternative Performance Measures (APMs) provided in this section take into account the Guidelines provided by the European Securities and Marckets Autorithy (ESMA) on 5 October 2015, which the Italian stock regurlator, CONSOB has incorporated in its supervisory practices (Communication no. 0092543 of 3 December 2015). These Guidelines became applicable as of 3 July 2016. Please note that in line with the indications contained in the update of the document "ESMA 32_51_370- Question and answer – ESMA Guidelines on Alternative Performance Measures (APMs)" published on 17 April 2020, no change have been made to the APMs to consider the effects of the COVID-19 crisis. It should be noted that for each APMs, information is provided on its definition and calculation methods, and the amounts used in the calculation may be identified through the information contained in the tables below or in the reclassified financial statements in this Consolidated Report on Operations.

Note that, starting from 2020, the income statement and balance sheet are presented according to the new reclassification principles described in the sections "Income statement reclassification principles" and "Balance sheet reclassification principles". The values for 2019 have been restated for comparison with the previous year on a consistent basis.

[1] The indicators are calculated using the reclassified data shown in the chapters regarding income statement and balance sheet reclassification principles.

INCOME STATEMENT AND BALANCE SHEET FIGURES			
MPS GROUP			
INCOME STATEMENT FIGURES (EUR mln)	31 12 2020	31 12 2019	Chg.
Net interest income	1,290.6	1,501.3	-14.0%
Net fee and commission income	1,430.1	1,449.5	-1.3%
Other income from banking business	247.1	413.2	-40.2%
Other operating income and expenses	(50.5)	(80.2)	-37.1%
Total Revenues	2,917.3	3,283.8	-11.2%
Operating expenses	(2,203.8)	(2,289.6)	-3.7%
Cost of customer credit	(747.6)	(582.7)	28.3%
Other value adjustments	(5.4)	(5.3)	1.9%
Net operating income (loss)	(39.5)	406.2	n.m.
Net profit (loss) for the year attributable to owners of Parent Company	(1,689.0)	(1,033.0)	63.5%
EARNINGS PER SHARE (EUR)	31 12 2020	31 12 2019	Chg.
Basic earnings per share	(1.546)	(0.936)	65.3%
Diluted earnings per share	(1.546)	(0.936)	65.3%
BALANCE SHEET FIGURES AND INDICATORS (EUR mln)	31 12 2020	31 12 2019	Chg.
Total assets	150,356.1	132,196.0	13.7%
Loans to customers	82,632.3	80,135.0	3.1%
Direct funding	103,719.3	94,217.3	10.1%
Indirect funding	102,067.3	101,791.5	0.3%
of which: assets under management	60,400.3	59,302.0	1.9%
of which: assets under custody	41,667.0	42,489.6	-1.9%
Group net equity	5,782.7	8,279.1	-30.2%
OPERATING STRUCTURE	31 12 2020	31 12 2019	Chg.
Total headcount - end of period	21,432	22,040	-608
Number of branches in Italy	1,418	1,422	(4)

N.B.: The number of employees refers to the actual workforce and therefore does not include the staff seconded outside the scope of the Group.

ALTERNATIVE PERFORMANCE MEASURES			
MPS GROUP			
PROFITABILITY RATIOS (%)	31 12 2020	31 12 2019	Chg.
Cost/Income ratio	75.5	69.7	5.8
ROE (on average equity)	(24.0)	(12.0)	-12.0
ROA	(1.1)	(0.8)	-0.3
ROTE	(24.7)	(12.2)	-12.5
CREDIT QUALITY RATIOS (%)	31 12 2020	31 12 2019	Chg.
Net non performing loans to customers / Loans to Customers (Net NPL ratio)*	2.6	7.6	-5.0
Gross NPL ratio	3.4	11.3	-7.9
Rate of change of non performing loans to customers	(64.8)	(27.4)	-37.4
Bad loans to custormers/ Loans to Customers	0.7	3.7	-3.0
Loans to customers measured at amortised cost - Stage 2/Performing loans to customers measured at amortised cost	18.5	15.5	3.0
Coverage of non perfroming loans to customers	46.2	48.7	-2.5
Coverage of bad loans to customers	62.3	53.6	8.7
Cost of customers loans/Customers loans (Provisioning)**	0.90	0.73	0.17
Texas Ratio	53.8	85.6	-31.8

** As at 31 December 2019 the ratio, expressed as Net non-performing loans / Loans to customers, stood at 6.8% (2.3% as at 31 December 2020).*

*** As at 31 December 2019 the ratio, expressed as Net impairment losses on loans at amortised cost / Loans to customers at amortised cost (Provisioning), stood at 0.68% (0.83% as at 31 December 2020).*

Cost/Income ratio: ratio between Operating expenses (Administrative expenses and Net value adjustments to property, plant and equipment and intangible assets) and Total revenues (for the composition of this aggregate, see the reclassified income statement)

Return On Equity (ROE): ratio between the Net profit (loss) for the year and the average between the Group shareholders' equity (including Profit and Valuation Reserves) at the end of the year and the Group shareholders' equity at the end of the previous year.

Return On Assets (ROA): ratio between the Net profit (loss) for the year and Total assets at the end of the year.

Return On Tangible Equity (ROTE): ratio between the Net profit (loss) for the year and the average between the tangible shareholders' equity[2] at the end of year and that at the end of the previous year.

Gross NPL Ratio: gross impact of non-performing loans (NPLs) calculated based on the European Banking Autorithy ("EBA") guidelines[3] as the ratio between Gross non-performing loans to customers and banks, net of assets held for sale, and total Gross loans to customers and banks, net of assets held for sale. The Gross NPE Ratio, presented also in previous reports and expressed as the ratio between Gross non-performing exposures to customers (NPE)and Gross exposures to customers, thus also including the securities component, stood at 4.3% as at 31 December 2020 compared to 12.4% as at 31 December 2019.

Rate of change in non-performing loans to customers: represents the annual rate of change in Gross non-performing loans to customers based on the difference between annual balances.

Coverage of non-performing loans to customers and coverage of bad loans to customers: the coverage ratio on Non-performing loans to customers and Bad loans to customers is calculated as the ratio between the respective Loss provisions and the corresponding Gross exposures.

[2] Book value of Group shareholders' equity inclusive of profit (loss) for the year, net of goodwill and other intangible assets.

[3] EBA GL/2018/10.

Texas Ratio: ratio between Gross non-performing loans to customers and the sum, in the denominator, of the relative loss provisions and tangible shareholders' equity[2].

REGULATORY MEASURES			
MPS GROUP			
CAPITAL RATIOS (%)	31 12 2020	31 12 2019	Chg.
Common Equity Tier 1 (CET1) ratio - phase in	12.1	14.7	-2.6
Common Equity Tier 1 (CET1) ratio - fully loaded	9.9	12.7	-2.8
Total Capital ratio - phase in	15.8	16.7	-0.9
Total Capital ratio - fully loaded	13.5	14.7	-1.2
FINANCIAL LEVERAGE (%)	31 12 2020	31 12 2019	Chg.
Leverage ratio - transitional definition	4.4	6.1	-1.7
Leverage ratio - fully phased	3.6	5.3	-1.7
LIQUIDITY RATIO (%)	31 12 2020	31 12 2019	Chg.
LCR	196.7	152.4	44.3
NSFR	123.8	112.6	11.2
Encumbered asset ratio	39.8	36.0	3.8
Loan to deposit ratio	79.7	85.1	-5.4
Unencumbered Counterbalancing capacity (bn of Eur)	33.1	24.7	8.4

In determining the capital ratios, the "phase-in" (or "transitional") version represents the application of calculation rules according to the regulatory framework in force at the reporting date, while the "fully loaded" version incorporates in the calculation the rules as envisaged at full implementation.

Common equity Tier 1 (CET1) ratio: ratio between primary quality capital[4] and total risk-weighted assets (RWA)[5].

Total Capital ratio: ratio between Own Funds and total RWAs.

Financial leverage ratio: ratio between Tier 1 capital[6] and total assets, introduced by Basel regulations with the objective of containing the increase in leverage in the banking sector and strengthening risk-based requirements through a different measure based on financial statement aggregates.

Liquidity Coverage Ratio (LCR): short-term liquidity indicator corresponding to the ratio between the amount of high quality liquid assets and the total net cash outflows in the subsequent 30 calendar days. The comparative figure relating to the LCR index as at 31 December 2019 was restated to take into account a specific interpretative clarification provided by the supervisory authority.

Net Stable Funding Ratio (NSFR): structural 12-month liquidity indicator corresponding to the ratio between the available stable funding amount and the required stable funding amount.

Encumbered asset ratio: ratio between carrying amount of encumbered assets and collateral and total assets and collateral (XVII, section 1.6, point 9, of Regulation (EU) 2015/79).

Loan to deposit ratio: ratio between loans to customers and the sum of customer deposits including bonds issued (deposits from customers, debt securities issued and financial liabilities measured at fair value).

Spot counterbalancing capacity: sum of items that are certain and free from any commitment that the Group can use to meet its liquidity requirements, consisting of financial and commercial assets eligible for purposes of refinancing operations with the European Central Bank ("ECB") and assets deposited in the collateralised interbak market (MIC) and not used, to which the haircut, published on a daily basis by the ECB, is prudentially applied.

[4] Defined by art. 4 of Regulation EU/2013/575 (Capital Requirements Regulation, CRR). It consists of the eligible elements and capital instruments, net of the envisaged adjustments and deductions.

[5] Risk-weighted assets: the result of the application of certain risk weights to exposures, determined according to supervisory rules.

[6] Sum of Common Equity Tier 1 (CET1) and Additional Tier 1 (AT1) capital of the entity, as defined by art. 25 of Regulation (EU) no. 575/2013.

Executive summary

Changes in the key items of the Group's main aggregates recorded as at 31 December 2020 are summarised below, noting that the results of 2020 were affected by the health emergency created by the spread of the COVID-19 virus, starting from the end of February. In particular:

- Net fee and commission income was affected by the reduction in network operations resulting from the restrictive measures of social distancing that were gradually introduced by the Government to limit the spread of the virus,
- The results from trading activities were negatively impacted by tensions in the financial markets recorded particularly in the first part of the period, linked to the COVID-19 emergency,
- Cost of Customer Credit was penalised by the effects deriving from the changed macroeconomic scenario due to the spread of the pandemic, which influenced the portfolio's risk levels. This effect was partly offset by the positive impacts deriving from lower NPLs slipping into default, thanks to the moratoria granted as part of the government decrees issued following the COVID-19 emergency and the positive effects generated by the acquisition of state guarantees on the loans disbursed as part of the aforementioned Decrees,
- Taxes recorded a negative contribution attributable nearly exclusively to the modification of the value of deferred tax assets (DTAs) recorded in the financial statements (multi-year projections 2020-2024), carried out due to the update in long-term internal estimates of the income statement and balance sheet values to take into account changes in the macroeconomic scenario caused by the pandemic.

On the other hand, with reference to balance sheet aggregates, we note the increase in Direct Funding and particularly in current accounts, following the prudent approach of customers to handle the uncertainty of the economic context created with the spread of the COVID-19 emergency, a growth which, moreover, was seen in the entire banking system.

a) **Net interest income**, amounting to EUR 1,291 mln, was down by 14% compared to 2019. The decrease was driven by (i) the sale of u*nlikely to pay* (UTP)receivables carried out in 2019 and the deconsolidation of the "Hydra M" portfolio, (ii) the conclusion in June 2019 of the sale of the subsidiary BMP Belgio SA, (iii) the return of the Parent Company to the institutional funding market, with significant volumes placed in the second half of 2019 and in 2020 and (iv) by the decline in asset returns driven by the trend in interest rates combined with a recomposition of exposures with a reduction in the on-demand and short-term components and a growth in the medium / long-term component. On the other hand, Net Interest Income benefited from the positive effects linked to access to the TLTRO III auctions for a total of EUR 129 mln, although partially offset by the higher cost of deposits at central banks of approximately EUR 39 mln.

b) **Net fee and commission income**, amounting to EUR 1,430 mln, was down slightly compared to the previous year (-1.3%). A significant part of the reduction in commissions derives from the reduced placement of third-party consumer credit products and the reduction in commissions from services that were affected, in particular, by lower customer transactions following the COVID-19 emergency. Asset management fees, which were affected by the product placement component of the reduced operations of the Network during the months of lockdown, were down by -2.5%. Conversely, other net fee and commission income improved, due to the lower cost of the state guarantee following the repayment of Government-Guaranteed Bonds that took place in the first quarter of 2020.

c) **Other revenues from financial management**, amounting to EUR 247 mln, recorded a decrease of EUR 166 mln compared to the previous year, which had benefited from positive effects of over EUR 150 mln linked to the revaluation of securities recorded under the resulting assets from the debt restructuring of the Sorgenia Group and Tirreno Power. The contribution generated by the *partnership* with AXA in the Bancassurance area increased compared to 2019, while the results of *trading activities were down*, negatively impacted, in particular in the first quarter of the year, by the tensions on the financial markets related to the COVID-19 emergency.

d) Other operating income (expenses), amounting to EUR -51 mln, improved compared to 2019 (equal to EUR -80 mln), which included the recognition of the indemnity linked to the exercise of the right of withdrawal from the agreement entered into with Juliet for EUR 49 mln.

e) As a result of the trend in these aggregates, **Total revenues** amounted to EUR 2,917 mln, down 11.2% compared to the previous year.

f) **Operating expense** amounted to EUR 2,204 mln (improvement of 3.7% Y/Y). This aggregate includes **Personnel expenses**, totalling EUR 1,415 mln, which were down 1.2% compared to 31 December 2019, benefiting from the decreased average workforce and the reduction in expenses deriving from the extension

of smart working as a result of the continuation of the COVID-19 emergency. This trend was only partially offset by the contractual increases/adjustments related primarily to the effects of the renewal of the National Collective Bargaining Agreement. **Other administrative expenses** amounted to EUR 563 mln, down by 6.3% compared to the previous year. Despite the higher expenses required to handle the COVID-19 emergency (specifically to purchase Personal Protection Equipment and for cleaning), the aggregate benefited from the deconsolidation of BMP Belgio S.A. in June 2019, the savings linked to branch closures in 2019 and reduced operations during the lock-down period, as well as the savings initiatives carried out. **Net value adjustments to property, plant and equipment and intangible assets** totalled EUR 225 mln, a deterioration of -11.7% compared to the previous year, principally due to lower amortisation of intangible assets and depreciation on property, plant and equipment.

g) The **Cost of customer credit**, equal to EUR 748 mln, increased by EUR 165 mln compared to 2019. Please note that

   a. the figure for 2020 includes roughly EUR 348 mln from the increase in adjustments deriving from the changed macroeconomic scenario due to the spread of the COVID-19 pandemic,

   b. The value for 2019 instead included a negative effect of around EUR 52 mln linked to the changed macroeconomic scenario and a net positive effect of roughly EUR 209 mln connected to the exercise of the right of withdrawal from the servicing agreement entered into with Juliet (positive effect of roughly EUR 457 mln, deriving from the elimination of forecasted costs for the agreement, reflected in value adjustments) and the simultaneous revision of the NPE reduction strategy, which entailed an acceleration in the 2019 disposal plan (negative effect for around EUR 248 mln).

   Excluding these effects, the aggregate decreased Y / Y mainly due to lower provisions on already impaired positions and lower transfers to default, which benefited from the effects of the moratoria granted as part of the Government Decrees issued as a result of the COVID-19 emergency, only partially offset by the lower benefit deriving from the return to performing of impaired positions. In the Y / Y comparison, the aggregate also benefited from the positive effects generated by the acquisition of state guarantees on the loans disbursed under the aforementioned Decrees. The **Provisioning *Rate***[7] is **90 bps** (73 bps as at 31 December 2019).

h) **Net Operating Income** was EUR -39 mln, compared to a positive value of EUR 406 mln in the previous year, also due to the effect of some extraordinary items previously recorded.

i) The trend in the aforementioned income statement aggregates also includes **Net provisions for risks and charges**, totalling EUR -984 mln (EUR -156 mln in 2019), **Gains (losses) on investments others**, equalling EUR -2.8 mln (EUR -5.6 mln in 2019), **Restructuring/One-off costs**, amounting to EUR -154 mln (essentially nil in 2019), costs associated with **SRF (Single Resolution Fund), DGS (Deposit Guarantee Systems) and similar schemes**, amounting to EUR -140 mln (EUR -123 mln in 2019), **DTA fee** of EUR -71 mln (unchanged from the previous year), and **Gains (losses) on sale of investments**, equal to EUR +41 mln (EUR +3 mln in 2019).

j) As a result of these trends, together with the positive impact on **Taxes** of **EUR 340 mln** (EUR -1,075 mln as at 31 December 2019) and the net effects on income of the **PPA**, equal to EUR -4 mln (EUR -12 mln as at 31 December 2019), the Group posts a **Net Loss of EUR -1,689 mln**, compared to a loss of EUR -1,033 mln posted in 2019.

k) **Total Funding** as at 31 December 2020 amounted to approx. **EUR 205.8 bn**, with an increase in volumes of EUR 7.8 bn compared to 30 September 2020, on Indirect Funding (EUR +2.5 bn) as well as Direct Funding (EUR +5.3 bn). Direct Funding was up thanks mainly to continued growth in Current Accounts (EUR +4.4 bn), which, moreover, characterised the Italian banking system, and higher repurchase agreements (EUR +1.5 bn), only partially offset by the drop in deposits (EUR -0.7 bn). The bond segment was also up (EUR +0.6 bn) following the institutional issue in December. As regards Indirect Funding, the component of Assets under Management, up by EUR 1.9 bn compared to 30 September 2020, , and the component of Assets under Custody, up by EUR 0.5 bn Q/Q, both benefited from the positive market effect linked to the recovery in the financial markets.

   Total Funding was also up compared to 31 December 2019 (EUR +9.8 bn), mainly due to the increase in Direct Funding (EUR +9.5 bn). More specifically, the increase in Direct Funding is linked to the growth in

[7] Calculated as the ratio between the Cost of customer credit and Loans to customers

Current Accounts (EUR +11.9 bn) and greater repurchase agreements (EUR +3.3 bn). On the other hand, decreases were recorded with respect to 31 December 2019 for Other forms of funding (EUR -3.1 bn) and Bonds (EUR -1.9 bn) mainly as a result of the effects from the repayment of the Government-Guaranteed Bonds and the closure of the associated structured funding transactions, only in part offset by the bond issues in 1Q20, 3Q20 and 4Q20. With regard to Indirect Funding, there was an increase of EUR 0.3 bn compared to 31 December 2019 as a result of the growth in Assets under Management (EUR +1.1 bn) only partially offset by the reduction in Assets under Custody (EUR -0.8 bn).

l) **Loans to customers** amounted as at 31 December 2020 to about **EUR 82.6 bn**, less than at the end of September 2020 to EUR 4.5 bn, mainly due to the decline in net non-performing loans (EUR -3.6 bn), attributable to the deconsolidation of the "Hydra M" portfolio and to the lower repurchase agreements (EUR -1.2 bn). Other loans (EUR -0.8 bn) and current accounts (EUR -0.6 bn) were also down, while mortgages were up (EUR +1.8 bn), also affected by the effect of the disbursements and moratoria granted under the government decrees issued following the COVID-19 emergency.

   The aggregate, in comparison with 31 December 2019, shows an increase of EUR 2.5 bn, mainly due to the increase in mortgages (EUR +6.2 bn), also influenced by the above mentioned disbursements and moratoria granted under the government decrees issued following the COVID-19 emergency, and increased transactions in repurchase agreements (EUR +4.2 bn). Current accounts (EUR -1.6 bn), Other loans (EUR -2.3 bn) and net non-performing loans (EUR -3.9 bn) were down, the latter mainly due to the deconsolidation of the "Hydra M" portfolio.

m) As at 31 December 2020, **coverage rate** of non-performing loans stood at 46.2%, down from 30 September 2020 (49.5%) and 31 December 2019 (48.7%). Following the deconsolidation of the "Hydra M" portfolio, there was, in fact, a reduction in the incidence of Bad loans on total Non-performing loans to customers and an increase in the incidence of Unlikely to pay, with an average coverage of the latter decreasing by the derecognition of greater seniority positions with higher coverage on average. The trend in average coverage since the beginning of the year also incorporates the effects of the increase in adjustments deriving from the changed macroeconomic scenario following the spread of the COVID-19 emergency.

With regard to capital ratios, as at 31 December 2020 the ***Common Equity Tier 1 Ratio*** stood at **12.1%** (compared to 14.7% at the end of 2019 and 12.9% as at 30 September 2020) and the ***Total Capital Ratio*** at **15.7%** (compared to 16.7% recorded at the end of 2019 and 16.2% as at 30 September 2020).

Main impacts of the epidemic on operations and on the risk profile

Identification and Group initiatives

Since the last week of February 2020, the health emergency created by the ongoing pandemic has affected both market performance and commercial operations, the latter penalised by increasingly more severe tax reduction measures, which have led to the suspension of many production activities in Italy and in the world. In order to deal with the emergency, a series of initiatives have been implemented to protect the health of the Group's personnel and customers and in order to counteract the effects of COVID-19 at social and economic level, ensure *business continuity* and manage logical and physical security. These initiatives are described in paragraph "MPS Group initiatives within the context of the COVID-19 pandemic". Said paragraph also describes the initiatives undertaken by the Parent Company in relation to commercial activities.

In consideration of the economic consequences of the pandemic, which could persist for longer than previously suggested, in all the main countries, monetary and fiscal authorities continued to put in place strong expansionary measures to support household and business income as well as provide credit to the economy and liquidity on the markets. In parallel, the European institutions (**European Commission, European Council and Parliament**), Italian and european supervisory authorities (**EBA, ESMA, ECB/Single Supervisory Mechanism (SSM), Bank of Italy, Single Resolution Board** (**SRB**), and international institutions (the Intenational Accounting Standards Board – **IASB**, **Basel Committee**) adopted a series of measures to support banks in mitigating the economic impact of the COVID-19 pandemic. For a summary of the main support initiatives/measures adopted in 2020, see paragraph "Regulatory and supervisory interventions by the institutions within the context of the COVID-19 pandemic".

In particular, managing the social and economic emergency caused by COVID-19 required prompt and structured intervention by the Group, which was based predominantly on the guidelines for overall credit risk governance. The guiding principles of the overall action undertaken were to provide **prompt support to households and businesses in the country**, to set up a **system for monitoring significant credit aggregates**, the **review of credit strategies** and **the adoption of specific "*credit standards*"** to assess the solvency of counterparties, **the integration of the methodologies and information used in management monitoring, the allocation of adequate operational capacity** and finally **to ensure a clear and accurate view of the risks for all *stakeholders*.**

For a summary of the **support measures issued to households and businesses** and the financing measures provided in application of the Cura Italia ("Heal Italy") and Liquidity Decrees, see paragraph "MPS Group initiatives within the context of the COVID-19 pandemic".

In relation to the impact of COVID-19 on Credit, Market, Liquidity and Operating Risks, please refer to Part E of the Notes to the consolidated financial statements.

Lastly, as regards the trend in the Group's main income statement and balance sheet aggregates recorded as at 31 December 2020, it should be noted that the results of 2020 were affected by the health emergency created by the spread of the COVID-19 virus, starting from the end of February. In particular:

- Net fee and commission income was affected by the reduction in Network operations resulting from the restrictive measures inherent in social distancing that were gradually introduced by the Government to limit the spread of the virus,
- the results from trading activities were negatively impacted by tensions in the financial markets recorded particularly in the first part of the year, linked to the COVID-19 emergency,
- the Cost of Customer Credit was penalised by the effects deriving from the changed macroeconomic scenario due to the spread of the pandemic, which influenced the portfolio's risk levels. This effect was partly offset by the positive impacts deriving from lower slips to default, thanks to the moratoria granted as part of the Government Decrees issued following the COVID-19 emergency and the positive effects generated by the acquisition of state guarantees on the loans disbursed as part of the aforementioned Decrees. For details of the quantification of impairment losses on loans please refer to the section "Risks, uncertainties and impacts of the COVID-19 epidemic" in Part A of these Notes to the consolidated financial statements.
- taxes recorded a negative contribution attributable almost exclusively to the modification of the value of deferred tax assets (DTAs) recorded in the financial statements, carried out due to the update in long-term internal estimates of the income statement and balance sheet values ("2020-2024 Long-term projections") to take into account changes in the macroeconomic scenario caused by the pandemic. This revision did not take into account the forecasts of the 2021-2025 Strategic Plan, which, although approved by the Board of Directors on 17 December 2020, was not considered final as it is subject to the approval by the competent

authorities. For further details, please refer to paragraph 11.8 “Other Information -Probability Test” of Part B of the Notes to the Consolidated Financial Statements.

On the other hand, with reference to balance sheet aggregates, please note the increase in Direct Funding and particularly in current accounts, following the prudent approach of customers to handle the uncertainty of the economic context generated by the spread of the COVID-19 emergency, growth which, moreover, was in evidence in the entire banking system.

Group overview

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

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

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

Foreign banking operations[8] are focused on supporting the internationalisation processes of corporate clients in all major foreign financial markets.

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

In addition to the above, that is, the presence within the Group of a digital bank (Widiba), a bank for businesses (MPS Capital Services S.p.a.), a bank for financial services (MPS Leasing e Factoring S.p.a.) and a bank for fiduciary services (MPS Fiduciaria S.p.a.), there are companies operating in the viticulture (MPS Tenimenti Poggio Bonelli and Chigi Saracini Società Agricola S.p.a) and agricultural (Magazzini Generali) sectors.

Intragroup transactions primarily regard the financial support from the Parent Company to other companies, both in the form of deposits as well as repurchase agreement transactions; structured finance transactions

[8]For Monte Paschi Banque S.A., in 2018 the Parent Company resolved to launch the orderly winding-down process by drafting a plan in compliance with the indications contained in Commitment no. 14 "Disposal of participations and businesses", i.e., (i) progressive deleveraging of the current loan portfolio, (ii) acceptance of deposits only from existing customers, (iii) suspension of business development activities, (iv) no new initiatives in new segments or markets, as well as other regulatory restrictions in place.

through the subsidiary MPS Capital Services; outsourcing services relative to the auxiliary activities provided by the Parent Company (administrative services and property administration) and by the Group Operating Consortium (IT services). The description of the main transactions carried out by the Parent Company with its subsidiaries and associates is provided in Part H of the Notes to the Separate Financial Statements of the Parent Company.

Shareholders

As at 31 December 2020, the Parent Company Banca Monte dei Paschi di Siena's share capital amounted to EUR 9,195,012,196.85, broken down into 1,002,405,887 ordinary shares, of which 36,280,748 are treasury shares.

According to the communications received pursuant to the applicable legislation and based on other information available, as well as based on information on CONSOB's institutional website, the entities that, as at 31 December 2020, directly and/or indirectly hold ordinary shares representing a shareholding exceeding 3% of the share capital of the Issuer and which do not fall under the cases of exemption set forth in art. 119-bis of the Issuers' Regulations are as follows:

BMPS main shareholders as at 31 December 2020

Shareholder	% of outstanding ordinary shares
Ministry of Economy and Finance*	68.230%
Assicurazioni Generali S.p.A.**	4.319%
BMPS S.p.A.***	3.619%

* Shares held directly by Ministry of Economy and Finance (MEF) as a results of partial non proportional demerger with asymmetric option by MpS in favour of AMCO - Asset management S.p.a., effective from 01 december 2020

** Shares held directly and through subsidiary companies

** Own shares held by MPS Bank direcly and through the subsidiaries MPS Capital Services as a results of partial non proportional demerger with asymmetric option by MpS in favour of AMCO - Asset management S.p.a., effective from 01 december 2020

Information on the BMPS share

Share price and trends

The evolution of the social and health crisis linked to the spread of the COVID-19 virus was the factor that most influenced the performance of the international financial markets during 2020. After a first quarter with significant losses, the international indices showed a recovery, also thanks to the highly incentivising policies of governments and central banks, as well as thanks to the growing confidence in the development and subsequently in the distribution of the vaccine, and in several cases recorded increases on an annual basis. This trend was recorded, among others, in the United States, whose S&P 500 index achieved, also thanks to the good response relating to the election of the new president, Joe Biden, growth of 11.7% in the last quarter which determined +16.3% for the year. The good response in terms of the management of the pandemic also allowed a recovery of the Asian prices, in particular for China (SHCOMP), the only one of the main world economic powers with a positive annual change in GDP, which closed the year with a +13.9% (+7.9% in the fourth quarter), as well as for Japan (Nikkei), which achieved annual growth of +6.3% (+11.8% in the fourth quarter).

The European markets were penalized the most in terms of *performance*, despite the strong injections of liquidity by the ECB. Germany, which among the main European powers is the one that recorded the best figures in terms of number of deaths from COVID-19, is the only one that managed to close the year with its own price list (DAX in Frankfurt) growing by +3.5% (+7.5% in the fourth quarter), while both Paris (CAC40) at -7.1% (+15.6% in the fourth quarter) and Madrid at -15.5% (+20.2% in the fourth quarter) closed the year with losses. In Great Britain, the year was also characterized by the strong uncertainty linked to the “No-deal” hypothesis, avoided only in the last days of December with the final agreement on Brexit, which in any case did not avoid a negative annual figure of -14.3% despite the growth of +10.1% recorded in the fourth quarter.

In line with the trend of the major continental lists, the FTSE MIB index closed the year with a very positive last quarter (+16.9%), which however did not avoid a negative closing in 2020 at -5.4%. The IT8300 “All Italian Banks” index also recorded a positive last quarter at +15.0% compared to a final figure of -21.1% in 2020.

The BMPS share closed 2020 at a value of Euro 1.04, with a decline of -24.9% in the quarter and a change of -25.4% on an annual basis. The average volume of trades on a daily basis was around 4.6 mln over the quarter and around 5.5 mln over the year.

SHARE PRICE SUMMARY STATISTICS (from 031/12/2019 to 31/12/2020)	
Average	1.37
Minimum	1.00
Maximum	2.11

Rating

The ratings assigned by the rating agencies are provided below:

Rating agency	Short-term debt	Outlook	Long-term debt	Outlook	Last rating action (as at 31/12/20)
Fitch	B	-	B	Rating Watch Negative	21/12/20
DBRS	R-4	Stable	B (High)	Stable	19/11/20
Moody's	(P)NP	-	Caa1	Rating Under Review	16/12/20

The fourth quarter of 2020 was characterized by the following *rating actions* of the 3 agencies:

- On 21 December 2020, Fitch Ratings revised the “rating watch” from “evolving” to “negative” on the Bank’s long-term ratings.
- On 16 December 2020, Moody’s Investors Service announced that it had extended the Bank’s rating review period. Please note that on 21 July 2020 the agency had placed the Baseline Credit Assessment standalone rating (“b3”) and the long-term ratings of BMPS, including the Long-Term Bank Deposits

rating (“B1”) and the Long-Term Senior Unsecured rating (“Caa1”), under review for a possible upgrade, amending the long-term outlook from “Developing” to “Rating under Review”.

- On 19 November 2020, DBRS Morningstar changed its long-term outlook to “stable” from “negative”. All BMPS ratings were confirmed, including the Long-Term Issuer Rating at “B (high)”, the Long-Term Senior Debt at “B (high)” and the Long-Term Deposits at “BB (low)”.

Organisational structure

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

Organisational chart of the Parent Company’s Head Offices as at 31 December 2020

Board of Directors
Chief Audit Executive (CAE) Division
Chief Risk Officer (CRO) Division
CEO/GM
Chief Safety Officer Division
Group General Counsel Division
External, Institutional Relations and Sustainability Division
Compliance Division
Chief Financial Officer (CFO) Division
Chief Lending Officer (CLO) Division
Chief Commercial Officer (CCO) Division
Chief Operating Officer (COO) Division
Chief Human Capital Officer (CHCO) Division
Performing Loans Division
Non Performing Loans Division
Markets and Products Division
Branch Division
Wealth Management Division
Operations Division

The organizational history of 2020 does not show any particular significant initiatives either on the General Management or on the Network, but rather some revision and rationalisation interventions, in the structures reporting to the Chief Executive Officer, aimed at facilitating the implementation of the Bank’s Restructuring Plan agreed with the competent authorities.

In January 2020, the first step of the reorganisation of the Workout Area of the Non-Performing Loans Department was carried out due to the withdrawal from the *servicing* contract with Juliet SpA for the outsourced management of bad loans.

In February 2020, responsibilities relating to the management of Complaints were transferred from the Chief Commercial Officer Department to the Group General Counsel Department; in addition, the centralised organisation of First Level Controls in the Chief Commercial Officer Department was improved.

In May 2020, the second and final step of the reorganisation of the Workout Area of the Non-Performing Loans Department was carried out due to the withdrawal from the *servicing* contract with Juliet SpA with a backsourcing and direct management of bad loans previously beign serviced by Juliet SpA. Moreover, in the Regional Areas, the Agri-food specialists were strengthened to optimize the formal control processes and transmission of the guarantee requests to the Guarantee Bodies (MCC, ISMEA, SACE).

In the period June-August 2020, micro-adjustments were made on the first-level controls and on the Media Center Service due to the backsourcing of some outsourced activities of the Chief Commercial Officer Department and on the Legal Proceedings and Complaints Area of the Group General Counsel Department.

Between September and October 2020, the Chief Human Capital Officer Department carried out a reorganisation to improve and centralise the administrative management processes of human resources on the Network and proceeded with the outsourcing of the administrative management activities of the company pension funds.

In December 2020, a further organisational review of the Non-Performing Loans Department was carried out due to the demerger agreement signed with AMCO and the consequent significant reduction in the volumes of the non- performing portfolio.

With respect to Network processes, actions continued to improve the quality of work, free up more time to be dedicated to sales activities and increase customer service quality, while reducing service response/provision times by streamlining "administrative" activities and document management costs, with a significant effort toward increasing digitalisation of processes.

Governance & control systems

Corporate governance

The Parent Company's corporate governance takes into account the objective of creating a system of coordinated rules and structures capable of guaranteeing transparent and accurate management of relations with shareholders as well as between them and the directors and top management.

The Parent Company's bodies work so as to pursue the overall proper functioning of the business.

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

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

In particular, the Parent Company's administration and control system includes the following: the Board of Directors, the Board of Statutory Auditors and the Shareholders' Meeting. In addition, the following were also present: the CEO, who is also General Manager, and four Board committees, specifically, the Risk and Sustainability Committee, the Appointments Committee, the Remuneration Committee and Related-Party Transactions Committee.

On 17 December 2020, at the request of the independent directors, the Parent Company's Board of Directors unanimously appointed - with the abstention of the party concerned - the independent Director Nicola Maione, as the Bank's Lead Independent Director.

In compliance with the provisions of Italian Legislative Decree no. 231/2001, the Parent Company has also established a 231 Supervisory Body entrusted with the task of supervising the functioning and observance of the 231 Model, as well as managing its updating.

The Parent Company decided to assign the role of the 231 Supervisory Body to an ad hoc collegial structure separate from the Board of Statutory Auditors, which is "mixed" in nature and consists of three members, including two outside professionals and a director qualified as independent based on the requirements set forth in the Corporate Governance Code of listed companies.

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

Further information on governance, including with regard to the concept of diversity in corporate bodies, is available in the "Report on Corporate Governance and Ownership Structure", available on the Parent Company's website (https://gruppomps.it/en/corporate-governance/corporate-governance-report.html).

Risk governance

Risk governance strategies are defined in line with the Group's business model, medium-term Restructuring Plan objectives and external regulatory and legal requirements.

Policies relating to the assumption, management, coverage, monitoring and control of risks are defined by the Board of Directors of the Parent Company. Specifically, the Board of Directors periodically defines and approves strategic risk management guidelines and quantitatively expresses the Group's overall risk appetite.

In fact, the Parent Company's Board of Directors defines the overall Risk Appetite Framework (RAF) for the Group and approves the "Group Risk Appetite Statement" (RAS) at least once per year.

The RAF Governance process is centralised within the Parent Company, which outlines its relevant perimeter at Group level and defines its structure in Group companies, according to the risks assumed, size and operational complexity of each legal entity. The RAF defines the roles of corporate bodies and functions involved in defining the "risk appetite" and the procedures to be implemented if it becomes necessary to restore the level of risk to the objective or within the pre-established limits.

The RAS represents an essential element in defining the Group's risk strategy. The RAS is the formal document that contains the explicit declaration of the risk/return objectives/limits (overall, by type and broken down by individual companies/business units) that the Bank intends to assume to pursue its strategies. Therefore, with the RAS, the risk objectives/restrictions are identified and the indicators are broken down by Business Unit/Legal Entity (known as "cascading down" of the Risk Appetite). The objective is to increase the Group's Risk Culture and fully instil accountability in all relevant Business Units with regard to achievement of the risk appetite objectives, as required by the regulations and recommended by best practices.

The Risk Appetite Process is structured so as to ensure consistency with the internal capital adequacy assessment process (ICAAP) and internal liquidity adequacy assessment process (ILAAP) as well as with Planning and Budget and Recovery processes, in terms of governance, roles, responsibilities, metrics, stress testing methods and monitoring of *key risk indicators*.

In compliance with the guidelines set forth by the Basel Committee and best practices, new prudential supervisory provisions for banks require credit institutions to carry out adequate stress testing exercises.

The Group regularly conducts stress tests on all risk factors. Stress tests are used to assess the Group's capacity to absorb large potential losses in extreme yet plausible market situations, so as to identify the measures necessary to reduce the risk profile and preserve assets.

The Group's methodological approach to stress-testing is based upon the identification of the main risk factors, both Pillar 1 and Pillar 2, with the objective of selecting events or combinations of events (scenarios) which reveal specific vulnerabilities at Group level.
The results from the stress tests are submitted to the top management and the Board of Directors. They are formally examined by the Board of Directors as part of the ICAAP/ILAAP Annual Report approval process, with a view to providing a self-assessment of the current and prospective capital adequacy and liquidity of the Group.

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

The Risk Control Function is specifically assigned the task of monitoring the Key Risk Indicators (KRIs), drawing up a periodic report for the Board of Directors and implementing the escalation/authorisation processes in the event that thresholds are exceeded.

The incorporation of macro risk and risk-adjusted performance indicators, consistent with the RAF, within staff remuneration and incentive policies represents an additional tool to promote awareness of the behaviours of all resources and the cultivation of a healthy risk culture.

In reference to the Group's Risk Culture, during 2020 initiatives were pursued regarding corporate bodies (board induction cycles on specific issues for both the Parent Company and the Subsidiaries) as well as general training initiatives (on-line courses) for all personnel in the areas of risk management and mitigation. In addition, a training programme was conducted for Area Managers to develop awareness of credit risk, on issues regarding

wealth risk management, and on anti-money laundering issues and monthly meetings were held between the rating agencies and the managers of the Regional Areas of the Chief Lending Officer and the Chief Commercial Officer in order to continuously monitor the credit risk of the respective portfolios. In collaboration with the Chief Human Capital Officer Department, the Chief Risk Officer Department carried out a project, continuing from the previous year, for all Group personnel on the topic of "Risk Culture", through scheduled eLearning events which featured typical operating situations for the Bank in which specific risks are generated.

Furthermore, during 2020 internal initiatives proceeded to ensure continued compliance with national and international regulatory provisions. Risk methodological frameworks relating to Model Risk and Legal Risk were also introduced.

In addition, the ICAAP and ILAAP packages were sent to the Regulator in accordance with the ECB's regulatory prescriptions regarding the "*Technical implementation of the EBA Guidelines on ICAAP/ILAAP information for SREP Purposes*" *(Supervisory Review and Evaluation Process)*, as well as in line with the "*ECB Guide to the Internal Capital and Liquidity Adequacy Assessment Process (ICAAP/ILAAP)*", issued in November 2018.

The Montepaschi Group is one of the Italian banks subject to the ECB's Single Supervisory Mechanism.

Compliance systems

Within the broader internal control system, the Compliance Function of the Parent Company autonomously and independently governs non-compliance risk at Group level, periodically reporting to top management and supervisory authorities on the overall status of compliance of systems, processes, and operations.

In 2020, following the *Quality Assessment Review (QAR)* requested by the Board of Statutory Auditors and conducted with the help of a leading consultancy firm, a *remediation plan* was prepared to overcome the areas of attention and the critical issues that emerged, as well as to give implementation of remedial activities with respect to the Supervisory Authority's guidelines expressed in the Follow-up Letter - Recommendation no. 7 within OSI Legal Risk 4125.

The QAR identified the evolution of the instruments and processes currently implemented as the main area for improvement. The plan was broken down into the following areas of intervention:

1. Strengthening of the compliance methodologies with the aim of: a) standardising the rules and metrics for risk assessment and processes among the different control functions; b) supplement the *Risk Appetite Framework (RAF)* with compliance risk assessments; c) update the interaction protocols with the other control functions; d) coordination between Compliance and the Anti-Money Laundering and Anti-Terrorism Department.
2. Digitisation of the activities of the Department with the aim of: a) mapping the functionalities of the tools in use at the different control functions, and formalising the macro-requirements that the common IT solution must comply with; b) expand the scope of current data extraction and *continuous monitoring* tools; c) analysing activities characterised by high repetition, for which R*obotic process automation* (RPA) solutions could be adopted;
3. Strengthening of compliance monitoring of *product governance* processes, prior matching, ex ante consulting, *alerting* and regulatory *scoping, execution* of 2nd level controls, also through changes to the current structure of the Department;
4. Strengthening of the control and process framework with the aim of: a) introducing new rules for the engagement of the Compliance Function in internal and external communication processes; b) reviewing the methods of involvement of Compliance for the launch of new projects or the inclusion in new markets or in significant decision-making processes of the Bank.

As at 31 December 2020, the remediation plan was essentially concluded.

During 2020, following the inspection of the Bank of Italy on the transparency and fairness of relations with customers, launched in October 2019, a specific adjustment project was launched, whose actions were aimed at optimising customer relations management and ensuring greater monitoring of the matter by the functions involved in the *end-to-end* process. The adjustment program was structured on 3 areas of responsibility, focused respectively on:

1. strengthening of governance and organisational structures;
2. development of a dedicated technological platform;

3. adjustments made necessary for the subsidiary Widiba.

Lastly, additional project initiatives were carried out during 2020, particularly:

- the strengthening of the Compliance Function's role in certain processes considered particularly critical, including the internal regulation management process and the external communication process;
- a review of contracts to outsource the Compliance Function of Italian subsidiaries to the Parent Company, with reference to the entry into force (30 September 2019) of the new EBA guidelines on outsourcing.

Remuneration Policy

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

(https://www.gruppomps.it/en/corporate-governance/remuneration.html)

The enhancement of professional skills and taking management decisions aimed at long-term value creation reflect a corporate culture based on the ethics of responsibility, a strong sense of belonging and continuous focus on human capital growth, in compliance with prudent risk management policies. Thus, the Group approved a specific structured management plan so that the passage from business strategies to results is guaranteed, including through initiatives launched to ensure a continuous process of employee engagement, merit recognition, opportunities for professional growth, and a distinct and distributed leadership based on measurement of performance and responsibilities fulfilled. In particular, the distinctive element for managerial levels is the weighting of the business position (grade) based on its true effect on the business.

Distribution channels

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

Traditional domestic branches are flanked by specialised shopping centres, which handle relational follow-up and the specific management of particular customer segments (e.g. Small and Medium Enterprises, Private, Institutions, etc.) and by 521 Financial Advisors (536 as at 31 December 2019) who carry out their activities by having offices open to the public distributed throughout the country.

MONTEPASCHI GROUP - DISTRIBUTION NETWORK AS AT 31/12/2020

	MONTE DEI PASCHI DI SIENA BANCA DAL 1472									
Region	Domestic branches(*)	Inc.	Customer Centres(**)						Financial Advisory Offices	Inc.
			SME	Family Office	Private	Istitutions	Tot.	Inc.		
Emilia Romagna	94	6.6%	5		6	1	12	8.6%	8	7.2%
Friuli Venezia Giulia	38	2.7%	3		1		4	2.9%	3	2.7%
Liguria	18	1.3%	1		1		2	1.4%	4	3.6%
Lombardia	197	13.9%	10	1	7	2	20	14.3%	10	9.0%
Piemonte	34	2.4%	2		1	1	4	2.9%	2	1.8%
Trentino Alto Adige	2	0.1%							1	0.9%
Valle d'Aosta	2	0.1%								
Veneto	184	13.0%	13	1	6	2	22	15.7%	5	4.5%
Northern Italy	**569**	**40.1%**	**34**	**2**	**22**	**6**	**64**	**45.7%**	**33**	**29.7%**
Abruzzo	27	1.9%	2		1		3	2.1%	3	2.7%
Lazio	122	8.6%	5	1	3	1	10	7.1%	12	10.8%
Marche	36	2.5%	4		1	1	6	4.3%	4	3.6%
Molise	4	0.3%							1	0.9%
Toscana	306	21.6%	11	1	8	2	22	15.7%	8	7.2%
Umbria	34	2.4%	2		2		4	2.9%	4	3.6%
Central Italy	**529**	**37.3%**	**24**	**2**	**15**	**4**	**45**	**32.1%**	**32**	**28.8%**
Basilicata	10	0.7%							2	1.8%
Calabria	39	2.8%	1			1	2	1.4%	2	1.8%
Campania	82	5.8%	4	1	3	1	9	6.4%	18	16.2%
Puglia	84	5.9%	6		4	1	11	7.9%	15	13.5%
Sardegna	10	0.7%	1		1		2	1.4%	2	1.8%
Sicilia	95	6.7%	3		3	1	7	5.0%	7	6.3%
Southern Italy and island	**320**	**22.6%**	**15**	**1**	**11**	**4**	**31**	**22.1%**	**46**	**41.4%**
Total	**1,418**	**100.0%**	**73**	**5**	**48**	**14**	**140**	**100.0%**	**111**	**100.0%**

(*) as reported to the Bank of Italy

(**) of which n. 8 reported to the Bank of Italy as Office not having the same location of the branch

The **Italy Network** had **1,418 branches** surveyed by the supervisory autority at the end of 2020, a reduction of 4 operating units compared to 31 December 2019.

The Group also relies on **140 Specialised Centres** (unchanged from 31 December 2019), of which 87 are dedicated to Corporate and Institutions, 48 to Private customers, and 5 to Family Office.

The Group's **ATM** network comprises a total of **2,647 machines** (-55 compared to 31 December 2019), of which 2,138 coinciding with traditional branches (1,721 of these are located on premises with an independent entrance also accessible outside of branch hours) and 509 installed in public places with high operational potential, of which 98 in institutions/companies. There are 1,366 ATMs with the "*cash in*" function (of which 955 located in self-service areas and 411 inside branches), up by 70 compared to 31 December 2019, in line with the

provisions of the project to revise the Retail business model, aimed at reinforcing the use of remote channels and optimising service lines.

The Group has an international presence with a Foreign Network geographically distributed in major financial and economic markets and in several emerging countries with high growth rate, with significant trading relations with Italy, currently structured as follows:

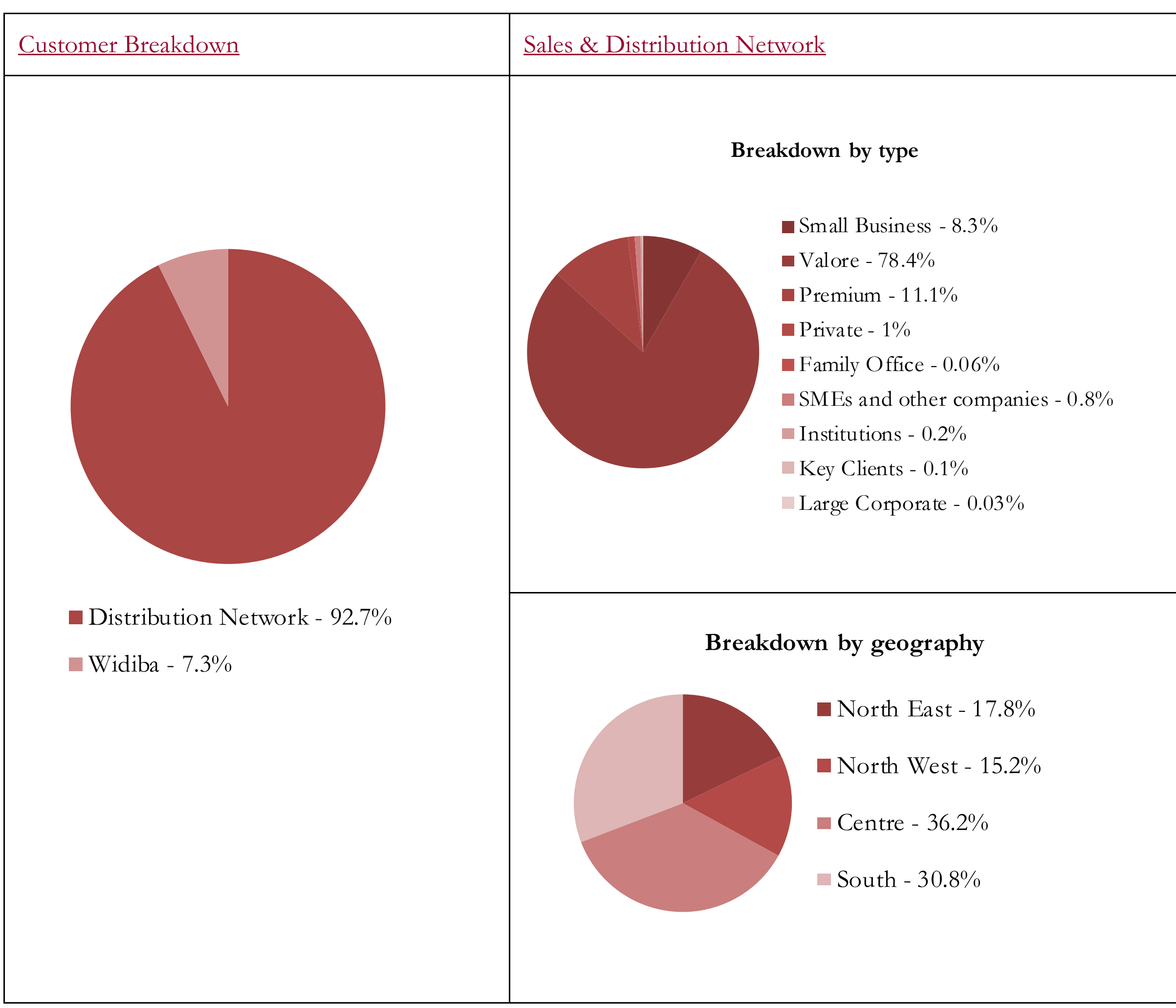
- **1 operational branch in** Shanghai**;**
- **9 representative offices** in target areas of Europe, North Africa, India and China**;**
- **1 bank under foreign law**, specifically Monte Paschi Banque S.A., operating in France, for which the Parent Company resolved in 2018 to launch the orderly winding-down process by drafting a plan in compliance with the indications contained in Commitment no. 14 "Disposal of participations and businesses", i.e., (i) progressive deleveraging of the current loan portfolio, (ii) acceptance of deposits only from existing customers, (iii) suspension of business development activities, (iv) no new initiatives in new segments or markets, as well as other regulatory restrictions in place. Performance for 2020 is in line with the plan objectives mentioned above.

In addition to its physical presence across the country, the Parent Company offers banking services to customers through electronic channels, through internet banking products for Retail and Corporate customers. As at 31 December 2020, there were 1,210,433 active users (+156,455 compared to 31 December 2019). Internet banking services for retail customers have 1,071,028 active users and those for corporate customers have 139,405.

Customer base

As at 31 December 2020, the Group[9] had around 3.9 million customers, compared to 4.7 million as at 31 December 2019. The decrease is mainly attributable to the initiatives undertaken during the year that led to an optimisation of the registry representation. Customers as at 31 December 2020 are broken down as follows:

- 3.6 million (down with respect to 31 December 2019) are managed by the Sales & Distribution Network of the Parent Company Banca Monte dei Paschi;
- 0.3 million (essentially stable compared to 31 December 2019) are managed exclusively by Widiba, the Group's online bank.



At the end of 2020, the *Retention* and *Acquisition* indicators[10] stood at 92.0% and 3.9% respectively, down compared to 2019 (93.5% and 4.2%, respectively).

[9] Intended as the sum of the total MPS and Widiba Network, excluding the customers of the other Group companies.

[10] The indicators refer only to the Parent Company and have been cleared of the effect from the migration of customers to Widiba.

Reference context

The economic recovery that has taken place since the summer is offset by an end of 2020 characterized by a second wave of the COVID-19 epidemic, which is proving particularly severe in Europe and America, and by the start of the vaccination campaign against the virus. The increase in infections forced the advanced economies to reintroduce containment measures that, affecting a lower number of sectors than the generalized spring lockdowns, depressed the economy to a lesser extent than what was recorded during the first pandemic wave. On the contrary, China has returned to near economic normality, helping to support international trade. In the last few weeks of the year, however, a greater transmissibility of the virus linked to its mutations and growing fears of possible delays in the vaccination of large segments of the population due to shortages in supply and logistics, are pushing some countries to re-introduce particularly stringent anti-contagion measures. New political tensions, especially in America, linked to the difficult transition to the new Biden administration contributed to an uncertain international context; an agreement was, however, reached on *Brexit*.

In response to the record drop in GDP in the second quarter of the year (-31.4% qoq annualised), the United States launched a fiscal and monetary stimulus even greater than that activated during the 2008 financial crisis. In the third quarter of the year, also due to the exit from a less stringent lockdown, the economy recorded a consistent rebound which, however, had to deal with a marked recovery in the circulation of the virus at the end of the year, despite the US vaccination campaign starting earlier than in other countries (expected 2020 GDP: -3.5%). Moreover, the difficult handover between the former administration and that led by Mr. Biden, culminating in the assault on Congress and the impeachment procedure against Mr. Trump, reflects the divisions that are shaking America. Mr. Biden, however, after the Democrats' victory in some key ballots, could govern for at least two years with the support of both the House and the Senate; after the bi-partisan agreement for interventions in support of the economy for around USD 900 bn in aid to companies, individuals and households in difficulty, Mr. Biden presented an additional tax stimulus plan for USD 1,900 bn.

The Eurozone, with the widespread end of the spring lockdowns, also experienced resumption of growth, but in the last few months of the year it faced a second pandemic wave so severe as to force even Germany, which had better coped with the first wave, to impose stringent and prolonged containment measures. According to preliminary estimates, the Eurozone GDP is expected to fall by 6.8% in 2020. The 2020 pandemic crisis also marked a change in EU policy: in response to the crisis, the European Authorities have provided unprecedented support to area economies, including through debt sharing instruments, by making available a total of EUR 1,190 bn in resources, broken down into three large programmes: Support to mitigate Uneployment Risks in an Emergency (SURE), the European Stability Mechanism (ESM)and NGEU (Next Generation EU) provides support totalling EUR 750 bn, including subsidies of EUR 390 bn and loans for EUR 360 bn. The participating countries are preparing with varying degrees of speed, the National Recovery and Resilience Plans which must be sent to the Commission for assessment by the end of April 2021 to obtain the first tranches of aid. On Christmas Eve, the European Union and the United Kingdom reached an agreement on the regulation of their post-Brexit relations: the new agreement will allow the United Kingdom to have access to the single market without quotas and without tariffs, but with the obligation to avoid distortions of competition, and in compliance with the rules on State aid, defining a dispute resolution mechanism. The new treaty does not take into consideration the financial sector, but the parties have planned to negotiate a memorandum of understanding to establish a new regulatory collaboration. London finally decided not to participate in the Erasmus university exchange program.

Among the emerging countries, China, the initial epicentre of the virus, returned to near-normalcy in 2020, recording an economic expansion (+2.3% for 2020 GDP). Other Asian countries show an ongoing recovery, while the countries of Africa and South America are burdened by significant public debts, which put their macroeconomic stability at risk.

With the end of the spring lockdown, Italy also experienced a rebound in growth: the unprecedented trend decline in the first half of the year was followed by a markede downsizing in the third quarter that did not prevent GDP from falling by 8,9% on average for the year (preliminary Istat estimate). On a cyclical basis, the recovery in the third quarter was among the most significant in Europe, thanks to the good recovery of the manufacturing and construction industries against the decline in services, particularly affected by the pandemic. But the rapid growth of infections in the autumn months put health systems under stress, requiring new and extensive measures of social distancing and the division of Italy into separate areas, with negative impacts on the economic recovery. On 27 December 2020, the vaccination campaign was also launched in Italy. During 2020, the Government and Parliament introduced a huge amount of resources to deal with the emergency: more than EUR 108 bn (6.6% of GDP) in terms of net debt obtained through four subsequent budget deviations. In order to stem the second wave of the epidemic, the Government followed the "Cura Italia", "Liquidity", "Relaunch" and "August" Decrees with the four "Ristori" (i.e. compensation) Decrees (for a total of EUR 18 bn in terms of net debt, of which 8 financed with budget deviation) and is preparing to launch a fifth one. Political tensions

have increased both on the approval of the 2021 Budget Law, on the management of the emergency by the executive, and on the definition of the National Recovery and Resilience Plan (NRRP), an essential step to be presented to the European authorities to access the *Next Generation EU* funds for Italy (potentially over EUR 200 bn). A new executive taking the oath of office in February 2021 was welcomed by the markets.

After a heavy sell-off phase in the first part of 2020, share prices rose, supported by the support policies of central banks and national governments and by the optimism deriving from the green light for the administration of some of the main candidate vaccines against COVID-19. The Chinese Shenzhen index rose by more than 27% during the year, returning to close to the highs of 2007. The S&P500 reached new records, up by more than 16% compared to the beginning of the year, also benefiting from Biden's electoral victory; the Nikkei also grew by over 16%. The Old Continent's stock markets were more heavily penalised, as they failed to fully recover from the spring lows: both the Euro Stoxx and the FTSEMIB recorded losses of more than 5% on an annual basis.

The long-term yields of risk-free countries recovered slightly from the spring lows. Towards the end of the year, the American ten-year treasury bond showed a more marked uptrend compared to its European counterpart, which remained compressed; however, returns for both are affected by the accommodative policy of the central banks in support of the economy. As at 31 December 2020, the yield on the German ten-year bond was at -0.57%, down from -0.19% at the end of 2019, and the US ten-year bond-yield was 0.91%, from 1.92% in the previous year. After rising multiple times above 250 basis points in the spring months, the spread between the Italian BTP and the German Bund benefited from the policies deployed by the European Authorities, retreating further in the summer after the agreement on *Next Generation EU* and further benefiting in December from the announcement of new stimulus measures by the ECB: as at 31 December 2020, the spread was around 110 basis points, almost 50 lower than the levels marked at the end of 2019; the yield on the Italian ten-year bond fell to 0.54% at the end of December, after rising to a peak of 2.43% in March.

To counter the considerable economic fallout from the pandemic, central banks strengthened their stimulus measures throughout 2020. The Federal Reserve Board (Fed) reduced the Federal Funds interest rates in the range of 0.00%-0.25% and launched a new programme to purchase public debt and mortgage-backed securities, without limits on their amount. The authority specified that the securities purchase plans will no longer be "merely technical" aimed at ensuring the correct transmission of monetary impulses to the real economy, but will be "instruments full of monetary policy" and will last until further progress on inflation and employment is achieved. The Fed has also introduced a series of instruments to support credit to businesses, consumers and local administrations. In the summer, the Fed also announced a revision of its monetary policy strategy to make it even more accommodating, setting policy rates at zero for an extended period of time: the Authority will intervene only to reach full employment in the job market, without making any commitment to raise Fed funds in phases of market overheating to anticipate possible salary growth. On inflation, the Fed will adopt an *Average Inflation Targeting* approach, pursuing not a precise but an "average" 2% inflation target over a time span not yet specified, with tolerance for periods of inflation higher than 2%. The ECB, at the last Governing Council meeting of 2020, further strengthened existing extraordinary measures. It left rates unchanged (the main refinancing rate at 0%, -0.50% for the rate on deposits with the ECB) but expanded the PEEP (Pandemic Emergency Purchase Program) securities purchase program launched in June by EUR 500 billion (Pandemic Emergency Purchase Program) bringing it to EUR 1,850 billion and extending its maturity until March 2022 and in any case until the pandemic crisis is over. However, the authority specified that this allocation will not necessarily be fully used. The subsequent reinvestment of held-to-maturity securities was extended to the end of 2023, so as not to interfere with monetary policy. It also confirmed the pace of purchases of Asset Purchase Program securities at EUR 20 billion. In terms of liquidity, the ECB will continue to guarantee it through its refinancing operations: the TLTRO III, long-term operations aimed at granting loans to companies, will be subject to more favourable conditions, until June 2022, for banks that will have reached new loan granting targets. Resources may be borrowed for 55%, and no longer 50%, of the stock of loans and, between June and December 2021, three new auctions will be carried out. Another four PELTRO pandemic liquidity auctions will be conducted in 2021. The expansion of collaterals decided in April 2020 will be extended until June 2022, when it will be reassessed. Swaps and repos with other central banks were also extended until March 2022.

Regulatory and supervisory interventions by institutions within the context of the COVID-19 pandemic

In the initial months of 2020, the effects of the COVID-19 pandemic were reflected in the production activities and aggregate demand of all economies. The deterioration in growth forecasts has translated into a sharp drop in stock market indexes (particularly in the first half of 2020) and a sudden increase in volatility and risk aversion. The resurgence of the pandemic between October 2020 and December 2020, particularly intense in the European Union and in the United States, and the consequent strengthening in many countries of containment measures - albeit in general with a lower intensity than last spring - resulted in a new slowdown in the global economy in the last quarter of 2020. On the other hand, longer-term prospects have improved, thanks to the launch of vaccination campaigns in many countries; however, the timing of large-scale distribution and administration of vaccines remains uncertain, which will affect the economic cycle.

In consideration of the economic consequences of the pandemic, which could persist for longer than previously suggested, in all the main countries, monetary and fiscal authorities continued to put in place strong expansionary measures to support household and business income as well as provide credit to the economy and liquidity on the markets. In parallel, the European institutions (**European Commission, European Council and Parliament**), Italian and European Supervisory Authorities (**EBA, ESMA, ECB/SSM, Bank of Italy, SRB**), and international institutions (**IASB, Basel Committee**) adopted a series of measures to support banks in mitigating the economic impact of the COVID-19 pandemic.

Below is a summary of the main interventions/support measures adopted in 2020.

Regulatory interventions

Capital requirements

On 12 March 2020, the ECB issued a press release entitled "***ECB Banking Supervision provides temporary capital and operational relief in reaction to coronavirus***", announcing important measures with reference to the capital and liquidity requirements of banks for the duration of the COVID-19 pandemic, which in all respects represents a situation of severe systemic stress. Specifically, the ECB, as also clarified in the subsequently published FAQs, announced:
- the possibility of temporarily operating below the capital level defined by the Pillar 2 Capital Guidance (P2G), the capital conservation buffer (CCB);
- that it was in favour of a relaxation of the countercyclical capital buffer (CCyB) by national authorities[11];
- the possibility of partially using Additional Tier 1 Capital or Tier 2 Capital to meet the Pillar 2 requirement (P2R), bringing forward a measure contained in the Capital Requirements Directive V (CRD V), which was scheduled to take effect in 2021. These measures help free up capital that banks can use to support the economy. In this regard, the ECB emphasised the expectation that banks will not use the positive effects from the aforementioned measures to increase dividend distribution or pay variable bonuses;
- the application of the preferential treatment for non-performing exposures, currently envisaged for loans guaranteed by official export credit agencies, to exposures that will become non-performing and that benefit from public guarantees granted for the COVID-19 emergency (i.e., a minimum coverage of 0% for seven years as part of the "calendar provisioning" envisaged by the Addendum).

The ECB also indicated that it would ensure maximum flexibility regarding NPE reduction strategies, taking into account the extraordinary nature of current market conditions.

On 20 March 2020, the ECB communicated the decision to postpone for 6 months:
- the deadline for remedial actions imposed following "on-site inspections", Targeted review of internal models (TRIM) investigation and internal model investigations;
- verification of compliance with qualitative SREP measures;
- the issueance of TRIM decisions, follow-up letters from on-site inspections and decisions on internal models not yet communicated to banks, unless the bank explicitly requests a decision because it is considered advantageous.

On 25 June 2020, Commission Delegated Regulation (EU) 2020/866 of 28 May 2020 was published in the Official Journal of the European Union, modifying Delegated Regulation (EU) 2016/101 as regards the standards on prudent valuation, in order to mitigate the impact of volatility triggered by the COVID-19

[11] Some national authorities (Hong Kong, Sweden, Norway, Iceland, the United Kingdom and Denmark) have already reduced the countercyclical buffer ratios, beginning 31 March 2020.

pandemic on prudential market risk requirements; in particular, the Regulation introduces the use of a 66% aggregation factor to be applied until 31 December 2020 as part of the "core approach".

On 26 June 2020, Regulation (EU) 2020/873 was published in the Official Journal of the European Union, amending the CRR and CRR2 Regulations, in order to adjust the prudential regulation framework to the requirements linked to the COVID-19 emergency. The Regulation introduced, inter alia, measures to relax the capital requirements applicable as of 27 June 2020, including:

- changing the IFRS 9 transitional provisions, which allows banks to sterilise the capital impacts associated with the increase in credit value adjustments recognised in the 2020-2024 period with respect to 1 January 2020 for stage 1 and 2 portfolios. In particular, the Regulation provides for the re-introduction into Common Equity Tier 1 capital of a progressively decreasing share of the effect of the higher adjustments, equal to 100% in 2020 and 2021, 75% in 2022, 50% in 2023 and 25% in 2024;
- introducing a prudential filter relating to the OCI reserve on government bonds to attenuate the negative impact of the levels of volatility in the financial markets and the debt of central administrations on regulatory capital. The temporary treatment, applicable in the period from 1 January 2020 to 31 December 2022, allows banks to exclude from Common Equity Tier 1 capital a progressively decreasing amount (100% in 2020, 70% in 2021, 40% in 2022) of unrealised profits and losses accumulated starting from 31 December 2019, accounted for in the financial statement item "Changes in the fair value of debt instruments measured at fair value through other comprehensive income", with reference to exposures to central administrations, provided such exposures are not classified as non-performing financial assets;
- bringing forward the application date of a) the SME Supporting Factor, b) the Infrastructure Supporting Factor, and c) a more accurate calibration of the salary-/pension-backed loans. The application date of such measures was brought forward to 27 June 2020, the date of entry into force of the Regulation, instead of the date of 28 June 2021 originally established by CRR2;
- introducing a temporary treatment of public debt issued in the currency of another Member State: until 31 December 2024, exposures to central administrations and the central banks of Member States, when such exposures are denominated and financed in the national currency of another Member State, receive more favourable weighting factors in credit risk; furthermore, the competent authorities may allow banks to take on exposures with higher limits for the purposes of the rules on large exposures;
- immediately applying the EBA's RTS on the prudential treatment of software; the CRR2 introduced provisions to modify the regulatory treatment of software assets, providing for their exclusion from CET1 deductions. On 22 December 2020, the Official Journal of the European Union published the Delegated Regulation (EU) 2020/2176, effective from 23 December 2020, which specifies the methods for implementing that exemption. The application date of the new prudential treatment of software was set by the CRR2 at 12 months from the entry into force of the aforementioned RTS. To free up capital and support digital investments by banks, Regulation 2020/873 brought forward the application date to the date on which the Regulatory Technical Standards enter into force;
- with reference to the regulations on the prudential backstop for non-performing loans ("calendar provisioning"), extending the preferential regime envisaged for loans guaranteed by Export Credit Agencies (SACE in Italy) in terms of the provisioning obligations (0% for the first 7 years, 100% provision only in the eighth year), to all loans guaranteed by the State (only for the guaranteed portion of the loan);
- temporarily excluding, subject to the discretion of the competent authority, certain exposures to central banks from the calculation of the financial leverage ratio. With Decision (EU) 2020/1306 of 16 September 2020, the ECB recognised the existence of exceptional circumstances justifying the exclusion from the measure of the overall exposure of (i) coins and banknotes which constitute the legal currency in the jurisdiction of the central bank and (ii) deposits held in the deposit facility at the central bank or balances held on reserve accounts, including funds held in order to meet minimum reserve requirements. On the basis of this decision, the ECB allows significant banks to benefit from this exclusion until 27 June 2021;
- introducing a temporary method for calculating the value of the exposure of regular-way purchases and sales awaiting settlement for leverage ratio purposes, which establishes the possibility of offsetting the full nominal value of commitments to pay connected to regular-way purchases with the full nominal value of receivables in cash connected to regular-way sales awaiting settlement, when certain conditions are met.

Liquidity requirements

With reference to the liquidity requirement, the ECB has allowed supervised banks to operate below 100% of the Liquidity Coverage Ratio.

MREL requirement

On 8 April 2020, the SRB provided some clarifications regarding the approach that will be adopted with reference to the minimum requirement for own funds and eligible liabilities (MREL), taking into consideration the impact of the COVID-19 pandemic. In particular, the SRB has demonstrated its commitment to ensure that the short-term MREL constraints do not constitute impediments to the banks lending to the real economy. For this reason, the SRB is working with national banks and resolution authorities to prepare the implementation of the 2020 resolution cycle and, in particular, to define changes to MREL decisions on the basis of the "MREL Policy 2020" which incorporates the provisions of the new banking package (Bank Recovery and Resolution Directive 2, BRRD2 and Single Resolution Mechanism Regulation 2, SRMR2). As part of the 2020 resolution cycle, the new MREL targets will be established based on the transitional period envisaged by SRMR2, i.e., setting the first interim binding requirement by 2022 and the final requirement by 2024. With regard to the current binding requirements, set in the 2018 and 2019 resolution cycles, the SRB has announced its intention to adopt a forward-looking approach towards banks that had difficulty meeting these requirements before the entry into force of the new requirements.

Communications from authorities and standard setters in the accounting field

The extraordinary nature of the current crisis is confirmed in the documents, guidelines, warnings published, starting from March 2020, by the ECB, EBA, Bank of Italy, Basel Committee, ESMA, CONSOB, as well as the IASB and IOSCO, aimed at providing indications and interpretations on how to apply the provisions of the accounting standards in the context of the current crisis, also with the aim of avoiding the development of pro-cyclical effects but at the same time ensuring correct and transparent disclosure and measurement of risks. The aforementioned statements also draw attention to the need to provide updated information on the risks linked to COVID-19 that may have an impact on the economic-equity and financial situation, on any actions undertaken or planned to mitigate said risks and an indication of the potential impacts relevant to the estimate of future performance.

More specifically, the indications provided by the authorities can be grouped into the following areas:

- guidance on the classification of loans, issued by IASB, ECB and EBA, which provide the guidelines for the treatment of moratoria with particular reference to the classification as forborne loans and performing/non-performing loans;
- the determination of the *Expected Credit Loss* (ECL) according to IFRS 9 in a forward looking view, in particular the issue of the use of future macroeconomic scenarios (issue dealt with by the IFRS Foundation in general and, in more detail, by the ECB), the assessment of the significant increase in credit risk (SICR) and the inclusion of government guarantees in the calculation of the ECL;
- recognition of the effects (gain/loss on forbearance) related to contractual changes resulting from customer support measures;
- financial reporting.

For an examination of the main indications provided by the authorities and standard setters and how the Group has taken them into account in the preparation of this Consolidated financial report, please refer to the section "Accounting policies relevant to the preparation of the consolidated financial statements in the context of the COVID-19 pandemic" in the Notes to the consolidated financial statements.

Monetary policy interventions

Targeted longer-term refinancing operations

TLTRO III, the third programme of targeted longer-term refinancing operatios (TLTROs), announced in March 2019, designed to preserve favourable conditions of bank credit and to support the accommodating stance of monetary policy. On 6 June 2019, the Governing Council of the ECB established the reference parameters of theTLTRO III, including interest rates. Some of these parameters were reviewed by the Governing Council: (i) on 12 September 2019, in light of the worsening of the economic situation, (ii) on 12 March 2020 and on 30 April 2020, in the face of the COVID-19 emergency and (iii) on 10 December 2020, in light of the economic repercussions deriving from the continuation of the pandemic.

In particular, in March 2020, in the face of the COVID-19 emergency, the Governing Council introduced more favourable conditions for the operations, to be applied in the period between 24 June 2020 and 23 June 2021. On the same occasion, it i) increased the borrowing allowance to 50% of the stock of eligible loans as at 28 February

2019, ii) removed the limit for participation in individual auctions and iii) brought forward the possibility of early repayment after one year from the settlement date of each operation, starting from September 2021. In April 2020, the Governing Council decided to further ease the conditions applied with reference to the interest rate and the incentive mechanism.

In December 2020, in light of the economic repercussions deriving from the protraction of the pandemic, the Governing Council decided to further recalibrate the conditions applied to the TLTRO III program. In particular, it decided to i) extend by 12 months, until June 2022, the period during which more favourable conditions will be applied, ii) conduct three additional operations between June and December 2021 and iii) introduce a new criterion for assessing the lending performance for the purpose of determining interest rate conditions. In addition, the Governing Council decided to increase the borrowing allowancefrom 50% to 55% of the stock of eligible loans as at 28 February 2019.

On 29 January 2021, the Governing Council also decided that the TLTRO III groups may include additional credit institutions as new members, provided that they are not part of a TLTRO III group already recognized, and that the banks that have participated so far on an individual basis can form a new group. This option is only permitted before the seventh TLTRO-III operation. To this end, the lead entity must notify the change in the composition of the group or request the establishment of the new group to the Bank of Italy by 15 February 2021, according to the rules established in Decision ECB/2019/21. The new composition of the groups will apply starting from the seventh TLTRO-III operation.

Each of the operations of the program will have a duration of three years; an interest rate equal to that of the main refinancing operations prevailing during the respective TLTRO III will be applied to them, except for the period between 24 June 2020 and 23 June 2022 when a reduction of 50 basis points will be applied. The counterparties that in the specified periods achieve certain objectives in terms of lending performance will benefit from a further reduction in the rate applied.

Additional longer-term refinancing operations

In response to the COVID-19 emergency, the Governing Council of the ECB decided to temporarily conduct additional longer-term refinancing operations (LTROs), to provide an immediate injection of liquidity to support the financial system of the Eurozone.

Longer-term refinancing operations for the pandemic emergency

In the meeting of 30 April 2020, the Governing Council of the ECB decided to temporarily conduct pandemic emergency longer-term refinancing operations (PELTRO) to support the liquidity conditions of the Eurozone financial system and to help preserve the orderly functioning of money markets by providing effective liquidity support after the expiry of the bridge LTROs conducted from March 2020. At the subsequent meeting of 10 December 2020, the Governing Council of the ECB decided to offer an additional four PELTRO operations in 2021, which will continue to offer effective liquidity support.

Market liquidity support

At the same meeting on 12 March 2020, in addition to the current **Asset Purchase Programme** (***APP***), the ECB activated a temporary envelope of additional security purchases until the end of the year, for a total of EUR 120 bn, in order to ensure favourable financing conditions for the real economy in a context of considerable uncertainty.

In the face of the rapid spread of the epidemic and the onset of significant turbulence in financial markets, the Governing Council, in an extraordinary meeting on 18 March 2020, introduced a new programme to purchase public and private securities in relation to the pandemic emergency (***Pandemic Emergency Purchase Programme***, **PEPP**) for a total amount of EUR 750 bn.

The purchases, which will be conducted flexibly over time, across asset types and jurisdictions, will continue at least until the end of the current year and in any case until the emergency connected with the epidemic persists; the purchases will involve all financial assets covered by the APP, including government bonds issued by Greece, which had not been admitted to the Eurosystem programmes until this time. The Governing Council also included commercial paper of sufficient credit quality among the eligible assets for the purchase programme for bonds issued by non-financial companies in Eurozone countries (*Corporate Sector Purchase Programme*, CSPP).

In response to the downward revision of inflation, due to the pandemic, and with a view to further supporting financing conditions for the real economy, especially for businesses and households, at its meeting on 4 June 2020 the Governing Council of the ECB decided to increase the amount available in the PEPP by EUR 600 bn, which therefore reached a total of EUR 1,350 bn. The horizon of the net purchases as part of the PEPP was also extended at least until the end of June 2021.

At the meeting of 10 December 2020, in light of the economic repercussions deriving from the resurgence of the pandemic, the Governing Council increased the PEPP allocation by EUR 500 bn (a total of EUR 1,850 bn). It also extended the timescale of purchases within the context of the PEPP at least until the end of March 2022. In any case, the Governing Council will conduct net purchases until the critical phase linked to COVID-19 is deemed concluded.

At the same time, it was decided to extend the period of time within which to reinvest the capital repaid on securities maturing under the PEPP at least until the end of 2023. The Governing Council will endeavour to ensure that the future reduction of the PEPP portfolio will be managed in such a way as to avoid interference with the appropriate monetary policy stance.

Government interventions

State Aid in the European context

The measures adopted at European level to support the economy of the European Union and of the various Member States, hard hit by the crisis, include the adoption of more flexible rules on State aid. The Communication of the European Commission of 19 March 2020 "*Temporary framework for State aid measures to support the economy in the current COVID-19 outbreak*", was aimed at allowing Member States to adopt measures to support the economic system in derogation from the ordinary regulations on State aid. The *Temporary Framework* was extended and supplemented on 3 April 2020, and further amended and extended with the Communication of 8 May 2020. After a consultation with the Member States on 29 June, the EU Commission adopted the third amendment to the *Temporary Framework* in order to authorise public support to all small and micro enterprises, including those that where in financial difficulty as at 31 December 2019, provided that they are not in insolvency proceedings, have not received rescue aid that has not been repaid or are not subject to a restructuring plan under State aid rules. The Commission also adjusted the conditions for the recapitalisation measures under the temporary framework, for cases in which private investors contribute to the capital increase of the companies together with the State.

On 2 July 2020, the Commission extended the validity of some rules of the non-emergency framework on State aid, which would otherwise have expired at the end of 2020. After consulting with the Member States, it also applied at the same time some targeted adjustments to the current regulations in order to guarantee their certain application during the COVID-19 crisis.

Finally, it should be noted that on 13 October 2020 the Commission adopted the fourth amendment to the *Temporary Framework*, which extends the provisions of the temporary framework for another six months, until 30 June 2021, with the exception of those relating to the recapitalisation measures that are being extended for a further three months until 30 September 2021, and further extended the types of eligible State aid. Support for the uncovered fixed costs of companies due to the pandemic now falls, under certain conditions, within the permitted schemes.

In addition to these measures, the European Commission has established a temporary instrument (SURE) to support employment and workers, financed with the issue of securities by the EU. The SURE instrument, adopted by the European Council on 19 May 2020, provides financial assistance for a total of EUR 100 bn in the form of loans, to support and supplement national unemployment funds. Between 27 October 2020 and 17 November 2020, the European Commission disbursed a total of EUR 16.5 bn to Italy, as part of this instrument.

On 26 May 2020, the European Investment Bank (EIB) in turn set aside a new pan-European guarantee fund of EUR 25 bn, supported by the EU Member States, which enables the EIB Group to make available EUR 200 bn for the EU economy, with a view to limiting the negative impact of COVID-19 on SMEs and other businesses in Europe. At least 65% of the loans will be allocated to SMEs, while up to 7% may be assigned to support SMEs and mid-caps in the form of risk capital, growth capital and venture debt.

On 27 May 2020, the European Commission also launched a recovery programme, *Next Generation EU*, which has a financial capacity of EUR 750 bn and is based on three pillars:

- instruments to support the efforts made by the Member States to recover from the crisis, overcome its effects and re-emerge stronger;
- measures intended to stimulate private investments and support businesses in difficulty;
- strengthening of strategic EU programmes to learn from the crisis and make the single market stronger and more resilient and accelerate the dual green and digital transition.

The plan was approved by the European Council on 21 July 2020.

Italian Government decrees

To counteract the negative effects that the COVID-19 epidemiological emergency produced on the domestic social and economic system and to prevent the temporary crisis from producing permanent effects, during the year the Italian Government implemented a series of extraordinary necessary and urgent measures. A summary is provided below.

Law Decree 18/2020 was issued on 17 March with "Measures to strengthen the National Health Service and economic support for households, workers and businesses related to the COVID-19 epidemiological emergency" (known as the "Cura Italia" Decree).[12]

The **Cura Italia** decree acts within four main intervention areas. Firstly, the resources available to the healthcare system have been strengthened, including for hiring doctors and nurses and increasing the number of intensive care units. Secondly, measures to support household income have been introduced through numerous instruments, mostly intended to strengthen social safety nets throughout the country for employees and freelance workers as well as specific sectors. In particular, the existing social safety nets, such as the ordinary layoff pay scheme Cassa Integrazione Guadagni Ordinaria[13], the income support fund Fondo di Integrazione Salariale and the special layoff pay scheme Cassa Integrazione Guadagni in Deroga, have been extended to all companies forced to limit or suspend business activities due to COVID-19, reducing all or part of employees' working hours. Furthermore, the decree has suspended layoffs for economic reasons for the duration of the emergency period. The third line of action relates to the support of companies' liquidity, at risk due to the collapse in demand following the halt in economic activities, through the banking system and the use of the Fondo Centrale di Garanzia (Central Guarantee Fund). The fourth line of intervention of the **Cura Italia** decree concerned aid for the most heavily affected sectors, such as the tourism-hospitality sector, transportation, catering and bars, culture (cinemas, theatres), sports and education.

Among the fiscal changes made by the aforementioned decree, we note art. 55 "Financial support measures for businesses" which contains important measures to support the disposal of non-performing loans.

On 6 June 2020, Law no. 40/2020, converting Law Decree no. 23/2020 (the "Liquidity Decree"), was published in the Official Gazette no. 143. The measures adopted included, among other things: (i) a loan of up to EUR 30,000 with a maximum duration of 10 years, 100% guaranteed by the Guarantee Fund in favour of SMEs or individuals carrying out business activities; (ii) a loan of up to EUR 800,000 with a maximum duration of 72 months with 90% guarantee of the Guarantee Fund (extendable to 100% with the intervention of Confidi credit guarantee consortia) in favour of SMEs and benefit corporations (iii) a loan of up to EUR 5 mln of new liquidity with 90% guarantee of the Guarantee Fund in favour of SMEs; (iv) state guarantees for a total of around EUR 200 bn granted through SACE Simest, of the Cassa Depositi e Prestiti Group, in favour of banks that provide loans to businesses in any form.

On 18 July 2020, Law no. 77/2020, converting Law Decree no. 34/2020 on "Urgent measures on health, support for work and the economy, as well as social policies linked to the COVID-19 epidemiological emergency" was published in the Official Gazette no. 180 (the "**Relaunch Decree"**), which provides for further measures to boost the economy, including: (i) extension of the moratorium in favour of micro-enterprises and SMEs envisaged by art. 56 of Law Decree no. 18/2020 (Cura Italia Decree) also to subsidised loans guaranteed by the State and granted to companies following the earthquakes of 2012 and 2016 for the payment of taxes, contributions and premiums already suspended or still to be paid at the date of entry into force of the respective subsidy regulations; (ii) refinancing of Guarantee Fund for SMEs; (iii) refinancing of the the first-time buyer

[12] Law no. 27/2020, implementing the Cura Italia decree, was published in Official Gazette no. 110 of 29 April 2020.

[13] In particular, "national COVID-19" has been introduced as an additional basis for elibility.

mortgage guarantee scheme; (iv) aid in the form of guarantees from the Regions and Autonomous Provinces on loans to businesses; (v) aid in the form of subsidised interest rates for loans to businesses; (vi) simplifications relating to the performance of the Guarantee Fund for SMEs; (vii) measures to facilitate the transfer of tax credits in favour of banks and financial intermediaries.

On 14 September 2020, Law no. 120/2020, converting Law Decree no. 76/2020 on "Urgent measures for simplification and digital innovation" (the "**Simplification Decree"**) was published. With the **Simplification** Decree, the Government simplified administrative procedures, eliminated and sped up bureaucratic procedures, digitalised the public administration and provided support to the green economy and business activity.

On 13 October 2020, Law no. 126/2020, converting Law Decree no. 104 of 14 August 2020 on "Urgent measures to support and relaunch the economy" (the "**August Decree"**) was published in the Official Gazette no. 253, whereby the Government set aside an additional EUR 25 bn to strengthen the recovery from the negative consequences of the COVID-19 epidemic. During the parliamentary review the measure underwent a variety of changes relating, inter alia, to the Guarantee Fund for SMEs and the 110% Superbonus. Please note in particular (i) the extension to 31 January 2021 of the extraordinary moratorium on debt exposures of microenterprises and SMEs (pursuant to art. 56 of the Cura Italia Decree); (ii) authorisation of the Ministry of Economy and Finance to subscribe share capital increases and capitalisation instruments of companies controlled by the State for a total amount of up to EUR 1.5 bn for the year 2020.

On 24 December, Law no. 176/2020 of 18 December 2020 converting Law Decree no. 137/2020 (the "Ristori Decree") was published in the Official Gazette no. 319, which incorporated the three subsequent law-decrees issued in November 2020, of which some of the provisions of greatest interest for the banking and financial system are reported: (i) suspension of foreclosure procedures on primary residences; (ii) changes to the the first-time buyer mortgage guarantee scheme; (iii) simplifications in terms of access to over-indebtedness procedures for businesses and consumers and rules relating to pending procedures; (iii) extension of access to the so-called Gasparrini Fund, a solidarity fund for first-time-buyer mortgages .

On 30 December 2020, Law no. 178 of 30 December 2020 containing the "State budget for the financial year 2021 and multi-year budget for the three-year period 2021-2023" was published in the Official Gazette no. 322. The provision envisages various measures of interest to the banking sector, some of which provide strengthening of measures to support the liquidity of households and businesses and further amendments to the regulations of the so-called 110% Superbonus (pursuant to art. 119 of the Relaunch Decree).

Lastly, note the extension until 30 June 2021 of the extraordinary moratorium already provided until 30 September 2020 by art. 56 of the "Cura Italia" Decree.

MPS Group initiatives within the context of the COVID-19 pandemic

Occupational safety

The initiatives undertaken at Group level, in line with the instructions issued by governmental authorities, have constantly aimed at protecting the health and safety of workers and safeguarding business continuity.

The following were involved in managing the crisis:

- Management Committee - for taking the most important decisions;
- COVID-19 Crisis Management Committee - with the task of analysing and resolving the main issues and aligning with the Management Committee;
- Situation Room - responsible for ongoing operational alignment, communicating operational proposals, implementing strategic decisions, and activating the necessary escalations.

In relation to "**231 risks**", the Compliance Function performed audits on the mitigation actions carried out, with a positive outcome, in order to assess any violation of the provisions contained in the Consolidated Law on Workplace Health and Safety (Legislative Decree no. 81/2008), subsequently subjected to the scrutiny of the 231 Supervisory Body.

The Parent Company's Board of Directors was continuously informed on the developments in the crisis and emergency management with dedicated communications; in addition, JST and the Bank of Italy are updated periodically and the Parent Company responds to any requests for further information.

From an operational perspective, a Healthcare Team was launched in January by the Medical Coordinator of the Group's Health Service, in order to analyse the evolution of the emergency and prepare the necessary countermeasures. The doctor, who has actively participated in emergency teams organised by the health authorities, has kept the Parent Company constantly updated through daily actions for alignment, analysis and sharing of operational proposals necessary to address the emergency.

The main areas of intervention of the Healthcare Team are as follows:

- definition of guidelines on the actions to be implemented in the event of contact with persons who thest positive for the coronavirus;
- research on the effectiveness of the various protection equipment and identification of the appropriate equipment to be provided to employees;
- definition of guidelines on managing pregnant women and individuals who are immuno-suppressed or have chronic pathologies, including through the study and evaluation of specific cases;
- analysis of the global epidemiological emergency in order to implement specific actions for resources returning from foreign countries.

The Coordinator also participates in all the update teams with the Workers' Safety Representative (RLS), the Employer for the purpose of prevention, the Manager of the Prevention and Protection Service (RSPP), the Real Estate Function and the Managers of the Organisation Departments of the Regional Areas (as Health and Safety Executives), in order to provide immediate support regarding any reports of critical health issues that may emerge during the meetings.

The primary strategic initiatives adopted are listed below.

- Agile Work: smart working continues without interruption for all Head Offices resources, including in specific cases those in the Commercial Network and Specialised Centres, taking care to safeguard operational continuity; this method of remote working was undoubtedly the most effective initiative to limit the spread of the contagion.

- Starting from October 2020, due to the evolution of the health emergency, the contagion prevention initiatives with regard to the Network Structures were further strengthened; some examples:
  - weekly shifts between two *teams* at the branches were activated in branches with 8 or more employees. The two teams are strictly segregated in order to reduce the possibility of contact and consequent contagion;
  - movements between offices and within company premises were limited to the essential minimum;
  - in all branches, in addition to opening to customers by appointment, cash transactions are only guaranteed in the morning, according to standard opening hours and by prior arrangement by telephone;

- infrared thermometers were distributed in all branches.

- <u>Protection devices to safeguard people's health</u>
  To safeguard the health of employees and customers, the Parent Company adopted incremental prevention and protection measures from the start of the emergency, monitoring the evolution of the situation in implementation of the regulatory provisions issued at national and local level.
  The following initiatives are noted in particular:
  - all structures were equipped with Personal Protection Equipment (PPE), consisting of masks, sanitising gel, etc.;
  - the cleaning service was reinforced, with the use of sanitising products and cleaning at the end of every work day, activating specific monitoring in this regard;
  - respect for separation and distancing rules was favoured with the installation of plexiglass protection screens and distancing strips for customers in operating units in contact with the public;
  - thermal scanners were installed at the entrances of the Parent Company's largest properties to automatically take body temperatures;
  - extraordinary maintenance of the air treatment systems and air conditioning systems was activated at all locations;
  - infrared thermometers were installed at the entrances of some branches (currently being tested) for the automatic measurement of customers' body temperature.

- The "*Protocol for combating and limiting the spread of the COVID-19 virus*" which brings together all measures enacted (delivered to the Supervisory Bodies, such as the Local Health Authorities, in case of inspections at our offices) was upgraded to corporate Regulatory Document and subjected to continuous updating; specific procedures for suppliers have been updated.

- <u>Customers</u> were informed on a case by case basis through notices outside the branches, information on the Parent Company's institutional website and press releases in the media, referencing the availability of alternative channels to the traditional branch, such as the opportunity to use ATMs, Internet Banking and Mobile Banking, which were functioning and operational.

- <u>Information to branches:</u> the branches have been constantly updated in real time on developments in the crisis and the resulting provisions of the Government, regional ordinances and municipal ordinances, including through the efforts of Health and Safety Executives. Furthermore, at certain points in time, signs were prepared that were hung up in the branches for the benefit of customers. In many branches, automatic queue management systems were installed to limit the number of customers present at the same time inside.

- <u>Information to personnel</u>: with the evolution of the health emergency and, consequently, the containment measures ordered by the Council of Ministers and by the individual regions, detailed instructions on prescriptions at the corporate and national level have been made available and constantly updated for all personnel (via individual emails as well as through the web page dedicated to emergency management created on the company's intranet portal).

- <u>"Health and Safety and COVID-19" Course:</u> all employees have been registered in a compulsory course to help them better understand the Coronavirus, as well as the prevention and protection measures to limit its spread. The course, prepared in collaboration with the association of Italin bnanks (ABI), has so far been used by about 15,000 workers.

- <u>Responses to employees</u>: in order to handle requests for specific clarifications and analysis, an email address and an information request form were made available to all Montepaschi Group personnel, which can be filled out on the intranet. The form consists of a series of questions with a guided response. In cases where the answer is not complete, a specific request can be added in a special field. Approximately 35,000 applications have been received since the start of the pandemic; to meet the numerous needs of employees, dedicated Teams have been set up that continuously respond even after working hours, until 10.30 pm and on holidays.

- <u>*FAQs:*</u> FAQs have been prepared and constantly updated, broken down by topic, which Group employees can access to get answers to their questions/doubts. The FAQs are published on the web page dedicated to emergency management on the company's intranet portal. This page acts as an access point for all employees for useful information on the issue, stored virtually, which can be accessed from any device, including personal devices with updated credentials; approximately 20,000 unique events have been recorded, that is to say that each employee has accessed it at least once.

Commercial activities

In compliance with the operating restrictions imposed by measures to combat the spread of the virus and in an effort to remain close to all customers throughout the country, the Group handled the COVID-19 emergency pro-actively, ensuring the safety of the resources involved and allowing commercial activities to be carried out through smart working.

During the year, the Parent Company, following the spread of the epidemic, had to order the temporary closure of branches throughout the country.

Later, again with a view to safeguarding both customers and employees and in general the communities in which the Parent Company operates, all necessary measures were taken to guarantee health safety and allow for the main banking transactions to be carried out, so as to limit inconveniences for customers as much as possible. The Branches and Centres were thus kept open only on certain days of the week and accessible only with an appointment to carry out indispensable cash transactions after which time opening hours were progressively expanded and access methods simplified.

Starting from June 2020, full Branch operations resumed in terms of "physical opening" to the public, and commercial activities have almost fully resumed.

However, various Prime Ministerial Decrees, starting with that of 26 October 2020, re-introduced several restrictive measures concerning social distancing, requiring the Parent Companyto restore customer access to Branches and Specialised Centres by appointment only, which presumably will influence performance in the final quarter of 2020.

In order to reduce contacts to the extent possible, from the very start of the emergency, customers were invited to use Digital Banking (from the institutional website, app and telephone banking), through which accounts can be viewed (current account, debit and credit cards, investments, prepaid cards, mortgages and loans) and all banking transactions can be carried out remotely. From 13 March 2020, a toll-free "Covid Emergency" number was made available to customers to support the existing generic number. Direct communication activities with customers on digital information and social channels were also progressively enhanced. Also in order to facilitate remote interaction with customers, a new function of the **Credit Cardholder Portal** on ***Digital Banking*** was also released in October, which allows customers to have a complete overview of their products and services without the need for further authentication, available from both Smartphone and PC.

A page dedicated to the COVID-19 emergency (https://www.mps.it/comunicazioni-alla-clientela/emergenza-coronavirus.html) has been created on the Parent Company's website that is constantly updated with all useful information and from which it is possible to check the Branch opening schedules, e-mail addresses dedicated to the emergency and telephone numbers.

Subsequently, in keeping with the trend of the emergency and in incorporating the provisions laid out in the Decrees issued by the Prime Minister, customers were informed, both with notices posted outside the Branches and with other remote communication tools, of the restoration of operations and the possibility to access the various economic support tools provided by the Government.

More generally, following the COVID-19 emergency, the Parent Company has undertaken a series of initiatives:

- extraordinary customer support actions, activated through the implementation of the measures envisaged in the **Cura Italia Decree** and by **ABI**, or by developing the **Bank's initiatives**:
    - interventions to support households;
    - packages of measures to support businesses both in the operational shutdown phase and to facilitate the future resumption of business activities.
- actions to enhance the digital services already available;
- contact actions to **reassure customers**:
    - assurance them that **services were functioning**;
    - managing **needs** (toll-free numbers, remote assistance, etc.);
    - managing **due dates** (e.g. cards, policies, bills, loans, etc.).
- specific contact actions to provide **advice on the performance of investment portfolios**, aimed at increasing awareness and avoiding decisions dictated by emotions.

In order to try to mitigate the impacts from reduced operations of Branches, the Parent Company has also activated a series of services that allow the customer to be supported and have his/her needs met, including from a distance:

- ***web collaboration* (from 24 March 2020)**, the relationship manager can send the customer, on the *Digital Banking* platform, basic and advanced advisory proposals developed through the *Advice* application, which the customer can accept or reject (service previously available only for *Private* customers and extended from 24 March to *Premium* customers);
- **telephone orders (from 31 March 2020)**, allows the possibility of receiving and recording customer orders over the telephone, extended to include the conversion of UCITS units (switches), and total/partial redemption of UCITS units;
- **unilateral contracts**: at the end of September 2020 a pilot programme was activated at 5 branches (to be later extended to the entire Network) to enable customers to take out a mortgage on the basis of a unilateral contract which requires the presence only of the borrower and the notary. On 30 September 2020, the first contract was formalized by unilateral deed and on 18 December 2020 the procedure was rolled out to all the branches of the Parent Company;
- **payment of the F24 simplified form by the Banca MPS *Digital Banking App*** (from 21 November 2020), to make these payments also from smartphones;
- **Remote Collaboration** (from 9 December 2020), a function with which the relationship manager, subject to agreement with the customer, can send documents, deeds and contracts to be signed on the *Digital Banking* platform. The scope of documents that can be signed with this instrument will be extended in 2021.

Credit

Managing the social and economic emergency caused by COVID-19 required a prompt and structured intervention by the Group, which developed predominantly in the guidelines for overall credit risk governance.

The guiding principles of the overall action undertaken were to provide **prompt support to households and businesses in the country**, to set up a **system for monitoring significant credit aggregates**, to **review of credit strategies and adopt specific *credit standards*** to assess the solvency of counterparties**, integrate the methodologies and information used in management monitoring, to allocate adequate operational capacity** and finally **to ensure a clear and accurate view of the risks to all stakeholders.**

With particular reference to **measures to support households and businesses** at the time of **restrictive measures**, already at the end of February 2020 the Group decided to support its customers in difficulty by blocking the payment of instalments falling due on instalment loans, also undertaking not to revoke current account overdrafts; furthermore, it approved the extension of credit facilities falling due in the emergency period as well as the extension of advances close to being repaid, all in line with legislative provisions.

As a result, it carried out all activities required to finalise the contracting of new amortisation plans, including by establishing a task force to support Network functions. As at 31 December 2020, requests for moratoria of approximately EUR 15 bn were received.

With regard to the financing measures envisaged in application of the **Liquidity Decree**, during the 2020 financial year the Group approved loans to customers for an amount of approximately EUR 8 bn, of which approximately EUR 6 bn hase been disbursed.

With regard to monitoring activities, a "*Daily Credit Dashboard*" was implemented, a reporting service monitoring the performance of the main credit aggregates impacted by the crisis and the support measures granted in accordance with the Cura Italia and Liquidity decrees; this report is addressed to members of the Management Committee *and the senior management* of the Parent Company directly involved and shared with the Supervisory Authority. The *Daily Credit Dashboard* was enhanced over the months based on the relevant phenomena to be monitored, with a particular focus on the performance of new credit strategies.

In light of the changed context, already in the first half of 2020, the **credit strategies** approved by the Board of Directors on 25 February 2020 were suspended and a project was launched to update the methodological framework for the definition of new strategies for supporting the Group companies in light of the COVID-19 emergency.

The new methodology broke businesses down into 4 clusters identified on the basis of the level of impact that the crisis had on the sector to which the counterparty belongs and on the basis of the resilience of the individual company in the face of the crisis. A predominant strategy was associated with each cluster which goes from ordinary growth, intended for customers not in difficulty, to selective management for customers with a high level of risk, moving through all of those intermediate situations where the intervention of the Parent Company

is weighted on the basis of the cluster to which the customer belongs. The new strategies were approved by the Board of Directors of the Parent Company on 16 July 2020 and, following the continuation of the pandemic crisis and the further extensions of the government measures, the methodological approach used for the 2020 strategies will also be applied to the 2021 strategies.

In order to understand the real risk profile of customers following the pandemic, the Parent Company integrated its ***credit standards*** with the aim of including in the preliminary process information and analyses that would allow a more accurate understanding of the impacts of the crisis on the counterparty and the actions to be taken to deal with the emergency.

In this regard, both the Group regulations and the procedures were amended. The new tools and information made available to the manager are: (i) the level of impact of the crisis on the customer's sector and the credit strategy to be applied to the customer, (ii) the individual questionnaire on the impacts of the COVID crisis, (iii) the *modified financial requirement tool*, (iv) the *business plan* assumed to overcome the crisis. The screening process thus outlined provides the manager and decision-makers with the information required to understand the creditworthiness of the individual counterparty and its capacity to overcome the crisis period.

In order to be able to manage the different risk profiles, the action was accompanied by constant attention to the **correct feeding of the classification variables of the information and to the enrichment of data** to trace the characteristics of individual transactions and causal factors. The results of the initiatives are monitored on a daily basis and a specific control activity has been activated to ensure the correct execution of the operations and the management of the documentation.

Considering the level of risk on the evolution of the economic situation, the structural effects of the pandemic, the speed of recovery and - no less significant - the impact of the new supervisory rules in the current context, it becomes essential to identify the best methods of support for the individual companies, also thanks to a "strong" action aimed at reducing information asymmetries in order to be able to monitor the performance of key business indicators, classifying the exposure as "unlikely to pay" where appropriate.

Similar considerations are valid for the private and household segment where phenomena of potential increase in risk will be identified and analysed (due to difficulties in overcoming the pandemic crisis) through the analysis of indicators such as the absence of salary channelling, lay-offs, which will integrate the current *early warning system*.

With this in mind, in order to verify the possible risk of default of debtors with moratoria significantly affected by the pandemic, the analytical review of the business portfolio was brought forward, in particular on the *cluster* of companies belonging to sectors with a greater COVID impact. The activity concerned almost all of the Group's high-risk portfolio. An action was carried out to assess the state of financial difficulty of *high-risk* corporate customers, which led to the classification as default for approximately 3% of the portfolio for a total of approximately EUR 160 mln. Similarly, extensive analyses were carried out on the NPE portfolio that led to an increase in hedging of some non-performing positions and UTPs measured analytically.

At the same time, in order to increase the effectiveness of the detection of potential risk signals, a refinement / updating of the "early warning" system ("EWS COVID") was started both from a methodological point of view and enriching the set of information using new data sources (internal and external).

On the basis of the new EWS COVID indicators, a further segmentation of the overall portfolio was therefore carried out with forbearance / moratorium measures in order to be able to launch, from the first quarter of 2021, a "crash program" with the aim of proactively managing the most risky customers; to ensure the effectiveness of the intervention for each type of customer /cluster, the operating processes, the dedicated resources, the expected actions, the method for tracing the information acquired and the reporting mechanisms were defined. The evolution of the operating model for the management of the "high risk" portfolio is also planned by the end of 2021 in order to strengthen staffing and prompt action.

Primary attention will therefore be paid in the coming months to strengthening the operational capacity in support of the action in order to be able to examine individual situations, ensuring an adequate focus on potential risky situations.

Since the first quarter of 2020, the Group has taken actions to strengthen the hedging of the portfolio on the basis of the continuous changes in the economic scenario and the related recovery forecasts. In particular, the criteria for identifying exposures to be assigned to stage 2 (IFRS 9) were continuously checked and updated, with the consequent valuation of losses on a lifetime basis.

The observed increase in exposures in stage 2 is attributable in particular to "allocation" initiatives in this portfolio of corporate counterparties which, although not presenting traditional signs of deterioration in risk, have been identified by credit strategies as critical companies as they belong to sectors heavily impacted by the crisis such as tourism, transport, catering; the increase is also due to the use of "corrections" increasing the default rates expected at one year to factor the same forecast score adopted on credit strategies (quantitative factors), so differentiating the macro-economic scenarios envisaged for the various economic activities of companies.

Thus, the external score (Cerved) was used for the first time, starting from the June accounting valuations, and was subsequently updated for the year-end valuations.

Moreover, on counterparties belonging to the household sector requesting forbearance measures and for which the performance models were conditioned by the suspension of maturities, the quantitative analysis was supplemented with an external score (*Experian*) thanks to which it was possible to identify the riskier exposures, classifying them in *Stage* 2.

The Board of Directors and the Risks and Sustainability Committee were constantly informed and updated on the progress of the initiatives undertaken. Communications and proposals for resolutions on the main key issues already mentioned, such as credit granting standards and new lending strategies, were brought to the attention of the Strategic Supervisory Body.

The internal credit governance and management committees have taken important decisions such as the treatment of forbearance measures for regulatory purposes, the temporary suspension of all automatic customer classification parameters (reset from January 2021) and, for very small customers, the 3-months temporary suspension of classification to bad loans through mass processes.

Frequent alignment calls were made with the *Joint Supervisory Team* of the ECB regarding the actions carried out by the Parent Company for the management of the crisis, as well as the main critical issues that emerged in the doing so.

In addition, a "*situation room*" was set up with weekly meetings in which the activities of correct management of the measures are mainly addressed and directed. The areas concerning the technical aspects relating to the new lending products, the impacts on procedures and applications, the methods for implementing remote or simplified contracts, the application of credit standards and the management of critical issues arising from complaints received.

Lastly, the Parent Company adhered to all ABI agreements / conventions, both with private customers and businesses and with Institutions.

Summary of the support measures issued to households and businesses and the financing measures provided in application of the Cura Italia and Liquidity Decrees

In the fourth quarter, activities continued for the management of the social and economic emergency triggered by COVID-19. In particular, the Group continued to implement the measures to support the economy approved by the Government, focusing in particular on the contracting of the suspension measures and on the disbursement of liquidity lines supported by state guarantees.

As already mentioned, as at 31 December 2020, performing exposures subject to moratorium requests amounted to approximately EUR 15 bn; approximately EUR 3 bn of granted suspensions expired on the same date.

The total of loans for which a request for suspension was received relates to approximately 14% of the consumer household portfolio and approximately 25% of the portfolio of companies, sole proprietorships and institutions; also considering the credit lines for advances subject to extension and revocable credit lines, the exposures of the Montepaschi Group represent approximately 6% of the total requests at system level.

Approximately 67.2% of the moratoria requested concern the perimeter pursuant to law on which the procedures for extending the suspension measures until 30 June 2021 are being finalised, in compliance with the provisions of the law; 12% of the total moratoria were managed within the scope of ABI agreements, while the remainder, relating to requests for the suspension of payments managed before the stipulation of the ABI agreements, were recorded as General Payment Moratoria according to EBA guidelines, as they relate to customers performing in financial difficulty due to COVID-19; with regard to the latter portion of the moratoria, after application of the forbearance measures and in the second instance, both the business and control functions carried out specific portfolio analyses in order to confirm the absence of financial difficulties prior to the pandemic, otherwise valuenig the impact of the forbearance attribute.

The stock of non-performing exposures for which "COVID-19" moratorium requests were received, net of the counterparties included in the demerged items transferred to AMCO as part of the "Hydra M" transaction, amounted to approximately EUR 0.5 bn, of which EUR 0.1 bn past due, with an acceptance rate of 71% in terms of amount and 77% in terms of numbers.

With regard to the actions undertaken in application of the Liquidity Decree, the Group has intensified its efforts in order to disburse the amounts subject to the approved resolution proposal as soon as possible; during the fourth quarter of 2020, the execution of the consolidation and new finance measures pursuant to letter E of the decree of 8 April 2020 was accelerated; this instrument proved to be very useful to support the customers of companies in difficulty as it made it possible to combine the contribution of new liquidity to the rationalisation of the various existing exposures for each customer, at the same time reducing, through the acquisition of the Medio Credito Centrale guarantee, the risk profile of the loan portfolio involved in the initiative.

As at 31 December 2020, almost 79 thousand credit lines guaranteed by the Central Guarantee Fund, by ISMEA or by SACE had been disbursed for a total amount of around EUR 6 bn, of which around EUR 1.4 bn with 100% coverage.

As at the same date, approximately EUR 1.6 bn of amounts were in the pipeline for disbursement, distributed between consolidation and new finance with 80% guarantee, new lines guaranteed at 90% and exposures guaranteed by SACE.

With respect to the total requests for granting of the guarantee submitted to Medio Credito Centrale at system level, the share of requests received by the Group represents 5%; with particular reference to requests for the granting of guarantees for 100% of the credit line granted and within the limits of EUR 30 thousand pursuant to letter M of the Liquidity Decree, the aforementioned share rises to 6.4%.

Lastly, it should be noted that the Group has operated in support of employees by lending credit lines as an advance on the redundancy fund payments, disbursing credit facilities for approximately EUR 4 mln.

Business Continuity Management

The business continuity management has:

- ensured operational continuity of critical and systemic processes by:
    - creating separate working teams for the core treasury and operating liquidity processes operating in the regular offices, through smart working and in the recovery room; to date, for all of the bank's critical processes, activities continue predominantly in smart working mode;
    - using smart working, progressively implemented based on developments in the emergency and government provisions; since the end of June, following the complete re-opening of branches, smart working declined considerably; following the recent regulatory provisions, branches may be entered by appointment only, with teller service only in the mornings; larger branches (>=8 resources) are operating in shifts with separate teams, as does the personnel of specialist centres within these branches; this has recently boosted the use of smart working;
    - progressively implementing equipment (laptops) for all other resources involved in critical processes, coordinating the delivery of nearly 3,000 new laptops; since July 2020, the normal assignment procedure was reactivated;
- launched the crisis management process envisaged by company regulations - emergency level raised to 3 (extraordinary), reduced to 2 (Ordinary with significant impacts) from mid-June 2020;
- the Crisis Management Committee (CGC) was convened and activated for monitoring in October and November 2020, emergency level 2 confirmed (Ordinary with significant impacts);
- participated regularly in institutional working teams created by CODISE (Service continuity for managing the banking system crisis led by Bank of Italy), ABI, COBAN, and the BCM Observatory.

Logical Security and Physical Security Management

In response to the extraordinary needs that emerged, in particular starting from the beginning of March 2020 and related to the COVID-19 emergency, the Group has:

- activated up to 720 "Citrix" licenses for secure connection to the corporate system using personal devices, subsequently available only in cases of actual need;
- enhanced infrastructure to support the expansion of corporate VPN services (reaching peaks of around 19 thousand users connected in agile work);
- strengthened security measures against *cyber attacks, intensifying monitoring and control on the expanded network scope due to the large-scale use of VPN connectivity;*
- significantly increased communications and training of users on security aspects linked to the use of agile work;
- introduction of the second authentication factor in the area of remote access to company resources for internal Bank users;
- continued with the plan for strengthening Physical Security with a particular focus on the measures for protection from ATM attacks (smoke bombs, cages, etc.) and ad hoc measures for the re-emergence of "black box" attacks (cryptography, etc.);
- continued to adopt extraordinary measures for managing customer flows in branches during peak periods (e.g., for pension payments);
- installed thermal scanners to take body temperature in large complexes;
- the automatic solution for taking body temperatures in the Branch is being evaluated;
- continued daily monitoring of the number of people in the Head Office buildings.

Significant events in 2020

Note that 2020 was characterised by the health crisis caused by the spread of the COVID-19 pandemic, which prompted the Italian Government to issue numerous measures that progressively and significantly reduced people's mobility, with a consequent contraction in consumption and a collapse in demand for goods and services, as well as the need to put in place more appropriate measures to protect customers and employees, at the same time ensuring the best possible service in these difficult times. With regard to this topic, please refer to the previous dedicated section in this Consolidated Report on Operations.

On **10 January 2020**, the rating agency Moody's revised the Parent Company's ratings, upgrading the standalone rating to "b3" (from "caa1"). The long-term ratings of senior unsecured debt and deposits were confirmed at "Caa1" and "B1", respectively, and the outlook has been improved from "negative" to "positive". The subordinated debt rating was upgraded to "Caa1" (from "Caa2").

On **15 January 2020**, the Parent Company successfully concluded the placement of a subordinated Tier 2 fixed-rate bond issue with 10-year maturity for institutional investors, in the amount of EUR 400 mln, with an annual yield of 8%. The transaction completes the issue programme for this type of instrument, which was the subject of a specific commitment with the European Commission, and represents an additional and important step forward in implementing the Bank's Restructuring Plan. The issue received an excellent response from the market, with final orders of more than EUR 900 mln from over 100 investors. The bond, issued as part of the Parent Company's *Debt Issuance Programme* with a rating of Caa1 (Moody's) / CCC+ (Fitch) / B(low) (DBRS), is listed on the Luxembourg Stock Exchange.

On **21 January 2020**, the Parent Company successfully concluded the placement of an unsecured Senior Preferred fixed-rate bond issue with maturity in 5 years and 3 months (April 2025) for institutional investors, in the amount of EUR 750 mln. The transaction received an excellent response from the market, with final orders of around EUR 1.2 bn from more than 115 investors. Thanks to heavy demand, the yield, which was initially indicated at around 3%, was brought to a final level of 2.7%. The bond, issued as part of the Parent Company's *Debt Issuance Programme* with a rating of Caa1 (Moody's) / B (Fitch) / B(high) (DBRS), is listed on the Luxembourg Stock Exchange.

On **11 February 2020**, as part of the competitive procedure that was launched in July 2019 concerning the sale of a real estate portfolio owned by the Group, the Parent Company announced that it had granted Ardian a period of exclusivity in an effort to finalise the contractual documentation necessary for the sale by the end of February. This competitive procedure is part of the Parent Company's 2017-2021 Restructuring Plan which provides, among the formal commitments assumed by the Parent Company (in particular Commitment no. 17), for the sale of properties over the plan horizon.

On **24 March 2020**, following the deterioration in the Italian economic outlook caused by the coronavirus emergency, the rating agency Fitch decided to assign the "Negative Rating Watch (RWN)" to the Parent Company's long-term ratings: the long-term issuer default rating ("B"), the viability rating ("b"), ratings on deposits and senior preferred debt (both equal to "B") and the rating on subordinated debt ("CCC+").

On **26 March 2020**, the rating agency Moody's confirmed all ratings of the Parent Company, changing the long-term outlook for deposits ("B1") and unsecured senior debt ("Caa1") to "developing" (from "positive") due to the worsening of the Italian economic and financial context caused by the COVID-19 health emergency.

On **1 April 2020**, as part of the employment law dispute following the sale to Fruendo of the business unit for back office services and accounting and administrative activities related to the management and provision of specific services, the Parent Company executed the unfavourable court rulings, reinstating the 452 employees concerned who had obtained favourable judgements in the first and/or second instance, without renouncing the appeals filed against these rulings. On reistatement, these workers were partly seconded to Fruendo.

On **1 April 2020**, the interim servicing contract signed by the Group and Juliet S.p.A. on 28 June 2019, which governed the transition phase for the back-sourcing of the management, collection and recovery of bad loans, was discontinued. On the same date, the 88 employees who had been seconded by the Group to the servicer, pursuant to the secondment agreement of 11 May 2018, have all returned to service within the Group.

On **2 April 2020**, the rating agency DBRS Ratings GmbH confirmed all the ratings of the Parent Company (Long-Term Issuer Rating "B (high)", Long-Term Senior Debt "B (high)", Long-Term Deposits "BB (low)"), changing the long-term outlook to "negative" (from "stable") due to the sharp deterioration in the global economic and market scenario caused by the COVID-19 pandemic.

On **18 May 2020**, the Ordinary Shareholders' Meeting appointed the 15 members of the new Board of Directors, including Ms Maria Patrizia Grieco as Chairperson of the Board of Directors and Ms Francesca Bettìo and Ms Rita Laura D'Ecclesia as Deputy Chairpersons; while on **19 May 2020** the Parent Company's Board of Directors appointed Mr Guido Bastianini as Chief Executive Officer of the Parent Company and Ms Rita Laura D'Ecclesia as Acting Deputy Chairperson.

On **29 June 2020**, with the positive prior opinion of the Related Parties Committee, the Board of Directors of the Parent Company and the Board of Directors of AMCO - Asset Management Company S.p.A., companies that are 68.247% and 100% held, respectively, by the Ministry of Economy and Finance, approved the project relating to the partial non-proportional demerger with asymmetric option by the Parent Company in favour of AMCO of a set of non-performing loans, tax assets, other assets, financial debt, other liabilities and shareholders' equity (**AMCO Demerger**).

On **30 June 2020,** the Parent Company signed the preliminary agreement for the sale to Ardian of a real estate portfolio owned by the Montepaschi Group, offered as part of the competitive procedure launched in July 2019. For the majority of the real estate, the completion of the transaction is expected by 31 December 2020, with a positive effect on the CET1 ratio of roughly 13 bps compared to the value in March 2020. This transaction is part of the Bank's 2017-2021 Restructuring Plan which provides, among the formal commitments assumed by the Parent Company (in particular Commitment no. 17), for the sale of properties over the plan horizon.

On **16 July 2020**, the Board of Directors of the Parent Company engaged Mediobanca, Banca di Credito Finanziario S.p.A. as financial advisor in order to evaluate the alternative strategies available to the Parent Company.

On **21 July 2020**, the Moody's Investors Service rating agency ("Moody's") placed the Baseline Credit Assessment standalone rating ("b3") and the long-term ratings of the Parent Company, including the Long-Term Bank Deposits rating ("B1") and the Long-Term Senior Unsecured rating ("Caa1"), under review for an upgrade. The long-term outlook was changed from "Developing" to "Rating under Review".

On **6 August 2020** the union agreement was signed for the voluntary termination of around 500 resources in 2020 by making recourse to the banking industry's "Solidarity Fund".

On **3 September 2020**, the Parent Company concluded the placement of a subordinated Tier 2 fixed-rate bond issue with 10-year maturity for institutional investors, in the amount of EUR 300 mln, with an annual yield of 8.50%. The issue is functional to the AMCO Demerger and meets one of the conditions set forth by the ECB in the transaction authorisation, as set forth in the *Final Decision* of 2 September 2020. The bond, issued as part of the BMPS Debt Issuance Programme with a rating of Caa1 (Moody's) / CCC+ (Fitch) / B(low) (DBRS), is listed on the Luxembourg Stock Exchange.

On **4 October 2020** the Extraordinary Shareholders' Meeting of the Parent Company, meeting on single call, decided:

- approval of the proportional partial demerger of MPS Capital Services Banca per le Imprese SpA in favour of the Parent Company ("MPSCS Project");
- the approval of the project for the partial non-proportional demerger of the Parent Company in favour of AMCO - Asset Management Company SpA ("AMCO Demerger Project") with assignment of asymmetric option to the shareholders of BMPS, other than the Ministry of Economy and Finance, as well as to the amendment of paragraphs 1 and 2 of art. 6 of the Articles of Association of the Parent Company as a result of the approval of the AMCO Demerger Project.

On **15 October 2020**, a first instance ruling was issued against Mr. Fabrizio Viola and Mr. Alessandro Profumo for false disclosure in relation to the half-yearly report as at 30 June 2015 and for market manipulation for press releases relating to the approval of the financial statements as at 31 December 2012, 31 December 2013 and 31 December 2014 and the half-yearly report as at 30 June 2015 as well as with respect to Mr. Paolo Salvadori for the sole offence of false disclosure in relation to the half-yearly report as at 30 June 2015. Again with regard to the offence of false disclosure, it was instead ruled that the case could not proceed with respect to the financial statements as at 31 December 2012 having became barred by statute and all defendants were acquitted because there was no case to answer in relation to the financial statements as at 31 December 2013 and 31 December 2014.

On **16 October 2020**, by Prime Ministerial Decree, the Ministry of Economy and Finance (MEF) was authorised to proceed with extraordinary transactions functional to the disposal of the equity investment in Banca MPS, including the non-proportional demerger transaction, with asymmetric option, of the MPS items comprising impaired loans, deferred tax assets, net equity and liabilities (the Hydra M transaction). After the demerger transaction, the disposal of the equity investment held by the MEF in Banca MPS was authorised, which may be

carried out in one or more phases through selling procedures and techniques used on markets, specifically through individual or joint recourse to a public sale offer to investors in Italy, including employees of the Banca MPS Group, and/or Italian and international institutional investors, direct negotiations to be carried out through transparent and non-discriminatory competitive procedures, and one or more extraordinary transactions including a merger transaction. The completion of the demerger and any extraordinary transactions is conditional on obtaining the necessary authorizations from the competent supervisory authorities.

On **19 November 2020**, the rating agency DBRS Ratings GmbH changed the long-term outlook of the Parent Company to "stable" from "negative". All BMPS ratings were confirmed, including the Long-Term Issuer Rating at "B (high)", the Long-Term Senior Debt at "B (high)" and the Long-Term Deposits at "BB (low)".

On **30 November 2020**, the MPS Group concluded the sale of the majority of the properties included in the portfolio being sold to Ardian, as announced to the market on 1 July 2020 (the "Ardian Portfolio"). This transaction - which is part of the commitments undertaken with the European Commission in the 2017-2021 Restructuring Plan - has a positive impact on the Bank's CET1 of around 10 bps compared to the value recorded as at 30 September 2020.

On **1 December 2020**, the partial non-proportional demerger transaction with asymmetric option in favour of AMCO was completed (for more details, please refer to the following chapter, "Hydra M Transaction"), which led to the cancellation of a total of 134,344,895 MPS shares held by the MEF (of which 10,219,550 shares due to the Asymmetric Option) and the assignment to it of 53,737,958 AMCO B shares (of which 4,087,820 shares due to the Asymmetric Option). At the end of the swap transactions, the MEF holds a total interest of 64.23% of the share capital of BMPS (against an investment held before the Demerger of 68.247%), while the Parent Company holds, directly and indirectly, treasury shares for 3.62%; lastly, the other shareholders hold a total of 32.15% of the share capital of BMPS.

On **1 December 2020**, the Parent Company successfully concluded the placement of a Senior Preferred unsecured fixed-rate bond issue with maturity in 5 years for institutional investors, in the amount of EUR 750 mln. The transaction received final orders for around EUR 1.7 bn from over 160 investors. The yield, initially indicated at around 2.25% - 2.30%, was brought to a final level of 1.963%. The security was distributed to *Asset Managers* (61%), Banks (18%), Hedge Funds (13%) and others (8%). The geographical breakdown was as follows: United Kingdom (39%), Italy (33%), other countries (28%). The bond, issued as part of the BMPS *Debt Issuance Programme* with a rating of Caa1 (Moody's) / B (Fitch) / B(high) (DBRS), is listed on the Luxembourg Stock Exchange.

On **17 December 2020**, Moody's Investors Service ("Moody's") extended the review for upgrade on the Baseline Credit Assessment standalone rating ("b3") and the long-term ratings of the Parent Company, including the Long-Term Bank Deposits rating ("B1") and the Long-Term Senior Unsecured rating ("Caa1"). The long-term outlook remains "Rating under Review".

On **17 December 2020**, the Board of Directors of Banca Monte dei Paschi di Siena approved the 2021-2025 Strategic Plan (the "*Plan*"). The Plan was sent to the Ministry of Economy and Finance to start - in compliance with the commitments undertaken - a discussion with the European Commission's Directorate General for Competition (DG Comp), in accordance with current regulations. The Plan was prepared having in mind, among other things, the Commitments assumed by the Italian Government at the basis of the Restructuring Plan defined for the period 2017-2021 and the consequent Prime Ministerial Decree of 16 October 2020, in the context of which it is appropriate to "launch a process of disposal of the equity investment held by the Ministry in the share capital of MPS, to be carried out using market methods and also through transactions aimed at consolidating the banking system ".

On **21 December 2020**, Fitch Ratings revised the "rating watch" from "evolving" to "negative" on the Parent Company's long-term ratings.

On **28 December 2020**, the Parent Company received the final decision of the ECB regarding the capital requirements that must be observed effective 1 January 2021. According to this decision, the MPS Group - at consolidated level - must comply with a total SREP Capital Requirement (TSCR) of 10.75%, which includes - a minimum Pillar 1 requirement (P1R) of 8% (of which 4.50% in terms of CET1) and - an additional Pillar 2 requirement (P2R) of 2.75% (compared to 3% of the SREP Decision 2020), which must be met for at least 56.25% with CET1 capital and at least 75% with Tier 1 capital. The reduction in P2R by 25 basis points compared to 2020 reflects, among other things, the important de-risking activities carried out by the Bank. The overall minimum requirement for the *Total Capital ratio*, obtained by adding a *Combined Buffer Requirement* (CBR) of

2.69% to the TSCR, is 13.44%. The overall minimum requirement in terms of CET1 ratio is 8.74%, the sum of P1R (4.50%), P2R (1.55% 2) and CBR (2.69%); the overall minimum requirement in terms of Tier 1 is 10.75%, including P1R of 6%, P2R of 2.06% 3 and CBR of 2.69%.

Significant events after the end of the 2020 financial year

On **11 January 2021**, the Board of Directors of MPS announced that it had appointed Credit Suisse as financial advisor in order to assist Mediobanca in the assessment of the strategic alternatives available to the Bank and to verify market interests by operators of prime standing. This sounding is aimed at the subsequent opening of a data room.

On **28 January 2021**, the Parent Company approved the *Capital Plan* as required in the final decision of the ECB of 28 December 2020 regarding the SREP capital requirements. On 29 January 2021, the Parent Company sent the *Capital Plan* to the ECB, for its approval to the extent of its competence. Talks with both authorities are ongoing. As per the press release of 17 December 2020, BMPS could be below the *combined buffer requirement*, affecting the CCB, starting from 31 March 2021 and until the date of completion of the capital strengthening transaction envisaged for 3Q21. In any case, the shortfall comes under the flexibility of use of the CCB made public by the ECB as part of the temporary capital relief.

Human Resources

KPI as at 31.12.20

Indicators	31/12/2020	31/12/2019	31/12/2018	31/12/2017	31/12/2016	31/12/2015	31/12/2014
Headcount	**21,432**	**22,040**	**23,129**	**23,463**	**25,566**	**25,731**	**25,961**
Operational location (%)							
Head Offices*	**25.9**	**26.4**	**25.8**	**22.3**	**22.5**	**22.6**	**21.6**
Italy Network**	**73.2**	**72.6**	**72.5**	**75.8**	**75.5**	**75.3**	**76.3**
Foreign Network	**0.9**	**1.0**	**1.7**	**1.9**	**2.0**	**2.1**	**2.0**
Professional/ occupational level (%)							
Executives	**1.2**	**1.3**	**1.2**	**1.2**	**1.2**	**1.4**	**1.3**
Middle Managers	**38.7**	**38.8**	**39.1**	**38.9**	**39.6**	**39.2**	**38.8**
Professionals	**60.1**	**59.9**	**59.7**	**59.9**	**59.2**	**59.4**	**59.9**
Other indicators							
Training per capita (hours)***	**47.2**	**48.9**	**45.9**	**41.9**	**46**	**37**	**36**
Female staff (%)	**51.4**	**50.8**	**50.0**	**49.7**	**48.0**	**47.8**	**47.6**
Female executives (%)	**15.7**	**14.2**	**10.3**	**8.2**	**7.8**	**7.1**	**6.1**

** Bank Parent Company and Group companies, net of front-office units.*

*** Regional Areas. Credit Regional Areas. DT (local unit offices). Branches. Unit. Specialised Centres and sales & distribution structures of the Group Companies*

**** Banca MPS. COG. MPSCS. MPSFid.. MPSLF. Widiba.*

Headcount changes

As at 31 December 2020, the Group had a total of 21,432 active employees[14], down 608 compared to 31 December 2019. During 2020, there were:

- 101 admissions, of which 84 new hires and 17 reinstatements in implementation of court-rulings. Among the new hires, 32 were made based on agreements and contractual, legislative and regulatory provisions entailing the obligation to hire;
- 855 terminations, of which 560 through recourse to the banking industry's Solidarity Fund;
- a positive balance of 146 resources for other movements in the scope of consolidation of the Group (the main movements concerned the returns from Juliet and Fruendo and the secondments to AMCO).

The 101 new hires consisted of 3 Executives, 15 Middle Managers and 83 Professionals, while the terminations concerned 33 Executives, 368 Middle Managers and 454 Professionals.

The distribution at the end of 2020 of the workforce stands at 73.2% in front-office units (net of the foreign banking division which represents 0.9%) and 25.9% in Head Office units.

[14] Instead, personnel on the payroll stood at 21,842 resources.

Personnel management initiatives

The personnel management policies support the reorganisation projects, in line with the Restructuring Plan objectives, through mobility plans (geographical and professional) with a view to development opportunities for employees according to approaches based on transparency and participation. Thus, operational initiatives were supported by: the Performance Management system; professional and managerial development plans which, based on a business continuity approach, ensure adequate qualitative-quantitative staff coverage levels; training programmes to enhance skills, provide managerial career guidance and support requalification processes; as well as human resource engagement and motivation leverage (compensation policies[15], BMPS welfare system, and internal communication plans). In particular, the Group approved a series of personnel engagement and development initiatives through specific programmes:

- MPS Sviluppo, dedicated to people development, which involves the clustering of the company population and the coherent and specific activation of initiatives for the development and enhancement of skills for each cluster, which therefore become levers of engagement with a view to merit and equal opportunities.
  With the aim of supporting and increasing the managers who have recently taken on roles of responsibility, development programmes have been launched which, after carrying out an assessment, define individual action plans designed to strengthen managerial skills. In this context, the restrictions imposed by the pandemic have turned into the opportunity to adopt innovative development methods that have laid the foundations for the expansion of the audience of recipients and the digitalisation of people development initiatives. 2020 saw the first edition of the GEA (Growing Employees Accountability) professional development paths towards the role of branch owner. The paths, based on voluntary candidacy, envisage growth towards the target role for resources that have passed the internal selection through the transition to intermediate positions (on other markets or more complex), specific managerial training initiatives, a tailored mentoring process and periodic verification of the skills acquired during the course;
- MPS Academy, the company's permanent training institute that has supported the transformation of the MPS Group's organisational models since 2012 through a risk-based approach, which identifies the main priorities for initiatives in the various training areas, responding proactively and dynamically to changes in the Group's internal and external context;
- Welfare, which plays a central role in second-level bargaining agreements and is broken down into a set of contractual benefits, which are constantly evolving, differentiated based on traditional and emerging needs of employees, with respect to: supplementary pensions, income support (hiring family members of deceased employees, new hire indemnity, meal vouchers, subsidised loan conditions), health (illness and accident insurance coverage) and work-life balance, with the introduction of innovative initiatives (agile work), and in terms of internal solidarity (MPSolidale). The epidemiological emergency has led to the emergence of new important needs in particular in the area of measures for balancing life, work and health. As regards the first aspect, widespread access to agile work in all operational areas was fundamental to combine the needs of protecting people's health, operational continuity and work/life balance; to protect health, insurance coverage of employees was strengthened with specific measures.

Listening remains a fundamental element of the relationship with employees and is carried out continuously and in a structured manner. The positive experience of work-related stress survey in December 2019 was followed in January 2020 by the internal climate survey, in its third edition, with over 19,000 completed questionnaires. Additional actions to involve and analyse specific aspects linked to working life were put in place with the aim of investigating the conditions and expectations of colleagues also with respect to the new daily life resulting from the health emergency. In May 2020, a survey on Agile Work was proposed, to which almost 11,000 colleagues responded. To update and give instructions to all roles of responsibility, C-levels held 11 live streams from 27 March to 12 May 2020.

During the year, the Chief Executive Officer continued to engage in discussions with colleagues on quarterly data, immediately after presenting the figures to investors.

Furthermore, mechanisms were activated to ensure the enhancement of internal skills, job rotation and continual turnover, with limited recourse to hiring from the external market.

The activities of the MPS Diversity & Inclusion Program continued with the aim of developing a culture of diversity and inclusion to enhance difference as a value and opportunity. An inclusive culture is valued by the Group, it develops flexibility and innovative skills, increases the motivation of people in the company and

[15] See "Report on Remuneration and remuneration paid" in the Corporate Governance section on the Parent Company's corporate website.

interest in new generations, with a consequent positive impact for the business. The Program's activities are subject to continuous discussion within the Equal Opportunities Commission. In particular, to disseminate the principles underlying the Program, a "Plural Management " training workshop was implemented for all Resources Managers; the "Women Leadership Program" was launched on specific gender issues, a process aimed at women who hold positions of responsibility; the issue of Diverse Abilities was addressed with dedicated analyses (in particular as part of the "Disability and Work" research in collaboration with the Istud Foundation) and enhanced with internal initiatives on occasion of the International Day of Persons with Disabilities (3 December 2020).

The initiatives of "MPS Orienta", the programme encompassing all activities that Banca MPS dedicates to work guidance, development of transversal competences, financial education and generally to relationships with schools and universities, have also been expanded in the areas of the *Sales Network*, *Corporate Social Responsibility* and *Employer Branding*.

Management of Human Resources has dealt throughout almost the whole of 2020 with the health emergency from COVID-19, whose impact on the operations of the Network and Head-Office structures, as well as on the personal and professional life of the Group resources, was a constant element on which to define the implementation of each activity.

In particular, the monitoring of operational continuity was guaranteed, also in the system of shifts in the physical presence of resources within the branches, in compliance with both the provisions of the national government and regional ordinances, as well as the ABI protocol and internal regulations issued by the Chief Safety Officer. The unprecedented (especially for the Network structures) massive use of agile work (and the organizational and management implications related to it) required a flexible and timely approach with respect to the problems gradually arising, consolidating a culture dedicated to listening, to proximity to people and management of the corporate climate, despite a changing external context heralding tensions and uncertainty.

To this end, some of the "traditional" HR management activities were redefined in "remote" mode, in particular interviews with resources, at the same time activating contingency processes for the management of certain ordinary activities whose nature allowed them to evolve in this way.

During the year, professional and/or regional mobility plans involved roughly 4,800 resources, based on an approach meant to ensure professional continuity and the best allocation of people with respect to corporate needs and the prospects of growth and development of resources. In general, the reduced *Job Rotation* compared to the previous three-year period is due, on the one hand, to the lower impact in terms of company reorganisations and, on the other, to the dynamics linked to the COVID-19 contingency. With regard to the Network and Territorial Coordination structures, affected in 2019 by the Pegaso Program, the professional and/or territorial mobility plans implemented in 2020 saw a maximisation of the programming and planning logic, in particular on responsibility roles, strengthening the corporate culture of human resource management over a medium-long term, aimed at enhancing Human Capital.

With regard to the Head-Office structures, actions were also implemented to support some reorganisation processes, including:

- activities related to the process of transferring the package of non-performing loans and other liabilities to AMCO, which - on the HR Management side - entailed the secondment of 88 resources to the commercial partner and the reorganisation of the Non-Performing Loans Department with the creation of two new Sectors;
- the reinstatement of former Fruendo resources.

The same *Chief Human Capital Officer* Department was affected in September 2020 by a reorganisation that led to the centralisation in the General Management of some administrative activities and some process phases to support the management activities previously carried out in the territories, aiming to improve the service offered to colleagues by simplifying the organisational structures and standardising the activities carried out.

MPS Academy supports the evolution of organisational models and supports people in professional development paths. With respect to training activities, more than one million training hours were provided at MPS Group[16] level in 2020, equal to 47.2 hours per capita. Approximately 98% of the staff was involved in training activities.

[16]Group's consolidation perimeter: Banca MPS, COG, MPSCS, MPSFid, MPSLF, and Widiba

An in-depth review of the internal training models adopted by the Group was started some time ago, according to a risk-based and multi-dimensional approach aimed, among other things, at a more effective dissemination of the risk culture.

One of the cornerstones of the new training model is the annual training planning process, also thoroughly revised compared to the past and today strongly permeated by a proactive and dynamic approach, aimed at supporting the new cognitive challenges posed by the continuous evolution of the banking system, business processes and related risks to be prevented and mitigated.

This process, which is based on the collaboration of various company functions involved in various capacities and on a structured methodology for prioritising training initiatives, requires that the results of the same - formalised in a specific Plan document - be submitted to the Board of Directors.

In order to promote the spread of risk culture and to highlight the value created by training initiatives in terms of covering processes and monitoring business risks, a single Training Framework was implemented already in 2019, which enables each training activity to be associated with one or more business processes/risks from the design phase.

The MPS Academy 3D Approach training model allows training activities to be broken down in multiple dimensions, based on the following three dimensions:

1. Processes: the various training initiatives are linked to the taxonomy of Group processes, with a view to assessing their relative level of coverage or guiding the planning of training initiatives aimed at bridging any gaps;
2. Risks: the various training initiatives are linked to the identified business risks (Group Risk Map) in order to assess their benefit in terms of mitigating the risk inherent in the Group's operations, effectively responding to the requests of the Top Management and the Regulator/Supervisory Authorities;
3. Areas: training initiatives are aggregated based on standardisation criteria which take into account a series of different components (business, risk, compliance, etc.).

This model also ensures "personalised" training in high-risk areas (e.g. Credit, Anti-Money Laundering and financial crimes, Customer Protection, Data Governance and Cyber Security) conducted following a Risk Assessment and Skills Gap Analysis exercise that determines the exposure to risk (known as the "risk rating") for each company role and the consequent specific training requirement, directing training on the areas at greatest risk and on the most exposed company profiles and which therefore require greater knowledge. In 2020, the new model was applied in the Credit area (more than 5,000 Network resources involved), in the Anti-Money Laundering area for the entire Network (over 12,000 people involved) and in the context of Customer Protection and Transparency (over 12,000 people involved). For the "Datticredito" training project, the resulting planning of "personalised" courses started with virtual classroom training courses and operational coaching (800 people trained for at least 2 hours and 200 people receiving coaching) and online (over 5,000 people with training in progress for at least 2 hours per course on average). In the Anti-Money Laundering area, the online training and micro-learning campaign (online training pills of 10 minutes each) launched in 2019 with the registration of 2,500 people on average for each pill (over 40,000 total enrolments) and the start of the new educational campaign based on the Skill Gap Analysis with enrolment of more than 2,000 resources per pill and more than 8,000 per new microlearning module dedicated to the COVID-19 emergency.

With the aim of overseeing the issues of Banking Transparency, in addition to new multimedia courses on the subject for all Group personnel, specific training initiatives and activities useful for 2021 planning were also carried out (risk assessment on the main network roles and having carried out the skill gap analysis on Network personnel and on the Head-Office roles most impacted by transparency issues). The "Transparency: from principles to action" managerial program was created for Area Managers and Districts (220 resources), designed in collaboration with UniSi and with the contribution of the Chief Risk Officer, the Head of Compliance, the Head of the Network Department and the 5 General Managers (focus groups and project interviews). *Product Governance* Certification Processes have been launched: designed for resources employed by the General Management product factories. At the end, the certification exam will be validated by the Technical-Scientific Committee made up of representatives of the Risks and Sustainability Committee of Banca MPS, top managers of the Corporate Control Functions and of leading universities. Training activities are supplemented by special tools and ad hoc communication campaigns.

In addition, following the health emergency, in 2020 training on Health and Safety focused on initiatives aimed at raising the awareness of all Group employees on the risk of COVID-19 contagion, on the conduct to contain it, on the correct use of PPE (Personal Protective Equipment) and on the regulations issued by the Parent Company.

The year 2020 was also characterized by the reconversion of classroom training activities into webinars and operational coaching. Thanks to the support of permanent faculties of internal trainers, made up of subject experts (Credit, Anti-Money Laundering and Financial/Insurance) who assist in setting standardised guidelines and methods, virtual classrooms and personalised structural one-on-one coaching have been implemented. To ensure this, an intense training activity was launched for trainers on the use of delivery tools such as webinar platforms and on virtual classroom techniques.

The main projects were carried out with the objective of:

- boosting the level of personnel instruction and professionalism, also in line with European and national requirements (e.g. Mifid 2, IDD, Bankit Directive on Real Estate Credit);
- spreading a fair and effective risk culture;
- guaranteeing the effective coverage of roles within the company.
- increasing the orientation towards self-development and continuous professional training.

During 2020, multimedia tools on the MPS Academy platform with targeted and immediately usable content were enhanced, such as the Anti-Money Laundering Wiki (DARiO - Online Anti-Money Laundering Documentation) and the Credit Wiki (CIRO - Credit: Information on Risks and Operations), which are online encyclopaedias based on the structure of Wikipedia, with specialised content dedicated to regulations on anti-money laundering and fighting terrorism financing, and credit. A dedicated NPL TV multimedia environment was then made available: a portal that hosts a collection of video-pills on *Non-Performing Loans* topics. These are short training modules dedicated to a single learning objective.
MPS Academy promotes the development of digital culture in the MPS Group through *The Digital Journey*, an exclusive app created ad hoc for all employees, useful for updates on the transformations of the digital world and the development of new 4.0 "hard" and "soft" skills. Managerial training also makes use of new technologies. Since 2018, all managers, in addition to the training courses to support the role, have some dedicated apps that contain incentives to increase managerial skills in an innovative way, articles on the evolution of the reference scenario, video testimonies from leading speakers in the economic and financial world, both national and international.

MPS Academy also ensured that all employees are able to constantly improve their professional skills and personal development opportunities by learning transversal skills (soft skills). In particular, specific training initiatives were proposed to each employee in relation to the needs of their role ("push" training) and each employee was able to access the catalogue for specific training activities ("pull" training).

Finally, specific training programmes were launched upon a change in role: in particular, all managerial levels of the Network and the governance structures participate in training courses on soft skills related to their role, aimed at developing and strengthening team management and motivation skills, with specific attention promoting the culture of inclusion of diversity.

2017-2021 Restructuring Plan

The 2017-2021 Restructuring Plan is subject to formal monitoring by the European Commission, through a Monitoring Trustee[17]. This monitoring assumes formal relevance in verifying compliance with the commitments only at specific deadlines agreed with the European Commission. With reference to some of the main commitments of the Restructuring Plan, pursuant to art. 114, paragraph 5 of Italian Legislative Decree 58/1998, the relative implementation status as at 31 December 2020 is described below:

- Exposure to sovereign debt:
  - financial assets measured at fair value through other comprehensive income (FVTOCI) are down by around EUR 1.0 bn compared to the end of 2019, mainly in reference to Italian government debt securities.
- Transfer of foreign banks:
  - with reference to the closing of the sale of Banca Monte dei Paschi Belgio S.A. (BMPB), finalised on 14 June 2019, on 23 March 2020, the procedure for calculating the price adjustment was completed through the intervention of an independent expert: as a result, the Parent Company recorded an income of approximately EUR 2 mln in the first quarter;
  - the Parent Company, as envisaged in Commitment no. 14 of the Restructuring Plan, approved the orderly winding-down procedure of the subsidiary Monte Paschi Banque S.A. (MPB), which consists of limiting the subsidiary's activities strictly to those targeted at the deleveraging of loans, excluding the development of new business. This procedure became necessary after attempts at disposal were unsuccessful with the timing set forth in the commitment. In this context, MPB has focused its efforts on existing customers and activities: the performance for 2020 is in line with the objectives of the subsidiary's orderly winding down plan.
- Closure of foreign branches:
  - following the suspension of banking activities and the extinction or transfer to Italy of residual assets (which began in 2019), the Hong Kong Branch was closed in February 2020, with the return of the Banking License to the local authority (HKMA), which formalised the confirmation of receipt.
- Cost reduction measures:
  - termination, through the activation of the Solidarity Fund, of 3,110 resources between 2017 and 2020;
  - closure of 614 branches, achieving the overall target set for the period. Of these, 4 branches were closed in 2020, of which 2 in the last quarter;
  - in 2019 the Parent Company did not achieve the profit targets established in the Restructuring Plan. The Plan commitment establishes that, if the profit objectives are not reached, a programme will be activated to reduce operating costs by 2021 by EUR 100 mln with respect to the Plan commitments.
- Sale of property assets:
  - the commitment calls for the closure of the Perimetro Consortium (concluded in 2019) as well as the disposal over the course of the Plan of owned properties for an equivalent value of EUR 500 mln; from the approval of the Plan (4 July 2017) as at 31 December 2020, the Group sold real estate assets for a value of roughly EUR 289.2 mln, including a significant portion of properties included in the portfolio to be transferred to Ardian (including the prestigious offices in via S. Margherita in Milan and via Corso 232 in Rome). In addition, preliminary sale contracts were signed for real estate properties corresponding to approx. EUR 93.4 mln in book value as at 31 December 2020; also in this case, there are some properties relating to the sale with Ardian (including the one in Rome, via del Corso 518/520), most of which is expected to be completed by the end of 2021.
- Strengthening of the capital position:
  - in January 2020, a subordinated Tier 2 bond was issued for EUR 400 mln, thereby completing the plan for the issue of this type of instrument laid out in the Restructuring Plan and subject of a specific commitment with DG Comp.
  - in September 2020, an additional Tier 2 issue was carried out for the amount of EUR 300 mln. The issue is functional to the AMCO partial demerger and meets, in particular, one of the conditions set

[17] The Bank confirmed Degroof Petercam Finance as Monitoring Trustee, with the favourable opinion of the European Commission Directorate General for Competition - hereinafter "DG Comp".

forth by the ECB in the transaction authorisation, as set forth in the Final Decision of 2 September 2020.

- Disposal of the equity investment by the MEF:
  - the commitments required by DG Comp envisage, among other things, that the MEF divest its shareholding in the Parent Company by the end of the Restructuring Plan. Thus, the MEF should have submitted to the European Commission by the end of 2019 a plan to sell its stake in the Parent Company's capital. On 30 December 2019, the MEF communicated that, in agreement with the services of the European Commission, the presentation of the plan to sell the equity investment in MPS was postponed, pending the completion of the Parent Company's derisking transaction (the "Hydra" transaction). This transaction was designed and planned with the ultimate goal of creating the conditions for the sale of the equity investment. To that end, on 16 July 2020, the Parent Company engaged Mediobanca as financial advisor in order to evaluate the alternative strategies available. On 16 October 2020, by Prime Ministerial Decree, the MEF was authorised to proceed with extraordinary transactions functional to the disposal of the equity investment. In particular, the disposal of the equity investment held by the MEF in Banca MPS was authorised, which may be carried out in one or more phases through individual or joint recourse to: a public sale offer to investors in Italy and/or Italian and international institutional investors, direct negotiations to be carried out through transparent and non-discriminatory competitive procedures and one or more extraordinary transactions including a merger transaction.

As a result of the disposals of non-performing exposures carried out since 2018, including the Hydra transaction, the Group recorded a Gross NPE ratio that was 4.3% lower than the Plan's 2021 target, which envisaged a level of 12.9%.

2021-2025 Group Strategic Plan

On 17 December 2020, the Board of Directors preliminarily approved the Group's 2021-2025 Strategic Plan. Based on the initial discussions with DG Comp following the presentation of the new 2021-2025 Group Strategic Plan, the Bank will have to present additional compensatory measures for non-compliance with certain commitments defined in the 2017-2021 Restructuring Plan.

The Plan was prepared having in mind the commitments undertaken by the Italian Government in 2017 with reference to the Restructuring Plan approved by the European Commission on 4 July 2017. The Government's commitments were reiterated in a Prime Ministerial Decree of 16 October 2020 in which it is planned to "launch a process of disposal of the stake held by the Ministry in the share capital of MPS, to be carried out using market methods and also through transactions aimed at consolidating the banking system". The Plan assumes the necessary dialogue with DG Comp with reference to the commitments undertaken in 2017 and with the ECB, also for the purpose of approving the planned capital strengthening hypotheses.

In the Strategic Plan, priority was given to initiatives able to generate value already from 2021, in particular:

- for the business model, opportunities were identified in repositioning the bank's offer on customer segments, products and territories in which the Group can compete more effectively so as to recover the market share lost in recent years and for which greater market growth is expected;
- for the cost base, for each central and network function the resources were measured that can be freed up with the current operating model and technological infrastructure as a result of significant organisational simplifications, rationalisation of the footprint, streamlining of processes and adoption of agile working methods;
- for financial resources, the plan envisages maintaining capital and liquidity indicators well above the supervisor's indications in each year.
- In terms of income, the Plan envisages a net result in 2021 impacted by restructuring charges and impairment losses on loans linked to the pandemic emergency, but with commercial activity in line with what was observed in the second half of 2020. The Plan envisages a break-even net result in 2022 and a profit from 2023.

Moreover, at the end of January 2021, the Board of Directors approved the Capital Plan to be submitted to the European Central Bank ("ECB") as requested in the final decision of the ECB of 28 December 2020 regarding the SREP capital requirements. The Capital Plan was prepared with the objective of finding a potential structural solution for the Bank, including an M&A transaction. In the event that the implementation of a structural solution does not take place in the short/medium term, the Capital Plan envisages a capital increase of EUR 2.5

billion which, if carried out, is expected to take place at market conditions and with the Italian Government participating in proportion to the share held. The capital increase plan is subject to shareholders' approval.

The Board of Directors also appointed Credit Suisse as financial advisor in order to assist Mediobanca in the assessment of the strategic alternatives available to the Bank and to verify market interests by primary standing operators.

* * *

During the year, the Group continued its strategic path also in order to adequately deal with the risks deriving from the economic emergency of COVID-19. As regards the credit strategy, starting from the second quarter of 2020 the Parent Company revised its strategic policies for offering credit to customers, focusing its performing loan growth mission on measures to provide financial support to existing customers. In this sense, the Group clustered the loan portfolio on the basis of the risks arising in the various economic sectors and the relative resilience and recovery capacity over time based on the impact estimates starting from the main macroeconomic indicators (change in GDP, turnover, etc.). This made it possible to identify portions of the portfolio on which to best focus financial support, relying first and foremost on the measures laid out by the Legislature in the various decrees issued throughout the first half of the year ("Cura Italia" decree and Liquidity decree) in the form of the restructuring of outstanding loans and granting additional liquidity backed by the State. The Group also fully participated in the Sector Agreements promoted by the Italian Banking Association which make it possible to offer customers additional benefits to overcome the economic and financial impacts of the emergency situation. Likewise, the Parent Company refocused, in keeping with such policies, interactions with its customers, specifying the set of documents and instruments useful for adequate credit assessments from a forward-looking perspective (ad hoc questionnaires, statement for verifying financial requirements, etc.).

Despite the initial forecasts of negative impacts triggered by the COVID-19 emergency on the cure rate and transfers from NPE exposures, monitoring showed how the trend of these aggregates has remained consistent with the new objectives established within the RAS revision. Thanks to the new customer clustering/guidelines based on the new strategies, it was possible to contain the default flow for 2020, making it possible to maintain the risk objectives on the various portfolio segments.

As regards the Group's commercial strategy, all the projects launched at the beginning of the year continued according to plan, with the exception of some whose development was linked to logistical factors that recorded a slowdown due to the lockdown in the country in the first half of the year. The remaining project activities continued in smart-working mode, without reporting any particular problems. The info-training activities of the Network were also finalized by making use of "distance learning", allowing the usual professional updating of resources, as well as maintaining a direct line with the main partners with a view to continuing to offer consulting support to customers always up-to-date and of quality. The 2020 strategies for renewing the commercial approach, continuing the path already started in 2019, sought to refocus the business on the core areas of commercial activities and relaunch the Group's economic performance with projects aimed at:

- improving the customer experience and continuing the digital transformation, through: i) the management of monthly contact initiatives finalised at implementing a commercial proposal for the extention of expiry dates and/or the estimation in the context of the need of each customer, as well as the optimising of the exchange with the customer and at the same time promoting the knowledge of products/services offered; ii) the launch of customer journeys designed for improving commercial proposition activities through the establishment of logical omnichannel contact paths, particularly with reference to new customers or those with the risk of chum; iii) the search for a superior experience in the internet banking platform for retail customers, also through the creation of new smartphone apps and the enhancement of tools that allow remote contract signing; iv) upgrading of the branch technology platform and the optimisation of media centre activities and remote customer service. The activities for the digitalisation of the processes relating to the range of investment services and products (GPs and Policies) and the creation of the digital pathway of Out-of-Office Offerings also continued, with a goal of completion in the first few months of 2021;

- ***activating a new Wealth Management Platform***: starting from July 2020, the new wealth management platform named "MPS Athena" was activated, with the release of the Non-Financial Analysis Service on a pilot group which, as at 31 December 2020, involved 43 Branches and 3 Private/Family Office Centres. In the last quarter of 2020, on the basis of a plan that will continue incrementally in the course of 2021 as well, the process of migrating from "MPS Advice" to "MPS

Athena" began, with the opening of several functions of the Basic Advisory path exclusively for Bank employees to which the Service is offered as a sneak preview;

- ***reviewing commercial processes from a customer centric perspective***, by optimising the commercial contact processes with renewed instruments to guide planning through the use of "air & ground" campaigns and the resulting commercial proposition activity, the specialisation of employees in the various areas of customer needs (with particular reference to the Value segment) and a well-developed caring programme and targeted actions for potential customers;

- ***optimising the allocation of commercial resources,*** by updating the service models for the commercial management of customers, differentiated by type and economic return in a manner consistent with the available staff;

- ***defining a new "value proposition" in the Agrifood sector***, based on the role that the Group intends to take on as a "Hub" for developing small businesses in the SME sector, consisting of relations with the players in the ecosystem, with specific reference to innovation and sustainability issues;

- ***accelerating growth in Bancassurance***, through interventions on the layout of branches and updates of the operating and commercial model, already successfully tested in the last months of 2019 on 86 pilot branches. The project was extended, in June 2020, to a further 150 branches with training activities already completed and will concern, in January 2021, another 158 branches with training in progress. With regard to branding, inspections began in September and, starting from October, also fitting out, with 69 branches branded externally as at 31 December 2020 (due to the COVID-19 protocol, it was not yet possible to carry out internal interventions), which they are added to the 52 completed in 2019 (complete branding). The design of the layouts is continuing and, in 2021, in addition to the resumption of external and internal fittings, a further expansion of the perimeter of 90 branches is expected;

Restyling also involved 55 large/highly visible branches in order to improve commercial proactivity with a focus on the Value line. These interventions act on the following performance drivers: increasing the privacy of workstations, improving the usability of spaces, appearance and brand identity. In 2021, a further 80 interventions are expected to be carried out in synergy with other projects. The passage of the Foreign procedures to the New Foreign Platform, with consequent streamlining and alignment with the advanced services of the best competitors, has been completed. A significant increase was achieved in operations with high added value (e.g. Buyer's and Supplier Credit, in addition to confirmation and discount on letters of credit) supported by ECA insurance coverage (e.g. Sace), with a consequent reduction in RWA for the Bank.

With reference to funding, after the repayment of the senior government guaranteed bonss (GGB) for EUR 8 bn, in the months of January and March 2020, in the course of June 2020, the LTROs to which the Parent Company had access in March, for EUR 5 bn, reached their maturity; in June, the Parent Company also repaid the TLTRO II still outstanding, equal to EUR 6.5 bn, early.

The additional maturities anticipated for the 2021-2022 period are represented primarily:

- by bond maturities of roughly EUR 2.3 bn (of which EUR 1.75 bn in covered bonds, EUR 0.5 bn in senior institutional bonds and EUR 0.1 bn in securities placed with retail customers);
- by the first tranche of TLTRO III auctions in which the Parent Company participated in December 2019, for EUR 4 bn.

Against these maturities and with the objective of maintaining adequate levels for liquidity indicators, the Group's funding strategy for the 2020-2022 three-year period envisaged the use of diversified funding sources, distributed over time, among which the Parent Company's regular recourse to the public funding market is particularly important (subordinated, senior and covered issues), as is the access to TLTRO III launched by the ECB during 2019, in particular for carrying out a refinancing of the maturing TLTRO II.

Starting at the end of February 2020, the outbreak of the COVID-19 epidemic, the resulting economic and market crisis and the responses of governments and central banks have profoundly changed the macro scenario and the legislative and regulatory framework, which were the basis on which the Group's strategies, including in terms of funding, were designed. However, the effects of the epidemic have not had negative consequences on the Group's liquidity situation in 2020, which indeed improved during the year.

With regard to institutional funding, after the issues made in January (Tier 2 subordinated notes, for an amount of EUR 400 mln, and Senior Preferred notes, for an amount of EUR 750 mln), the changed context slowed down the implementation of the Group's issuance plans for 2020. Access to the market was resumed only in September, with the Tier 2 issue of EUR 300 mln mentioned above, while in December the Parent Company carried out a Senior preferred issue of EUR 750 mln.

On the other hand, the Group can benefit from the important extraordinary monetary policy measures announced by the ECB in March 2020, with particular reference to the LTRO/PELTRO/TLTRO III refinancing operations. The Parent Company already had access, in March 2020, to the new LTROs that matured in June 2020, for EUR 5 bn, while, as regards TLTRO III, the considerable increase in the borrowing allowance led to a revision of the plans prepared by the Group: in the course of the months of June and September 2020, the Parent Company again accessed the TLTRO III auctions for EUR 17 bn and EUR 3 bn, thus bringing the total TLTRO III amount to EUR 24 bn (against a maximum amount available of approx. EUR 27 bn, destined to be further increased due to the effect of the monetary policy decisions taken by the ECB in December 2020).

Any additional recourse to the TLTRO III in 2021 may be used to handle potential future requirements to support the economic system, with respect for the overall maximum.

In the current market environment, characterised by less possibility to access the senior unsecured public funding market, the Parent Company is constantly monitoring market conditions in order to carry out the issue programme set forth for the achievement of the MREL targets. In this regard, as part of the 2020 resolution cycle, the new MREL targets will be established based on the transitional period envisaged by SRMR2, with a first interim binding requirement for 2022 and a final requirement for 2024.

Given its potential impacts on banks' sources of liquidity, the health crisis could affect the expected development of the regulatory liquidity indicators (LCR and NSFR). In this regard, the central bank has communicated the possibility for banks to temporarily operate below the minimum threshold of 100%, with particular reference to the LCR. Considering the solid liquidity position established in previous years and the satisfactory levels of its indicators (as at 31 December 2020, LCR equal to 196.7% and NSFR equal to 123.8%), the Parent Company expects to be able to keep its targets higher than the minimum threshold, with an adequate buffer.

"Hydra M" transaction - partial non-proportional demerger with asymmetric option of a set of non-performing loans by MPS in favour of AMCO

On 1 December 2020, the partial non-proportional partial demerger transaction with asymmetric option by the Parent Company in favour of AMCO, a company controlled by the MEF, became effective.

The transaction involved the transfer - at the aforementioned date - of a set of assets and liabilities for a total of EUR 4.1 bn, of which EUR 0.6 bn referred to the subsidiary MPSCS and was included in the items demerged from the latter in favour of MPS, in a transaction which became effective on 26 November 2020.

The demerged items comprise: (i) non-performing loans/receivables of EUR 3.6 bn, consisting mainly of bad loans of EUR 2.3 bn and UTPs of EUR 1.2 bn; (ii) liquidity deriving from the adjustment of the differences in the size of the demerger complex between the effective date and the reference date of the demerger project (31 December 2019) for EUR 0.4 bn; (iii) bonds and shares of EUR 52.3 mln; (iv) deferred tax assets of EUR 0.1 bn; (v) other assets of EUR 1.6 mln and other liabilities of EUR 0.8 mln; (vi) derivative contracts with a positive fair value of EUR 0.1 mln and derivative contracts with a negative fair value of EUR 0.006 mln; (vii) financial liabilities of EUR 3.2 bn; (viii) shareholders 'equity of EUR 0.9 bn.

The transaction resulted in the cancellation of a total of 134,344,895 shares of MPS (of which 10,219,550 shares due to the Asymmetric Option) [18] and an overall net reduction of the Group's shareholders 'equity of EUR 943.8 mln attributable to the combined effect of a reduction in the Share capital of EUR 1,133.6 mln and an increase in "Reserves-other" of EUR 187.0 mln and in "Valuation reserves" of EUR 2.8 mln. For further details, please refer to the comment at the bottom of the statement of changes in shareholders 'equity in these consolidated financial statements.

At the end of the swap transactions, the MEF holds a total interest of 64.23% of the share capital of BMPS (against an investment held before the AMCO Demerger of 68.247%), while the Parent Company holds, directly and indirectly, treasury shares for 3.62% and the other shareholders hold a total of 32.15% of the share capital of BMPS.

[18] The transaction also entailed the assignment of 53,737,958 B shares of AMCO (of which 4,087,820 shares due to the Asymmetric Option).

Reclassification principles

Income statement

Note that, to allow a better interpretation of the Group's performance, starting from 2020, the impairment losses/reversals and the gains/losses on disposal related to loans to customers have been included in a single aggregate called **"Cost of customer credit"**. Hence, this aggregate includes:

- the portion of loans to customers in item 130a "Net impairment losses/reversals on financial assets measured at amortised cost" and item 140 "Modification gains/(losses)", which were previously included under reclassified item "Net impairment losses of financial assets measured at amortised cost" (item no longer present).
- the portion of loans to customers in financial statement item 100a "Gains (losses) on disposal/repurchase of financial assets measured at amortised cost" and item 110b "Net profit (loss) from other financial assets mandarily measured at fair value", previously included under the reclassified item "Net profit (loss) from trading and financial assets/liabilities measured at amortised cost and at fair value through profit or loss";
- the portion of commitments and other guarantees given related to loans to customers in financial statement item 200a "Net provisions for risks and charges - commitments and guarantees given" previously included in the reclassified item "Net provisions for risks and charges".

The impairment losses/reversals on financial assets relating to securities and loans to banks have been classified under the item "**Net impairment losses on securities and loans to banks**". Thus, this item includes the portion related to securities and loans to banks in item 130a "Financial assets measured at amortised cost" and item 130b "Net impairment losses/reversals on financial assets measured at fair value through other comprehensive income".

To allow for consistency in the description of the Group's performance results, the 2019 figures have been restated.

Lastly, note that the 2019 income statement data of the subsidiary BMP Belgio S.A. are included in the individual income statement items, rather than in the item "Profit (loss) after tax from discontinued operations", although it was sold on 14 June 2019.

The following are the reclassification criteria adopted for drafting the reclassified income statement:

- Item "**Net interest income" was cleared of the negative contribution (equal to EUR -5.6 mln) of the Purchase Price Allocation (PPA), referring to past business combinations, which was reclassified to a specific item.** The aggregate was also cleared of the negative contribution (equal to EUR -13.6 mln) referring mainly to interest expense relating to the financial debt included in the demerged assets and liabilities transferred to AMCO, which was allocated to the reclassified item "Restructuring costs/One-off charges".
- Item "**Net fee and commission income**" was cleared of the negative contribution (equal to EUR -37.1 mln) represented by fee and commission expense incurred in the non-proportional demerger plan with asymmetric option of a set of non-performing loans in favour of AMCO, which was attributed to the reclassified item "Restructuring costs/One-off charges".
- Item "**Dividends, similar income and gains (losses) on investments**" incorporates item 70 "Dividends and similar income" and the relevant portion of profits from investments in the associate AXA, consolidated using the equity method, equivalent to EUR 92.2 mln, included in item 250 "Gains (losses) on investments". The aggregate was also cleared of dividends earned on equity securities other than equity investments (EUR 1.6 mln), reclassified to item "Net profit (loss) from trading, the fair value measurement of assets/liabilities and gains from disposals/repurchases".
- Item "**Net profit (loss) from trading, the fair value measurement of assets/liabilities and gains from disposals/repurchases**" includes financial statement item 80 "Net profit (loss) from trading", item 100 "Gains (losses) on disposal/repurchase", cleared of the contribution from loans to customers (EUR +0.4 mln) reclassified in the item "Cost of customer credit", and item 110 "Net profit (loss) from other financial assets and liabilities measured at fair value through profit or loss", cleared of the contribution from loans to customers (EUR -0.9 mln) reclassified in the item "Cost of customer credit". The item also incorporates dividends earned on securities other than equity investments (EUR 1.6 mln) and was cleared of the loss on the exposure to the Voluntary Scheme of FITD, the Italian interbank deposit protection fund (for the Carige intervention) for around EUR 3.6 mln, reclassified to "Risks and charges associated with SRF, DGS and similar schemes".

- Item "**Net profit (loss) from hedging**" includes financial statement item 90 "Net profit (loss) from hedging".
- Item "**Other operating income (expense)**" includes the balance of item 230 "Other operating expenses/income" net of stamp duties and other expenses recovered from customers, which are included in the reclassified item "Other administrative expenses" (EUR 259.6 mln) and net of other expenses recovered, which are posted to the item "Net value adjustments to property, plant and equipment" (EUR 20.5 mln).
- Item "**Personnel expenses**" includes the balance of item 190a "Personnel expenses" reduced by the cost component of EUR 93.6 mln, relating to provisions for the early retirement/solidarity fund initiative pursuant to the agreement with the trade unions of 6 August 2020, reclassified to "Restructuring costs/One-off charges".
- Item "**Other administrative expenses**" includes the balance of financial statement item 190b "Other administrative expenses", reduced by the following cost items:

  - expenses, amounting to EUR 136.7 mln, resulting from the EU Deposit Guarantee Schemes Directive (hereinafter "DGSD") and Bank Recovery Resolution Directive (hereinafter "BRRD") for the resolution of bank crises, posted under the reclassified item "Risks and charges associated with SRF, DGS and similar schemes";
  - DTA fee, convertible into tax credit, for an amount of EUR 71.0 mln (posted to the reclassified item "DTA fee");
  - charges of EUR 11.4 mln, relating to initiatives also aimed at complying with the commitments undertaken with DG Comp, including expenses for the non-proportional demerger plan with asymmetric option of a set of non-performing loans in favour of AMCO, stated under reclassified item "Restructuring costs/One-off charges".

  This item also includes the portion of stamp duty and other expenses recovered from customers (EUR 259.6 mln) posted under item 230 "Other operating expenses/income".
- Item "**Net value adjustments to property, plant and equipment and intangible assets**" includes the values of items 210 "Net value adjustments to (recoveries on) property, plant and equipment" and 220 "Net value adjustments to (recoveries on) intangible assets" and was cleared of the negative contribution (EUR -0.9 mln) referring to the Purchase Price Allocation (PPA), which was recognised in a specific item, while it incorporates the amount of the expense recovery (EUR 20.5 mln) that was recorded under item 230 "Other operating expenses/income".
- Item "**Cost of customer credit**" includes the income statement components relating to loans to customers of item 100a "Gains (losses) on disposal/repurchase of financial assets measured at amortised cost" (EUR +0.4 mln), item 110b "Net profit (loss) from other financial assets mandatorily measured at fair value" (EUR -0.9 mln), item 130a "Net impairment (losses)/reversals on financial assets measured at amortised cost" (EUR -743.7 mln), item 140 "Modification gains/(losses)" (EUR -18.8 mln) and item 200a "Net provisions for risks and charges - commitments and guarantees given" (EUR +15.4 mln).
- Item "**Net impairment losses on securities and loans to banks" includes the portion related to securities (EUR -4.8 mln) and loans to banks (EUR -0.8 mln) in item 130a "Financial assets measured at amortised cost" and item 130b "Net impairment (losses)/reversals on financial assets measured at fair value through other comprehensive income" (EUR +0.2 mln).**
- Item "**Other net provisions for risks and charges**" includes the balance of financial statement item 200 "Net provisions for risks and charges", reduced by component relative to loans to customers of item 200a "commitments and guarantees given" (EUR +15.4 mln), which was included in the specific item "Cost of customer credit".
- Item **"Gains (losses) on investments others**" includes the balance of item 250 "Gains (losses) on investments", cleared of the portion of profit relative to the investments in the associate AXA, consolidated at equity and equivalent to EUR 92.2 mln, reclassified under item "Dividends, similar income and gains (losses) on investments".
- Item "**Restructuring costs/One-off costs**" includes the following amounts:
  - Interest expense of EUR 13.6 mln referring mainly to the financial debt included in the demerged assets and liabilities transferred to AMCO, recognised in the financial statements under item 20 "Interest expense and similar charges";
  - commission expense of EUR 37.1 mln relating to the non-proportional demerger plan with asymmetric option of a set of non-performing loans in favour of AMCO, accounted for in the financial statements under item 60 "Net fee and commission income"
  - expenses recognised in provisions for early retirement/solidarity fund equal to EUR 93.6 mln, recognised in the financial statements under item 190a "Personnel expenses";

- charges of EUR 11.4 mln, relating to project initiatives also aimed at complying with the commitments undertaken with DGComp, including expenses for the non-proportional demerger plan with asymmetric option of a set of non-performing loans in favour of AMCO, accounted for in the financial statements under item 190b "Other administrative expenses";
- gains of EUR 2 mln linked to the definition of the price adjustment on the sale of BMP Belgio S.A., accounted for in the financial statements under item 280 "Gains (losses) on disposal of investments".

- Item "**Risks and charges associated with SRF, DGS and similar schemes**" includes the charges deriving from EU directives DGSD for deposit guarantee and BRRD for the resolution of bank crises, amounting to EUR 136.7 mln, recognised in the financial statements under item 190b "Other administrative expenses", as well as the recognised loss on the exposure to the FITD's Voluntary Scheme (for the Carige intervention) for approximately EUR 3.6 mln, recognised in the financial statements under item 110 "Net profit (loss) from financial assets and liabilities measured at fair value through profit or loss".
- Item "**DTA fee**" includes the expenses related to the fees paid on DTAs that can be converted into tax credit as set forth in art. 11 of Law Decree no. 59 of 3 May 2016, converted into Law no. 119 of 30 June 2016, recognised in the financial statements under item 190b "Other administrative expenses", for EUR 71.0 mln.
- Item "**Gains (losses) on disposal of investments**" includes the balance of financial statement item 280 "Gains (losses) on disposal of investments" reduced by the positive effect linked to the definition of the resulting price adjustment on the disposal of MP Belgio (EUR +2 mln), which was recognised in the reclassified item "Restructuring costs/One-off charges".
- Item "**Tax (expense)/recovery**" includes the balance of item 300 "Tax (expense)/recovery on income from continuing operations" cleared of the theoretical tax component relating to the Purchase Price Allocation (PPA), which was reclassified to a specific item for an amount of EUR 2.1 mln.
- The overall negative effects of the Purchase Price Allocation (PPA) were reclassified to a specific item, excluding them from affected income statement items (in particular "Net interest income" for EUR -5.6 mln and "Net value adjustments to property, plant and equipment and intangible assets" for EUR -0.9 mln, net of a theoretical tax burden of EUR +2.1 mln which was added to the item).

Balance sheet

Note that, to allow a better interpretation of the Group's performance, starting from 2020, the reclassified balance sheet schedules were revised to ensure better consistency between the aggregates and the instruments that comprise them. The principal changes regarded:

- inclusion in Assets of the aggregate relating to Loans broken down, depending on the counterparty, into "Loans to central banks", "Loans to banks" and "Loans to customers". These aggregates include credit instruments, regardless of their accounting classification as financial assets measured at amortised cost, measured at fair value through profit or loss, or non-current assets held for sale/disposal group;
- inclusion in Assets of the aggregate "Securities assets", which includes instruments that are more specifically financial, regardless of their accounting allocation among financial assets measured at fair value through profit or loss, financial assets measured at fair value through other comprehensive income, financial assets measured at amortised cost, or non-current assets held for sale/disposal group;
- inclusion in Liabilities of the aggregate "Securities issued", segregating it from the previous reclassified item "Deposits from customers and securities".

To allow for consistency in the description of the Group's performance results, the 2019 figures have been restated.

The following are the reclassification criteria adopted for drafting the reclassified balance sheet:

- Asset item "**Loans to central banks**" includes the portion relating to operations with central banks of item 40 "Financial assets measured at amortised cost".
- Asset item "**Loans to banks**" includes the portion relating to operations with banks of item 40 "Financial assets measured at amortised cost" and item 20 "Financial assets measured at fair value through profit or loss".
- Asset item "**Loans to customers**" includes the portion relating to loans to customers of financial statement items 20 "Financial assets measured at fair value through profit or loss", 40 "Financial assets measured at amortised cost" and 120 "Non-current assets held for sale and disposal groups".
- Asset item "**Securities assets**" includes the portion relating to securities of item 20 "Financial assets measured at fair value through profit and loss", item 30 "Financial assets measured at fair value through

other comprehensive income", item 40 "Financial assets measured at amortised cost" and item 120 "Non-current assets held for sale and disposal group".

- Asset item "**Derivative assets**" includes the portion relating to derivatives of item 20 "Financial assets measured at fair value through profit and loss" and item 50 "Hedging derivatives".
- Asset item "**Equity investments**" includes item 70 "Equity Investments" and the portion related to investments in item 120 "Non-current assets held for sale and disposal group".
- Asset item "**Property, plant and equipment and intangible assets**" includes item 90 "Property, plant and equipment", item 100 "Intangible assets" and the amounts related to property, plant and equipment and intangible assets in item 120 "Non-current assets held for sale and /disposal group".
- Asset item "**Other assets**", includes item 60 "Change in value of macro-hedged financial assets", item 130 "Other assets", and the amounts in item 120 "Non-current assets held for sale and disposal group" not included in the previous items.
- The liability item "**Due to customers**", includes financial statement item 10b "Financial liabilities measured at amortised cost - deposits from customers" and the component relating to customer securities of financial statement item 10c "Financial liabilities measured at amortised cost - Debt securities issued".
- Liability item "**Securities issued**" includes item 10c "Financial liabilities measured at amortised cost - Debt securities issued", excluding the component relating to customer securities, and item 30 "Financial liabilities measured at fair value".
- Liability item "**Due to central banks**" includes the portion of item 10a "Deposits from banks" related to operations with central banks.
- Liability item "**Due to banks**" includes the portion of item 10a "Deposits from banks" related to operations with banks (excluding central banks).
- Liability item "**On-balance-sheet financial liabilities held for trading**" includes the portion of item 20 "Financial liabilities held for trading" net of the amounts relating to derivatives for trading.
- Liability item "**Derivatives**" includes item 40 "Hedging derivatives" and the portion related to derivatives in item 20 "Financial liabilities held for trading".
- Liability item "**Specific provisions**" includes item 90 "Employee severance pay" and item 100 "Provisions for risks and charges".
- Liability item "**Other liabilities**" includes item 50 "Change in value of macro-hedged financial liabilities", item 70 "Liabilities associated with disposal group" and 80 "Other liabilities".
- Liability item "**Shareholders' equity of the Group**" includes item 120 "Valuation reserves", item 130 "Redeemable shares", item 150 "Reserves", item 170 "Share capital", item 180 "Treasury shares" and item 200 "Profit (Loss) for the year".

Reclassified income statement

The income statement is presented according to the new reclassification principles described in the previous paragraph. The values for 2019 have been restated, hence the comparison with the previous year is homogeneous.

Note that the results of 2020 were affected by the health emergency created by the spread of the COVID-19 virus, starting from the end of February. In particular:

- Net fee and commission income was affected by the reduction in network operations resulting from the restrictive measures inherent in social distancing that were gradually introduced by the Government to limit the spread of the virus,
- the results from trading activities were negatively impacted by tensions in the financial markets recorded particularly in the first part of the period, linked to the COVID-19 emergency,
- the Cost of Customer Credit was penalised by the effects deriving from the changed macroeconomic scenario due to the spread of the pandemic, which influenced the portfolio's risk levels. This effect was partly offset by the positive impacts deriving from lower slips to default, thanks to the moratoria granted as part of the Government Decrees issued following the COVID-19 emergency and the positive effects generated by the acquisition of state guarantees on the loans disbursed as part of the aforementioned Decrees,
- taxes recorded a negative contribution attributable nearly exclusively to the modification of the value of deferred tax assets (DTAs) recorded in the financial statements (multi-year projections 2020-2024), carried out due to the update in long-term internal estimates of the income statement and balance sheet values to take into account changes in the macroeconomic scenario caused by the pandemic.

Reclassified Consolidated Income Statement				
MONTEPASCHI GROUP	**31 12 2020**	**31 12 2019**	**Change**	
			Abs.	**%**
Net interest income	1,290.6	1,501.3	(210.7)	-14.0%
Net fee and commission income	1,430.1	1,449.5	(19.4)	-1.3%
Income from banking activities	**2,720.7**	**2,950.8**	**(230.1)**	**-7.8%**
Dividends, similar income and gains (losses) on investments	101.0	95.6	5.4	5.6%
Net profit (loss) from trading, from financial assets/liabilities measuerd at fair value and Net profit (loss) on disposals/repurchases	143.6	322.2	(178.6)	-55.4%
Net profit (loss) from hedging	2.6	(4.6)	7.2	n.m.
Other operating income (expenses)	(50.5)	(80.2)	29.7	-37.1%
Total Revenues	**2,917.3**	**3,283.8**	**(366.5)**	**-11.2%**
Administrative expenses:	(1,978.4)	(2,034.4)	56.0	-2.8%
a) personnel expenses	(1,415.1)	(1,433.0)	17.9	-1.2%
b) other administrative expenses	(563.3)	(601.4)	38.1	-6.3%
Net value adjustments to property, plant and equipment and intangible assets	(225.4)	(255.2)	29.8	-11.7%
Operating expenses	**(2,203.8)**	**(2,289.6)**	**85.8**	**-3.7%**
Pre-Provision Operating Profit	**713.5**	**994.2**	**(280.7)**	**-28.2%**
Cost of customer credit	**(747.6)**	**(582.7)**	**(164.9)**	**28.3%**
Net impairment (losses)/reversals on securities and loans to banks	**(5.4)**	**(5.3)**	**(0.1)**	**1.9%**
Net operating income	**(39.5)**	**406.2**	**(445.7)**	**n.m.**
Net provisions for risks and charges	(984.0)	(155.9)	(828.1)	n.m.
Gains (losses) on other investments	2.8	(5.6)	8.4	n.m.
Restructuring costs / One-off costs	(153.7)	(0.3)	(153.4)	n.m.
Risks and charges associated to the SRF, DGS and similar schemes	(140.3)	(123.4)	(16.9)	13.7%
DTA Fee	(71.0)	(70.6)	(0.4)	0.6%
Gains (losses) on disposal of investments	41.4	3.0	38.4	n.m.
Profit (Loss) for the year before tax	**(1,344.4)**	**53.4**	**(1,397.8)**	**n.m.**
Tax (expense)/recovery on income from continuing operations	(340.3)	(1,074.6)	734.2	-68.3%
Profit (Loss) after tax	**(1,684.8)**	**(1,021.2)**	**(663.6)**	**65.0%**
Net profit (loss) for the year including non-controlling interests	**(1,684.8)**	**(1,021.2)**	**(663.6)**	**65.0%**
Net profit (loss) attributable to non-controlling interests	(0.1)	(0.1)	-	n.m.
Parent Company's Profit (loss) for the year before PPA	**(1,684.7)**	**(1,021.1)**	**(663.6)**	**65.0%**
PPA (Purchase Price Allocation)	(4.3)	(11.9)	7.6	-63.5%
Parent company's net profit (loss) for the year	**(1,689.0)**	**(1,033.0)**	**(656.0)**	**63.5%**

Quarterly trend in reclassified consolidated income statement

MONTEPASCHI GROUP	2020				2019			
	4°Q 2020	3°Q 2020	2°Q 2020	1°Q 2020	4°Q 2019	3°Q 2019	2°Q 2019	1°Q 2019
Net interest income	311.9	331.8	319.8	327.1	333.4	354.7	404.3	408.9
Net fee and commission income	380.4	355.4	324.4	369.9	371.1	355.9	363.7	358.8
Income from banking activities	**692.3**	**687.3**	**644.1**	**697.0**	**704.5**	**710.6**	**768.0**	**767.7**
Dividends, similar income and gains (losses) on investments	43.5	11.2	34.5	11.8	15.3	36.9	27.5	15.9
Net profit (loss) from trading, from financial assets/liabilities measuerd at fair value and Net profit (loss) on disposals/repurchases	(10.2)	61.7	62.3	29.8	141.1	102.0	50.5	28.6
Net profit (loss) from hedging	1.6	0.5	3.3	(2.8)	(5.8)	1.8	(0.6)	-
Other operating income (expenses)	(10.1)	(12.9)	(21.1)	(6.4)	2.2	(11.1)	(63.0)	(8.3)
Total Revenues	**717.1**	**747.7**	**723.1**	**729.4**	**857.3**	**840.2**	**782.4**	**804.0**
Administrative expenses:	(514.7)	(490.6)	(480.2)	(493.0)	(524.6)	(491.9)	(509.7)	(508.2)
a) personnel expenses	(355.2)	(352.0)	(351.2)	(356.7)	(352.5)	(354.5)	(357.4)	(368.6)
b) other administrative expenses	(159.5)	(138.5)	(129.0)	(136.3)	(172.1)	(137.4)	(152.3)	(139.6)
Net value adjustments to property, plant and equipment and intangible assets	(58.7)	(54.5)	(56.7)	(55.5)	(69.4)	(57.3)	(67.6)	(60.9)
Operating expenses	**(573.3)**	**(545.1)**	**(536.9)**	**(548.5)**	**(594.0)**	**(549.2)**	**(577.3)**	**(569.1)**
Pre-Provision Operating Profit	**143.8**	**202.6**	**186.2**	**180.9**	**263.3**	**291.0**	**205.0**	**234.9**
Cost of customer credit	**(126.6)**	**(101.7)**	**(204.8)**	**(314.5)**	**(191.8)**	**(137.1)**	**(109.9)**	**(143.9)**
Net impairment (losses)/reversals on securities and loans to banks	**1.2**	**(1.1)**	**(4.4)**	**(1.1)**	**(2.4)**	**(2.2)**	**(0.6)**	**(0.1)**
Net operating income	**18.4**	**99.8**	**(23.0)**	**(134.7)**	**69.1**	**151.7**	**94.5**	**90.9**
Net provisions for risks and charges	(216.2)	(410.7)	(317.0)	(40.1)	(85.6)	(11.9)	(19.4)	(39.0)
Gains (losses) on other investments	1.7	0.4	0.5	0.2	(9.3)	0.5	2.3	0.9
Restructuring costs / One-off costs	(25.2)	(100.7)	(30.4)	2.6	2.2	(5.6)	0.9	2.2
Risks and charges associated to the SRF, DGS and similar schemes	(22.7)	(41.0)	(18.4)	(58.3)	(0.2)	(35.7)	(26.6)	(60.9)
DTA Fee	(17.8)	(17.8)	(17.7)	(17.8)	(17.7)	(17.7)	(17.3)	(17.9)
Gains (losses) on disposal of investments	40.0	0.3	(0.8)	1.9	1.9	0.4	0.1	0.6
Profit (Loss) for the year before tax	**(221.8)**	**(469.6)**	**(406.8)**	**(246.2)**	**(39.6)**	**81.7**	**34.6**	**(23.3)**
Tax (expense)/recovery on income from continuing operations	73.5	20.0	(437.6)	3.8	(1,179.0)	13.3	34.4	56.7
Profit (Loss) after tax	**(148.3)**	**(449.6)**	**(844.4)**	**(242.4)**	**(1,218.6)**	**95.0**	**69.0**	**33.5**
Net profit (loss) for the year including non-controlling interests	**(148.3)**	**(449.6)**	**(844.4)**	**(242.4)**	**(1,218.6)**	**95.0**	**69.0**	**33.5**
Net profit (loss) attributable to non-controlling interests	-	-	(0.1)	-	-	(0.1)	(0.2)	0.2
Parent Company's Profit (loss) for the year before PPA	**(148.3)**	**(449.6)**	**(844.3)**	**(242.4)**	**(1,218.6)**	**95.1**	**69.2**	**33.3**
PPA (Purchase Price Allocation)	(1.3)	(1.1)	(0.9)	(1.1)	(1.3)	(1.3)	(4.0)	(5.4)
Parent company's net profit (loss) for the year	**(149.6)**	**(450.7)**	**(845.2)**	**(243.5)**	**(1,219.9)**	**93.8**	**65.2**	**27.9**

Revenue trends

As at 31 December 2020, the Group achieved total **Revenues** of **EUR 2,917 mln**, down 11.2% compared to the previous year.

This trend is attributable, in particular, to the decline in Net interest income, attributable to the sale of UTP loans and to the effects of the other actions implemented in 2019 and 2020 to comply with some of the *commitments* set forth in the Restructuring Plan, but also to the drop of short-term interest rates. Net interest income benefited from the positive effects linked to the access to TLTRO III auctions (exposure of EUR 24 bn). Net commissions, down slightly year on year, were affected by lower transactions during the months of lockdown, and by the reduced placement of consumer credit products. The decline in Other revenue from banking is mainly due to the elimination of the positive effects recorded in 2019 of more than EUR 150 mln linked to the revaluation of securities recorded under assets deriving from the debt restructuring transactions of the Sorgenia Group and Tirreno Power. Down were also the results from trading activities, negatively impacted by tensions in the financial markets linked to the COVID-19 emergency. There was instead an improvement in Other operating income (expenses), which in 2019 included the recognition of the indemnity linked to the exercise of the right of withdrawal from the agreement entered into with Juliet for around EUR 49 mln.

In comparison with the previous quarter, there was a decline in Revenues of EUR -31 mln in 4Q20, mainly due to lower profits from the sale of securities. On the other hand, both the Primary net interest and other banking income, which saw the reduction in Net interest income (roughly EUR -20 mln) more than offset by the increase in Net fee and commission income (roughly EUR +25 mln), and the contribution generated from the *partnership* with AXA in the Bancassurance area were up.

The table below shows the trend in revenues for each of the identified operating segments.

SEGMENT REPORTING	Operating Segments						Corporate Center		Total Montepaschi Group	
Primary segment	Retail banking		Wealth Management		Corporate banking					
(EUR mln)	31/12/20	Chg % Y/Y	31/12/20	Chg % Y/Y	31/12/20	Chg % Y/Y	31/12/20	Chg % Y/Y	31/12/20	Chg % Y/Y
PROFIT AND LOSS AGGREGATES										
Net interest income	846.6	-15.6%	6.6	-43.5%	405.5	-11.7%	31.8	15.6%	1,290.6	-14.0%
Net fee and commission income, of which	1,076.6	-10.0%	109.9	1.0%	295.0	-1.9%	(51.4)	-67.3%	1,430.1	-1.3%
Fee and commission income	*1,143.8*	-10.2%	*110.9*	0.6%	*340.8*	-1.6%	*0.2*	n.m.	*1,595.7*	*-7.0%*
Fee and commission expense	*(67.2)*	-13.2%	*(1.0)*	-27.9%	*(45.8)*	0.2%	*(51.6)*	-63.5%	*(165.6)*	*-37.7%*
Other Revenues from Banking and Insurance Business	74.0	4.6%	20.8	10.3%	42.0	-77.8%	110.3	-17.9%	247.1	-40.2%
Other operating expenses/income	10.9	-25.0%	(0.7)	n.m.	(12.2)	-26.9%	(48.6)	-38.1%	(50.5)	-37.0%
Total Revenue	2,008.0	-12.1%	136.6	-2.3%	730.4	-21.7%	42.3	n.m.	2,917.3	-11.2%

N.B.: starting from 2020, Widiba is included in the Retail Banking segment and the 2019 values have been restated for a comparison on a consistent basis.

Net interest income as at 31 December 2020 amounted to **EUR 1,291 mln**, down by 14.0% compared to 2019. The decrease was driven by (i) the sale of UTPs receivables carried out in 2019 and the deconsolidation of the "Hydra M" portfolio, (ii) the conclusion in June 2019 of the sale of the subsidiary BMP Belgio SA, (iii) the return of the Parent Company to the institutional funding market, with significant volumes placed in the second half of 2019 and in 2020 and (iv) by the decline in asset returns driven by the trend in interest rates combined with a recomposition of exposures with a reduction in the on demand and short-term components and a growth in the medium / long-term component. Net Interest Income benefited from the positive effects linked to access to the TLTRO III auctions for a total of EUR 129 mln, although partially offset by the higher cost of deposits at central banks of approximately EUR 39 mln.

The 4Q20 Net Interest Income decreased compared to the previous quarter (-6%) mainly due to the higher cost of market funding following the issues made in September and December 2020.

Items	31 12 2020	31 12 2019	Chg. Y/Y		4°Q 2020	3°Q 2020	Chg. Q/Q	
			Abs.	%			Abs.	%
Loans to customers measured at amortised cost	1,507.8	1,644.3	(136.5)	-8.3%	356.8	385.4	(28.6)	-7.4%
of which: interest income on debt securities	*149.7*	*151.6*	*(1.9)*	*-1.3%*	*35.9*	*37.3*	*(1.4)*	*-3.8%*
Securiries issued	(338.2)	(258.4)	(79.8)	30.9%	(88.9)	(83.4)	(5.5)	6.6%
Net Differentials on hedging derivatives	(26.6)	(9.1)	(17.5)	n.m.	(7.2)	(19.4)	12.2	-62.9%
Loans to Banks measured at amortised cost	64.0	(22.1)	86.1	n.m.	33.8	35.8	(2.0)	-5.5%
Trading portfolios	35.6	40.6	(5.0)	-12.3%	6.6	7.5	(0.9)	-12.0%
Portfolios measured at fair value	7.4	12.4	(5.0)	-40.3%	1.8	1.6	0.2	12.5%
Financial assets measured at fair value through other comprehensive income	29.1	83.8	(54.7)	-65.3%	4.3	2.4	1.9	79.2%
Other net interest income	11.5	9.8	1.7	17.3%	4.7	1.9	2.8	n.m.
Net interest income	**1,290.6**	**1,501.3**	**(210.7)**	**-14.0%**	**311.9**	**331.8**	**(19.9)**	**-6.0%**
of which: interest income on impaired financial assets	*160.7*	*216.1*	*(55.4)*	*-25.6%*	*32.9*	*43.1*	*(10.2)*	*-23.7%*

Net fee and commission income as at 31 December 2020, amounting to **EUR 1,430 mln**, was down slightly compared to the previous year (-1.3%). A significant part of the reduction in commissions derives from the reduced placement of third-party consumer credit products and the reduction in commissions from services that were affected, in particular, by lower customer transactions following the COVID-19 emergency. Asset management fees, which were affected by the product placement component of the reduced operations of the Network during the months of lockdown, were down by -2.5%. Conversely, other net fee and commission income improved, due to the lower cost of the state guarantee following the repayment of Government-Guaranteed Bonds that took place in 1Q20.

The contribution of 4Q20 was up compared to the previous quarter (+7%), also due to the improvement in Other net commissions. In the QoQ trend, however, there was an increase in all fee and commission income components with income from asset management recording a +3.0% QoQ and fees from traditional banking services a +3.7% QoQ.

Services/value	31 12 2020	31 12 2019	Change Y/Y		4°Q 2020	3°Q 2020	Change Y/Y	
			abs.	%			abs.	%
Assets management fees	**631.3**	**647.5**	**(16.2)**	**-2.5%**	**161.9**	**157.2**	**4.7**	**3.0%**
Product placement	192.4	209.8	(17.4)	-8.3%	46.4	48.2	(1.8)	-3.7%
Continuing fees	348.7	347.4	1.3	0.4%	91.0	87.3	3.7	4.2%
Placement of securities	43.0	37.7	5.2	13.9%	10.6	9.6	1.0	10.2%
Sales of Protection	47.2	52.5	(5.3)	-10.1%	13.9	12.1	1.8	14.5%
Fee and commisions from traditional activities	**865.2**	**990.7**	**(125.5)**	**-12.7%**	**221.5**	**213.6**	**7.9**	**3.7%**
Credit fees	389.7	469.4	(79.7)	-17.0%	99.3	92.7	6.6	7.1%
Fees from foreign service	46.1	49.9	(3.8)	-7.6%	11.4	11.3	0.1	1.3%
Other services	429.4	471.4	(42.0)	-8.9%	110.8	109.7	1.2	1.1%
Other fee and commission income	**(66.3)**	**(188.7)**	**122.4**	**-64.9%**	**(2.9)**	**(15.3)**	**12.4**	**-81.1%**
Net fees and commission income	**1,430.1**	**1,449.5**	**(19.4)**	**-1.3%**	**380.4**	**355.4**	**25.0**	**7.0%**

Dividends, similar income and gains (losses) on investments totalled **EUR 101 mln** and mainly include the contribution generated by the Bancassurance partnership with AXA[19]. The aggregate increased compared to 31 December 2019 (EUR +5 mln), with an improvement in 4Q20 compared to the previous quarter (EUR +32 mln), thanks to the recovery of financial markets.

Net profit (loss) from trading, fair value measurement of assets/liabilities and gains on disposal/repurchase as at 31 December 2020 amounted to **EUR 144 mln**, a decrease compared to the values recorded in the previous year (-55.4%) and with a 4Q20 contribution substantially stable compared to the previous quarter (EUR -72 mln). The analysis of the main aggregates shows the following:

- **Net profit (loss) from trading of EUR +36 mln**, down compared to 31 December 2019, due to the lower contribution from the subsidiary MPS Capital Services, penalised particularly in the first quarter of the year by tensions in the financial markets associated with the COVID-19 emergency, and BMPS, in relation to the elimination of the positive effects recorded in 2019 on liabilities at fair value. The contribution of 4Q20 is down compared to the previous quarter, due to the lower contribution of the results of the subsidiary MPS Capital Services.
- **Net profit (loss) from other financial assets/liabilities measured at fair value through profit or loss was negative for EUR 10 mln,** a deterioration compared to the previous year (equal to EUR +118 mln), which benefited from the positive effects for over EUR 150 mln linked to the revaluation of securities recognised in assets resulting from the debt restructuring transactions of Sorgenia Group and Tirreno Power. The negative contribution of 4Q20 of EUR 6 mln was down compared to the positive contribution of EUR 2 mln of 3Q20 as a result of the higher losses recorded in particular on UCITS securities.
- **Positive results from disposal/repurchase** (excluding loans to customers at amortised cost) **of EUR 118 mln**, substantially stable compared to the previous year.
  The contribution of 4Q20, equal to EUR -10 mln, was down by EUR 62 mln compared to 3Q20, which benefited from higher profits deriving from the sale of securities.

Items	31 12 2020	31 12 2019	Chg. Y/Y		4°Q 2020	3°Q 2020	Chg. Q/Q	
			Abs.	%			Abs.	%
Financial assets held for trading	(2.1)	69.7	(71.7)	n.m.	(3.2)	29.8	(33.0)	n.m.
Financial liabilities held for trading	(51.3)	(76.3)	25.0	-32.8%	(28.4)	(55.9)	27.5	-49.2%
Exchange rate effects	21.7	23.8	(2.1)	-8.8%	10.0	2.0	8.0	n.m.
Derivatives	67.2	69.1	(1.9)	-2.8%	27.6	31.5	(3.9)	-12.4%
Trading results	**35.6**	**86.3**	**(50.8)**	**-58.8%**	**6.0**	**7.4**	**(1.4)**	**-19.2%**
Net profit (loss) from financial assets and liabilities measured at fair value through profit or loss	(10.1)	118.4	(128.5)	n.m.	(6.3)	2.2	(8.5)	n.m.
Disposal / repurchase (excluding loans to customers measured at amortised cost)	118.1	117.5	0.6	0.5%	(9.9)	52.1	(62.0)	n.m.
Net profit (loss) from trading, financial assets and liabilities measured at fair value and gains/losses from disposals/ purchases	**143.6**	**322.2**	**(178.7)**	**-55.4%**	**(10.2)**	**61.7**	**(71.9)**	**n.m.**

The following items are also included in Revenues:

- **Net profit (loss) from hedging at EUR +3 mln**, an improvement compared to 31 December 2019 (equal to EUR -5 mln) and with a contribution of 4Q20 (EUR 2 mln) which improved compared to that of 3Q20 (equal to EUR +0.5 mln);
- **Other operating income (expenses), amounting to a negative EUR 51 mln,** improved compared to 2019 (equal to EUR -80 mln), which included the recognition of the indemnity linked to the exercise of the right of withdrawal from the agreement entered into with Juliet for EUR 49 mln. The contribution of 4Q20, equal to EUR -10 mln, was up compared to 3Q20 (equal to EUR -13 mln).

[19] AXA-MPS was consolidated in the Group's financial statements using the equity method.

Operating expenses

Operating expenses totalled **EUR 2,204 mln** as at 31 December 2020, down 3.7% on the previous year and with a contribution of 4Q20 that was up compared to 3Q20 (+5.2%). A closer look at the individual aggregates reveals the following:

- **Administrative expenses** were **EUR 1,978 mln**, down by roughly EUR 56 mln from the previous year, with a contribution of 4Q20 of EUR 515 mln, up by around EUR 24 mln compared to 3Q20. A breakdown of the aggregate shows:
  - **Personnel expenses**, equal to **EUR 1,415 mln**, fell 1.2% compared to 31 December 2019, benefiting primarily from the lower average workforce (in relation, in particular, to the 750 terminations related to the use of the Solidarity Fund recorded in 2019 and the 105 terminations deriving from the deconsolidation of BMP Belgio S.A. in June 2019 and the 560 terminations related to the Solidarity Fund recorded in 4Q20) and for the reduction in expenses deriving from the extension of smart working as a result of the continuation of the COVID-19 emergency. This trend was only partially offset by the contractual increases/adjustments related primarily to the effects of the renewal of the National Collective Bargaining Agreement. The aggregate slightly worsened compared to the previous quarter (-0.9%), also due to some non-ordinary items.
  - **Other administrative expenses** amounted to **EUR 563 mln**, down by 6.3% compared to the previous year. Despite the higher expenses required to handle the COVID-19 emergency, equal to approximately EUR 22 mln (specifically to purchase Personal Protective Equipment and for cleaning), the aggregate benefited from the savings initiatives carried out as well as the deconsolidation of BMP Belgio S.A. in June 2019, the savings linked to branch closures in 2019 and reduced operations during the lockdown period. The aggregate rose by around 15.1% Q/Q, following the typical acceleration of expenses at the end of the year.
- **Net value adjustments to property, plant and equipment and intangible assets** totalled **EUR 225 mln** as at 31 December 2020, a deterioration of -11.7% compared to the previous year, principally due to lower amortisation of intangible assets and depreciation on property, plant and equipment. The contribution of 4Q20 worsened by 7.6% compared to the previous quarter due to higher impairment on property, plant and equipment.

Type of transaction	31 12 2020	31 12 2019	Chg Y/Y		4°Q 2020	3°Q 2020	Chg Q/Q	
			Abs.	%			Abs.	%
Wages and salaries	(1,019.4)	(1,024.0)	4.6	-0.4%	(252.3)	(255.7)	3.4	-1.3%
Social-welfare charges	(275.7)	(280.0)	4.3	-1.5%	(66.9)	(68.8)	1.9	-2.8%
Other personnel expenses	(120.0)	(129.0)	9.0	-7.0%	(36.0)	(27.5)	(8.4)	30.6%
Personnel expenses	**(1,415.1)**	**(1,433.0)**	**17.9**	**-1.2%**	**(355.2)**	**(352.0)**	**(3.1)**	**0.9%**
Taxes	(219.7)	(233.5)	13.8	-5.9%	(46.8)	(56.6)	9.8	-17.3%
Furnishing, real estate and security expenses	(75.9)	(84.6)	8.7	-10.3%	(18.3)	(21.2)	2.9	-13.7%
General operating expenses	(194.3)	(177.1)	(17.2)	9.7%	(40.4)	(53.1)	12.7	-23.9%
Information technology expenses	(135.3)	(143.5)	8.2	-5.7%	(41.3)	(32.8)	(8.5)	25.9%
Legal and professional expenses	(134.5)	(155.6)	21.1	-13.6%	(57.4)	(25.9)	(31.5)	n.m.
Indirect personnel costs	(5.5)	(10.5)	5.0	-47.6%	(1.4)	(0.6)	(0.8)	n.m.
Insurance	(47.5)	(49.3)	1.8	-3.7%	(14.9)	(12.6)	(2.3)	18.3%
Advertising, sponsorship and promotions	(5.4)	(5.1)	(0.3)	5.9%	(2.0)	(0.9)	(1.1)	n.m.
Other	(4.8)	(10.8)	5.9	-55.2%	(0.6)	(2.4)	1.8	n.m.
Expenses recovery	259.6	268.5	(8.9)	-3.3%	63.6	67.6	(4.0)	-5.9%
Other administrative expenses	**(563.3)**	**(601.4)**	**38.1**	**-6.3%**	**(159.5)**	**(138.5)**	**(21.0)**	**15.1%**
Tangible assets	(150.9)	(166.6)	15.7	-9.4%	(40.2)	(35.8)	(4.4)	12.4%
Intangible assets	(74.5)	(88.6)	14.1	-15.9%	(18.5)	(18.7)	0.3	-1.4%
Net value adjustments to property, plant and equipment and intangible assets	**(225.4)**	**(255.2)**	**29.8**	**-11.7%**	**(58.7)**	**(54.5)**	**(4.2)**	**7.6%**
Operating expenses	**(2,203.8)**	**(2,289.6)**	**85.8**	**-3.7%**	**(573.3)**	**(545.1)**	**(28.2)**	**5.2%**

As a result of these trends, the Group's **Gross Operating Income** totalled **EUR 714 mln** (EUR 994 mln as at 31 December 2019), with a contribution for 4Q20 down about EUR 59 mln compared to the previous quarter.

Cost of customer credit

As at 31 December 2020, the Group recognised a **Cost of customer credit** equal to **EUR -748 mln**, a deterioration of EUR 165 mln compared to 2019 (EUR -583 mln). It is hereby reiterated that:

- the figure for 2020 includes roughly EUR 348 mln from the increase in adjustments deriving from the changed macroeconomic scenario due to the spread of the COVID-19 pandemic,
- The value for 2019 instead included a negative effect of around EUR 52 mln linked to the changed macroeconomic scenario and a net positive effect of roughly EUR 209 mln connected to the exercise of the right of withdrawal from the servicing agreement entered into with Juliet (positive effect of roughly EUR 457 mln, deriving from the elimination of forecasted costs for the agreement, reflected in value adjustments) and the simultaneous revision of the NPE reduction strategy, which entailed an acceleration in the 2019 disposal plan (negative effect for around EUR 248 mln).

Excluding these effects, the aggregate decreased Y / Y mainly due to lower provisions on already impaired positions and lower reclassifications to default, which benefited from the effects of the moratoria granted as part of the Government Decrees issued following the emergency. COVID-19, only partially offset by the lower benefit deriving from the return to performing of impaired positions. In the Y / Y comparison, the aggregate also benefited from the positive effects generated by the acquisition of state guarantees on the loans disbursed under the aforementioned Decrees.

The cost of customer credit in 4Q20 was up compared to the previous quarter, mainly as a result of higher default flows and higher provisions on already impaired positions. These trends were partly offset by the benefits

associated with the acquisition of state guarantees as part of the disbursement of loans under the Liquidity Decree.

The ratio between the Cost of customer credit and Loans to customers as at 31 December 2020 reflects a **Provisioning *Rate*** of **90 bps** (73 bps as at 31 December 2019)[20].

	31 12 2020	31 12 2019	Chg. Y/Y		4°Q 2020	3°Q 2020	Chg. Q/Q	
			Abs.	%			Abs.	%
Loans to customers measured at amortised cost	(743.7)	(601.4)	(142.3)	23.7%	(114.9)	(99.7)	(15.2)	15.2%
Modification gains/(losses)	(18.8)	(4.3)	(14.5)	n.m.	(14.3)	(1.7)	(12.6)	n.m
Gains/(losses) on disposal/repurchase of loans to customers measured at amortised cost	0.4	(5.0)	5.4	n.m.	(1.5)	1.1	(2.6)	n.m
Net change of Loans to customers mandatorily measured at fair value	(0.9)	(55.6)	54.7	-98.4%	(5.5)	(1.0)	(4.5)	n.m
Net provision for risks and charges on commitments and guarantees issued	15.4	83.6	(68.2)	-81.6%	9.6	(0.4)	10.0	n.m
Adjustments to cost of customer credit	**(747.6)**	**(582.7)**	**(164.9)**	**28.3%**	**(126.6)**	**(101.7)**	**(24.9)**	**24.5%**

The Group's **Net Operating Income** as at 31 December 2020 was **negative for approximately EUR 39 mln**, compared to a positive value of EUR 406 mln in the previous year. The contribution of 4Q20, amounting to EUR 18 mln, was down compared to the previous quarter.

[20] As at 31 December 2019 the indicator, expressed as Net impairment losses on loans at amortised cost / Loans to customers at amortised cost (Provisioning), stood at 0.68% (0.83% as at 31 December 2020).

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

The **Result for the year** included the following items:

- **Net provisions for risks and charges** in the amount of **EUR -984 mln**, mainly allocated for legal risks, in particular on previous share capital increase transactions and risks linked to contractual agreements. As at 31 December 2019, the balance was negative for EUR 156 mln, mainly attributable to provisions for commitments assumed by the Parent Company against the compensation relating to transactions in diamonds.
- **Gains on investments** of approx. **EUR 3 mln**, against a loss of EUR 6 mln recorded in 2019, with a EUR +2 mln contribution of 4Q20, against roughly EUR +0.4 mln recorded in 3Q20.
- **Extraordinary costs/One-off charges**, of **EUR -154 mln**, mainly relating to legal costs linked to the early retirement initiative for the departure of 560 resources through the activation of the Solidarity Fund and expenses (interests, commissions and other administrative expenses) relating to the non-proportional demerger plan with asymmetric option of a set of non-performing loans in favour of AMCO.

  As at 31 December 2019, the aggregate was a negative EUR 0.3 mln and included costs linked to project expenses and the price adjustment for the disposal of BMP Belgio S.A., offset in part by recoveries recognised by INPS on previous early retirement/solidarity fund procedures.
- **Risks and charges associated with SRF, DGS and similar schemes**, with a balance of **EUR -140 mln** consisting of the Group's contribution due to the Single Resolution Fund (SRF) of EUR 58 mln in the first quarter of 2020, the additional amount due to the National Resolution Fund (NRF) of EUR 18 mln in the second quarter of 2020, the total amount recognised to the Interbank Deposit Protection Fund (DGS) of EUR 60 mln, and the net loss on the exposure with the FITD Voluntary Scheme (for the Carige intervention) amounting to EUR 4 mln.

  The aggregate as at 31 December 2019, with a balance of EUR -123 mln consisting of the Group's contribution due to the Single Resolution Fund (SRF) equivalent to EUR 54 mln, the additional amount due to the National Resolution Fund (NRF) of EUR 20 mln, the total amount recognised to FITD (DGS) of EUR 41 mln, and the net loss on the exposure with the FITD Voluntary Scheme (for the Carige intervention) amounting to EUR 8 mln.
- **DTA fee**, amounting to **EUR -71 mln**. This amount, determined according to the criteria set forth in Law Decree 59/2016, converted into Law no. 119 of 30 June 2016, represents the fee as at 31 December 2020 on DTA (Deferred Tax Assets) that can be converted into a tax credit.
- Gains (losses) on disposal of investments **of related to the sale of property. As at 31 December 2019, the aggregate was positive for EUR 3 mln.**

Due to the changes discussed above, the Group's **Loss before tax for the year** stood at **EUR -1,344 mln**, compared to 31 December 2019, when there was a profit of EUR +53 mln.

Tax expense (recovery) on income from continuing operations recorded a negative contribution of **EUR 340 mln** (EUR -1,075 mln as at 31 December 2019) attributable nearly exclusively to the modification of the value of deferred tax assets (DTAs) recorded in the financial statements, carried out due to the update in long-term internal estimates of the income statement and balance sheet values (2020-2024 Long-term projections) to take into account changes in the macroeconomic scenario caused by the pandemic. This revision did not take into account the forecasts of the 2021-2025 Strategic Plan, which, although approved by the Board of Directors on 17 December 2020, was not considered final as it is subject to the approval of the competent authorities (for more details, please refer to the paragraph 11.8 "Other Information - *Probability Test*" of Part B of the Notes to the Consolidated Financial Statements.

Considering the net effects of the PPA (EUR -4 mln), **the Parent Company's Consolidated Loss amounted to EUR -1,689 mln**, compared to a loss of EUR -1,033 mln in 2019.

In compliance with Consob's instructions, following is a statement of the reconciliation of the Shareholders' equity and Net profit and loss for the year of the Parent Company with the consolidated items:

Reconciliation between Parent Company and Consolidated Net Equity and Profit (Loss) for the period		
	Shareholders' equity	**Net profit (loss)**
Parent Company's net equity	4,744.5	(1,882.7)
of which Parent Company's valuation reserves	*51.1*	-
Impact of line-by-line consolidation of subsidiaries	(2,008.2)	16.8
Impact of consolidation of jointly controlled entities and associates	*391.7*	90.9
Reversal of dividends from subsidiaries	-	(1.0)
Reversal of written-down equity investments	*3,046.1*	99.5
Other adjustments	(601.1)	(12.5)
subsidiaries' and associates' valuation reserves	*209.7*	-
	-	-
Consolidated balance	**5,782.7**	**(1,689.0)**
of which valuation reserves	*260.9*	

Reclassified balance sheet

The balance sheet is presented according to the new reclassification principles described in the previous section. The values for 2019 have been restated for comparison with the previous year on a consistent basis.

Note that 2020 was affected by the health emergency created by the spread of the COVID-19 virus, starting from the end of February. With reference to the balance sheet aggregates, please note, in particular, the increase in Direct Funding and particularly in current accounts, following the prudent approach of customers to handle the uncertainty of the economic context created with the spread of the COVID-19 emergency, growth which, moreover, was seen in the entire banking system.

Reclassified Balance Sheet				
Assets	**31 12 2020**	**31 12 2019**	**Chg**	
			abs.	**%**
Cash and cash equivalents	763.8	835.1	(71.3)	-8.5%
Loans to central banks	28,526.2	9,405.4	19,120.8	n.m.
Loans to banks	5,452.3	5,542.7	(90.4)	-1.6%
Loans to customers	82,632.3	80,135.0	2,497.3	3.1%
Securities assets	21,623.3	24,185.1	(2,561.8)	-10.6%
Derivatives	3,018.6	3,041.2	(22.6)	-0.7%
Equity investments	1,107.5	931.0	176.5	19.0%
Property, plant and equipment/Intangible assets	2,522.7	2,885.2	(362.5)	-12.6%
of which:				
a) goodwill	*7.9*	*7.9*	-	0.0%
Tax assets	1,986.2	2,763.0	(776.8)	-28.1%
Other assets	2,723.2	2,472.3	250.9	10.1%
Total assets	**150,356.1**	**132,196.0**	**18,160.1**	**13.7%**
Liabilities	**31 12 2020**	**31/12/19**	**Chg**	
			abs.	**%**
Direct funding	103,719.3	94,217.3	*9,502.0*	*10.1%*
a) Due to customers	91,506.9	80,063.2	11,443.7	14.3%
b) Securities issued	12,212.4	14,154.1	*(1,941.7)*	*-13.7%*
Due to central banks	23,933.6	16,041.5	7,892.1	49.2%
Due to banks	4,484.5	4,136.6	347.9	8.4%
On-balance-sheet financial liabilities held for trading	4,545.5	2,436.0	2,109.5	86.6%
Derivatives	3,253.5	2,762.5	*491.0*	*17.8%*
Provisions for specific use	2,059.2	1,388.5	670.7	48.3%
a) Provision for staff severance indemnities	166.6	178.7	(12.1)	-6.8%
b) Provision related to guarantees and other commitments given	154.1	158.8	(4.7)	-3.0%
c) Pension and other post-retirement benefit obligations	33.0	36.1	(3.1)	-8.6%
d) Other provisions	1,705.5	1,014.9	690.6	68.0%
Tax liabilities	4.1	3.3	0.8	24.2%
Other liabilities	2,572.4	2,929.4	(357.0)	-12.2%
Group net equity	5,782.7	8,279.1	(2,496.4)	-30.2%
a) Valuation reserves	260.9	66.4	194.5	n.m.
d) Reserves	(1,670.5)	(769.2)	(901.3)	n.m.
f) Share capital	9,195.0	10,328.6	(1,133.6)	-11.0%
g) Treasury shares (-)	(313.7)	(313.7)	-	0.0%
h) Net profit (loss) for the year	(1,689.0)	(1,033.0)	(656.0)	63.5%
Non-controlling interests	1.3	1.8	(0.5)	-27.8%
Total Liabilities and Shareholders' Equity	**150,356.1**	**132,196.0**	**18,160.1**	**13.7%**

Reclassified Balance Sheet - Quarterly Trend								
Assets	**31/12/20**	**30/09/20**	**30/06/20**	**31/03/20**	**31/12/19**	**30/09/19**	**30/06/19**	**31/03/19**
Cash and cash equivalents	763.8	662.4	679.9	611.2	835.1	675.8	650.1	609.1
Loans to central banks	28,526.2	18,679.7	15,037.8	8,109.5	9,405.4	7,275.7	6,932.3	5,772.8
Loans to banks	5,452.3	4,934.9	5,757.3	4,938.8	5,542.7	5,577.2	4,776.8	4,571.0
Loans to customers	82,632.3	87,098.7	82,510.6	82,206.1	80,135.0	81,642.2	80,385.8	81,900.5
Securities assets	21,623.3	23,024.6	25,569.4	26,006.3	24,185.1	24,646.6	24,859.6	25,749.4
Derivatives	3,018.6	3,023.0	3,129.1	3,233.8	3,041.2	3,374.1	3,462.5	3,288.6
Equity investments	1,107.5	991.8	953.9	892.0	931.0	1,053.4	958.2	901.7
Property, plant and equipment/Intangible assets	2,522.7	2,534.5	2,560.6	2,845.5	2,885.2	2,890.8	2,921.1	2,973.6
of which:								
a) goodwill	*7.9*	*7.9*	*7.9*	*7.9*	*7.9*	*7.9*	*7.9*	*7.9*
Tax assets	1,986.2	2,111.1	2,193.1	2,763.6	2,763.0	3,913.6	4,065.7	4,062.6
Other assets	2,723.2	3,220.1	3,264.4	2,661.9	2,472.3	2,825.8	2,526.8	2,293.0
Total assets	**150,356.1**	**146,280.8**	**141,656.1**	**134,268.7**	**132,196.0**	**133,875.2**	**131,538.9**	**132,122.3**

Liabilities	**31/12/20**	**30/09/20**	**30/06/20**	**31/03/20**	**31/12/19**	**30/09/19**	**30/06/19**	**31/03/19**
Direct funding	103,719.3	98,418.1	97,585.2	95,367.1	94,217.3	92,246.3	92,215.9	92,686.1
a) Due to customers	*91,506.9*	*86,827.3*	86,139.8	83,680.4	80,063.2	79,263.3	80,639.8	80,728.1
b) Securities issued	12,212.4	11,590.8	11,445.4	11,686.7	14,154.1	12,983.0	11,576.1	11,958.0
Due to central banks	23,933.6	23,994.9	21,330.6	15,997.9	16,041.5	16,561.7	16,566.8	16,694.4
Due to banks	4,484.5	4,733.6	4,853.9	4,752.1	4,136.6	4,484.9	4,570.5	5,475.8
On-balance-sheet financial liabilities held for trading	4,545.5	3,122.2	2,192.1	2,407.1	2,436.0	1,777.7	1,379.9	1,041.3
Derivatives	3,253.5	3,293.9	3,419.2	3,174.4	2,762.5	3,346.6	2,811.3	2,480.9
Provisions for specific use	2,059.2	1,942.4	1,570.9	1,310.3	1,388.5	1,417.2	1,462.5	1,513.7
a) Provision for staff severance indemnities	166.6	182.1	180.3	166.4	178.7	184.7	182.8	182.1
b) Provision related to guarantees and other	154.1	153.0	152.6	155.3	158.8	205.0	208.1	220.6
c) Pension and other post-retirement benefit	33.0	33.1	34.0	35.2	36.1	35.9	36.6	37.2
d) Other provisions	1,705.5	1,574.2	1,204.0	953.4	1,014.9	991.6	1,035.0	1,073.7
Tax liabilities	*4.1*	3.0	3.0	3.3	3.3	3.9	3.8	30.8
Other liabilities	2,572.4	4,001.0	3,541.4	3,327.8	2,929.4	4,448.0	3,189.9	3,108.3
Group net equity	5,782.7	6,770.4	7,158.4	7,927.0	8,279.1	9,587.0	9,336.3	9,088.6
a) Valuation reserves	260.9	153.5	35.2	(41.5)	66.4	153.0	(15.1)	(123.7)
d) Reserves	(1,670.5)	(1,858.6)	(1,803.0)	(1,802.9)	(769.2)	(767.8)	(756.6)	(830.5)
f) Share capital	9,195.0	10,328.6	10,328.6	10,328.6	10,328.6	10,328.6	10,328.6	10,328.6
g) Treasury shares (-)	(313.7)	(313.7)	(313.7)	(313.7)	(313.7)	(313.7)	(313.7)	(313.7)
h) Net profit (loss) for the year	(1,689.0)	(1,539.4)	(1,088.7)	(243.5)	(1,033.0)	186.9	93.1	27.9
Non-controlling interests	1.3	1.3	1.4	1.7	1.8	1.9	2.0	2.4
Total Liabilities and Shareholders' Equity	**150,356.1**	**146,280.8**	**141,656.1**	**134,268.7**	**132,196.0**	**133,875.2**	**131,538.9**	**132,122.3**

Customer funding

Group Total Funding as at **31 December 2020** amounted to approx. **EUR 205.8 bn**, with an increase of EUR 7.8 bn compared to 30 September 2020, both on Direct Funding (EUR +5.3 bn) as well as Indirect Funding (EUR +2.5 bn). The aggregate was also up compared to 31 December 2019 (EUR +9.8 bn), mainly due to the increase in Direct Funding (EUR +9.5 bn).

Background

The uncertainty that already characterised the market scenario increased immensely with the outbreak of the pandemic and the consequent health and economic emergency. The reduction in disposable income led to serious difficulties for households in the lower deciles of income distribution and an increase in the propensity to save (from 8% in 2019 to around 14% for all households) in those in the higher deciles. Companies have suffered from liquidity shortfalls, not generalized, filled by the increase in bank loans and by the specifically approved support regulations, remaining prudent and postponing many investment programs. Funding conditions remain relaxed, due to the increase in deposits and the abundant liquidity injected by central banks. During the year, bank deposits held by the resident private sector recorded a significant acceleration in the annual trend, which rose from 5.2% at the end of 2019 to more than 8%. In particular, current accounts were affected by the increase in savings for precautionary purposes and by the high preference for liquidity, reaching an annual increase of more than 10% in the final months of 2020; the other technical forms show substantial stability. Among the sectors of economic activity, non-financial companies provided the greatest relative and absolute contribution to the growth of deposits: in fact, the annual change was around 20% in the second quarter of the year, equivalent to an increase in November of almost EUR 70 bn compared to the end of 2019. Consumer household deposits, on the other hand, confirmed an annual trend similar to that of December 2019 (+5.5%), with an increase in absolute value of EUR 47 bn. Thanks to the growth in deposits and the abundant availability of resources made available by the Eurosystem, banks have made limited use of the bond markets; bank bonds issued fell by more than 10% annually in November, equal to more than EUR 30 bn. After reaching almost 4% in March, the yields of bonds on the secondary market fell to a value close to that observed before the health emergency.

The average interest rate on bank deposits of non-financial companies and households gradually decreased, standing at the end of the year at 0.33% in November (-4 bps compared to December 2019); the rate on bonds fell much more markedly, falling below the 2% threshold (around -20 bps compared to the end of the previous year). The weighted average cost of direct funding (calculated on the ABI sample) was 0.50%, down compared to the final figure of the previous year (0.58%).

After the particularly negative result in the first quarter (EUR -12.1 bn in net funding), investments in units of mutual investment funds again became positive, with a rally due to the rise in financial market indexes and the significant liquidity in circulation. The net cumulative flow in November was positive for more than EUR 16 bn; the new savings flow to all product categories, except flexible, but shares are preferred (almost EUR +12 bn). Assets under management, after falling considerably until March, rose, returning to levels more than 3% higher than those of the end of 2019, reflecting the performance of the financial markets: the MSCI World share index fell, in fact, by more than 20% until the beginning of March to close up by around 15% YoY. Net deposits on individual retail portfolio management were also positive by EUR 2.4 bn, but the stock, in November, has not yet recovered the levels of December 2019. After two brilliant months, the new production of savings policies suffered from the lockdown and the subsequent reduction in advisory activities. In the first eleven months of the year, new business fell by 10% annually, with a shift in the "business mix" towards multi-segment products and units, the only type growing (+3.1%), but with traditional products still accounting for almost 38% of placements. Net deposits, up to the 3rd quarter, were down, but remained positive by over EUR 20 bn, also due to lower surrenders and repayments.

Customer Funding				Chg Q/Q		Chg Y/Y	
	31/12/20	30/09/20	31/12/19	Abs.	%	Abs.	%
Direct funding	103,719.3	98,418.1	94,217.3	5,301.2	5.4%	9,502.0	10.1%
Indirect funding	102,067.3	99,604.0	101,791.5	2,463.4	2.5%	275.8	0.3%
Total funding	**205,786.6**	**198,022.1**	**196,008.8**	**7,764.6**	**3.9%**	**9,777.8**	**5.0%**

The trend in **Direct Funding** was particularly influenced by growth in current accounts taking place due to the spread of the COVID-19 emergency. This trend, which impacted the entire banking system, is linked to the

prudent behaviour of customers in light of the uncertainties in the economic context that have increased due to the spread of the pandemic.

In more detail, volumes of **Direct Funding** stood at **EUR 103.7 bn**, recording growth of EUR 5.3 bn compared to the end of September 2020. The increase is attributable primarily to the continuation of growth in Current Accounts (EUR +4.4 bn) and the increase in repo transactions (EUR +1.5 bn). The bond segment was also up (EUR +0.6 bn) following the institutional issue in December. On the other hand, there was a decrease in term deposits (EUR -0.7 bn) and Other forms of funding (EUR -0.5 bn).

The aggregate was up by EUR 9.5 bn compared to the end of December 2019 due to the above-mentioned increase in Current Accounts (EUR +11.9 bn) and the increase in repo transactions (EUR +3.3 bn). Decreases were recorded with respect to 31 December 2019 for Other forms of funding (EUR -3.1 bn) and Bonds (EUR -1.9 bn) mainly as a result of the effects from the repayment of the Government-Guaranteed Bonds and the closure of the associated structured funding transactions, only in part offset by the bond issues in 1Q20, 3Q20 and 4Q20. In decrease compared to 31 December 2019 were also time deposits (EUR -0.8 bn).

The Group's market share[21] on Direct Funding was 3.85% (figure updated in November 2020), an improvement compared to December 2019 (3.70%).

Direct funding

				Change Q/Q		Change Y/Y	
Type of transaction	31/12/20	30/09/20	31/12/19	Abs.	%	Abs.	%
Current accounts	67,988.7	63,606.8	56,045.6	4,381.9	6.9%	11,943.1	21.3%
Time deposits	8,827.4	9,544.0	9,594.2	(716.6)	-7.5%	(766.8)	-8.0%
Reverse repurchase agreements	9,508.4	8,009.9	6,173.7	1,498.5	18.7%	3,334.7	54.0%
Bonds	12,212.4	11,590.8	14,154.0	621.6	5.4%	(1,941.6)	-13.7%
Other types of direct funding	5,182.4	5,666.6	8,249.8	(484.2)	-8.5%	(3,067.4)	-37.2%
Total	**103,719.3**	**98,418.1**	**94,217.3**	**5,301.2**	**5.4%**	**9,502.0**	**10.1%**

Indirect funding amounted to **EUR 102.1 bn**, up (EUR +2.5 bn) compared to 30 September 2020 both in Assets under management, which as at 31 December 2020 amounted to **EUR 60.4 bn** and recorded a growth of EUR +1.9 mln and in Assets under custody (EUR +0.5 bn). Both components benefited from a positive market effect linked to the recovery of the financial markets.

Compared to 31 December 2019, Indirect Funding grew by EUR 0.3 bn thanks to the increase in Assets under management (EUR +1.1 bn), which benefited from both positive net flows and a positive market effect, only partially offset by the reduction in Assets under custody (EUR -0.8 bn).

[21] Deposits and repurchase agreements (excluding repurchase agreements with central counterparties) from ordinary resident customers and bonds net of repurchases placed with ordinary resident customers as first-instance borrowers.

Indirect Funding							
	31/12/20	30/09/20	31/12/19	Change Q/Q		Change Y/Y	
				Abs.	%	Abs.	%
Assets under management	60,400.3	58,484.1	59,302.0	1,916.1	3.3%	1,098.3	1.9%
Mutual Funds/Sicav	*26,992.2*	*25,970.2*	*27,181.4*	*1,022.0*	*3.9%*	*(189.2)*	*-0.7%*
Individual Portfolio under Management	*5,130.5*	*5,006.0*	*5,103.1*	*124.5*	*2.5%*	*27.4*	*0.5%*
Insurance Products	*28,277.5*	*27,507.9*	*27,017.4*	*769.7*	*2.8%*	*1,260.1*	*4.7%*
Assets under custody	41,667.0	41,119.8	42,489.6	547.2	1.3%	(822.5)	-1.9%
Government bonds	*13,223.5*	*13,714.5*	*13,567.3*	*(490.9)*	*-3.6%*	*(343.8)*	*-2.5%*
Others	*28,443.5*	*27,405.4*	*28,922.2*	*1,038.1*	*3.8%*	*(478.7)*	*-1.7%*
Total funding	**102,067.3**	**99,604.0**	**101,791.5**	**2,463.4**	**2.5%**	**275.8**	**0.3%**

Loans to customers

As at 31 December 2020, the Group's **Loans to customers** amounted to **EUR 82.6 bn**, down compared to the end of September 2020 by EUR 4.5 bn, mainly due to the decline in net non-performing loans (EUR -3.6 bn), attributable to the deconsolidation of the "Hydra M" portfolio and to the decrease in repo transactions (EUR -1.2 bn). Other loans (EUR -0.8 bn) and current accounts (EUR -0.6 bn) were also down, while mortgages were up (EUR +1.8 bn), also affected by the effect of the disbursements and moratoria granted under the government decrees issued following the COVID-19 emergency.

The aggregate, in comparison with 31 December 2019, shows an increase of EUR 2.5 bn, mainly due to the increase in mortgages (EUR +6.2 bn), also influenced by the above mentioned disbursements and moratoria granted under the government decrees issued following the COVID-19 emergency, and increased transactions in repurchase agreements (EUR +4.2 bn). Current accounts (EUR -1.6 bn), Other loans (EUR -2.3 bn) and net non-performing loans (EUR -3.9 bn) were down, the latter mainly due to the deconsolidation of the "Hydra M" portfolio.

Background

Since March 2020, bank lending trends have shown signs of an acceleration; the annual growth of loans to the private sector, adjusted for disposals, indeed increased from values barely above zero in the final months of 2019 up to +4.6% in November 2020. The trend described resulted from a significant rebound in lending to businesses and a moderate growth for households lending. The monetary policy measures of the ECB and the legislative measures prepared by the national government, which adopted important measures to support credit, contributed to favouring relaxed supply conditions. In particular, a complex set of rules seeking to provide support for loans to households and businesses, including through the use of the central guarantee fund "Fondo Centrale Garanzia (FCG)" for SMEs, SACE and Cassa Depositi e Prestiti (CDP). Moreover, the rules include provisions blocking the revocation of some types of loans, extending and suspending the repayment terms on existing loans, such as first-time buyer mortgages , as well as loans to self-employed workers who record a sharp drop in turnover and to SMEs. At the end of the year, more than EUR 2.7 mln in moratorium applications were received, on loans for around EUR 300 bn, of which around 95% were accepted. The objective of the interventions is to prevent companies whose difficulties are temporary from leaving the market, but also to limit the formation of non-performing loans, mitigating the increase in the rate of forfeiture that, in the third quarter, had fallen to 1.2% (from 2% in 2019) for non-financial companies, and was almost stable, at around 1%, for households.

Banks have worked to quickly get resources to households and businesses, within a context made more difficult by the complexity of disbursement processes and the exceptionally high number of requests, while limiting the probability of financing highly risky ventures. On the basis of the Bank of Italy's *Bank Lending Survey*, the offer policies were characterised by a general easing of companies, which reflected a greater tolerance to risk on the part of intermediaries; on households, this phenomenon seems to have stopped in the third quarter, in the presence of a worsening of the general economic outlook. The general terms and conditions applied to loans to businesses and mortgage loans to households were relaxed.

Businesses showed a significant demand for bank lending in order to cover liquidity shortfalls and replace working capital, accompanied by a decline in loans required for investments. Overall, loans to non-financial companies marked significant growth starting from March, after months of long-lasting declines; this annual trend also reached positive territory, rising to 8.1% in November. At first, the acceleration regarded especially the short-term component and larger companies, while later on medium/long-term guaranteed financing increased, in part extending the duration of outstanding loans. The financial support measures adopted by the Government since last spring have been widely used; at the end of the year, requests for a moratorium from non-financial companies concerned EUR 192 bn in loans. As regards SMEs, the requests pursuant to the Cura Italia Decree concerned loans and credit facilities for EUR 153 bn. Further requests for state guarantees, especially from large companies, were received by SACE on loans for an amount of over EUR 20 bn.

For the household sector, after the slowdown in the first half of the year induced by the consumer credit component, there was a slight rebound in the growth trend of bank loans, returning to just over 2% per year. Amongst its components, those for income-generating households were impacted by the support measures, highlighting a significant increase: EUR +7 bn for performing loans compared to the end of 2019 and +11% on an annual basis. For consumers, performing loans rose only in the last few months of the year, reaching just over EUR 5 bn above the levels at the end of 2019 (+1.2% annually). This increase is mainly attributable to the performance of loans for the purchase of homes, supported by signs of stabilisation of the real estate market, by moratoria and by subrogations, which also benefited from the growing digitalisation of services; the decline in consumer credit induced by the harshest phase of the closures of commercial establishments also recovered. The use of the measure relating to moratoria was extensive: requests by households concerned an amount of loans of EUR 96 bn. The banks received more than 206 thousand applications for the suspension of the mortgage payments on the primary residences (under the solidarity fund for firs-time buyer mortgages known as the Gasparrini Fund), for an average amount of approximately EUR 94 thousand. The ABI and Assofin moratoria for households have collected 571 thousand applications, for around EUR 27 bn in loans.

With regard to interest rates, there was a further decline both for loans to businesses, whose rate was around 1.80% (from 2% at the end of 2019) and those to households, with a rate of 2.82% (-15 bps). On new transactions with non-financial companies, the average monthly rate decreased significantly in the middle of the year, when it fell to around 1.20% (from 1.32% in the final quarter of 2019) before returning to at previous levels. On loans for other purposes to producers, the rate fell below the average of 2% since May, in correspondence with the significant increase in flows following the full implementation of measures to support bank loans. Interest rates on loans for home purchases fell below 1.30% (around -18 bps compared to the last quarter of 2020), with a limited increase in actual new disbursements (+3% Y/Y) and, thanks to subrogations, a growth of almost 9% in new contracts. On consumer credit, the average rate decreased compared to the 2019 figure, remaining in any case above 6%, in the presence of flows down by more than 20% per year.

The sale transactions of non-performing loans slowed down. The reduction in bad loans continued, which, on a trend basis, was 12% in November 2020, according to the Bank of Italy; net of disposals, the aggregate grew by 2.1%, less than as at 31 December 2019 (+4.3%). The effect of the weakness of the economic cycle on the formation of new non-performing loans was limited by the low interest rates, which favour the ability to repay debts, and by the rules adopted to mitigate the economic effects of the pandemic; the level of risksalso benefits from the flexibility of the rules on the classification of loans under non-performing loans. The ratio of net non-performing loans to total loans fell in November to 1.35% (from 1.55% in December 2019).

The Group's market share[22] stood at 4.88% (last available figure from November 2020), down 5 basis points from the end of 2019.

Loans to customers

Type of transaction	31/12/20	30/09/20	31/12/19	Change Q/Q		Change Y/Y	
				Abs.	%	Abs.	%
Current accounts	3,038.5	3,648.8	4,626.0	(610.3)	-16.7%	(1,587.5)	-34.3%
Mortgages	55,200.2	53,416.5	49,046.0	1,783.7	3.3%	6,154.2	12.5%
Other forms of lending	13,616.3	14,420.6	15,921.2	(804.3)	-5.6%	(2,304.9)	-14.5%
Repurchase agreements	8,617.1	9,829.3	4,434.0	(1,212.2)	-12.3%	4,183.1	94.3%
Non performing loans	2,160.2	5,783.5	6,107.8	(3,623.3)	-62.6%	(3,947.6)	-64.6%
Total	**82,632.3**	**87,098.7**	**80,135.0**	**(4,466.4)**	**-5.1%**	**2,497.3**	**3.1%**
Stage 1	*65,449.2*	*64,641.6*	*62,402.3*	*807.6*	*1.2%*	*3,046.9*	*4.9%*
Stage 2	*14,901.2*	*16,523.4*	*11,475.3*	*(1,622.2)*	*-9.8%*	*3,425.9*	*29.9%*
Stage 3	*2,138.7*	*5,759.6*	*5,933.7*	*(3,620.9)*	*-62.9%*	*(3,795.0)*	*-64.0%*
Performing loans measured at fair value	*121.8*	*150.1*	*149.6*	*(28.3)*	*-18.9%*	*(27.8)*	*-18.6%*
Non performing loans measured at fair value	*21.4*	*24.1*	*174.1*	*(2.7)*	*-11.2%*	*(152.7)*	*-87.7%*

In 4Q20, the medium/long-term component recorded new disbursements of EUR 4.8 bn, up compared to 3Q20 (EUR +0.8 bn) and Y/Y, also thanks to disbursements linked to the Liquidity Decree.

[22] Loans to ordinary resident customers, including bad loans and net of repo transactions with central counterparties.

	Loans to customers measured at amortised cost	Stage 1	Stage 2	Stage 3	Total
31 12 2020	Gross exposure	65,524.1	15,419.4	3,940.6	**84,884.1**
	Adjustments	74.9	518.2	1,801.8	**2,394.9**
	Net exposure	65,449.2	14,901.2	2,138.8	**82,489.2**
	Coverage ratio	*0.1%*	*3.4%*	*45.7%*	***2.8%***
	% on Loans to customers measured at amortised cost	*79.3%*	*18.1%*	*2.6%*	***100.0%***

	Loans to customers measured at amortised cost	Stage 1	Stage 2	Stage 3	Total
30 09 2020	Gross exposure	64,713.6	17,083.6	11,374.8	**93,172.0**
	Adjustments	72.0	560.2	5,615.3	**6,247.5**
	Net exposure	64,641.6	16,523.4	5,759.5	**86,924.4**
	Coverage ratio	*0.1%*	*3.3%*	*49.4%*	***6.7%***
	% on Loans to customers measured at amortised cost	*74.4%*	*19.0%*	*6.6%*	***100.0%***

	Loans to customers measured at amortised cost	Stage 1	Stage 2	Stage 3	Total
31 12 2019	Gross exposure	62,465.9	11,885.5	11,479.8	**85,831.2**
	Adjustments	63.6	410.2	5,546.1	**6,019.9**
	Net exposure	62,402.3	11,475.3	5,933.7	**79,811.3**
	Coverage ratio	*0.1%*	*3.5%*	*48.3%*	***7.0%***
	% on Loans to customers measured at amortised cost	*78.2%*	*14.4%*	*7.4%*	***100.0%***

Stage 1 loans, amounting to EUR 65.5 bn, recorded an increase both compared to 30 September 2020 (equal to EUR 64.7 bn) and compared to 31 December 2019 (equal to EUR 62.5 bn), due to the trend in loans secured by state guarantees. The positions classified in stage 2 , with a gross exposure of EUR 15.4 bn as at 31 December 2020, were down compared to EUR 17.1 bn as at 30 September 2020, mainly due to the closure of short-term transactions in 4Q20 and in increase compared to EUR 11.9 bn as at 31 December 2019 due to the deterioration of the macroeconomic context (already included in the internal models from the end of 1Q20 and 2Q20).

Non-performing exposures of loans to customers

The trend in **Non-performing loans to customers** of the Group as at 31 December 2020, both in terms of gross and net exposure, and in terms of average coverage, was mainly influenced by the deconsolidation of the positions of the "Hydra M" portfolio of EUR 7.1 bn in terms of gross exposure and EUR 3.5 bn in terms of net exposure.

Total Non-Performing Loans to Customers of the Group as at 31 December 2020 amounted to **EUR 4 bn** in terms of gross exposure, down compared both to 30 September 2020 (equal to EUR 11.4 bn) and 31 December 2019 (equal to EUR 11.9 bn). In particular, the gross exposure to Bad loans, equal to EUR 1.5 bn, was down by EUR 4.8 bn compared to 30 September 2020 and EUR 4.9 bn compared to 31 December 2019. The gross exposure in terms of UTPs, amounting to EUR 2.4 bn, was down by EUR 2.5 bn compared to 30 September 2020 and EUR 2.9 bn compared to 31 December 2019. Gross non-performing loans, amounting to EUR 76 mln, were down by EUR 190 mln compared to 30 September 2020 and by EUR 23 mln compared to 31 December 2019.

As at 31 December 2020, the Group's net exposure in terms of non-performing loans totalled EUR 2.2 bn, down compared to 30 September 2020 (EUR -3.6 bn), as well as 31 December 2019 (EUR -3.9 bn).

The ratio between net Non-Performing Loans to Customers and total net Loans to Customers as at 31 December 2020 was 2.6%, down compared to September 2020 (equal to 6.6%) and compared to December 2019 (equal to 7.6%). In particular, during the period, the incidence of UTPs decreased (from 3.8% in December 2019 and 3.1% in September 2020 to 1.9% in December 2020), as did that of Bad Loans (from 3.7% in December 2019 and 3.3% in September 2020 to 0.7% in December 2020). On the other hand, the incidence of Non-Performing Past Due Loans rose from 0.1% in December 2019 and 0.2% in September 2020 to 0.1% in December 2020.

Loans to customers		Bad loans	Unlikely to pay	Non-performing Past due	**Total Non-performing loans to customers**	Perfoming loams	**Total**
31 12 2020	Gross exposure	1,498.7	2,438.0	75.6	**4,012.3**	81,065.2	**85,077.5**
	Adjustments	933.7	897.4	21.0	**1,852.1**	593.1	**2,445.2**
	Net exposure	565.0	1,540.6	54.6	**2,160.2**	80,472.1	**82,632.3**
	Coverage ratio	*62.3%*	*36.8%*	*27.8%*	***46.2%***	*0.7%*	***2.9%***
	% on Loans to customers	*0.7%*	*1.9%*	*0.1%*	***2.6%***	*97.4%*	***100.0%***
30 09 2020	Gross exposure	6,286.5	4,891.9	265.6	**11,444.0**	81,947.4	**93,391.4**
	Adjustments	3,430.1	2,167.5	62.8	**5,660.4**	632.3	**6,292.7**
	Net exposure	2,856.4	2,724.4	202.8	**5,783.6**	81,315.1	**87,098.7**
	Coverage ratio	*54.6%*	*44.3%*	*23.6%*	***49.5%***	*0.8%*	***6.7%***
	% on Loans to customers	*3.3%*	*3.1%*	*0.2%*	***6.6%***	*93.4%*	***100.0%***
31 12 2019	Gross exposure	6,423.5	5,386.1	98.3	**11,907.9**	74,501.0	**86,408.9**
	Adjustments	3,441.5	2,335.5	23.1	**5,800.1**	473.8	**6,273.9**
	Net exposure	2,982.0	3,050.6	75.2	**6,107.8**	74,027.2	**80,135.0**
	Coverage ratio	*53.6%*	*43.4%*	*23.5%*	***48.7%***	*0.6%*	***7.3%***
	% on Loans to customers	*3.7%*	*3.8%*	*0.1%*	***7.6%***	*92.4%*	***100.0%***

As at 31 December 2020, **coverage** of Non-Performing Loans to Customers stood at 46.2%, down both from 30 September 2020 (49.5%) and 31 December 2019 (48.7%). Following the deconsolidation of the "Hydra M" portfolio, there was, in fact, a reduction in the incidence of Bad loans on total **Non-performing loans to customers** and an increase in the incidence of UTPs, with an average coverage of the latter decreasing by the derecognition of greater seniority positions with higher coverage on average. The trend in average coverage since the beginning of the year also incorporates the effects of the increase in adjustments deriving from the changed macroeconomic scenario following the spread of the COVID-19 emergency.

Change in gross exposures

	abs/%	Bad loans	Unlikely to pay	Non performing past due	**Total Non-performing loans to customers**	Perfoming loams	**Total**
Q/Q	abs.	(4,787.8)	(2,453.9)	(190.0)	**(7,431.7)**	(882.2)	**(8,313.9)**
	%	-76.2%	-50.2%	-71.5%	**-64.9%**	-1.1%	**-8.9%**
Y/Y	abs.	(4,924.8)	(2,948.1)	(22.7)	**(7,895.6)**	6,564.2	**(1,331.4)**
	%	-76.7%	-54.7%	-23.1%	**-66.3%**	8.8%	**-1.5%**

Changes in coverage ratio

	Bad loans	Ulikely to pay	Non performing past due	**Total Non-performing loans to customers**	Perfoming loams	**Total**
Q/Q	*7.7%*	*-7.5%*	*4.1%*	***-3.3%***	*0.0%*	***-3.9%***
Y/Y	*8.7%*	*-6.6%*	*4.3%*	***-2.5%***	*0.1%*	***-4.4%***

Other financial assets/liabilities

As at 31 December 2020, the Group's **Securities assets** amounted to **EUR 21.6 bn**, down compared to 30 September 2020 (EUR -1.4 bn) in relation to the decrease in the trading component referring, in particular, to the subsidiary MPS Capital Services and the decrease in Other financial assets mandatorily measured at fair value (EUR -0.2 bn) mainly due to the redemption of Sorgenia Group securities. The amortised cost component was also down (total of EUR -98 mln). Note that the market value of the securities in Loans to customers at amortised cost is EUR 9,993.4 mln (with implicit capital gains of around EUR 472.9 mln).

The aggregate was also down compared to 31 December 2019 (EUR -2.6 bn), as a result of the reduction in Financial assets held for trading (EUR -1.7 bn) attributable, in particular, to the subsidiary MPS Capital Services and Financial assets measured at fair value through other comprehensive income (EUR -0.9 bn) referring, in particular, to the Parent Company against sales and security maturities, only in part offset by acquisitions.

At 31 December 2020, **On-balance-sheet financial liabilities held for trading** rose compared both to 30 September 2020 (EUR +1.4 bn) and the end of December 2019 (EUR +2.1 bn).

As at 31 December 2020, the **Net position in derivatives** posted a rise compared to 30 September 2020, while it shows a drop compared to 31 December 2019 (EUR -0.5 bn).

Items	31 12 2020	30 09 2020	31 12 2019	Chg. Q/Q		Chg. Y/Y	
				Abs.	%	Abs.	%
Securities assets	21,623.3	23,024.6	24,185.1	(1,401.3)	-6.1%	(2,561.8)	-10.6%
Financial assets held for trading	*5,247.1*	*6,220.6*	*6,934.3*	*(973.5)*	*-15.6%*	*(1,687.2)*	*-24.3%*
Financial assets mandatorily measured at fair value	*317.8*	*491.8*	*440.2*	*(174.0)*	*-35.4%*	*(122.4)*	*-27.8%*
Financial assets measured at fair value through other comprehensive income	*5,777.9*	*5,933.0*	*6,726.8*	*(155.1)*	*-2.6%*	*(948.9)*	*-14.1%*
Financial assets held for sale	*0.6*	*1.3*	*0.0*	*(0.7)*	*-53.8%*	*0.6*	*n.m.*
Loans to customers measured at amortised cost	*9,520.5*	*9,606.1*	*9,309.5*	*(85.6)*	*-0.9%*	*211.0*	*2.3%*
Loans to banks measured at amortised cost	*759.4*	*771.8*	*774.3*	*(12.4)*	*-1.6%*	*(14.9)*	*-1.9%*
On-balance-sheet financial liabilities held for trading	(4,545.5)	(3,122.2)	(2,436.0)	(1,423.3)	*45.6%*	(2,109.5)	86.6%
Net positions in Derivatives	(234.9)	(270.9)	278.7	36.0	-13.3%	(513.6)	n.m.
Other financial assets and liabilities	**16,842.9**	**19,631.5**	**22,027.8**	**(2,788.6)**	**-14.2%**	**(5,184.9)**	**-23.5%**

Items	31 12 2020		30 09 2020		31 12 2019	
	Securities assets	On-balance-sheet financial liabilities held for trading	Securities assets	On-balance-sheet financial liabilities held for trading	Securities assets	On-balance-sheet financial liabilities held for trading
Debt securities	21,124.4	-	22,570.2	-	23,663.1	-
Equity instruments and Units of UCITS	498.8	-	454.4	-	522.0	-
Loans	-	4,545.5	-	3,122.2	-	2,436.0
Total	21,623.2	4,545.5	23,024.6	3,122.2	24,185.1	2,436.0

Interbank position

As at 31 December 2020, the **net interbank position** of the Group stood at **EUR 5.6 bn in loans**, compared to EUR 5.1 bn in deposits as at 30 September 2020 and EUR 5.2 bn in deposits at the end of 2019, following the further increase in deposits in the compulsory reserve account (which also included the liquidity deriving from the closing of the "Hydra M" transaction).

Interbank balances

	31/12/20	30/09/20	31/12/19	Change Q/Q		Change Y/Y	
				Abs.	%	Abs.	%
Loans to banks	5,452.3	4,934.9	5,542.7	517.4	10.5%	(90.4)	-1.6%
Deposits from banks	4,484.5	4,733.6	4,136.6	(249.1)	-5.3%	347.9	8.4%
Net position with banks	**967.8**	**201.3**	**1,406.1**	**766.5**	**n.m.**	**(0.3)**	**-31.2%**
Loans to Central banks	28,526.2	18,679.7	9,405.4	9,846.5	52.7%	19,120.8	203.3%
Deposits from Central banks	23,933.6	23,994.9	16,041.5	(61.3)	-0.3%	7,892.1	49.2%
Net position with Central banks	**4,592.6**	**(5,315.2)**	**(6,636.1)**	**9,907.8**	**n.m.**	**11,228.7**	**n.m.**
Net interbank position	**5,560.4**	**(5,113.9)**	**(5,230.0)**	**10,674.3**	**n.m.**	**10,790.4**	**n.m.**

As at 31 December 2020, the operational liquidity position showed an ***unencumbered Counterbalancing Capacity*** of approx. **EUR 33.1 bn**, up by EUR 4.9 bn compared to 30 September 2020, thanks to the liquidity deriving from the closing of the "Hydra M" transaction, the higher commercial deposits and the issue of covered bonds in December. Also up compared to 31 December 2019 (EUR +8.4 bn) thanks to the aforementioned effects of the "Hydra M" transaction, as well as thanks to the higher commercial deposits and the implementation of the initiatives envisaged by the funding Plan (institutional issues, access to TLTRO III, repayments of LTRO and TLTRO II), which allowed the redemption of government guaranteed bonds without impacting the Group's liquidity profile.

Shareholders' equity

As at 31 December 2020, the **Group's equity and non-controlling interests** amounted to approximately **EUR 5.8 bn**, down by EUR 1.0 bn compared to 30 September 2020, following the closing of the "Hydra M" transaction on 1 December 2020, which resulted in a reduction in share capital of EUR 1.1 bn and an increase in reserves of EUR 0.2 bn. The loss in Q4 was partly "offset" by the change in valuation reserves.

It was also down compared to 31 December 2019 by EUR 2.5 bn, primarily due to the effects linked to the above-mentioned demerger and the result for the year.

Reclassified Consolidated Balance Sheet							
Equity	31/12/20	30/09/20	31/12/19	Chg Q/Q		Chg Y/Y	
				Abs.	%	Abs.	%
Group Net Equity	5,782.7	6,770.4	8,279.1	(987.7)	-14.6%	(2,496.4)	-30.2%
a) Valuation reserves	260.9	153.5	66.4	107.4	70.0%	194.5	n.m.
d) Reserves	(1,670.5)	(1,858.6)	(769.2)	188.1	-10.1%	(901.3)	n.m.
f) Share capital	9,195.0	10,328.6	10,328.6	(1,133.6)	-11.0%	(1,133.6)	-11.0%
g) Treasury shares (-)	(313.7)	(313.7)	(313.7)	-	n.m.	-	n.m.
h) Net profit (loss) for the year	(1,689.0)	(1,539.4)	(1,033.0)	(149.6)	9.7%	(656.0)	63.5%
Non-controlling interests	1.3	1.3	1.8	-	0.0%	(0.5)	-27.8%
Shareholders' equity of the Group and Non-controlling interests	**5,784.0**	**6,771.7**	**8,280.9**	**(987.7)**	**-14.6%**	**(2,496.9)**	**-30.2%**

Please note that due to the loss recorded as at 31 December 2020 of EUR 1.9 bn, the Parent Company is now in the situation envisaged in art. 2446 of the Italian Civil Code.

Capital adequacy

Regulatory capital and statutory requirements

As a result of the conclusion of the SREP conducted with reference to the figures as at 31 December 2018 and taking into account the information received after that date, with the submission on 10 December 2019 of the 2019 SREP Decision, the ECB asked the Parent Company to maintain, effective on 1 January 2020, a consolidated TSCR level of 11%, which includes 8% as a minimum requirement for Own Funds pursuant to art. 92 of the CRR and 3% as Pillar II capital requirement, fully comprised of CET1 capital.

With regard to P2G, the ECB expects the Parent Company to adapt, on a consolidated basis, to a requirement of 1.3%, to be fullyg met with CET1 capital in addition to the overall capital requirement (OCR). Failing to comply with this capital guidance is not the same as failure to comply with capital requirements.

In consideration of the potential impacts on the activities of significant banks linked to the spread of COVID-19, on 8 April 2020 the ECB communicated to the Parent Company the modification, effective from 12 March 2020, of the 2019 SREP Decision, with reference to the composition of the additional Pillar 2 capital requirement. In particular, the additional Pillar 2 capital requirement to be held in the form of CET1 must be met at least 56.25% by Common Equity Tier 1 capital (CET1) and at least 75% by Tier 1 capital (Tier 1).

Lastly, it should be noted that from 1 January 2019 the *Capital Conservation Buffer* is 2.5%, and effective 1 January 2020 the Group is required to comply with the *O-SII Buffer* of 0.13% (0.19% from 1 January 2021 and 0.25% from 1 January 2022), as it has been identified for 2020 by the Bank of Italy as a systemically important institution authorised in Italy.

Accordingly, the Group must meet the following requirements at the consolidated level as at 31 December 2020:

- CET1 Ratio of 8.82%
- Tier 1 Ratio of 10.88%
- Total Capital Ratio of 13.63%

These ratios include, in addition to the P2R, 2.5% for the *Capital Conservation Buffer*, 0.13% for the *O-SII Buffer*, and 0.001% for the *Countercyclical Capital Buffer*[23].

It should be noted that on 28 December 2020, the ECB sent the 2020 SREP Decision to the Parent Company, which indicates the capital requirements to be met starting from 1 January 2021. Specifically, the MPS Group must meet a Total SREP Capital Requirement (TSCR) of 10.75% at consolidated level, which includes a minimum Pillar 1 requirement ("P1R") of 8% (of which 4.50% in CET1 capital) and an additional Pillar 2 requirement ("P2R") of 2.75% (compared to 3% of the 2019 SERP Decision), which must be satisfied with CET1 capital for at least 56.25% and with Tier 1 capital for at least 75%.

The reduction in P2R by 25 bps compared to 2020 reflects, among other things, the important *derisking* activities carried out by the Group. The overall minimum requirement for the *Total Capital ratio*, obtained by adding a *Combined Buffer Requirement* (CBR) of 2.69%[24] to the TSCR, is 13.44%. The overall minimum requirement in terms of CET1 ratio is 8.74%, the sum of P1R (4.50%), P2R (1.55% 2) and CBR (2.69%); the overall minimum requirement in terms of Tier 1 is 10.75%, including P1R of 6%, P2R of 2.06% 3 and CBR of 2.69%.

As at **31 December 2020**, the Group's level of capital on a transitional basis was as shown in the following table:

Categories / Values	31 12 2020	31 12 2019	Chg. 31 12 2020	
			Abs.	%
OWN FUNDS				
Common Equity Tier 1 (CET1)	6,053.3	8,620.3	(2,567.0)	-29.78%
Tier 1 (T1)	6,053.3	8,620.3	(2,567.0)	-29.78%
Tier 2 (T2)	1,806.6	1,154.3	652.3	56.51%
Total capital (TC)	7,859.9	9,774.6	(1,914.7)	-19.59%
RISK WEIGHTED ASSETS				
Credit and Counterparty Risk	35,409.6	45,236.1	(9,826.5)	-21.72%
Credit valuation adjustment risk	440.4	356.4	84.0	23.57%
Market risks	2,487.4	2,646.3	(158.9)	-6.00%
Operational risk	11,565.6	10,320.3	1,245.3	12.07%
Total Risk-weighted assets	**49,903.0**	**58,559.1**	**(8,656.1)**	**-14.78%**
CAPITAL RATIOS				
CET1 capital ratio	**12.13%**	**14.72%**	**-2.59%**	
Tier1 capital ratio	**12.13%**	**14.72%**	**-2.59%**	
Total capital ratio	**15.75%**	**16.69%**	**-0.94%**	

[23]Calculated considering the exposure as at 31 December 2020 in the various countries in which MPS Group operates and the requirements established by the competent national authorities

[24] The *Combined Buffer Requirement* (CBR) consists of *Capital Conservation Buffer* (2.50%) + O-SII Buffer (0.19% for 2021 compared to 0.13% in 2020) + *Countercyclical Capital Buffer* (0.001%), calculated considering the exposure as at 31 December 2020 in the various countries in which the MPS Group operates and the requirements established by the competent national authorities

Compared to 31 December 2020, CET1 decreased by a total of EUR -2,567 mln, essentially due to the following phenomena:

- loss for the year amounting to EUR -1,689 mln;
- decrease in share capital of EUR -1,134 mln (due to cancellation of shares) and increase in the item reserve for a total of EUR +184 mln (of which EUR +187 mln relating to the adjustment of the differences in the assets and costs incurred for the transaction, following the effective date of 1 December 2020 of the"Hydra M transaction";
- improvement in the balance of the *Other Comprehensive Income* reserve for a total of EUR +141 mln;
- decrease in deductions associated with DTAs (EUR +198 mln), deductions associated with prudential filters (EUR +22 mln, primarily due to the prudent valuation), and deductions associated with intangible assets (EUR +104, mainly attributable to the application of the exemption from the CET1 deduction for software activities in accordance with EU Regulation 2020/2176 applicable from 23 December 2020), as well as the increase in deductions on securitisations (EUR -7 mln) and the increase in non-exempt deductions relating to significant financial investments (EUR -440 mln);
- decline in the neutralisation of the impact of IFRS 9 connected to the first-time adoption of the standard as set forth in Regulation (EU) 2017/2935 (inclusive of the positive effect of the relative DTAs), equal to a total of EUR -95 mln, attributable to the transition of the filter from 85% to 70%;
- sterilisation of the capital impacts associated with the increase in credit value adjustments recognised in the period as at 31 December 2020 with respect to 1 January 2020 for stage 1 and 2 portfolios as set forth in Regulation (EU) 2020/873. This Regulation calls for the reintroduction within CET1 of a progressively decreasing share of the effect of higher adjustments, equal to 100% in 2020: as at 31 December 2020, this positive effect amounts to EUR +192 mln;
- negative effect of EUR -44 mln deriving from the introduction of the prudential filter relating to the *Other Comprehensive Income* Reserve on government securities. This temporary treatment, applicable from 1 January 2020 to 31 December 2022, makes it possible to exclude from elements of CET1 the progressively decreasing amount (100% in 2020, 70% in 2021, and 40% in 2022) of unrealised profits and losses accumulated starting from 31 December 2019, accounted for in the financial statement item "Changes in the fair value of debt instruments measured at fair value through other comprehensive income", with reference to exposures to central administrations, provided such exposures are classified as performing financial assets.

As a result of these changes, as at 31 December 2020, the Tier 1 ratio was 5 basis points below the P2G level.

Tier 2 marked an increase of EUR 652 mln compared to the end of December 2019, due to the equivalent value of the issues of subordinated T2 bonds (EUR 400 mln nominal value concluded in January 2020 and EUR 300 mln nominal value concluded in September 2020) and the reduction in the contribution to Tier 2 of the excess value adjustments over expected losses (EUR -48 mln).

Hence, the *Total Capital Ratio* reflects an overall decrease in own funds of EUR -1.915 mln.

The RWAs recorded an overall decrease of EUR 8,656 mln. In particular, there was a reduction in RWAs relating to credit and counterparty risk (EUR -9,826 mln) determined by: i) the deconsolidation of the "Hydra M" portfolio on 1 December 2020, ii) the application of the modifications introduced by Regulation (EU) 2020/873 of 24 June 2020, particularly with reference to the calculation of the supporting factor relating to loans to SMEs, as well as iii) the effect of public guarantees on new disbursements and of the two synthetic securitisation transactions. There was also a reduction in RWAs relating to market risks (EUR -159 mln) and an increase in RWAs relating to CVA risk (EUR +84 mln) and operational risk (EUR +1,245 mln).

Note that in March 2020 the ECB announced a series of supervisory measures that include a relaxation of capital requirements and greater flexibility in supervisory burdens in order to mitigate the impact of COVID-19 on the European banking system.

In particular, the ECB announced that it will allow large banks to temporarily operate below the capital level defined by P2G, the CCB and the LCR. These temporary measures are in addition to the decrease in countercyclical buffer rates applied by some national authorities.

With regard to regulatory developments on capital requirements, the final decisions of the inspections carried out on the AIRB models in 2019 and 2020 by the ECB are expected in 2021. The decisions will allow the Group to put into production the model updates carried out in the last years, which also took into account the introduction of the new definition of default expected from 1 January 2021. These updates will result in an increase in RWAs of approximately EUR 4.9 bn.

Also in 2021, the Group will re-estimate the models for full alignment with the EBA Guidelines (EBA-GL-2017-16) with expected increases in RWAs estimated at around EUR 4.3 bn. This restatement will be reviewed by the ECB during the second half of 2021 and the impact will be included in the capital requirements no earlier than the end of 2021.

These developments have effects on the forward-looking assessments of capital adequacy together with the significant provisions on legal risks made in 2020, the effects of the Hydra transaction and the macroeconomic scenario heavily penalised by the COVID-19 pandemic, leading to a prospective shortfall scenario of capital with respect to the overall capital requirements starting from the first quarter of 2021, which is expected to reach a level of approx. EUR 1.5 bn as at 31 December 2021. For this reason, the Parent Company approved the Capital plan on 28 January 2021, which was sent to the ECB.

The overcoming of the shortfall could take place through the "structural solution" intended as a combination with another bank or sale on the market of the shares held by the MEF and / or Italian and international investors. The business combination could be preceded by a capital strengthening action that is expected to be easily approved by DG Comp.

In the event that the implementation of a structural solution does not take place in the short/medium term, the Capital Plan envisages a capital increase of EUR 2.5 bn which, if carried out, is expected to take place at market conditions and with the Italian Government participating in proportion to the shares held..

Finally, note that in 2021 the Group will participate in the 2020 *EU-wide stress test*, the results of which will be published by 31 July 2021.

Tax position of Group

Net deferred tax assets (net DTAs)

As at 31 December 2020, the Group's situation was as follows:

DTA	Recognised on balance sheet as at 31 12 2020	%	Not-Recognised on balance as at 31 12 2020	%	Total DTA as at 31 12 2020	%
Convertible DTA Law 214/2011	760.2	64.5%		0.0%	760.2	15.7%
Non convertible tax losses	116.6	9.9%	2,872.9	78.6%	2,989.5	61.8%
Excess ACE	53.1	4.5%	53.6	1.5%	106.7	2.2%
Other non-convertible	248.5	21.1%	729.1	19.9%	977.6	20.2%
	1,178.3	**100.0%**	**3,655.7**	**100.0%**	**4,834.0**	**100.0%**

The values of deferred tax assets are presented net of offsetting deferred tax liabilities

A brief description is provided below of the main characteristics of each of the net DTA macro-categories shown in the table.

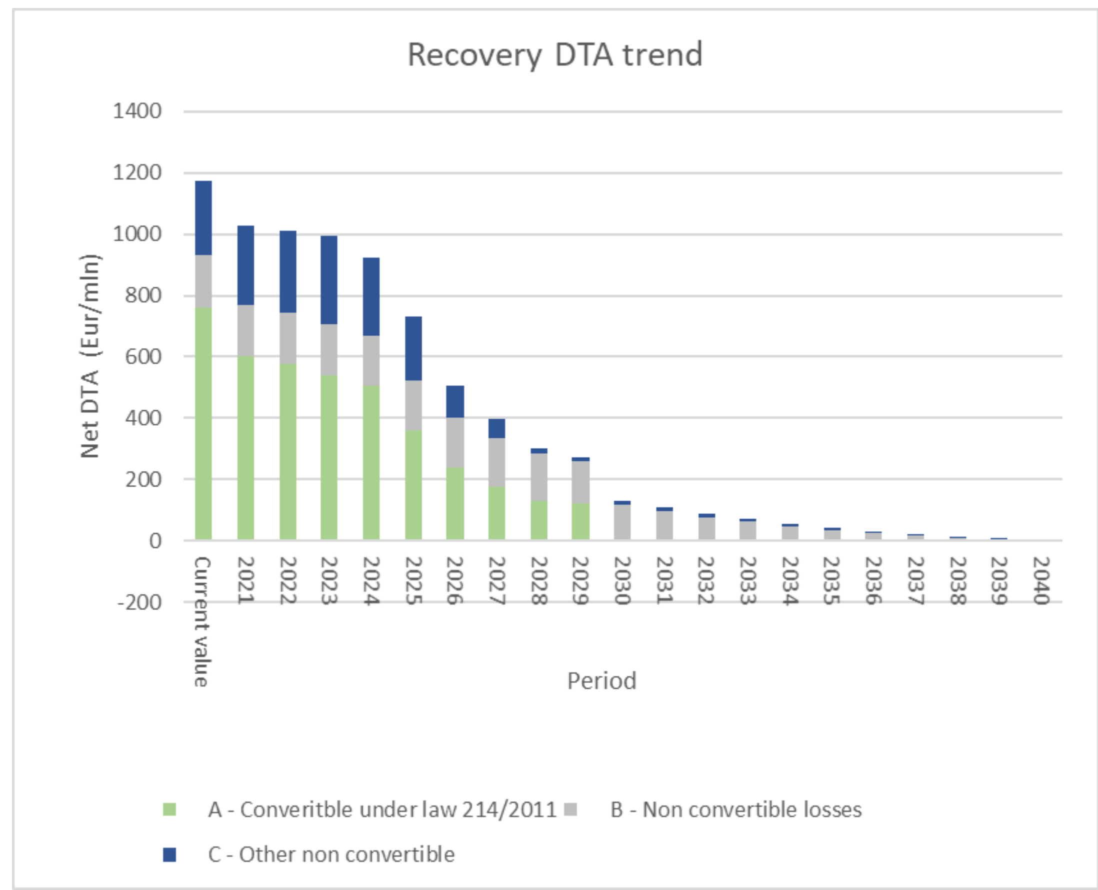
• **Convertible DTAs Law 214/2011**: refers to DTAs attributable to write-downs of loans to customers (recognised through 2015 and not yet deducted), amortisation of goodwill and other intangible assets that emerged as a result of extraordinary corporate reorganisation transactions, as well as tax losses originating from the reversal of the DTA types mentioned above; these DTAs can be converted into tax credits in the event of a loss for the year and/or tax loss or liquidation of the company. For this reason, the recovery of these convertible DTAs is certain, regardless of the company's income generating capacity, and therefore they are fully recognised in financial statements (the probability test is automatically satisfied). For purposes of calculating own funds, these DTAs are not subject to deduction from CET1 and are included in the RWA with 100% weighting.

• **Non-convertible DTAs from tax losses**: DTAs on ordinary tax losses (not convertible into tax credits) that can be recognised in financial statements up to the estimated recoverable limit based on the estimated future income generating capacity (probability test). According to governing tax legislation, tax losses can be carried forward as an offset for taxable profit from subsequent years without limit (there is no end date). For this reason, the DTAs that do not currently meet the conditions for recognition may be recorded in subsequent financial statements should the Group's income generating capacity increase with respect to the current situation. For purposes of calculating own funds, the amount relating to these DTAs recognised in financial statements, net of the relative share of DTLs, is deducted from CET1.

• **Excess ACE DTAs**: DTAs on allowance for corporate equity (ACE) deductions not used in previous years due to the lack of taxable income. As regards the recognition in financial statements and the possibility of unlimited carry-forward, as well as the treatment for purposes of calculating own funds, the same considerations set out for non-convertible DTAs from tax losses apply.

• Other non-convertible DTAs: DTAs attributable to cases other than those previously described, for example, from negative valuation reserves (valuation reserves on FVTOCI securities, reserves on hedging instruments in cash flow hedge, etc.) from provisions for risks and charges, from loan adjustments and losses other than those pursuant to Law 214/2011 (resulting from the first time adoption (FTA) of IFRS 9, adjustments to loans to banks, guarantees and commitments, etc.), from write-downs of property, plant and equipment, and from non-deductible personnel expenses (employee severance pay and pension funds), etc. DTAs in this category are also recorded in financial statements up to the estimated recoverable limit based on the estimated future income capacity (probability test), but, as they can be offset against positive future income as a priority with respect to tax and ACE losses, they are subject to lower risk of not being recognised in financial statements. For purposes of calculating own funds, the amount relating to these DTAs recognised in financial statements, net of the relative share of DTLs, is deducted from CET1 for the portion that exceeds 10% of the CET1 that is obtained after applying the prudential filters and all deductions other than those for other non-convertible DTAs, any deductions in excess of the AT1 capital instruments and deductions in qualified equity investments in financial businesses. Amounts not deducted as a result of the 10% exemption of significant investments in CET1 capital instruments of financial institutions and other net non-convertible DTAs are deducted only for the portion that exceeds 17.65% of the CET1 that is obtained after applying the prudential filters and all deductions. Amounts not deducted as part of the exemptions are included in the RWA with 250% weighting.

The following timing is estimated for the recovery of the aforementioned DTAs recognised in financial statements:



The amount of DTAs recognised in financial statements in general may be subject to fluctuations, even substantial, between one year and the next, since the related measurement process is based also on variables often outside the company's control, each of which is capable of significantly influencing future taxable income, which is the extent to which the DTAs can be recognised.

This applies in particular to MPS Group, which has significant tax losses that were accumulated in previous years and at the same time has made equally significant increases in its capital endowment (share capital increases) which entitle it to the tax credit as an incentive for capitalisation (ACE).

The combination of these two conditions, in particular, is an important factor behind the volatility in the amount of DTAs recognised by MPS Group in recent years. From an accounting perspective, the effect on DTAs from losses must be accounted for with immediate effect, since these DTAs have already accrued, while the effect of the ACE must be accounted for in each year in which the benefit accrues.

Another factor that determines the volatility of the amount of DTAs recognised is the revision of the profit forecasts, which obviously must take into account the general economic scenario, in addition to the Group's internal situation.

The estimate of taxable income for future years was based on the expected evolution of the Parent Company's income statements as part of the Group's 2020 - 2024Long-Term Projections. In fact, although the Group has a 2021-2025 Strategic Plan approved by the Board of Directors on 17 December 2020, it cannot be considered final as it is subject to the approval of the competent authorities.

The projections used represent the best estimate available at the date of these financial statement, and reflect the change in the reference macroeconomic and banking scenario and the related impacts associated to the COVID-19 pandemic, which forced the 2020 outlook to be updated and the overall revision of the economic and financial projections of the Group for 2020 and for subsequent years until 2024.

For further information, please refer to paragraph 11.8 Other information of the Notes to the consolidated financial statements - Part B - Information on the balance sheet in this financial report.

Prior years' tax losses and ACE benefit

Prior years' tax losses amount to EUR 11.1 bn.

The ACE benefit for MPS Group is calculated on share capital increases made from 2011 through the current year of EUR 18.5 bn but within the limits of the accounting net equity at the end of the year of each company that benefited from the aforementioned share capital increases and net of sterilisations required by law.

Based on this situation, applying the incentive's notional return coefficient currently established at 1.3%, it is estimated that MPS Group will be able to benefit, for each of the coming years and until the repeal of the regulation in question, of a deduction from taxable income for IRES purposes of approximately EUR 85 mln.

It should be noted that with the partial demerger carried out in 2020 in favour ofAMCO, pursuant to art. 173 of the TUIR, a portion of the Parent Company's tax positions, including those relating to ACE (ACE basis and reported surpluses) as well as tax losses for the purposes of the additional IRES have been transferred.

DTA fee

With specific reference to convertible DTAs pursuant to Law 214/2011, the companies participating in the tax consolidation of MPS Group have chosen, through the Parent Company, the system envisaged by art. 11 of Legislative Decree 59/2016.

Recall that this regulation established that to continue applying the existing rules on converting deferred tax assets into tax credits (pursuant to Law 214/2011), companies must have exercised a specific irrevocable option and pay an annual fee with respect to each of the years from 2016 and subsequently, if the conditions exist, until 2030. The fee for a given year, in this period, is determined by applying the 1.5% rate to a tax base calculated, with reference to the data resulting from the financial statements of the previous year, as the sum of the difference between the convertible DTAs recorded under assets and the corresponding DTAs recognised in the 2007 financial statements and the total amount of conversions into tax credits carried out, net of taxes paid in the manner provided for by the relevant published decree. This fee is deductible for income tax purposes in the year when the payment is made. The amount of the fee paid in 2020 was approximately EUR 71 mln. With the aforementioned demerger, the Parent Company also transferred part of its own position relating to the DTA fee to the beneficiary AMCO and, consequently, the total amount due by the MPS Group in the future will suffer a reduction compared to the amount paid up to 2020: for 2021 a payment of approximately EUR 63 mln is estimated. A slow decrease in the amount of the fee due is estimated for subsequent years, given that MPS Group will be in a position of paying relatively low taxes, given the large amount of past tax losses and future accrued ACE deductions.

Note that, against the commitment to pay the aforementioned fee, the participation of MPS Group in the option pursuant to art. 11 of Legislative Decree 59/2016 guarantees the right to convert DTAs into tax credit referred to in Law 214/2011 when the conditions envisaged by the law are met.

During 2021, the Parent Company will accrue a DTA conversion credit pursuant to Law 214/2011 of approximately EUR 180 mln, following the loss for the year from its 2020 separate financial statements.

Current Tax Assets

As at 31 December 2020, the Group's current tax assets amounted to EUR 808 mln. A portion of this asset, equal to EUR 350 mln, is represented by tax receivables that have already been claimed for refund, which therefore generate interest to the extent envisaged by the specific applicable tax law provisions (equal to 2% annually). Other current tax assets, equal to EUR 458 mln, are represented by (non-interest bearing) tax receivables available for use in offsetting future tax payables and include tax credits originating from DTA conversion (pursuant to Law 2014/2011 and art. 55 of Law Decree 18/2020), equal to EUR 345 mln, and IRAP credits generated by the conversion of excess ACE for EUR 89 mln.

VAT Group

The year 2020 was the second year of validity of the "MPS VAT Group" which, to date, includes the following 12 companies: Banca Monte dei Paschi di Siena Spa, Aiace Reoco Srl, Cirene Finance Srl, Consorzio Operativo Gruppo Montepaschi Scpa, Enea Reoco Srl, G. Imm. Astor Srl, Monte dei Paschi di Siena Leasing & Factoring Spa, Monte Paschi Fiduciaria Spa, MPS Capital Services Banca per le Imprese Spa, MPS Covered Bond Srl, MPS Covered Bond 2 Srl, Wise Dialog Bank Spa (Widiba).

These companies constitute a single entity for VAT purposes, attributable to the "representative" (the Parent Company), with the attribution of a single, new VAT number. As a result:

- all transactions between these companies are, as a rule, not relevant for VAT purposes, although some transactions between separate activities continues to be relevant;
- all legal obligations (settlement, payment, annual VAT return, and periodic communications) as well as the administrative (and criminal) liability are centralised within the Parent Company.

The other parties belonging to the VAT Group, on the other hand, are jointly and severally liable for the payment of tax, interest and penalties, regardless of the party to which the alleged violation is specifically attributable.

Tax disputes

For further information relative to tax disputes, please refer to "Section E of the Notes to the consolidated financial statements - 1.5 Operational Risks, "Main types of legal, employment law and tax risks".

Research, Development and Innovation

Given the Group's identity as a bank, Research, Development and Innovation activities are mainly aimed at analysing and implementing applications designed for customers, with the aim of improving, simplifying and/or expanding the range of products/services offered and optimising them.

The Group company responsible for the centralised management of the IT system is Consorzio Operativo Gruppo Montepaschi, while managing of 'core' applications of online customers is carried out by Widiba.

The main actions implemented by the Consortium during 2020 were customer oriented, pursuing three strategies: improvement of operational efficiency for internal processes, compliance with regulatory and safety requirements, and automation of the customer-bank relationship from a self-service point of view. The main areas of activity are summarised below:

- Business development interventions:
    - *Digital branch*: innovation activities related to branch operations;
    - *Digital banking*: implementations on all digital channels;
    - *Wealth Management* Project;
    - Credit;
    - E-Money;
    - Domestic foreign platform.
- Mandatory interventions (regulatory compliance):
    - PSD2 with a view to *Open Banking*;
    - Covid extraordinary needs;
    - Transparency Plan;
    - OSI *Legal Risk*;
    - Anti-money laundering;
    - New EU Privacy Regulation;
    - Securities and cash settlement (T2 - T2 consolidation)
    - New definition of Credit Default.

In addition to these interventions, the Group's cyber security projects involve implementations designed to strengthen security measures for the IT system to handle and fight any cyber-attacks and increase protection of corporate assets and the information they contain. In particular, note the review of the entire infrastructure for monitoring security events (SIEM) and the implementation of the infrastructure for the activation of strong authentication (multi-factor authentication or MFA) aimed at increasing the security of access to the information system from the Internet (in progress) and on the workstations (expected to be gradually released by the first half of 2021).

The areas of use of robotics have also been expanded and innovation projects have been activated in the field of *blockchain and chatbots*. With regard to blockchain, activities continue to develop interfaces and functionalities synergistically with other banking institutions and the Group confirmed its participation in interbank initiatives, aimed at creating the first blockchain system between Italian banks for the documentation check between the correspondent banks. The process of chatbot adoption in the area of artificial intelligence to provide direct assistance to the network for resolution of anomalies and clarification requests on regulations/processes (successions, card activation and jobs, etc.) is nearing completion.

Projects for infrastructural and architectural upgrades were also launched to support the business development plan with a view to greater efficiency in non-commercial activities.

More specifically, with regard to *Digital Branch*, innovation activities continued with the adoption of new elements and technologies to simplify and rationalise branch activities and guarantee a user experience with high quality and performance standards.

In the context of *Digital Banking*, all initiatives for customer advocacy, simplification and digitalisation have been implemented in pursuit of excellence for the experience and the development of a customer-bank relationship model in which the bank is present and available, always and everywhere, multiplying the points of contact and the opportunities for interaction. Document management was also activated for the provision of new services such as *Instant Payment*. In addition to interventions on all front-end applications to customers (external and internal), the infrastructure and architectural platforms of the IT system were also implemented and solutions were adopted with the objective of improving performance and processing capacities.

With regard to the *Wealth Management* Project, note that the new platform is being developed, which aims to offer a differential service, based on a relationship model with customers, meeting the different investment and management needs for financial and non-financial assets. The new platform is in continuity with the MIFID2 regulatory dictates, respecting the requirements of adequacy and appropriateness of the investments determined in the customer responses to the MIFID questionnaires.

In the Credit area, the internal decision-making processes (credit facilities and guarantees) and management of loan applications were improved, seeking to minimise disbursement times (*Time to Cash*) and maintaining robust controls on creditworthiness. In this context, the roll-out of the new creditworthiness assessment platform (PEF) was launched, accompanied by an expert system that facilitates this assessment for companies by leveraging market indicators as well as economic and performance assessments of the specific product sector. 2020 was also characterized by the implementation of all interventions in support of the economy deriving from the credit facilities issued as a result of the health emergency.

In the context of *eMoney*, all measures for compliance with current regulations were implemented, both in the areas of payments (PSD2) and transversal areas such as anti-money laundering, protection of personal data, oversight and financial statements, usury, securities and cash settlement, and cyber security to ensure high security standards for the IT system. A procedure was also implemented (Spunta Banca DLT) for the reconciliation of bank correspondence accounts in the blockchain environment. The project was promoted by ABI in collaboration with NTT Data, SIA and R3 (Corda platform).

During the year, the Consortium also contributed to the implementation of minor projects in the field of payments for the Tuscan healthcare companies and launched the pilot for the marketing of MV TPL policies with Quixa, an online company of the AXA Group.

As for the subsidiary Widiba, the key drivers of 2020 were digital innovation, focus on a customer experience that is unique, distinctive and recognisable in the market, business evolution and constant and necessary updates in cyber security.

During 2020 Widiba directed technology innovations for products and processes to create a financial ecosystem that envelops the customer with the following actions:

- *Launch of the New Widiba App*. Restyling of the app design updated to the latest market trends, linked to both design and interaction. The new app becomes more and more "personal", also thanks to some "predictive" models and some visual patterns that help users to anticipate their needs. This approach is also known as "anticipatory design".

  The app was developed with a new "flutter" framework by Google, which allows to have a single code to develop both on IOS and Android.

  The new app has changed the way of relating with customers: the app replicates the communication methods of a chat, going beyond the exclusively transactional model to position itself on the "conversational" one.

  From April 2020 to December 2020, a growth trend was recorded on all reference KPIs:
  - 10,540 total monthly feedbacks (+24.5% compared to April)
  - 107,000 active users (+18.2% compared to April)
  - 68.8% 2/3 users log in from the app (+4.8% compared to April)
  - 96 NET SATISFACTION SCORE (sum of 4 + 5 stars minus 1 + 2 stars)
  - 4.5 / 5 ts on the Android store (+0.5 compared to before the launch)
  - 4.7 / 5 us on the IOS store
- *Rebranding - Customer Experience Innovation.* One of the most important projects linked to the customer experience was undoubtedly to create the new brand identity of Banca Widiba, completely renewed in all its elements: starting from the study of a new logo, a new coordinated image, a new website and a plan for the restyling of the financial advisory offices throughout Italy. The concept is the result of the combination of two elements that contributed to the definition of the design: an in-depth study of positioning and market research on the habits and characteristics of the modern consumer of banking and financial services; the use of the most advanced techniques of graphics and digital experience, which has always been a distinctive element of excellence of Widiba. The new image of "bank of today" coincides with the launch of the new site, updated not only in terms of graphics and instant-usability, but also as a reference for the latest market trends.
- *Google Home. In March 2020, a new channel was opened for all customers to communicate with Widiba through* Google Smart Speakers*, or the* Google Assistant *function on all Android devices.* Through this new channel,

and using natural voice commands, customers can request balances and the main information relating to accounts and associated cards.

- *Instant Payment.* In 2020, Banca Widiba connected to the interbank network to make instant transfers to and from all banks active on the network.
- *Request for Amex cards. In terms of new E-Money products, in 2020 Banca Widiba launched a new product, the AMEX card, offered with a digital and totally paperless sales process.*
- *Open banking: account aggregator + bank transfers + open deposit account.* Banca Widiba continues to evolve the ecosystem of Open Banking. From the Widiba website, it is now possible to link accounts and cards of most Italian banks, displaying their balances and transactions for the last 90 days. It is also possible to make transfers from affiliated banks, as well as transfers from a Widiba account, also activating a special savings offer dedicated to Open customers.
- *Digitalisation of branch processes*. During 2020, the great work of digitalisation and streamlining of internal processes continued, with the aim of streamlining the Widiba's operations, improving service to customers and the consulting network. In addition, the year 2020, also due to the external pandemic situation, was affected by the strong digitalisation also in terms of connections with the PAs. This includes, for example, initiatives linked to the digitalisation of mortgage suspensions, or requests to access new forms of support (CIG advance).
- *Digital Pension Policies*. The digitalisation of the processes for the placement of the products offered by the network of Financial Advisors to its customers continued in 2020. As is already possible for other investment products (e.g. Savings policies, UCITS), the Financial Advisor can propose the first applications to AXA's supplementary pension products in product consultancy and the customer can accept and sign all the relative documentation through remote communication techniques (Web Collaboration).

During 2020 Widiba also updated all the software components that comprise the IT infrastructure, in order to adapt the platform to the current and/or forthcoming regulations and worked to consolidate the monitoring infrastructure, which requires constant tuning.

The Group's ICT expenditure in 2020 amounted to approximately EUR 236.8 mln, and specifically:

- EUR 115.2 mln relating to projects: external expenditure of EUR 83.3 mln (of which EUR 55.9 mln capitalised) and personnel costs of EUR 31.9 mln (of which EUR 16.4 mln capitalised);
- EUR 121.6 mln relating to operating expenses: external expenses of EUR 95.4 mln for maintenance of licenses and services and personnel costs of EUR 26.2 mln.

Outsourced services

The most important contracts for services performed in outsourcing by companies outside the Group are reported below.

Fruendo and Accenture (back-office services)

The outsourcing activity is governed by two *master service agreements* (MSA) signed on 29 December 2013, which became effective on 1 January 2014 - amended over time - between the Parent Company and Fruendo and Accenture respectively, concerning the provision of back-office services by Fruendo and Accenture to the Parent Company and its subsidiaries. Starting from February 2020, Accenture acquired control of Fruendo, at the end of the update of the collaboration agreements aimed at strengthening the industrial partnership, simplifying and mitigating risks. Subsequently, as part of the same agreements, Accenture sold its MSA to Fruendo (now part of the same group), which became the reference supplier for both contracts as from 1 July 2020.

The services covered by the two MSAs concern respectively:

- a) branch assistance; b) check management; c) bank transfer management; d) payment card management; e) commercial bill and collection management; f) flow management; g) bank inquiries; h) logistics; i) relations with correspondents; l) securities administration; and m) other services that are part of the "Operations of the Financial Advisors Network";
- a) network operations (bank transfer management, invoice advance management, bank draft management, tax delegation management, bill and document portfolio management); b) banks and network central credit (guarantee management); and c) administration and accounting (account payable cycle, utilities and taxes).

The duration of both contracts is 18 years, expiring on 31 December 2031. The Parent Company has the right to withdraw with eighteen months' notice, to be communicated in the first two months of 2021, 2024 and 2028, incurring a penalty.

The fees for the services provided by Fruendo are fixed over the 18-year contract duration and decrease over time to take into account efficiency and expected technology developments.

Having consolidated its experience following the inclusion in a leading group in the banking operations market, Fruendo was able to quickly adapt its processes to the context of the pandemic without impacting on service levels, and supporting the Parent Company in responding to the new one service needs arising from this emergency situation.

Nexi (payment services)

<u>ATM management for the MPS Group.</u> The outsourcing agreement from 2009 and amended over time concerns the services relating to managing ATM equipment: in particular, rental and maintenance services for ATM terminals, warehouse management, ATM activation and commissioning services and support for maintenance, Help Desk and monitoring.

Provision of payment card management services. The contract for payment card management and payment card acceptance services of MPS Group originated on 25 September 2012 and has been integrated and amended over time. The services provided by Nexi to MPS Group entail the full outsourcing of payment cards.

<u>Interbank Corporate Banking.</u> The agreement for the Interbank Corporate Banking Service - CBI Global Banking Web - was signed on 30 June 2011 and subsequently amended and integrated. The service consists of all IT, technical and operational structures designed to provide the functionalities envisaged in the ABI provisions through the CBI Consortium, in particular:

- payment/collection management (SEPA compliant);
- document, reporting and reconciliation management.

The service establishes a direct channel between the Group's banks and their customers and allows users to:

- receive information relating to the relationships with their banks;
- forward the electronic instructions to the recipient banks.

<u>Prepaid cards.</u> The contract was signed on 31 July 2019 and relates to the outsourcing of the management of Business and Consumer "international" prepaid cards, including IT and Back Office services.

Payment services on international circuits referring to international debit cards. The purpose of the agreement signed in December 2020 is the performance by Nexi, as licensee for the payment circuits, of the activities related to the issue and management of payment services relating to debit cards with international circuits.

Information on employment law, tax and complaints risks

Information on legal, employment and tax risks

The health emergency resulting from the spread of COVID-19 has led to the adoption of measures at government level
in the management and organization of civil and criminal justice.

Specifically, the Cura Italia Decree (Law Decree 18/2020) and the "Liquidity Decree" (Law Decree 23/2020) were issued, providing for a generalised suspension (without prejudice to specific exceptions) of the procedural terms and hearings in the 9 March - 11 May 2020 period, leaving it up to the individual courts to decide how to handle "phase 2". In this context, the proceedings involving the MPS Group also experienced slowdowns and deferments, with a generalised postponement of procedural expiries as well as hearings, scheduled, mostly electronically, from September in compliance with the rights of defence of the parties as established by each court.

The Group carefully reviews and monitors the risks associated with or connected to legal disputes, i.e. disputes brought before judicial authorities and arbitrators, and out-of-court claims, making specific allocations to provisions risks and charges for disputes and out-of-court claims considered to have a "probable" risk, using statistical or analytical criteria.

The following were pending as at 31 December 2020:

- legal disputes with a total claim, where quantified, of approximately EUR 5.1 bn. In particular:
  - approx. EUR 2.5 bn in claims regarding disputes for which there is a "probable" risk of losing the case, for which provisions of EUR 1.0 bn have been allocated;
  - approx. EUR 0.6 bn in claims attributable to disputes for which there is a "possible" risk of losing the case;
  - approx. EUR 1.9 bn in claims attributable to the remaining disputes, for which there is a "remote" risk of losing the case;
- out-of-court claims totalling, where quantified, approximately EUR 4.9 bn. Specifically:
  - approx. EUR 4,9 bn in claims regarding disputes for which there is a "probable" risk of losing the case;
  - approx. EUR 0.02 bn in claims attributable to disputes for which there is a "possible" risk of losing the case.

The most significant events in 2020 refer to:

- Dispute relating to financial information disclosed in the period 2008-2015 (total claim of EUR 5.7 bn as at 31 December 2020):

Type of dispute	31/12/20	30/09/20	30/06/20	31/03/20	31/12/19
Civil dispute *	662	831	830	795	883
Filed civil claims cp 29634/14 **	137	137	137	137	137
Filed civil claims cp 955/16 ***	177	177	95	95	95
Out-of-court claims ****	4,698	4,467	843	809	858
Total claims	**5,674**	**5,612**	**1,905**	**1,836**	**1,973**

(*) The decrease in the claim with reference to the civil dispute is due to the settlement agreements reached in 2020 which led to the closure of 24 disputes for a total claim of EUR 361 mln (including "Marangoni + 123 shareholders and investors", "Coop Centro Italia s.c.p.a." and "Coofin s.r.l.").
(**) On 8 November 2019, the Court of Milan issued a conviction with filing of the grounds on 12 May 2020. There were no changes in terms of claims compared to 2019.

(***) Increase in claims due to the conclusions presented by the civil parties at the hearings of 9 and 17 July 2020. On 15 October 2020, the Court of Milan issued the conviction, the reasons for which were to be filed in January 2021 and subsequently postponed to 13 April 2021. The claim was considered to be at probable risk.
(****) On 31 July 2020, additional out-of-court claims were received from Fondazione MPS for EUR 3.8 bn. Also considering such requests, subsequent to June 30, 2020, the total claim of extrajudicial requests rose to 4.7 bn euro. In the last quarter of 2020, the increase in the claim of out-of-court claims of EUR 231 mln compared to the figure at the end of September refers to additional out-of-court claims received with reference to the 2008-2011 and 2014-2015 share capital increases.

- dispute regarding bankruptcy claims, interest compounding, and interests (total claim of EUR 0.4 bn, of which EUR 0.3 bn for a "possible" risk of losing the case): decrease of the claim for a total of EUR 0.1 bn;

Risks for tax (an overall claim of EUR 0.09 bn, of which EUR 0.02 bn for a "probable" risk of losing the case) and employment law (an overall claim of EUR 0.08 bn, of which EUR 0.05 bn for a "probable" risk of losing the case) are also subject to monitoring and evaluation by the competent Group functions, and in the event of disputes with "probable" risk, appropriate allocations are made to the provision for risks and charges.

With regard to the other legal risks not attributable to disputes, the action taken by the Parent Company to compensate customers involved in the purchase of diamonds in previous years should be noted. As at 31 December 2020, more than eleven thousand requests were received for a total value of approximately EUR 302 mln, while the transactions carried out totalled EUR 286 mln (of which EUR 104 mln in 2020, hedged for the equivalent value net of the market value of the stones by the provision for risks and charges allocated in previous years). As at 31 December 2020, the transactions carried out represented 83% of the total volume of diamond offers reported by the Parent Company.

For further information, please refer to Section E of the Notes to the consolidated financial statements - 1.5 Operational Risks, "Main types of legal, employment law and tax risks".

Disclosure on claims

Claims management represents:

– an essential activity in managing the relationship with customers;
– a tool for identifying any critical issues and improving the quality of products/services provided;
– a useful safeguard in protecting the customer, both to encourage amicable resolution of disputes, and to define, in cases where this does not occur, the parties' positions, conducting an initial investigation before pursuing the dispute in other judicial settings.

The Group makes available to customers, both on its website (www.gruppomps.it) and those of its subsidiaries, and at all branches, information on how to handle complaints - in order to publicise the methods for submitting complaints and the time required for their management - as well as on the main systems for out-of-court resolution of disputes currently available in Italy (Alternative Dispute Resolution, ADR), to which the Parent Company adheres. These systems are the Arbitro Bancario Finanziario (ABF), Arbitro per le Controversie Finanziarie (ACF) and the various mediation entities registered with the Ministry of Justice.

In 2020, more than 7,640 complaints were received at Group level (of which more than 6,800 received by the Parent Company); the main areas of dispute concerned:

– alleged inadequacies in the preventive disclosure provided to customers who performed transactions on equities and bonds, however, dating back many years;
– errors / delays in the execution of transactions on current accounts, mortgages and consumer credit;
– issues on the conditions applied to current accounts and mortgages.

In the same period, over 6,160 complaints were processed with an acceptance rate of approximately 25%. Current accounts, home mortgages, credit cards and (unstructured) bank bonds were the areas in which the greatest number of favourable outcomes were recorded for customers.

434 ABF claim were received and recorded during the year, and 322 decisions were made; about 47% of the latter were in favour of the Parent Company, rejecting the petitions made by customers, while about 17% recorded favourable results, in whole or in part, to the claimants; the remaining around 36% is represented by disputes which ended with the parties reaching an agreement.

During the same period, 113 ACF claims were received and 133 decisions; about 33% of the latter were in favour of the Parent Company while 62% recorded favourable results for customers; the remaining 5% consists of claims declared settled.

After approval of the financial statements, the Parent Company and the subsidiaries publish a report on their websites regarding complaint management, in line with the provisions of the Supervisory Authorities.

Audits

As the Group carries out banking activities and provides investment services, it is subject to comprehensive regulation and supervision, in particular by the ECB, Bank of Italy and CONSOB, each for the respective areas of responsibility. Below are the main activities recently conducted by the Supervisory Bodies:

TRIM (Targeted Review of Internal Models) audit on internal models

TRIM is a multi-year project, launched by the ECB in 2016 and completed in 2019, aimed at assessing the compliance of internal models currently used by banks with regulatory requirements, as well as their reliability and comparability.

From November 2017 to April 2018, the ECB conducted an on-site audit of the credit risk models (TRIM 2939), concerning the controls on the probability of default (PD) and loss given default (LGD) parameters of the retail portfolio. On 21 November 2019, the Parent Company received the ECB's *Final Decision*, containing 21 findings, which was followed by a remediation plan sent by the Parent Company to the ECB on 19 December 2019.

In its letter dated 15 January 2018, the ECB sent feedback to the Parent Company relating to the TRIM General Topics self-assessment phase, in which 7 gaps were identified with respect to the requirements. On 22 March 2018, the Parent Company sent the ECB a response letter indicating the remediation actions, which were then implemented in 2019.

In the period 21 January 2019 - 29 March 2019, the ECB conducted an on-site audit (TRIM 3917) concerning the internal credit risk models for the Parent Company and the Group, with reference to the PD, LGD, and *Credit Conversion Factor* (CCF) on corporate and other exposures. On 18 September 2019, the Parent Company received the final audit report with the results of the review, which contained 17 findings. The Parent Company is waiting to receive the ECB's Decision.

Bank of Italy audit on transparency at Banca Widiba

Bank of Italy carried out an audit between November 2017 and January 2018. A "partially compliant" assessment was made, identifying 10 findings based on operating practices relative to excessive correctness and weaknesses in the control structure.

In view of these deficiencies, in June 2018, Widiba provided the supervisory authority with the remediation plan for a total of 41 interventions. The completion of the Plan, which took place in 2019, was notified to the supervisory authority.

Simultaneously with the audit at the Parent Company, starting on 7 October 2019, the Bank of Italy also began audits at Widiba regarding transparency of transactions and fairness of relations with customers. In particular, for Widiba the audit had the purpose of following up on the *Remediation Plan* described above and the "Rondine" project (migration of certain contractual relationships from the Parent Company to Widiba). The audit was concluded on 21 January 2020.

The in-depth analyses carried out by the Bank of Italy team during the audit highlighted some critical elements and areas for improvement, which can be summarised as follows: 1) conclusion of marginal customer recovery activities to complete the Remediation Plan relating to the 2018 audit; 2) reconciliation of the costs for the delivery of the documentary copy (art. 119 of the Consolidated Banking Act, TUB) with respect to those resulting from the internal reconstruction carried out by the Company; 3) strengthening of complaints management processes; 4) strengthening of the processes for the management of transparency and fairness in customer relations 6) review / adjustment of the conditions of former MPS customers migrated to the subsidiary (known as "Rondine Customers") and introduction of the bill payment service and the execution of bank transfers from the ATM channel.

The critical issues identified were highlighted by the Supervisory Authority on 12 June 2020 when it notified the Parent Company of the report containing the results of the audit, which concluded with a "mostly non-compliant" assessment and the initiation of a sanction procedure pursuant to art. 144 et seq. of the TUB.

To overcome the critical issues identified, Banca Widiba activated a specific Remediation Plan in parallel with the Parent Company Banca MPS, which was concluded at the end of 2020.

IT risk audit (OSI-2019-3832)

From 26 March 2018 to 26 June 2018, the ECB conducted an on-site audit concerning the IT risk (known as "IT Risk"). On 20 November 2018, the audit report was issued which identified 15 findings having varying degrees of impact, mainly related to IT security, the execution of duties by control functions, the process of managing Business Continuity, the definition of IT strategies, and the organisation in carrying out projects. However, the audit found that the current IT structure of MPS Group can adequately support the requirements within the horizon of the Restructuring Plan.

In August 2019, the *Follow-Up Letter* was sent, indicating the recommendations associated with the findings discussed in the audit report. In April 2020, the Bank informed the ECB that the remedial actions associated with the recommendations made had been implemented within the time frame. Plans were also launched to improve IT security and data governance.

Bank of Italy and FIU audit on anti-money laundering

The audit undertaken by the FIU (Financial Intelligence Unit), which began on 8 May 2018 and ended on 28 August 2018, concerned the assessment of procedures implemented to verify potential anomalies relating to the transactions of customers and employees of the Issuer on a limited number of branches and an analysis of customers identified as potentially linked to money laundering phenomena. The supervisory authority has sent each of eight branch managers an assessment and findings report for alleged failure to report suspicious transactions (total amount of the disputed transactions EUR 2.2 mln), for which the Issuer is jointly and severally liable and against which the Issuer has already presented defence memos to the MEF.

Last November, the MEF, confirming the existence of the offence and the responsibility of the Parent Company with regard to the violation, notified the same of 8 sanction decrees for failure to report suspicious transactions, for a total amount of Euro 219,712.00.

Following the analysis of the content of the decrees, since the grounds for the imposition of the sanctions were not found, the Parent Company filed an appeal before the Court of Rome within the terms of the law.

Moreover, on 6 June 2018, the Bank of Italy conducted a formal audit on the Parent Company and the subsidiary Widiba with the aim of verifying compliance with anti-money laundering regulations. This audit ended on 28 September 2018.

Following the conclusion of the audit, on 28 February 2019 the Bank of Italy informed the Parent Company's Board of Directors of the audit's results, highlighting certain areas of improvement, which mainly concern due diligence and internal controls. The Parent Company's response letter - the contents of which were approved by its Board of Directors - was sent on 29 March 2019 reporting the activities already in place, those in progress and those planned.

In December 2019, the Parent Company received notification of a sanctioning measure from the Bank of Italy for an amount of EUR 1.32 mln in connection with the shortcomings highlighted in the requirements for customer due diligence, identification of beneficial owners and reporting of suspicious transactions. In quantifying the administrative penalty, the supervisory authority took into account the remedial action initiated and largely implemented by the Parent Company.

At the meeting of 16 January 2020, the Board of Directors resolved not to make use of the right to appeal and to proceed with the payment of the penalty within the established terms.

Internal governance audit (Deep Dive Internal Governance)

In the period 2018-2019, the ECB conducted a *Deep-Dive* inspection on internal governance with a specific focus on the operating processes of the Parent Company's Board of Directors. In the *Follow-up Letter*, sent by the ECB on 31 August 2020, the JST highlights the achievement of some areas of improvement compared to what was detected in 2015 during a *Thematic Review* on the same issue. Nevertheless, five findings were reported essentially relating to the functioning of the Board of Directors and the effectiveness of the supervisory and challenging action by the latter on the Parent Company's management; these indications confirm what had already formulated in the 2019 SREP Decision.

Legal risk audit (OSI-2019-4125)

From 28 January 2019 to 26 April 2019, the ECB conducted an on-site audit concerning the Group's legal risk. In November 2019, the Parent Company received the audit report which formulated 11 findings concerning,

inter alia, process governance, aspects of dispute management, monitoring of legal risk, procedures for calculating provisions and activities performed by the internal control function.

On 7 May 2020, the ECB sent the *Follow-up Letter* with an indication of the recommendations associated with the findings that emerged in the audit report; subsequently, on 28 June 2020, the Parent Company replied with the remedial action plan, which is currently being implemented.

Interest rate risk audit (OSI-2019-3834)

In the period from 26 June 2019 to 27 September 2019, the ECB conducted an on-site audit at Group level regarding interest rate risk; subsequently, in November, it sent the draft version of the audit report, which shows a marginality of the risk analysed within the Parent Company's overall position. The report details 6 findings relating to management processes and interest rate risk quantification models. The Parent Company did not deem it opportune to send comments to the arguments contained in the draft report. The final version of the report was sent on 12 February 2020, reflecting the original content.

The Parent Company is waiting to receive the *Follow-Up Letter* from the ECB indicating the recommendations and deadlines associated with the findings.

Bank of Italy's audit on the Parent Company's banking transparency

On 7 October 2019, Bank of Italy launched an audit to ascertain compliance with regulations on Transparency of transactions and fairness of relations with customers. The inspection was completed on 21 January 2020. The audits were carried out at the General Management and the Branches of Banca MPS, as well as at Banca Widiba.

The in-depth analyses carried out by the Bank of Italy team during the inspection showed the persistence of critical elements and areas for improvement, which can be summarised as follows: 1) undue charges to customers for which reimbursements had to be made; 2) the need to strengthen governance with regard to both transparency and protection of all customers; 3) review of compliance processes by extending the terms of engagement of the Compliance Function; 4) strengthening of controls in the product chain and in customer relationship management and protection processes; 5) introduction of automatic controls and development of transparency applications; 6) inadequate positioning of the Complaints department and review of compliant management process; 7) qualitative-quantitative increase of training courses on transparency and strengthening of qualitative elements on the subject of transparency in personnel assessment processes; 8) strengthening of transparency processes in Widiba and revision / adjustment of the conditions of former MPS customers migrated to the subsidiary (known as "Rondine Customers").

In response to the critical issues identified, during the audit, an Action Plan on Transparency was promptly defined, aimed at strengthening governance, improving the processes and tools for managing relations with customers and monitoring the matters to be part of the various functions involved. The Action Plan, including a specific Reimbursement Plan, was approved by the Board of Directors of the Parent Company at the meeting of 16 January 2020 and delivered to the Bank of Italy team by the end of the audit, accompanied by a similar action plan approved by the Board of Directors of Widiba for the reference areas.

On 12 June, the Bank of Italy presented the findings with a "predominantly non-compliant" assessment and notified with formal claim the start of the sanction procedure for violations subject to administrative sanctions pursuant to art. 145 of the TUB. At the same time, with a note signed by the Governor of the Bank of Italy, it was requested to supplement the remedies plan already started, to be completed by 31 December 2020.

During the second half of 2020, the remedies plan, duly supplemented, was completed. Further refinement / development activities linked to the initiatives of the remedial plan were planned in 2021.

As at 31 December 2020, reimbursements of around EUR 40 mln were made, of which around EUR 4.5 mln referring to amounts made available to those entitled, holders of contractual relationships transferred to third parties, by means of a notice published in the Official Gazette.

With reference to the sanction proceedings - still in progress - the Parent Company submitted its counter-arguments to the Bank of Italy on 11 August 2020.

Audit on internal models - Internal Model Investigation (IMI 4357)

Between October 2019 and December 2019, the ECB conducted an audit on the credit risk models adopted by the Parent Company with a focus on the PD, LGD, and *expected loss best estimate* (ELBE) parameters in the area of corporate and retail exposures. The Bank is waiting for the decision to end the intervention.

Audit on the liquidity allocation process and the internal transfer rate (OSI-2019-4356)

In the period 18 October 2019 - 23 January 2020, an on-site audit was carried out on the topic of liquidity allocation and internal transfer rate. On 16 September 2020, the Parent Company received the Report with the results of the audit, in which 10 findings were reported, essentially relating to the measurement of liquidity risk, data quality controls and the FTP framework. The Parent Company is waiting to receive the ECB's *Follow up letter*.

Internal governance audit (OSI-2020-4834)

In February 2020, the ECB launched an on-site audit as part of the *Internal Governance* and *Risk Management* processes of the Parent Company; the activities were suspended in the following month of April.

Audit on internal models - Internal Model Investigation (IMI 4357)

In November 2020, an off-site review of the credit risk models (IMI) began; the checks are aimed at analysing the application model change in the NDOD (*New Definition of Default*) area.

Audit on credit processes (Targeted Review - Accommodation and Food Service Sector)

In January 2021, the ECB launched an audit aimed at verifying the credit management processes implemented by the Parent Company with respect to the "Accommodation and Food Service" sector, also in order to carry out a benchmarking exercise with market peers.

Regulatory Developments on Prudential supervision

With reference to the prudential supervisory regulatory framework, a series of regulatory changes took place in 2020, which mainly concerned the measures adopted by the Italian and European Supervisory Authorities to support banks in mitigating the economic impact of the COVID-19 pandemic.

Among the various measures to ease capital requirements, Regulation (EU) 2020/873 (known as *CRR Quick-fix*) brought forward the date of application of some changes introduced by Regulation (EU) 2019/876 (CRR2), compared to that of 28 June 2021, originally envisaged by CRR2:

- the introduction of a more favourable prudential treatment, starting from 27 June 2020, for exposures to SMEs (known as "*SMEs supporting factor*"), for exposures to subjects that manage or finance physical structures or plants, systems and networks that supply or support essential public services provided that these exposures meet certain requirements (known as "*Infrastructure Supporting Factor*") and for loans guaranteed by the sale of a portion of the salary / pension;
- the exemption from the deduction from CET1 of "assets in the form of software valued prudently, on whose value the resolution, insolvency or liquidation of the bank has no negative effects" starting from 23 December 2020 or from the date of entry into force of the Regulation Delegate (EU) 2020/2176 which specifies the methods for implementing this exemption by defining an approach based on a prudential amortisation of software calibrated over a maximum period of three years. The application date of the new prudential treatment of software was set by the CRR2 at 12 months from the entry into force of the aforementioned regulation;
- for the purposes of calculating the leverage ratio, the temporary exclusion, subject to the exercise of discretion by the competent authority, of certain exposures to central banks from the calculation of the total exposure of an institution, and the regulatory treatment envisaged by CRR2 with regard to the method for calculating the exposure value of purchases and sales of "*regular-way*" contracts pending settlement.

For more details on the regulatory changes made to deal with the COVID-19 emergency, see the paragraph "*Regulatory interventions and supervision by institutions in the context of the COVID-19 pandemic*".

It should be noted that starting from 28 June 2021, the additional regulatory measures introduced by CRR2 will be applied, which could introduce new challenges for the capital adequacy of the European banking system, including:

i. the introduction of the minimum leverage ratio requirement equal to 3% of Tier 1 Capital; this ratio represents a supplementary Pillar 1 requirement with respect to risk-based indicators and pursues the objective of limiting the accumulation of leverage in the banking sector;
ii. the introduction of a structural liquidity indicator with a 1-year time horizon (*Net Stable Funding Ratio*, or NSFR) equal to 100%; the indicator was introduced to ensure that assets and liabilities have a sustainable maturity structure;
iii. the review of the prudential treatment of exposures to UCITS, envisaging the application of a weighting coefficient of 1250% (*fall-back approach*) in the event that the bank is unable to apply the *look-through* method, the method based on the management regulation, or the method based on the calculation carried out by third parties;
iv. the introduction of the new standardised method for counterparty risk (SA-CCR) for banks that hold derivatives totalling more than EUR 100 mln in notional value.

New tax regulations

Law Decree no. 18 of 17 March 2020 (Cura Italia Decree)

Article 55 (Financial support measures for businesses)
The regulation in question is aimed at encouraging the sale of non-performing loans that companies, banking and otherwise, have accumulated in recent years, also due to the financial crisis, with the aim of supporting them in terms of liquidity in facing the current context of economic uncertainty. The regulation replaces art. 44-bis of Law Decree no. 34 of 2019. In detail, the main characteristics are as follows:

- the tax benefit consists in the possibility of transforming a portion of deferred tax assets (DTA) into a tax credit, even if not recognised in the financial statements (due to failure to pass the so-called *probability test*), relating to tax losses or unused ACE surpluses;
- this option is granted with reference to the assignment for consideration to third parties of receivables due from defaulting debtors;
- the tax credit accrues on the effective date of the assignment of the receivables, does not bear interest, can be used to offset, without limits on the amount, any tax payable with form F24, transferred to third parties or claimed for refund.

The transformation of deferred tax assets into tax credits is conditional on the exercise of the option pursuant to art. 11, paragraph 1, of Law Decree no. 59 of 2016 (envisaged for the right to transform DTAs relating to impairment losses on loans, goodwill and other intangible assets). The recognition of the tax credit is subject to the occurrence of additional conditions and within certain limits. In particular:

- only assignments of receivables carried out from 17 March 2020 until 31 December 2020 are recognised;
- unused tax losses and ACE may be considered for a maximum amount not exceeding 20 per cent of the nominal value of the assigned loans and up to the maximum limit of the nominal value of EUR 2 billion of the total assigned loans at group level;
- intragroup transfers are not recognized (i.e. between companies linked by control relationships pursuant to art. 2359 of the Italian Civil Code and between companies controlled, even indirectly, by the same party).

From the effective date of the assignment of receivables, for the transferor:

- tax losses relating to DTAs transformed into tax credits as a whole cannot be deducted from taxable income;
- ACE surpluses with respect to total income relating to deferred tax assets transformed into a tax credit pursuant to this article are not deductible or usable as a tax credit.

Tax credits must be reported on the tax return and do not contribute to the formation of corporate income (IRES) or the taxable base of the regional tax on production activities (IRAP). These provisions are not applicable to companies that have been determined to be failing or likely to fail, or in a state of insolvency.

Article 98 (Extraordinary urgent measures to support the publishing industry)
Paragraph 1 of the article in question, inserting the new paragraph 1-ter to art. 57-bis of Law Decree no. 50 of 2017, introduces an extraordinary regime for access to tax credit with the aim, as mentioned in the explanatory

report, to take into account the changed economic conditions and to deal with the expected drop in investment volumes. In particular, it is envisaged that for 2020 the tax credit - currently envisaged for incremental advertising investments in newspapers and magazines as well as on local television and radio stations - will be granted under the same conditions and to the same beneficiaries in the amount of 30% of the value of investments made, against the current share of 75% of incremental investments only; the maximum spending limit is identified by paragraph 3 of the aforementioned art. 57-bis of Law Decree no. 50 of 2017 as well as in compliance with the limits of the European Union regulations.

Law Decree no. 34 (Relaunch Decree) of 8 April 2020, converted with amendments by Law no. 77 of 17 July 2020

Article 119 (Ecobonus, Sismabonus, photovoltaic and electric vehicle charging points)

The regulation in question raised the tax deduction to 110% for expenses incurred from 1 July 2020 to 31 December 2021 with exclusive reference to specific energy efficiency and anti-seismic measures, the installation of systems and infrastructures for recharging electric vehicles in buildings, implemented in residential buildings by a limited range of beneficiaries (mainly, natural persons outside the exercise of business activities, arts and professions, and condominiums). The benefit in question can be used in five annual instalments.

Article 120 (Tax credit for the adaptation of work environments)

In order to support and encourage the adoption of measures related to the need to adapt production processes and work environments, the article in question offers certain subjects carrying out business, art or professional activities in places open to the public as well as to associations, foundations and other private entities, including third sector entities, a tax credit equal to 60% of the expenses incurred, in 2020 and for a maximum of EUR 80,000, for the interventions necessary to enforce the health regulations requirements and containment measures against the spread of the COVID-19 virus.

Article 121 (Option for assignment or discount in place of tax deductions)

The provision allows taxpayers who, in the years 2020 and 2021, incur some expenses in relation to building renovation and energy improvement, which allows them to benefit from a tax deduction, to opt, instead of the direct use of the deduction due, alternatively for:

- a contribution, in terms of discount up to a maximum amount equal to the consideration due, which is advanced by the suppliers who carry out the interventions, who in turn can recover it in the form of a tax credit, with the right to subsequently assign the credit to other entities, including banks and financial intermediaries;
- the assignment of a tax credit equal to the deductible amount, with the right of subsequent assignment to other parties, including credit institutions and financial intermediaries.

Article 122 (Transfer of tax credits recognised by provisions issued to deal with the COVID-19 emergency)

The regulation allows beneficiaries of the tax credits offered to deal with the economic consequences of the health emergency to opt, until 31 December 2021, for the transfer of the following tax credits, even partially, to other subjects, including credit institutions and other financial intermediaries:

- tax credits for shops and stores as per art. 65 of Law Decree no. 18 of 2020;
- tax credits for the lease payments of properties for non-residential use and business leases pursuant to art. 28 of the decree in question;
- tax credits pursuant to art. 120 of the measure in question for the adaptation of work environments;
- tax credits pursuant to art. 125 of the Law Decree in question for sanitation and purchases of protective devices.

Article 123 (Suppression of safeguarding clauses on VAT and excise duties)

Art. 123 of the Relaunch Decree permanently eliminated, as from 1 January 2021, the so-called “safeguarding clauses” which envisaged automatic increases in VAT rates and excise duties on certain fuel products.

With specific reference to VAT, the following increases have been repealed:

- increase in the 10% VAT rate, which would have gone up to 12% in 2021;
- increase in the 22% VAT rate, which would have gone up to 25.2% in 2021 and 26.5% in 2022;

Article 124 (VAT exemption on supplies of anti-COVID-19 goods)
Art. 124 of the Relaunch Decree introduced a facilitated VAT regulation in relation to the sale of certain goods, considered necessary for the containment and management of the epidemiological emergency from COVID-19, which consists, until 31 December 2020, in a specific exemption regime with right of deduction for the supplier of the same and, starting from 1 January 2021, in the application of the reduced 5% rate.

Article 125 (Tax credit for the sanitation of work environments)
Having the objective of encouraging the adoption of measures aimed at containing and combating the spread of COVID-19, the provision in question offers individuals carrying out business, art or profession activities and non-commercial entities, including third sector entities and religious bodies with legal personality, as well as non-hotel accommodation facilities without business nature, a tax credit equal to 60% of the expenses incurred in 2020 for the sanitation of environments and the instruments used, as well as for the purchase of personal protective equipment and other devices to ensure the health of workers and users. The benefit goes up to a maximum of EUR 60,000 for each beneficiary within the total limit of public resources allocated for this purpose for the year 2020. The tax credit for sanitation previously regulated by art. 64 of Law Decree no. 18 of 2020 and subsequently amended by art. 30 of Law Decree no. 23 of 2020 has, therefore, been repealed.

Article 186 (Tax credit for advertising investments)
Art. 186 strengthens the extraordinary regime for access to a tax credit for advertising investments introduced for 2020 by art. 98 of Law Decree 18/2020. By amending paragraph 1-ter of art. 57-bis of Law Decree no. 50 of 2017, it was envisaged that, only for 2020, the benefit is granted in the amount of 50% of the value of the investments made and, in any case, in compliance with the limits of EU regulations, that is within the maximum limit of EUR 60 mln. The tax credit is granted up to a limit of EUR 40 mln for advertising investments made in daily newspapers and magazines, including online, and up to a limit of EUR 20 mln for advertising investments made on local and national, analogue or digital television and radio stations not owned by the State.

Law Decree no. 104 of 14 August 2020 (August Decree)

Article 72, paragraph 1-ter (Transformation into tax credits of DTAs from assignment of non-performing loans)
The provision amends the rules on the transformation into tax credits of deferred tax assets (DTAs) deriving from the sale of non-performing loans, contained in Law Decree no. 34 of 2019, most recently amended by the so-called Cura Italia decree. Inter alia, the provision in question:
- specifies that the transformation of deferred tax assets into tax credits starts from the date of legal effect of the assignment of non-performing loans;
- clarifies the method for calculating the nominal value of transferred receivables, in the case of transactions between non-subsidiaries;
- specifies the methods of application of the provision in question in the case of national consolidation, tax transparency and if the assignments of receivables are carried out by partnerships;
- details the methods for exercising the options that affect the transformation of DTAs into tax credits.

Article 96, paragraph 1 (Tax credit for advertising investments)
The provision provides for the refinancing of some emergency measures already outlined by Law Decree no. 18 and no. 34 of 2020. In particular, the spending ceiling set for the tax credit for companies making advertising investments rose from EUR 60 mln to EUR 85 mln. The limit of EUR 40 mln for advertising investments made in daily newspapers and magazines, including online, is increased to EUR 50 mln, and the limit of EUR 20 mln for advertising investments made on local and national analogue or digital television and radio stations not owned by the State is increased to EUR 35 mln.

Article 110, paragraph 8 (2020 General revaluation of company assets and equity investments)
The paragraph in question envisages that the recognition for tax purposes of higher values booked on company assets (property, plant and equipments and intangible assets) provided for by art. 14, paragraph 1 of Law no. 342 of 2000 (so-called realignment), is also applied to the parties that prepare the financial statements on the basis of the international financial reporting standards set forth in Regulation (EC) no. 1606/2002, also with reference to the equity investments that constitute financial fixed assets pursuant to art. 85, paragraph 3-bis, of the TUIR. The amount corresponding to the higher values subject to realignment, net of the related substitute tax (equal to 3%, without distinction between depreciable and non-depreciable assets), is placed in a tax-deferred reserve that can be released by paying the substitute tax of 10% on the cumulative positive balance of the revaluation.

Law of 30 December 2020 no. 178 (2021 Budget Law)

Article 1, paragraphs 66 to 75 (Super-bonus, ecobonus and sismabonus)
The provisions modify the regulations of the 110% deduction (known as "Superbonus") applicable for energy efficiency and anti-sismic works. The most significant is the extension of the application of the deduction for interventions carried out on buildings from 1 July 2020 until 30 June 2022 (instead of the previous deadline of 31 December 2021), to be divided among recipients in five equal annual instalments, and in four equal annual instalments for the portion of expenditure incurred in 2022. These terms are further extended for interventions carried out by condominiums for which, as at 30 June 2022, work has been carried out for at least 60% of the total expenditure (the deduction is also due in this case for expenses incurred by 31 December 2022). At the same time, it is envisaged that the provisions to transfer the tax credit or to obtain a discount in lieu of the tax deduction (art. 121 of Law Decree no. 34 of 19 May 2020) will also apply to subjects who in 2022 incur expenses for the interventions listed in art. 119 of the Relaunch Decree.

Article 1, paragraph 83 (Extension of the revaluation of business assets to intangible assets without legal protection)
In art. 110 of Law Decree no. 104 of 2020 the regulation introduces a new paragraph (8-bis), as a result of which the possibility of realigning company assets is extended, as established by art. 14 of Law no. 324 of 2000, and providing for its application also to goodwill and other intangible assets resulting from the financial statements for the year in progress as at 31 December 2019.

Article 1, paragraphs 219 to 225 (Tax credit on capital losses generated in relation to Alternative PIRs - Individual Savings Plans)
Art. 1, paragraphs 219 to 225, of the 2021 Budget Law, in relation to the Alternative PIRs established as from 1 January 2021 (previously introduced by paragraph 2-bis of art. 13-bis of Law Decree no. 124 of 26 October 2019), introduced a tax credit equal to any capital losses deriving from qualified investments made by 31 December 2021, provided that they are held for at least five years.The tax credit cannot exceed 20% of the entire amount invested in the qualified investments, up to the time of realisation of the loss.

Article 1, paragraphs 233-242 (Tax incentives for business combination transactions)
In order to incentivise the business combination processes carried out through mergers, demergers or business transfers to be resolved in 2021, the provisions in question allow the entity resulting from the extraordinary transaction, the beneficiary and the transferee, to transform into a tax credit a portion of deferred tax assets (DTAs) referring to prior years' tax losses and excess ACE, even if not recognised in the financial statements. The transformation takes place in two separate moments (25% in the year of the business combination became effective for statutory purposes and 75% in the following year), for a total amount not exceeding 2% of the sum of the assets of the parties participating in the merger or demerger, without considering the party presenting the assets with the highest amount (i.e. 2% of the sum of the assets transferred).
To benefit from the incentive, the companies participating in the transactions must have been operating for at least two years and must not be part of the same group, nor in any case be linked to each other by a shareholding of more than 20% or controlled, even indirectly, pursuant to the provisions of the Italian Civil Code. Companies are excluded from the benefit if they are found to be failing or likely to fail pursuant to the regulations on banking crises or in a state of insolvency pursuant to the rules on business crises. The benefit in question is subject to the payment of a commission, equal to 25 per cent of the total DTAs transformed.

Article 1, paragraph 608 (Tax credit for advertising investments)
For the years 2021 and 2022, tax credits for advertising investments are granted in the amount of 50% of the value of the advertising investments made in daily newspapers and magazines, including online, up to a maximum limit of EUR 50 mln for each of 2021 and 2022, which constitutes an expense ceiling. To this end, new paragraph 1-quater was introduced to art. 57-bis of Law Decree no. 50 of 24 April 2017.

Article 1, paragraphs 1051-1063 and 1065 (Transition 4.0: Tax credit for new capital goods)
The regulation of tax credits for investments in new capital goods has been extended until 31 December 2022, enhancing and diversifying the subsidised rates, increasing eligible expenses and expanding the scope of application. The start of the new regulation was also brought forward to 16 November 2020.

Article 1, paragraphs 1064, 1066 and 1067 (Tax credit in research and development and tax credit in training 4.0)
The extension, with some amendments, to 31 December 2022 is also envisaged for the other main measures of the Transition Plan 4.0. In particular, these are:

- tax credit for investments in research and development, technological innovation and other innovative activities;
- tax credit for training 4.0 costs.

New employment law regulations

Remuneration policies

Regulatory developments in 2020 will have an impact on 2021 remuneration policies. In particular:

1. National legislative and regulatory framework
   - On 10 December 2020, CONSOB passed a resolution on the "Regulation on transactions with related parties, the Market Regulation and the Issuers' Regulation on compensation transparency" for asset managers and proxy advisors, in implementation of EU Directive 2017/828 ("Shareholder Rights Directive 2", hereinafter "SHRD 2").
   - On 18 November 2020, the Bank of Italy published a consultation document of the Supervisory Provisions (Circular 285/2013) aimed at adapting the Italian regulatory framework to the new provisions contained in the EU Directive 2019/878 (CRD V). The consultation ended on 18 January 2021 and the Bank of Italy will have to publish the results and update to Circular 285.

2. European legislative and regulatory framework
   - "CRD V", EU Directive 2019/878 of 20 May 2019 to update EU Directive 36/2013 ("CRD IV"), on access to the activity of credit institutions and on prudential supervision of credit institutions and investment firms, providing for adoption by all member states by 28 December 2020.
   - "CRR2", Regulation (EU) 2019/876 of 20 May 2019 to update Regulation (EU) 575/2013, relating to the prudential requirements for credit institutions and investment firms and relative disclosure obligations, which will apply, except as expressly stated, starting from 28 June 2021.
   - EBA Guidelines on Remuneration, updated, in consultation, aimed at implementing the new provisions set forth in CRD V. The end of the consultation is expected at the beginning of 2021, with the entry into force of the new Guidelines expected from 26 June 2021.
   - Regulatory Technical Standards (RTS) for the identification of key personnel (EU Regulation 604/2014) under review to take into account the mandate contained in CRD V and the application experience. In June 2020, EBA published the *Final report on draft Regulatory Standards*. Publication is expected on the 21st day after publication in the Official Journal of the EU.

These elements are reported in the "regulatory developments" chapter of the 2021 Remuneration Report and compensation paid, approved by the Board of Directors on 25 February 2021 and submitted for the approval of the Shareholders' Meeting. The previous documents are available on the Parent Company's institutional website (see https://www.gruppomps.it/en/corporate-governance/remuneration.html).

Personnel administration

On 19 December 2019, the agreement to renew the National Collective Bargaining Agreement (NCBA) of 31 March 2015 was signed for the Middle Managers and staff of the Professional Areas of the banking sector.

The contract comes into effect at the signing date and will expire, both for the economic and for the regulatory portions, on 31 December 2022.

The principal changes are shown below (those that are not strictly financial are detailed in the Non-Financial Statement, available on the Parent Company's institutional website, see https://www.gruppomps.it/en/sustainability/report.html):

- a project has been set up between the parties to define a new personnel classification system; Currently, the I and II Professional Areas have been eliminated and incorporated into a new Area defined as "Formerly I and II Professional Areas". As at 31 December 2020, the BMPS Group had 137 resources in this position (of which 129 in the Parent Company);
- art. 46 has been repealed (entry salary level) of the 2015 NCBA that applied to new hires with permanent contracts, with consequent application of the higher salary scale level;
- a full series of measures have been agreed to recognise particular personal and family situations of workers with the granting of paid and unpaid leaves;
- the value of inclusion and diversity was recognised and the commitment to develop support policies for people with different abilities and the right to "disconnect" outside working hours and during holidays was confirmed;
- the provision according to which the employee severance pay is calculated based exclusively on the salary as per the scale level, seniority and the amount reffered to the revision of the salary scale has been extended to the period 1 January 2019 - 31 December 2022.

Social security

Legislative Decree 4/2019 coordinated with conversion Law no. 26 of 28 March 2019, in relation specifically to social security, introduced the possibilily, on a trial basis for the 2019-2021 three-year period, of early retirement with 100% benefits for individuals of at least 62 years of age and with 38 years of contributions. Starting from 2019, this led to the consensual termination of employment relationships with 128 workers meeting the aforementioned requirements amongst Professional Areas, Middle Managers and Executives (75 in 2019 and 53 in 2020).

The 2020 Budget Law also extended the possibility of early retirement reserved to women (the "Woman Option") to workers who, as at 31 December 2019, are 58 years old, if employees, and 59 years old, if they are self-employed, and who have accrued at least 35 years of contributions, provided that they opt for the payment of the pension in accordance with the defined contribution system rules. During 2020, 5 consensual resolutions were agreed with resources that had already become eligible for Woman Option and were not yet eligible for other types of pensions.

Lastly, we point out that the 2021 Finance Act extended the period for qualifying for the "Woman Option" to 31 December 2020.

Other relevant regulations

MREL (Minimum Requirement for own funds and Eligible Liabilities)

The regulations regarding the MREL requirement were modified as part of the reform of the European framework for the recovery and resolution of institutions, implemented by Directive (EU) 2019/879 of the European Parliament and of the Council of 20 May 2019 (BRRD2), which amends Directive 2014/59/EU (BRRD), and Regulation (EU) 2019/877 of the European Parliament and the Council of 20 May 2019 (SRMR2) amending Regulation (EU) no. 806/2014 (SRMR). The main changes to the reform essentially concern the calibration of the MREL coefficient and its level of application, the powers of Resolution Authorities if the MREL is breached, and banks' obligation to communicate with the Resolution Authorities and the public. The changes also identify the eligibility requirements of liabilities for MREL purposes, the minimum subordination requirements for the top-tier banks (those with total assets over EUR 100 bn), as well as requirements for the sale of subordinated liabilities to retail customers.

The two provisions entered into force on 27 June 2019. BRRD2 will be implemented in Italy with the European Delegation Bill, while SRMR2 was applied starting from 28 December 2020.

In the 2020 resolution planning cycle, the *Single Resolution Board* (SRB) adopted the MREL decisions on the basis of the new "*MREL Policy 2020*", adjusted on 20 May 2020 to the new European regulatory framework. In line with the provisions of Regulation (EU) 2019/877, each new MREL decision establishes two binding MREL objectives: an "*intermediate MREL target*" to be reached by 1 January 2022 and the final "*MREL target*" to be reached by 1 January 2024. Moreover, the so-called "Pillar 1 banks" (G-SIIs and significant subsidiaries of non-European G-SIIs, top-tier banks and other banks chosen by the competent national resolution authorities on the basis of the systemic risks potentially associated with their failure) are subject to a Pillar 1 MREL requirement that must be fully met by using own funds and subordinated liabilities that are at least 8% of the bank's own

funds and liabilities. The minimum subordination requirement for top-tier banks is 13.5% in terms of TREA (*Total Risk Exposure Amount*) and 5% in terms of LRE (*Leverage Exposure Measure*).

Financial Benchmark Regulation

On 1 January 2018, the new European Regulation 2016/1011 entered into force on indices (including commonly used interest rates such as the Euribor, Libor and Eonia), which are used as benchmarks for financial instruments and contracts or to measure the performance of investment funds. The Regulation was subsequently implemented in Italy through Legislative Decree 19 of 13 February 2019.

The Regulation's primary objective is to ensure the integrity of indices classified as benchmarks (i.e., widely disseminated and used), improving their governance and strengthening the related controls. Thus, the aim of protecting consumers and investors is pursued through greater transparency and accuracy of the benchmarks.

Moreover, the Regulation classifies the different types of players involved in the process of defining and/or managing the benchmarks, providing for different obligations according to the role performed (administrators, contributors, users of benchmarks). In particular, benchmark users, which includes MPS Group, are required to draft and maintain robust written plans that specify the actions to be taken in the event of substantial changes in a benchmark or, if the benchmark is no longer provided, describing, if possible, one or more alternative indices that may be used. MPS Group therefore adopted a regulation during 2019 that describes the internal procedures to be applied in the event that a benchmark is no longer provide or if it changes substantially.

The Financial Benchmark Regulation with the related requirements imposed on benchmark administrators, together with the recommendations published by the *Financial Stability Board* on the main benchmarks used, have resulted in a massive process of reform for benchmarks, for which the institution, in the various jurisdictions, has participated in working groups to identify possible alternative benchmarks with respect to the current benchmarks used, if these become unavailable or can no longer be used.

The specific Working Group in Europe, which involves several financial institutions with the European Central Bank and European Commission acting as observers, established that the alternative risk-free rate to be used for the Eurozone wold be the €STR rate, published daily by the European Central Bank from 2 October 2019.

This decision, together with similar interventions undertaken by the central banks of other areas (e.g. the Federal Reserve Bank of New York for the new SOFR rate, the Bank of England for the Sonia rate), began the transition towards alternative benchmarks, in which financial institutions will be heavily involved in the coming years. Thus, MPS Group has created a specific project regarding the reform of financial benchmarks and the transition to the new risk-free rates, finalised in this phase to analyse regulatory developments currently under way and monitor its impacts. In particular, for the new risk-free rate €STR for the Eurozone, the necessary interventions were carried out to update the company systems to acquire the new rate, while in the first half of 2020 interventions focused on the management of the switch of the discount curve for OTC derivatives centrally cleared at the Clearing House LCH from the Eonia rate to the €STR, which took place in summer 2020.

With regard to the Euribor rate, in 2019 the EMMI director defined a new hybrid method for determining the parameter, receiving authorization from the Belgian authority for the purposes of the Financial Benchmark Regulation and confirming the possibility of using this critical benchmark within its own contractual relations. In any case, analyses of the changes introduced by the various trade associations, such as ISDA, for the incorporation of the so-called fall-back clauses, in existing contracts, continue, also evaluating any transversal impacts; to this end, a specific inter-company Working Group is being set up, the objective of which is to coordinate interventions between the various asset classes impacted by the reform of the benchmarks.

Brexit

On 29 January 2020, following the approval by the UK Parliament and the European Parliament of the Brexit agreement (known as the *Withdrawal Agreement*) reached in October 2019, the second phase of negotiations between London and Brussels began. The *Brexit Date*, confirmed as at 31 January 2020, saw the United Kingdom leave the European Union only at a political level but not yet at an economic level.

Throughout 2020, the current EU legislation remained applicable to the United Kingdom, as well as to legal entities resident there, with the substantial crystallization of the previous status quo for the whole of 2020. In the next phase, which lasted 11 months, negotiations were launched to define the terms of the collaboration agreements that will govern future relations between the two parties. Given the complexity of the negotiations, moreover in coincidence with an unprecedented global health crisis, certainty on the actual methods for completion of withdrawal was reached only in the very last days before the related deadline.

Starting from 1 January 2021, the United Kingdom is a separate market from the European Union, outside the Single Market and the customs union, with the status of Third Country for the purposes of the most significant EU regulations constituting the *Single Market Mechanism*, without prejudice to:

- the limited provisions contained in the agreement on future relations between the United Kingdom and the European Union "*EU-UK Trade and Cooperation Agreement*", reached on 24 December 2020, which regulates relations between the United Kingdom and the European Union in a different way with respect to WTO rules; a barebone agreement, which almost completely excludes the issue of financial services;
- the declaration of intent to reach a specific agreement on financial services by the end of the first quarter of 2021.

Given the limited scope, for financial operators the current framework of relations between the United Kingdom and the European Union corresponds in fact to the worst case scenario of the feared no-deal or Hard Brexit with the consequent cliff-edge risks.

The final regulatory scenario is completed by:

- the absence at EU level of the recognition of equivalence of UK legislation for the purposes of the main bodies of regulations making up the *Single Market Mechanism*, in any case limited to those that envisage the "equivalent third country" regime. In particular, this absence concerns EU regulations on the activities of commercial banks, insurance companies and corporate lending). Overall, there are around 40 equivalence areas, relating to fundamental reference regulations for banking and financial operators, including CRR, Solvency II, Financial Benchmark Regulation, Mifid II / MIFIR, EMIR); an equivalence decision on these is not expected at least for the first months of 2021, as already announced by the European Commission in its communication of 9 July 2020 "Getting ready for changes - Communication on readiness at the end of the transition period between the European Union and the United Kingdom"; https://ec.europa.eu/info/publications/getting-ready-changes-communication-readiness-end-transition-period-between-european-union-and-united-kingdom
- the adoption at national level of a contingency rule pursuant to art. 22 of *Law Decree no. 183 of 31 December 2020,* containing urgent provisions on legislative terms, on the creation of digital connections, on the enforcement of Council Decision (EU, EURATOM) 2020/2053 of 14 December 2020, as well as on the withdrawal of the United Kingdom from the European Union, aimed at facilitating the transition of UK financial intermediaries already operating in Italy from the regime of EU companies to that of Third Country investment companies authorized to provide investment services in our country.

In order to address the risks deriving from Brexit, the Group, and in particular MPS CS as the Group entity active in finance, has long since implemented some actions aimed at mitigating them:

- *Use of Central Counterparties (CCPs) pursuant to Regulation Emir 648/2012*.

The original issue, relating to the possibility of continuing to use the UK CCPs to fulfil the EMIR obligations, possibly accessing them through the UK clearing member, was addressed by the Group from the beginning. The first point was solved by the authorisation that ESMA published in September 2020, with which the recognition of UK CCPs authorized pursuant to EMIR, which had already operated in February 2019, was extended until 30 June 2022; the second issue was in turn addressed with the transfer of outstanding positions with UK clearing brokers to EU clearing brokers. In parallel, the contracts functional to the management of the reporting obligations imposed by the EMIR regulations for the same scope of financial instruments were renegotiated with the EU affiliates.

- *Derivatives Trading Obligation pursuant to MiFID Directive 2014/65 and MiFIR II Regulation 2014/600*.

Given the uncertainty highlighted on the issue and pending the realisation of the solution most desired by market counterparties, i.e. the mutual recognition of equivalence of the UK (for European entities) and EU (for UK entities) trading venues, the Group opened relations with European trading venues, directing operations to these trading venues starting from 1 January 2021.

- *Passporting for the provision of financial services*.

The exit of the United Kingdom from the European Single Market entails the loss for British financial companies of their "Passporting" rights, i.e. the possibility for the financial services companies of the European Union (including banks, insurance companies, fund managers, and consultants, among others) to conduct cross-border activities in other EU Member States, using the authorisation granted by its country of origin, therefore not having to request specific authorisation in every other EU Member State in which it wishes to operate. Pending verification of the actual evolution of the market scenario, the Group is oriented to continue operations with the EU affiliates of the previous UK entities with which contractual relations were already in place for various reasons (trading venues, counterparties, brokers, etc.) or, in the alternative, to verify on a case-by-case basis the

possible authorisation to exercise the activity (based, for example, on the so-called overseas persons' exclusion regime envisaged by the UK legal system or by the so-called reverse solicitation provided by the EU regulations). MPS CS has reserved the right to assess the possible need and / or opportunity to request authorisation for the provision of investment services in the United Kingdom (at the time of writing, unlikely) after verifying the evolution of the scenario during 2021.

- *Business continuity*.

In the absence of interventions, the British counterparties will lose the above-mentioned Passporting rights, and therefore will not be able to carry out new transactions with European counterparties or manage "events" on existing transactions; in order to mitigate this risk, the Group has long since started the replication of the Framework Agreements that regulate the operations in OTC derivatives and repurchase agreements (ISDA / CSA and GMRA) with the UK counterparties that have activated new twin offices in the European Union or who have expressed their willingness to carry out their business in the future through an EU subsidiary. Starting from 1 January 2021, MPS CS in particular redirected its business only to EU-based offices, reserving the right to evaluate the possible recovery of the activity also in these offices, depending on the evolution of the scenario (business, regulations, resulting from the Brexit plans of operators, etc.) during 2021. The management and technical solutions adopted were dynamically adapted for the two different phases (a first period, until 31 December 2020, of dual-channel operations; a second period, starting from 1 January 2021, initially limited to operations in the EU offices only).

- *Compliance with share & derivatives trading obligations*

  As from 1 January 2021, given the absence of recognition of equivalence of UK offices for the purposes of the related regulatory obligations, for operations within the scope of consolidation, MPS CS is active, directly and indirectly, only in EU-*based* offices. The preparatory activities relating to the adhesion and the activation at operational-management level were completed before the end of the transitional period.

- *Compliance with Regulation (EU) 2016/679 (GDPR)*

  The issue, potentially having a very significant impact in the field of investment services, is dealt with in the context of the "EU-UK Trade and Cooperation Agreement", with the declaration by the European Union of the imminent adequacy decision (pursuant to art. 45 GDPR) of the United Kingdom regulations on the matter. The Group continues to monitor the evolution of both the regulatory framework and the operating reality, in order to optimise its financial results in relation to the dynamics of the external environment in which its activities are located.

Main risks and uncertainties

Risk identification

As part of the work to define the *Risk Appetite Statement*, as carried out every year, the Group identified ex-ante the different types of risk to which the Group is or could be exposed in performing its current and future activities. Various factors have been taken into account in the risk identification process, such as analysis of the external context (EU regulations, ECB/Bank of Italy/EBA provisions), assessments of the main macroeconomic scenarios, analysis of the strategic and business model, and assessment of relevant risks, with a focus also on possible emerging risks.

After identification, risks are mapped into significance classes. Credit risk, market risk and operational risk (including legal risk), business risk and strategic risk, as well as liquidity risk for the funding risk and short-term liquidity risk components, were included in the high risk class.

The medium class includes equity investment risk, interest rate risk on the banking book, issuer risk, model risk, counterparty risk (risk that the counterparty in a transaction concerning certain financial instruments, e.g. derivatives and repurchase agreements, defaults before the transaction is settled), compliance risk, risk components attributable to IT risk and cyber security risk, and reputational risk, as well as, on the liquidity side, asset concentration risk, funding concentration risk and intra-day liquidity risk.

The remaining risks are classified as low or insignificant.

The risks classified as high as well as other risks to which the Group is exposed are described in more detail below.

The extent of capital risk, together with the intrinsic elements of the regulatory capital reduction, lead the Group to estimate a prospective capital shortfall relative to capital requirements (overall capital requirements) from the first quarter of 2021 that could reach a level equal to approx. EUR 1.5 bn as at 31 December 2021. In the event that the implementation of a structural solution (combination with another bank or transfer to the market of shares held by MEF and/or to Italian and international investors) does not take place in the short/medium term, the Capital Plan envisages a capital increase of EUR 2.5 bn which, if carried out, is expected to take place at market conditions and with of the Italian Government participating in proportion to the share held.

In the absence of the "structural solution", DG Comp should evaluate the intervention of the State on the basis of the Bank's stand-alone viability. In principle, this assessment raises some uncertainties on the Bank's capital strengthening process and on the capital increase at market conditions. To this end, the Bank prepared the 2021-2025 Business Plan which was sent to DG Comp and discussions were initiated.

If the State intervention were to be classified by DG Comp as "State aid", for example because it was not carried out pari passu with the minority shareholders, the cost sharing principle envisaged by the regulations in force would be applied.

Lastly, should DG Comp and the ECB deem the Group to be non-viable, the resolution process would be initiated or, if the resolution was not deemed to be in the public interest, the Group would be run-off.

The Group is exposed generally also to the risk that supervisory authorities may impose additional requirements and/or parameters for purposes of calculating capital adequacy requirements, or adopt unfavourable interpretations, resulting in an inability to comply with the requirements, which could lead to measures restricting its profitability or other measures laid out by supervisory regulations, or make it necessary to adopt further capital strengthening measures.

The Group is currently benefitting from the measures adopted by the supervisory authorities, with reference to both capital requirements and own funds, as well as liquidity, intended to support banks in mitigating the economic impact of the COVID-19 pandemic. With regard to this, note that the Group has decided to apply the temporary prudential filter for the 2020-2022 period to positions at FVOCI as set forth in art. 468 of Regulation (EU) 2020/873 of the European Parliament and the Council of 24 June 2020 as part of the adjustments in response to the COVID-19 pandemic, effective as of the reference date of 30 June 2020. Following the adoption of this treatment, the change in the FVOCI Reserve on government securities of EU Member States calculated with respect to the level at the end of 2019 is sterilised with the application of the phase-in percentages established by the regulation (100% for 2020, 70% for 2021 and 40% for 2022), resulting in a stabilisation of the prospective impacts on capital linked to variability in market parameters for the Group's FVOCI portfolio sensitive to Italy credit spread risk.

Risks associated with capital adequacy

Credit risk

Lending is the Group's core business and the main risk component, representing approximately 50% of the Group's total RWA (around 60% on Pillar 1 RWA). The classification as high risk remained unchanged compared to the previous year, especially in relation to the current macroeconomic context, which could lead to a significant increase in default flows in the next three years.

In general, a continuation of the crisis in the global economy could have a negative impact on the ability of the Group's customers to meet their obligations and hence cause a significant deterioration in the credit quality of the Parent Company and/or the Group, with possible negative effects on activities and the financial situation of the Parent Company and/or the Group.

In this context, in 2020, the two main support actions envisaged by the Law Decrees issued by the Italian Government continued: the granting of moratorium measures directly attributable to the COVID-19 emergency and support to companies through the provision of new finance. With regard to non-performing loans, for which a slowdown in the treatment and recovery rates was observed, activities aimed at reducing the stock of NPLs continued. The finalisation in December 2020 of the partial non-proportional demerger of a portfolio of loans to AMCO allowed the MPS Group to lower the NPE Ratio below the threshold expected by the authorities, equal to 5%. However, this indicator could increase again in relation to the persistence of the crisis and the related ability of customers to honour the commitments undertaken.

Market Risk

Despite the reduction in sovereign exposures, market risk remains a significant risk to which the Group is exposed, in particular given the potential volatility of the underlying market variables. Forecasts regarding capital requirements for the trading book (Fundamental Review of the Trading Book) were also taken into consideration.

The ECB has indicated, in fact, among the points of attention, the exposure and concentration in Italian government bonds and the relative vulnerability to changes in the *spread* and issuer risk.

Operational risk

Exposure to operational risk is confirmed as highly significant. Particularly significant issue with prospects not yet fully outlined include disputes pending against previous representatives in relation to the share capital increases for the period 2008-2015, as well as the burden sharing carried out in 2017 at the time of the precautionary recapitalisation.

Other important components for the purposes of exposure to operational risk are cyber security risk and IT risk, also due to the extension of the use of web collaboration and smart working tools. However, it is believed that these potential risks can be mitigated in light of the numerous initiatives adopted, such as the strengthening of the access authentication system.

Business and strategic risk

The heavily negative context connected to the COVID-19 pandemic inevitably had repercussions on the business dynamics of the MPS Group during 2020. Despite the prospect of the benefit of the vaccination campaigns, the uncertainty regarding the timing of a structural resolution remains high, with the prospect of the risk connected to economic and market trends that are still not favourable.

From a strategic perspective, the Group is involved in the process of defining and approving the new Business Plan, with the associated risks relating to the timing and possible revision of contents in the dialogue with the institutional parties involved.

This process is intertwined with the path that arises from the commitment undertaken by the State to exit from MPS, acquired following the precautionary recapitalisation of 2017, by 2021 and for which, at present, a defined implementation method has not been defined.

Liquidity risk: *Funding risk and Short-term liquidity risk*

In general, the Group's liquidity profile saw a gradual and substantial improvement in 2020.

With regard to funding risk, the sustainability of the funding profile (understood as the ability to finance banking activities with stable resources), has been pursued, within the current Restructuring Plan, also through the

strengthening of a balanced medium/long-term liquidity structure which, during 2020, was implemented also with access to the new TLTRO III auctions. Note also the further improvement in the capacity to access senior and subordinate markets, although this channel remains however highly dependent on the development in market conditions.

With reference to *short-term liquidity risk*, after having experienced, in the past, phases of stress on liquidity, the Group has gradually built a very robust liquidity position in recent years. However, it continues to be classified as "high" risk given the particular regulatory focus on internal models for determining cash outflows.

The specific nature of liquidity risk means that, despite the improvements recorded, it generally remains at a high level as sudden systemic or idiosyncratic crises develop in a so-called fast moving manner, with immediate and strong repercussions on both customer behaviour and market access.

Other risks and uncertainties

Risks associated with regulatory stress tests

In the course of 2021, the Group will participate in the 2020 EU-wide stress test and is therefore exposed to the uncertainties deriving from its outcome. The publication by the EBA of the related results is expected by 31 July 2021 and it cannot be excluded that the outcome may result in greater capital strengthening needs than those estimated so far by the Bank.

Risks associated with audits by Supervisory Authorities

The Group is exposed to the risk that the measures taken over time to eliminate the critical issues identified by supervisory authorities following the audits conducted/to be conducted may not be effective. Furthermore, if the Group is unable to promptly comply with the Supervisory Authorities' requests, it could be subject to penalties, or to various measures restricting its operations, or other measures set forth by supervisory regulations.

Reputational risk

The Group's reputational profile continues to highlight certain weaknesses, mainly related to media exposure for past events, for certain proceedings still pending, for the debate regarding the Parent Company's mission according to the envisaged exit of the Italian government from the Parent Company's shareholder structure. It cannot be excluded that in future, including due to the possible negative media climate and in consideration of the characteristics of this type of risk, the dependency also on external factors beyond the control of the Group and despite the safeguards implemented, the Group may be subject to pressure on its risk situation, with particular regard to its liquidity.

Risk linked to representations and warranties given in the sale and demerger of impaired loans

The signing of contracts to transfer portfolios of non-performing loans entailed, aside from the primary benefits for which they were carried out, also the resulting specific contractual commitments, including in particular representations and warranties ("R&W") which are binding for a specific period of time, and the violation of which entails the obligation for the Parent Company and the other Group banks (Transferors) to provide compensation to the transferees for the damage suffered through the disbursement of sums.

The compensation, i.e. the financial amount intended to compensate a party for harm suffered, is an essential part of all disposal agreements as it is the instrument whereby the acquirer protects itself with respect to certain events and, especially, the possible faults that may be present in the credit facilities acquired.

The R&Ws, the violation of which requires the Transferors to provide compensation, always have a pre-established duration (between a minimum of 12 months and a maximum of 36 months) in order to prevent the Transferors from being overly exposed to requests for compensation and the associated disbursement risk. In standard contracts, the R&Ws protect the transferees with respect to the minimum requirements that a transferred loan is supposed to meet, such as its existence, its principal amount, the presence of the minimum documentation required to enforce it, or the elements necessary for the transferees to carry out all necessary judicial and out-of-court recovery activities.

In more exceptional cases (based on the contractual context or the agreed price), as took place for the disposal of the bad loan portfolio as part of the securitisation of loans carried out by the Group in favour of Siena NPL S.r.l. in December 2017, a particularly complex set of R&Ws issued by the Transferors was agreed upon in the

contracts, outlined in a specific annex containing 62 R&Ws which govern in a very detailed manner a number of the characteristics of the loans subject to disposal, which the Transferors have represented as true and existing when the contracts were signed.

In any event, the damage subject to compensation can never exceed the price paid for the acquisition of the impaired loan plus any expenses incurred and an interest component at a rate set forth in the contract and in any case at overall level a maximum amount (cap) is established beyond which the Transferors are not required to provide any compensation even in the presence of confirmed violations. The cap is generically determined as a percentage of the price paid for a specific portfolio (e.g., on the above-mentioned disposal to Siena NPL, it was 28% of the price).

For other bad loan disposal transactions for which representations and warranties still apply, i.e. ISMEA, Race and Morgana, the expiries are between 31 March 2021, 1 September and 1 October 2021, and envisage disbursment caps equal to 15% and 20% of the disposal price for the individual portfolios.

With regard to the disposal of UTP loans, it should be noted that the representations and warranties issued to the various transferees involved in the various transactions carried out by the Group over the last few years, expire, at the latest, in May 2023.

Lastly, it should be noted that, as part of the demerger transaction known as "Hydra M", which became effective on 1 December 2020, the Parent Company issued representations and warranties in favour of AMCO, whose violation can be asserted by the beneficiary company no later than 30 November 2022 and which envisage a cap equal to approximately 10% of the total assets included in the set of demerged items less the value of the demerged equity.

Risks associated with securitisations

The Group has a series of exposures to securitisation transactions and, therefore, with respect to the trend of collections and recoveries of the securitised portfolio. In relation to these exposures, the Bank is subject to the risk, in terms of effective return and possibility of recovery of the investment made, that cash flow from securitised assets are lower than those expected during the life of the transactions. In this regard, it cannot be excluded that the consequences of the economic crisis caused by the COVID -19 pandemic may produce negative impacts on exposures to securitisations held by the Group, due to delays or reductions in the receipts expected from securitised assets.

Risks associated with the exposure and performance of the real estate sector

As part of its operations, the Group is exposed to risk in the real estate sector, both as a result of investments directly held in owned properties and, in the context of lending activities, as a result of loans granted to companies operating in the real estate sector, whose cash flows are mainly generated by the rental or sale of properties (known as commercial real estate), as well as from the activity of granting loans to private individuals backed by real estate collateral.

Risks related to outsourcing certain services

The Group is exposed to the risks associated with outsourcing certain services and, in particular, to risks deriving from (i) operations and continuity of outsourced services or (ii) any indemnity obligations borne by the Parent Company provided for in the contracts governing the aforementioned outsourced services.

Risks related to the regulatory context

In general, the Group is exposed to the uncertainties arising from possible evolutions in the reference regulatory framework to which it is subject, which is particularly complex (as described below), i.e. any changes in regulations and/or changes in their methods of interpretation and/or application by the competent supervisory authorities.

Risks related to the economic-political context

The Group is exposed to the risk linked to the evolution of Italian economic conditions and to a general trend of the European and global economy, which continue to exhibit significant elements of uncertainty (see the "Reference context" chapter).

The Group's results are heavily influenced by the general economic context and by dynamics in financial markets and, in particular, by the performance of Italian economy (based on, among other things, factors such as the

solidity perceived by investors, prospects of expected growth of the economy, creditworthiness, stability of the political context), as it is the country in which the Group operates almost exclusively.

The prospects of an uncertain recovery at global level and, in particular, of a postponed recovery of the Italian economy could compromise Italian credibility with regard to the European Union and condition the capacity to implement policies to support growth, and the National Recovery and Resilience Plan (NRRP). It could also lead to an increased perception of country risk by the financial markets and a widening of the BTP-Bund spread, to which the Italian banking system, including the Group, is exposed.

Risks associated with future regulatory asset quality reviews

The EBA, in cooperation with the competent supervisory authorities, could decide in the future to recommend a new asset quality review of the major European banks, obviously including the Group, whose results would not currently be predictable.

Risks associated with the COVID-19 pandemic

Starting from the last week of February 2020, the health emergency caused by the ongoing pandemic affected both market performance and commercial operations, the latter penalized by increasingly stringent containment measures imposed, which led to the interruption of many production activities in Italy and in the world.

Such economic disturbances are reflected in the modelling of forward-looking economic scenarios, used both for the definition of the SICR and for the quantification of the expected loss in accordance with IFRS 9. Estimating the impacts that the combination of factors such as GDP, interest rates, government support measures and unemployment rates, with specific sectoral factors, may have on customer solvency is highly challenging and requires a high degree of judgement to be exercised, also considering that the historical data in the current context are of little help.

In Italy, an increasing availability of vaccines and adequate treatments together with the tax support measures undertaken will reduce the damages and, already starting from the second quarter of 2021, will allow a rebound in growth. The recovery is expected to continue with a certain intensity in the following two-year period, however, the levels of pre-COVID activity will only probably be recovered in the medium-long term. The recovery path will inevitably depend on the correct exploitation of the resources made available by European countries through debt-sharing instruments, the use of which however presents critical issues such as: observance of the timing of presentation of projects, the generation of effective added value from these projects, the efficiency of bureaucratic systems and national companies in carrying out projects. The risk remains that, once the phase of exceptional support of economic policies is over, growth will not be sufficiently sustained to allow the management of public (and private) debts that have considerably increased in the meantime.

While, as anticipated, the serious situation caused by the pandemic would portend an unprecedented economic crisis, on the other hand it is strongly contrasted by the measures of the budget policy in direct support of demand, included for Italy in particular in the "Cura Italia" and "Rilancio" decrees. Measures such as the credit moratorium and public guarantees on new loans were in fact fundamental in preventing further negative effects from materializing, avoiding liquidity crises in companies.

With reference to operational risks, the modification and/or extension of some existing processes, such as those relating to digital services, web collaboration tools and smart working tools, and the inability to implement standard business processes, but to envisage "in derogation" procedures, for example for the process of formalising contracts, inevitably exposes the Group to greater operational risks relative to possible legal disputes, potential fraud and cyber attacks.

In fact, the COVID-19 pandemic has increased the Group's level of exposure to components of *Cyber Security Risk*. On the one hand, the threat of cyber criminals has intensified, who exploit the attention and emotions produced by the pandemic to launch targeted attacks through emails and web pages aimed at obtaining access credentials for IT systems and payment instruments ("phishing") and spreading malware. On the other hand, phenomena such as the massive transition to smart working, the further acceleration in the use if banking services through remote access channels, the use of e-commerce and, more generally, the digitalisation of interpersonal relationships, give rise to new vulnerabilities, connected to users' level of preparation with respect to threats from the internet and the use of personal devices and home networks that are not always adequately managed from the IT security perspective.

In this situation, the potential risks for business continuity to which the Group is exposed also increase, in relation to the increased dependence on infrastructure and network equipment to ensure user access to the information system.

However, the Group believes that these potential risks can be mitigated in light of the numerous initiatives adopted, such as strengthening the control and monitoring system, and in consideration of the reasons that prompted the Group to promptly comply with the provisions issued in order to support the country during a health emergency and protect its production system.

Risks connected to climate change

Physical risk (chronic or acute) and transition risk(financial loss a company may incur, directly or indirectly, as a result of a process of adjustment to a low carbon and more environmentally sustainable economy) fall under climate and environmental risks. Physical and transition risks represent risk factors for existing categories, with particular reference to credit, operating, market and liquidity risks.

The Parent Company is taking part in banking system round-table work groups that are discussing the regulatory developments and in which the regulatory *framework* on the matter takes shape. In 2020, a work group was set up, composed of specialised risk functions, with the objective of conducting a detailed analysis of the matters regarding the measurement and management of ESG risk[25] (regulations, emerging *trends*, methodologies) and exploring the impacts and development of the "traditional" risks management processes, with a special focus on climate risks (physical and transition), by developing synergies with other ongoing projects within the Group. For more details, please refer to the specific section of the "2020 Consolidated non-financial statement of the MPS Group" drafted pursuant to Legislative Decree no. 254 of 30 December 2016.

Lastly, it should be noted that, in compliance with the requests from the supervisory authority, at the start of 2021, an interfunctional group was set up to start the implementation process of management of climate and environmental risks based on the relevant guidelines of the European Central Bank (ECB).

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Additional elements - including quantitative information - on the risk factors typical of the Group's activities are contained in Part E of the Notes to the consolidated financial statements, to which reference is made.

[25] Risk deriving from factors attributable to environmental, social and governance problems (*Environmental, Social, Governance* (ESG), i.e. ESG risk)

Results by Operating Segment

Identification of Operating Segments

In accordance with the provisions of IFRS 8, the operating segments have been identified based on the main businesses in which the Group operates. As a result, by adopting the "business approach", consolidated income statement and balance sheet data are broken down and re-aggregated based on criteria including: business area concerned, operating structure of reference, relevance and strategic importance of activities carried out, and customer clusters served.

The Parent Company's structure envisages the implementation of a specialised commercial organisational model with three Departments (Network, Markets and Products and Wealth Management).

Based on the Group's reporting criteria, which also take into account organisation structures, the following operating segments were identified:

- **Retail Banking**, which includes the sales activities of Retail customers (Value, Premium and Small Business segments) and Banca Widiba S.p.A. (Financial Advisor Network and Self-service channel);
- **Corporate Banking**, which includes the sales activities of Corporate customers (SME, Institutions and Key Clients segments), Large Groups Area, Foreign Branches and the subsidiaries MPS Capital Services, MPS Leasing & Factoring and the foreign bank MP Banque;
- **Wealth Management**, which includes the sales activities of Private Banking customers (Private Banking and Family Office segments) and the subsidiary MPS Fiduciaria;
- **Corporate Centre**, which in addition to eliminated intragroup entries, includes the results of the following business centres:
    - service operations supporting the Group's business, dedicated in particular to the management and development of IT systems (Consorzio Operativo Gruppo MPS);
    - companies consolidated at equity and held for sale;
    - operating units, such as proprietary finance, treasury and capital management.

The income statement results for each identified operating segment are shown in the following paragraphs. Note that:

- the 2019 income statement data of the subsidiary BMP Belgio S.A. are included in the individual income statement items of the Corporate Banking operating segment, rather than in the item "Profit (loss) after tax from assets held for sale and discontinued operations", although it was sold on 14 June 2019.
- starting from 2020, the income statement and balance sheet are presented according to the new reclassification principles described in the sections "Income statement reclassification principles" and "Balance sheet reclassification principles". The values for 2019 have been restated for comparison with the previous year on consistent basis.
- starting from 2020, the financial results of Banca Widiba SpA are included under Retail Banking. The values for the previous year have been restated so that the comparison is homogeneous.
- the results for 2020 were affected by the health emergency created by the spread of the COVID-19 virus, starting from the end of February. The aggregates that were most significantly affected were the following:
- The Cost of Customer Credit was penalised by the effects deriving from the changed macroeconomic scenario that emerged with the spread of the pandemic, which influenced the risk levels of the portfolio. This effect was partly offset by the positive impacts deriving from lower incidence of defaults, thanks to the moratoria granted as part of the Government Decrees issued following the COVID-19 emergency and the positive effects generated by the acquisition of state guarantees on the loans disbursed under the aforementioned Decrees,
    - Net fee and commission income was affected by the reduction in network operations resulting from the restrictive measures of social distancing that were gradually introduced by the Government to limit the spread of the virus,

- the results from trading activities were negatively impacted by tensions in the financial markets observed especially in the first part of the year and linked to the COVID-19 emergency.

Results in brief

The following table reports the main income statement and balance sheet items that characterised the Group's Operating Segments as at 31 December 2020:

SEGMENT REPORTING	Operating Segments									
Primary segment	Retail banking		Wealth Management		Corporate banking		Corporate Center		Total MPS Group	
(EUR mln)	31/12/20	Chg % Y/Y	31/12/20	Chg % Y/Y	31/12/20	Chg % Y/Y	31/12/20	Chg % Y/Y	31/12/20	Chg % Y/Y
PROFIT AND LOSS AGGREGATES										
Total Revenues	2,008.0	-12.1%	136.6	-2.3%	730.4	-21.7%	42.3	n.m.	2,917.3	-11.2%
Operating expenses	(1,636.4)	-3.7%	-114.2	14.7%	-390.8	-12.3%	(62.4)	35.9%	(2,203.8)	-3.7%
Pre Provision operating Profit	371.7	-36.6%	22.5	-44.1%	339.6	-30.3%	(20.2)	-83.1%	713.5	-28.2%
Cost of customer loans/Net impairment (losses)-reversals on securities and loans to banks	(342.3)	24.1%	0.1	-22.6%	-392.4	31.5%	(18.5)	32.1%	(753.0)	28.1%
Net Operating Income	29.3	-90.5%	22.6	-44.0%	-52.8	n.m.	(38.7)	-71.0%	(39.5)	n.m.
	31/12/20	Chg. % 31/12	31/12/20	Chg. % 31/12	31/12/20	Chg. % 31/12	31/12/20	Chg. % 31/12	31/12/20	Chg. % 31/12
BALANCE SHEET AGGREGATES										
Gross Interest-bearing loans to customers (*)	42,611	3.9%	529	6.0%	28,949	-5.9%	11,489	48.9%	83,579	4.5%
Direct funding	50,299	11.7%	3,157	-9.7%	20,921	21.4%	29,341	3.0%	103,719	10.1%
Indirect Funding	53,325	1.1%	15,572	1.6%	15,125	-10.1%	18,046	6.9%	102,067	0.3%
Assets under management	*44,580*	*1.8%*	*11,865*	*3.3%*	*1,304*	*-1.5%*	*2,652*	*-1.3%*	*60,400*	*1.9%*
Assets under custody	*8,744*	*-2.2%*	*3,708*	*-3.6%*	*13,821*	*-10.8%*	*15,394*	*8.4%*	*41,667*	*-1.9%*

(*) The value shown in the Group as well as that in the operating segments is represented by gross interest-bearing loans to customers, therefore not including loss provisions.

Retail Banking

Business areas

Retail MPS

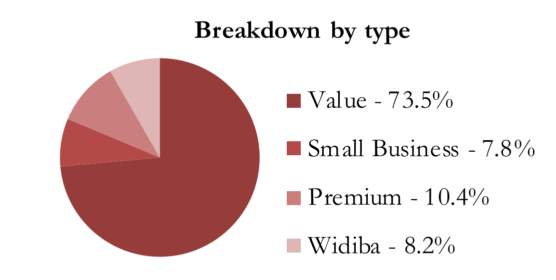
- Funding and provision of insurance products.
- Lending.
- Financial advisory services.
- Electronic payment services.

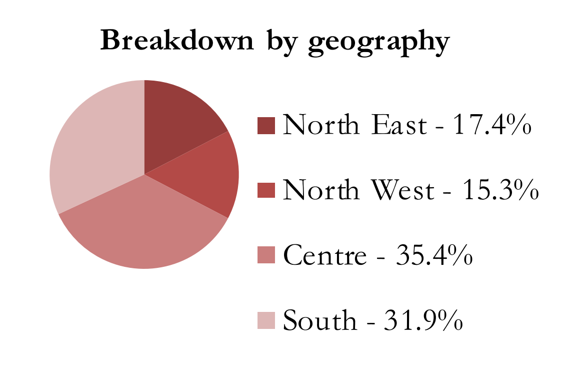
Widiba

- Banking products and services, deposit account, cards and advanced payment systems; customer self-service through the bank's digital channels or in assisted mode with the support of a Financial Advisor.
- Fully customisable online platform that relies on a Network of 524 Financial Advisors present throughout the country.
- Funding and Global advisory services and financial planning through the advanced WISE platform and the skills of the Financial Advisor Network.
- Mortgage loans, credit facilities and personal loans.
- Innovative interaction through computers, smartphones, tablets, watches and TV.

Customers

The number of Retail Banking customers was roughly 3.8 mln and includes around 314,400 Widiba customers, of which around 152,500 in the Financial Advisor Network channel, 85,800 in the Self-service channel, and 76,100 customers migrated from the MPS branch network.



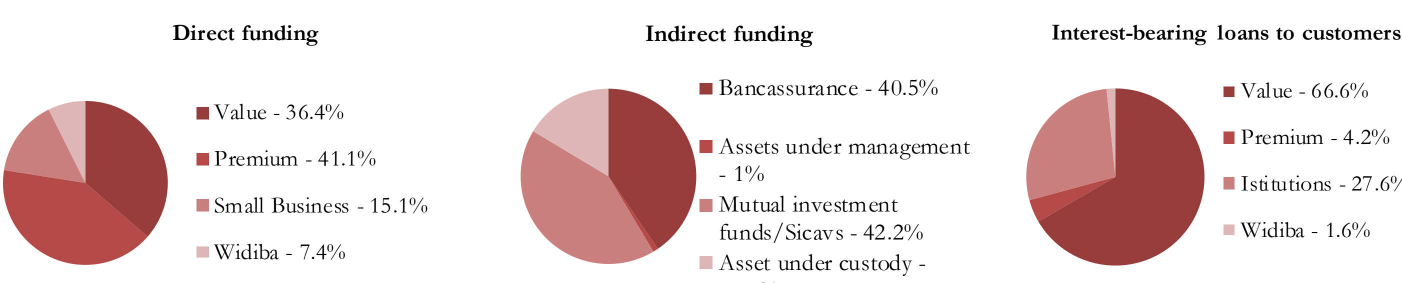


Income statement and balance sheet results

As at 31 December 2020, **Total Funding** for *Retail Banking* amounted to approximately **EUR 103.6 bn**, up by EUR 3.4 bn from September 2020 and by around EUR 5.9 bn compared to the end of 2019. More specifically:

- **Direct Funding** was **EUR 50.3 bn**, up by EUR 1.8 bn compared to 30 September 2020, particularly on the on-demand component (EUR +2.1 bn). In comparison with 31 December 2019, the aggregate show growth of approx. EUR 5.3 bn, mainly due to the on-demand component (EUR +5.9 bn), while the short-term (EUR -0.3 bn) and medium/long-term (EUR -0.3 bn) funding decreased.
- **Indirect Funding**, amounting to approx. **EUR 53.3 bn**, increased compared to September 2020 (EUR +1.6 bn), primarily on the asset management component (EUR +1.5 bn), which benefited from the positive market effect. The aggregate increased slightly compared to 31 December 2019 by EUR 0.6 bn, primarily in Assets under Management (EUR +0.8 bn).
- **Gross interest-bearing loans to Retail Banking customers** were *EUR 42.6 bn*, an increase compared to September 2020 (EUR +0.3 bn) and December 2019 (EUR +1.6 bn).

RETAIL BANKING - BALANCE SHEET AGGREGATES							
(Eur mln)	31/12/20	30/09/20	31/12/19	Chg Abs Q/Q	Chg % Q/Q	Chg Abs Y/Y	Chg % Y/Y
Direct funding	**50,299**	**48,471**	**45,016**	**1,829**	**3.8%**	**5,284**	**11.7%**
Assets under management	*44,580*	*43,070*	*43,810*	*1,511*	*3.5%*	*770*	*1.8%*
Assets under custody	*8,744*	*8,657*	*8,945*	*88*	*1.0%*	*-201*	*-2.2%*
Indirect Funding	**53,325**	**51,726**	**52,755**	**1,598**	**3.1%**	**569**	**1.1%**
Total Funding	**103,624**	**100,197**	**97,771**	**3,427**	**3.4%**	**5,853**	**6.0%**
Gross Interest-bearing loans to customers	**42,611**	**42,336**	**41,011**	**276**	**0.7%**	**1,601**	**3.9%**



With regard to profit and loss, for the year ended 31 December 2020, *Retail Banking* achieved total **Revenues** of approx. **EUR 2,008 mln**, down 12.1% compared to previous year. A breakdown of the aggregate shows:

- Net Interest Income was approximately EUR 847 mln, down 15.6% on an annual basis due mainly to the lower contribution from deposits and the drop in yields on commercial assets;
- Net Fee and Commission Income totalled approximately EUR 1,077 mln, down 10.0% from the previous year's level, principally due to the effect of the reduction in commissions on utilised credit lines; product and service commissions were down as well.

Considering the impact of Operating Expenses, which decreased by 3.7% Y/Y, *Retail Banking* generated a **Gross Operating Income** of about **EUR 372 mln** (-36.6% Y/Y). Cost of credit totalled **EUR -342 mln** (EUR -276 mln compared to 31 December 2019), penalised by additional adjustments due to the COVID-19 emergency.

The **Net Operating Result** was **positive**, amounting to around **EUR 29 bn**.

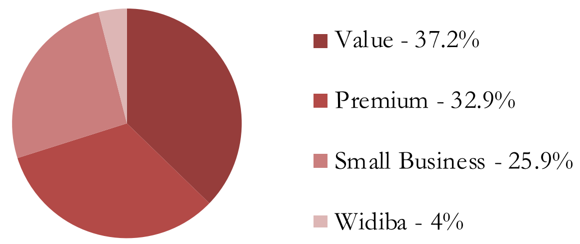
The non-operating components amounted to roughly EUR -40 mln, an improvement compared to the previous year (EUR -136 mln) due mainly to the reduction in Other net provisions.

The **Result before tax from continuing operations** was **EUR -11 mln** (EUR +175 mln as at 31 December 2019).

The cost-income ratio of the Operating Segment is 81.5% (74.3% at the end of December 2019).

RETAIL BANKING - PROFIT AND LOSS AGGREGATES				
			Chg. Y/Y	
(EUR mln)	31/12/20	31/12/19	Abs.	%
Net interest income	*846.6*	*1,002.5*	*-156.0*	*-15.6%*
Net fee and commission income	*1,076.6*	*1,196.8*	*-120.2*	*-10.0%*
Other Revenues from Banking and Insurance Business	*74.0*	*70.7*	*3.3*	*4.6%*
Other operating expenses/income	*10.9*	*14.5*	*-3.6*	*-25.0%*
Total Revenues	**2,008.0**	**2,284.6**	**-276.5**	**-12.1%**
Operating expenses	*(1,636.4)*	*(1,698.6)*	*62.2*	*-3.7%*
Pre Provision Operating Profit	**371.7**	**586.0**	**-214.4**	**-36.6%**
Cost of customer loans/Net impairment (losses)-reversals on securities and loans to banks	(342.3)	(275.9)	-66.4	24.1%
Net Operating Income	**29.3**	**310.1**	**-280.8**	**-90.5%**
Non-operating components	**(39.9)**	**(135.6)**	**95.6**	**-70.5%**
Profit (loss) before tax from continuing operations	**(10.6)**	**174.6**	**-185.2**	**n.m.**

Breakdown of revenues



The main sales initiatives and product/service innovation

In the course of 2020, following the pandemic, the Bank focused heavily on support activities for individuals and territories, responding to the needs that emerged with extraordinary support actions for Private customers (Value and Premium service models), also on the basis of the government regulations. In particular, the following main initiatives were developed:

- **Mortgage suspension**
  Possibility of requesting the suspension of mortgage instalments payments in application of the provisions issued by government legislation in support of households and businesses to deal with the emergency caused by COVID-19.

- **Non-mandatory suspension of loan instalments payments to be granted at the discretion of the Bank**
  The opportunity was activated to request a suspension from the Bank, by those who present a situation of objective difficulty in regularly fulfilling the economic-financial obligations deriving from mortgage loans / loan agreements.

- **Access to the Liquidity Decree** for those entitled.

- **Enhanced AXA MPS protection** for any customers affected by COVID-19.

- **Digitalisation of customers and remote operations**
  Initiatives aimed at raising awareness of and expanding the opportunities made available through *Digital Banking*.

Market	Main sales initiatives developed in the reference market
Value	The development of the Protection segment was supported by a strong innovation of the range on offer with the launch of new products for the corporate target, both for employee protection, through the "*Welfare* Salute" protection product, which also offers an *employee benefits platform*, and to protect the company assets, with the "Protection Business Flexy" product. In addition, the collaboration project with Quixa continued, which will see the bank as the first mover in the bancassurance market for the placement of "Motor" policies in the motor vehicle segment (TPL and CVT) through the digital channel.
Premium	Specific retention initiatives have been launched, with promotions on protection and e-Money products, as well as caring activities with special dedicated offers, in terms of discounts, to customers with a ten-year relationship with the Bank and with higher account values. The **Investment segment** was marked by continuous innovation carried out with partners, both in terms of the types of solutions on offer (insurance, UCITS, etc.) as well as positioning on specific financial and currency markets (EUR/USD). Particular advisory attention was given to Premium customers upon sending the ex-post disclosure notices required by MiFID II regulations. The "Un Monte di valore" ("A Mountain of Value") initiative was launched for the Premium segment, designed to acquire new customers and volumes, involving the reimbursement of fees and commissions for those adding new liquidity to current accounts or transferring financial instruments to their BMPS Securities Portfolios. Targeted activities were also activated in the **Protection segment**, in order to meet the increasingly evolved needs of customers in protecting the home, family, and their professional activities, through the new guarantees in the catalogue (e.g., Vivo Casa, In Giro of Mia Protezione or the broader guarantees of 360° Assistance of Formula Benessere). Particular attention was also given to the **Supplementary Pension segment** in order to safeguard the future for the customer and to optimise, over the course of his/her professional life, the tax benefits dedicated to the participants. In order to provide 360° support for the needs of Premium customers, the "**Generational handover and succession**" project was maintained, which envisages the possibility of integrated advisory services from Fiduciaria MPS and AXA for families and/or complex wealth cases, with a view to protecting assets and developing new customers, heirs of our current customers. For the Premium market, in collaboration with external partners and with the Knowledge Management and Training Service, continuous remote informational-training initiatives were carried out, designed to ensure constant professional development of the front-end on financial markets, on innovations in the product range, and on communications sent to customers in compliance with regulatory obligations (e.g., webinars on ex-post disclosure sent to customers in compliance with MiFID II regulations).
Small Business	During 2020, following the pandemic, there was a strong *focus* on commercial activities to support people and territories. In the first place, in application of the "possible interest in consolidation" Decree, for Micro, Small and Medium-sized enterprises, the revocation of existing credit facilities and the possibility of suspending both instalment and non-instalment loans was prohibited.

Market	Main sales initiatives developed in the reference market
	In parallel, support was provided to individuals, companies and the community through the application of the measures of the Liquidity Decree which envisage the introduction of the guarantee provided by the Central Guarantee Fund, by Ismea and by Sace, with particular regard to the Consolidation pursuant to art.13, paragraph 1, letter e) and New Finance pursuant to art.13, paragraph 1, letter m) and letter c) and art. 1. The commercial focuses addressed to the Network mainly concerned: • customers with a possible interest in consolidation and the provision of new loans, with the aim of ensuring the liquidity necessary to overcome the crisis period • the offering of products aimed at guaranteeing business stability and continuity and at encouraging the welfare measures that companies offer to their employees. In this context, note the Formula Benessere policies with 360 On-line Assistance guarantee, Accident Welfare Protection and Business Protection • the development and dissemination of digital channels and services (Paskey Azienda Online - PAO), to increase the penetration and use of the services available online (online advances, online documents) and the use of adevanced electronic signatures (FEA) • the offering of products that promote the digitalisation of payments and e-commerce. In terms of payment instruments, the Prepaid Business Card *Quickard Business*was promoted. In the field of *acquiring* services, the Bank focused in particular on encouraging the digitalisation process of "micro merchants", through initiatives and offers such as Nexi Welcome (in partnership with Nexi). To favour merchants during the *lockdown* period, the Pay by Linkservice was introduced to manage remote payments via *email*, text *message and chat* by sending a simple *link* and *social commerce* services to sell and receive payments, allow reservations or display price lists online and on *social networks* without having an *e-commerce site*.

Funding, Assets under Management and Bancassurance

In the **Short / medium-term direct funding** segment, it is worth noting the suspension from November 2020 of the CID lines in the catalogue, both short-term and medium-long term. This is with the aim of aligning with market trends and achieving a decrease in the cost of direct funding.

In the **Medium / long-term indirect funding**, the 2020 offer focused on US bonds indexed to the rate or to the *equity* segment, as well as on certificates with different indexations and maturities, worked with the main international issuers in order to favour the widest diversification of the range on offer to customers.

In the area of **Asset Management**, the traditional offer of both open-ended and "window" funds was consolidated for the Premium and Value segments, promulgated through the funds managed by the *partners* Anima, *JP Morgan, BlackRock* and Quaestio.
The offer of the *Savings* and *Pension* insurance products in 2020 evolved with the reopening of the insurance PIR and with the updating of external funds of *unit-linked* products, which also saw the inclusion of ESG, thematic and ethical funds. Also for 2020, the offer of unit-linked policies in tranches continued with 5 issues of the "Progetto Protetto" family and one for "Progetto Valore" family.

As part of the life and non-life protection insurance the following new products were launched: the non-life "Protezione Welfare Infortuni" policy covering the contractor company's employees for the death and permanent disability risks, resulting from occupational accidents and, optionally, also for accidents outside of the workplace. With the subscription of Protezione Welfare Infortuni, the customer acquires the right to access, without additional charges, a flexible benefit platform (Welfare Cards Protection Platform) where its employees can use the services therein; the "Protezione Business Flexy" policy which, thanks to a wide range of guarantees (15), covers the main risks associated with the assets of medium-large companies (number of employees greater than 5 and annual turnover of more than EUR 1.5 mln). Lastly, all the activities envisaged for 2020 by the reference legislation (IVASS Regulation 41) were carried out, such as the designation of specific beneficiaries or the third party contact person, as well as the implementation of new art. 134, paragraph 4-bis of the Insurance Code, which introduced the Family Bonus for *TPL Motor* policies (RC Auto guarantees).

With regard to **Loans**, activities in 2020 were strongly oriented towards providing concrete and timely responses to customers to deal with the COVID-19 emergency. The activity developed along two lines: new loans and suspensions of existing loans.

For the new loans, all the loans envisaged by the issue of the Liquidity Decree (subsequently converted into law with Law 40 of 9/6/2020) were issued, providing extensive and adequate information to customers, with the creation of a special page on the corporate website.

The ABI Protocol for advances under the extraordinary layoff pay scheme "Cassa Integrazione Guadagni Ordinaria" (CIGS) was signed with the preparation of a specific product.

With regard to suspensions, in addition to the timely implementation of the legal provisions pursuant to art. 54 (private individuals) and art. 56 (companies), particular attention was paid to the customer disclosure phase, both by preparing appropriate sections on the website and by making the necessary forms available. In particular, as regards the suspensions pursuant to art. 56, which Law 126/2020 automatically extended from 30 September to 31 December 2021, it was decided to send an information communication to all potentially affected customers to illustrate the terms of the provision.

A number of ABI protocols were also agreed, which further extended the number of companies that could benefit from the suspensions: i) Agreement for credit to companies, ii) Agreement between ABI and various consumer associations (ABI-AA.CC), iii) Protocol on women victims of violence.

Always taking inspiration from the regulatory provisions and in order to support the intervention of the State in the relaunch of the Italian economy and its industrial fabric, and to offer to customers a service aimed at accessing benefits in terms of Ecobonus, a package of products was released ad hoc to take advantage of the 110% tax benefit for expenses related to energy efficiency and seismic improvements in buildings in accordance with the Relaunch Decree.

Customers interested in taking advantage of the tax benefit have two options. The first option, for private individuals, condominiums or, in the event that customers request a discount on their invoice with the simultaneous transfer of the future tax credit, for companies performing the works, provides access to a credit line made available by the Bank whose settlement will be associated to the accrual of the tax credit. The second method is designed for customers who only need to liquidate the receivable, for which the Bank will offer a specific product for the acquisition of this receivable and its monetization.

Finally, to complete the offer, a series of agreements have been defined that aim to make available to customers a qualified network of leading operators who will be able to assist private individuals and condominiums in all the activities necessary to obtain the tax benefit offered by the regulations for their customers.

In the loans to individuals segment, two new products were also launched: the subsidy to private consumers and the Plus loan, which complete the range of solutions for household credit.

On the other hand, the opening of credit secured by a revolving pledge was launched for agricultural companies; this is a very innovative form of loan that meets the working capital financing needs of wine-producing companies.

Also for companies in the agro-industrial sector, a loan with AGRIFEI guarantee was marketed, as part of the "Agri *Italy Platform*" initiative. This is a loan intended for companies in the agri-food sector, aimed at supporting the financial needs associated with tangible or intangible investments.

Loans with Cassa Depositi e Prestiti were also reactivated. In this context, a loan was also launched - as set out in Article 13 letter e) of Law 40/2020 - with CDP/EIB funding.

Current Accounts, Payments and Collections

- The SEPA Instant Transfer service was released on the *Digital Banking platform*
- *Some post*-sales management processes of current accounts have been made more efficient, with particular regard to the management of the right of withdrawal by the customer and the Bank.

E-Money

- Rationalisation of the prepaid cards pool was carried out, strengthening the consumer (Quickard and Quickard Plus) and business (Quickard Business) offerings.
- Integration activities for *Google Pay* services, with pilot on credit cards, as part of the innovative upgrading for the *Mobile Payment/Digital Wallet*, were developed. Integration activities with Apple Pay were launched.
- Release of *Bancomat Pay* payment functionality for P2P and P2B payments on mobiles with domestic debit cards. Increase in ATM functions and services
- Enhanced security features for e-commerce payments (3DS and SCA) as part of adaptations for PSD2. Release of second factor 3DS *PIN Online* + *OTP* (version 2.1) on the entire card pool
- Integration of the Credit Card Holder portal on *Digital Banking*
- Marketing of the New Montepaschi *Mastercard*
- Increased functionality on *Digital Banking* and for management and related spending.
- Released new POS offers (Smart POS, Smart POS mini) and new pricing approaches in partnership with Nexi.

Digital Banking

In the first few months of 2020, the authorisation of all *Digital Banking* customers to use biometric data (*Face ID, Touch ID, Finger print*) was completed with "Authorise with Notifications" as an alternative authentication tool to SMS, which allows to operate on all *Digital Banking* channels (*Internet and Mobile Banking, App,* Telephone Banking*, Cardless ATMs*).

The year 2020 focused on the development and release of the new *Banca MPS Digital Banking App* for Android and iOS smartphones with native technology, accompanied by a customer communication plan. The App was redesigned to improve customers' user experience on these devices, the use of which is constantly growing, enabling the technologies and channels typical of mobile devices. Of course, the authentication systems, security infrastructure, contract, processes and signatory powers remain unchanged.

The release of the new Apps was the driving force behind the further development of Digital Banking functions. This project commitment, as already anticipated, also made it possible to respond promptly and effectively to the needs related to the COVID-19 health emergency, with the remote authorization for the sale of products and services that would otherwise be subscribed to only in person.

In particular:

- "*Web collaboration*" extended to *Premium* customers, to allow advisory proposals and investments orders to be sent by the Bank and signed by the customer;
- "*Remote Collaboration*", for despatch by the Bank and signature by the customer of previously agreed documents, deeds and contracts;
- service notifications, to inform the customer with service notices in *push mode.*

To these were added:

- management of the "*PIN Online*" service in addition to "*3D Secure*", for the secure use of online payment cards, as required by PSD2.
- payment from the *App* of the simplified F24 model;
- integration of the Credit Card Holders Portal, for the querying and management of Credit Cards from Digital Banking, without the need for further authentication.

Internet Corporate Banking

2020 was a year of consolidation for corporate banking. The many innovations introduced since September 2019, with the implementation of the technical requirements envisaged by the PSD2 Directive, have been gradually absorbed by customers, including that of the duration of inactive sessions (max 5 minutes) which has an important impact on company operations and which was mitigated by considering a session in which the mouse pointer moves as "active". This makes it possible to maintain the user experience at an adequate level, in compliance with regulatory regulations.

Consolidation also took place on volumes, in particular by acting on non-operating and non-onerous contracts, for which the procedure for withdrawal at the initiative of the Bank was completed. The volume of active customers was therefore maintained around the threshold of 195 thousand units, i.e. the one that avoids the

recognition of extra commissions to the supplier of the corporate banking platform. The advantage of focusing initiatives and support only on customers who are still operating or potentially active is also clear.

Focus on the income aspect was confirmed with the release of procedures that allow to recover contract fees with account charge on closed/blocked accounts (for now limited to contracts from 2014 onwards).

With regard to front-end resources, the consolidation action concerned the Quickard Business prepaid cards segment, which were integrated into the online services. In this way, the user experience is more straightforward, with a *coherent look and feel*, and richer thanks to additional functionalities. The previous maps are still available in *duality* to make for a gradual transition (gradual obscuration).

Developments focused on the needs of more structured customers, enriching PasKey aziendaonline with functions and reports useful for business groups, which will gradually be extended to all customers: group signature book, list of separate items sent, group accounting balances and cash balances, dedicated export for incoming transfers and other less important ones.

The entire second half of 2020 was then dedicated to the preparation of the "signatories" project, which was launched in January 2021 and which represents a real revolution in the field of *corporate banking*. For this reason, it was necessary to carefully check the aspects of the Bank's customers' transactions, in order to find a solution to combine regulatory compliance and sustainability of the user experience.

In terms of flows, the sorting of outcomes of various forms of collection and payment was updated to make them more efficient. This implementation speeded up the reporting of RIBA payments, which makes it possible to identify those where payment was not successful.

There was a regular trend in customer assistance throughout the year, marking a clear improvement compared to previous years. This result is due to the consolidation action mentioned in the introduction and was possible thanks to targeted planning (change management), reduction of significant accidents, and reactivity to anomalous events.

Finally, anti-fraud surveillance systems were refined, also increasing the number of events verified. This made it possible to maintain a very positive trend in combating fraud attempts against customers.

ATMS

During the COVID-19 emergency, respecting the restrictions imposed by measures to fight the spread of the virus to prevent contagion in customers and employees, the Bank activated the necessary measures to maintain an efficient ATM inventory throughout the national territory for cash payments and withdrawals, limiting instance of non-operation to exceptional cases and promoting every possible initiative to limit possible inconvenience to customers.

During 2020 the support of migration of operations towards direct channels continued, bringing the number of payments for branches equipped with cash-in ATMs to around 71% and the renewal of the ATM inventory, with the replacement of obsolete machines and the optimisation of cash-in machines, today present in 78% of the Bank's branches. The increase in capillarity of cash-in ATMs has contributed to optimise the time of branches' personnel, allowing them to pay more attention to the relationship with the customer with a lower degree of management of simple operations.

Open Banking

The bank has launched two evolutionary initiatives finalised at deriving value from the new *Open Banking* paradigm:

The first initiative, in the context of Retail, is a project finalised at offering customers with several bank accounts and Digital Banking users, access to the balance and movements information of accounts held with other payment institutions, in accordance with the evolutionary market context, and positioning the Bank as an AISP (Account Information Service Provider) third party. The service will be launched in the first quarter of 2021.

With regard to system initiatives, thanks with the integration with the CBI GLOBE platform, a value added service has been launched called Check IBAN PA for use by the Public Administration and channelled by PagoPA with the technical intermediation of CBI, which allows user entities to verify the actual correspondence between the tax code of a natural person (or the VAT number of a legal person) and the name corresponding to a current account identified by a specific IBAN code; these data are provided by citizens to the user Entities in

the context of specific processes, such as, for example, the application for the provision of subsidies and economic assistance. The service was made available in January 2021.

Results for the subsidiary Banca Widiba

As at 31 December 2020, the **Total Funding** of Banca Widiba came to approx. **EUR 9.1 bn**, up by EUR +0.9 bn compared to 31 December 2019 and EUR +0.5 bn compared to 30 September 2020, benefiting from both positive net funding flows amounting to EUR 792 mln (of which EUR 270 mln in 4Q20) and the recovery in the financial markets starting from April 2020, fully absorbing the particularly negative stock exchange trends recorded at the end of February and during March 2020 due to the COVID-19 scenario.

With regard to profit and loss, for the year ended 31 December 2020 Banca Widiba achieved total **Revenues** of approx. **EUR 80.7 mln** (of which EUR 19.9 mln in 4Q20), up EUR +11.1 mln (+16.0%) compared to the previous year, thanks to the increase in Net interest income (EUR +3.3 mln) and Net fee and commission income (EUR +8.4 mln).

Gross Operating Income therefore amounted to **EUR 19.0 mln** (of which EUR 3.7 mln in 4Q20), with a notable increase on the previous year (increase of EUR +10.6 mln) and, due to the Cost of credit that was up EUR 2.7 mln compared to 2019, **Net Operating Income** was **EUR 16.0 mln** (of which EUR 2.9 mln in 4Q20), with an increase of EUR +7.9 mln compared to 31 December 2019.

As a result of the lower incidence of the non-operating components (EUR -5.5 mln as at 31 December 2020 compared to EUR -5.7 mln in the previous year), the **Result before tax from continuing operations** was **EUR 10.5 mln**, with an increase of EUR +8.2 mln compared to 2019.

Main initiatives

During 2020 Widiba continued its growth on the development strands that characterise it: banking and credit, financial advisory, innovation, social vocation.

In April 2020 Widiba launched open banking services in its role of active bank with "aggregator" functionality (AISP), to further enhance the service in July with the "payer" functionality, with direct access to third-party bank accounts (PISP). Currently *Open Widiba* can rely on an ecosystem of over 230 associated banks.
Several campaigns were also launched to increase the customer base and revenues, with incentives to reward the opening of an account, the crediting of fees, the contribution of fresh money, the purchase of cards and the use of open banking.

The commercial offer was enhanced thanks to the introduction of the American Express "Blue" and "Gold" credit cards for private customers. New layouts for Widiba prepaid cards have also been issued, and evolutionary implementations were also implemented, aimed at allowing the migration from Visa Electron to Visa Debit, facilitate the passage to Bancomat Pay from Widiba app, provide activation/deactivation of spending channels, implement PSD2 rules.
The Business segment saw the launch, in the second half of 2020, of the POS service in collaboration with Nexi, with the issue of the free "Welcome" offer and the "Start" offer with an "all inclusive" monthly payment.

In 2020 the lending industry was significantly impacted by the COVID-19 emergency: in the first few months of the year there was a contraction in the requests for loans, caused by a deterioration of the economic scenario and the uncertainties on the outcome of the health emergency.
To support its customer at this time, Widiba implemented two initiatives:

- the suspension of mortgage payments, through recourse to the CONSAP Fund which allows to suspend the payment of payments for both the capital portion and interests for a maximum period of 18 months;
- advancea of layoff pay scheme payments, which allows customers in difficulty due to furloughs, to request an advance from the CIGO pr CIGD schemes while waiting for payment by competent entities. The process is entirely digital, customers can finalise the transaction without leaving home and at zero cost.

During 2020 the process of consolidation of the offer of Widiba credit products continued. With a view to maintain an innovative position, in the consumer credit segment Widiba continued with the development of personal loan products and My Instant Credit in order to offer customers an experience always meeting the highest market standards. A digital process for the management of loans was finalised for clients assisted by

Widiba financial advisor and some new developments were introduced on loan products offered through synergies with Banca MPS.
Also for 2020, a year strongly marked by the pandemic, Widiba maintained the level of quality offered to customers and to the network of financial advisors.
This result was also achieved thanks to the timely activation of remote working that was extended to the Media Centre structures dedicated to assistance.
At the end of 2020, Widiba had approx. 314 thousand customers and total funding amounting to EUR 9.1 bn (compared to EUR 8.2 bn in 2019).

During 2020, Banca Widiba also developed a new communication strategy with the market, focusing marketing activities and communication investments in four main areas:

1. Acquisition of new customers
Online advertising continued to be a driver in the acquisition of new customers also in 2020, a year when the growth trend recorded a double-digit growth with an immediate effect on the cost of acquisition, with an increase of 21% Y/Y in online applications.
The process of insourcing media planning activities continued with the onboarding of new platforms aimed at centralising the control of campaigns and enhancing the contribution of web analytics as a fundamental tool for optimisation. All the main online media benefited from the adoption of a plan focused on the strategic use of data, with the consequent improvement in the Conversion Rate. The continuous and consolidated use of the Data Management Platform, together with the use of data personalisation tools, made it possible to optimise the conversion rate and access to the site by prospects exposed to advertising messages: 29 bps Y/Y.
The media mix includes all digital channels, maintaining also in 2020 a predominant presence on search engines and comparators which together generate more than 25% of the paid traffic.

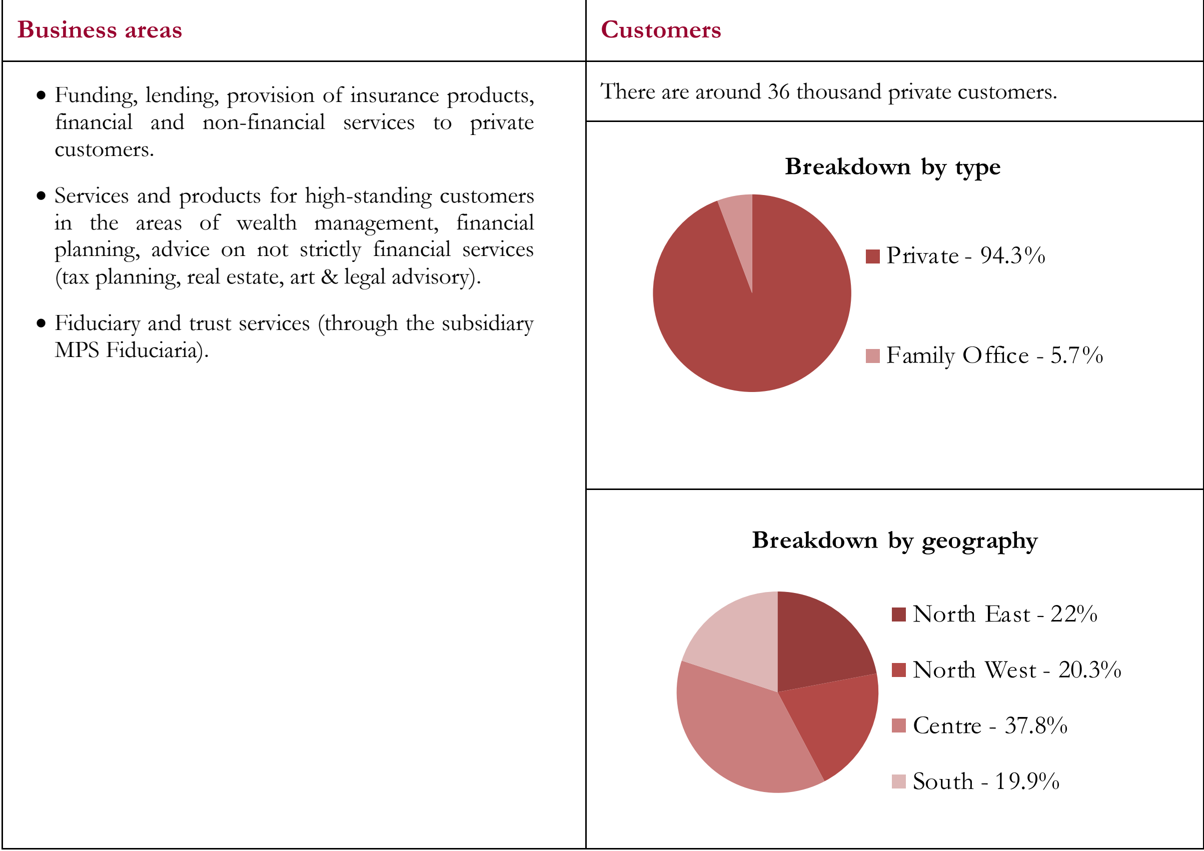
2. Awareness, reputation and brand consideration
"Present" was a key word for Widiba in 2020. During the months of the pandemic, the bank illustrated its closeness to people with communications dedicated to the continuity of operations and of innovation. A current and contemporary reality, which looks to the future to provide practical answers every day, as declared in the integrated communication campaign "La banca dell'oggi" (The bank of today), which expresses the new position of the bank, directing it, in September 2020, towards the rebranding of Widiba as Banca Widiba. A change not only in name but a complete new brand identity. A substantial step that opens up to an increasingly transversal target and that strengthens the image towards financial advisory services.

3. Network visibility, engagement and positioning
Banca Widiba continues to invest in the positioning of financial advisory services through communication initiatives dedicated to the enhancement of financial advisors and financial education.
Communication dedicated to the Network takes place on all the Bank's channels, in particular on social networks. Widiba social media represented the most effective channel for expressing closeness to customers during the first months of the health emergency, thanks to projects dedicated to the community, such as Ask Widiba. The world of advisory services and financial education represents one of the focuses of PR activities, with more than 400 articles dedicated to the Network out of a total of 1132. Furthermore, starting from October 2020 and on occasion of the month dedicated to financial education sponsored by MEF, Widiba launched a series of information initiatives dedicated to the market and to customers. To strengthen the financial education mission, a new structured media plan, integrated with special editorial initiatives, was implemented, involving Financial Consultants directly.
Widiba has also constantly engaged the financial consultant network, fostering customer loyalty and developing the customer base, through the creation of dedicated communication campaigns.

4. Social expression and relevance

Widiba maintains its leadership as the social bank in the market based on the size of its community as well as the content of conversations. The company maintains a strong focus on listening to and engaging consumers, through web events dedicated to financial awareness and the support of selected influencers. The initiatives related to #openstories (a project dedicated to open banking communication) continued in 2020, with a competition designed to engage the community. Always on, web events dedicated to financial education, with two editions of #AskWidiba, a format dedicated to dissemination in which consultants, supported by an influencer, involve the community in a dialogue on issues related to the world of financial education and savings.

Wealth Management



Business areas	Customers
• Funding, lending, provision of insurance products, financial and non-financial services to private customers. • Services and products for high-standing customers in the areas of wealth management, financial planning, advice on not strictly financial services (tax planning, real estate, art & legal advisory). • Fiduciary and trust services (through the subsidiary MPS Fiduciaria).	There are around 36 thousand private customers.

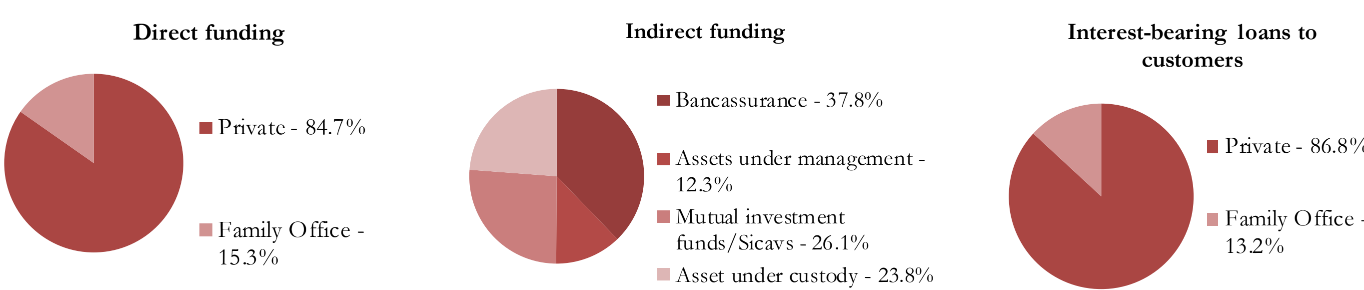
Income statement and balance sheet results

As at 31 December 2020, **Total Funding** for *Wealth Management* amounted to approximately **EUR 18.7 bn**, up by roughly EUR 0.4 bn compared to 30 September 2020 and in line with the end of the year. More specifically:

- **Direct Funding** came to **EUR 3.2 bn**, in line with September 2020 and down compared to 31 December 2019 (EUR -0.3 bn);
- **Indirect Funding**, amounting to about **EUR 15.6 bn**, was up by EUR 0.4 bn compared to 30 September 2020 thanks to a market effect and EUR 0.2 bn compared to the end of the previous year;
- **Gross interest-bearing loans to Wealth Management customers** were essentially in line with 30 September 2020 and up compared to 31 December 2019, amounting to roughly *EUR 0.5 bn.*

WEALTH MANAGEMENT - BALANCE SHEET AGGREGATES

(EUR mln)	31/12/20	30/09/20	31/12/19	Chg Abs Q/Q	Chg % Q/Q	Chg Abs Y/Y	Chg % Y/Y
Direct funding	**3,157**	**3,238**	**3,496**	**-80**	**-2.5%**	**-339**	**-9.7%**
Assets under management	*11,865*	*11,534*	*11,482*	*331*	*2.9%*	*382*	*3.3%*
Assets under custody	*3,708*	*3,594*	*3,846*	*114*	*3.2%*	*-138*	*-3.6%*
Indirect Funding	**15,572**	**15,128**	**15,328**	**444**	**2.9%**	**244**	**1.6%**
Total Funding	**18,730**	**18,366**	**18,824**	**364**	**2.0%**	**-95**	**-0.5%**
Gross Interest-bearing loans to customers	**529**	**536**	**499**	**-8**	**-1.4%**	**30**	**6.0%**



With regard to the profit and loss, for the year ended 31 December 2020, *Wealth Management* achieved total **Revenues** of approx. **EUR 137 mln**, down 2.3% compared to the previous year. A breakdown of the aggregate shows:

- Net Interest Income amounted to approx. EUR 7 mln, down EUR 5 mln compared to the previous year, impacted by the lower contribution from Direct Funding;
- Net fee and commission income amounted to approximately EUR 110 mln, up by EUR 1 mln compared to 31 December 2019.

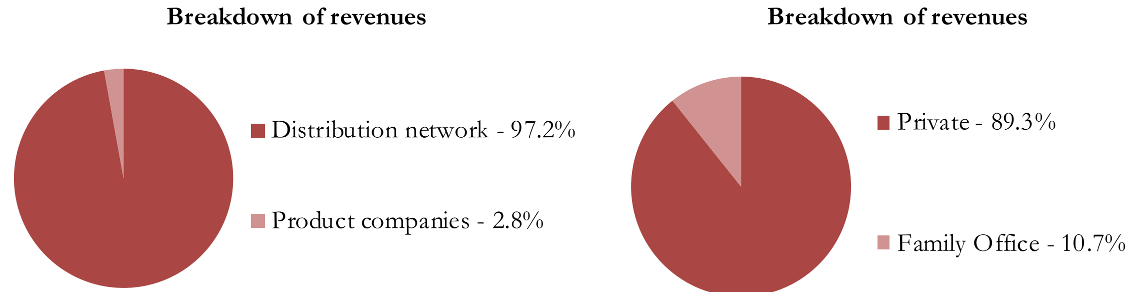
Considering the impact of Operating Expenses, which were up by 14.7% Y/Y, *Wealth Management* generated **Gross Operating Income** of about **EUR 22 mln** (EUR -18 mln Y/Y). Including Cost of credit equal to EUR +0.1 mln, the **Net Operating Income** totalled roughly **EUR 23 mln**.

The non-operating components amounted to roughly EUR -1 mln, an improvement of EUR 21 mln compared to the same period of the previous year due mainly to the lower Other net provisions.

The **Result before tax from continuing operations** was **EUR 21 mln** (EUR +18 mln as at 31 December 2019).

The ***cost-income*** ratio of the Operating Segment is **83.5%** (71.2% at the end of December 2019).

WEALTH MANAGEMENT - PROFIT AND LOSS AGGREGATES				
			Chg. Y/Y	
(EUR mln)	31/12/20	31/12/19	Abs.	%
Net interest income	*6.6*	*11.8*	*-5.1*	*-43.5%*
Net fee and commission income	*109.9*	*108.9*	*1.0*	*1.0%*
Other Revenues from Banking and Insurance Business	*20.8*	*18.8*	*1.9*	*10.3%*
Other operating expenses/income	*(0.7)*	*0.3*	*-1.0*	*n.m.*
Total Revenues	**136.6**	**139.8**	**-3.2**	**-2.3%**
Operating expenses	*(114.2)*	*(99.6)*	*-14.6*	*14.7%*
Pre Provision Operating Profit	**22.5**	**40.3**	**-17.8**	**-44.1%**
Cost of customer loans/Net impairment (losses)-reversals on securities and loans to banks	0.1	0.2	0.0	-22.6%
Net Operating Income	**22.6**	**40.4**	**-17.8**	**-44.0%**
Non-operating components	**(1.4)**	**(22.1)**	**20.7**	**-93.7%**
Profit (loss) before tax from continuing operations	**21.3**	**18.3**	**2.9**	**16.0%**



The main sales initiatives and product/service innovation

Promotional and marketing initiatives

In 2020, Wealth Management Commercial Planning was developed along three main strategic strands: Consulting, Development and Growth, and Digitalisation. For each area, various initiatives were launched, including through the use of levers and promotional offers for specific targets and customer clusters. In particular:

- **Advisory:** with a view to expanding and increasing the quality of the service offered, initiatives were launched aimed at enhancing investment solutions with high added value and the offer of Trust, Protection and Social Security services for a global coverage of customers' financial and non-financial needs;
- **Development and Growth**: with a view to developing the customer base, specific initiatives were activated with the objective of increasing the Network's competitiveness in generational handover activities, using targeted levers to identify younger customers and retain the heirs of existing *Private-FO* customers. The activity was supported by initiatives and commercial levers aimed at enhancing the synergies within the Bank;
- **Digitisation**: in a particularly difficult context due to the pandemic, initiatives were launched to accelerate the Bank's digitalisation process and expand the customer base with active digital services to encourage remote operations.

Product/service innovation

In 2020, the offer of products and services for *Private* and *Family Office* customers was characterised by the research and development of new investment solutions and at the same time by the search for an increasing rationalisation and simplification of the offer.

The emergency resulting from the COVID-19 pandemic required constant monitoring of the offer throughout 2020 and the management of various interventions aimed at providing constant support to the Network in relation to the products offered and held by customers. The constant management coordination allowed, in critical periods, all the resources to carry out their activities in *smart working*, without the operating processes being slowed down or lack of supervision of any kind.

The developments in the insurance investment products segment concerned the consolidation and development of the Wrapper offer (both Multi-line and Unit) with the release of new external funds (mainly thematic and sectorial).

The insurance investment product offer dedicated to *Private* and *Family Office* customers is characterised by high flexibility in the choice and composition of the financial instruments underlying the policies, through the possibility of selecting from a vast array of External and Internal Funds (available in the *Private Suite*) in addition to the Separate management component present only in the Multi-line Policy known as *Private Choice*.

The Double Prestige Policy (Class I) was also restyled to make the product more flexible and complete with respect to the needs of the reference customers.

For **indirect funding, with reference to Certificates**, in line with the placement trends seen in the reference market, the offer continued to be developed through the placement of 9 ***Certificates***, issued with Third-party issuers and structured with MPS Capital Services.

An especially structured issue process involving the participation of product's specialised functions and the advisory functions and which enabled specific investment issues and relative pay-offs to be identified that could better meet customer needs in accordance with the market context.

In the area of assets under management, **the offer of Funds/Sicavs** continued with a view to the ongoing evolution of the offer, aimed at maintaining the high quality of the placement range thanks to agreements signed with the main asset managers.

During the year, the main releases concerned:

- the placement of 8 new Anima window funds
- the updating of the range of UCITS directly placed with all investment houses with the release of approximately 400 new segments
- the reactivation of the PIR offer with the marketing of the Anima Crescita Italia New Fund

As regards the **wealth management** sector, attention was focused during 2020 on the search for new investment solutions that would respond both to new market trends and to customer dynamics and needs. The development of new investment issues was also undertaken, with the launch of 5 new GP lines for the GP Multilinea Investment catalogue dedicated to Retail customers and one new GP line for the GP Multilinea Private Investment catalogue, dedicated to Private customers.

Training initiatives

In 2020, numerous highly specialised informational-training initiatives were developed, in order to strengthen and increase the skills of bankers and managers, through targeted courses in collaboration with certified entities and structures with high standing. Considering the particularly complex situation in the markets due to the pandemic, the traditional training courses were also accompanied by initiatives aimed at providing specific and timely support, also in order to provide the skills necessary to provide a customer service able to satisfy the needs linked to the reference context. In this regard, digital initiatives were implemented for the Private and Family Office market, also in collaboration with international investment houses.

Results for the subsidiary

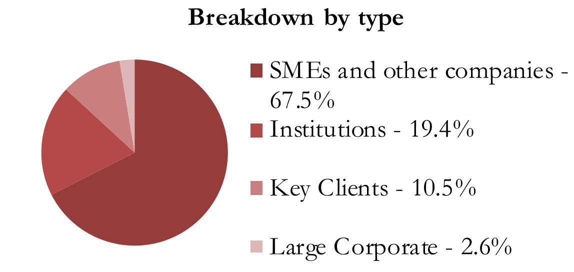
MPS Fiduciaria: in 2020 the subsidiary achieved a profit for the year of approximately EUR 0.4 mln.

In 2020, the subsidiary implemented a new operating, management and accounting system, adapting it to market benchmarks, with expected positive effects on service quality and risk management.

The company faced the period of the pandemic by formulating commercial initiatives aimed at expanding the dissemination of services, especially in cases of generational and business transfers and asset protection. It has developed formulas for greater protection of the weaker subjects (Trust Io) and the communities that take care of them (Trust Noi). It also continued with its collaboration with the Parent Company's three reference markets through intense promotional and informational/training activities - on trust services in general and on their potential uses, including the private companies to which they can be applied - for bank personnel and for major shared professionals. These activities made it possible to close the year with a net growth in the mandate base.

The guidelines for the next developments of the subsidiary envisage a significant relaunch of the commercial activity to be carried out mainly through the better structuring of the offer, simplification of the support material to the network and definition of the target customers. These are activities aimed at achieving a substantial upgrade in the use of trust services by network personnel. A greater impetus is also envisaged for the development of a network of speakers with civil society (professionals, opinion leaders, etc.) also through the instrument of reporting merits.

Corporate Banking

<table>
<tr><th>Business areas</th><th>Customers</th></tr>
<tr><td rowspan="3">• Lending and offering financial products and services to businesses, including through strategic partnerships with trade associations and Confidi (credit guarantee consortia), with guarantee institutions (including public) and institutional entities, through which funding is acquired at favourable terms.
• Offer of integrated leasing and factoring packages for companies, tradepeople and self-empoloyed professionals (through the subsidiary MPS Leasing & Factoring).
• Corporate finance - medium/long-term credit facilities, corporate finance, capital markets and structured finance also through the subsidiary MPS Capital Services.
• Custody and deposit services for dairy products on behalf of third parties (through the subsidiary Magazzini Generali Fiduciari di Mantova S.p.A., which is also authorised to issue documents of title to the merchandise, providing for easier access to bank lending).</td><td>About 40.500 Corporate and Large Group customers of the Parent Company, directly followed by Corporate Banking.</td></tr>
<tr><td>Breakdown by type

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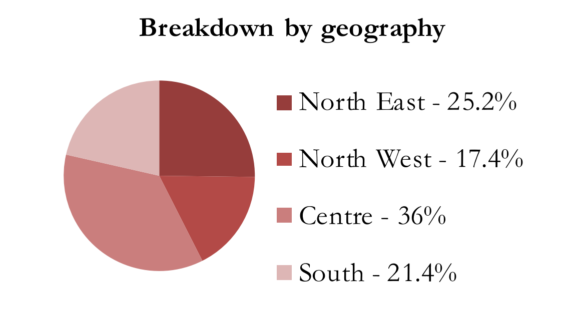
<tr><td>Breakdown by geography

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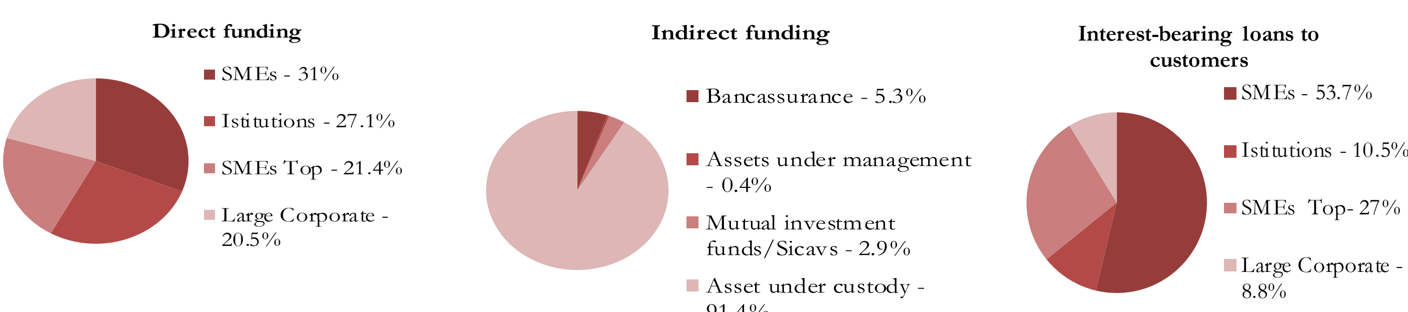
Income statement and balance sheet results

The **Total Funding** from *Corporate Banking* as at 31 December 2020 amounted to **EUR 36.0 bn**, up by EUR 0.4 bn with respect to 30 September 2020, mainly due to the increase in Indirect Funding (EUR +0.8 bn). The aggregate was up compared to the end of December 2019 by around EUR 2.0 bn thanks to the increase in Direct Funding (EUR +3.7 bn), which offset the decline in Indirect Funding (EUR -1.7 bn) recorded on assets under custody.

With regard to lending, as at 31 December 2020, **Gross interest-bearing loans to Corporate Banking customers** stood at approximately *EUR 28.9 bn* (down EUR 2.3 bn compared to 30 September 2020 and EUR 1.8 bn compared to 31 December 2019).

CORPORATE BANKING - BALANCE SHEET AGGREGATES							
(EUR mln)	31/12/20	30/09/20	31/12/19	Chg Abs Q/Q	Chg % Q/Q	Chg Abs Y/Y	Chg % Y/Y
Direct funding	**20,921**	**20,088**	**17,230**	**833**	**4.1%**	**3,691**	**21.4%**
Assets under management	*1,304*	*1,307*	*1,324*	*-3*	*-0.2%*	*-20*	*-1.5%*
Assets under custody	*13,821*	*14,245*	*15,500*	*-424*	*-3.0%*	*-1,679*	*-10.8%*
Indirect Funding	**15,125**	**15,552**	**16,824**	**-427**	**-2.7%**	**-1,699**	**-10.1%**
Total Funding	**36,046**	**35,640**	**34,054**	**406**	**1.1%**	**1,992**	**5.8%**
Gross Interest-bearing loans to customers	**28,949**	**31,287**	**30,758**	**-2,337**	**-7.5%**	**-1,809**	**-5.9%**



Whit regard to profit and loss, for the year ended 31 December 2020 *Corporate Banking Revenues* came to approx. **EUR 730 mln** (-21.7% Y/Y). A breakdown of the aggregate shows:

- Net Interest Income was approximately EUR 406 mln, down 11.7% annually due to the decrease in returns on commercial assets and the lower contribution of direct funding;
- Net Fee and Commission income was down 1.9% compared to the previous year to around EUR 295 mln;
- Other Revenues from Banking and Insurance Business amounted to approx. EUR 42 mln compared to EUR 189 mln in 2019.

Considering the impact of Operating Expenses, down by 12.3% compared to 31 December 2019, the Gross Operating Income came to about EUR 340 mln (-30.3% Y/Y).

Net Operating Income amounted to **EUR -53 mln** (EUR 189 mln in 2019), taking into account a Cost of credit of EUR -392 mln, penalised by additional adjustments due to the COVID-19 emergency.

The non-operating components amounted to roughly EUR -178 mln, an increase compared to EUR -26 mln in the same period of the previous year due to the item Other net provisions, which primarily includes provisions for legal risks and risks linked to contractual agreements.

The **Result before tax from continuing operations** was **EUR -230 mln** (EUR +163 mln as at 31 December 2019).

The ***cost-income ratio*** of Corporate Banking stands at *53.5%* (47.8% as at 31 December 2019).

CORPORATE BANKING - PROFIT AND LOSS AGGREGATES				
			Chg. Y/Y	
(EUR mln)	31/12/20	31/12/19	Abs.	%
Net interest income	*405.5*	*459.4*	*-53.9*	*-11.7%*
Net fee and commission income	*295.0*	*300.7*	*-5.7*	*-1.9%*
Other Revenues from Banking and Insurance Business	*42.0*	*189.3*	*-147.3*	*-77.8%*
Other operating expenses/income	*(12.2)*	*(16.7)*	*4.5*	*-26.9%*
Total Revenues	**730.4**	**932.8**	**-202.4**	**-21.7%**
Operating expenses	*(390.8)*	*(445.5)*	*54.7*	*-12.3%*
Pre Provision Operating Profit	**339.6**	**487.3**	**-147.7**	**-30.3%**
Cost of customer loans/Net impairment (losses)-reversals on securities and loans to banks	(392.4)	(298.3)	-94.0	31.5%
Net Operating Income	**(52.8)**	**189.0**	**-241.8**	**n.m.**
Non-operating components	**(177.6)**	**(26.1)**	**-151.5**	**n.m.**
Profit (loss) before tax from continuing operations	**(230.4)**	**162.8**	**-393.2**	**n.m.**

Breakdown of revenues

- Distribution network - 66.3%
- Foreign - 0.5%
- Product companies - 33.2%

Breakdown of revenues

- SMEs - 60.4%
- Istitutions - 9%
- Key Clients - 21.8%
- Large Corporate - 8.9%

Results of the main subsidiaries

- **MPS Capital Services**: result before tax of EUR 38 mln, down by EUR 66 mln compared to 31 December 2019, especially due to the trend in the Cost of Credit, penalised by additional adjustments due to the COVID-19 emergency. The profit for the year was EUR +44 mln, up compared to a profit of EUR 37 mln as at 31 December 2019, due to the positive effect of taxes.
- **MPS Leasing & Factoring**: result before tax of EUR -21 mln, down by EUR 31 mln compared to 31 December 2019, especially due to the trend in the Cost of Credit, penalised by additional adjustments due to the COVID-19 emergency. The loss for the financial year was EUR 27 mln compared to a profit for the year as at 31 December 2019 of EUR 19 mln due to the trends described above, in addition to the negative effect of taxes.
- **MP Banque[26]:** loss for the year of EUR 5.1 mln compared to a loss for the year of EUR 1.6 mln in the same period of the previous year.

Main Corporate and Investment Banking initiatives

Corporate Market

Hedging Products

The service offered was supported by continuous and increasing digitalisation: alongside the optimisation of functionality, which allows customers to conclude transactions through digital signatures, there was also the digital management of the processes themselves. It is also possible to operate with collateral, effectively reducing the credit risks and capital absorption of the credit lines. The process of streamlining the Easy Forex platform continued. The interventions linked to the COVID-19 emergency also concerned derivatives as part of the moratorium on the payment of instalments of hedged loans.

Loans

The activity in 2020 was strongly oriented to give concrete and timely responses to customers to deal with the COVID-19 emergency. The activity developed along two lines: new loans and suspensions of existing loans.

For new loans, all the loans envisaged by the issue of the Liquidity Decree (subsequently converted into Law 40 of 5 June 2020) were issued, providing extensive and adequate information to customers, with the creation of a special page on the corporate website.

The ABI Protocol was also signed for advances of CIGS payments, with the preparation of a specific product.

With regard to suspensions of loan repayment instalments, in addition to the timely implementation of the legal provisions pursuant to art. 56 of the Cura Italia Decree, referred to companies, particular attention was paid to informing customers, both by preparing appropriate sections on the corporate website at www.mps.it and by

[26] The profit is that determined on an operational basis. Please recall that in 2018 the Parent Company approved the run-off of MP Banque

making the necessary forms available to customers, both through branches and on the website. In particular, as regards the suspensions pursuant to art. 56, which Law 126 of 13 October 2020 automatically extended from 30 September to 31 December 2021, it was decided to send an information communication to all potentially affected customers to illustrate the terms of the provision.

It was also decided to participate in some ABI protocols which further extended the audience of companies that could benefit from suspensions:

- Agreement for loans to Companies
- ABI-ANCI-UPI Framework Agreement for the mortgage moratoria for local authorities.

Again inspired by the regulatory provisions and in order to support the State intervention in the relaunch of the Italian economy and industrial sector, and to offer a service to customers aimed at benefiting from subsidies in terms of the Ecobonus, an *ad hoc* product packet was released to benefit from the 110% tax benefit on expenses relating to energy efficiency and seismic improvements in buildings as per the Relaunch Decree.

Customers interested in taking advantage of the tax benefit have two options. The first option, for private individuals, condominiums or, in the event that customers request a discount on their invoice with the simultaneous transfer of the future tax credit, for companies performing the works, provides access to a credit line made available by the Bank whose settlement will be associated to the accrual of the tax credit. The second method is designed for customers who only need to liquidate the receivable, for which the Bank will offer a specific product for the acquisition of this receivable and its monetization.

Finally, to complete the offer, a series of agreements have been defined that aim to make available to customers a qualified network of primary standing operators who will be able to assist private individuals and condominiums in all activities necessary to obtain the tax benefit offered by the regulations for their customers.

On the other hand, the opening of credit secured by a revolving pledge was launched for agricultural companies; this is a very innovative form of financing that meets the working capital financing needs of wine-producing companies. For companies operating in the in the agro-industrial sector, a loan with AGRIFEI guarantee was marketed, as part of the "Agri Italy Platform" initiative. This is a loan aimed at supporting the financial needs associated with tangible or intangible investments.

Loans disbursed with Cassa Depositi e Prestiti funding were also reactivated. In this context, a loan was also launched - as set out in Article 13 letter e) of Law 40/2020 - with CDP/EIB funding.

Market	Main sales initiatives developed in the reference market
Large Corporate	**Funding**: activity linked to the stabilisation of stocks and at the same time to a significant reduction (precise and average) of borrowing rates (both for on-demand and timed expiry funding) in accordance with market rates and in line with the indications of the Group Treasury. Through a progressive action aimed at targeting the individual counterparties, it has been possible to achieve the objective set above, with appreciable results in the income statement. **Loans**: in accordance with the Bank's strategic indications, priority was given to secured loans using, inter alia, risk mitigation or sharing instruments with SACE/CDP. Continuous financial support was provided to customers, also thanks to government instruments made available to Banks to mitigate the effects of the COVID-19 pandemic. Attention continued to be paid to management of risk and of the price to market in function of anticipated profitability. Direct and indirect factoring transactions also consolidated. **Review of the entire portfolio with a view to optimising capital absorption**: the repositioning of market share by the Group continued with activities carried out with counterparties in the area of development or reduced risk. Synergies intensified with product/service *Specialists* to enhance and complement the overall offer, including with hedging instruments. Always from a synergy point of view, use has been made of the support of the *Senior Coverage* Structure for joint interventions with customers to be revitalised or historically characterised by specific difficulties in finding operational suggestions of mutual interest. **Fee Recovery**: maximum attention to traditional income components and to the development of further income streams through the involvement of activities and services of

Market	Main sales initiatives developed in the reference market
	the Company, also with reference to customer assets management instruments. In parallel, the increasingly strong synergy developed with the Foreign Area has allowed the realisation of transactions with counterparties on foreign markets and interesting economic results, in spite of the lower overall flow in the export segment, affected by the pandemic.
SMEs and Key Clients	There has been a focusing on commercial activities to support people and territories to meet the needs that heve risen following the pandemic, with extraordinary actions to support customers, also in application of the Cura Italia Decree for Micro, Small and Medium enterprises. The Decree provides for the banning of revocation of existing credit facilities and the possibility to suspend loans, repayable in instalments or not, both with the application of the measures of the Liquidity Decree and with the introduction of the guarantees provided by the Central Guarantee Fund, by Ismea and by SACE, with particular regard to the Consolidation pursuant to art. 13, paragraph 1, letter e) and New Finance pursuant to art. 13, paragraph 1, letter m) and letter c) and art. 1. The Network's commercial focuses mainly concerned: • customers with a possible interest in consolidation and the provision of new loans with the aim of ensuring the liquidity necessary to overcome the crisis period; • the development and dissemination of digital channels to complete the opening and activation of the *Paskey Azienda Online (PAO* service), to increase the penetration and use of the services available online (online advances, online documents) and subscription of the FEA.Developments focused on the needs of more structured customers, enriching *PasKey aziendaonline* with functions and reports useful for business groups, which will gradually be extended to all customers: group signature book, list of separate items sent, group accounting balances and cash balances, dedicated export for incoming transfers and other less important ones; • the offering of products aimed at guaranteeing business stability and continuity and at encouraging *Welfare* measures. During 2020 the Protezione Welfare Infortuni (Accident Prevention Welfare) Policy was introduced, the first evolved solution in the Bancassurance world, useful to provide small and medium-sized company access to company Welfare through a cover aimed at accidents at work and away from workplaces, alongside a "Protection Welfare Cards" Service Platform for the welfare of the individual and their families.
Institutions	Commercial support for: • working alongside public administrations in the activation of the SIOPE+ platform in observance of regulatory requirements; • placement of optional services connected to SIOPE+; • formalisation of participation in the PagoPA Platform created by the Agency for Digital Italy (AgID) for payments to the Public Administration; • placement of the "Electronic Archiving" service for electronic documents with Digital signature for the Public Administration and Servizio Inc@ssipiù. ISO:9001 2015 ed. recertification for Treasury and Cash Services. Interventions dictated by the COVID-19 health emergency: • Commercial activities relative to the participation of the Bank to the ANCI-ABI-UPI Agreement • Launch of an economic offer for the opening of current accounts relative to collection of donations by local authorities and no-profit associations.

Foreign

Launch of the new Forfaiting Estero DG activity, inherited from the Hong Kong branch, closed at the end of 2019.

To these, the commercial initiatives in the domestic Network, SME customers, *Key Clients* and *Small Businesses* were added:

- ***Retention* on foreign funding and commercial flows** for customers with higher standing.
- **Increase in the placement of products hedging** exchange rate risk (for exporters and importers exposed to exchange rate risk) and commodity risk (for businesses working with raw materials)
- **In-depth development of customers with greater foreign revenue**: increase in referred foreign business from companies with medium/high standing and presumed margins for growth
- **Growth by extension on customers making foreign transactions:** identifying foreign transactions channelled through other banks, so as to expand the profitability of the target customers.
- **Development of without recourse discount on import/export L/Cs**: identifying without recourse discount transactions so as to expand the profitability of the target customers. Intended primarily for companies operating in the machinery manufacturing, operating asset and large works sectors abroad.

MPS Capital Services (MPSCS)

Corporate finance

Project and Real Estate Finance – In 2020, MPS Capital Services confirmed its positioning amongst the leading banks in Italy for loans to the renewable energies sector and for infrastructure using project financing, as well as in the Real Estate sector with significant redevelopment projects and initiatives for qualified institutional customers (e.g. Real Estate Funds).

Considering their complexity, loan structuring requires medium/long finalisation times, so the transaction closings regarded both mandates obtained in the course of the year as well as mandates obtained previously.

Please note the following most significant transactions for the 2020 financial year:

- refinancing of a wind power plant with 22.5 MWp capacity in the province of Caltanisetta, owned by special purpose entity Mimiani Wind Srl, controlled by the French group Ardian, in the role of asset manager, through funds referred to institutional investors. This loan, for a total of EUR 25 mln, was underwritten in full by MPSCS
- refinancing of a photovoltaic power plant with 9,6 MWp capacity in the province of Bari, owned by special purpose entity CGE Palea Arsa Srl, controlled by the French group Ardian, in the role of asset manager, through funds referred to institutional investors. This loan, amounting to EUR 9.75 mln, was underwritten in full by MPSCS
- refinancing and partial revamping of a portfolio of photovoltaic power plants with an overall capacity of 10 MWp, located in the province of Brindisi, already connected to the national power grid and admitted to the 20-year incentive tariff through Denergia Sviluppo Holding Srl, controlled by investment funds attributable to British private equity operators. This loan, amounting to EUR 33.7 mln, was financed together with another bank and MPSCS, in the role of MLA, participated for a share of EUR 15 mln
- financing of a portfolio of photovoltaic assets for a total of 8.6 MWp, located in various regions and acquired by a primary national player, E12E Srl, active in the small-medium size photovoltaic plant sector. This loan, amounting to EUR 20 mln, was underwritten in full by MPSCS
- refinancing of the loan to support the realisation of support structures for care activities at the new hospital in Modena, undertaken by Sesamo Spa. This loan, amounting to EUR 18.7 mln, was financed together with another bank and MPSCS, in the role of mandated lead arranger (MLA), participated for a share of EUR 9.35 mln;
- financing of a portfolio of small-medium size photovoltaic assets located in various regions for a total of 10 MWp, acquired by *Sun Berserker Srl*, constituted by industrial subjects referring to the Undo group, already active in industrial sectors characterised by high technological application as well as the production of energy. This loan, amounting to EUR 15 mln, was underwritten in full by MPSCS
- refinancing for the *Italian Copper Fund*, a closed-end real estate fund reserved for qualified investors, managed by Coima SGR, of a portfolio of 5 real estate assets held in various areas of Italy, leased to the Telecom Italia Spa Group. This loan, amounting to EUR 37,3 mln, was underwritten in full by MPSCS

- refinancing of the current exposure with a further loan aimed at funding new restructuring costs of a 5-star luxury hotel, located in the Milan historic centre, owned by Nepa srl, controlled by, among others, the US *Hyatt Hotels Corporation* group, a multinational company with headquarters in Chicago, listed on the NYSE, active in 65 countries in the luxury hotel sector. This loan, amounting to EUR 66.4 mln, was financed together with another bank and MPSCS, in the role of MLA, participated for a share of EUR 43.1 mln
- a loan for the restructuring and transformation of a historic property in a 5-star urban resort located in Florence, undertaken by the company *Leeu Italy Srl*, controlled by an Indian entrepreneur active in various countries in the context of real estate transactions and generally in the hospitality sector. The loan, amounting to EUR 48.9 mln, was financed together with another bank and MPSCS, in the role of MLA, participated for a share of EUR 17.2 mln.

Corporate finance - In spite of the situation experienced in the first quarter of 2020 following the spread of the COVID-19 epidemic in our country, the lending activity continued and involved in particular the support to companies operating in the services (telecommunication, healthcare, leisure), industrial (automotive), tourist-hospitality, real estate and construction, and shipping industries. Among the loans finalised in 2020 are to be noted the one in a pool with CDP in favour of Amplifon S.p.A. (healthcare), in which MPSCS has taken the role of MLA, the loan transaction (in the role of MLA in a pool with other banks) in favour of the Renco Group (operating in the civil and complex industrial works, real estate and hospitality sectors), as well as the loan in favour of the Grimaldi Group to support the acquisition of the motorship "Eco Valencia" (latest generation "green" ship adopting innovating solutions to improve energy efficiency and reduce environmental impact). From May 2020 and, in particular during the second half of the year, loans were negotiated for over EUR 220 mln, assisted by the Italia SACE Guarantee or the PMI Fund, pursuant to Law Decree no. 23/2020 introducing, inter alia, urgent measures for access to credit in connection with the COVID-19 epidemic. In the context of the issue of loans correlated to facilitating tools, the operations to support research and development projects also continued, promoted by primary industrial groups operating in Italy, based on FRI ("Sustainable Industry" and "Digital Agenda" Tenders) as well as the support of projects promoted by agricultural and zootechnical companies in the context of "Supply chain and district contracts".

Acquisition Finance - Again in 2020, in spite of the difficult market environment, MPSCS confirmed its competitive positioning in *acquisitions and leveraged finance* for the *Mid Corporate* segment for transactions of a highly industrial nature and with significant sales benefits for MPS Group.
Indeed, MPSCS continued origination activities and the structuring of acquisition transactions to support counterparties of top standing, focusing on industrial integrations carried out by corporate operators and also maintaining a strong presence in the leverage market promoted by the main private equity operators in Italy.
Some of the main transactions organised and financed with the role of MLA were:

- acquisition of Sorgenia S.p.A. - primary Italian operator integrated in the supply of technologies for energy transition, with a significant installed capacity of approx. 4,800 MW - by the private equity operator F2i (LBO)
- acquisition of Namiral S.p.A. - primary Italian operator in the market for the provision of software solutions and digital trust services for corporate subjects and public administrations - by the private equity operator Ambienta (LBO).
- acquisition of Farnese Vini S.r.l. - primary Italian operator active in the production and marketing (in particular abroad) of red, white and rosé wines, whose grapes come mainly from Central and Southern Italian regions - by the private equity operator Platinum (LBO).
- acquisition of Bertoncello S.r.l. - primary Italian operator in the production of gnocchi and blended flours for gnocchi for professional use - by the private equity operator Alcedo (LBO).
- acquisition of Project Informatica S.r.l. - primary Italian operator in the provision of IT services, solutions and consultancy for enterprises - by the private equity operator HIG Capital (LBO).
- acquisition of Centrale del Latte d'Italia S.p.A. by Newlat Food S.p.A., finalised at the creation of one of the main poles of the Italian food industry (with particular reference to milk and milk products, bakery products and flours) (Corporate Acquisition).
- acquisition of Tubilux S.r.l. by COC Farmaceutici S.r.l., primary Italian operator in the contract manufacturing market for the pharma, health and beauty sectors, and already portfolio company of the private equity operator Aksia (Corporate Acquisition).

Investment Banking

With regard to activity on the primary debt market, during 2020 MPSCS acted as *Joint Lead Manager* and *Bookrunner* in the following bond issues:

- Cassa Depositi e Prestiti SpA COVID-19 Social Response Bond, issued in two tranches at 3 and 7 years to support the extraordinary plan outlined by CDP in favour of companies and territorial entities to combat the effects of the pandemic
- Banca Monte dei Paschi di Siena S.p.A. Senior Preferred Bond at 5 years in two separate allocations, with expiry in 2025 for the first and 2026 for the second, and the Subordinated Tier 2 bond with a maturity of 10NC5 years.

With regard to government issues, MPSCS has acted as Joint Lead Manager and Bookrunner in the new syndicated issues of nominal BTP with maturity in December 2030 and September 2050, in addition to the syndicated swap transaction of the MEF, in October 2020, through the repurchase of nominal BTP with maturity in 2021 and 2023, and of CCTeu 2025 and the issue at the same time of the new nominal BTP with expiry in September 2051. MPSCS also participated as Dealer in the sixteenth issue of the 5-year BTP Italia issue dedicated to the financing of interventions relative to the COVID-19 emergency.

In relation to the issue of "*minibonds*", it has taken care of the arrangement of the *Private Placement* transaction "Renco Group S.p.A. 4.25% 2020-2027".

At the same time, MPSCS acted as *Co-Lead Manager* in numerous bond issues of Italian and foreign financial institutions, including:

- 6-year and 10-year Senior Non Preferred Bonds issued by Unicredit S.p.A.
- 7-year Senior Bond issued by Salini Impregilo S.p.A. and subsequently 5-year Senior Bond issued by Webuild S.p.A.
- 5-year Equity Linked Green Bond issued by Falck Renewables S.p.A.
- Covered Bond with maturity in 2031 issued by Crédit Agricole Home Loan SFH
- T2 Subordinated Bond with maturity in September 2030 issued by the Parent Company.

With the same role of *Co-Lead Manager*, MPSCS also participated in the following government bond issues: 5-year, 15-year and 20-year nominal BTP; *Global Bond* issue in US dollars with maturity in 5 years; reopening of the nominal 30-year BTP.

With regard to the share market, in the same period MPSCS participated in the role of Joint Bookrunner, in accordance with Mediobanca which acted as Sole Global Coordinator and Bookrunner, in the guarantee consortium for the Share Capital Increase of BPER Banca S.p.A., aimend at the acquisition of a business unit constituted by 532 branches of the bank Gruppo Intesa Sanpaolo.

MPSCS continues its activities as *Nominated Advisor* on behalf of Poligrafici Printing SpA, listed on the AIM market of Borsa Italiana.

It at also acted in the role of financial advisor for Newlat Food S.p.A., a company listed in the Star section of Borsa Italiana, in the context of the public compulsory purchase and exchange offer promoted pursuant to art. 102 and 106, paragraphs 1 and 2-bis of the TUF on a maximum of 7,339,778 ordinary shares of Centrale del Latte d'Italia S.p.A., listed on the Star section of Borsa Italiana.

Subsidised financing

During 2020, activities in service of the Public Administration continued, in managing the most significant national public aid to companies in accordance with commitments undertaken under the agreements made with the Ministry of Economic Development (MiSE): Sustainable Growth Fund, Guarantee Fund for SMEs, Technological Innovation Fund and Law 488/92.

With regard to this, attention is drawn in particular on preliminary examination activities relating to 29 research and development projects for a total amount of approx. EUR 244 mln as well as the important promotion and assistance activities of the Guarantee Fund for SMEs, carried out with regard to banks and Confidi, trade and business associations, also following the public provisions issued with regard to the still ongoing health emergency, which determined an exponential growth of guarantee requests from the business world.

Furthermore, MPSCS launched verification and reporting activities for subsidised projects in the context of incentives of Supply Chain and District Contracts in the agricultural and agrifood sector, as a bank authorised by the Ministry of Agricultural, Food, Forestry and Tourism Policies.

Global Markets

During 2020, activities with customers and those on markets for the *Global Markets* and *Sales* and *Financial Solutions* Departments achieved good results, in terms of risk management and commercial flows, both captive and extra captive.

In the government segment, during the year the stock of proprietary portfolios was managed with the objective of optimising the nominal amount of government bonds held with the accrued carry within the granted risk limits. The activity showed a marked increase in volumes in the secondary sector on markets compared to the previous year, mainly driven by the MTS. Secondary activities with customers showed a contraction, partially offset by the excellent performance compared to auctions.

With reference to Italian Treasury *Specialist* activities, again in 2020 activities which in recent years placed MPSCS in an absolutely pre-eminent position continued, which made it possible, inter alia, to play significant roles again in 2020 in syndicated primary transactions.

The credit segment in terms of volumes recorded an increase on markets and was substantially stable compared to the previous year in terms of customer transactions. The performance of stock position management was affected by the shock of March 2020 linked to the pandemic, but it showed a marked and sustained recovery in the following months.

With reference to structuring activities, the results are down compared to 2019 both in reference to protected unit linked products and funds.

In spite of the reduction of structured product placements, which had a negative impact on retail coverage volumes, the equity and fixed income segments showed excellent results from trading activities.

The Sales and Financial Solutions Department continued to channel flows of institutional and corporate customers towards the entire range of the business lines of MPSCS. With regard to institutional customers, a positive trend was recorded in auctions, with a slight contraction in the trading of equities with regard to the government segment and essentially stability in the credit segment. The results of the first syndication were excellent, with significant growth compared to 2019. On the other hand, a growth in volumes of coverage was observed for MPS customers with regard to corporate customers, in particular in relation to the rate segment, which observed a marked growth compared to 2019. The coverage of direct customers also observed a growth in terms of volumes compared to the previous year, even though the activity showed a contraction in terms of margins.

Business Development

The activities for the development of commercial relationships with corporate customers and with active and prospective institutional counterparties evolved towards the necessary overcoming of personal meetings, imposed by the ongoing pandemic.

Concentrating on aggregate promotion activities, 2020 saw an intense organisational activity of training meetings (webinars) aimed at specific topic although linked to the MPS Group in house production. The main understanding remained the optimisation of synergies within the MPS Group. The traditional organisation of autumn meetings on the macro-economic forecasts for the following year has therefore evolved into the organisation of two events on digital platforms in cooperation with the Parent Company's Communication Division and with the Class Group, which recorded an unprecedented number of customers and counterparties being invited, around 800, and actual participations of around 600. The participation success was guaranteed both by the presentations of the Market Strategy Staff structure and by the interventions of special guests, invited to give specific contributions on the issue of forecasts for 2021.

The configuration of the new MPSCS website was finalised, redesigning its architecture from its foundations to allow greater accessibility, comprehensiveness and modernity, reflecting the MPS Group's brand identity. The final release is anticipated by the second quarter of 2021.

The Business Development Division, in its role of corporate communication contact reference, also arranged for the preparation of several press releases, which recorded a growth in visibility in the media without precedent (with the Amplifon, Azimut, Colacem, Renco, Profiltubi, Grimaldi, Brianza Energia e Ambiente operations, and many more). Media reports were very satisfactory in all the local as well as the national press.

MPS Leasing & Factoring (MPSL&F)

Leasing

The leasing activity in 2020 saw a positive start in the first 3 months of the year. Subsequently, the lockdown caused by the pandemic determined an inevitable slowdown in investments which continued, in an irregular manner, until the summer. This period was characterised, among other things, by relevant activities linked to the management of requests for moratoria as outlined by the Cura Italia Decree of 17 March 2020 and subsequent additional provisions.

In this context, a series of initiatives aimed at promoting financial leases were activated, both by making use of support actions defined at national level (MCC/SACE guarantees and the Sabatini Law) and by trying to involve certain categories/sectors that proved to be more resilient to the impact of the pandemic. These circumstances determined a significant recovery from September 2020.

The following were proposed again:

- "Sudleasing": promotional campaign dedicated to companies with a registered office or production plant in Southern Italy, which acquire an operating asset. This offer provides dedicated conditions and a one-year "all risks" insurance policy on the leased assets free of charge.
- "MPS Top Car": campaign for vehicle leasing aimed at prestigious cars.
- "MPS Leasing Care" initiative: promotional initiative dedicated to businesses and freelancers designed to increase the development of vehicle leasing and increase the placement of all-risk policies in the agreement.
- "Beni Strumentali Nuova Sabatini": agreement with the Ministry of Economic Development for access to the subsidy for capital assets under the new Sabatini law and full operations.
- Leases from Cassa Depositi e Prestiti (CDP) funding: loans aimed at promoting, including through lease brokerage, a greater inflow of medium/long-term resources to companies.
- *Coverage: coverage initiatives with BMPS and Group companies to develop actions aimed at increasing cross selling.*
- AGRILEASING, a commercial initiative aimed in particular to the Small Business market and linked to the entire agri-food production chain, with particular conditions and the use of the Sabatini law and MCC subsidies.

Factoring

Also for the *Factoring* segment, the effects of the pandemic were felt in a significant manner in the middle months of 2020.
The particular economic scenario deriving from this demanded the maximum attention, both to the management of customers and in the search for new relationships to which offer more sophisticated and distinctive services.
The concrete effect of the work carried out resulted in a good recovery achieved in terms of operations and volumes in the final part of 2020.

The main activities confirmed or introduced were:

- developing of non-recourse factoring and purchase of credits, which together represent now almost 75% of the total turnover,
- development actions through the "*Coverage Team*" model, which thanks to the combined and modified arrangement between the MPS Network and factoring specialists on the territory, allowed to obtain excellent results, in particular with regard to high-standing corporate customers,
- a structured and continuous proposition for reverse factoring.

Corporate Centre

The Corporate Centre includes:

- head office units, particularly with regard to governance and support functions, proprietary finance, the "asset centre" of divisionalised entities, which comprises in particular: proprietary finance activities, treasury and capital management;
- business service and support units, particularly with regard to the development and management of information systems (Consorzio Operativo di Gruppo).

Furthermore, the Corporate Centre includes eliminated intragroup entries and the results of the companies consolidated under the equity method and those held for sale.

With regard to the Finance activity, in the fourth quarter of 2020 transfers of securities of the Parent Company portfolio were realised, in particular approx. EUR 50 mln of financial securities classified at amortised cost, approx. EUR 8 mln of corporate securities and EUR 1 mln of FVTOCI-classified government securities were sold, generating an overall total profit of approx. EUR 1 mln in the income statement. During the financial year securities for approx. EUR 1.6 bn were sold, which brought an overall profit of approx. EUR 126 mln, up by approx. EUR 8 mln compared to the previous year, when approx. EUR 7.7 bn of portfolio securities were sold. To support the interest rate margin, in 2020 approx. EUR 2.4 bn of securities were purchased (of which EUR 1.4 bn classified at amortised cost and EUR 1 bn classified as FVTOCI).

Equity investment management

In 2020, the Group continued to rationalise its equity investment portfolio.

At Banking Group level, please note the deconsolidation of Montepaschi Luxemburg S.A. en liquidation volontaire following the closure of the liquidation, while the completion of the projects known as "Hydra" and "Pireo" involved the divestment of share investments and participating financial instruments both for the Parent Company and for MPS Capital Services S.p.A.

The following is a detailed list of the most significant transactions carried out during the financial year.

Acquisitions and share capital increases

- Following the completion of credit restructuring and conversion operations, 3.57% of Trevi Finanziaria Industriale Spa ordinary shares, as well as participating instruments in Biancamano Spa (27.60% of total instruments issued), Astaldi Spa (3.97% of total instruments issued, of which 0.23% underwritten by MPS Capital Services S.p.A) and Cooperativa Muratori & Cementisti – CMC di Ravenna (2.14% of total instruments issued); these securities, with the exception of a 0.10% holding in Astaldi Spa, were transferred to AMCO due to the effect of the demerger operation.
- Following the transformation of the Consorzio per la Tutela del Crediti, a credit guarantee consortium; into a limited responsibility consortium company, a holding of 2.44% of the share capital was purchased.
- The option right was exercised in the context of the share capital increase in the subsidiary Bancomat S.p.A., maintaining the holding percentage unchanged at 7.57%.
- The Parent Company received 441 preferred class A shares issued by Visa Inc. at the time of the first conversion, which took place in September 2020, of preferred class C shares, already allocated in 2016 in the context of the transaction for the acquisition of Visa Europe by the same Visa Inc.

Disposals

- In the context of the Hydra transaction, shareholdings were disposed of, held at Group level in: Arezzo Fiere e Congressi S.r.l. (4.61% of the share capital), Cisfi S.p.A. (7.54% of the share capital), Grosseto Sviluppo S.r.l. in liquidation (16.62% of the share capital), Interporto Toscano A. Vespucci (40.82% of the share capital, of which 19.00% held by MPS Capital Services S.p.A.), Jeckerson S.p.A in liquidation (1.26% of the share capital), Marina di Stabia S.p.A. (9.73% of the share capital held by MPS Capital Services S.p.A), Sovagri S.c.p.A. in liquidation (16% of the share capital), Trevi Finanziaria Industriale S.p.A. (3.57% of the share capital). The same transaction involved the disposal of participating financial instruments held in: Sansedoni

Siena S.p.A (100% of the total instruments issued), Stefanel S.p.A in A.S (2.65% of the total instruments issued), Magicland S.p.A (10.95% of the total instruments issued of which 2.67% held by MPS Capital Services S.p.A), Biancamano S.p.A (27.60% of the total instruments issued), Astaldi S.p.A. (3.87% of the total instruments issued of which 0.23% held by MPS Capital Services S.p.A.), Cooperativa Muratori & Cementisti – CMC di Ravenna (2.14% of the total instruments issued)

- The following shareholdings were disposed of: Fenice Holding S.p.A. in liquidation (4.16% of the share capital), Sorgenia S.p.A. (0.03% of the share capital), Istituto Scientifico Biomedico Euro Mediterraneo Impresa Sociale S.c.a.r.l. (1.11% of the share capital).
- On conclusion of the disposal process, the shareholding held in Montepaschi Luxembourg S.A. en liquidation volontaire (100% of the share capital of which 0.80% held by Monte Paschi Banque S.A) were cancelled from the Banking Group register.
- The following participating financial instruments were also disposed of: T.R.E. Holding S.p.A. (57.40% of the total instruments issued), Irplast S.p.A (30.25% of the total instruments issued), Car World Italia S.p.A. (10.73% of the total instruments issued).
- The subsidiary MPS Capital Services S.p.A disposed of the shareholding in ABS Technology S.p.A. (10% of the share capital), Fenice Holding S.p.A. in liquidation (16.38% of the share capital), Jeckerson S.p.A. in liquidation (12.31% of the share capital), as well as the participating financial instruments held in Scarlino Energia S.p.A. (100% of the total instruments issued) and T.R.E. Holding S.p.A. (42.60% of the total instruments issued).

Prospects and outlook on operations

In 2020, the collapse of the global economic activity was less severe than previously anticipated, mainly because of contractions less severe than expected in advanced economies and a more robust recovery in China. Even though the global economy is expected to grow (+4% global growth is anticipated in 2021 by the World Bank[27]), the recovery remains fragile and uncertain, given the development of the pandemic and the just started vaccination campaign against COVID-19. At the end of 2020, in response to the second wave of contagions, many countries (even China recorded some contagions) were forced to reintroduce containment measures which will remain in place at least for the first few months of 2021. The risk of viral mutations increases the probability of further restriction cycles in the short term. The pandemic has caused many deaths, it has amplified the risks linked to the accumulation of debt and it could depress economic activities and incomes for a protracted period. The Authorities must not only try to control the epidemic, guaranteeing at the same time a rapid and widespread vaccine distribution, but also continue to support the economic recovery with appropriate stimulus measures (in Europe the *Next Generation EU* and the ECB policies) which must support a reinvestment cycle aimed at a sustainable growth and less dependence on public debt in the medium term.

In Italy, thanks to the strong summer recovery, the 2020 recession did not reach double figures (-8.9%, preliminary GDP estimate according to Istat data) but the recovery under way is impeded by the difficult management of the epidemic and the containment measures introduced to manage it. Overcoming the crisis could be achieved in the second half of 2021 also thanks to the good outcome of the vaccination campaign and the use of the *Next Generation EU* (NGEU) funds: over EUR 200 bn is the amount reserved for Italy, made up of loans and subsidies starting from 2021, even though possible delays in the implementation of projects may further impede the recovery. Fiscal policy should in any case maintain an expansionary approach, promoting a risr in the level of debt which will be addressed only in the medium term.

The Italian banking system has responded to the liquidity crisis that affected Italian companies following the pandemic by significantly increasing financing in the productive sector (over 2.7 mln applications for moratoria on loans for a total of EUR 300 bn; the value of applications to the SME Guarantee Fund was of over EUR 129.5 bn; in terms of overall volumes the SACE guaranteed loans amounted to EUR 20.8 bn). The risk that, once the emergency is over, the worsening of the scenario is negatively reflected in bank assets makes a correct management of the credit risk as required by the supervisory authorities crucial. Once the extraordinary expenses linked to the pandemic have been absorbed, the process of cost containment will continue, also through a new organisation of work, the resources destined to the optimisation of investments in technology and human capital necessary for the rapid progress of remodulation of the business model will increase, in a context that does not allow a significant improvement on the profitability of traditional activities.

Interventions in support of liquidity continue to favour new loans to the private sector. With the health crisis still ongoing, some measures have been delayed, such as the extension of the moratoria to SMEs, independent professionals and VAT registered self-employed workers up to June 2021 (2021 Budget Law) and of the guidelines on moratoria by the EBA to March 2021. The ECB has also strengthened monetary policy instruments. With the recovery of the economic cycle, the next two years could be characterised by a marked increase in loans to households, up to now supported by moratoria, with an increase in the demand for mortgages and the recovery of consumer credit; loans to business will continue at a lower level, being impacted by the end of the measures in support of liquidity (guarantees/moratoria) from mid-2021 and the displacement effect produced by the wide availability of liquidity deposited in banks which could be used for financing production activities and investments. Credit supply policies will remain relaxed, favoured by the monetary policies adopted, which will maintain a wide availability of liquidity in banks, while stable interest rates will make it possible to contain the cost of funding and the burden of debts, contributing to limit the risk of insolvency in the counterparties.

In the next few months funding will continue to increase, driven by deposits: the economic crisis and the high level of uncertainty push companies and households to increase their liquidity respectively for precautionary reasons due to a greater propensity to save in liquid and low risk investments. Subsequently, the improvement in the economic situation could lead to a reduction in deposits in current accounts, both to finance the investment cycle and due to a greater propensity to consumption and also later followed by a lower aversion to risk for households, who will move towards more profitable investment forms (e.g. assets under management). In the medium term an increase is estimated in bond issues and more sustained flows of term deposits in connection with the end of TLTRO III and the start of the first repayments.

[27] Global Economic Prospects, World Bank, January 2021

The ECB has introduced further accommodating measures in December 2020 and no significant changes in the deposit rate with the monetary authority are expected in the next three years; this tone in the monetary policy should lead to an essentially stable dynamic in the rates on loans (for households and businesses) and a very slight increase in the average rate for long-term deposits; the rate on bonds should increase at a quicker pace in line with the slight rise in Italian government bonds in the long term.

Greater volumes of loans in 2020 will not be sufficient to support the recovery of the traditional brokerage margin, still penalised by the reduction in the banking spread. The margin from customers may return to slight growth only in the next few months. The overall interest rate margin will continue to be supported by the benefit linked to the ECB funds, thanks to the more favourable conditions on foreign TLTRO III, extended to June 2022 and the additional auctions to be conducted in 2021. The contribution of the interest rate margin from the return on securities portfolios will be lower, given the revision of government yields. Management revenues and banking mediation on savings are expected to recover: from 2021 there will be a greater contribution to profitability from indirect funding revenues which will be in any case conditional on the capacity of intermediaries to intercept the accumulation of liquidity created in household financial portfolios. Pressure on liquidity and payment management revenues will also experience greater pressures. Consumer payment habits, acquired especially during lockdown, and the regulatory interventions to limit tax evasion, even though they favour the reduction of costs for banks, could erode some revenue items given the lower commissions from electronic instruments compared to more traditional means.

In spite of the fact that extraordinary measures introduced to support the solvency of households and businesses have allowed in 2020 to limit the increase in default rates, an increase in credit risk is probable in 2021, due to the progressively lower impact of the extraordinary measures and to the delay in the formation of non-performing loans. The impact on income statements will be influenced also by the extraordinary adjustments linked to transfers of NPL which are expected to follow. The strong attention of the supervisory authority to timely identification of credit risk, EBA's request to introduce new documentation assessing the potential exposures of UTPs and the improvement of the economic situation should allow the process of the formation of new non-performing loans and the continuation of the de-risking process. Overall ROE for the sector, confirmed down in 2020 and growing slightly in 2021, will remain under 4% for some time.

The worsening of the scenario in 2020, which delays a sustained recovery of the Italian economy, may continue to impact on the Group's performance. It is realistic to imagine, with the end of mesures supporting the economy, the emergence of new impaired loan flows; however, the cost of lending will benefit from the effects linked to synthetic securitisation transactions and the completion of the "Hydra- M" demerger transaction. The Parent Company will continue to benefit from the significant extraordinary monetary policy measures of the ECB (LTRO/PELTRO/TLTRO III). After having had access in 2020 to an overall amount of TLTRO III of EUR 24 bn, it may benefit from an availability (today amounting to approx. EUR 27 bn) destined to be further increased due to the effect of the monetary policy decisions taken by the ECB in December 2020. Any additional recourse to the TLTRO III in 2021 may be made to deal with the potential future requirements to support the economic system, within the limit of the borrowing allowance. With regard to institutional funding, the changed context has slowed down the implementation of the Group's issue plans for 2020. Access to the market only resumed in September 2020, with the EUR 300 ml Tier 2 issue, while in December 2020 the Parent Company completed a Senior preferred bond issue of EUR 750 mln. An issue plan is anticipated for 2021, aimed at satisfying the MREL requirement, which takes into account also the capital strengthening illustrated in the *Capital Plan* approved by the Board of Directors in January 2021. On 29 January 2021, the Parent Company sent the *Capital Plan* to the ECB, for its approval to the extent of its competence. The *Capital Plan* was prepared with the objective of finding a potential structural solution for the Parent Company, including an M&A transaction. In the event that the implementation of a structural solution does not take place in the short/medium term, the *Capital Plan* envisages a capital increase of EUR 2.5 bn which, if carried out, is expected to take place at market conditions and with the the Italian government participating in proportion to the shares held. The capital increase plan is subject to shareholders' approval.

BMPS could find itself below the *overall capital requirements*, affecting the *Capital Conservation Buffer*, starting from 31 March 2021 and until the date of completion of the capital strengthening transaction envisaged for 3Q2021. The Parent Company is committed to transactions aimed at minimising these effects. In any case, the shortfall comes in size under the flexibility of use of the CCB made public by the ECB as part of the temporary capital relief. In the meantime, two synthetic securitisation transactions have been completed (including one with the support of the European Investment Fund, (EIF) and financial guarantees have been acquired from SACE. Further actions, to be completed in the first quarter of 2021, are currently being finalised in addition to those that have already been completed in December 2020 and January 2021, including the recomposition of the BTP portfolio, benefiting from the low interest rate and spreads.

Annexes

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

Reconciliation between the reclassified income statement as at 31 December 2020 and related statutory accounts

Item	Income Statement accounts	31/12/20	Effects on income from allocation of BAV acquisition costs to BMPS (PPA)	Reclassification of dividends on treasury stock transactions	Reclassification of the portion of profits from equity investments	Reclassification provision to BRRD and DGSD funds	Recovery of stamp duty and customers' expenses	DTA Fee	Restructuring costs (Personnel expenses for early retirement)	Securitization, Recapitalization and Commitment Costs	Cost of credit	Restatement MP Belgium S.A.	31/12/20	Reclassified Income Statement accounts
			5.6	-	-	-	-	-	-	**13.6**	-	-	**1,290.6**	**Net interest income**
10	Interest income and similar revenues	1,975.1	5.6	-	-	-	-	-	-	-	-	-	1,980.7	
	of which interest income calculated applying the effective interest rate method	1,763.4	-	-	-	-	-	-	-	-	-	-		
20	Interest expense and similar charges	(703.7)	-	-	-	-	-	-	-	13.6	-	-	(690.1)	
			-	-	-	-	-	-	-	**37.1**	-	-	**1,430.1**	**Net fee and commision income**
40	Fee and commission income	1,595.7	-	-	-	-	-	-	-	-	-	-	1,595.7	
50	Fee and commission expense	(202.7)	-	-	-	-	-	-	-	37.1	-	-	(165.6)	
70	Dividends and similar income	10.3	-	(1.6)	92.2	-	-	-	-	-	-	-	**101.0**	**Dividends, similar income and gains (losses) on investments**
			-	**1.6**	-	**3.6**	-	-	-	-	**0.5**	-	**143.6**	**Net profit (loss) from trading, from financial assets/liabilities measuerd at fair value and Net profit (loss) on disposals/repurchases**
80	Net profit (loss) from trading	34.0	-	1.6	-	-	-	-	-	-	-	-	35.6	
100	Gains/(losses) on disposal/repurchase of:	118.5	-	-	-	-	-	-	-	-	**(0.4)**	-	**118.1**	
	a) financial assets measured at amortised cost	113.4	-	-	-	-	-	-	-	-	(0.4)	-	113.0	
	b) Financial assets measured at fair value through other comprehensive income	0.2	-	-	-	-	-	-	-	-	-	-	0.2	
	c) financial liabilities	4.9	-	-	-	-	-	-	-	-	-	-	4.9	
110	Net profit (loss) from other financial assets and liabilities measured at fair value through profit or loss	(14.6)	-	-	-	*3.6*	-	-	-	-	**0.9**	-	**(10.1)**	
	a) financial assets and liabilities designated at fair value	0.2	-	-	-	-	-	-	-	-	-	-	0.2	
	b) other financial assets mandatorily at fair value	(14.8)	-	-	-	3.6	-	-	-	-	0.9	-	(10.3)	
90	Net profit (loss) from hedging	2.6	-	-	-	-	-	-	-	-	-	-	**2.6**	**Net profit (loss) from hedging**
230	Other operating expenses/income	229.6	-	-	-	-	(280.1)	-	-	-	-	-	**(50.5)**	**Other operating income (expenses)**
190	Administrative expenses:	(2,550.8)	-	-	-	**136.7**	**259.6**	**71.0**	**93.6**	**11.4**	-	-	**(1,978.4)**	**Administrative expenses**
	a) personnel expenses	(1,508.7)	-	-	-	-	-	-	93.6	-	-	-	(1,415.1)	a) personnel expenses
	b) other administrative expenses	(1,042.1)	-	-	-	136.7	259.6	71.0	-	11.4	-	-	(563.3)	b) other administrative expenses
			0.9	-	-	-	**20.5**	-	-	-	-	-	**(225.4)**	Net value adjustments to property, plant and equipment and intangible assets
210	Net adjustments to/recoveries on property, plant and equipment	(171.4)	-	-	-	-	20.5	-	-	-	-	-	(150.9)	
220	Net adjustments to/recoveries on intangible assets	(75.4)	0.9	-	-	-	-	-	-	-	-	-	(74.5)	
130	Net impairment (losses)/reversals on	(749.1)	-	-	-	-	-	-	-	-	**20.3**	-	**(747.6)**	**Cost of customers credit**
	a) financial assets measured at amortised cost	(749.3)	-	-	-	-	-	-	-	-	5.6	-	(743.7)	*130a) financial assets measured at amortised cost - customers*
	b) financial assets measured at fair value through other comprehensive income	0.2	-	-	-	-	-	-	-	-	(0.2)	-		
			-	-	-	-	-	-	-	-	0.4	-	0.4	*100a) Loans to customers measured at amortised cost*
			-	-	-	-	-	-	-	-	(0.9)	-	(0.9)	*110b) Loans*
			-	-	-	-	-	-	-	-	15.4	-	**15.4**	*200 a) Net provision for risks and charges related to financial guarantess and other commitments*
140	Modification gains/(losses)	(18.8)	-	-	-	-	-	-	-	-	-	-	(18.8)	*140 Modification gains (losses)*
			-	-	-	-	-	-	-	-	(5.4)	-	**(5.4)**	**Net impairment (losses)/reversals on securities and loans to banks**
160	Net insurance premiums		-	-	-	-	-	-	-	-	-	-		
170	Other net insurance income (expense)		-	-	-	-	-	-	-	-	-	-		
200	Net provision for risks and charges:	(968.6)	-	-	-	-	-	-	-	-	(15.4)	-	**(984.0)**	**Net provisions for risks and charges**
	a) commitments and guarantees issued	4.7	-	-	-	-	-	-	-	-	(15.4)	-	(10.7)	
	b) other net provisions	(973.3)	-	-	-	-	-	-	-	-	-	-	(973.3)	
250	Gains (losses) on investments	95.0	-	-	(92.2)	-	-	-	-	-	-	-	**2.8**	**Gains (losses) on other investments**
			-	-	-	-	-	-	(93.6)	(60.2)	-	-	**(153.7)**	Restructuring costs /One-0ff costs
			-	-	-	(140.3)	-	-	-	-	-	-	**(140.3)**	Risks and charges related to the SRF, DGS and similar schemes
			-	-	-	-	-	(71.0)	-	-	-	-	**(71.0)**	DTA Fee
280	Gains (losses) on disposal of investments	43.4	-	-	-	-	-	-	-	(2.0)	-	-	**41.4**	Gains (losses) on disposal of investments
290	Profit (loss) before tax from continuing operations	(1,350.9)	6.5	-	-	-	0.0	-	-	-	(0.0)	-	**(1,344.4)**	Profit (loss) for the year before tax
300	Tax (expense)/recovery on income from continuing operations	(338.2)	(2.1)	-	-	-	-	-	-	-	-	-	**(340.3)**	Tax (expense)/recovery on income from continuing operations
310	Profit (loss) after tax from continuing operations	(1,689.1)	4.3	-	-	-	0.0	-	-	-	(0.0)	-	**(1,684.8)**	Profit (loss) after tax
320	Profit (loss) after tax from discontinued operations	-	-	-	-	-	-	-	-	-	-	-	**-**	
330	Profit (loss) for the year	(1,689.1)	4.3	-	-	-	0.0	-	-	-	(0.0)	-	**(1,684.8)**	Net profit (loss) for the year including non-controlling interests
340	Net profit (loss) attributable to non-controlling interests	(0.1)	-	-	-	-	-	-	-	-	-	-	**(0.1)**	Net profit (loss) attributable to non-controlling interests
			(4.3)	-	-	-	-	-	-	-	-	-	**(4.3)**	PPA (Purchase Price Allocation)
	Parent company's net profit (loss)	**(1,689.0)**	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**(1,689.0)**	**Parent company's net profit (loss) for the year**

Reconciliation between the reclassified income statement as at 31 December 2019 and related statutory accounts

Items	Income Statement accounts	31/12/19	Effects on income from allocation of BAV acquisition costs to BMPS (PPA)	Reclassification of dividends on treasury stock transactions	Reclassification of the portion of profits from equity investments	Reclassification provision to BRRD and DGSD funds	Recovery of stamp duty and customers' expenses	DTA Fee	Restructuring costs (Personnel expenses for early retirement)	Securitization, Recapitalization and Commitment Costs	Cost of credit	Restatement MP Belgium S.A.	31/12/19	Reclassified Income Statement accounts
			7.1	-	-	-	-	-	-	-	-	**3.8**	**1,501.3**	**Net interest income**
10	Interest income and similar revenues	2,105.9	7.1	-	-	-	-	-	-	-	-	7.7	2,120.7	
	of which interest income calculated applying the effective interest rate method	*1,996.4*	-	-	-	-	-	-	-	-		-		
20	Interest expense and similar charges	(615.5)	-	-	-	-	-	-	-	-	-	(3.9)	(619.4)	
			-	-	-	-	-	-	-	-	-	**0.7**	**1,449.5**	**Net fee and commission income**
40	Fee and commission income	1,714.3	-	-	-	-	-	-	-	-	-	0.9	1,715.2	
50	Fee and commission expense	(265.5)	-	-	-	-	-	-	-	-	-	(0.2)	(265.7)	
70	Dividends and similar income	11.2	-	(1.8)	86.2	-	-	-	-	-	-	-	**95.6**	**Dividends, similar income and gains (losses) on investments**
			-	**1.8**	-	**7.9**	-	-	-	-	**60.6**	**(2.5)**	**322.2**	**Net profit (loss) from trading, from financial assets/liabilities measuerd at fair value and Net profit (loss) on disposals/repurchases**
80	Net profit (loss) from trading	87.0	-	1.8	-	-	-	-	-	-	-	(2.5)	**86.3**	
100	Gains/(losses) on disposal/repurchase of:	**112.5**	-	-	-	-	-	-	-	-	5.0	-	**117.5**	
	a) financial assets measured at amortised cost	61.0	-	-	-	-	-	-	-	-	5.0	-	66.0	
	b) Financial assets measured at fair value through other comprehensive income	52.4	-	-	-	-	-	-	-	-	-	-	52.4	
	c) financial liabilities	(0.9)	-	-	-	-	-	-	-	-	-	-	(0.9)	
110	Net profit (loss) from other financial assets and liabilities measured at fair value through profit or loss	**54.9**	-	-	-	*7.9*	-	-	-	-	55.6	-	**118.4**	
	a) financial assets and liabilities measured at fair value	(11.2)	-	-	-	-	-	-	-	-	-	-	(11.2)	
	b) other financial assets mandatorily at fair value through profit or loss	66.1	-	-	-	7.9	-	-	-	-	55.6	-	129.6	
90	Net profit (loss) from hedging	**(4.6)**	-	-	-	-	-	-	-	-	-	-	**(4.6)**	**Net profit (loss) from hedging**
230	Other operating expenses/income	**204.4**	-	-	-	-	(284.7)	-	-	-	-	0.1	**(80.2)**	**Other operating income (expenses)**
190	Administrative expenses:	**(2,467.3)**	-	-	-	**115.5**	**268.5**	**70.6**	**(20.9)**	**7.4**	**-**	**(8.2)**	**(2,034.4)**	**Administrative expenses**
	a) personnel expenses	(1,408.1)	-	-	-	-	-	-	(20.9)	-	-	(4.0)	(1,433.0)	a) personnel expenses
	b) other administrative expenses	(1,059.2)	-	-	-	115.5	268.5	70.6	-	7.4	-	(4.2)	(601.4)	b) other administrative expenses
			10.7	-	-	-	**16.2**	-	-	-	-	**(0.9)**	**(255.2)**	Net value adjustments to property, plant and equipment and intangible assets
210	Net adjustments to/recoveries on property, plant and equipment	**(182.3)**	-	-	-	-	16.2	-	-	-	-	(0.5)	(166.6)	
220	Net adjustments to/recoveries on intangible assets	**(98.9)**	10.7	-	-	-	-	-	-	-	-	(0.4)	(88.6)	
130	Net impairment (losses)/reversals on	**(609.6)**	-	-	-	-	-	-	-	-	**28.3**	**2.8**	**(582.8)**	**Cost of customers loans**
	a) financial assets measured at amortised cost	(603.3)	-	-	-	-	-	-	-	-	(0.9)	2.8	(601.4)	*130a) financial assets measured at amortised cost - customers*
	b) financial assets measured at fair value through other comprehensive income	(6.3)	-	-	-	-	-	-	-	-	6.2	-		
			-	-	-	-	-	-	-	-	(5.0)	-	(5.0)	*100a) Loans to customers measured at amortised cost*
			-	-	-	-	-	-	-	-	(55.6)	-	(55.6)	*110b) Loans*
			-	-	-	-	-	-	-	-	83.6	-	**83.6**	*200 a) Net provision for risks and charges related to financial guarantess and other commitments*
140	Modification gains/(losses)	**(4.3)**	-	-	-	-	-	-	-	-	-	-	(4.3)	*140 Modification gains (losses)*
			-	-	-	-	-	-	-	-	(5.3)	-	**(5.3)**	**Net impairment (losses)/reversals on securities and loans to banks**
160	Net insurance premiums	-	-	-	-	-	-	-	-	-	-	-		
170	Other net insurance income (expense)	-	-	-	-	-	-	-	-	-	-	-		
200	Net provision for risks and charges:	**(72.1)**	-	-	-	-	-	-	-	-	**(83.6)**	**(0.2)**	**(155.9)**	**Net provisions for risks and charges**
	a) commitments and guarantees issued	83.6	-	-	-	-	-	-	-	-	(83.6)	-		
	b) other net provisions	(155.7)	-	-	-	-	-	-	-	-	-	(0.2)	(155.9)	
250	Gains (losses) on investments	**80.6**	-	-	(86.2)	-	-	-	-	-	-	-	**(5.6)**	**Gains (losses) on other investments**
			-	-	-	-	-	-	20.9	(21.2)	-	-	**(0.3)**	Restructuring costs /One-0ff costs
			-	-	-	(123.4)	-	-	-	-	-	-	**(123.4)**	Risks and charges related to the SRF, DGS and similar schemes
			-	-	-	-	-	(70.6)	-	-	-	-	**(70.6)**	DTA Fee
280	Gains (losses) on disposal of investments	**3.0**	-	-	-	-	-	-	-	-	-	-	**3.0**	Gains (losses) on disposal of investments
290	Profit (loss) before tax from continuing operations	**53.7**	**17.8**	-	-	-	0.0	-	-	**(13.8)**	-	**(4.4)**	**53.3**	Profit (loss) for the year before tax
300	Tax (expense)/recovery on income from continuing operations	**(1,068.7)**	(5.9)	-	-	-	-	-	-	-	-	-	**(1,074.6)**	Tax (expense)/recovery on income from continuing operations
310	Profit (loss) after tax from continuing operations	**(1,015.0)**	**11.9**	-	-	-	0.0	-	-	**(13.8)**	-	**(4.4)**	**(1,021.3)**	Profit (loss) after tax
320	Profit (loss) after tax from discontinued operations	**(18.1)**	-	-	-	-	-	-	-	13.8	-	4.4	**0.1**	
330	Profit (loss)	**(1,033.1)**	11.9	-	-	-	0.0	-	-	-	-	(0.0)	**(1,021.2)**	Net profit (loss) for the year including non-controlling interests
340	Profit (loss) attributable to non-controlling interests	**(0.1)**	-	-	-	-	-	-	-	-	-	-	**(0.1)**	Net profit (loss) attributable to non-controlling interests
		-	(11.9)	-	-	-	-	-	-	-	-	-	**(11.9)**	PPA (Purchase Price Allocation)
	Parent company's net profit (loss)	**(1,033.0)**	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**(1,033.0)**	**Parent company's net profit (loss) for the year**

Reconciliation between the reclassified balance sheet and related statutory accounts at December 2020

Items	Balance-sheet Items - Assets	31/12/20	Other financial assets @ FVTPLM - Loans to banks	Loans to customers	Trading derivatives	Securities	Loans to Banks @ AC - Loans to Central Banks	Non-current assets held for sale and discontinued operations - Property, plant and equipement	Non-current assets held for sale and disposal groups - Others	Change in value of macro-hedged financial assets	31/12/20	Reclassified Balance-sheet Items - Assets
10	Cash and cash equivalents	**763.8**									**763.8**	**Cash and cash equivalents**
20	Financial assets measured at fair value through profit or loss:	**8,675.9**									**21,623.3**	**Securities assets**
						16,057.8					16,057.8	
	a) financial assets held for trading	8,214.9			(2,967.8)						5,247.1	
	b) financial assets designated at fair value	-										
	c) other financial assets mandatorily measured at fair value	461.0		(142.6)							318.4	
30	Financial assets measured at fair value through other comprehensive income	**5,777.9**				(5,777.9)						
40	Financial assets measured at amortised cost	**126,739.7**										
							28,526				**28,526.2**	**Loans to central banks**
	a) Loans to banks	34,737.9				(759.4)	(28,526)				**5,452.3**	**Loans to banks**
	b) Loans to customers	92,001.8		151.0		(9,520.5)					**82,632.3**	**Loans to customers**
50	Hedging derivatives	**50.8**			2,967.8						**3,018.6**	**Derivatives**
60	Change in value of macro-hedged financial assets(+/-)	**1,032.5**								(1,032.5)	-	
70	Equity investments	**1,107.5**									**1,107.5**	**Equity investments**
80	Reinsurers' share of techincal reserve	**-**									-	
90	Property, plant and equipment	**2,338.8**						-			**2,338.8**	Property, plant and equipment
100	Intangible assets	**183.9**									**183.9**	Intangible assets
	- of which goodwill	*7.9*									*7.9*	*-of which goodwill*
110	Tax assets	**1,986.2**									**1,986.2**	**Tax assets**
	a) current	807.9									807.9	a) current
	b) deferred	1,178.3		-							1,178.3	b) deferred
											2,723.2	**Other assets**
120	Non-current assets and groups of assets held for sale and disposal groups	102.9		(8.4)				-	-		94.5	120 Non-current assets and groups of assets held for sale and disposal groups
130	Other assets	1,596.2		-					-	1,032.5	2,628.7	130 Other assets
	Total Assets	**150,356.1**	-	-	-	-	-	-	-	-	**150,356.1**	**Total Assets**

Items	Balance-sheet Items - Liabilities	31/12/20	Due to central banks	Due to banks	Debt securities issued - customers	Trading derivatives	Financial liabilities designated at fair value	Provision for staff severance indemnities	Fair value change of financial liabilities in hedged portfolios (+/-)	Liabilities associated with non-current assets held for sale and disposal groups	Group Net Equity	31/12/20	Reclassified balance-sheet items - Liabilities
10	Financial liabilities measured at amortised cost	**131,944.0**										**103,719.2**	**Direct funding**
	a) due to banks	28,418.1	(23,933.6)	(4,484.5)								-	
	b) due to customers	90,683.7			823.2							91,506.9	a) due to customers
	c) debts securities issued	12,842.2			(823.2)		193.3					12,212.3	b) Securities issued
			23,933.6									**23,933.6**	**Due to central banks**
				4,484.5								**4,484.5**	**Due to banks**
20	Financial liabilities held for trading	**6,002.0**				(1,456.5)						**4,545.5**	**On-balance-sheet financial liabilities held for trading**
30	Financial liabilities designated at fair value	**193.3**					(193.3)					-	
												3,253.5	**Derivatives**
40	Hedging derivatives	**1,797.0**										1,797.0	Hedging derivatives
						1,456.5						1,456.5	Trading derivatives
50	Change in value of macro-hedged financial liabilities (+/-)	**45.4**							(45.4)			-	
60	Tax liabilities	**4.1**										**4.1**	**Tax liabilities**
	a) current	-										-	*a) current*
	b) deferred	4.1										*4.1*	*b) deferred*
70	Liabilities associated with non-current assets held for sale and disposal groups	**-**								-		-	
												2,572.5	**Other liabilities**
									45.4			45.4	Change in value of macro-hedged financial liabilities (+/-)
										-		-	Liabilities associated with non-current assets held for sale and disposal groups
80	Other liabilities	**2,527.1**										2,527.1	Other liabilities
90	Provisions for employees severance pay	**166.6**						(166.6)				-	
100	Provisions for risks and charges:	**1,892.6**										**2,059.2**	**Provisions for specific use**
								166.6				166.6	a)Provision for staff severance indemnities
	a) financial guarantees and other commitments	154.1										154.1	b) Provision related to guarantees and other commitments given
	b) post-employment benefits	33.0										33.0	c) Pension and other post-retirement benefit obligations
	c) other provisions	1,705.5										1,705.5	d) Other provisions
120	Valuation reserves	**260.9**									(260.9)	-	
150	Reserves	**(1,670.5)**									1670.5	-	
												5,782.7	**Group net equity**
											260.9	260.9	a) Valuation reserves
												-	b) Redeemable shares
												-	c) Equity Instruments
											(1,670.5)	(1,670.5)	d) Reserves
												-	e) Share premium reserve
170	Share capital	**9,195.0**										9,195.0	f) Share capital
											(313.7)	(313.7)	g) Treasury shares (-)
											(1,689.0)	(1,689.0)	h) Net profit (loss) for the year
180	Treasury shares (-)	**(313.7)**									313.7	-	
190	Non-controlling interests (+/-)	**1.3**										**1.3**	Non-controlling interests
200	Net Profit (loss) (+/-) for the year	**(1,689.0)**									1,689.0	-	
	Total Liabilities and Shareholders' Equity	**150,356.1**	-	-	-	-	-	-	-	-	-	**150,356.1**	**Total Liabilities and Shareholders' Equity**

Reconciliation between the reclassified balance sheet and related statutory accounts at December 2019

Items	Balance-sheet Items - Assets	31/12/19	Other financial assets @ FVTPLM - Loans to banks	Loans to customers	Trading derivatives	Securities	Loans to Banks @ AC - Loans to Central Banks	Non-current assets held for sale and disposal groups - Property, plant and equipements	Non-current assets held for sale and discontinued operations -Others	Change in value of macro-hedged financial assets	31/12/19	Reclassified Balance-sheet Items - Assets
10	Cash and cash equivalents	**835.1**		-		-					**835.1**	**Cash and cash equivalents**
20	Financial assets measured at fair value through profit or loss	**10,666.4**		-		-					**24,185.1**	**Securities assets**
						16,810.6					16,810.6	
	a) financial assets held for trading	9,902.5		-	(2,968.2)	-					6,934.3	
	b) financial assets designated at fair value	-		-		-					-	
	c) other financial assets measured at fair value mandatory	763.9	-	(323.7)		-					440.2	
30	Financial assets measured at fair value through other comprehensive income	**6,726.8**		-		(6,726.8)					-	
40	Financial assets measured at amortised cost	**104,707.5**		-		-						
				-		-	9,405.4				**9,405.4**	**Loans to central banks**
	a) Loans to banks	15,722.4	-	-		(774.3)	(9,405.4)				**5,542.7**	**Loans to banks**
	b) Loans to customers	88,985.1		459.4		(9,309.5)					**80,135.0**	**Loans to customers**
50	Hedging derivatives	**73.0**		-	2,968.2	-					**3,041.2**	**Derivatives**
60	Change in value of macro-hedged financial assets(+/-)	**636.0**		-		-				(636.0)	-	
70	Equity investments	**931.0**		-		-					**931.0**	**Equity investments**
80	Technical insurance reserves reassured with third parties	-		-		-					-	
90	Property, plant and equipment	**2,709.1**		-		-		24			**2,733.1**	Property, plant and equipment
100	Intangible assets	**176.1**		-		-					**176.1**	Intangible assets
	- of wich goodwill	*7.9*		-		-					*7.9*	*-of which goodwill*
110	Tax assets	**2,763.0**		-		-					**2,763.0**	**Tax assets**
	a) current	953.5		-		-					953.5	a) current
	b) deferred	1,809.4		-		-					1,809.4	b) deferred
120	Non-current assets and groups of assets held for sale and disposal groups	**159.8**		(135.7)		0		-24	(0.1)		-	
130	Other assets	**1,812.2**		-		-			0.1	636.0	**2,448.3**	Other assets
	Total Assets	**132,196.0**	-	-	-	-	-	-	-	-	**132,196.0**	**Total Assets**

Items	Balance-sheet Items - Liabilities	31/12/19	Due to central banks	Due to banks	Debt securities issued - customers	Trading derivatives	Financial liabilities designated at fair value	Provision for staff severance indemnities	Fair value change of financial liabilities in hedged portfolios (+/-)	Liabilities associated with non-current assets held for sale and disposal groups	Group Net Equity	31/12/19	Reclassified balance-sheet items - Liabilities
10	Financial liabilities measured at amortised cost	**114,148.3**										**94,217.3**	**Direct funding**
	a) due to banks	20,178.1	(16,041.5)	(4,136.6)								-	
	b) due to customers	76,526.9			3,536.3							80,063.2	a) due to customers
	c) debts securities issued	17,443.3			(3,536.3)		247.1					14,154.1	b) Securities issued
			16,041.5									**16,041.5**	**Due to central banks**
				4,136.6								**4,136.6**	**Due to banks**
20	Financial liabilities held for trading	**3,882.6**				(1,446.6)						**2,436.0**	**On-balance-sheet financial liabilities held for trading**
30	Financial liabilities designated at fair value	**247.1**					(247.1)					-	
												2,762.5	**Derivatives**
40	Hedging derivatives	**1,315.9**										1,315.9	Hedging derivatives
						1,446.6						1,446.6	Trading derivatives
50	Change in value of macro-hedged financial liabilities (+/-)	**31.4**							(31.4)			-	
60	Tax liabilities	**3.3**										**3.3**	**Tax liabilities**
	a) current	0.4										*0.4*	*a) current*
	b) deferred	2.9										*2.9*	*b) deferred*
70	Liabilities associated with non-current assets held for sale and disposal groups	-								-		-	
												2,929.4	**Other liabilities**
									31.4			31.4	Change in value of macro-hedged financial liabilities (+/-)
										-		-	Liabilities associated with non-current assets held for sale and disposal groups
80	Other liabilities	**2,898.0**										2,898.0	Other liabilities
90	Provisions for employees severance pay	**178.7**						(178.7)				-	
100	Provisions for risks and charges:	**1,209.8**										**1,388.5**	**Provisions for specific use**
								178.7				178.7	a)Provision for staff severance indemnities
	a) financial guarantees and other commitments	158.8										158.8	b) Provision related to guarantees and other commitments given
	b) post-employment benefits	36.1										36.1	c) Pension and other post-retirement benefit obligations
	c) other provisions	1,014.9										1,014.9	d) Other provisions
120	Valuation reserves	**66.4**									(66.4)	-	
150	Reserves	**(769.2)**									769.2	-	
												8,279.1	**Group net equity**
											66.4	66.4	a) Valuation reserves
												-	b) Redeemable shares
												-	c) Equity Instruments
											(769.2)	(769.2)	d) Reserves
												-	e) Share premium reserve
170	Share capital	**10,328.6**										10,328.6	f) Share capital
											(313.7)	(313.7)	g) Treasury shares (-)
											(1,033.0)	(1,033.0)	h) Net profit (loss) for the year
180	Treasury shares (-)	**(313.7)**									313.7	-	
190	Non-controlling interests (+/-)	**1.8**										**1.8**	Non-controlling interests
200	Net Profit (loss) (+/-) for the year	**(1,033.0)**									1,033.0	-	
	Total Liabilities and Shareholders' Equity	**132,196.0**	-	-	-	-	-	-	-	-	-	**132,196.0**	**Total Liabilities and Shareholders' Equity**

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Consolidated balance sheet

	Assets	31 12 2020	31 12 2019
10.	Cash and cash equivalents	763,777	835,104
20.	Financial assets measured at fair value through profit or loss	8,675,949	10,666,399
	a) financial assets held for trading	8,214,902	9,902,460
	c) other financial assets mandatorily measured at fair value	461,047	763,939
30.	Financial assets measured at fair value through other comprehensive income	5,777,926	6,726,821
40.	Financial assets measured at amortised cost	126,739,732	104,707,537
	a) Loans to banks	34,737,909	15,722,404
	b) Loans to customers	92,001,823	88,985,132
50.	Hedging derivatives	50,818	73,003
60.	Change in value of macro-hedged financial assets (+/-)	1,032,483	635,979
70.	Equity investments	1,107,463	930,976
90.	Property, plant and equipment	2,338,834	2,709,106
100.	Intangible assets	183,945	176,097
	- of which goodwill	*7,900*	*7,900*
110.	Tax assets	*1,986,164*	*2,762,954*
	a) current	807,870	953,534
	b) deferred	1,178,294	1,809,419
120.	Non-current assets and groups of assets held for sale and disposal groups	102,893	159,820
130	Other assets	1,596,119	1,812,211
	Tatal assets	**150,356,103**	**132,196,007**

continues: Consolidated balance sheet

	Total Liabilities and Shareholders' Equity	**31 12 2020**	**31 12 2019**
10.	Financial liabilities measured at amortised cost	131,943,995	114,148,310
	a) due to banks	28,418,072	20,178,137
	b) due to customers	90,683,669	76,526,919
	c) debts securities issued	12,842,254	17,443,253
20.	Financial liabilities held for trading	6,002,020	3,882,623
30.	Financial liabilities designated at fair value	193,332	247,116
40.	Hedging derivatives	1,797,049	1,315,905
50.	Change in value of macro-hedged financial liabilities (+/-)	45,428	31,390
60.	Tax liabilities	4,091	3,361
	a) current	*13*	*422*
	b) deferred	4,078	2,939
80.	Other liabilities	2,527,046	2,897,887
90.	Provision for employees severance pay	166,553	178,653
100.	Provision for risks and charges:	1,892,608	1,209,874
	a) financial guarantees and other commitments	154,081	158,793
	b) post-employment benefits	32,979	36,133
	c) other provisions	1,705,548	1,014,948
120.	Valuation reserves	260,853	66,394
150.	Reserves	(1,670,500)	(769,173)
170.	Share capital	9,195,012	10,328,618
180.	Treasury shares (-)	(313,710)	(313,710)
190.	Non-controlling interests (+/-)	1,310	1,770
200.	Net Profit (loss) (+/-) for the year	(1,688,984)	(1,033,011)
	Total Liabilities and Shareholders' Equity	**150,356,103**	**132,196,007**

Consolidated income statement

Items		31 12 2020	31 12 2019
10.	Interest income and similar revenues	1,975,109	2,105,830
	of which interest income calculated applying the effective interest rate method	*1,763,447*	*1,996,837*
20.	Interest expense and similar charges	(703,663)	(615,476)
30.	**Net interest income**	**1,271,446**	**1,490,354**
40.	Fee and commission income	1,595,743	1,714,284
50.	Fee and commission expense	(202,741)	(265,465)
60.	**Net fee and commission income**	**1,393,002**	**1,448,819**
70.	Dividends and similar income	10,264	11,212
80.	Net profit (loss) from trading	33,969	86,970
90.	Net profit (loss) from hedging	2,620	(4,612)
100.	Gains/(losses) on disposal/repurchase of:	118,503	112,599
	a) financial assets measured at amortised cost	*113,465*	*61,047*
	b) Financial assets measured at fair value through other comprehensive income	*174*	*52,450*
	c) financial liabilities	*4,864*	*(898)*
110.	Net profit (loss) from other financial assets and liabilities measured at fair value through profit or loss	(14,620)	54,926
	a) financial assets and liabilities designated at fair value	*195*	*(11,201)*
	b) other financial assets mandatorily measured at fair value	*(14,815)*	*66,127*
120.	**Net interest and other banking income**	**2,815,184**	**3,200,268**
130.	Net impairment (losses)/reversals on	(749,178)	(609,716)
	a) financial assets measured at amortised cost	*(749,336)*	*(603,335)*
	b) financial assets measured at fair value through other comprehensive income	*158*	*(6,381)*
140.	Modification gains/(losses)	(18,763)	(4,272)
150.	**Net income from banking activities**	**2,047,243**	**2,586,280**
180	**Net income from banking and insurance activities**	**2,047,243**	**2,586,280**
190.	Administrative expenses:	(2,550,872)	(2,467,381)
	a) personnel expenses	*(1,508,735)*	*(1,408,078)*
	b) other administrative expenses	*(1,042,137)*	*(1,059,303)*
200.	Net provision for risks and charges:	(968,564)	(72,010)
	a) commitments and guarantees issued	*4,717*	*83,627*
	b) other net provisions	*(973,281)*	*(155,636)*
210.	Net adjustments to/recoveries on property, plant and equipment	(171,399)	(182,279)
220.	Net adjustments to/recoveries on intangible assets	(75,429)	(98,938)
230.	Other operating expenses/income	229,675	204,335
240.	**Operating expenses**	**(3,536,589)**	**(2,616,273)**
250.	Gains (losses) on investments	95,023	80,622
280.	Gains (losses) on disposal of investments	43,406	2,962
290.	**Profit (loss) before tax from continuing operations**	**(1,350,917)**	**53,591**
300.	Tax (expense)/recovery on income from continuing operations	(338,196)	(1,068,673)
310.	**Profit (loss) after tax from continuing operations**	**(1,689,113)**	**(1,015,082)**
320.	Profit (loss) after tax from discontinued operations	-	(18,060)
330.	**Profit (loss) for the year**	**(1,689,113)**	**(1,033,142)**
340.	Net Profit (loss) attributable to non-controlling interests	(129)	(131)
350.	**Parent company's net profit (loss)**	**(1,688,984)**	**(1,033,011)**

		31 12 2020	31 12 2019
	Basic Earnings per Share (Basic EPS)	**(1.546)**	**(0.936)**
	of continuing operations	(1.546)	(0.919)
	of groups of assets held for sale and discontinued operations	-	(0.016)
	Diluted Earnings per Share (Diluted EPS)	**(1.546)**	**(0.936)**
	of continuing operations	(1.546)	(0.919)
	of groups of assets held for sale and discontinued operations	-	(0.016)

Consolidated statement of comprehensive income

	Items	31 12 2020	31 12 2019
10.	**Profit (loss) for the year**	**(1,689,113)**	**(1,033,142)**
	Other comprehensive income after tax not recycled to profit or loss	**34,311**	**15,424**
20.	Equity instruments designated at fair value through other comprehensive income	(279)	21,413
30.	Financial liabilities designated at fair value through profit or loss (change in the entity's own credit rating)	(6,840)	(2,940)
70.	Defined benefit plans	50,732	(6,238)
80.	Non current assets held for sale	-	438
90.	Share of valuation reserves of equity-accounted investments	(9,302)	2,751
	Other comprehensive income after tax recycled to profit or loss	**159,826**	**227,702**
110.	Exchange differences	(1,486)	(2,178)
120.	Cash flow hedges	(166)	1,845
140.	Financial asseets (other than euity securities) measuret at fair value through other comprehensive income	56,709	147,818
150.	Non-current assets and disposal groups classified as held for sale	-	2,191
160.	Share of valuation reserves of equity-accounted investments	104,769	78,026
170.	**Total other comprehensive income after tax**	**194,137**	**243,126**
180.	**Total comprehensive income (Item 10+170)**	**(1,494,976)**	**(790,016)**
190.	Consolidated comprehensive income attributable to non-controlling interests	(129)	(122)
200.	**Consolidated comprehensive income attributable to Parent Company**	**(1,494,847)**	**(789,894)**

Consolidated statement of changes in equity – 2020

	Balance as at 31 12 2019	Change in opening balances	Balance as at 01 01 2020	Allocation of profit from prior year		Changes during the year									Total equity as at 31 12 2020	Group equity as at 31 12 2020	Non-controlling interests as at 31 12 2020
							Shareolders'equity transactions										
				Reserves	Dividends and other payout	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Treasury shares derivatives	Stock options	Changes in equity investments	Total comprehensive income as at 31 12 2020			
Share capital:	10,329,325	-	10,329,325	-	-	(1,133,606)	-	-	-	-	-	-	-	-	9,195,719	9,195,012	707
a) ordinary shares	10,329,325	-	10,329,325	-	-	(1,133,606)	-	-	-	-	-	-	-	-	9,195,719	9,195,012	707
Share premium	2	-	2	-	-	-	-	-	-	-	-	-	-	-	2	-	2
Reserves:	(769,220)	-	(769,220)	(1,033,233)	-	131,644	-	-	-	-	-	-	-	-	(1,670,809)	(1,670,500)	(309)
a) from profits	(734,232)	-	(734,232)	(1,033,233)	-	(55,376)	-	-	-	-	-	-	-	-	(1,822,841)	(1,822,532)	(309)
b) other	(34,988)	-	(34,988)	-	-	187,020	-	-	-	-	-	-	-	-	152,032	152,032	-
Valuation reserves	67,634	-	67,634	-	-	122	-	-	-	-	-	-	-	194,137	261,893	260,854	1,039
Treasury shares	(313,710)	-	(313,710)	-	-	-	-	-	-	-	-	-	-	-	(313,710)	(313,710)	-
Net profit (loss)	(1,033,142)	-	(1,033,142)	1,033,233	(91)	-	-	-	-	-	-	-	-	(1,689,113)	(1,689,113)	(1,688,984)	(129)
Total equity	8,280,889	-	8,280,889	-	(91)	(1,001,841)	-	-	-	-	-	-	-	(1,494,976)	5,783,982	5,782,672	1,310
Group equity	8,279,119	-	8,279,119	-	-	(1,001,600)	-	-	-	-	-	-	-	(1,494,847)	5,782,672	5,782,672	X
Non-controlling interests	1,770	-	1,770	-	(91)	(240)	-	-	-	-	-	-	-	(129)	1,310	X	1,310

As at 31 December 2020 the Group's net equity, including non-controlling interests and net profit for the year, amounted to EUR 5,784.0 mln, as compared to EUR 8,280.9 mln as at 31 December 2019, with a total net decrease of EUR 2,496.9 mln.

In addition to the loss for the year of EUR 1,689.1 mln, the most significant element with an impact on shareholders' equity was the demerger transaction known as "Hydra M" in favour of AMCO - which became effective on 1 December 2020 - which has resulted in a EUR 943.8 mln overall decrease in shareholders' equity (including related costs of EUR 9.2 mln).

The column "Changes in reserves", as a result of this transaction, includes in the items:

1. "Share capital a) ordinary shares", a EUR 1,133.6 mln decrease representing the cancellation of 137,884,185 ordinary shares of the Parent Company;
2. "Reserves b) other", a EUR 187.0 mln net increase resulting from:
   - an increase of EUR 196.2 mln due to the decrease recorded between the reference date of the demerger plan and its effective date, of the components of the demerged items. This change in value - deriving from economic events, such as write-downs or revaluations - was settled with AMCO by means of a decrease in the shareholders' equity transferred;
   - a decrease of EUR 9.2 mln due to costs incurred for the transaction;
3. "Valuation reserve", an increase of EUR 2.8 mln attributable entirely to shares included among the demerged items.

The valuation reserves showed a total positive change of EUR 194.1 mln. Please refer to the statement of comprehensive income for details of the individual components.

Consolidated statement of changes in equity – 2019

	Balance as at 31 12 2018	Change in opening balances	Balance as at 01 01 2019	Allocation of profit from prior year		Changes during the year									Total equity as at 31 12 2019	Group equity as at 31 12 2019	Non-controlling interests as at 31 12 2019
							Shareolders'equity transactions										
				Reserves	Dividends and other payout	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Stock options Treasury shares derivatives		Changes in equity investments	Total comprehensive income as at 31 12 2019			
Share capital:	10,329,570	-	10,329,570	-	-	(128)	-	-	-	-	-	-	(117)	-	10,329,325	10,328,618	707
a) ordinary shares	10,329,570	-	10,329,570	-	-	(128)	-	-	-	-	-	-	(117)	-	10,329,325	10,328,618	707
Share premium	5	-	5	-	-	(2)	-	-	-	-	-	-	-	-	2	-	2
Reserves:	(1,124,839)	-	(1,124,839)	278,560	-	76,981	-	-	-	-	-	-	78	-	(769,220)	(769,173)	(47)
a) from profits	(999,492)	-	(999,492)	278,560	-	(13,378)	-	-	-	-	-	-	78	-	(734,232)	(734,185)	(47)
b) other	(125,347)	-	(125,347)	-	-	90,359	-	-	-	-	-	-	-	-	(34,988)	(34,988)	-
Valuation reserves	(175,492)	-	(175,492)	-	-	-	-	-	-	-	-	-	-	243,126	67,634	66,394	1,239
Treasury shares	(313,710)	-	(313,710)	-	-	-	-	-	-	-	-	-	-	-	(313,710)	(313,710)	-
Net profit (loss)	278,667	-	278,667	(278,560)	(107)	-	-	-	-	-	-	-	-	-1,033,142	(1,033,142)	(1,033,011)	(131)
Total equity	8,994,201	-	8,994,201	-	(107)	76,851	-	-	-	-	-	-	(39)	(790,016)	8,280,890	8,279,119	1,770
Group equity	8,991,959	-	8,991,959	-	-	76,986	-	-	-	-	-	-	68	(789,894)	8,279,119	8,279,119	X
Non-controlling interests	2,242	-	2,242	-	(107)	(135)	-	-	-	-	-	-	(107)	(122)	1,770	X	1,770

As at 31 December 2019 the equity, inclusive of the equity attributable to non-controlling interests and the result for the year, amounted to
EUR 8,280.9 mln, compared to EUR 8,994.2 mln as at 31 December 2018, with an overall net decrease of EUR 713,3 mln
.

The most significant phenomena impacting net equity, in addition to the loss for the year of EUR 1,033.1 mln, were:

1. the "Changes in reserve" column includes:
    a. "Reserves a) from profits", amounting to EUR -13.4 mln, the reversal of the OCI negative reserve due to the sale of certain securities of the Parent Company;
    b. "Reserves - b) other", equal to EUR 90.4 mln, the reclassification from financial liabilities at amortised cost of EUR 76 mln referring to the indemnity issued to the Bank of New York on 10 March 2009, as the ten-year term had been completed;

2. valuation reserves posted a total increase of EUR 243.1 mln (the detailed components of which are shown in the statement of comprehensive income), almost fully attributable to debt securities measured at fair value through other comprehensive income, including those relating to associates measured according to the equity method, essentially due to the trends in the spread on Italian government securities.

Consolidated cash flow statement - indirect method

A. OPERATING ACTIVITIES	31 12 2020	31 12 2019
1. Cash flow from operations	**520,162**	**915,410**
profit (loss) (+/-) for the year	(1,689,113)	(1,033,142)
capital gains/losses on financial assets held for trading and on assets/liabilities designated at fair value (+/-)	(157,312)	(140,453)
net gains (losses) on hedging activities	(2,620)	4,612
net impairment losses/reversals	963,526	788,173
net adjustments/recoveries on property, plant and equipment and intangible assets (+/-)	246,828	281,216
net provisions for risks and charges and other costs/revenues (+/-)	977,038	81,348
unpaid charges, taxes and tax credit	338,196	1,068,673
net adjustments to/recoveries on discontinued operations, after tax (+/-)	-	(1,778)
other adjustments	(156,381)	(133,239)
2. Cash flow from (used in) financial assets	**(20,025,951)**	**(2,929,649)**
financial assets held for trading	1,909,388	(1,256,973)
other financial assets mandatorily measured at fair value	181,731	7,859
Financial assets measured at fair value through other comprehensive income	1,260,079	4,662,270
Financial assets measured at amortised cost	(23,516,262)	(6,206,284)
other assets	139,113	(136,521)
3. Cash flow from (used in) financial liabilities	**19,441,323**	**1,957,834**
Financial liabilities measured at amortised cost	17,754,561	1,605,023
financial liabilities held for trading	2,080,508	707,795
financial liabilities designated at fair value	(63,831)	(27,278)
other liabilities	(329,915)	(327,706)
Net cash flow from (used in) operating activities	**(64,466)**	**(56,405)**

B. INVESTMENT ACTIVITIES	31 12 2020	31 12 2019
1. Cash flow from	**138,913**	**79,988**
sales of equity investments	-	1,550
dividends collected on equity investments	638	22,825
sales of property, plant and equipment	138,176	13,438
sales of intangible assets	99	217
sales of subsidiaries and business units	-	41,958
2. Cash flow used in	**(145,443)**	**(134,009)**
purchase of property, plant and equipment	(62,053)	(89,768)
purchase of intangible assets	(83,390)	(44,241)
Net cash flow from (used in) investment activities	**(6,530)**	**(54,021)**

C. FUNDING ACTIVITIES		
dividend distribution and other	(331)	(108)
Net cash flow from (used in) funding activities	**(331)**	**(108)**

NET CASH FLOW FROM (USED IN) OPERATING, INVESTMENT AND FUNDING ACTIVITIES DURING THE YEAR	**(71,327)**	**(110,534)**

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

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A.1 – General

Section 1 - Statement of compliance with international accounting principles

Pursuant to Legislative Decree no. 38 of 28 February 2005, these consolidated financial statements were prepared in accordance with the international accounting principles issued by the International Accounting Standards Board (IASB) including interpretations by the IFRS Interpretations Committee, as endorsed by the European Commission, pursuant to EC Regulation no. 1606 of 19 July 2002 which was effective as at 31 December 2020.

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

For an overview of the standards endorsed during 2020 or those endorsed in previous years, whose application is scheduled for 2020 (or future years), please refer to "Section 5 - Other Aspects" below, which also describes the main impacts for the Group.

All information required by the international accounting standards and Supervisory Authorities (Bank of Italy, CONSOB and ESMA) has been provided in the report on operations and the notes to the financial statements, in addition to other non-mandatory information deemed necessary to provide a true and fair, relevant, reliable, comparable and meaningful view of the Group's results of operations.

Section 2 - General accounting standards

The Consolidated Financial Statements consist of the balance sheet, income statement, statement of comprehensive income, statement of changes in equity, the cash flow statement and the notes to the consolidated financial statements, and are accompanied by the directors' report on operations, financial results achieved, and the Group's equity and financial situation.

The Consolidated Financial Statements as at 31 December 2020 have been prepared based on the provisions contained in Circular no. 262 of 22 December 2005 issued by the Bank of Italy "Bank financial statements: layout and rules for compilation", as amended by the sixth update issued on 30 November 2018 and integrated by the notice issued on 15 December 2020 by the Bank of Italy concerning the impact of COVID-19 and the measures in support of the economy and the IAS/IFRS amendments.

The Financial Statements have been prepared based on a going concern assumption, according to the generally accepted principles of accrual accounting, relevance and materiality of information, priority of substance over form and with a view to encouraging consistency with future statements.

The Consolidated Financial Statements are prepared with transparency and provide a true and fair view of financial position and result of operations for the year, the changes in shareholders' equity and cash flows.

If the information required by international accounting standards and provisions contained in aforementioned circular were deemed insufficient for providing a true and fair representation, the notes to the financial statements contain supplemental information necessary for that purpose.

If – in exceptional cases – the application of a provision set forth in the international accounting standards proved to be incompatible with a true and fair view of the Group's financial position and result of operations, then such provision would not be applied. The reasons for deviation and its impact on the representation of the financial position and result of operations would, in such a case, be explained in the notes to the financial statements.

Each item in the balance sheet, income statement and statement of comprehensive income also indicates the amount for the prior year, unless an accounting standard or interpretation allows or provides otherwise.

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

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

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

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

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

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

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

Items of a different nature or with different allocation were recognised separately, unless they were considered irrelevant. All amounts shown in the financial statements were adjusted so as to reflect any events subsequent to the date of closing for which an adjustment is mandatory, according to IAS 10 (adjusting events). Non-adjusting events reflecting circumstances that occurred after the reporting date are disclosed as part of the notes to the financial statements, Part A, Section 4, if they are material and may affect the ability of users to make proper evaluations and decisions.

Accounting policies relevant to the preparation of the financial statements in the context of the COVID-19 pandemic

The year 2020 was dominated at the European level by the spread of the COVID-19 pandemic: after a sharp contraction in the spring resulting from the suspension of business activities, the economy recovered during the summer; however, in the autumn the second wave of the pandemic in Italy led to a slowdown in global activity at the end of 2020. The launch of the vaccination campaigns has positively affected the outlook for the medium term, but the timing and intensity of the recovery remain uncertain. Despite the obvious uncertainty linked to developments on the health front, the consensus view on the macroeconomic outlook is that the important government initiatives implemented in most countries and at the EU level will allow a significant recovery of economic activities or in any case contain the negative effects of a renewed spread of the virus. Therefore, despite significantly negative repercussions on production in the short term (2020), already from the beginning of next year we should observe a rapid trend reversal and a significant recovery of GDP in 2021. Therefore, it seems reasonable - at the moment - to continue to share the expectations expressed by the Authorities in their recently published forecasts (the ECB, first of all, on 10 December 2020), confirming that the current dramatic contraction in the real economy will be followed by a significant recovery, in the wake of government measures in support of the economy.

In this situation, European Regulators have issued a series of measures to enable financial intermediaries to manage this period of stress with flexibility, ensuring - first of all - their support to the measures adopted by national governments to deal with the systemic economic impact of the COVID-19 pandemic in the form of a mandatory moratorium on payments, as well as to similar initiatives launched independently by the banks. In addition, credit institutions were encouraged to apply their judgement in their forward-looking credit assessments as per IFRS 9, to acknowledge the unique characteristics of this highly exceptional situation. In the documents published by the authorities /standard setters, it is suggested that, in light of the current uncertainty, according to IFRS 9, the methods already in use to calculate the Expected Credit Loss (ECL) should not be applied mechanically and judgement should be used as necessary. In particular, it was pointed out that, according to IFRS 9, a change in the accounting approach is required and allowed, at the same time, if circumstances change.

In detail, with reference to the accounting area, the interventions of the regulators / standard setters have focused, among others, on the following issues:

- guidance on the classification of loans, issued by IASB, ECB and EBA, which provide the guidelines for the treatment of moratoria with particular reference to the classification as forborne loans and performing/non-performing loans;

- the calculation of the Expected Credit Loss (ECL) according to IFRS 9, in a forward-looking perspective, in particular the issue of the use of macroeconomic scenarios (issue addressed by the IFRS Foundation in general terms and, in more detail, by the ECB), the assessment of the significant increase in credit risk (SICR) and the inclusion of government guarantees in the calculation of the expected credit loss (ECL);
- recognition of the effects (gain/loss on forbearance) related to contractual changes resulting from customer support measures;
- financial reporting.

The following table provides a list of the main documents providing interpretation and support to the implementation of the accounting standards in relation to the impacts of COVID-19, issued by the European regulatory and supervisory bodies and standard setters in the 2020 financial year and in the first few months of the 2021 financial year, and used in preparing these consolidated financial statements.

Authority	Date	Title
International Accounting Standard Board (IASB)		
Statement	27/03/20	Accounting for expected credit losses applying IFRS 9 Financial instrument in the light of current uncertanty resulting form the covid-19 pandemic
Amendement	28/05/20	Covid-19 related rent concessions (approved by Commission Regulation (EU) 2020/1434 of 09 October 2020)
Europeann Central Bank (ECB)		
Comunication	20/03/20	ECB Banking Supervisor provides further flexibility to banks in reaction to coronavirus
ECB letter	01/04/20	IFRS 9 in the context of the coronavirus (Covid-19) pandemic
Comunication	04/12/20	Identification and measurement of credit risk in the context of the coronavirus (COVID 19) pandemic
European Banking Authority (EBA)		
Statement	25/03/20	Statement on the application of the prudential framework regarding Default, Forbearance and IFRS 9 in the light of Covid-19 measures
Guidelines	02/04/20	Guidelines on legislative and non-legislative moratoria on loan repayment applied in the light of the Covid-19 crisis (EBA/GL/2020/02)
Guidelines	25/06/20	Guidelines amending Guidelines EBA/GL/2020/02 (EBA/GL/2020/08)
Comunication	21/09/20	EBA phases out its Guidelines on legislative and non-legislative loan repayments moratoria
Guidelines	02/12/20	Guidelines amending Guidelines EBA/GL/2020/02 (EBA/GL/2020/15)
European Securities and Market Authority (ESMA)		
Advice	11/03/20	ESMA recommends action by financial market participant for Covid-19 impact
Statement	25/03/20	Accounting implication of the Covid-19 outbreak on the calculation of expected credit losses in accordance with IFRS 9
Public Statement	20/05/20	Implication of the Covid-19 outbreak on the half-yearly financial report
Public Statement	28/10/20	European common enforcement priorities for 2020 annual financial reports
Commissione Nazionale per la Società e la Borsa (CONSOB)		
Warnings document	09/04/20	Covid-19 - Consob Warnings on financial information
Warnings document	16/07/20	Covid-19 - Consob Warnings on financial information
Warnings document	16/02/21	Covid-19 - Consob Warnings on financial information
International Organization of Securities Commissions (IOSCO)		
Statement	03/04/20	IOSCO Statement on Application of Accounting Standards during the Covid-19 Outbreak

Forborne classification of loans affected by moratoria

The European Banking Authority (EBA) intervened on this specific aspect in a document dated 25 March 2020 "*Statement on the application of the prudential framework regarding Default, Forbearance and IFRS 9 in light of COVID-19 measures*", which framed the accounting and prudential issues related to potential credit reclassification by public and private moratorium measures and other forms of support adopted in response to the pandemic crisis.

In particular, the EBA specified that public and private moratorium measures granted in relation to the pandemic crisis, as they are intended to mitigate systemic risks and not the specific needs of an individual borrower, must not be automatically classified as forbearance measures, neither for purposes of classifying the receivables that benefit from it, nor for IFRS 9 purposes (and therefore transfer between the risk stages, in particular with higher transfers to stage 2 and consequent recognition of the expected lifetime loss instead of the 12-month loss) as well as for the prudential classification of positions under non-performing loans.

That said, the EBA notes that, even in this specific circumstance, the banks are required to evaluate the creditworthiness of borrowers who benefit from the moratorium and, consequently and possibly, to reclassify borrowers that show a deterioration in creditworthiness.

In carrying out these assessments - which may concern a large audience of borrowers - banks must avoid automatic approaches and prioritise analyses with risk-based criteria. Furthermore, once the moratoria are over, particular attention must be given to companies that will have delays in payment or other signs of deterioration in creditworthiness.

On 2 April 2020, the EBA also published "*Guidelines on legislative and non-legislative moratoria on loan repayments applied in light of the COVID-19 crisis*", which provides detailed criteria to be met by public and private moratoria granted before 30 June 2020 (originally 30 June 2020, extended to 30 September 2020 by the EBA decision published on 18 June 2020), so that they are not classified as exposures subject to forbearance or distressed restructuring. The guidelines also provide for banks to continue to promptly identify situations where borrowers may experience financial difficulties and to ensure their consistent classification in accordance with the regulatory framework.

The EBA guidelines refer both to legislative moratoria and moratoria resulting from private initiatives that are "broadly applied" (general payment moratoria), that is, granted by banks to prevent systemic risk through widespread support to all companies temporarily in difficulty due to the ongoing pandemic. Note that the guidelines describe a series of conditions, all of which must be met, in order for a moratorium measure to be considered "broadly applied":

1. the moratorium must be the result of national legislation or a private initiative. In the latter case, the measure must be based on an intervention scheme that is widely coordinated throughout the banking sector, in order to guarantee uniformity in the moratorium granted by the various credit institutions;
2. the moratorium is applied in relation to a broad spectrum of obligors, determined based on general criteria, such as certain customer types (retail, SMEs, etc.), obligors from one of the areas most affected by the pandemic, exposure type (mortgage, lease, etc.), or part of a particularly affected production sector, etc.;
3. the measure is based solely on a modification of the payment deadlines and, therefore, may consist of a payment suspension, rescheduling, or a temporary reduction of the principal and/or interest to be paid. The moratorium, therefore, cannot entail the modification of other contractual clauses (e.g., interest rate);
4. the moratorium is applied under the same conditions to all subjects who benefit from it;
5. the measure is not granted on loans disbursed after the date on which the moratorium was announced;
6. the moratorium is a response specifically to the emergency generated by the COVID-19 pandemic and applied before 30 June 2020, later extended to 30 September 2020.

If the moratorium measure meets the requirements listed above, it must not be classified as a "forbearance measure" unless it was already classified as such at the time the measure was applied.

While acknowledging that its moratorium guidelines have helped banks to effectively manage the large quantities of requests from customers applying to participate in these moratorium schemes, on 21 September 2020, the EBA announced that it had decided against a further extension of this exceptional measure beyond 30 September (having already granted a three months' extension from the original 30 June), as had been requested by many operators. The Authority therefore deemed it appropriate, with reference to the moratoria linked to COVID-19, to return to the practice according to which any loan renegotiation must be assessed on a case-by-case basis, when, according to the legislation expiring on 30 September 2020, the payment moratoria, when compliant with the guidelines, did not automatically trigger the forborne classification and did not require the verification of whether to consider them an onerous restructuring. According to the EBA, banks may in any case continue to support their customers with extended payment moratoria even after 30 September 2020[28], but these loans must be classified according to the usual prudential framework, i.e. an analysis must be carried out to assess whether the measure is to be considered a forbearance and / or a default event.

On 2 December 2020, the EBA published its amending "*Guidelines amending Guidelines EBA/GL/2020/02 on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID 19 crisis*", extending the deadline to apply the benefit to 31 March 2021.

The Authority has also introduced two new restrictions to ensure that the support provided by the moratoria is limited to addressing the liquidity gaps triggered by the new lockdowns and that there is no operational restriction on the continued availability of credit. In particular:

[28] On this issue, we note that art. 65 of Law Decree no. 104 of August 2020 has provided for the extension of the legislative moratoria in favour of SMEs initially introduced by Law Decree no. 18 (Cura Italia) of March 2020, extending until 31 January 2021 the right to make use of the extraordinary relief measures, initially due to expire on 30 September 2020. The 2021 Budget Law provided for a further extension until 30 June 2021.

1. eligibility to the benefit provided for in the guidelines is limited to loans that have benefited from a total suspension period not exceeding nine months;
2. the obligation to document to the national Supervisory Authority the assessments according to which the exposures subject to moratorium are not destined to become unlikely to pay.

With regard to the limit for the overall period, the EBA specified that:

1. for moratoria granted after 30 September 2020, for the purposes of calculating the nine months' period, the suspension periods falling within the definition of general payment moratoria granted and terminated before 30 September must be taken into account; if the total suspension meets the nine-month condition, pursuant to the guidelines, the position cannot be classified as non-performing and / or forborne;
2. for moratoria agreed before 30 September 2020 and which envisaged a suspension period of more than nine months, the time restriction does not apply; the positions that have been granted a general payment moratorium of more than nine months will therefore continue to benefit from the provisions set forth in the EBA guidelines of 2 April 2020.

Exposures classified as in default and/or forborne in the period between 1 October 2020 and 31 December 2020 as a result of granted moratoria that otherwise would have satisfied the conditions indicated in the EBA guidelines, may be reclassified as general payment moratoria, taking advantage of the conditions of the EBA guidelines. In any case, these positions are subject to the nine-month limit.

The ECB, with its communication of 4 December 2020 "*Identification and measurement of credit risk in the context of the coronavirus (COVID 19) pandemic*", has stressed the need for significant institutions to assess and classify, on an individual basis, the loans subject to modifications that do not meet the criteria of the general payment moratoria laid down by the EBA, in order to verify whether the modifications satisfy the definition of forbearance and meet the financial difficulties criteria.

Performing/non-performing classification of loans affected by moratoria

The moratoria granted in the context of the COVID-19 pandemic have impacts on the identification and reporting of past due exposures, as this category takes into account the modifications granted to the payment due dates; therefore, the aforementioned forbearances should entail, in the short term, a reduction in transfers of exposures to non-performing as a result of the suspension of due dates for the purpose of calculating past due.

Article 18 of the EBA "Guidelines on the application of the definition of default under Article 178 of Regulation (EU) no. 575/2013" of 18 January 2017 (in force for the Group from 1 January 2021) established, in relation to legislative moratoria, the suspension of the calculation of the days past due in the period in which the payments are suspended, entailing an extension of the period for 90 days, as a trigger for the transfer of exposures to non-performing loans.

The EBA guidelines of 2 April 2020, referred to above, have equated public moratoria and those granted on a private basis in response to COVID-19; consequently, the latter also benefit from the suspension of the count of days past due, provided that they comply with the requirements set out in the EBA guidelines.

The EBA has reiterated that forbearances granted in response to COVID-19, provided the present value of cash flows subsequent to the contractual modification are essentially unchanged, should not be considered as distressed, do not result in the transfer to default and represent a temporary relief for obligors unable to fulfil their contractual obligations following the suspension of business activities as a result of the pandemic.

However, the EBA has emphasised that banks must assess the possibility of classifying borrowers that benefit from moratoria as "unlikely-to-pay", considering the borrower's ability to comply with the new payment plan (regardless of any public guarantee) and ruling out the transfer of these loans to the "distressed restructuring" category.

In this regard, the EBA has recognised it may be difficult to perform individual assessments on the need to classify the concessions as non-performing; in this case, banks must adopt a risk-based approach (i.e. taking into account, for example, the sectors most exposed to the long-term effects of the crisis such as transportation, tourism, hotels, and retail trade). Therefore, it is important to identify, after the suspensions linked to the COVID-19 moratoria, those exposures with late payments with respect to the new repayment plans, in order to promptly classify them as "non-performing".

Among the various initiatives undertaken, the ECB, with its communication of 20 March 2020 "*ECB Banking Supervision provides further flexibility to banks in reaction to coronavirus*", has provided guidance on the classification and valuation of loans. The communication provides confirmation to banks that adherence to the moratorium should not be envisaged as an automatic trigger of unlikely to pay status, since payments have been postponed by law

and, as a result, the count of past due days for the purposes of the identification of past due loans is suspended until the end of the moratorium.

In its communication of 4 December 2020, the ECB has reiterated its expectation that significant institutions carry out a regular assessment of unlikely-to-pay loans of borrowers, including exposures under general payment moratoria, using all relevant and available information; when the assessments are performed manually, banks are expected to follow a risk-based approach. Significant institutions should make sure to improve their classification processes, indicators and criteria (triggers) in order to make them adequate to the current risk environment, and similarly verify the effectiveness of early warning systems.

Updates to macroeconomic scenarios

Pursuant to the IFRS 9 accounting standard, the determination of expected credit losses (or, in any case, on all financial instruments that fall within the scope of application of the aforementioned standard) must always be the result of a combined analysis of the following factors:

- an objective and probability-weighted amount, determined by evaluating a range of possible outcomes;
- the time value of money;
- reasonable and demonstrable information, available without excessive costs or efforts at the reporting date, on past events, current conditions and forecasts of future economic conditions (in this case, the inclusion of forward-looking macroeconomic scenarios is critical).

In the context of IFRS 9, particular importance is given to information on future macroeconomic scenarios in which the Group may operate and clearly affects the situation of borrowers in reference to both the "riskiness" that exposures migrate to lower quality classes (thus referring to "staging") as well as recoverable amounts (thus the calculation of expected loss on exposures).

The crisis triggered by the COVID-19 pandemic has produced a sudden worsening in economic forecasts: the context of pronounced uncertainty limits the reliability of available information, making the task of producing detailed long-term forecasts extremely difficult. Various authorities have taken action on this point, providing indications and references to the use of forecasts in developing estimates of expected credit losses during this period characterised by the COVID-19 pandemic.

With its communication of 20 March 2020, the ECB, although not strictly under its responsibility, as part of its prudential mandate, also expressed itself on the IFRS 9 forward-looking assessments, recommending that banks avoid excessively pro-cyclical assumptions in their provision estimation models. In determining *Expected Credit Losses*, the ECB invited institutions to "*provide greater weight to the stable long-term outlooks developed from past experience in the estimation of provisions for credit losses*".

The ECB sent supervised banks two additional communications, on 1 April 2020 (*"Letter to banks: IFRS 9 in the context of the coronavirus (COVID-19) pandemic"*) and on 4 December 2020 (*"Identification and measurement of credit risk in the context of the coronavirus (COVID 19) pandemic"*), to provide additional information and references on the inclusion of forward-looking information in the calculation of ECLs according to IFRS 9 in the current COVID-19 pandemic context. The letter refers to the expectations already expressed by the ECB to intermediaries, that is avoiding the use of excessively pro-cyclical assumptions, in consideration of the extreme uncertainty of the context and in light of the impossibility of having forward-looking information available that can be deemed "reasonable and supportable". The ECB therefore has invited banks to focus on long-term macroeconomic forecasts when estimating the IFRS 9 ECLs, considering all historical evidence covering at least one or more full economic cycles. In the opinion of the Central Bank, the provisions of IFRS 9 are to be interpreted in the sense that, where there is no reliable evidence for specific forecasts, the long-term macroeconomic prospects provide the most relevant basis for the estimate.

In the communication issued on 4 December 2020, the ECB has also made it clear that the levels of provisions should be correctly estimated using realistic assumptions and parameters that are appropriate to the current context. In this regard, it has recommended that significant institutions should i) continue to anchor the baseline IFRS 9 scenarios to the ECB forecasts in a non-biased manner; ii) not confine themselves to approaches based on the entire economic cycle (through-the-cycle) or long-term averages, but consider the use of reliable macroeconomic forecasts (where available) for specific years and iii) ensure that the integrations (overlays) follow the same direction as the macroeconomic scenarios on the basis of verifiable evidence.

Also the documents of ESMA and the EBA of 25 March 2020 referred to above, with reference to forward-looking estimates, highlight the complexity of the context and substantially confirm the observations of the ECB already referred to above.

Lastly, please note that on 27 March 2020 the IASB published the document "*COVID-19 - Accounting for expected credit losses applying IFRS 9 Financial Instruments in the light of current uncertainty resulting from the COVID-19 pandemic*". The document does not modify IFRS 9, but it suggests a way to interpret it within the current context of the pandemic. Specifically, it is clarified that "*Entities should not continue to apply their existing ECL methodology mechanically*"; furthermore, the difficulty of incorporating the effects of the pandemic as well as the correlated government aid within models is recognised. Therefore, if the models are unable to fully reflect the effects of the COVID-19 pandemic and the relative government support measures, the possibility of making recourse to post-model management adjustments is permitted (referred to as "*ovarlays or post-model adjustments*").

2020, 2021 and 2022 macroeconomic forecasts

In the communication issued on 20 March 2020, the ECB had provided guidance to banks on how to forecast credit losses for the purposes of the estimates for the accounting periods ending in March and June, requiring the use as starting points ("anchor points") of the quarterly macroeconomic projections published on the ECB website. These forecasts are published four times a year:

- March and September - forecasts for the Eurozone only produced by ECB staff;
- June and December - forecasts produced by ECB staff in conjunction with the Eurosystem, with the addition of forward-looking information for individual countries in the Eurozone published by the individual central banks.

On 10 December 2020, the ECB published the regular update of its macroeconomic forecasts for the Eurozone prepared by its own staff, with minor changes from the previous forecasts released in September. More specifically, the base scenario sees a more limited fall in GDP for the Eurozone in 2020, -7.3% (against -8.0% forecast in September and -8.7% in June), followed by a recovery in 2021, currently forecast at +3.9% (+5.0% in September and +5.2% in June). There have also been minor changes in the alternative scenarios (moderate and severe) compared to the June forecasts, mainly consisting in a different distribution of the recovery over the three-year forecast period.

For Italy, the specific scenario, included in the base scenario of the ECB projections, was released by the Bank of Italy in "Macroeconomic projections for the Italian economy" published on 11 December 2020: this document forecasts a 9.0% fall in Italian GDP in 2020 (compared to -9.2% forecast in June), followed by a recovery of 3.5% in 2021 (+4.8% forecast in June), 3.8% in 2022 (+2.5% in June) and 2.3% in 2023. The document also includes GDP growth forecasts in less favourable scenarios, which assume the continuation of the pandemic (reaching an intensity similar to that of last April at the beginning of 2021 and then gradually decreasing), the stagnation of foreign demand in 2021 and a tightening of the credit supply. In these scenarios of negative effects, GDP would fall in 2021 by -1.6%, -0.9% and -0.9% respectively (-1.0, -0.7 and -0.7 in 2022); in 2023, instead, higher growth would follow the improvement on the medical front. Lastly, it should be noted that the updated forecasts for the Italian economy presented by the Bank of Italy in the Economic Bulletin published on 15 January 2021 have confirmed the 9.2% fall in GDP in 2020 forecast in June, while the forecast for growth over the next three years remains unchanged.

Measurement of significant increase in credit risk (SICR) for IFRS 9 purposes

The analysis of significant increase in credit risk and, therefore, the identification of the exposures to be included in stage 2, is a multi-factorial and holistic analysis, as indicated by IFRS 9, which takes into account the changes in default risk over the expected life of financial instruments. In this regard, ESMA, in its statement of 25 March 2020, indicated that when economic support programmes for businesses implemented by governments reduce the risk of default on a financial instrument, they must be appropriately considered in the aforementioned measurement; therefore, a moratorium should not be considered, in itself, representative of a significant increase in the credit risk of the financial instrument. Moreover, the specific circumstances linked to the COVID-19 epidemic constitute adequate justification to refute the presumption of a significant increase in credit risk for exposures that are past due for more than thirty days. This provision also represents a significant change from the ordinary rules of the IFRS 9 standard and will generate effects on transfers to stage 2. In addition, ESMA suggests considering collective approaches, also supported by the ECB, to evaluate the significant increase in credit risk; in other words, given the difficulty in identifying risk factors or indicators at the level of the individual borrower, a top-down approach is required, that is, starting from the risk level of specific portfolios (e.g., sectors most affected such as tourism, hotels, airlines, etc.) and the creditworthiness prior to the COVID-19 pandemic.

For purposes of staging, the EBA also emphasises the need to distinguish the exposures that will experience a temporary deterioration in credit standing from those that will suffer from a structural deterioration: the transfer to stage 2 must be considered only for the latter.

Lastly, the ECB, in its communication of 4 December 2020, has confirmed that significant institutions should not rely solely on days past due as a criterion to identify a significant increase in credit risk. In addition, practices such as setting targets in terms of amount for the transfers from one stage to the other or using reverse engineering to achieve targets should be avoided.

Inclusion of state guarantees in the ECL calculation for IFRS 9 purposes

Guarantees provided by sovereign states in conjunction with legislative moratoria or other support measures have diverse characteristics in the various jurisdictions, but share the fundamental characteristic of guaranteeing partial or complete recovery of the relevant loans.

ESMA reiterates, based on the provisions of the IFRS 9 accounting standard, that the aforementioned guarantees impact the measurement of expected losses to the extent that they can be considered an integral part of the contractual conditions governing the loans and are not recognised independently. In this regard, ESMA notes, in reference to the first aspect, that the guarantee does not need to be explicitly established in the contractual clauses (as also provided for by the *Transition Resource Group for Impairment* in December 2015): this is the case, for example, of public guarantees provided in conjunction with large-scale legislative debt moratoria or economic support measures. The Supervisory Authority stresses the importance of providing adequate reporting regarding the assessments made.

Recognition of the effects (gain/loss on forbearance) related to contractual changes resulting from customer support measures

ESMA maintains that it should be assessed whether the economic support and relief measures could entail a change in the characteristics of financial assets and, consequently, their derecognition, including in relation to the substantial nature of the change itself. This assessment must include both qualitative and quantitative criteria. In light of current circumstances, the supervisory authority reiterates that it is unlikely that the change would be considered substantial and lead to derecognition if the financial support measures provide temporary relief to borrowers affected by the COVID-19 epidemic and if the net economic value of the loan will not be significantly affected. In any case, entities must provide adequate disclosure of the accounting policies adopted to determine the substantial nature of the change.

Financial reporting

CONSOB, in line with the ESMA statements published in March, May and October 2020 as well as the April IOSCO document, published three warning notices in April and July 2020 and February 2021, emphasising the importance of providing updated information on the risks related to COVID-19 that may have an impact on the economic and financial situation, on any actions taken or planned to mitigate these risks, as well as on the potential relevant impacts for the estimation of the company's future performance. The directors' attention is also directed towards a careful assessment of the impacts, including future, of COVID-19 on strategic planning and on plan targets, economic performance, the financial position and cash flows as well as on the going concern assumption.

Please also note that CONSOB and ESMA highlight that the risks correlated with the pandemic could compromise reaching the objectives of the plan on which the analyses of the recoverability of certain assets are based, such as goodwill and other intangible assets with an indefinite useful life, and deferred tax assets. The need is therefore noted of performing impairment testing on the above-mentioned assets and providing adequate disclosures in the financial statements, particularly with regard to sensitivity analyses.

In particular, in its warning notice of February 2021, CONSOB reiterated the importance of the disclosures to be provided in financial statements on the thematic areas of particular relevance already identified by ESMA in its October 2020 document, and also highlighted the importance of the guidance provided by the European regulatory and supervisory bodies on the application of the IFRS 9 accounting standard with regard to the measurement of expected credit losses, recalling the guidelines provided by the ECB in the letter of 4 December 2020 and by Bank of Italy in the Communication of 15 December 2020.

Furthermore, CONSOB specified that issuers must ensure that the valuations in the financial statements based on the business plans are internally consistent and provide information in this regard in the reports on operations, with a description of the evolution of the business model in response to the pandemic and of the actions that companies have adopted and intend to adopt to address the short and medium-term uncertainty created by COVID-19.

Lastly, with reference to the disclosure of the effects of the crisis, CONSOB and ESMA have expressed the opinion that the construction of *ad hoc* items or alternative performance measures does not provide a better

representation of the issuer's income and financial position, given the temporary nature of the effects; the disclosure should instead focus on the impact, also quantitative, of the epidemic on the operating performance in the financial year, in a single note in the financial statements or in several notes with suitable references. With reference to alternative performance measures, in line with the instructions set forth in the update to the document *"ESMA 32_51_370 – Question and answer – ESMA Guidelines on Alternative Performance Measures (APMS)"* published on 17 April 2020, note that the Group has not introduced any changes to the measures in use in order to separately highlight the effects of the COVID-19 crisis.

Section 3 – Scope and methods of consolidation

1. Investments in wholly-owned subsidiaries

The investments in wholly-owned subsidiaries are listed in the table below. For information on equity investments in companies jointly controlled or subject to significant influence by the Group, please refer to the contents of Part B- Information on the consolidated balance sheet - Section 7 - Equity investments, in these Notes.

	Name	Headquarters	Registered Office	Type of relationship (*)	Ownershp Relationship		Available votes % (**)
					Held by	Shareholding %	
A	**Companies**						
A.0	BANCA MONTE DEI PASCHI DI SIENA S.p.a.	Siena	Siena				
	Companies consolidated on a line-by-line basis						
A.1	MPS CAPITAL SERVICES BANCA PER LE IMPRESE S.p.a.	Florence	Florence	1	A.0	100,000	
A.2	MPS LEASING E FACTORING BANCA PER I SERVIZI FINANZIARI ALLE IMPRESE S.p.a.	Siena	Siena	1	A.0	100,000	
A.3	MONTE PASCHI FIDUCIARIA S.p.a.	Siena	Siena	1	A.0	100,000	
A.4	WISE DIALOG BANK S.p.a. - WIDIBA	Milan	Milan	1	A.0	100,000	
A.5	MPS TENIMENTI POGGIO BONELLI E CHIGI SARACINI SOCIETA' AGRICOLA S.p.a.	Castelnuovo Berardenga (SI)	Castelnuovo Berardenga (SI)	1	A.0	100,000	
A.6	G.IMM ASTOR S.r.l.	Lecce	Lecce	1	A.0	52,000	
A.7	AIACE REOCO S.r.l.	Siena	Siena	1	A.0	100,000	
A.8	ENEA REOCO S.r.l.	Siena	Siena	1	A.0	100,000	
A.9	CONSORZIO OPERATIVO GRUPPO MONTEPASCHI S.c.p.a.	Siena	Siena	1	A.0	99,760	
					A.1	0,060	
					A.2	0,030	
					A.3	0,030	
					A.4	0,030	
						99,910	
A.10	MAGAZZINI GENERALI FIDUCIARI DI MANTOVA S.p.a.	Mantua	Mantua	1	A.0	100,000	
A.11	MONTE PASCHI BANQUE S.A.	Paris	Paris	1	A.0	100,000	
11.1	MONTE PASCHI CONSEIL FRANCE SOCIETE PAR ACTIONS SEMPLIFIEE	Paris	Paris		A.11	100,000	
11.2	IMMOBILIERE VICTOR HUGO S.C.I.	Paris	Paris		A.11	100,000	
A.12	MPS COVERED BOND S.r.l.	Conegliano	Conegliano	1	A.0	90,000	
A.13	MPS COVERED BOND 2 S.r.l.	Conegliano	Conegliano	1	A.0	90,000	
A.14	CIRENE FINANCE S.r.l.	Conegliano	Conegliano	1	A.0	60,000	
A.15	SIENA MORTGAGES 07-5 S.p.a.	Conegliano	Conegliano	4	A.0	7,000	
A.16	SIENA MORTGAGES 09-6 S.r.l.	Conegliano	Conegliano	4	A.0	7,000	
A.17	SIENA MORTGAGES 10-7 S.r.l.	Conegliano	Conegliano	4	A.0	7,000	
A.18	SIENA LEASE 2016 2 S.r.l.	Conegliano	Conegliano	4	A.0	10,000	
A.19	SIENA PMI 2016 S.r.l.	Conegliano	Conegliano	4	A.0	10,000	

(*) Type of relationship:

1 = majority of voting rights at ordinary shareholders' meetings

4 = other forms of control

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

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

Scope of consolidation

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

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

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

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

Thus, IFRS 10 establishes that, to exercise control, the investor must have the ability to direct the entity's relevant activities, as the result of a legal right or a mere de facto situation, and also be exposed to the variability of results deriving from this power.

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

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

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

Investments and equity securities

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

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

Structured entities - investment funds

The Group takes the following positions with respect to funds:

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

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

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

Structured entities - vehicle companies for securitisations

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

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

Methods of consolidation

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

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

Intragroup assets, liabilities, income and expenses are eliminated.

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

The "acquisition method" is applied starting from the acquisition date, as described in the paragraph "Business combinations" under section "A.2 – The main items of the accounts" below, to which reference should be made, or beginning when control over the acquired company is effectively obtained. Therefore, the income and expenses of a subsidiary purchased during the reference year are included in the consolidated financial statements as of the date of purchase.

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

- derecognises the assets (including any goodwill) and liabilities of (and non-controlling interests in) the former subsidiary at their book values;
- recognises the fair value of the consideration received and of any investment retained in the former subsidiary;

- reclassifies to consolidated income statement any amounts previously recognised in the subsidiary's statement of other comprehensive income as if the assets or liabilities had been transferred;
- recognises in income statement item "280. Gains (losses) on disposals of investments" the difference between the consideration for the sale and the book value of the subsidiary's net assets.

If there is a partial sale of the subsidiary that does not entail loss of control, the difference between the consideration for the sale and the relative book value is recognised as an offsetting entry in equity.

In order to prepare these Consolidated Financial Statements, all wholly-owned subsidiaries prepared a balance sheet and income statement that was compliant with the Group's accounting standards.

Equity investments held for sale were recognised in accordance with the reference IFRS 5 standard, which governs the treatment of non-current assets held for sale. In this case, assets and liabilities held for sale are reclassified under balance sheet item "120. Non-current assets held for sale and discontinued operation" and "70. Liabilities associated with non-current assets held for sale and disposal groups". With regard to the income statement, charges and income associated with the assets and liabilities held for sale, net of tax effect, are presented in income statement item "320. Profit (loss) after tax from discontinued operations". If the fair value of the assets and liabilities held for sale, net of sales costs, are less than the carrying amount, an impairment is recognised in the income statement.

Entities are considered to be jointly controlled companies when, based on contractual agreements, control is shared between the Parent Company, directly or indirectly, and one or more other parties external to the Group, or when decisions regarding the relevant activities require the unanimous consent of all parties that share control.

Companies are considered associates, that is, subject to significant influence, when the Parent Company, directly or indirectly, holds at least 20% of voting rights (including "potential" voting rights) or in which - though the voting rights held may be lower - the Parent Company has the power to participate in determining financial and operating policies as a result of specific legal ties, such as adhering to shareholder agreements.

Interests in jointly controlled companies and investments in companies subject to the Group's "significant influence" (associates) are consolidated with the equity method.

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

- the Group's share of gains/losses on the investment for the period is recognised under item 250 "Gains (losses) on investments" of the consolidated income statement;
- the Group's share of changes recognised in the statement of consolidated comprehensive income. In determining the ownership percentages, any potential voting rights are not considered.

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

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

If evidence of impairment indicates that there may have been a loss in value of an equity investment, then the recoverable value of the investment is estimated, taking into consideration the present value of future cash flows that the investment may generate, including the final disposal value of the investment. Should the recoverable value be less than its book value, the difference is recognised immediately in the income statement, in the item indicated above.

The Group stops using the equity method on the date on which it stops exercising significant influence or joint control over the investee; in that case, as of that date the investment is reclassified to "Financial assets measured at fair value through other comprehensive income" or "Financial assets measured at fair value through profit or loss", on the condition that the associate or jointly controlled company does not become a subsidiary.

For the consolidation of jointly controlled companies and associates, the financial statements (annual or interim) that have been most recently approved by said companies are used. In rare cases, the companies do not apply IAS/IFRS standards, thus, for these companies, it has been ascertained that applying these standards would not result in significant impacts on the Group's consolidated financial statements.

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The changes in the scope of consolidation compared to the situation as at 31 December 2019 are entirely attributable to the investee MONTEPASCHI LUXEMBOURG S.A. due to the liquidation and cancellation of the vehicle.

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

This section was not completed, as there are no significant non-controlling interests in associates and joint ventures for the Group as at 31 December 2020, individually or as a whole, as shown in the table in "Section 16 - Non-controlling interests" under Part B of these notes; this was also true for the financial statements as at 31 December 2019.

4. Significant restrictions

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

Regulatory restrictions

The Parent Company and the subsidiaries MPSL&F, MPSCS, MPS Banque and Widiba, with assets and liabilities prior to intercompany eliminations amounting to EUR 172,336.5 mln as at 31 December 2020 (EUR 163,595.4 mln as at 31 December 2019) are subject to prudential regulations envisaged in Directive 2013/36/EU (CRD IV) and Regulation (EU) no. 575/2013 (Capital Requirements Regulation or CRR), designed to maintain adequate capitalisation in relation to risks assumed. Thus, as a general rule, the capacity of banks to distribute capital or dividends is restricted in compliance with these regulations in terms of capital requirements.

More in particular, at the end of the "Supervisory Review and Evaluation Process (SREP) carried out by the ECB, the Parent Company is required to

- maintain, starting from 1 January 2020, on a consolidated basis, a Total SREP Capital Requirement (TSCR) level of 11%, which includes 8% as a minimum requirement for Own Funds pursuant to art. 92 of the CRR and 3% as Pillar II capital requirement (initially fully comprised of CET1, and from 12 March 2020 of at least 56.25% of CET1 and 75% as Tier1)[29];
- not distribute dividends.

This last restriction forms part of the commitments made by the Italian Government to the European Commission, which also coincide with various aspects of the Group's Restructuring Plan, including:

- cost reduction measures: annual restrictions in terms of the number of branches, employees, cost/income ratio and total operating expenses, reduction of additional costs up to a maximum of EUR 100 mln in the case of a deviation from the net operating margin targets (gross of provisions on loans);
- restrictions on advertising and sales policy: the Parent Company cannot use State aid or advantages deriving from it for advertising purposes aimed at promoting its products or its market position. Furthermore, it cannot adopt a particularly aggressive sales policy which it would not have adopted if it had not had access to State aid;
- sale of assets: sale of foreign banks, that is Banca Monte dei Paschi Belgio S.A. and Monte Paschi Banque S.A., as well as disposal of a list of equity investments in the course of the plan, without prejudice to the capital position of the Parent Company, and part of the real estate assets;
- risk containment: commitment to bring to a conclusion the disposal of the portfolio of non-performing loans, strengthening of risk control oversight (particularly in reference to credit risk, the consistency of loan approval policies and the commercial policies adopted by the Group), restrictions on proprietary finance activities in terms of VaR and the nature of instruments traded;
- prohibition from making acquisitions: in particular, the Parent Company cannot acquire any equity investment or asset, except for those authorised or in limited special cases;

[29] Starting from 1 January 2021, a level is required, on a consolidated basis, of TSCR of 10.75%, of which 8% as minimum Pillar I requirement and 2.75% as Pillar II capital requirement.

- restrictions on the exercise of liability management transactions: the Parent Company cannot make payments for existing instruments, unless it constitutes default of a legal obligation, and, similarly, cannot carry out repurchase transactions of instruments issued by the Parent Company without satisfying with predefined conditions and with the prior approval of the Commission;
- employee remuneration: establishment of a remuneration ceiling corresponding to 10 times the average salary of Parent Company employees.

Legal restrictions

The Parent Company is required, in compliance with statutory provisions, to deduct 10% of annual net profit to form the legal reserve, until it has reached 20% of the share capital. The reserve must be replenished if it is reduced for whatever reason. The Parent Company is also required to form and increase a statutory reserve in an amount not less than 15% and at least 25% from the moment the legal reserve reaches 20% of the share capital.

The Italian subsidiaries other than securitisation vehicles are required, in compliance with statutory provisions, to deduct 5% of annual net profit to form the legal reserve, until it has reached 20% of the share capital, and an additional 5% to be allocated to a statutory reserve.

Contractual restrictions

Pledged assets

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

The disclosure on assets pledged as collateral for liabilities and commitments is provided in the "Other information" section of Part B of these Notes to the consolidated financial statements, to which reference should be made.

Group assets related to securitisations

Asset item 40 b) "Financial assets measured at amortised costs: loans to customers" include, on the financial statements reference date, EUR 2,449.8 mln (EUR 3,294.8 mln as at December 2019) relative to loans not cancelled from the financial statements, transferred with the Siena Mortgages 10-7 and Siena PMI 2016 2 securitisations. The Parent Company has recognised in its financial statements, as a contraentry of the amounts received in these transfers, a liability towards the vehicles issuing senior bonds (definitely transferred to a leading banking party in the context of the same securitisations) of EUR 795.5 mln (EUR 630.0 mln as at 31 December 2019). Against this liability, the creditors' entitlement to repayment is limited to cash flows arising from the assets underlying senior notes sold (please refer to table D.3 of the Notes to the consolidated financial statements Part E - Information on risks and hedging policies).

Other restrictions

The Group's banks are required to hold a compulsory reserve at national Central Banks. The compulsory reserve, included in asset item 40 "Financial assets measured at amortised cost" sub-item "a) Loans to banks", held at Bank of Italy, amounts to EUR 700.4 mln as at 31 December 2020 (EUR 627.4 mln as at 31 December 2019).

5. Other information

The financial statements processed for line-by-line consolidation of the subsidiaries include the financial statements as at 31 December 2020, as approved by the Boards of Directors of the respective companies.

Section 4 – Events after the Reporting Period

On **28 January 2021**, the Parent Company approved the *Capital Plan* as required in the final decision of the ECB of 28 December 2020 regarding the SREP capital requirements. The *Capital Plan* has been prepared keeping in mind the need to find a potential structural solution for BMPS, including an M&A deal with a partner of primary standing, as reported in the press release issued on 11 January 2021. The implementation of a structural solution is in line with the commitment undertaken by the Italian government in the context of the 2017-2021 Restructuring Plan and recently confirmed in the Prime Minister Decree of 16 October 2020. In the event that the implementation of a structural solution does not take place in the short / medium term, the Capital Plan envisages capital increase of EUR 2.5 bn which, if carried out, are expected to take place at market conditions and with the Italian Government participating in proportion to the share held. The capital strengthening plan is subject to shareholders' approval. On the basis of the initial discussions with DG Comp, the Parent Company must adopt additional compensation measures for non-compliance with some commitments included in the 2017-2021 Restructuring Plan. The approval of the updated Restructuring Plan by DG Comp is a prerequisite to the realisation of the capital strengthening of MPS. On 29 January 2021, the Parent Company sent the *Capital Plan* to the ECB, for its approval to the extent of its competence. Talks with both Authorities are ongoing.

Section 5 – Other Matters

Going concern

These Financial Statements were prepared under the going concern assumption.

In this regard, we note that, following i) the significant provisions for legal risks made in 2020, ii) the effects of the "Hydra M" transaction, iii) the macroeconomic scenario, penalized by the COVID-19 pandemic and iv) the regulatory changes, a prospective capital shortfall has been identified with respect to the overall capital requirements. In this context, the Board of Directors approved the 2021-2025 Strategic Plan and the Capital Plan, which were sent to DG Comp and the ECB for their assessment. The Strategic Plan was prepared taking into account the commitments undertaken by the Italian Government in 2017 with reference to the 2017-2021 Restructuring Plan, recently confirmed in the Prime Minister Decree issued on 16 October 2020, which envisages "launching a process of disposal of the stake held by the Ministry in the share capital of MPS, to be carried out using market methods and also through transactions aimed at consolidating the banking system." In the event that the implementation of a structural solution does not take place in the short / medium term, the Capital Plan envisages a capital increase of EUR 2.5 bn which, if carried out, would take place at market conditions and with the Italian Government participating in proportion to the share held, in regard to which full support has already been confirmed. The capital strengthening plan is subject to shareholders' approval. The capital strengthening plan is subject to uncertainty as it requires the conclusion of the assessment and approval process already started by DG Comp and the ECB. The uncertainties relating to the capital strengthening process, considered relevant, the initiatives taken and the assessments carried out are illustrated in the paragraph "Use of the going concern assumption" in the section "Use of estimates and assumptions when preparing financial statements" of these Notes to the Consolidated Financial Statements.

In light of these facts and assessments, with regard to the indications contained in Document no. 2 of 6 February 2009 and Document no. 4 of 3 March 2010, issued jointly by the Bank of Italy, CONSOB and ISVAP, and subsequent amendments, the Group reasonably expects to continue operating as a going concern in the foreseeable future and has therefore prepared the financial statements under the going concern assumption.

List of key IAS/IFRS international accounting principles and related SIC/IFRIC interpretations for mandatory application as of the 2020 financial statements

On 6 December 2019, Regulation (EU) no. 2019/2075 was published, approving the document "**Changes to the Conceptual Framework**", issued by IASB in March 2018, which amended certain accounting standards and interpretations in order to update the existing references to the previous Conceptual Framework version, replacing them with references to the updated versions of the Conceptual Framework. The amendments apply as of 1 January 2020.

On 10 December 2019, Regulation (EU) no. 2019/2104 was published, approving the document "**Amendments to IAS 1 and IAS 8 - Definition of Material**", issued by IASB in October 2018. The amendments clarify the definition of "material" in order to help companies to assess materiality as well as to improve the relevance of the information provided in the notes to the consolidated financial statements. The amendments apply as of 1 January 2020.

On 15 January 2020, the European Commission endorsed, with the publication of Regulation (EU) no. 2020/34, "Interest Rate Benchmark Reform (Amendments to IFRS 9 "Financial instruments", IAS 39 "Financial instruments: recognition and measurement" and IFRS 7 "Financial instruments: disclosures")", which has amended IFRS 9, IAS 39 and IFRS 7. The Regulation, which has provided for the mandatory application of the related provisions as of 1 January 2020, has introduced several amendments in the hedge accounting area, to prevent the uncertainty arising from the transition from the current IBOR rates to the new procedures for the calculation of the reference rates from affecting both the ability of maintaining hedging relationships directly linked to these rates and the ability to designate new hedging relationships. The IASB has, therefore, identified the following accounting standards for the purposes of hedge accounting that could be impacted by the reform of the reference indices in the stage preceding the replacement of the existing benchmark rates with the new rates:

1) the highly probable requirement: IAS 39 and IFRS 9 require that scheduled transactions meet the highly probable requirement in order to be designated as hedged;
2) the prospective and retrospective assessment of the effectiveness of the hedge: IAS 39 and IFRS 9 require that, in order to maintain the existing hedge, qualitative / quantitative assessments be carried out on the effectiveness of the existing hedge. In particular, IAS 39 requires the passing of effectiveness tests (prospective and retrospective assessment) while IFRS 9 requires the assessment of the prospective economic relationship between the hedged and hedging item;
3) the designation of the risk components: IFRS 9 and IAS 39 allow the designation of a risk component that is not contractually defined when it can be separately identified and reliably measured.

For each of these provisions, the IASB has provided a simplification, assuming that the reference indices for the calculation of existing interest rates are not changed following the reform of interbank rates. The Group exercised the early application option for Regulation no. 2020/34, which has first been applied in the Financial Statements as at 31 December 2019, to which reference is made for further details.

The publication of the above-mentioned Regulation has concluded the first phase of the IASB's project relating to the potential accounting impact of the benchmark rates reform, particularly with reference to the period which precedes the replacement of the existing benchmark rates with the new rates ("pre-replacement issue"). On conclusion of the second phase of the project, instead focusing on the analysis of possible accounting impacts deriving from the application of new rates and other less urgent matters ("replacement issue"), on 27 August the IASB issued the document *"Interest Rate Benchmark Reform — Phase 2 (Amendments to IFRS 9 "Financial instruments", IAS 39 "Financial instruments: recognition and measurement", IFRS 7 "Financial instruments: disclosures" and IFRS 16 "Leases")"*. The document, published with Regulation (EU) no. 2021/25 on 13 January 2021, provides for, extremely briefly, the option of considering modifications deriving from the reform on financial assets, financial liabilities and leases in the same way as modifications deriving from an update in benchmark interest rate, as well as the option of not discontinuing hedging relationships due solely to the reform. The amendments became effective on 1 January 2021, without prejudice to the early application option, which the Group did not make use of.

On 22 April 2020, Regulation (EU) no. 2020/551 was published, adopting the document "**Definition of a Business (Amendments to IFRS 3)**" in order to respond to the concerns highlighted by the post implementation review of IFRS 3 "Business combinations" with regard to the difficulties identified in the practical application of the definition of "business". The amendments apply as of 1 January 2020.

On 12 October 2020, Regulation (EU) no. 2020/1434 was published, which adopts the document **"COVID-19 related rent concessions (Amendments to IFRS 16)"**. The amendment exempts the lessee from the

obligation to assess whether the suspension or reduction of rent, obtained as a result of the pandemic, meets the definition of contractual modification. In this case, the modifications are to be accounted for as if they were variable payments. The exemption may be only applied to rent concessions that are a direct consequence of the COVID-19 pandemic, and only if all the following conditions are met:

- the change in lease payments results is revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments due before 30 June 2021;
- there is no substantive change to other terms and conditions of the lease.

The lessee must apply this amendment in the financial statements starting from 01 June 2020 or later. The application of the exemption is optional, it applies to all lease agreements with similar characteristics and is retroactive, recognising the cumulative effect of first-time application as an adjustment in the opening balance of profits carried forward in the first time in which the lessee applies the amendment.

The amendments to the accounting standards indicated above are not material for the Group.

List of IAS/IFRS international accounting standards and related SIC/IFRIC interpretations whose application is mandatory after 31 December 2020

On 16 December 2020, Regulation (EU) 2020/2097 was published, amending Regulation (EC) no. 1126/2008, which adopts certain international accounting standards in accordance with Regulation (EC) no. 1606/2002 of the European Parliament and Council with regard to **IFRS 4 "Insurance contracts".** The amendments to IFRS 4 aim to address the temporary accounting consequences of the different effective dates of IFRS 9 "Financial Instruments" and the forthcoming IFRS 17 "Insurance Contracts". In particular, the amendments to IFRS 4 extend the expiry date of the temporary exemption from applying IFRS 9 until 2023 in order to align the effective date of IFRS 9 with the new IFRS 17.

Companies and financial conglomerates apply the amendments referred to in Article 1 of the aforementioned Regulation from 1 January 2021 for financial years starting on 1 January 2021 or afterwards.

Lastly, it should be noted that 1 January 2021 is the effective date of the "**Reform of the reference indices for the determination of interest rates - Phase 2 (amendments to IFRS 9 "Financial instruments", IAS 39 "Financial instruments: recognition and measurement", IFRS 7 "Financial instruments: disclosures" and IFRS 16 "Leases")**", published with Regulation (EU) no. 2021/25 of 13 January 2021 and mentioned in the previous paragraph

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

On 23 January 2020 the IASB published a document amending IAS 1 **"*Presentation of Financial Statements: Classification of Liabilities as Current or Non-current*"**, with the objective of clarifying how to classify payables and other liabilities as either current or non-current. The amendment specifies that the classification is made on the basis of the rights existing at the reporting date, without considering the expectation of exercising payment deferment. These amendments were initially scheduled to come into force on 1 January 2022, with early application permitted. Subsequently, on 15 July 2020, the IASB published another document providing for the deferment of the date of first application by one year, from 1 January 2022 to 1 January 2023.

On 14 May 2020, the IASB published the following documents:

- **"*Reference to the Conceptual Framework (Amendments to IFRS3)*"** which updates the reference present in IFRS 3 to the Conceptual Framework in the revised version, without this entailing amendments to the provisions of the standard;
- **"Property, Plant and Equipment - Proceeds before Intended Use (Amendment to IAS 16)" which prohibits deducting from the cost of property, plant and equipment the amount received from the sale of items produced in the asset testing phase.** These sales revenues and the relative costs should be recognised in the income statement;
- **"*Onerous Contracts — Cost of Fulfilling a Contract* (*Amendment to IAS 37)*" which clarifies which costs must be considered in the assessment of the onerousness of the contract.** More specifically, the

valuation must include all costs directly attributable to the contract. They may be incremental costs (for example, costs for the direct material used in processing), but also the costs that the company cannot avoid as it has entered into the contract (e.g., the share of the personnel costs and the depreciation of the machinery used to fulfil the contract);

- "***Annual Improvements to IFRS Standards* 2018–2020**", carrying proposed amendments for four standards: IFRS 1 – "*Subsidiary as a first-time adopter*"; IFRS 9 – "*Fees in the '10 per cent' test for derecognition of financial liabilities*": the amendment clarifies which fees should be considered in performing the test in application of par. B3.3.6 of IFRS 9, to assess the derecognition of a financial liability); IFRS 16 – "*Lease incentives*" (the amendment regards an illustrative example) and lastly IFRS 41 – "*Taxation in fair value measurements*".

The proposed amendments are effective as of 1 January 2022. Early adoption is permitted.

Lastly, on 18 May 2017 the IASB issued the new accounting standard **IFRS 17 Insurance contracts**, which governs contracts issued by insurance companies, which shall be applied from 1 January 2021. Due to the complexity of the standard, on 25 June 2020, the IASB proposed to postpone the date of first application to 1 January 2023 with the simultaneous option of extending by one year - therefore again to 2023 - the term for the temporary deferral of the application of IFRS 9 for insurance companies ("Deferral Approach"), so as to align it with the application of IFRS 17. These proposals are still in the consulting stage. Only indirect impacts are expected for the Group's operations, resulting from the valuation of insurance associates using the equity method, as neither the Parent Company nor subsidiaries perform insurance activities.

A.2 – The main items of the accounts

Accounting standards

This chapter contains the accounting standards in relation to the main assets and liabilities in the balance sheet, which were adopted for the preparation of the consolidated financial statements as at 31 December 2020.

1 Financial assets measured at fair value through profit or loss (FVTPL)

a) classification criteria

These assets include financial assets other than those classified under "Financial assets measured at fair value through other comprehensive income" and "Financial assets measured at amortised cost". The category comprises:

- debt securities or loans that are included in an "Other" Business Model, i.e., a procedure for managing financial assets that does not have the objective of collecting contractual cash flows ("Held to Collect" business model) or collecting contractual cash flows and selling financial assets ("Held to Collect and Sell" business model);
- debt securities, loans and units of UCITS whose contractual terms do not provide exclusively for repayments of principal and interest payments on the principal to be repaid (i.e., that do not pass the "Solely Payment of Principal Interest test or SPPI test");
- equity instruments that cannot be classified as representing control, affiliation, or joint control, held for trading purposes or for which, upon initial recognition, the fair value through other comprehensive income option was not chosen;
- derivative contracts, recognised in financial assets held for trading, that are recognised as assets if the fair value is positive, or liabilities if the fair value is negative.

With reference to the latter, it is possible to offset current positive and negative values deriving from outstanding transactions with the same counterparty only if the legal right to offset the amounts recognised is currently in place and the entity intends to proceed with the net settlement of offsetting positions.

More detailed information is provided below on the three sub-items that comprise this category, represented by: "Financial assets held for trading", "Financial assets measured at fair value", and "Other financial assets mandatorily measured at fair value".

Financial assets held for trading

Financial assets (debt securities, equity securities, loans, units of UCITS) are classified as held for trading purposes if they are managed with the objective of generating cash flows through their sale, as they are:

- acquired or incurred primarily for the purpose of selling or repurchasing them in the short-term;
- part of a portfolio of financial instruments that are managed on an individual basis and for which there is proven existence of a strategy targeted at earning a profit in the short term;

It also includes derivatives with a positive fair value not designated as having an accounting hedge relationship. Derivative contracts include those embedded in combined financial instruments, in which the primary contract is a financial liability, which were subject to separate accounting.

- their economic characteristics and risks are not strictly related to the characteristics of the underlying contract;
- the embedded instruments, even if separate, satisfy the definition of derivative;
- hybrid instruments to which they belong are not measured at fair value with the relative changes posted in profit and loss.

Financial assets measured at fair value

Assets (debt securities and loans) can be irrevocably designated at fair value at the time of initial recognition only when this designation eliminates or significantly reduces a measurement inconsistency (known as an accounting mismatch); This category is not used by the Group at present.

Other financial assets mandatorily measured at fair value

Other financial assets mandatorily measured at fair value represent a residual category and include:

- debt securities and loans, when: i) the relative contractual cash flows do not represent solely payments of principal and interest on the residual capital (SPPI test failed), or ii) are not held as part of a business model whose objective is the ownership of assets for purposes of collecting contractual cash flows ("Held to Collect" business model) or those whose objective is achieved either by collecting contractual cash flows or by selling financial assets ("Held to Collect and Sell" business model);
- units of UCITS;
- equity securities held for purposes other than trading for which the option of classification at fair value through other comprehensive income is not exercised.

b) recognition criteria

Initial recognition of financial assets occurs at settlement date for debt securities, equities and units of UCITS, at disbursement date for loans, and at trade date for derivative contracts. Upon initial recognition, financial assets measured at fair value through profit or loss are recognised at fair value, which usually corresponds to the amount paid, without considering transaction costs or revenues directly attributable to the instrument, which are directly recognised in the income statement.

c) measurement criteria

After initial recognition, financial assets measured at fair value through profit or loss are recorded at fair value, with changes recognised as an offsetting entry in the income statement.

Market prices are used to determine the fair value of financial instruments listed in active markets. In the absence of an active market, commonly adopted estimation methods and valuation models are used, which take into account all the risk factors related to the instruments and which are based on data recorded on the market such as: valuation of listed securities with similar characteristics, discounted cash flow calculations, option pricing models, values recognised in recent comparable transactions, etc. For equity securities and derivatives on equity securities that are not listed on an active market, the cost criterion is used as an estimate of the fair value only on a residual basis and limited to rare circumstances, i.e., if none of the measurement models previously mentioned can be applied, or if there is a wide range of possible fair value measurements, in which case the cost represents the most meaningful estimate.

For more information on the criteria for determining fair value, please refer to Section "A.4 Information on Fair Value" of Part A of the Notes to the consolidated financial statements.

d) revenue recognition criteria

The interest of the three sub-items that comprise this category is recorded under item "10 - Interest income and similar revenues".

Realised gains and losses, the gains and losses from measurements for "Financial assets held for trading", including derivatives associated with financial assets/liabilities measured at fair value, are recognised in profit and loss under item "80 - Net profit (loss) from trading". These income effects pertaining to "Financial assets measured at fair value" as well as "Other financial assets mandatorily measured at fair value" are booked to the income statement under item "110 - Net profit/loss from financial assets and liabilities measured at fair value through profit or loss", in the sub-items "a) financial assets and liabilities designated at fair value" and "b) other financial assets mandatorily measured at fair value", respectively.

e) derecognition criteria

Financial assets are derecognised from financial statements: i) upon expiration of the contractual rights on the cash flows resulting from the assets, or ii) when the financial assets are sold and all related risks/benefits are transferred. However, if a relevant portion of the risks and rewards associated with disposed financial receivables have been maintained, they continue to be posted in the balance sheet, even if legal ownership of the asset has been effectively transferred.

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

Finally, disposed financial assets are derecognised if the contractual rights to receive the cash flows are maintained and a contractual obligation is simultaneously undertaken to pay only said flows, without a significant delay, to third parties.

f) reclassification criteria

According to the general rules established by IFRS 9 on reclassifying financial assets (with the exception of equity securities, for which reclassification is not permitted), reclassifications to other categories of financial assets are not permitted unless the entity changes its business model for managing financial assets. In these cases, which are expected to be highly infrequent, financial assets may be reclassified from the category 'measured at fair value through profit or loss' to one of the other two categories envisaged by IFRS 9 (financial assets measured at amortised cost or financial assets measured at fair value through other comprehensive income). The transfer value is represented by the fair value at the time of the reclassification and the effects of the reclassification apply prospectively from the reclassification date. In this case, the effective interest rate of the reclassified financial asset is calculated based on its fair value at the reclassification date and this date is considered as the initial recognition date in assigning it to the various credit risk stages (stage assignment) for purposes of impairment.

For more information on classification criteria for financial instruments, please refer to the section "Classification criteria for financial assets" below.

2 Financial assets measured at fair value through other comprehensive income (FVTOCI)

a) classification criteria

This category includes:

- financial assets represented by debt instruments, managed under a "Hold to collect and Sell[30]" business model, whose contractual flows represent solely payments of principal and interest on the residual capital (SPPI - test passed);
- financial assets represented by equity instruments (not qualifying as control, connection or joint control), held under a non-trading business model, for which, on first-time recognition, the option for the recognition in the statement of comprehensive income of changes in fair value after first-time recognition in the financial statements (OCI election) has been irrevocably exercised.

b) recognition criteria

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

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[30] Financial instruments held within the framework of a business model whose objective is ownership of said instruments for the purpose of collecting cash flows and through sales transactions can be associated with the "Held to Collect and Sell" business model.

On initial recognition, the assets are measured at their fair value, which normally corresponds to the price paid, inclusive of transaction costs or income directly attributable to the instrument.

c) measurement criteria

Financial assets represented by debt securities and loans, following initial recognition, continue to be measured at fair value, with recognition in the income statement of interest (based on the effective interest rate method), expected credit losses and any exchange rate changes. Fair value changes, net of expected credit losses, are booked to the appropriate equity reserve net of the associated tax effect (item "120 - Valuation reserves"). Upon full or partial disposal, the cumulative gain or loss in the valuation reserve is reversed, all or in part, to the income statement.

Financial assets represented by equity instruments, following initial recognition, continue to be measured at fair value, with changes booked to the appropriate equity reserve net of the associated tax effect (item "120 - Valuation reserves"). The amount recognised as an offsetting entry in shareholders' equity (Statement of Comprehensive Income) cannot subsequently be transferred to the income statement, even following a sale; in this case, the amount is reclassified in another equity item (item "150 - Reserves"). Furthermore, no write-down to the income statement is envisaged for these assets as they are not subject to any impairment process. The only component of these equity securities that is recognised in the income statement is represented by the related dividends.

For equity securities included in this category, which are not listed on an active market, the cost criterion is used as an estimate of the fair value only on a residual basis and limited to rare circumstances, i.e., if none of the measurement models previously mentioned can be applied, or if there is a wide range of possible fair value measurements, in which case the cost represents the most meaningful estimate.

For more information on the criteria for determining fair value, please refer to Section "A.4 Information on Fair Value" of Part A of the Notes to the consolidated financial statements.

Financial assets measured at fair value through other comprehensive income - both in the form of debt securities and loans - are subject to verification of the significant increase in credit risk (impairment) as required by IFRS 9, similar to assets measured at amortised cost, with the consequent recognition in the income statement of a value adjustment to cover expected losses. In summary, an estimated loss at one year is recognised, at the initial recognition date and at every subsequent reporting date, on instruments classified in stage 1 (i.e., on financial assets at the origination date, if not impaired, and on instruments for which there has not been a significant increase in credit risk compared to the initial recognition date). Instead, for instruments classified in stage 2 (performing, for which there has been a significant increase in credit risk compared to the initial recognition date) and stage 3 (non-performing exposures) an expected loss is recorded for the entire residual life of the financial instrument. Conversely, equity securities are not subject to the impairment test.

For more detailed information, please refer to the subsequent paragraph "Use of estimates and assumptions when preparing financial statements - Methods for calculating impairment on IFRS 9 financial instruments".

d) revenue recognition criteria

As regards financial instruments represented by debt instruments:

- interest is recorded under item "10 - Interest income and similar revenues".
- expected credit losses recognised for the year are accounted for in item "130 - "Net impairment (losses)/reversals for credit risk of: b) financial assets measured at fair value through other comprehensive income"; the same applies for partial or full reversals of write-downs recorded in previous years;
- at the moment of derecognition, valuations accumulated in the specific equity reserve are reversed to the income statement under item "100 - Gains/(losses) on disposal/repurchase of: b) financial assets measured at fair value through other comprehensive income".

As regards financial assets represented by equity instruments, for which the so-called "OCI election" was exercised, only dividends are booked to the income statement (item "70 - Dividends and similar income"). Changes in fair value subsequent to initial recognition are recorded in a specific valuation reserve under shareholders' equity (item "120 - Valuation reserves"); in the event of derecognition of the asset, the cumulative balance of this reserve is not reversed to the income statement but is reclassified under earnings reserves of equity (item "150 - Reserves").

e) derecognition criteria

Financial assets are derecognised from financial statements: i) upon expiration of the contractual rights on the cash flows resulting from the assets, or ii) when the financial assets are sold and all related risks/benefits are transferred. However, if a relevant portion of the risks and rewards associated with disposed financial receivables have been maintained, they continue to be posted in the balance sheet, even if legal ownership of the asset has been effectively transferred.

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

Finally, disposed financial assets are derecognised if the contractual rights to receive the cash flows are maintained and a contractual obligation is simultaneously undertaken to pay only said flows, without a significant delay, to third parties.

f) reclassification criteria

According to the general rules established by IFRS 9 on reclassifying financial assets (with the exception of equity securities, for which reclassification is not permitted), reclassifications to other categories of financial assets are not permitted unless the entity changes its business model for managing financial assets. In these cases, which are expected to be highly infrequent, financial assets may be reclassified from the category 'measured at fair value through other comprehensive income' to one of the other two categories envisaged by IFRS 9 (financial assets measured at amortised cost or financial assets measured at fair value through profit or loss). The transfer value is represented by the fair value at the time of the reclassification and the effects of the reclassification apply prospectively from the reclassification date. If assets are reclassified from this category to the amortised cost category, the cumulative gain (loss) recorded in the valuation reserve is adjusted to the fair value of the financial asset at the reclassification date. If, instead, assets are reclassified to the fair value through profit or loss category, the cumulative gain (loss) recorded previously in the valuation reserve is reclassified from shareholders' equity to profit (loss) for the year.

For more information on classification criteria for financial instruments, please refer to the section "Classification criteria for financial assets" below.

3 Financial assets measured at amortised cost

a) classification criteria

Financial assets represented by loans and debt securities, managed under a "Held to Collect[31]" business model, whose contractual flows represent solely payments of principal and interest on the residual capital (SPPI test passed) are included in this category.

The portfolio of financial assets measured at amortised cost includes:

- the entire portfolio of loans in the various technical forms that satisfy the above requirements (including repurchase agreements), stipulated with both banks and customers;
- debt securities, mainly government bonds, which satisfy the above requirements;
- operating receivables connected with providing financial assets and services as defined in the Consolidated Law on Banking and the Consolidated Law on Finance (e.g., for distribution of financial products and servicing activities);
- receivables originating from financial lease transactions which, in accordance with IFRS 16, are recognised as credits as they transfer risks and benefits to the lessee, including the values referring to assets pending financial leasing, such as properties under construction.

b) recognition criteria

Financial assets are initially recognised on the settlement date for debt instruments and on the disbursement date for loans; the following are included in said item:

[31] Financial instruments held within the framework of a business model whose objective is ownership of said instruments for the purpose of collecting cash flows can be associated with the "Hold to Collect" business model.

- loans to banks;
- loans to customers.

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

Repurchase agreement transactions with the obligation to repurchase are posted as lending transactions for the spot amounts collected.

c) measurement criteria and revenue recognition criteria

Following initial recognition, financial assets booked to this category are measured at amortised cost using the effective interest rate criterion. This interest is recorded under item “10 - Interest income and similar revenues”.

The gross book value is equal to the first-time recognition value, decreased/increased by:

- principal repayments;
- amortisation – calculated using the effective interest rate method – of the difference between the amount disbursed and the amount repayable upon maturity, typically attributable to the costs/income directly charged to each receivable;

The amortised cost method is not used for short-term receivables, for which the effect of applying a discounting approach is negligible, for loans without a defined maturity, and for revocation loans.

For more detailed information on amortised cost, please refer to the following section “Other significant accounting practices - amortised cost”.

The book value of financial assets at amortised cost is adjusted to take into account any provision to cover expected losses (expected credit losses). For each reporting period, the aforementioned assets are subject to impairment testing with the aim of estimating expected losses in value for credit risk (ECL - Expected Credit Losses). These losses are recorded in the income statement under item “130 - Net impairment (losses)/reversals for credit risk”. More specifically and as better explained in the paragraph “Use of estimates and assumptions when preparing financial statements - Methods for calculating impairment on IFRS 9 financial instruments”, the impairment model classifies the assets into three separate stages (stage 1, stage 2, stage 3), according to trends in the borrower’s creditworthiness, each of which has different criteria for measuring expected losses:

- *stage 1:* includes performing financial assets for which there has been no significant increase in credit risk with respect to the initial recognition date, or for which credit risk is considered low. Impairment is based on an estimate of expected loss over a one-year time horizon (expected loss that would result from default events on financial assets that are deemed possible within one year of the reference date);
- *stage 2:* includes performing financial assets which have suffered a significant impairment in credit risk compared to the initial recognition. Impairment is measured as the estimated expected loss with reference to a timespan equal to the residual life of the financial asset;
- *stage 3:* represents non-performing financial assets (probability of default equal to 100%), to be assessed based on an estimate of expected loss over instrument’s life.

For performing assets, expected losses are calculated according to a collective process based on certain risk parameters represented by the probability of default (PD), loss given default (LGD), and the exposure at default (EAD), deriving from the internal models for calculating regulatory credit risk, appropriately adjusted to take into account the specific requirements envisaged by accounting regulations.

For non-performing assets, i.e., assets for which, in addition to a significant increase in credit risk, objective evidence of impairment has been found, impairment losses are quantified based on an analytical or lump-sum measurement process by homogeneous risk categories - aimed at determining the present value of expected future recoverable cash flows, discounted using the original effective interest rate or a reasonable approximation thereof, if the original interest rate cannot be directly determined.

The non-performing asset category includes exposures assigned the status of bad loan, unlikely to pay, or past-due/overdrawn for more than ninety days, in accordance with the definitions established by supervisory regulations in effect (Bank of Italy Circular no. 272 “Accounts Matrix”) and referred to in Bank of Italy Circular no. 262, as these definitions are deemed consistent with accounting regulations envisaged in IFRS 9 for objective evidence of impairment.

In the event of sale scenarios, the cash flows are calculated based not only on the forecast of the recoverable amounts through internal management activity, but also on the basis of the flows that can be obtained from any sale on the market, according to the approach described in the subsequent paragraph "Use of estimates and assumptions when preparing financial statements - Methods for calculating impairment on IFRS 9 financial instruments".

In addition, the expected cash flows include forecasts for collection timing and the presumed net realisable value of any guarantees as well as the costs connected with obtaining and selling the guarantee. In this regard, in the event that the Group uses a third party to collect non-performing loans, the fees paid to the outsourcer for activities strictly related to collection are considered for the purpose of estimating impairment losses. These costs are considered for both non-performing and performing exposures, if for the latter it is probable that in the event of a transfer to bad loans, the collection activities will be assigned to third parties.

For fixed-rate positions, the original effective rate used to discount the expected cash flows from collection, calculated as described above, remains unchanged over time even if there is a change in the contractual rate due to the borrower's financial difficulties. For floating-rate positions, the rate used to discount cash flows is updated for the indexing parameter (e.g., Euribor), while keeping the fixed spread at the original level.

The financial asset's original value is restored in subsequent years when there is an improvement in the exposure's creditworthiness compared to that which had led to the previous write-down. The reversal is posted to the same item in the income statement ("130 - Net impairment (losses)/reversals for credit risk") and may not, in any case, exceed the amortised cost that the asset would have had without prior adjustments.

For more detailed information on the impairment model, please refer to the subsequent paragraph "Use of estimates and assumptions when preparing financial statements - Methods for calculating impairment on IFRS 9 financial instruments".

For non-performing exposures, accrued interest is calculated based on amortised cost, i.e., using the value of the exposure - calculated with the effective interest rate - adjusted for expected losses. In case of management of non-performing exposures, or of transfer from stage 3 to stage 2, interest will once again be calculated based on the gross exposure value; the positive difference is recognised, as the recovery of previous impairment losses, as an offsetting entry to item "130. Net impairment (losses)/reversals for credit risk". The same accounting entry is made in the event that the interest collected is greater than the expected cash flows.

Finally, for non-performing exposures that do not accrue contractual interest, such as bad loans, this interest corresponds to the progressive release of the discounting of collection forecasts, as the effect of the simple passage of time.

d) derecognition criteria

The financial assets are derecognised in the event one of the following cases is verified:

- the contractual rights on the cash flows deriving from the same expire;
- the financial asset is sold with the substantial transfer of all risks and benefits resulting from ownership;
- if it is not possible to ascertain a substantial transfer of risks and benefits, the financial assets are derecognised when control of the assets has been surrendered.
- the entity retains the contractual right to receive cash flows from the financial assets, but simultaneously assumes the contractual obligation to pay said flows to a third party (pass-through arrangements) without delay and only to the extent of the amount received;
- the asset is subject to "substantial" changes, as more extensively described in the section "Renegotiations".

With regard to non-performing financial assets, the asset may be derecognised following the acknowledgement of the non-recoverability of the exposure and the resulting closure of the collection process (definitive derecognition), and entails the reduction of the nominal value and of the gross book value of the loan. This case occurs when settlement agreements have been reached with the borrower that entail a reduction in the loan (resolution agreement) or in the presence of specific situations such as, for example:

- a judgement has been handed down by the court that declares the loan all or partially settled;
- the conclusion of bankruptcy or enforcement proceedings against both the principal borrowers and guarantors;
- the conclusion of all possible judicial and extra-judicial actions for credit collection;

- the completion of a mortgage lien on an asset under guarantee, with the resulting derecognition of the loan guaranteed by the property under lien, in the absence of further specific guarantees or other actions that can be taken to recover the exposure.

These specific situations may result in a full or partial derecognition of the exposure but do not necessarily imply a waiver of the legal right to collect the loan.

In addition, non-performing financial assets may be derecognised following their "write-off", upon acknowledgement that there are no reasonable expectations of collection, while continuing with actions aimed at their recovery. This write-off is carried out in the year in which the loan, or part of it, is considered non-recoverable - despite not closing the legal procedure - and can take place before the legal actions taken against the borrower and guarantors for credit collection. It does not imply the waiver of the legal right to collect the loan and is made if the loan documentation contains reasonable financial information indicating that the borrower will be unable to repay the loan amount. In this case, the gross nominal value of the loan remains unchanged, but the gross book value is reduced by an amount equal to the amount to be written off, which may represent the full exposure or a portion of it. The write-off amount cannot be subjected to subsequent write-backs following an improvement in collection forecasts, rather only as the result of amounts effectively collected.

In the event of derecognition, the difference between the book value of the asset at the derecognition date and consideration received, inclusive of any assets received net of any liabilities assumed, must be recognised in the income statement, under item "100. a) Profits/(Losses) from disposal or repurchase of: financial assets measured at amortised cost" in the event of sale and, in all other cases, under item "130 - Net impairment (losses)/reversals for credit risk".

e) reclassification criteria

According to the general rules established by IFRS 9 on reclassifying financial assets, reclassifications to other categories of financial assets are not permitted unless the entity changes its business model for managing financial assets. In these cases, which are expected to be highly infrequent, financial assets may be reclassified from the category 'measured at amortised cost' to one of the other two categories envisaged by IFRS 9 (financial assets measured at fair value through other comprehensive income or financial assets measured at fair value through profit or loss). The transfer value is represented by the fair value at the time of the reclassification and the effects of the reclassification apply prospectively from the reclassification date. Gains or losses resulting from the difference between the amortised cost of the financial asset and the associated fair value are booked to the income statement in the case of reclassification under "Financial assets measured at fair value through profit or loss" and, under equity, in the appropriate valuation reserve, in the case of the reclassification under "Financial assets measured at fair value through other comprehensive income".

For more information on classification criteria for financial instruments, please refer to the section "Classification criteria for financial assets" below.

4 Hedging transactions

The Group availed itself of the possibility, envisaged on first-time application of IFRS 9, to continue to use all of the provisions of IAS 39 (carved out version endorsed by the European Commission) as regards hedge accounting for all types of hedge (both micro and macro hedges).

a) classification criteria – types of hedging

Risk-hedging transactions are aimed at offsetting any potential losses on a certain financial instrument or group of financial instruments that may arise from a specific risk should it occur.

The following types of hedging are included:

- fair value hedges, which are intended to hedge the exposure to changes in fair value of a recognised asset or liability that are attributable to a particular risk; These include generic fair value hedges (macro-hedges) having the objective of reducing fluctuations in fair value due to interest rate risk, of a monetary amount, arising from a portfolio of financial assets and liabilities (including core deposits). Generic hedges cannot be used to cover net amounts resulting from the offsetting of assets and liabilities.

- cash flow hedges, which are intended to hedge the exposure from variability in future cash flows attributable to particular risks associated with a recognised asset or liability or a transaction that is deemed highly likely;
- hedges of a net investment in a foreign operation, which refers to hedging the risks of an investment in a foreign operation denominated in a foreign currency.

At the consolidated financial statement level, the designation of the derivative as a hedging instrument is possible only if it is stipulated in relation to a counterparty external to the Group. The results attributable to internal transactions carried out among different Group entities are eliminated.

Given the choice exercised by the Group of making use of the possibility to continue to fully apply the rules of IAS 39 to hedging relationships, it is not possible to recognise capital securities under Financial assets measured at fair value through other comprehensive income (FVOCI) as hedged for price or exchange risk, as these instruments do not impact the income statement, even in case of sale (other than for the dividends recognised in the income statement).

The derivative instrument is designated as a hedging instrument if documentation exists of the relationship between the hedged item and the hedging instrument, showing that the hedging relationship is - and is expected to be - effective both at inception and, prospectively, throughout its life. Furthermore, a hedging transaction should be reflective of a pre-determined risk management strategy and consistent with risk management policies in use.

b) recognition criteria

Financial hedging derivatives, just as for all derivatives, are initially recognised at fair value on the date the contract is stipulated and are classified, as a function of their positive or negative value, in the asset item "50. Hedging derivatives" or in the liability item "40. Hedging derivatives".

c) measurement criteria and revenue recognition criteria

Hedging derivatives are measured at fair value. In particular:

Fair value hedging

In the case of specific fair value hedging, the change in the fair value of the hedged element (for changes generated by the underlying risk factor) adjusts the book value of the hedged element and is immediately recognised, regardless of the category to which the hedged asset or liability belongs, along with the change in the fair value of the hedging instrument, in income statement item "90 - Net profit (loss) from hedging". Any difference, i.e. partial ineffectiveness of the hedging derivatives, reflects their net P&L impact;

If the hedging relationship is suspended, the hedged instrument, if not derecognised from financial statements, is returned to the original valuation criterion of the class to which it belongs. Specifically, for instruments measured at amortised cost, the cumulative revaluations/write-downs recorded as a result of changes in the fair value of the hedged risk are recognised in the income statement in interest income and expense over the residual life of the hedged item, based on the effective interest rate. Instead, if the suspension of the hedge is accompanied by the derecognition from financial statements of the hedged item (e.g., sale or early repayment), the fair value portion not yet amortised is immediately recognised in the income statement under the item "90 - Net profit (loss) from hedging".

With regard to generic fair value hedging transactions (macro-hedges), changes in fair value of the hedged risk of assets and liabilities subject to hedging are recorded in the balance sheet, respectively, under item "60 - Change in value of macro-hedged financial assets" or "50 - Change in value of macro-hedged financial liabilities". The offsetting item for changes in value in both the hedged element and the hedging instrument, similar to specific fair value hedges, is item "90 - Net profit (loss) from hedging" in the income statement. If a generic fair value hedging relationship is suspended, the cumulative revaluations/write-downs recorded in the aforementioned balance sheet items are charged to the income statement in interest income or expense over the residual life of the original hedging relationship, provided that the base assumptions are satisfied and verified.

Cash flow hedging

The changes in fair value of the hedging instrument are posted to a specific shareholders' equity reserve (item "120 - Valuation reserves") with reference to the effective portion of the hedge, while fair value changes of the hedging instrument that are not offset by changes in the hedged item's cash flows are posted to the income statement under item "90 -Net profit (loss) from hedging". If the hedging of cash flows is no longer considered effective, or the hedging relationship is terminated, any amounts accumulated in cash flow hedge reserves are

charged to the income statement when the hedged item, which is still in place, affects profit or loss. Conversely, if the hedged item is derecognised, cancelled or expires the reserve is charged to the income statement at the same time as the hedged item is derecognised.

Hedges of foreign currency investments

Hedges of foreign currency investments are accounted for similarly to cash flow hedges.

Hedge effectiveness depends on the extent to which changes in the fair value or expected cash flows of the hedged item are offset by corresponding changes in the hedging instrument. Therefore, effectiveness is measured by comparing said changes, while taking into account the company's intent at hedge inception. With reference to the hedged risk, the hedging is effective (within the 80% to 125% window) when the changes in fair value (or in the cash flows) of the hedging instrument offset the changes in the hedged item almost entirely.

Effectiveness is assessed at year-end or at interim reporting dates by using:

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

d) derecognition criteria

If tests do not confirm hedge effectiveness, both retrospectively and prospectively, hedge accounting is discontinued as described above.

In addition, the hedging relationship ceases when:

- the derivative expires, is extinguished or exercised;
- the hedged item is sold, expires, or is repaid;
- it is no longer highly likely that the hedged future transaction will occur.

5 Equity investments

a) classification criteria

This item includes equity interests held in associates or joint ventures, which are recognised in accordance with the equity method.

Companies subject to significant influence are considered associates. It is assumed that the company exercises significant influence in all cases in which it holds at least 20% of the voting rights (including "potential" voting rights) and, regardless of the interest held, if the company has the power to participate in management and financial decisions of the investee, by virtue of specific legal connections, such as shareholder agreements, with the purpose for the agreement's participants to ensure representation in management bodies and to ensure management unity, without having control.

Entities are considered to be jointly controlled companies when control is shared between the Group and one or more other parties based on contracts or agreements of another nature, according to which financial and management decisions with strategic purposes are made through the unanimous consent of all parties that share control.

For further information, please refer to section 7.6 "Key considerations and assumptions to determine the existence of joint control or significant influence" in Part B – "Assets" of these Notes to the consolidated financial statements.

b) recognition criteria

Initial recognition of financial assets classified in this category occurs on the settlement date, for a total value equal to the cost, including any goodwill paid at the time of acquisition, which is therefore not subject to independent and separate recognition.

c) measurement criteria and revenue recognition criteria

Equity investments recognised in this category are valued using the equity method. This method envisages that the initial book value is subsequently increased or decreased to reflect the Group's share of the total profits and losses of the investee realised after the acquisition date as an offsetting entry to the income statement item "250 - Gains (losses) on investments".

If it becomes necessary to recognise impairment deriving from changes in the investee's net equity that the investee has not recognised in the income statement (e.g., changes from the fair value measurement of financial assets measured at fair value through other comprehensive income and from the measurement of actuarial gains/losses on defined benefit plans), the portion of these changes attributable to the Group is recognised directly in the equity item "120 - Valuation reserves".

In applying the equity method, the most recent available financial statements of the associate/jointly controlled company are used, appropriately adjusted to reflect any significant events or transactions that took place between the date of these financial statements and the reporting date of the consolidated financial statements. If the investee uses accounting standards that differ from those applied by the Group, the investee's financial statements are modified.

After applying the equity method, the equity investment is subject to an impairment test if there is objective evidence of a loss in value that could affect the investee's cash flows and therefore the recoverability of the investment's carrying amount.

If evidence of impairment indicates that there may have been a loss in value of an equity investment, then the recoverable value of the investment (which is the higher of the fair value, less costs to sell, and the value in use) should be estimated. The value in use is the present value of the future cash flows expected to be derived from the investment, including those arising from its final disposal. Should the recoverable value be less than its book value, including any goodwill, the difference is recognised immediately in the income statement under item "250 - Gains (losses) on investments". Should the reasons for impairment no longer apply as a result of an event occurring after the impairment was recognised, reversals of impairment losses are charged to the same item in the income statement, up to the amount of the previously recognised impairment.

For more detailed information, please refer to the paragraph "Use of estimates and assumptions when preparing financial statements - Methods for calculating impairment on investments".

The dividends from these equity investments are recognised in the Parent Company's income statement, regardless of whether it was generated by the investee before or after the acquisition date. In the consolidated financial statements, these dividends are shown as a reduction in the book value of the investee. If, after dividend recognition, the investee's book value in the separate financial statements exceeds the book value in the consolidated financial statements of the investee's net assets, including goodwill, or if the dividend payout exceeds the investee's total profit, then the Group will determine the investment's recoverable value to assess whether it has suffered impairment.

The result of the disposal of investments measured according to the equity method is recognised in the income statement under item "250 - Gains (losses) on investments", while the result of the disposal of investments other than those measured at equity is recognised in the income statement under item "280 - Gains (losses) on disposals of investments".

d) derecognition criteria

Equity investments are derecognised upon maturity of the contractual rights on the cash flows resulting from the assets or when all related risks/rewards associated to them are transferred. If there is a situation that results in loss of significant influence or joint control, any residual equity investment is reclassified in the IFRS 9 financial asset portfolios.

6 Property, plant and equipment

a) classification criteria

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

Operating properties are properties owned by the Group and used in the production or supply of services or for administrative purposes (classified as "Property, plant and equipment used in the business" and recognised in accordance with IAS 16), whereas investment properties are those owned by the Group for the purpose of collecting rents and/or held for appreciation of capital invested (classified as "Property, plant and equipment held for investment" and follow the rules set forth in IAS 40).

The item also includes property, plant and equipment classified according to IAS 2 "Inventories", mainly relating to assets acquired for the purposes of enhancing the value of the investment, including through restructuring or redevelopment works, with the explicit intention of selling them in the immediate future, as part of the normal

course of business, including assets deriving from the enforcement of guarantees received or from auction purchases.

Property, plant and equipment includes those assets associated with finance lease contracts that were returned to the company, as lessor, following contract termination and the simultaneous closure of the original credit position.

This category also includes i) property, plant and equipment obtained through the enforcement of guarantees received and rights of use acquired through leases, both financial and operational, relating to property, plant and equipment that the Group uses as a lessee for business purposes or for investment purposes, ii) assets transferred with operating leases (for lessors) as well as iii) improvements and value adding expenses incurred on own and third-party property and assets, the latter if identifiable and separate (e.g. ATM).

b) recognition criteria

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

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

For assets returned following the closure of the original credit position (known as “acceptance in return”), the value recognised is the lower of the gross credit value recorded at the time the asset is returned and:

- the “market value” resulting from a specific appraisal, if it is not expected that they will be classified as “non-current assets held for sale and disposal group” over a short-term horizon;
- the “rapid realisation value” inferred from a specific appraisal, which adjusted the “market value” for a sale in an exceedingly short period of time, if at the resolution date it is known that it will later be categorised under “non-current assets held for sale and disposal group”;
- the price being negotiated, if at the time of initial recognition there are tangible sale negotiations, demonstrated by commitments made by the parties involved in the negotiation.

As regards real estate, components relating to land and buildings are separate assets for accounting purposes and, by applying the components approach, are measured separately upon acquisition. The breakdown of the value of the land and the value of the building is based on the appraisals of independent experts.

Right of use (RoU) assets acquired through leasing are recognised in financial statements on the contract’s start date, that is, on the date on which the asset is made available to the lessee, and is initially valued at cost. This cost includes:

- the initial measurement of the lease liability, net of VAT;
- any lease payments made by the start date, net of any lease incentives;
- any initial direct costs incurred, understood as incremental costs incurred to obtain the lease that would not have otherwise been incurred (e.g., brokerage commissions and success fees);
- estimated costs of refurbishment and dismantling, in cases where the contract provides for them.

In connection with the right of use asset, the lessee recognises a liability for the lease under item “10 - Financial assets measured at amortised cost” corresponding to the present value of payments due for the lease. The discount rate used is the implicit interest rate, if it can be determined; otherwise, the lessee’s marginal borrowing rate is used.

When there is no implicit interest rate in the contract, MPS Group uses, as the discount rate, the maturity curve aligned to the individual lease agreements, consisting of the 6M Euribor base rate and the blended funding spread, the latter equal to the weighted average of the funding curves for unsecured senior bonds and for protected and privileged deposits. The adoption of this curve is in line with the characteristics of leasing contracts, which typically provide for fixed fees throughout the duration of the contract, and of the underlying assets.

The discounting rate so defined takes into account the creditworthiness of the tenant, the duration of the lease, the asset underlying the right of use and the economic environment, identified in the Italian market, where the transaction takes place and therefore it is in line with the requirements of the standard.

If a lease contract contains “non-leasing components” (e.g., services rendered, such as ordinary maintenance, to be recognised according to the provisions of IFRS 15), the lessee must account separately for “leasing

components" and "non-leasing components" and divide the contract's payments between the various components based on their relative stand-alone prices.

The lessee may opt to recognise the payments due for the lease directly as a charge in the income statement, on a straight-line basis over the life of the lease contract or according to another systematic method that represents the manner in which the economic benefits are used in the case of:

- short-term leases (equal to or less than 12 months) that do not include a purchase option of the asset leased by the lessee;
- leases in which the underlying asset is of modest value.

MPS Group has chosen to recognise the cost in the income statement on a straight-line basis over the life of the lease contract.

c) measurement criteria and revenue recognition criteria

Property, plant and equipment, including non-operating real estate and with the exception of those to which IAS 2 applies, are valued at cost less any accumulated depreciation and impairment.

Property, plant and equipment, both owned and acquired through rights of use, are systematically depreciated over their useful life on a straight-line basis, except for land and artworks which have an indefinite useful life and cannot be depreciated. The useful life of property, plant and equipment subject to depreciation is periodically reviewed and, in the event of any adjustments to the initial estimate, a change is also made in the related depreciation rate. For the assets underlying the lease, the useful life must be determined taking into account the possible transfer of ownership of the asset to the lessee at the end of the lease. If it is considered likely that the lessee will exercise the option to purchase the asset, which is then reflected in the RoU value, the relevant useful life is that of the underlying asset at the contract's start date. Otherwise, the useful life is determined as the lower of the asset's useful life and the lease term. The depreciation rates and subsequent useful life expected for the main categories of assets are reported in the specific sections of the notes to the consolidated financial statements.

The presence of any signs of impairment, or indications that assets might have lost value, shall be tested at the end of each reporting period. Should there be indications of impairment of value, both for properties that are owned and those that are leased, a comparison is made between the book value of the asset and the asset's recoverable value, i.e. the higher of the fair value, less any costs to sell, and the relevant value in use, which is the present value of the future cash flows generated by the asset. Any adjustments are posted to the income statement under item "210 - Net value adjustments to/(recoveries on) property, plant and equipment". Periodic depreciation is also reported in this item.

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

Furthermore, during the lease contract term, the book value of the right of use must be adjusted in cases where the lease liability is re-calculated, such as, for example, change in the lease term or the valuation of an option to purchase the underlying asset, in light of new circumstances.

Property, plant and equipment falling under IAS 2 are valued in the same way as inventories and, therefore, at the lower of the cost at initial recognition and the net realisable value, represented by the estimated sale price less the presumed costs for completion and the other costs necessary to make the sale. Any losses in value are posted to the income statement under item "210 - Net value adjustments to (recoveries on) property, plant and equipment". Periodic depreciation is not applied in this case.

d) derecognition criteria

Property, plant and equipment are derecognised from the balance sheet upon their disposal or when the assets are permanently withdrawn from use and no future economic rewards are expected as a result of their disposal. Any gains and losses deriving from the disposal or sale of property, plant and equipment are calculated as the difference between the net sale price and the book value of the asset and are recognised in the income statement under item "280. Gains (losses) on disposals of investments".

The right of use assets, accounted for according to IFRS 16, are derecognised at the end of the lease term.

7 Intangible assets

a) classification criteria

Intangible assets are identifiable, non-monetary assets without physical substance that are held for use over several years or indefinitely. Intangible assets also include goodwill, which represents the positive difference between the purchase cost and the fair value of the assets and liabilities pertaining to an acquired company, as best specified in paragraph "16 - Other information, Business combinations".

b) recognition criteria

They are recognised at cost, adjusted by any additional charges only if it is probable that the future economic rewards that are attributable to the asset will flow to the entity and if the cost of the asset can be measured reliably. The cost of intangible assets is otherwise posted to the income statement in the reporting period it was incurred.

Relevant intangible assets for the Group include:

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

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

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

c) measurement criteria and revenue recognition criteria

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

At each annual and interim reporting date, the recoverable amount of the assets is estimated where there is evidence of impairment. The amount of the loss recognised in the income statement is equal to the difference between the book value and the recoverable amount of the assets.

The goodwill recognised is not subject to amortisation, but its book value is tested annually (or more frequently) when there are signs of impairment. To this end, the cash flow generating units to which goodwill is attributable are identified. These units represent the lowest level at which goodwill is monitored for internal management purposes and should not be larger than an operating segment as defined by IFRS 8.

The amount of the impairment loss is determined by the difference between the book value of goodwill and its recoverable amount, if lower. Said recoverable amount is the higher of the cash generating unit's fair value, less costs to sell, and its value in use. Value in use is the present value of future cash flows expected to arise from the years of operation of the cash generating unit and its disposal at the end of its useful life. The resulting value adjustments are posted to the income statement under item "220 - Net value adjustments to (recoveries on) intangible assets". Periodic amortisation is reported in the same item. An impairment loss recognised for goodwill shall not be reversed in a subsequent period.

d) derecognition criteria

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

8 Non-current assets and group of assets/liabilities held for sale and disposal group

a) classification criteria

Non-current assets/liabilities and groups of assets/liabilities for which the book value will presumably be recovered through sale rather than continuous use are classified in assets under item "120 - Non-current assets and groups of assets held for sale and disposal group" and in liabilities under item "70 - Liabilities associated with non current assets held for sale and disposal group".

To be classified in these items, the assets or liabilities (or discontinued operation) must be immediately available for sale and there must be active and tangible programs such as to suggest that their disposal is highly probable within one year of the date of classification in this category.

b) measurement criteria and revenue recognition criteria

Following initial recognition, non-current assets held for sale and disposal group, with the relative liabilities, are valued at the lower of the book value and the fair value net of selling costs, with the exception of certain types of assets, such as, for example, all financial instruments falling under the scope of IFRS 9 - for which IFRS 5 specifically envisages that the measurement criterion of the reference accounting standard must be applied.

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

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

Should the assets and liabilities held for disposal be attributable to disposal group (identifiable with the operations of a significant independent business unit or geographical area, also as part of a single coordinate disposal project, rather than an investee company acquired exclusively for resale), the relative revenues and charges, net of tax, are recognised in the income statement under item "320 - Profit (Loss) after tax from discontinued operations" of the income statement. Profit and loss associated with individual assets held for sale are recognised in the most appropriate income statement item.

c) derecognition criteria

Non-current assets and group of assets/liabilities held for sale and disposal groups are derecognised from the balance sheet upon disposal.

9 Current and deferred tax

a) recognition criteria

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

Income taxes are posted to the income statement, excluding those relating to items directly credited or charged to equity.

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

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

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

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

The probability of the recovery of deferred taxes relative to goodwill, other intangible assets and write-downs on loans (known as "convertible DTAs") is to be automatically considered probable because of existing regulations that provide for conversion into tax credits, if a statutory and/or tax loss is incurred.

In particular, art. 2 - paragraphs 55 et seq. - of Law Decree no. 225 of 29 December 2010 (and subsequent amendments) provides that:

- if the financial statements filed by the company show a statutory loss for the year, deferred tax assets (IRES and IRAP) relating to goodwill, other intangible assets, and loan write-downs will be converted into tax credits for a portion equivalent to the ratio between the statutory loss and the book value of shareholders' equity prior to said loss. The conversion into tax credits becomes effective from the date when the 'loss-incurring' separate financial statements are approved by the Shareholders' Meeting;
- if there is a tax loss for the year (that is, for IRAP purposes, a negative production value), the deferred tax asset relating to the deductions for goodwill, other intangible assets, and loan write-downs, which contributed to the formation of the tax loss (i.e., the negative production value) is transformed into a tax credit. Conversion will be effective as of the date of submission of the tax return for the year in which the loss is incurred.

As a result of the provisions contained in Law Decree no. 83 of 27 June 2015, the DTAs that can be converted ceased to increase starting from 2016. In particular:

1. for deferred tax assets relating to goodwill, other intangible assets newly recognised in financial statements from 2016 onwards are excluded from the regulations pursuant to art. 2 - paragraphs 55 et seq. - of Law Decree 225/2010;
2. for deferred tax assets relating to loan write-downs, from 2016 onwards, the accounting assumption for recognition in financial statements has ceased and these write-downs are entirely deductible in the accounting period. Note that the 2019 financial manoeuvre (Law no. 145 of 30 December 2018) repealed the full deductibility of loan write-downs upon first-time application of IFRS 9, exclusively following the adoption of the model for recognising the provision to cover expected losses (ECL), providing for the deductibility (IRES and IRAP) of these write-downs on a straight-line basis over 10 years. It was, however, explicitly stated that the relative DTAs recorded in financial statements as a result, although referring to write-downs on loans to customers, cannot be converted into tax credits pursuant to Law Decree 225/2010. It should also be noted that the portion referring to 31 December 2019 was deferred to 31 December 2028, as a result of the 2020 Budget Law (Law 160 of 27 December 2019).

Furthermore, note that MPS Group exercised the irrevocable option provided in Law Decree no. 59 of 3 May 2016 (and subsequent amendments) to maintain the right to convert DTAs relative to goodwill, other intangible assets, and loan losses into tax credits; thus, it is necessary to pay an annual fee for each year from 2016 onwards, if the conditions apply, until 2030.

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

As mentioned above, the Group verifies the probability that there will be future taxable income (probability test) using the risk-adjusted approach, which provides for the application of a discount factor to future income. This factor, applied with the compound interest criterion, discounts future income at an increasing rate to reflect its uncertainty. For more details on the assessments made by the Group to verify the possibility of recognising

deferred tax assets, please refer to the subsequent paragraph "Use of estimates and assumptions when preparing financial statements - Methods for recognising deferred tax assets (probability test)".

Deferred tax assets and liabilities are calculated using the tax rates expected at the date on which the temporary differences are reversed, on the basis of the provisions in force at the reporting date. In particular, for the purposes of recognition of deferred taxes, it has been considered that the 2020 Budget Law (Law no. 160 of 27 December 2019) has reintroduced the ACE subsidy (Allowance for Corporate Equity), effective from 2019, previously repealed by the 2019 Budget Law (Law no. 145 of 30 December 2018). Any changes in tax rates or tax standards having a significant effect on deferred tax assets and liabilities that are issued or announced after the reporting date and before the publication authorisation date are treated as events after the balance sheet date that do not entail an adjustment pursuant to IAS 10, with the resulting disclosure in the notes.

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

b) classification and measurement criteria

Deferred tax assets and liabilities are systematically measured to take account of any changes in regulations or tax rates and of any different subjective situations of Group companies.

With reference to fiscal consolidation of the Parent Company and participating subsidiaries, contracts have been stipulated to regulate offsetting flows in relation to the transfers of tax profits and losses. Such flows are determined by administering the applicable IRES tax rate to the taxable income of participating companies. The offsetting flow for companies that transfer tax losses – calculated as above – is posted by the consolidating to the consolidated company when and to the extent to which the consolidated company will transfer positive taxable income in tax periods subsequent to that in which the loss was recorded. Offsetting flows so determined are posted as receivables and payables with companies participating in fiscal consolidation, classified under other assets and other liabilities, offsetting item "300 - Tax expense (recovery) on income from continuing operations".

c) revenue recognition criteria

Where deferred tax assets and liabilities refer to components which affected the income statement, they are offset by income tax. When deferred tax assets and liabilities refer to transactions which directly affected equity without impacting the income statement (e.g. measurement of financial instruments at fair value through other comprehensive income or cash flow hedging derivatives), they are posted as an offsetting entry to shareholders' equity, involving the special reserves if required.

10 Provisions for risks and charges

Provisions for risks and charges: commitments and guarantees given

The sub-item in question includes provisions for credit risk on commitments to disburse funds and guarantees given that fall under the scope of application of the impairment rules pursuant to IFRS 9, consistent with the provisions for "Financial assets measured at amortised cost" and "Financial assets measured at fair value through other comprehensive income". For more detailed information on the impairment model, please refer to the subsequent paragraph "Use of estimates and assumptions when preparing financial statements - Methods for calculating impairment on IFRS 9 financial instruments".

In addition, the sub-item also includes provisions for risks and charges established for other types of commitments and guarantees given which, by virtue of their distinct characteristics, do not fall under the scope of application of the impairment rules pursuant to IFRS 9.

Provisions for risks and charges: post-employment benefits

The sub-item "Provision for risks and charges: b) post-employment benefits" includes appropriations, recognised based on IAS 19 "Employee Benefits", for the purpose of closing the technical deficit of defined benefit supplementary pension funds. Pension plans are either defined benefit or defined contribution schemes. The charges borne by the employer for defined contribution schemes are pre-determined; charges for defined benefit plans are estimated and shall take account of any shortfall in contributions or poor investment performance of defined benefit plan assets. For defined benefit plans, the actuarial values required by the application of the above standard are determined by an external actuary in accordance with the Projected Unit Credit Method. Actuarial gains and losses, defined as the difference between the book value of the liability and the present value of

commitments at the end of the year, are recognised for the full amount in the statement of comprehensive income, under the item "Valuation reserves".

For further details, please refer to the following paragraph "16 - Other information - Severance pay and other employee benefits".

Provisions for risks and charges: other provisions

The sub-item "Provisions for risks and charges: c) other provisions" includes allocations made for estimated expenditures for legal or implicit obligations deriving from past events. These expenditures may be contractual in nature, such as the allocations for the incentive system for employees and leaving incentives, indemnities envisaged in contractual clauses upon occurrence of certain events, or for compensation and/or restitution, such as those against presumed losses for actions filed against the Bank, including claw-back actions, estimated expenses in relation to customer claims for securities brokerage, and tax disputes.

This also includes provisions established at the starting date of lease contracts, stipulated as lessee, which require the dismantling/refurbishment of the underlying assets at the end of the contract. These provisions are recognised as a contra-entry of the assets recognised for the value of rights of use of properties (see item "90 - Property, plant and equipment").

Provisions for risks and charges consist of liabilities with uncertain amounts or payment dates and are recognised in the financial statements if:
- there is a current (legal or implicit) obligation resulting from a past event;
- an outflow of resources producing economic rewards is likely to be necessary in order to settle the obligation; and
- a reliable estimate can be made of the likely future disbursement.

The amount recognised as a provision represents the best estimate of the financial disbursement necessary to fulfil the obligation existing at the reporting date and reflects the risks and uncertainties inherent in the events and situations reviewed. Whenever the time element is meaningful, the provisions are discounted using the current market rates. With the exception of provisions associated with lease contracts, the allocation and discounting effect are recorded in the income statement under item "200 - Net provisions for risks and charges", as is the increase in the provision due to the passage of time. Provisions are reviewed at each reporting date and adjusted to reflect the best current estimate. When an outflow of resources, intended to produce economic benefits in fulfilment of an obligation, becomes unlikely or when the obligation has lapsed, the provision is reversed.

In addition, each provision is used solely for the expenditures for which it was originally established.
No provision is shown for contingent and unlikely liabilities, but information is provided in the notes to the consolidated financial statements, except in cases where the probability of an outflow of resources to settle the amount is remote or the amount is not significant.

Note in particular that:
- Provisions relating to civil and criminal disputes deriving from financial information disclosed in the 2008-2015 period are determined as the weighted average of two estimates prepared by external experts:
  1. the so-called "differential damage criterion", which identifies the damage as the lowest price that the investor would have had to pay if he had had access to complete and correct information.
  2. the so-called "full compensation criterion", which is based on the argument that false or incomplete information may have a causal impact on the consumer's choice of investments such that, in the presence of correct information, they would not have *tout court* have made the investment in question. On the basis of this argument, the refundable damage is deemed to be the entire amount invested, after deduction of (a) the residual value of the security (or the amount obtained from the sale of the security), as well as (b) an additional amount that the investor could have obtained from the sale of the securities as soon as parity of information had been re-established.

  Instead, with reference to out-of-court claims relating to the period 2008-2015, in order to take into account the probability of their transformation into real disputes, the funds were determined by applying an experiential factor to requests made by counterparties.
- Provisions linked to representations and warranties released in the context of transfer or demerger transactions of non-performing loans are determined, in the absence of suitable elements for a sufficiently reliable estimate, through a statistical method. In particular, the estimate is based on the

results of a representative sample of exposures transferred/demerged with respect to which the competent functions analytically evaluate the compliance or compliance risk for each of the representations and warranties released; in the context of this estimate the sample to be analysed and whose results are extrapolated to the entire population is identified. The estimate is updated to take into account any claims received.

11 Financial liabilities measured at amortised cost

a) classification criteria

Item "10 - Financial liabilities measured at amortised cost" includes the sub-items "a) due to banks", "b) due to customers", and "c) debt securities issued" and comprises the various types of funding (both interbank and from customers) and funds raised through certificates of deposit and outstanding bonds, net of any repurchase. Debt securities issued include all securities that are not subject to "natural" hedging through derivatives and that are classified as liabilities measured at fair value.

This item also incorporates payables booked by the lessee in relation to any stipulated finance and operating lease transactions, as well as repurchase agreements for funding and securities lent against cash guarantees that are fully available to the lender. Finally, operating payables related to the provision of financial services, as defined in the Consolidated Law on Banking and Consolidated Law on Finance, are included in this item.

b) recognition criteria

These financial liabilities are initially recognised upon receipt of the amounts collected or at the time of issuance of debt securities based on their fair value, which is generally equal to the amount received or the issue price, increased by any additional income/expense directly attributable to the individual funding or issuing transaction and not reimbursed by the creditors. Internal administrative expenses are excluded.

Repurchase agreement transactions with the obligation to repurchase are posted as funding transactions for the spot amounts collected.

Should the requirements provided for by IFRS 9 for the separate recognition of embedded derivatives be met in the case of structured instruments, they are separated from the host contract and reported at fair value as a trading asset or liability. Instead, the host contract is recognised at amortised cost.

Lease liabilities recognised in relation to the lessor are measured at the present value of future lease payments for the duration of the lease. The lease term is determined taking into consideration:

- periods covered by an option to extend the lease, if it is reasonably certain that the option will be exercised;
- periods covered by an option to terminate the lease, if it is reasonably certain that the option will be exercised.

c) measurement criteria and revenue recognition criteria

Following initial recognition, financial liabilities issued, net of any reimbursements and/or repurchases, are measured at amortised cost using the effective interest rate method. Short-term liabilities for which time effect is immaterial are an exception, and are recognised at the amount collected. Interest is charged to the income statement under item "20 - Interest expense and similar charges".
Following the commencement date, the book value of lease liabilities:

- increases for accrued interest expense, charged to the income statement under item "20 - Interest expense and similar charges";
- decreases for lease instalment payments;
- is recalculated to take into account any new valuations (e.g., extension or reduction of the contract term) or changes in the lease (e.g., renegotiation of the lease payment) that occurred after the commencement date; the impact of the recalculation is recorded as a contra-entry of the asset for the right of use.

Moreover, funding instruments that have an effective hedging relationship are assessed based on the rules for hedging transactions.

d) derecognition criteria

Financial liabilities are derecognised upon maturity or extinction. Derecognition also occurs if previously issued securities have been repurchased. The difference between the book value of the liabilities and the amount paid to

repurchase them is recorded in the income statement in item "100 - Gains (losses) on disposal or repurchase". A new placement in the market of own securities after their repurchase is considered as a new issue and posted at the new price of placement, with no impact on the income statement.

12 Financial liabilities held for trading

a) classification criteria

This item includes:

- financial liabilities issued with the intention to repurchase them in the short term;
- liabilities that are part of a jointly managed portfolio of financial instruments for which there is a proven strategy to obtain profits in the short term;
- derivative contracts with a negative fair value not designated as hedging instruments, including both those embedded in complex financial instruments that have been unbundled from liabilities measured at amortised cost, as well as those related to assets/liabilities measured at fair value through profit or loss.

Moreover, liabilities that arise from technical overdrafts generated by securities trading activities are included.

b) recognition criteria

Financial liabilities held for trading are initially recognised on the settlement date for cash liabilities and on the subscription date for derivative contracts.

Upon initial recognition, they are measured at fair value, which usually corresponds to the amount collected net of any transaction costs or income directly attributable to the instrument itself, which are directly posted to the income statement.

c) measurement criteria

Following initial recognition, financial liabilities held for trading are measured at fair value, every change in fair value is recognised in the income statement. For a description of criteria used to determine the fair value of financial instruments, please see Section "A.4.5 Fair Value Hierarchy" in Part A of these Notes to the consolidated financial statements.

d) revenue recognition criteria

Profits and losses arising from any changes in the fair value of financial liabilities and/or their sale are recognised in the income statement under item "80 - Net profit/loss from trading", including those for derivatives liabilities associated with the fair value option.

e) derecognition criteria

Financial liabilities are derecognised when the contractual rights on the related cash flows expire or when the financial liabilities are sold with the substantial transfer of all related risks and benefits.

13 Financial liabilities designated at fair value

a) classification criteria

This category includes financial liabilities for which, upon initial recognition, the option of measurement at fair value through profit or loss was chosen; this option is allowed when:

1. the fair value designation makes it possible to eliminate or significantly reduce a lack of standardisation in the measurement or recognition that would otherwise result from the valuation of assets or liabilities or the recognition of the related profits and losses on different bases (known as "accounting mismatch"); or
2. the management and/or measurement of a group of financial instruments at fair value through profit or loss is consistent with an investment or risk management strategy documented as such by senior management; or
3. a host instrument embeds a derivative which significantly modifies the cash flows of the host and should otherwise be unbundled.

The option to designate a liability at fair value is irrevocable, is carried out on an individual financial instrument, and does not require the same application to all instruments having similar characteristics. It is not permitted to

use the fair value designation for only one portion of a financial instrument, attributable to a single risk component to which the instrument is subject.

The Parent Company has exercised this option in relation to case 1, classifying under this item financial liabilities that are subject to "natural hedging" through derivative instruments.

In Section 16 "Other information", a specific paragraph is included to provide insight into the hedging management methods through the adoption of the fair value option.

b) recognition criteria

Upon initial recognition, these financial liabilities are measured at fair value, which usually corresponds to the amount collected net of any transaction costs or income directly attributable to the instrument itself, which are directly posted to the income statement.

The fair value of any financial liabilities issued at conditions other than market conditions is calculated by using a specific valuation technique, and the difference with respect to the consideration received is booked directly to the income statement only when the conditions provided for by IFRS 9 have been met, i.e. when the fair value of the instrument issued can be established by using either quoted market prices for similar instruments or by a valuation technique based solely on market data. Should these conditions not apply, the fair value used for valuations after the issuance of instruments is cleared of the initial difference between the fair value upon issuance and the consideration received. This difference is recognised in the income statement only if it ensues from changes in the factors (including time), which market traders would consider for price determination.

c) measurement criteria and revenue recognition criteria

Following initial recognition, financial liabilities are measured at fair value. Gains and losses arising from any changes in the fair value of these liabilities are recognised:

- in item "120 - Valuation reserves", for the portion related to the change in fair value that is attributable to changes in the issuer's creditworthiness, unless this creates or increases an accounting mismatch in the profit (loss) for the year, in which case the entire change in fair value of the liability must be charged to the income statement. Effects associated with the change in own creditworthiness are recorded in the statement of comprehensive income, net of the related tax effect, along with the other income components that will not be reversed to the income statement. The amount charged to the specific equity reserve will never be reversed to the income statement, even if the liability expires or lapses; in this case, the cumulative gain (loss) in the specific valuation reserve must be reclassified to another shareholders' equity item ("150 - Reserves");
- in the income statement under item "110 - Net profit (loss) from financial assets and liabilities measured at fair value through profit or loss", for the portion of the fair value change not attributable to changes in own creditworthiness.

For a description of criteria used to determine the fair value of financial instruments, please see Section "A.4.5 Fair Value Hierarchy" in Part A of these Notes to the consolidated financial statements.

d) derecognition criteria

Financial liabilities are derecognised when the contractual rights on the related cash flows expire or when the financial liabilities are sold with the substantial transfer of all risks and benefits resulting from the ownership.

For financial liabilities represented by securities issued, derecognition also occurs if previously issued securities have been repurchased. The difference between the book value of liabilities and the amount paid to purchase them is recorded in the income statement under item "110 - Net profit/loss from financial assets and liabilities measured at fair value through profit or loss", with the exception of profits/losses associated with the change in own creditworthiness, which continues to be recognised in an equity reserve, as described above. A new placement in the market of own securities after their repurchase is considered for accounting purposes as a new issue and posted at the new price of placement, with no impact on the income statement.

14 Foreign-currency transactions

a) recognition criteria

Upon initial recognition, foreign-currency transactions are recognised in the currency of account using the foreign-exchange rates on the date of the transaction.

b) revenue classification, measurement, recognition and derecognition criteria

Financial statement entries denominated in foreign currencies are valued at the end of each reporting period as follows:

- monetary entries are converted using the exchange rate on the closing date;
- non-monetary entries valued at historical cost are converted using the exchange rate on the date of the transaction;
- non-monetary entries that are measured at fair value in a foreign currency are translated at the closing date rate.

Any exchange-rate differences resulting from the settlement of monetary elements, or from the conversion of monetary elements at rates other than those used for initial conversion or conversion in the previous financial statements, are posted to the income statement for the period in which they arise.

When a profit or a loss on a non-monetary element is recognised in equity, the exchange-rate difference in relation to said element is also posted to equity. However, when a profit or a loss is posted to the income statement, the relative exchange-rate difference is also posted there.

The accounting position of foreign branches with different operating currencies is converted into euros by using the exchange rates at the end of the reporting period. Any exchange rate differences attributable to investments in such foreign branches, and those resulting from the conversion into euros of their accounting position, are recognised in equity reserves and transferred to the income statement only in the year when the investment is disposed of or reduced.

15 Insurance assets and liabilities

The scope of consolidation does not include any insurance companies.

16 Other information

Other financial statement items

Cash and cash equivalents

This item includes currencies that are legal tender, including foreign banknotes and coins and demand deposits with the central bank of the country or countries in which the Group operates through its own companies or branches, with the exception of the mandatory reserve.

The item is posted at face value. For foreign currencies, the face value is converted into euros at year-end exchange rate.

Change in value of macro-hedged financial assets and liabilities

These items show, respectively, the net amount, whether positive or negative, of changes in value of financial assets and liabilities macro-hedged against interest rate risk, pursuant to IAS 39, paragraph 89A. For more detailed information, please refer to the discussion in paragraph 4 “Hedging transactions”.

Other assets

This item shows assets not attributable to the other items on the asset side of the balance sheet. It may include, for example:

- gold, silver, metals and precious stones;
- items in processing;
- accrued income and prepaid expenses not attributable to its own separate item;
- receivables associated with the provision of non-financial goods or services and accrued income other than that which is capitalised on the related financial assets, including those resulting from contracts with customers pursuant to IFRS 15;
- any inventories according to the definition of IAS 2, excluding those classified as inventories of property, plant and equipment;

- tax liabilities other than those recognised under item "110 - Tax liabilities", improvements and incremental expenses incurred on third-party real estate other than those attributable to item "90 - Property, plant and equipment" and therefore not independently identifiable and separable.

The costs in the latter bullet point are posted to item "130 - Other assets", since the user company exercises control of the assets for the purpose of the tenancy agreement and can obtain future economic benefits from them. Said costs are posted to item "230 - Other operating expenses (income)" in the income statement according to the shorter of the period in which the improvements and incremental expenses can be used and the remaining term of the contract, including the renewal period, where applicable.

Other liabilities

This item shows liabilities not attributable to other items on the liability side of the balance sheet.

It includes, for example:

- items in processing;
- payment agreements that must be classified as debit entries according to IFRS 2;
- debit entries connected with payment for provision of non-financial goods and services;
- accrued liabilities other than those to be capitalised for the respective financial liabilities, including those deriving from contracts with customers pursuant to IFRS 15;
- sundry tax liabilities other than those recognised under item "60 - Tax liabilities", associated, for example, with substitute tax assets.

Severance pay and other employee benefits

Employee severance pay is defined as a "benefit subsequent to the employment relationship", in accordance with IAS 19. Following the supplementary pension reform, pursuant to Italian Legislative Decree no. 252 of 5 December 2005, new rules were introduced for severance pay accrued effective 1 January 2007, which is recognised for purposes of the relative accounting treatment. In particular, for companies with an average of at least 50 employees during 2006, the portions of severance pay accrued starting from 1 January 2007 are considered a "defined contribution plan", both for the case in which the employee opts for supplementary social security, as well as the case in which the employee opts for the allocation to the INPS treasury fund; the charge, recognised under personnel costs, is limited to the contribution established by regulations envisaged by the Italian Civil Code, without applying any actuarial methodology.

Conversely, the severance pay accrued as at 31 December 2006 continues to be considered a "defined benefit plan". In general, "post-employment plans" - which include severance pay as well as pension funds - are divided into the two categories "defined benefit" or "defined contribution", based on their characteristics.

In particular, for defined contribution plans, the cost is represented by contributions accrued during the year, given that the company has only the obligation to pay the contractually established contributions to a fund and, consequently, has no legal or implicit obligation to pay, in addition to the contribution, additional amounts if the fund does not have sufficient assets to pay all the benefits to employees.

For defined benefit plans, the actuarial and investment risk, that is, the risk of a shortfall in contributions or poor investment performance of the assets in which the contributions are invested, is borne by the company. The liability is calculated by an external actuary based on the Projected Unit Credit method. Based on this method, future disbursements must be estimated based on demographic and financial assumptions, to be discounted to consider the time that will pass before the actual payment and to be adjusted for the ratio between the years of service accrued and the theoretical seniority estimate at the time the benefit is paid. For discounting purposes, the rate used is determined with reference to the market yield of primary corporate bonds taking into account the average residual duration of the liability, weighted according to the percentage of the amount paid and advanced, for each maturity, compared to the total to be paid and advanced up to the final settlement of the full bond.

The actuarial value of the liability thus calculated must then be adjusted for the fair value of any assets servicing the plan (net liabilities/assets). Actuarial gains and losses that arise as a result of adjustments to the previous actuarial assumptions formulated, following actual historical data or due to changes in the actuarial assumptions, entail a re-measurement of net liabilities and are offset against an equity reserve (item "120 - Valuation reserves") and are thus presented in the "Statement of comprehensive income". The change in the liability resulting from a change or reduction in the plan is recorded in the income statement as a profit or loss. More precisely, the specific case of a change applies if a new plan is introduced or an existing plan is withdrawn or modified. Instead, there is the case of a reduction due to a significant negative variation in the number of employees included in the plan, such as, for example, redundancy plans for redundant workers (access to the Solidarity Fund).

The Projected Unit Credit method, described above, is also used to measure long-term benefits, such as seniority bonuses for employees. Contrary to that which was described for defined benefit plans, actuarial gains and losses associated with the measurement of long-term benefits are immediately recognised in the income statement.

Valuation reserves

This item includes valuation reserves relating to the equity securities measured at fair value through other comprehensive income, financial assets (other than equity securities) measured at fair value through other comprehensive income, hedges on foreign investments, cash flow hedges, exchange rate differences for conversion, "individual assets" and groups of assets held for sale, the portion of valuation reserves for investments measured according to the equity method, actuarial gains (losses) on defined benefit plans, and profits/losses for changes in own creditworthiness in relation to liabilities under the fair value option.

Share capital and Treasury shares

This equity item includes the amount of issued shares net of any capital subscribed but not yet paid at the reporting date. The item is shown including any treasury shares held by the Group. Treasury shares are recognised in financial statements as a negative component of shareholders' equity.

The original cost of repurchased treasury shares and the profits or losses from their subsequent sale are recognised as changes in shareholders' equity. Transaction costs for a capital transaction, such as an increase in share capital, are recorded as a reduction in shareholders' equity, net of any related tax benefits. Dividends on ordinary shares are recorded as a reduction of shareholders' equity in the year in which the Shareholders' Meeting approved their distribution.

Non-controlling interests

This item represents the portion of consolidated net equity attributable to minority shareholders, calculated based on the "equity ratios". The amount is calculated net of any treasury shares repurchased by the consolidated companies.

Other significant accounting practices

Revenues from contracts with customers (IFRS 15)

Revenues are gross inflows of economic benefits during the year in the form of consideration for the obligation to transfer to the customer a wide range of goods and services considered part of ordinary business activities.

The IFRS 15 standard, "Revenue from Contracts with Customers", introduces a new model for recognising revenues deriving from contractual obligations with customers, which is based on the concept of a transfer of control and, thus, not only on the concept of the transfer of risks and benefits.

First of all, revenues deriving from contracts with customers are recorded in financial statements only if the relative contract is identifiable, that is:

- the parties have approved the contract and are committed to its execution;
- the rights and obligations of the parties can be clearly identified in the contract;
- the payment terms for the transferred goods and services can be identified;
- the contract has commercial substance, in the sense that it impacts the entity's cash flows;
- it is considered likely that the consideration will be collected upon transfer of the assets and provision of the services. For this assessment, only the customer's ability and intention to pay the amount due should be considered.

After the contract's consideration has been allocated to individual obligations resulting from the contract, revenue is recognised in the income statement when the customer obtains control of the goods or services promised (or when the performance obligation may be deemed satisfied) and can be:

- at a specific point in time (e.g., when the entity fulfils the obligation to transfer the promised good or service to the customer);
- over a period of time (e.g., as the entity fulfils the obligation to transfer the promised good or service to the customer);

For purposes of determining the revenue, the consideration is defined as the amount the entity is entitled to in exchange for the transfer of goods and services and may include fixed amounts, variable amounts, or both. Specifically, the contract's consideration may vary based on reductions, discounts, reimbursements, incentives, performance bonuses, or other similar elements. The consideration may also vary depending on whether a future event occurs (as in the case of a fee linked to performance objectives).

The methods suggested by IFRS 15 for estimating the variable portion of remuneration are:

- *the expected value method, i.e., the weighted sum of the amounts in a range of possible considerations (for example, the company has many contracts with similar characteristics);*
- the most likely amount method, or the most likely in a range of possible considerations (for example, the company receives a performance bonus or does not receive it).

If there is an element of variable consideration, revenue is recognised in the income statement only if it is possible to reasonably estimate the revenue and if it is highly probable that this consideration will not be subsequently reversed from the income statement, whether in full or for a significant part. In the event of a high prevalence of factors of uncertainty linked to the nature of the consideration, it will only be recognised at the moment this uncertainty is resolved. In any case, the estimated part of the transaction price must be updated at the end of each reporting period. The presence of financial components is also considered in determining the price, if considered relevant.

In the case of commercial agreements that envisage the recognition of variable non-cash consideration to the entity, linked to the achievement of specific targets and that can be used for services rendered by the commercial partner, the Group recognises these revenues in the income statement in the year in which they accrue, at a value that is not more than the fair value of services effectively rendered by the partner.

If the entity receives from the customer a consideration that provides for the reimbursement to the customer, in whole or in part, of the revenue received, a provision for risks and charges is recognised against the expected future repayments. The case may occur, for example, when the customer has a right of withdrawal for the asset or if the contract includes a claw-back clause. This standard also applies to loyalty programmes, against which a refund liability is recognised. The liability for future redemptions is equal to the amount of the consideration received (or receivable) for which it is expected that the entity is not entitled to (i.e., amounts not included in the transaction price). The liability for future redemptions (as well as the corresponding change in the transaction price and, consequently, the liability arising from the contract) must be updated on the closing date of each reporting period to take account of changes in circumstances.

For contracts for the placement of third-party products, which provide for the reimbursement of part of the commissions received in the event of early termination by the customer and in the presence of claw-back clauses linked to the failure to achieve target commission volumes, the Group quantified this provision for risk and charges based on historical trends for early repayments and reimbursements to customers. The monitoring and forecasting of volumes of the collected and reversed fees enable the provision to be adjusted at each reporting date. The model that is used is based on the most likely amount method.

In addition, the Group has a credit card loyalty programme in place, according to which reward points are granted to customers based on the volumes transacted; reward points are redeemed through prizes purchased mainly from external suppliers. Reward points granted to customers who subscribe to a product/service of the Group entails that recognition of the portion of revenue attributable to the recognised reward points in the income statement is suspended, as an offsetting entry to other liabilities. For this purpose, the transaction price of the performance obligation associated with the reward points granted is estimated, using a model based on the fair value of the reward points, calculated using several factors including: redemption forecasts for the reward points accrued by customers and the cost related to reward purchases. The amount of consideration that can be allocated to the reward points is recognised as a refund liability; it is released to the income statement only when the obligations related to the reward points have been fulfilled, i.e., when they are effectively redeemed by the customer.

Lastly, the incremental costs for obtaining the contract that are expected to be recovered and the costs for fulfilling the contract are capitalised when these costs can be directly attributed to the contract, can generate resources that can be used to fulfil future contractual performance obligations, and be considered recoverable. This recognised asset is systematically amortised in accordance with the transfer to the customer of the good or service to which the asset refers and, therefore, in accordance with the accounting of the corresponding revenues. The Group does not have assets of this type.

Revenues and costs relating to financial instruments

With reference to the income and charges relating to financial assets/liabilities, note that:

a) interest is booked pro-rata temporis on the basis of contractual interest rate or the effective interest rate in the event of application of the amortised cost; negative income components accrued on financial assets are booked to item "20. Interest expense and similar charges"; the positive income components accrued on financial liabilities are booked to item "10. Interest income and similar revenues". Interest

income (or interest expense) also includes the spreads or margins, positive (or negative), accrued up to the reporting date, in relation to financial derivative contracts:

- hedging assets and liabilities that generate interest;
- classified in the balance sheet in the trading book, but operationally linked to financial assets and/or liabilities measured at fair value (fair value option);
- connected operationally with assets and liabilities classified in the trading book and which entail the settlement of differentials or margins over several maturities;

b) interest on arrears is posted to the income statement only upon actual collection;

c) dividends are shown in the income statement upon resolution of their payout, i.e. when their payment is due;

d) commissions for service income are posted in the period when said services were rendered, on the basis of existing contractual agreements. The commissions considered in the amortised cost for purposes of calculating the effective interest rate are recorded in interest;

e) gains and losses following initial recognition at fair value, as determined by the difference between the transaction price and the fair value of the instrument, are booked to the income statement when the transaction is recorded if the fair value can be determined with reference to parameters or recent transactions observable on the same market in which the instrument is traded; otherwise, they are distributed over time, taking into account the duration and the nature of the instrument.

f) gains and losses from the sale of financial instruments are recognised in the income statement when the sale is finalised, with the relative transfer of risks and benefits, based on the difference between the consideration received and the book value of the instruments themselves. Portfolio management fees are recognised based on the duration of service.

Costs for constant services and decreasing payments

The IFRS accounting standards do not provide specific guidelines on the accounting treatment to be applied for recognising costs related to service contracts that are rendered by the supplier through an indeterminate number of actions, over a given period of time. If there are cases of services rendered by suppliers through a single performance obligation relating to the provision of a specific number of units, such as a certain volume of services, which remain constant throughout the contract term and this single performance obligation is satisfied over time with a decreasing payment amount due by the customer, the Group analogically applies the accounting treatment envisaged by IFRS 15 accounting standard (see *Basis for Conclusions* 313-314).

In cases of the provision services characterised by a constant volume over time and decreasing payments, the Group assigns an average unit cost to the services received and recognises their costs on a straight-line basis. This straight-line mechanism for recognising costs entails the need to recognise a prepaid asset which, at each reporting date pursuant to IAS 36, is assessed to determine if there are impairment indicators which also takes into account the analyses carried out for purposes of onerous contracts. In the event that impairment indicators are identified, the recoverable value of the asset must be calculated and a write-down must be recognised in the financial statements when the recoverable value is lower than the book value.

Share-based payments

These are payments to employees, as consideration for work performed, settled with equity instruments, which consist, for example, in assigning:

- rights to subscribe paid share capital increases (stock options);
- rights to receive shares upon achieving certain objectives or at the end of the employment relationship.

Pursuant to IFRS 2, payments based on treasury shares are classified as “equity-settled” plans, to be recognised based on the fair value of the employment services received.

Given the difficulties of directly estimating the fair value of employment services received as an offsetting entry to the assignment of shares, the value of the services received can be measured indirectly, using as a reference the fair value of equity instruments at the date they are assigned. The fair value of payments settled by issuing shares is recognised according to the criterion of the service provided, in the income statement item “190 a) - Personnel expenses” as an offsetting entry to an increase in the item “150 - Reserves”.

In particular, when the assigned shares cannot immediately be used by the employee, but rather are available only after the employee has completed a specific period of service, the company recognises the cost as consideration for the service rendered throughout the accrual period for these conditions (“vesting period”).

Business combinations

A business combination transaction is intended as the transfer of control of a business (or group of integrated assets and goods, managed for the purpose of providing goods or services to customers and which generates revenues from investment, such as dividends or interest, or other revenues from ordinary activities). For the definition of control, please refer to Section 3 “Scope of consolidation” of this part A of the Notes.

A business combination may give rise to an investment link between the acquiring Parent Company and the acquired subsidiary. In these cases, the acquiring entity applies IFRS 3 to the consolidated financial statements while posting the acquired interest to its separate financial statements as an equity interest in a subsidiary, consequently applying the “Separate financial statements” accounting standard.

A business combination may also provide for the acquisition of the net assets of another entity, including any goodwill, or the acquisition of the share capital of another entity (e.g., mergers, splits, acquisitions of business units). Such a business combination is not an investment link like the one between a parent company and a subsidiary, and therefore in these cases IFRS 3 is also applied to the acquiring entity’s separate financial statements.

Business combinations are accounted for using the purchase method, which requires: (i) the identification of the acquirer; (ii) the determination of the cost of the business combination; and (iii) the allocation of the acquisition price (“Purchase Price Allocation”).

Identification of the acquirer

IFRS 3 requires that an acquirer is identified for all business combinations, identified as the party that obtains control over another entity, understood as the power to set financial and management policies of the entity in order to receive benefits from its activities. In the case of business combination transactions that result in the exchange of equity interests, identification of the acquirer must consider factors such as: (i) the number of new ordinary voting shares issued with respect to the total number of ordinary voting shares that will constitute the share capital of the existing company after the combination; (ii) the fair value of the entities participating in the business combination; (iii) the composition of the new corporate bodies; and (iv) the entity that issues the new shares.

Determination of the cost of the business combination

The consideration paid in a business combination is equal to the fair value, on the purchase date, of assets sold, liabilities incurred, and equity instruments issued by the acquirer in exchange for obtaining control of the acquired entity. The consideration that the acquirer transfers in exchange to the acquired entity includes any assets and liabilities resulting from an agreement on “contingent consideration”, to be recognised at the fair value on the acquisition date. Changes to the consideration transferred are possible if they result from additional information on events and circumstances that existed at the acquisition date and may be recognised within the measurement period for the business combination (i.e., within twelve months from the acquisition date, as specified below). Any other changes deriving from events or circumstances subsequent to the acquisition, such as consideration recognised to the seller linked to the achievement of a certain profit performance, must be recorded in the income statement.

Costs related to the acquisition, which include brokerage fees, consulting, legal, accounting, and professional fees, as well as general administrative costs, are recorded in the income statement as they are incurred, with the exception of the costs of issuing shares and debt securities, which are recognised on the basis of the provisions of IAS 32 and IFRS 9.

Purchase Price Allocation

According to the purchase method, at acquisition date the acquirer must allocate the cost of the business aggregation (known as PPA, “Purchase Price Allocation”) to the identifiable assets acquired and to the liabilities assumed measured at their fair value on that date, as well as recognising the value of non-controlling interests of the acquired entity. Therefore, it is necessary to draw up a balance sheet for the acquired entity, at the acquisition date, measuring at fair value the identifiable assets acquired (including any intangible assets not previously recognised by the acquired entity) and identifiable liabilities assumed (including contingent liabilities).

For each business combination, any non-controlling interests may be recognised at fair value or in proportion to the share of identifiable net assets of the acquired company.

In addition, if control obtained through subsequent acquisitions (business combinations carried out in several phases), the previously held equity interest is measured at fair value at the acquisition date and the difference compared to the previous book value must be charged to the income statement.

Hence, at the acquisition date, the acquirer must determine the difference between:

- the sum of:
  - the cost of the business combination;
  - the amount of any non-controlling interests as described above;
  - the fair value of any equity interests previously held by the acquirer;

and

- the fair value of identifiable net assets acquired, including contingent liabilities.

Any positive difference must be recognised as goodwill; conversely, any negative difference must be charged to the income statement of the entity resulting from the business combination as profit deriving from the purchase at favourable prices (negative goodwill or badwill), after having performed a new measurement aimed at ascertaining the correct process of identifying all assets acquired and liabilities assumed.

The fair value of assets and liabilities must be definitively identified within the maximum term of twelve months from the acquisition date (measurement period).

Once control has been obtained and the purchase method described above has been applied, any further increase or decrease in the equity interest in a subsidiary in which control is maintained is recognised as a transaction between shareholders. Therefore, the book values of the shareholders' equity of the Group and non-controlling interestes must be adjusted to reflect changes in equity interests in the subsidiary. Any difference between the value for which non-controlling interests are adjusted and the fair value of the consideration paid or received must be recognised directly in the Group's shareholders' equity.

If there is an event which results in the loss of control, an entry is made to the income statement equivalent to the difference between (i) the sum of the fair value of the consideration received and the fair value of the residual equity interest held and (ii) the previous book value of the assets (including goodwill) and liabilities of the subsidiary and any third-party shareholders' equity. The amounts previously recognised in the statement of comprehensive income (such as valuation reserves for financial assets sold that are measured at fair value through other comprehensive income) must be accounted for in the same way as required if the parent company had directly sold the assets or related liabilities (by reclassification in the income statement or shareholders' equity).

The fair value of any equity interest held in the former subsidiary must be considered equal to the fair value upon initial recognition of a financial asset according to IFRS 9, or, where appropriate, equal to the cost at the time of initial recognition in an associate company or a jointly controlled entity.

Business combinations under common control

Business combinations between entities under common control do not fall under IFRS 3. In the absence of a standard of reference, as indicated in Section 1 "Declaration of conformity with international accounting standards", these transactions are posted to the accounts by making reference to preliminary guidance from the Italian Association of Auditors (Orientamenti Preliminari, OPI no. 1 "Accounting treatment of "*business combinations of entities under common control*" in separate and consolidated financial statements" and OPI no. 2 "Accounting treatment of mergers in financial statements"). These guidelines consider the economic significance of business combinations on the basis of cash flow impact on the Group. Transactions, which had no significant influence on future cash flows, were recognised using the pooling of interest method. Therefore, in the financial statements of the seller, the difference between the sale price and the book value is posted as an increase/decrease in equity. Exclusively in the event of acquisition or transfer of a controlling interest, the equity investment is posted at acquisition cost in the acquirer/transferee's financial statements for the year.

Amortised cost

The amortised cost of financial assets or liabilities is the value at which they were measured upon initial recognition, net of principal repayments, plus or minus overall amortisation calculated using the effective interest method, on the differences between the initial value and that at maturity and net of any permanent impairment.

The effective interest rate is the rate which equates the present value of a financial asset or liability with the future contractual payments or collection cash flows until maturity or a subsequent price recalculation date. To calculate the current value, the effective interest rate is applied to estimated future collection or payment flows over the entire useful life of the financial assets or liabilities – or for a shorter period if certain conditions are met (for example, a change to market rates).

Following initial recognition, the amortised cost makes it possible to allocate income and costs reducing or increasing the instrument over its entire expected life by means of the amortisation process. The determination of the amortised cost is different depending on whether the financial assets/liabilities are subject to valuation at a fixed or variable rate.

For fixed-rate instruments, future cash flows are quantified based on the known interest rate during the term of the financing. For floating-rate financial assets/liabilities, whose variability is not known beforehand (because, for example, it is tied to an index), cash flows are determined on the basis of the last known rate. At every rate review date, the amortisation schedule and the actual rate of return over the entire useful life of the instrument, i.e. until maturity, are recalculated. The adjustment is recognised as cost or income in the income statement.

Amortised cost is assessed for financial assets measured at amortised cost and for those as fair value through other comprehensive income as well as financial liabilities measured at amortised cost.

Financial assets and liabilities traded at market conditions are initially recognised at their fair value, which normally corresponds to the amount disbursed or paid inclusive - in the case of instruments valued at amortised cost - of transaction costs and commissions directly attributable to the assets and liabilities.

Transaction costs include marginal internal and external costs and income attributable to the issue, acquisition or sale of a financial instrument that cannot be charged to the customer. These fees, which must be directly attributable to the individual financial assets or liabilities, impact the original effective return and make the effective interest rate associated with the transaction different from the contractual interest rate. Indistinguishable costs related to several transactions and components related to events that may occur during the life of the financial instrument, but which are not certain at the time of the initial definition, are excluded, such as: fees for retrocession, for failure to use, and for early repayment.

Calculation of the amortised cost does not include costs that the Group must incur regardless of the transaction (e.g., administrative, stationery and advertising costs), which, even though they are specifically attributable to the transaction, occur in the normal practice of managing loans (e.g., disbursement activities), as well fees for services collected following the completion of structured finance activities that would have been collected in any case, regardless of the subsequent financing of the transaction (e.g., facility and arrangement fees).

With particular reference to loans, fees paid to distribution channels (agents, advisors, brokers) and the fees paid for consultancy/advisory in organising and/or participating in syndicated loans are considered costs attributable to the financial instrument, while revenues considered in the calculation of the amortised cost are those for participation in syndicated transactions and brokerage commissions linked to fees recognised from brokerage firms.

With regard to securities not measured at fair value through profit or loss, transaction costs include both commissions for contracts with brokers operating on Italian stock markets and commissions paid to intermediaries operating on foreign stock and bond markets defined on the basis of commission tables.

For securities issued, commissions for bond placement paid to third parties, amounts paid to stock exchanges, and fees paid to the auditors for activities performed for each individual issue are considered in the calculation of amortised cost, while commissions paid to rating agencies, legal expenses and consultancy/audit fees for the annual update of the prospectuses, as well as costs for the use of indices and commissions that originate during the life of the bond are not considered in the amortised cost calculation.

Compared to the general approach, the effective interest rate must be calculated differently for those financial instruments measured at amortised cost or at fair value through other comprehensive income, purchased or originated, which at the time of their initial recognition are already credit impaired (known as PCI Purchased Credit Impaired or OCI Originated Credit Impaired).

The criterion for measurement at amortised cost does not apply for hedged financial assets/liabilities for which changes in fair value for the hedged risk are charged to the income statement. However, the financial instrument is re-measured at amortised cost if the hedge is suspended, the moment from which the previously recognised changes in fair value are amortised, by calculating a new effective interest rate that considers the loan value adjusted for the fair value of the hedged element, until the expiry of the hedge that was originally envisaged. Moreover, as mentioned above in the paragraphs relating to financial assets and liabilities measured at amortised cost, the amortised cost measurement does not apply to financial assets/liabilities whose short duration makes the economic effect of discounting negligible or for loans without a defined maturity or revocation.

Purchased or originated credit impaired financial assets (known as POCI)

These are instruments whose credit risk is already very high and that, at the time of acquisition, are purchased at highly discounted price with respect to their initial disbursement; for this reason, they are considered already impaired (credit impaired) at the time of first recognition in the financial statements. These assets are classified, according to the business model with which the asset is managed, in item "30 - Financial assets measured at fair value through other comprehensive income" or item "40 - Financial assets measured at amortised cost".

In relation to POCIs, there are two different types:

- instruments or portfolios of non-performing loans acquired on the market (Purchased Credit Impaired – "PCI");
- credits disbursed by the Group to customers characterised by a very high credit risk (Originated Credit Impaired – "OCI").

Impaired financial assets acquired through a business combination pursuant to IFRS 3 fall within the scope of application of IFRS 9 PCI.

Note that these financial assets are initially recorded in Stage 3, without prejudice to the possibility of reclassifying them to performing loans (Stage 2), for which an expected loss will continue to be recorded according to an impairment model based on lifetime ECL, as described below.

With reference to the initial recognition, measurement and derecognition criteria, please refer to the discussion corresponding to the asset items into which they can be classified, with the exception of what is specified below in relation to procedures for calculating amortised cost and impairment.

In detail, the amortised cost and consequently the interest income are calculated using an effective interest rate adjusted for the credit (known as "credit-adjusted effective interest rate" or CEIR). For calculating the effective interest rate, the aforementioned credit adjustment entails including the expected credit losses over the entire residual duration of the asset in the estimate of future cash flows. For the purposes of calculating the CEIR, the Group uses contractual cash flows net of expected losses.

In addition, the assets in question envisage a particular treatment also for the impairment process, as they are always subject to the calculation of an expected loss over the life of the financial instrument (lifetime ECL). After initial recognition, the profit or loss deriving from any change in expected losses over the life of the loan compared to the initial estimate must be recorded in the income statement. Thus, for these assets, expected losses cannot be calculated using the one-year time horizon as a reference.

Loan renegotiations

In some cases, over the life of financial assets and, in particular, of loans, the original contractual conditions are subsequently modified as agreed by the parties to the contract. When, during an instrument's life, the contractual clauses are changed (both in the case the change is formalised by signing a new contract and when there is an amendment to the existing contract), it is necessary to check whether the original asset must continue to be recognised in financial statements or if, conversely, the original instrument must be derecognised from financial statements and a new financial instrument must be recognised.

In general, changes to a financial asset result in its derecognition and to the recording of a new asset when these changes are "substantial". The determination of the "substantiality" of the change is made by considering only qualitative elements. In particular, renegotiations are deemed to be substantial when:

- introduce specific objective elements that impact on the characteristics and/or the financial flows of the financial instrument (such as for example the change in the currency, the introduction of indexing to equity or goods parameters, the introduction of the possibility of converting the loan into participatory equity/financial instruments, the provision of "pay if you can" clauses which allow the debtor the maximum freedom in repaying the loan in terms of time and amount) in consideration of the significant impact expected from the original financial flows; or
- are implemented with respect to customers that have no financial difficulties, with the objective of adapt the onerousness of the contract to current market conditions.

In the latter case, note that, if the Group does not allow a renegotiation of contractual conditions, the customer would have the opportunity to obtain funding from another intermediary, with resulting loss to the Group of the revenue streams envisaged in the renegotiated contract. In other words, for a commercial renegotiation, the Group would not have any loss to be recorded in the income statement as a result of the realignment to the best current market conditions for its customers. Instead, for renegotiations considered to be substantial, the gross

value is recalculated by determining the present value of cash flows resulting from the renegotiation, based on the original rate of the exposure prior to the renegotiation. The difference between this gross value and the gross book value prior to the change is recorded in the income statement under item "140 - Modification gains/(losses)" (known as "modification accounting").

The cases of non-substantial renegotiations include:

- the modifications granted to counterparties experiencing financial difficulties (concessions of forbearance measures) are attributable to the Group's attempt to maximise the recovery of the original exposure, whose risks and benefits continue to be borne by the Group. Exceptions are made for changes that introduce substantial objective elements in the contract that can themselves lead to the derecognition of the financial asset, as previously described.
- contractual changes in response to COVID-19 granted to offer broad support to all companies and individuals temporarily in difficulty due to the current pandemic, in order to prevent a systemic risk.

Fair value option

In its financial risk management policy, relating to financial instruments included in the banking book, the Parent Company has used the Fair Value Option accounting technique alongside fair value hedging and cash flow hedging methods.

The Fair Value Option was used to represent operational hedges on fixed-rate or structured bonds and certificates of deposit issued at fixed rates (accounting mismatch). In that case the Parent Company, the only issuer within the Group, stipulates operational micro-hedging derivative contracts with MPS Capital Services S.p.A., which in turn manages by assets the Group's overall exposure to the market.

The scope of application of the fair value option currently regards primarily fixed-rate securities and structured securities subject to hedges on interest rate risk and the risk deriving from embedded derivative components.

IFRS 9 allows the option of designating a financial instrument under the fair value option to be exercised irrevocably only upon initial recognition. The fair value option cannot therefore be used for hedges on funding instruments issued prior to the decision that the hedge be undertaken; hedge accounting must be used in these cases, and is also used to manage hedges on bond issues that are traded in the secondary market at market values.

Unlike hedge accounting, whose rules provide that only fair value changes attributable to the hedged risk are recognised for the hedged instrument, the fair value option involves the recognition of all fair value changes, regardless of the risk factor that is being hedged.

For the issues in question, the fair value is measured, firstly, by referencing observable prices in markets considered active, such as regulated markets, electronic trading circuits (e.g. Bloomberg) or organised or similar exchanges. If there are no observable prices on active markets, they are measured based on prices of recent transactions for the same instrument in non-active markets in addition to using valuation techniques, based on a cash flow discounting model, which must consider all factors considered relevant by market participants in determining a hypothetical transaction on an exchange. In particular, for determining creditworthiness, the implicit spreads of comparable issuers are used in active markets in addition to the Parent Company's credit default swap curve with the same level of subordination of the security being measured. The quantification of effects resulting from the change in own creditworthiness between the issue date and the measurement date is calculated as the difference between the fair value obtained considering all of the loan's risk factors, including the credit risk, and the fair value obtained considering the same factors, excluding the change in own credit risk that occurred during the period.

For further details on methods for calculating fair value, please refer to the exhaustive information provided in the relevant paragraph in "Part A.4 - Information on Fair Value".

With reference to the criteria for recognition in financial statements, note that:

- derivatives connected with financial liabilities measured at fair value are classified under "Financial assets measured at fair value through profit orloss: a) financial assets held for trading" or "Financial liabilities held for trading";
- spreads and margins accrued on derivatives up to the measurement date are included, depending on the balance, in "interest income" or "interest expense", consistent with the accruals recorded on bonds subject to operational hedges;

- gains and losses from realisation and the measurement of loans under the fair value option are recorded in the income statement item "110 - Net profit (loss) from other financial assets and liabilities measured at fair value through profit or loss", with the exception of the valuation and execution effects related to the change in own creditworthiness that are recorded as an offsetting entry to a specific equity reserve (item "120 - Valuation reserves"), unless this accounting treatment creates or amplifies an asymmetry in the economic result, as described in greater detail in the discussion to item "13 - Financial liabilities designated at fair value";
- results of the measurement of derivatives associated with loans under the fair value option are recorded in the income statement item "80 - Net profit/loss from trading".

From the perspective of prudential supervision, in compliance with prudential regulations in force, distorting effects from changes in fair value due to changes in own creditworthiness are eliminated from own funds.

Lastly, note that gains posted to the income statement under the fair value option and not yet realised are not distributable.

Contributions to deposit guarantee systems and resolution mechanisms

Following the incorporation into national law, Directives 2014/49/EU (*Deposit Guarantee Schemes Directive - "DGSD"*) of 16 April 2014 and 2014/59/EU (*Bank Recovery and Resolution Directive - "BRRD"*) of 15 May 2014, starting from the 2015 financial year, credit institutions are obliged to provide the financial resources necessary for the operation of the FIDT (Interbank Deposit Protection Fund) and the National Resolution Fund (merged into the FRU - Single Resolution Fund in 2016), through the payment of ex-ante ordinary contributions to be paid annually, until a determined objective level has been reached. Should the financial means available to the FITD and/or the FRU not be sufficient, respectively to guarantee the reimbursement of the protected deposit or to finance the resolution, it is required that credit institutions must provide to make the payment of extraordinary contributions. These contributions fall under the field of application of the IFRIC 21 "Contributions" interpretation, on the basis of which a liability derives from the occurrence of the "obligating event" which triggers the payment obligation. The balancing entry of that liability is represented by income statement item "190 - Administrative expenses - (b) other administrative expenses", as the conditions are not met for the recognition of an intangible asset pursuant to IAS 38 "Intangible assets", or for the recognition of an asset for a prepayment.

Purchase of protection from credit risk through financial guarantee contracts

The Group identified the conditions that need to be in place for a contract to qualify, from an accounting perspective, as a financial guarantee. First and foremost, the classification as a financial guarantee and the subsequent accounting treatment does not depend on the legal form of the contract; in fact, financial guarantee contracts may assume different legal forms, for example that of a guarantee, some types of credit letters, a loan default contract or an insurance contract.

Among the preliminary criteria for the purposes of classification are considered contract financial and management objective concepts such as, for example, in the event of the purchase of protection, the assumption of a guarantee from any losses incurred on the hedged asset.

All the following elements must also be present:

a) stipulation of the contract for the purpose of hedging credit risk, deriving from debt instruments;
b) presence of the deliverable obligation, for the purposes of activation of the financial guarantee, in the financial statements of the purchaser of protection;
c) unbudgeted payments in response to changes in specific rates, prices, ratings, exchange rates, indexes or other variables that are governed by the rules on derivatives;
d) repayments made by the protection seller only if the protection purchaser has suffered losses on the hedged asset (direct link between the obligation of the guarantor and the assets in the portfolio of the guaranteed party, as indicated in previous line b) and for amounts not exceeding the loss actually recorded;
e) analysis of the economic substance of the characteristics of the contract, allowing (i) failure to pay, (ii) bankruptcy, (iii) restructuring, (iv) moratorium etc. under credit events.

By contrast, the duration of the guarantee does not necessarily need to correspond to the duration of the hedged asset. In fact, it is allowable for the underlying asset to be hedged for only a part of its residual useful life.

Contracts that satisfy the aforementioned conditions are similar to financial guarantees, are stipulated, for example, as part of synthetic securitisations of portfolios carried out to hedge specific Group assets; in these cases, the Group is exclusively on the side of the purchaser of protection from credit risk.

Other matters

Classification criteria for financial assets

The classification of financial assets in the three categories envisaged by the standard depends on two classification criteria, or drivers: the business model with which the financial instruments are managed and the contractual characteristics of the cash flows of the financial assets (or SPPI Test).

The financial asset classification derives from the combination of these two drivers, as shown below:

- Financial assets measured at amortised cost: assets that pass the SPPI test and fall under the Held to Collect business model (HTC);
- Financial assets measured at fair value through other comprehensive income (FVOCI): assets that pass the SPPI test and fall under the Held to Collect and Sell business model (HTC&S);
- Financial assets measured at fair value through profit or loss (FVTPL): a residual category, which includes financial instruments that cannot be classified in the previous categories based on the results of the business model test or the test on the characteristics of contractual cash flows (SPPI test failed).

Business model

With regard to the business model, IFRS 9 identifies three cases in relation to the methods by which cash flows are managed and financial assets are sold.

- *Hold to Collect (HTC): a business model whose objective is achieved by collecting contractual cash flows from the financial assets included in the relative portfolios.* The inclusion of a financial asset portfolio under this business model does not necessarily mean that the instruments cannot be sold, though it is necessary to consider the frequency, value, and timing of sales in previous years, reasons for sales, and expectations regarding future sales;
- *Hold to Collect and Sell (HTCS): a mixed business model, whose objective is achieved by collecting contractual cash flows from the financial assets included in the portfolios and by sales activities, which is an integral part of the strategy.* Both activities (collection of contractual cash flows and sales) are essential for achieving the business model's objective. Therefore, sales are more frequent and for greater amounts than an HTC business model and are an essential component of the strategies pursued;
- *Other/Trading: a residual category that includes both financial assets held for trading purposes and financial assets managed with a business model other than the previous categories (Hold to Collect and Hold to Collect and Sell).* In general, this classification applies to a portfolio of financial assets whose management and performance are assessed based on fair value.

The business model reflects the methods by which financial assets are managed to generate cash flows for the entity's benefit and is defined by top management through the appropriate involvement of business structures. It is determined by considering the ways in which financial assets are managed and, as a consequence, the extent to which the portfolio's cash flows derive either from the collection of contractual cash flows, or from the sale of financial assets, or from both of these events.

The assessment is not made using scenarios that, based on the entity's reasonable expectations, are not likely to occur, such as the "worst case" or "stress case" scenarios. For example, if the entity plans to sell a certain portfolio of financial assets only in a "stress case" scenario, this scenario does not affect the assessment of the entity's business model for these assets, if said scenario is not likely to occur based on the entity's reasonable forecasts.

The business model does not depend on the intentions that management has for an individual financial instrument, but refers to the ways in which groups of financial assets are managed for the purpose of achieving a specific business objective.

In summary, the business model:

- reflects the methods by which financial assets are managed to generate cash flows;
- is defined by top management through the appropriate involvement of business structures;
- must be determined by considering the methods by which financial assets are managed.

When assessing a business model, all relevant factors available at the assessment date are used. These factors include the strategy, risks and their management, remuneration policies, reporting, and the amount of sales. In

analysing the business model, it is crucial that the factors evaluated are consistent amongst themselves and, in particular, are consistent with the strategy pursued. Evidence of activity not in line with the strategy must be analysed and adequately justified.

For the *Held to Collect* portfolios, the Group has defined eligibility thresholds for sales that do not affect the classification (frequent but not significant, individually and in the aggregate, or infrequent though of a significant amount) and, at the same time, established the parameters to identify sales consistent with this business model, when they are attributable to an increase in credit risk.

More specifically, as part of an HTC business model, sales are permitted i) in the event of an increase in credit risk, ii) when carried out near maturity, and finally, iii) when they are frequent but not significant in terms of value or infrequent, even if their value is significant.

A description of the circumstances on the occurrence of which the Group deems admissible to implement sale transactions of the assets in question is given below.

<u>Increase of the credit risk</u>

The Group deems that there is an increase in credit risk when events occur that involve:

- the classification of the financial asset under stage 2, previously classified under stage 1;
- the classification of the financial asset under impaired assets (or stage 3), previously classified under stages 1 or 2.

On the occurrence of these cases, sales are admissible, independently of any frequency or significance threshold; this occurs, for example, in the case of transfers of non-performing loans.

<u>Proximity of the instrument's expiry</u>

The Group deems that, independently from any frequency or significance threshold, transfers are compatible with the HTC business model if the time interval before the expiry is 10% of the original duration of the instrument, with a maximum absolute limit of 12 months.

<u>Frequency and significance lower than determined thresholds</u>

- frequency is defined as the percentage ratio between the number of positions sold (ISIN or relationships) during the observation period and the total positions in the portfolio present at the beginning of the observation period. Sales carried out based on a number lower than a value equal to 5% of the number of securities held in the portfolio at the start of the year are infrequent (this value is equal to zero if the number of securities at the start of the year is under 40);
- significance is defined as the percentage ratio between the nominal value of sales and the total nominal value of instruments in the portfolio present at the beginning of the observation period. The significance threshold of individual sales identified by the Group is 5%.

The two thresholds must be considered in a separate manner; it derives that individual sales made for an amount higher than 5% compared to initial amount, even if infrequent, are not admissible. In the case of that both the frequency and significance thresholds are met for an individual sale, a further assessment is envisaged in terms of aggregate sales volume. In this case, the significance threshold of the aggregate amount of sales identified by the Group is 10%.

These thresholds have been established and applied only to the debt securities portfolio, as the sales of loans portfolios made by the Group are attributable to an increase in the credit risk and to the strategy of derisking required by the Supervisory Authority.

SPPI test

The other criterion to be used in determining whether a financial asset should be classified among the financial instruments measured at amortised cost or FVOCI - in addition to the business model analysis described above - envisages that the relative cash flows are represented exclusively by the repayment of principal and interest. To this end, IFRS 9 regulates that the SPPI test is carried out, with the purpose of verifying that the remuneration for a specific financial instrument, whether a debt security or loan, is linked exclusively to the payment of interest and repayment of principal.

A debt instrument that does not meet the SPPI test must always be measured at FVTPL and classified under the sub-item "other financial assets mandatorily measured at fair value".

For purposes of the analysis, IFRS 9 proposes a definition of the terms "principal" and "interest", as follows:

- principal is understood as the fair value of the financial asset at its initial recognition;
- interest is the consideration for the time value of money, for the credit risk associated with the principal over a given period of time, for other risks and costs associated with the basic risks of a lending transaction, and for the profit margin.

In basic lending arrangements, the value of interest must depend exclusively on the time value of money and on the credit risk associated with the principal over a given period of time. Whenever contractual terms introduce other elements, it is no longer possible to consider that asset as solely generating cash flows in terms of principal and interest. This could happen, for example, when the cash flows come from non-recourse financial assets. The cash flows of these financial assets may involve not only interest payments and principal repayments, since the remuneration is linked to specific business activities. In this regard, the owner of the asset must assess, using the look-through approach, whether or not its instruments pass the SPPI test. For example, when the entity has non-recourse financial assets, whose cash flows depend on the performance of an element of the issuer's equity (e.g., net income), the possibility of amortised cost or FVOCI measurement must be excluded. Furthermore, when contractual cash flows depend on characteristics such as changes in share or commodity prices, the related financial instruments cannot pass the SPPI test, as they introduce exposure to risk or volatility that is not correlated with basic lending arrangements.

IFRS 9 points out that all financial instruments that are subject to "leverage effect" cannot be considered generators of principal and interest cash flows, since leverage has the potential to increase the volatility of cash flows. This category includes swaps, options, forwards, and all derivative contracts.

IFRS 9 defines two cases in which the time value of money can be considered changed (modified time value of money) or when the relationship between the passage of time and the interest rate is considered imperfect. One case occurs when the asset's interest rate is periodically recalculated, but the frequency of this recalculation or the frequency of the payment does not correspond to the nature of the interest rate. This can happen, for example, when variable interest payments are made on a monthly basis and, at the beginning of each month, the interest rate is determined using the 6-month Euribor rate: the monthly interest rate is determined in reference to an interest rate calculated every six months, and therefore, under a different time horizon. In these cases, the accounting standard introduces the need to make a comparison between cash flows deriving from the financial asset being measured and cash flows deriving from a financial asset considered identical in terms of credit risk and duration, but for which the monthly interest is calculated based on the monthly Euribor. The other case of imperfect correlation between the passage of time and the time value of money occurs when the asset's interest rate is periodically restated based on an average of particularly short or medium/long-term rates. For example, when a financial asset provides for the payment of interest every three months, based on the average three-month Euribor interest rate in the quarter preceding the one to which the interest refers.

Therefore, in these cases the entity must analyse whether the financial asset generates only cash flows related to principal and interest, despite the change in the time value of money. The objective of this analysis is to verify how different the non-discounted contractual cash flows would be if there were no changes in the time value of money over time (known as the benchmark cash flow test).

In addition, any contractual clauses that could change the frequency or amount of contractual cash flows must be considered in order to assess whether such cash flows meet the requirements to be SPPI compliant (e.g., prepayment options, possibility to defer the contractually agreed cash flows, instruments with embedded derivatives, subordinated instruments, etc.).

However, as required by IFRS 9, a single element of contractual cash flows does not affect the classification of the financial asset if it has only a minimal effect on the contractual cash flows of the financial asset (in each year and cumulatively). Similarly, if an element of cash flows is not realistic or genuine, i.e., if it affects the instrument's contractual cash flows only at the occurrence of an extremely rare, highly unusual, and very unlikely event, it does not affect the classification of the financial asset.

In the case of instruments subordinated to another instrument (e.g., guaranteed debt securities), the related cash flows are linked to the nominal value of the principal or interest of the principal instrument. The instrument's owner has the power to exercise the right of pre-emption, even in the event of the borrower's bankruptcy. These instruments are included among those that do not pass the SPPI test.

With regard to contractually linked instruments, reference is made to instruments with which an entity assigns a certain priority to the payment of cash flows. The order of priority depends on the credit risk assigned to each category of creditor, called "tranche". The characteristics that an investment, belonging to a given tranche, must

possess in order to be considered a generator of cash flows that are exclusively related to the payment of interest and repayment of principal are as follows:

- the underlying assets must contain one or more financial assets that generate cash flows consisting exclusively of interest payments and principal repayments. Furthermore, the presence of supporting financial instruments, such as derivatives, is permitted only if they serve to reduce the volatility of the relative cash flows;
- the exposure to credit risk relating to a given tranche must be equal to or less than the risk exposure attributable to the underlying financial instruments.

For purposes of conducting the SPPI test on transactions in debt securities, MPS Group uses the services of an info-provider. The test is carried out manually using a proprietary tool based on an internally developed methodology (decision trees) only if the securities are not managed by the info-provider.

A proprietary tool based on a method developed in-house (decision trees) was developed to perform the SPPI test for credit approval processes. In particular, given the significantly different characteristics, differentiated management is envisaged for products that have a standard contract (typically, the retail loan portfolio) and tailor-made loans (typically, the corporate loan portfolio). For standard products, the SPPI test is conducted when the standard contract is structured, through the "Product Approval" process, and the test result is extended to all individual relationships that refer to that product in the catalogue. Instead for tailor-made products, the SPPI test is performed for each new credit line/relationship submitted to the decision-making process through the use of the proprietary tool. Decision trees - included in the proprietary tool - have been prepared internally (both for debt securities and loans) and capture possible features that may not comply with the SPPI test.

Application of Group accounting policies to finalised transactions or events occurred in the financial year deemed significant for the purposes of the statement of financial position.

"Hydra M" transaction - partial non-proportional demerger with asymmetric option of a set of non-performing loans by MPS in favour of AMCO

For accounting purposes, the demerger transaction falls within the general definition of "*transaction under common control*", Banca MPS (Demerged Company) and AMCO (Beneficiary Company) meet the definition of companies under common control for the purposes of IFRS 3 (Business combinations) as companies subject to common control of the MEF. As a result, in terms of the relative accounting treatment, neither IFRS 3 nor IFRIC 17 (Distributions of Non-Cash Assets to Owners) apply. Specifically, the demerger is not specifically treated by the international accounting standards and it has therefore been subject to an "accounting election" by the directors of the Demerged Company and the Beneficiary Company. Given the reorganizational nature of the transaction - indeed, from the perspective of the MEF, the demerger entailed the mere transfer of the set of demerged items from one subsidiary (the Demerged Company) to another subsidiary (the Beneficiary Company) - the values used for the purposes of the set of demerged items transferred at the effective date of the Demerger, 1 December 2020, were determined by applying the principle of the continuity of values, that is with reference to the accounting values at which assets and liabilities at the above date were recognised in the accounts of the Demerged Company. In particular, the Demerged Company cancelled from its accounts the asset and liability items included in the set of demerged items transferred to the Beneficiary Company with a resulting reduction of its shareholders' equity. Until the effective date of the demerger the assets included in the set of demerged items were valued with criteria in line with the accounting policies of the MPS Group.

The total balance sheet assets and liabilities included in the set of items subject of the demerger - at the date of effectiveness - amounts to a total of EUR 4,114.6 mln. It is specified that part of the balance sheet elements transferred to AMCO, for an amount of EUR 646.6 mln, were held by the subsidiary MPS Capital Services S.p.A. (MPSCS) and were included in the set of demerged items due to the effect of the demerger of the latter in favour of MPS, effective on 26 November 2020.

The set of demerged items was represented by:

- loans/credits for a total net book value of EUR 3,560.3 mln, of which EUR 636 mln attributable to MPSCS (overall gross book value of EUR 7,184.9 mln of which EUR 1,155.8 mln relative to MPSCS) classified for EUR 3,515.8 mln (of which EUR 633.2 mln attributable to MPSCS) under item 40 "Financial assets measured at amortised cost - loans to customers", EUR 44.2 mln (of which EUR 2.8 mln attributable to MPSCS) under item 20 c) "Other financial assets mandatorily measured at fair value", EUR 0.3 mln (totally attributable to MPSCS) under item 20 a) "Financial assets held for trading" of which:
    - bad loans for a net book value of EUR 2,304.2 mln, of which EUR 361.3 mln relative to MPSCS (gross book value of EUR 4,908.4 mln of which EUR 733.6 mln relative to MPSCS);
    - unlikely-to-pay loans for a net book value of EUR 1,229.0 mln, of which EUR 272.2 mln relative to MPSCS (gross book value of EUR 2,247.7 mln of which EUR 419.1 mln relative to MPSCS);
    - non-performing past due loans for a net book value of EUR 1.1 mln, of which EUR 0.4 mln relative to MPSCS (gross book value of EUR 1.3 mln of which EUR 0.5 mln relative to MPSCS);
    - past due performing loans for a net book value of EUR 1.6 mln (gross book value of EUR 1.7 mln);
    - performing loans for a net book value of EUR 24.4 mln, of which EUR 2.4 mln relative to MPSCS (gross book value of EUR 25.8 mln of which EUR 2.5 mln relative to MPSCS);
- bonds and equity securities for a book value of EUR 52.3 mln (of which EUR 10.2 mln attributable to MPSCS) classified in the following accounting portfolios:
    - EUR 50.2 mln (of which EUR 10.2 mln attributable to MPSCS) under item 20 c) "Other financial assets mandatorily measured at fair value",
    - EUR 2.1 mln in item 30 "Financial assets measured at fair value through other comprehensive income";
- derivative contracts with a positive fair value for EUR 0.1 mln classified in item 20 a) "Financial assets held for trading" and derivative contracts with a negative fair value for EUR 0.006 mln classified in item "Financial liabilities held for trading";
- deferred tax assets for a book value of EUR 121.0 mln;

- other assets for EUR 1.6 mln and other liabilities for EUR 0.8 mln;
- liquidity recognised to the Beneficiary Company as adjustment of the differences in the value of the set of demerged itmes identified between the date of effectiveness and the reference date of the demerger (31 December 2019) for EUR 427.0 mln. In order to provide full disclosure, please note that on the date following the settlement of this amount, the Revenue Agency released the outcome of an application, following which the values of the deferred tax assets to be transferred to AMCO were recalculated to be EUR 47.7 mln higher than the value of the same calculated at the effective date of the demerger (from EUR 73.3 mln to EUR 121.0 mln), so determining the arising of a credit entry for a same amount in favour of BMPS. On 8 February 2021 there was a settlement between the parties.
- bridge loan to the banks JPMorgan Chase Bank, N.A., Milan Branch and UBS Europe SE for the amount of EUR 3,179.2 mln recognised under item 10 b) "Financial liabilities recognised at amortised cost – Due to banks";
- net equity for an amount of EUR 934.6 mln (of which EUR -1,133.6 mln as a reduction of the share capital, EUR +196.2 mln as increase in reserves and EUR +2.8 mln as decrease of the negative valuation reserve).

The detailed components of the above mentioned equity decrease were indicated as a footnote to the consolidated statement of changes in shareholders' equity to which reference is made.

The transaction also included charges different than other valuation components relative to it for a total of EUR 68.0 mln, of which EUR 9.2 mln recognised in a contra-entry of the item "Reserves - other" of equity, as directly attributable to the demerger.

TLTRO III – "Targeted Longer Term Refinancing Operations"

In light of the COVID-19 emergency, the Governing Council of the ECB, at its meetings held on 12 March, 30 April and 10 December, improved the parameters of the targeted longer term refinancing operations (TLTRO III), particularly with reference to the maximum borrowing allowance and the relative remuneration.

In particular, following the above-mentioned revisions, the interest rate was set at a level equal to the average rate of the Eurosystem's main refinancing operations (MRO), currently equal to 0% with the exception of the period between 24 June 2020 and 23 June 2021 ("special interest rate period"), during which a rate lower than 50 basis points is applied. An incentive mechanism has also been established which provides access to more favourable rate conditions when specific benchmarks are reached. In particular, for counterparties whose net eligible loans between 1 March 2020 and 31 March 2021 ("special reference period") are at least equal to the respective reference levels ("benchmark net lending"), the rate applied will be equal to the average rate on deposits (DFR or Deposit Facility Rate), currently equal to -0.5%, for the entire duration of the operation, in addition to a further reduction of 50 basis points for the "special interest rate period". The "benchmark net lending" in the "special reference period" is set at zero for counterparties whose net eligible loans increased in the twelve months prior to 31 March 2019; otherwise, that benchmark is equal to the reduction in net eligible loans recorded in the twelve months prior to 31 March 2019.

For counterparties that do not reach the net eligible loans target referred to in the previous point, the remuneration scheme originally established is applied, i.e.: average MRO rate on the life of the operation, with the possibility to benefit from a reduction in the rate if a certain benchmark is passed in the period from 1 April 2019 to 31 March 2021 ("second reference period"), up to a minimum equal to the average DFR rate. In particular, to benefit from the maximum interest reduction, it is necessary for the net eligible loans of the "second reference period" to surpass the "benchmark net lending" levels to an extent equal to or more than 1.15%. In the "special interest rate period", it is possible to benefit from a reduction, which depends on the benchmark thresholds reached and the average MRO and DFR rate levels.

Starting from 24 June 2021, in case the eligible net loans of the period between 1 October 2020 and 31 December 2021 ("additional special reference period") are at least equal to the respective net lending benchmark, the rate applied will be equal to the average DFR rate calculated for the entire duration of the respective transaction, with the exception of the period included between 24 June 2021 and 23 June 2022 (additional special interest rate period), in which the rate will be lower by 50 basis points compared to the average of the same rate in the additional special interest *rate period and in any case no higher than -1%.* In case of eligible net loans lower than the respective net lending benchmark in the additional special reference period, the rate applied after 23 June 2021 will be calculated in accordance with the rules described for the period up to 23 June 2021.

At 31 December 2020, the ECB funding operations, consisting entirely of TLTRO III financing, amounted to EUR 24 bn, subscribed in full by the Parent Company in three quarterly auctions starting from December 2019. Each operation has a duration of three years.

With reference to the methods for recognising interest from the transactions in question in the accounts, the Group considers conditions for the remuneration of the refinancing operations defined by the ECB as market rates, as the Central Bank defines and enacts monetary policy for the Eurozone. In particular, preferential rates, applicable at the mentioned liabilities only when exceeding a defined "net eligible loans" threshold in a set time period, are recognised pursuant to IFRS 9 as variable rates as the Directive Council of the ECB may, at any time, decide to change the interest rate of TLTRO-III transactions (as it also did in April and December 2020). Therefore, also taking into account that the liabilities in question can be repaid early at any time and without penalty, each period that characterises the life of each tranche has an effective interest rate. Assuming that the benchmarks are fully reached and on the basis of current trend of average DFR rate, the Group applies two effective interest rates (respectively -0.5% and -1%) in the following timetable:

- -0.5% from the issue date until 24 June 2020;
- -1.0% from 24 June 2020 until 23 June 2022;
- -0.5% from 23 June 2022 until maturity.

Any changes in expected cash flow forecasts following an update in valuation of the achievement of the benchmarks will be reflected, in a prospective change of the effective interest rate, in the same way as what happens for the changes in market interest rates (IFRS9, paragraph B5.4.5).

In light of the remuneration mechanisms described above, taking into account that the benchmark net lending in the special reference period for the MPS Group is negative and that the net eligible loans as of 1 March 2020 recorded an evolution such so as to make it highly likely that the benchmark net lending would be surpassed at 31 March 2021 – that is at the end of the observation period of the net eligible loans - interest for the period was recognised, taking into account the minimum deposit rate, currently equal to -0.5%, as well as the additional reduction of 50 bps in the "special interest rate period". The interest at 31 December 2020, recognised in income statement item "10. Interest income and similar revenues", therefore amounted to a total of EUR 129 mln (of which EUR 69.7 mln linked to reaching the benchmarks) and include EUR 59.2 mln attributable to the special interest rate period.

Ardian Transaction

In the 2020 financial year the property demerger process outlined in the 2017-2021 Restructuring Plan and indicated under commitments of a formal nature assumed by the Parent Company with the European Commission continued. In June 2020 the Parent Company and the subsidiary MPS CS signed a preliminary sale contract with Ardian S.A. relative to a package of 28 properties, later reduced to 26, inclusive of artworks and removable fittings. On 30 November 2020 the Parties agreed the purchase contract for the transfer of a part of the properties, some of which were at the same time object of leaseback and free loan contracts in order to allow the units of the Parent Company located in them to continue to use them.

At the time of derecognition of all transferred properties, the rights of use deriving from the above mentioned lease contracts with a duration of more than 12 months and the corresponding lease liabilities were recognised pursuant to IFRS 16 respectively under item 90. "Property, plant and equipment" and item 10 - "Financial liabilities measured at amortised cost", for a total of EUR 2.6 mln.

The derecognition of the properties in question generated an overall capital gain of EUR 40.2 mln recognised under item 280 - "Gains (loss) on disposals of investments". The price agreed was paid in part through a bank transfer at the time of signing the contract and in part deferred. The corresponding extended credit, equal to EUR 103.9 mln, and fully guaranteed by a bank guarantee issued by a leading banking institute, was recognised as operational credit under item 40 – "Financial assets measured at amortised cost: loans to customers".

As at 31 December 2020 the properties for which the sale was not completed are still recognised in the Financial Statements for a total of EUR 82.3 mln under item 120 "Non-current assets held for sale and disposal groups". These are:

- the properties, inclusive of relative removable fittings and artworks and furnishing, which were object of the sale contract of 30 November 2020, whose sale is subject to the occurrence of conditions precedent;
- the properties for which the contracting parties agreed the completion of the sale from the 2021 financial year.

"Held to Collect" Business Model – Sales

The IFRS 9 accounting standard indicates that the transfer of exposures included in the portfolio of "Financial assets measured at amortised cost" is carried out in respect of specific significance or frequency thresholds, in proximity of maturity, in presence of an increase in credit risk or the occurrence of exceptional circumstances. With regard to this it should be noted that transactions for the transfer of debt securities made by the Group in 2020 were carried out in accordance with the significance and frequency thresholds, declared in the Group's accounting policies, illustrated in part "A.2 Part relative to the main items of the financial statements", paragraph "Other Information, Other Aspects - Business Model", to which reference is made for further details.

During 2020 and until the date of preparation of these financial statements there were no changes with regard to the admissibility criteria of sales of financial assets managed with the "HTC" Business Model. Lastly, please note that the management of debt securities classified in "HTC" and "HTCS" portfolios continue in accordance with the choices made in previous financial years; therefore, no change in the business model has occurred during the financial year which required a reclassification of the portfolio.

Use of estimates and assumptions when preparing financial statements

The estimates required by accounting standards can have a significant impact on the balance sheet and income statement, as well as on disclosure of contingent assets and liabilities reported in the financial statements. Production of these estimates involves the use of available information and adoption of subjective assessments. By their nature, the estimates and assumptions utilised may vary from one period to another and, therefore, it cannot be ruled out that in subsequent periods the actual amounts stated in the accounts may differ, even to a significant extent, as a result of changes in subjective assessments made. These estimates and valuations are thus difficult and bring about inevitable elements of uncertainty, even in stable macroeconomic conditions.

The main cases in which subjective valuations are mostly opted for by Management include the:

a) the use of the going concern assumption;
b) quantification of impairment losses on loans and, more generally, other financial assets;
c) assessment of the adequacy of the value of equity investments and of other non-financial assets (goodwill, intangible assets, and property, plant and equipment, including right of use assets acquired through leasing);
d) use of valuation models to measure the fair value of financial instruments not listed in active markets;
e) estimation and assumptions on recoverability of deferred tax assets;
f) estimation of liabilities arising from defined benefit company pension funds;
g) quantification of provisions for risks and charges related to legal and tax disputes.

For some of the cases listed above, the main factors that are subject to estimates by the Group, and which therefore contribute to determining the book value of assets and liabilities in the financial statements, can be identified.

In summary, note that:

a) the use of the going concern assumption is based on exceeding the uncertainty associated to the requirements to strengthen the company capital; this uncertainty is in fact mitigated by a possible "structural solution" scenario and the full support of the controlling shareholder. In the absence of a "structural solution", the feasibility of the intervention of the State and an increase in capital in the market depend on the valuation of DG Comp on the stand alone viability of Banca MPS, which in principle poses some relevant uncertainties on the path for the capital strengthening of the Parent Company. To this end, the 2021-2025 Strategic Plan was prepared, integrated with further corrective actions on the commitments of the 2017-2021 Restructuring Plan. After the decisive interventions on the credit risk carried out since 2018, which have reduced the incidence of non-performing exposures to the lowest levels among significant Italian banks, the Parent Company is pursuing some initiatives finalised at the reduction of business risks, acting in order to reduce legal risk.. In the light of these elements, it is considered probable that the capital shortfall could be resolved through the "structural solution", that is to say through the reinforcement of the capital situation at market conditions with the Italian Government participating in proportion to the share held. Lastly, should the delay in the process of review of the AIRB models for alignment to the EBA Guidelines on PD/LGD be delayed from the end of 2021 to the first half of 2022, to which a significant part of the expected increase in RWAs is due, it is reasonable to expect that the Parent Company could, also in the absence of the transaction for

capital strengthening, contain the shortfall of the 2021 financial year within the limits of the Capital Conservation Buffer, whose use has been admitted by the ECB at the start of the pandemic.

b) for the allocation in the three credit risk stages envisaged in IFRS 9 for loans and debt securities classified as “Financial assets measured at amortised cost” and “Financial assets measured at fair value through other comprehensive income”, and the calculation of the expected losses, the main estimates concern:
   - determination of the parameters of significant increase in credit risk, based essentially on models for measuring the probability of default (PD) at the origination of financial assets and at the reporting date;
   - inclusion of forward-looking elements, including macroeconomic, for calculating PD, EAD, and LGD;
   - for calculating expected future cash flows from non-performing loans, certain elements are taken into account: expected repayment schedule, expected realisable value of any collateral, costs expected to be incurred for collection of the credit exposure, and finally, the probability of sale for positions that have a disposal plan;

c) for calculating the value in use of intangible assets with indefinite life (goodwill) with reference to the cash generating units (CGUs) that make up the Group, future cash flows for the forecast period and cash flows used to determine the terminal value generated by the CGUs are estimated separately and are appropriately discounted. The cost of capital is included in the estimates;

d) for calculating the fair value of financial instruments not listed on active markets, if it is necessary to use parameters that cannot be inferred from the market, the main estimates concern, on one hand, the development of future cash flows (or also profits for equity securities), possibly contingent upon future events and, on the other, the level of certain input parameters not listed on active markets;

e) for quantifying post-employment benefits, the present value of the obligations is estimated, taking into account the cash flows, appropriately discounted, resulting from the historical statistical analysis and the demographic curve;

f) for quantifying provisions for risks and charges, the amount of disbursements necessary to satisfy the obligations is estimated, where possible, taking into account the effective probability of having to make use of resources;

g) for calculating the items related to deferred taxation, the probability that taxes will effectively be incurred in the future (temporary taxable differences) and the degree of reasonable certainty - if any - of future taxable profits at the time the taxes can be deducted is estimated (temporary deductible differences).

For point a), please refer to the subsequent paragraph “Use of going concern assumption”, for points b), c) and g) please refer to the subsequent paragraphs: “Methods for calculating impairment on financial instruments IFRS 9”, “Methods for calculating impairment on equity investments”, “Methods for calculating impairment on other non-financial assets” and “Methods for recognising deferred tax assets (probability test)”; as regards point d), please refer to the description in paragraph A.4.5 “Fair value hierarchy” in the Notes to the consolidated financial statements. The actual technical and conceptual solutions used by the Group are analysed in more detail in the individual sections of the notes to the balance sheet and income statement, where the distinct contents of each item in the financial statements are described. With regard to the cases referred to in points e) and f), please refer to Section 12 under liabilities in the Notes to the consolidated financial statements “Defined benefit company pension funds” and Part E of the Notes to the consolidated financial statements, Section 1.5 “Operational risks”.

The estimates developed for the purposes of the preparation of these consolidated financial statements have been influenced by the relevant uncertainty on the negative effects, directly and indirectly, from the current health crisis. The diffusion of the COVID-19 pandemic and its implications for public health, for economic activities and trade have had a significant downward impact on the growth of the Italian and global economies. To counteract the health and economic emergency, extraordinary public finance measures were implemented by individual states and international bodies, including the European Commission. At present it is not yet clear what will be the final extent of the phenomenon, which will depend on the evolution of the pandemic and the correlated vaccination campaign, and how productive activities will manage to recover after the various block periods which characterised the 2020 financial year. The recovery will also depend on the efficacy of the monetary, fiscal and social support measures put in place by the various authorities.

In this context it seems to be particularly difficult to clearly forecast the effects of the pandemic; this involves a high complexity and uncertainty in the estimates made on the basis of the best available information at the time of preparation of these financial statements, whose base assumptions and hypotheses could be necessarily reviewed and updated during the next few months, also to a significant extent, following the evolution of events that are not under our control. The following paragraph “Risks, uncertainties and impacts of the COVID-19

epidemic" provides an analysis of the main risks and uncertainties to which the Group is exposed due to the effect of COVID-19 and of how the Group has taken this into account for the purpose of preparing these financial statements.

Lastly, please note that in order to allow an appreciation of the effects on the financial statements correlated to above mentioned elements of uncertainty, in these consolidated financial statements, for the main items of the financial statements subject to estimates (recoverability of deferred tax assets, expected losses on performing exposures, recoverability of intangible assets with an indefinite useful life) information is provided on the main hypotheses and assumptions used in the estimate, as well as a sensitivity analysis with respect to alternative hypotheses.

Use of the going concern assumption

The assessment of the Group's ability to continue as a going concern is based essentially on the prospective evolution of the capital and liquidity position over a time span of at least 12 months.

This analysis has showed a prospective capital shortfall with respect to the overall capital requirements due to i) the significant provisions for legal risks made during the year, ii) the effects of the "Hydra M" transaction, iii) the macroeconomic scenario penalised by the COVID-19 pandemic and iv) regulatory developments. The liquidity position remains solid due to the effect of the relevant interventions put in place by the ECB and because of customer deposits.

The capital shortfall could become apparent starting from the first quarter of 2021 and it is forecast that it might reach a level of approximately. EUR 1.5 bn as at 1 January 2022. To compensate for this shortfall, the 2021-2025 Strategic Plan and the Capital Plan, which were sent to DG Comp and the ECB for their assessment, were approved.

The requirements to strengthen the capital position of the Parent Company are significant and therefore determine a potential uncertainty on the use of the going concern assumption. This uncertainty is mitigated by the possible scenario of the "structural solution" and by the full support of the controlling shareholder.

In regard to the "structural solution", it should be noted that the Decree of the Prime Minister issued on 16 October 2020 has authorised the disposal of the equity investment held by the MEF in Banca MPS: this may be carried out in one or more stages, with sale procedures and techniques used in the markets, through individual or joint recourse to a public offer to investors in Italy, including personnel of the MPS Group, and/or Italian and international investors, through direct negotiations to be carried out with transparent and non-discriminatory competitive procedures and through one or more extraordinary transactions, including a merger.

In this regard, the Parent Company appointed Mediobanca and Credit Suisse as financial advisors, while MEF appointed Bank of America and legal advisor Orrick.

In addition, Budget Law no. 178 of 30 December 2020, art. 1, paragraphs 233-243, provided for the conversion into tax credits of the recorded and unrecognised DTAs deriving from tax losses and ACE surpluses in the event of business combinations (mergers, demergers or business transfers) completed in 2021. The DTAs are convertible up to a limit of 2% of the sum of the assets of the parties participating in the combination, excluding the party that has the greater amount of assets. The incentive applies to all companies and is conditional upon the payment of a commission equal to 25% of the deferred taxes actually transformed. The net incentive for the potential buyer of MPS, in the case of a party with greater assets, can be estimated at approximately EUR 2.2 bn, which would be added to the contribution of the badwill fully included in the capital of the aggregating entity in the light of the *Guide on the supervisory approach to consolidation in the banking sector* published by the ECB in January 2021. The business combination could be preceded by a capital strengthening action that is expected to be easily approved by DG Comp.

The Parent Company has set up the virtual data room for the due diligence activities of potential investors and partners. On 28 January 2021, the Apollo fund sent the Parent Company a non-binding expression of interest. In this regard, discussions are underway for access to the data room.

At present, the "structural solution" has not yet materialised, but it represents a potential scenario also in light of the significant incentives contained in the Budget Law and in the ECB guide.

With reference to the second mitigating factor, i.e. the role of the controlling shareholder, the MEF reiterated its intention to carry out the commitments undertaken by the Italian Republic towards the European Union and carry out a market transaction that identifies an anchor investor and / or a banking partner of adequate standing,

in order to restore and ensure the competitiveness of the Parent Company, and has guaranteed the necessary financial support to ensure compliance with the minimum capital requirements of the Parent Company.

In the event that the implementation of a structural solution does not take place in the short/medium term, the Capital Plan envisages a capital increase of EUR 2.5 bn which, if carried out, is expected to take place at market conditions and with the Italian Government participating in proportion to the shares held. In this context DG Comp should evaluate the intervention of the State on the basis of the Parent Company's *stand-alone viability*. In principle, this assessment, still ongoing, raises relevant uncertainties on the Parent Company's capital strengthening process and on the capital increase at market conditions. In this regard, it should be noted that the Parent Company has drafted the 2021-2025 Business Plan, which was sent to DG Comp. On the basis of the initial discussions with DG Comp, the Parent Company has also proposed additional compensatory measures with respect to those already included in the 2021-2025 Business Plan. In the same context, it should be noted that after the decisive interventions on the credit risk carried out since 2018, which have reduced the incidence of non-performing exposures to the lowest levels among significant Italian banks, the Parent Company is pursuing some initiatives finalised at the reduction of corporate risks, actively acting in order to reduce legal risks.

In the light of these elements, it is considered that the capital shortfall could be resolved through the "structural solution", that is to say through the reinforcement of the capital situation which, if realised, is expected to take place at market conditions and with the Italian Government participating in proportion to the shares held..

Lastly, should the process of review of the AIRB models for alignment to the EBA Guidelines on PD/LGD be delayed from the end of 2021 to the first half of 2022, to which a significant part of the expected increase in the RWA is due, it is reasonable to expect that the Parent Company could, also in the absence of the transaction for the strengthening of the capital position, contain the shortfall of the 2021 financial year within the limits of the Capital Conservation Buffer, whose use has been admitted by the ECB at the start of the pandemic.

The directors, having considered the significant uncertainty with regard to the execution of the recapitalization of the Bank, which may give rise to significant doubts on the ability of the group to continue to operate as a going concern, believe, taking into account the state of actions taken, these assessments as a whole support the reasonable expectation that the Bank will continue to operate as a going concern in the foreseeable future and therefore the use of the going concern assumption in preparing these financial statements.

Methods for calculating impairment on IFRS 9 financial instruments

Pursuant to IFRS 9, at each reporting date, financial assets other than those measured at fair value through profit or loss are subject to an impairment test, aimed at estimating the expected credit loss (ECL). In particular, the following are included in the scope of impairment testing:

- "Financial assets measured at amortised cost";
- "Financial assets measured at fair value through other comprehensive income" other than equity securities;
- commitments to disburse provisions and guarantees given that are not measured at fair value through profit or loss; and
- trade receivables or assets deriving from contracts that result from transactions falling under the scope of IFRS 15.

According to the ECL calculation model, introduced in IFRS 9, losses must be recorded not only with reference to objective evidence of losses in value that are already apparent at the measurement date, but also based on expectations of future losses of value that have not yet occurred.
In particular, the ECL model provides the aforementioned financial assets must be classified in three distinct "stages", according to their credit quality in absolute terms or relative to that at initial disbursement, to which different measurement criteria for expected losses are applied. More specifically:

- *stage 1:* includes performing exposures that have not undergone a significant change in credit risk with respect to the initial recognition. The value adjustments correspond to the expected losses related to the verification of default in the 12 months following the reporting date.
- *stage 2:* includes performing exposures whose creditworthiness has been affected by a significant change in credit risk, but for which the losses are not yet observable. Adjustments are calculated considering the lifetime loss of the instrument;

- *stage 3:* includes all non-performing loans, i.e. non-performing exposures that present objective evidence of deterioration and which must be adjusted by using the lifetime expected loss concept[32].

Exceptions are financial assets considered as impaired since their acquisition or origin (known as POCI - purchased or originated credit impaired), are an exception to the above, whose accounting treatment was discussed in the paragraph above dedicated to this topic, and assets measured according to the provision of the "Simplified method", for the treatment of which please refer to the specific points in the following paragraph.

For MPS Group, the perimeter of exposures classified under stage 3 corresponds to non-performing exposures, identified according to the definitions established by supervisory regulations (Bank of Italy Circular no. 272 "Accounts matrix") and referred to in Bank of Italy Circular no. 262 "Bank financial statements: layout and rules for compilation", as these definitions are deemed consistent with accounting regulations envisaged in IAS/IFRS for objective evidence of impairment. Based on these circulars, the perimeter of non-performing exposures corresponds to the aggregate "Non Performing Exposure", defined in EU Regulation 2015/227, and implemented through the EBA's "Implementing Technical Standard (ITS) on Supervisory Reporting (forbearance and non-performing exposures)" (EBA/ITS/2013/03/rev1 24/7/2014).

In detail, the aforementioned circulars identify the following categories of non-performing assets:

- Bad loans: these represent the aggregate of on- and off-balance sheet exposures to a party in a status of insolvency (even if not judicially certified) or in essentially comparable situations, regardless of any loss forecasts made by the Bank;
- Unlikely to pay exposures: represent the on- and off-balance sheet exposures for which the borrower does not meet the conditions for classification under bad loans and for which it is considered unlikely that the borrower will be able to fully satisfy the credit obligations (in terms of principal and/or interest) without recourse to actions such as the enforcement of collateral. This assessment is carried out regardless of the existence of any overdue and unpaid amounts (or instalments). The classification among unlikely to pay is not necessarily linked to the explicit presence of anomalies, such as a missed repayment, but rather is linked to the existence of elements that would indicate a situation of risk that the borrower may default (e.g., a crisis in the borrower's business sector);
- Past due and/or overdrawn exposures: on-balance sheet exposures, other than those classified as bad or unlikely to pay, which, at the reporting date, are past due and/or overdrawn for more than 90 days, according to the significance threshold envisaged in the aforementioned legislation. For MPS Group, non-performing past due and/or overdrawn exposures are determined in reference to the position of an individual borrower.

In addition, Bank of Italy regulations, in line with EBA standards, introduced the definition of "Forborne Exposures". This concerns, in particular, exposures benefiting from tolerance measures, which consist of concessions granted to the borrower, in terms of modification and/or refinancing of a pre-existing loan, exclusively because of, or to prevent, a state of financial difficulty that could have negative effects on the borrower's ability to fulfil the contractual commitments originally assumed, and that would not have been granted to another borrower with a similar risk profile not in financial difficulty. These concessions must be identified at the level of the individual credit line and concern exposures of borrowers classified either as performing or non-performing (impaired). For exposures with forbearance measures classified as unlikely to pay, the recovery to a position of performing can only take place after at least one year has elapsed from the time the concession was granted (known as the "cure period") and all the other conditions provided for in paragraph 157 of the EBA ITS are satisfied.

In any case, renegotiated exposures should not be considered forborne when the borrower is not in a situation of financial difficulty (renegotiations carried out for commercial reasons).

For further details on the classification and assessment of the moratoria in compliance with the EBA guidelines and similar initiatives introduced independently by the banks in the context of the COVID-19 pandemic, please refer to the paragraphs "Forborne classification of loans affected by moratoria" and "Performing / non-performing classification of loans affected by moratoria" found in "Part A - Accounting policies relevant to the preparation of the consolidated financial statements in the context of the COVID-19 pandemic" of these consolidated financial statements. Lastly, it should be noted that, as of 1 January 2021, the Group has adopted

[32] The valuation is statistical for positions with a balance of under EUR 1 mln and analytical, carried out by managers, for positions above said threshold.

the new definition of default, deriving from the implementation of the "RTS on the materiality threshold for credit obligations past due under Article 178 of the CRR (EU Delegated Regulation 2018/171)" and the related "EBA Guidelines on the application of the definition of default under Article 178 of the CRR". The new regulations, while confirming the bases of default in the concepts of late payments and probable default of the debtor, introduces some significant changes mainly in relation to materiality thresholds, compensation rules and return to performing criteria. For further information, please refer to Part E - Information on risks and hedging policies –-Section 3-Credit Risks - Non-performing loans, of these Notes to consolidated financial statements.

Impairment of performing financial assets

For performing financial assets, i.e., those assets not considered to be impaired, it must be determined, at the individual relationship level, if there is a significant deterioration of credit risk, by comparing the credit risk associated with the financial instrument at the time of measurement and that at the initial moment of disbursement or acquisition. This comparison is made using both quantitative and qualitative criteria. The results of this assessment, in terms of classification (or, more appropriately, staging) and measurement, are the following:

- when these indicators are present, the financial asset is included in stage 2. In this case, the assessment requires that impairment is recognised equal to the expected losses over the entire residual life of the financial instrument, consistent with the provisions of international accounting standards and even if a loss in value has not yet occurred. These adjustments are reviewed at each subsequent reporting date both to periodically check that the continuously updated loss estimates are consistent, as well as to take into account - in the event that indicators of a "significantly increased credit risk" no longer exist - of the change in forecast horizon for calculation of expected loss;
- where these indicators are not present, the financial asset is included in stage 1. In this case, the assessment requires that expected losses are recognised on the specific financial instrument over the next twelve months, consistent with the provisions of international accounting standards and even if a loss in value has not yet occurred. These adjustments are reviewed at each subsequent reporting date both to periodically check that the continuously updated loss estimates are consistent, as well as to take into account - in the event that indicators of a "significantly increased credit risk" are identified - of the change forecast horizon for calculation of expected loss;

As regards the measurement of financial assets and, in particular, the identification of a "significant increase" in credit risk (a necessary and sufficient condition for classification of the asset being assessed in stage 2), the elements that constitute the main determinants to be taken into consideration, according to the standard and its operating procedure implemented by MPS Group, are the following:

- relative quantitative criteria, based on statistical observations, considered an expression of significant increase in credit risk over time;
- absolute qualitative criteria, represented by the identification of trigger events or exceeding absolute thresholds as part of the credit monitoring process. The category comprises:
    - all exposures affected by forbearance measures and for which these measures are still active, regardless of whether the probation period underway is regular,
    - exposures classified in the High risk management portfolio[33];
    - customers belonging to the "Selective Management" cluster[34] of post-COVID-19 credit strategies;
    - customers with negative EBITDA;
- backstop indicators, i.e., credit delinquency factors, whose manifestation suggests that there has been a significant increase in credit risk, unless there is evidence to the contrary. For purposes of assumptions, MPS Group believes that the credit risk of the exposure must be considered significantly increased if there is an exposure that is past due/overdrawn for a period longer than 30 days, without prejudice to the application of the significance thresholds required by supervisory regulations for the purposes of classification under impaired exposures.

With particular reference to the relative quantitative criterion applicable to credit exposures with customers, MPS Group has determined as a reference the change between the lifetime forward-looking cumulative probability of

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[33] On the basis of internal policies, the macro-factors that determine the assignment of the "high-risk" management category are the internal rating class (below the D1 threshold) or the "activation" of default detection parameters of the early warning systems classified as highly relevant or binding; these parameters pertain to areas of investigation relating to prejudicial, performance, centralised risks, financial statements and the state of difficulty in loans.

[34]These are companies operating in sectors with a high COVID-19 impact and with elements of prospective weakness.

default (PD), calculated at the beginning of the contractual relationship and the probability of default recorded at the measurement date. In developing the model, specific internal thresholds of variation were identified between the PD at the beginning of the contractual relationship and the PD recognised at the valuation date, broken down by counterparty, initial rating class and vintage. The exceeding of the above mentioned thresholds represents an expression of significant increase in the credit risk and the subsequent transfer of a single credit line from stage 1 to stage 2. The comparison is based on the homogeneous residual durations[35] and on homogeneous PD models, for example, if the definition of default changes over time, the original lifetime forward-looking cumulative PD is recalculated to take account of said new definition of default. Cumulative PDs subject to comparison are based on the same model used for ECL purposes (e.g. definition of PIT (Point in Time) PD, macroeconomic scenarios, expected life/contractual life). In order to obtain a unique classification result, use is made of a cumulative PD resulting from the weighted average of the cumulative PDs calculated for the individual prospective scenarios using the probabilities of the scenarios as weights. The threshold of significance is determined by historically measuring, through quantile regression analysis per cluster, that level of ratio, between the lifetime forward-looking cumulative PD at the reporting date and that at the origination date, which may be considered predictive of the classification as NPE[36]. The threshold is determined so as to minimise so-called false positives and false negatives and maximise true positives and true negatives.

For debt securities that do not have investment-grade ratings, the relative quantitative criterion is based on the variation in lifetime forward-looking cumulative PD between the reporting date and the origination date above a certain threshold. For corporate issuers, the multi-year PD curve is the corporate one estimated entirely by the Group; for government issues, the multi-year PD curve is the one prepared on the basis of the Moody's matrix of 1-year defaults[37] of government bonds. Cumulative PDs subject to comparison are based on the same model used for ECL purposes and macroeconomic scenarios. In order to obtain a unique classification result, use is made of a cumulative PD resulting from the weighted average of the cumulative PDs calculated for the individual prospective scenarios using the probabilities of the scenarios as weights. The exposures are classified into stage 2 if the ratio between the lifetime forward-looking cumulative PD at the reporting date and that of the origination date exceeds a given threshold of significance equal, both for corporate bonds and government bonds, to that used for corporate exposures in the form of loans.

Debt securities that, at the reporting date, have an investment-grade rating, mainly related to government securities, are classified in stage 1 because in this case, and only for this case, MPS Group used the "Low Credit Risk Exemption". This exemption consists of the practical expedient of not conducting the test for significant deterioration of credit risk on exposures whose credit risk is considered low. This exemption is applied to securities with an investment grade rating level at the date of assessment, in full compliance with the provisions of IFRS 9 accounting standard. In addition, given the presence of several purchase transactions on one fungible asset (ISIN), it was necessary to identify a methodology to identify the tranches sold in order to determine the residual quantities to which credit quality at initial recognition date can be associated, in order to compare it with credit quality at the measurement date. In this context, the "first-in-first-out" or "FIFO" methodology was deemed most appropriate, as it enables more transparent portfolio management, including from the operational perspective (front office), allowing, at the same time, a continuous updating of the creditworthiness assessment based on new purchases.

In general, the transfer criterion between stages is symmetrical. Specifically, an improvement in credit risk which involves the elimination of the conditions that led to the significant increase in said credit risk involves the reallocation of the financial instrument from stage 2 to stage 1. In this case, the entity recalculates the value adjustment on a twelve-month time horizon rather the previously recognised lifetime losses, by booking a write-back to the income statement.

Once the assignment of exposures into the various credit risk stages has been defined, the expected losses (ECL) are calculated, at the level of individual transaction or security tranche, starting from IRB/management modelling, based on parameters of Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD), to which specific adjustments are made, in order to ensure compliance with the specific requirements of IFRS 9, given the different requirements and purposes of the accounting rules compared to prudential regulations.

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[35] Therefore, the valuation at 31/12/T of the significant increase in credit risk of a thirty-year mortgage disbursed on 31/12/T-5 is carried out by comparing the lifetime forward-looking cumulative PDs over the residual life of 25 years.

[36] The classification as NPE is measured over multi-year time horizons

[37] The same approach is used for estimating long-term PDs of credit exposures to banks.

The PD, LGD, and EAD are defined as follows:

- PD (Probability of Default): likelihood of transferring from a performing status to that of non-performing over a one-year time horizon. In models consistent with supervisory provisions, the PD factor is typically quantified through the rating. In MPS Group, PD values derive from internal rating models where available, supplemented by external valuations or average data for segment/portfolio;
- LGD (Loss Given Default): percentage of loss in the event of default. In models consistent with supervisory provisions, this factor is quantified using historical data on actual recoveries of loans that transferred to non-performing status;
- EAD (Exposure At Default) or credit equivalent: amount of exposure at the time of default.

As previously pointed out, in order to comply with the provisions of IFRS 9, specific adjustments must be made to the aforementioned factors, including:

- adoption of a Point in Time (PIT) PD against the Through the Cycle (TTC) PD used for Basel regulaory purposes;
- elimination of certain additional components from LGD, such as indirect costs (non-recurring costs) and the component linked to the adverse economic cycle (or "downturn"); as well as to reflect the most current recovery rates (PIT), expectations about future trends (forward-looking) and the inclusion of any recovery fees if collection is assigned to a third party;
- use of multi-year PDs and, where necessary, LGDs in order to determine the expected loss for the entire residual life of the financial instrument (stages 2 and 3);
- use of the effective interest rate of the individual transaction in the process of discounting expected future cash flows, as opposed to that which is set forth in regulatory models, in which individual cash flows are discounted using rates determined in accordance with prudential regulations.

In relation to the multi-year EAD, in line with the IFRS 9 provisions, MPS Group refers to the amortised cost plans, regardless of the measurement methods (amortised cost or fair value through other comprehensive income). For commitments to disburse funds and guarantees given (off-balance sheet exposures), EAD is instead taken at nominal value weighted by a specific credit conversion factor (CCF).

IFRS 9 establishes that, at each reporting date, an entity must measure the impairment of an asset based on the expected credit loss, based on available, reasonable and consistent information, without incurring excessive costs or making disproportionate efforts. Therefore, the forward-looking approach envisaged by IFRS 9 for purposes of determining the expected loss represents a key aspect of the measurement model.

Given the above, the MPS Group uses the forward-looking approach to estimate the expected loss, both in the analytical and collective measurements. The forward-looking approach is applied to the following statistical parameters:

- PD: *Probability of Default, used for performing positions;*
- LGD/EAD: *Loss Given Default (LGD), used for both performing and non-performing positions measured statistically; Credit Conversion Factor (CCF) used to estimate the Exposure At Default (EAD) of performing positions;*
- *Cure/Danger rate: used for unlikely to pay other than restructured positions and positions statistically valued as lower than a given threshold;*
- *haircut for real estate collateral, used when applicable for the analytical measurement of bad loans and unlikely to pay exposures other than restructured loans.*

Since the expected loss is estimated as a weighted average of a range of possible results, the aforementioned parameters are first determined based on historical data and then corrected to take into account at least 3 economic scenarios that cover a horizon of at least 3 years in the future: baseline, improving and deteriorating.

The forecasts of the macroeconomic indicators (forward-looking), provided by a leading external consultant and internally re-formulated by the Research Function, are quantified based on three possible future scenarios, which consider the economic variables deemed relevant (Italian GDP, interest rates, unemployment rate, commercial and residential property prices, inflation, equity indices), with a future time horizon of three years to which the respective probabilities of occurrence are assigned, determined internally by the Group. In greater detail, alongside the "baseline" scenario deemed most probable, i.e., the macroeconomic forecast scenario which the MPS Group uses as a basis to develop its projections for financial statement and risk data across a short- and medium-term time horizon, an alternative "better" scenario (decidedly favourable) and "worse" scenario (unfavourable) was developed.

The sensitivity of the statistical parameters to macroeconomic variables is estimated. In particular, the associations between the statistical parameter and macroeconomic variables are shown below:

- PD: Italian GDP, unemployment rate, interest rates, inflation, commercial and residential property prices and stock indices;
- LGD/EAD: Italian GDP, unemployment rate, commercial and residential property prices;
- *cure/danger rates: Italian GDP;*
- *haircut: commercial and residential property prices.*

For those statistical parameters (e.g., PD) for which there is no linear relationship with the macroeconomic variable, the parameter measurement is not calculated based on the weighted average of the macroeconomic variables and using the respective probabilities as weights, but based on certain distinct measures of the parameter. In these cases, the weighted average occurs at the expected loss level.

Finally, for the estimate of expected losses over the life of the instrument, the reference period is represented by the contractual expiry date; for instruments that do not expire, the estimate of expected losses uses a time horizon estimated through a behavioural model for on-demand products and set to one year from the reporting date, in other cases.

For further details on the model used to calculate expected losses in the context of the COVID-19 pandemic, please refer to the paragraph "Updating macroeconomic scenarios" and "Measurement of significant increase in credit risk (SICR) for IFRS 9 purposes" in "Part A - Accounting policies relevant to the preparation of the consolidated financial statements in the context of the COVID-19 pandemic" of these consolidated financial statements. For a review of the risks, uncertainties and impacts of the pandemic, please refer to the paragraph "Quantification of impairment losses on loans" below.

Impairment of non-performing financial assets

As described earlier in the document, for non-performing financial assets, which are assigned a probability of default of 100%, the impairment amount for each loan is equal to the difference between the loan book value at the time of measurement (amortised cost) and the present value of estimated future cash flows, calculated by applying the original effective interest rate (or a proxy if not available). Cash flows are estimated based on expected recovery expectations over the lifetime of the loan, taking into account the presumed realisable value net of any collateral and any costs connected with obtaining the guarantee through sale. In this regard, in the event that the Group uses a third party to collect non-performing loans, the fees paid to the outsourcer for activities strictly related to collection are considered for the purpose of estimating impairment losses. These costs are considered for both non-performing and performing exposures, if for the latter it is probable that in the event of a transfer to bad loans, the collection activities will be assigned to third parties.

Commissions paid to outsourcers are considered in LGD estimates used for statistical measurements of all administrative stages, in collection plans for bad loans, and in analytical measurements of unlikely to pay positions.

For purposes of estimating future cash flows and the relative collection times, the loans in question that have a significant unit amount are subject to an analytical assessment process. For some similar categories of non-performing loans whose unit amount is insignificant, the measurement processes allow that loss forecasts are based on lump-sum/statistical calculation methods, to be analytically assigned to each individual position. The perimeter of exposures subject to a lump-sum/statistical measurement process, that is, based on statistical analyses of operational LGD, differentiated according to the segment and length of time in the risk state ("vintage") and suitably integrated to take into account forward-looking information, is represented by:

- bad and unlikely to pay loans with exposures less than or equal to an established significance threshold of EUR 1 mln;
- total non-performing past due exposures regardless of the exposure's significance threshold. In particular, these are loans that show continuous overdrawn situations or delayed payments, automatically identified by BMPS Group's IT procedures, according to the aforementioned rules of the supervisory authority.

The analytical/statistical valuation, carried out for bad and unlikely-to-pay loans of less than EUR 1 mln and for all past-due and / or overdrawn loans, presents specific characteristics depending on the type of exposure involved.

With reference to non-performing loans, the analytical/statistical valuation is based on non-performing LGD grids, where the LGD model is mainly characterized by the differentiation of the loss rates based on the permanence in the risk status ("vintage"), as well as the type of customer. The grids are also differentiated by other significant analytical characteristics on the model estimation stage (e.g. technical form, type of guarantee, geographical area, exposure band, etc.). The recovery time grids are broken down mainly by regulatory segment and by other significant analysis axes in the modelling (e.g. recovery procedures, exposure band, technical form).

With reference to unlikely-to-pay and impaired past due exposures, the valuation is carried out by applying statistical LGD grids specifically estimated for positions classified in these administrative categories, in line with the LGD grids estimated for non-performing loans. The LGD for unlikely-to-pay and non-performing past due exposures is obtained by recalibrating the non-performing loan LGD through the danger rate module. The danger rate is a multiplicative correction factor aimed at recalibrating the non-performing loan LGD with the information available on other default events, so as to obtain an LGD representative of all possible default events and their evolution.

The analytical-specific valuation for bad and unlikely-to-pay loans exceeding EUR 1 mln is an assessment made by the managers on the individual positions based on a qualitative/quantitative analysis of the economic and financial position of the borrower, the riskiness of the credit relationship, the objectives and strategies for the reduction of impaired loans laid out by the "NPL Plan", and any mitigating factors (guarantees); the financial effect of the estimated collection time is also taken into account.

In particular, for non-performing loans, a set of factors are taken into account, which may or may not be present depending on the characteristics of the positions, and which must be assessed with the utmost accuracy and prudence, including by way of example:

- nature of the credit, preferential or unsecured;
- shareholders' equity of obligors/third parties providing collateral;
- complexity of existing or potential disputes and/or underlying legal issues;
- exposure of obligors to the banking system and other creditors;
- latest available financial statements;
- legal status of obligors and pending bankruptcy and/or individual proceedings.

To find the estimated realizable value of loans secured by real estate and to take into account both the historical collection data and forward-looking considerations, in line with IFRS 9, the approach adopted is focused on the valuation of real estate in reference to the average expected auction and the corresponding reduction in the observed price, calculating the average haircuts differentiated by type of real estate guarantee (residential and non-residential).

With reference to bad real estate loans deriving from lease contracts, in light of the characteristics of the product (absence of auctions), the haircut is estimated as loss of value of the asset between the last available appraisal value and the expected sale price, calculated based on the evidence emerging from the collection process

Moreover, with reference to unlikely to pay loans, the assessment is based on a qualitative-quantitative analysis of the economic, equity and financial situation of the debtor and on a timely verification of the risk situation. In the case of unlikely-to-pay loans secured by real estate, the haircut is applied not to the entire market value of the guarantee (as in the case of non-performing loans) but only to the portion pertaining to the credit exposure that is expected to become non-performing; alternatively, the cure rate of the related exposures is taken into account.

The impairment loss is calculated including the measurement of future cash flows that it is assumed the borrower is able to produce and which will also be used to service the financial debt. This estimate should be made based on two alternative approaches:

- going concern approach: the borrower's operating cash flows (or that of effective guarantor) continue to be produced, and are used to repay the financial debts contracted, based on the scheduled repayment plans. The going concern assumption does not exclude the possible realisation of collateral, but only to the extent that this can occur without jeopardising the borrower's ability to generate future cash flows. The going concern approach also applies to cases in which the recoverability of the exposure is based on the possible sale of assets by the borrower or extraordinary transactions;
- Gone Concern Approach: applicable in cases in which it is believed that the borrower's cash flows will be significantly reduced. This is a scenario whose application may possibly entail positions that are expected to be classified in bad loans. In this context, assuming that interventions by shareholders and/or extraordinary restructuring operations of the debt in a turnaround situation are not reasonable, loan collection is essentially based on the value of the collateral that supports the loan and, in the

alternative, on the realisation value of the assets, taking into account liabilities and any rights of pre-emption.

Turning to the analysis of alternative collection scenarios, note that, for the objectives of reducing the stock of outstanding non-performing loans included in the business plans and the commitments undertaken with Supervisory Authorities, with specific reference to the "NPL Strategy", the Group considers the sale of certain portfolios as the strategy that can, under certain conditions, maximise the recovery of *cash flows*, also in consideration of collection times.

In particular, the ECB, in its "NPL Guidance" published in March 2017 and subsequent updates, has asked banks with a percentage of impaired loans higher than the average for European Banks to define a strategy aimed at achieving their gradual reduction. In particular, as part of the preparation of the 2017-2021 Restructuring Plan, approved by the European Commission, the Group has identified as a priority a significant de-risking to be achieved by selling portfolios of non-performing and unlikely-to-pay loans.

Consequently, the estimate of expected losses of exposures that can be sold varies depending on the forecast of the recoverable flows through internal management (work-out), as well as the forecast of recoverable flows through their possible sale on the market ("multi-scenario" approach). In particular, the exposures in question are associated with two different estimates of cash flows that MPS Group expects to collect:

- the first determined by using as reference the scenario of recovery from the borrower based on internal activity, according to the ordinary measurement guidelines followed by the Group and previously described (hold scenario);
- the second calculated by using as reference the recovery through sale of the loan to third parties (sale scenario).

Each of the two scenarios is assigned a probability of occurrence that is higher for clusters that are more likely to undergo a sale procedure, based on historical data and/or forecasts (e.g., formalised NPL reduction plans). The expected loss of the exposures in question is therefore equal to the weighted average for the probabilities assigned to the two scenarios of the estimates of recoverable cash flows in each (hold and sale).

Hence, the sale values and sale probability are the two key elements for defining the expected loss. For this purpose, MPS Group has performed an analysis of the historical data on sales (past events) on these portfolios and certain considerations on future sale strategies.

Based on these considerations, the accounting model for impairment for the Group's non-performing loans only envisages a different application for:

- loans subject to ordinary collection process: application of existing accounting policies, reviews to take into account changes introduced by IFRS 9, including, in particular, the forward-looking element;
- loans included in the sale programme: measured with the ordinary policy plus any add-ons to adjust the portfolios to the presumable realisable value.

To determine the add-on, the Group considers the following elements:

- selection of the portfolios that are presumed to be sold: the perimeter includes positions with a certain attractiveness on the market, indicated by the fact that other banks have already carried out sales and expressions of interest that have already been received, as well as additional positions resulting from assessments of economic benefit performed by the Parent Company's competent bodies (e.g., presence of extended bad loans or high danger rate);
- probability of sale: the probability is guided by the target sales level included in the NPL Strategy;
- sale prices: derived from mass transactions on similar portfolios and single names made by the Group or from transactions carried out on the market in recent years.

Impairment losses calculated with the simplified method

Expected losses are quantified according to the provisions of the simplified method established under IFRS 9 based on the Lifetime ECL and therefore do not require verification of the significant increase in credit risk compared to the credit risk at the date of the asset's initial recognition. The Group adopts this method for trade receivables and assets deriving from contracts that do not have significant financial components, i.e. only cases for which the adoption of the simplified approach is mandatory pursuant to IFRS 9. At this regard the Group has chosen not to use this method in those cases where its use is optional.

Methods for calculating impairment on equity investments

At the end of every reporting period, the equity investments in associates or jointly controlled entities are evaluated to check whether there is objective evidence of impairment that might render the book value of these assets not entirely recoverable.

The process of recognising impairment involves verifying the presence of indicators of possible reductions in value and calculating any write-down. There are numerous impairment indicators, differentiated by type, listed or unlisted, of equity investments.

For listed equity investments:

- a fair value, at the reporting date, that is at least 30% lower than the book value, or
- a prolonged period, of more than 36 months, in which the fair value is lower than the book value, or
- a book value for the equity investment in consolidated financial statements that exceeds the corresponding portion of equity (existence of implicit goodwill), or
- a stock market capitalisation that is lower than the book value of the equity investment or the company's net equity.

For listed and unlisted equity investments:

- negative trends in dividends distributed by the investee;
- significant downward revision of profit forecasts;
- significant gap between actual results and the budget objectives or that envisaged in a long-term plan and communicated to the market;
- contracting or negative economic performance;
- negative performance for the investee's business sector;
- changes in the technological, economic, and regulatory environment that could result in difficulties for the business in identifying alternative business growth strategies;
- downward revision in the rating, expressed by a specialised rating agency assigned to the financial instrument, with respect to that on the instrument's acquisition date;
- *negative cash flows;*
- announcement/launch of debt restructuring plans;
- launching/requesting bankruptcy proceedings;
- any reporting exceptions or references regarding the applicability of the going concern assumption formulated by the independent auditors.

The presence of impairment indicators entails the recognition of a write-down in the amount for which the recoverable value is lower than the book value. The recoverable value is the greater of the fair value less costs to sell and the value in use.

For the methods used to determine the fair value, refer to the information in chapter A.4 - Information on fair value in the Notes to the consolidated financial statements.

The value in use is the present value of cash flows arising from the asset; it reflects the estimate of the cash flows expected from the asset, the estimate of possible changes in the amount and/or timing of cash flows, the time value of money, the price for remunerating the asset's risk and other factors that can influence the pricing, by market dealers, of the cash flows expected from the asset. The value in use is determined by discounting future cash flows.

Also with regard to the impairment test of equity investments, in line with the ESMA guidelines, the effects resulting from the COVID-19 pandemic were considered to be an impairment indicator. For more details on the risks, uncertainties and impacts of the COVID-19 pandemic, please refer to "Impairment test of equity investments" below.

Methods for calculating impairment on other non-financial assets

Goodwill posted following acquisitions is subjected to an impairment test at least once a year and whenever there are signs of impairment. In this regard, it should be noted that the effects of the COVID-19 pandemic represent, for the Group, an element that constitutes an indicator of impairment pursuant to IAS 36; consequently, the adequacy of the book value of goodwill was verified, as at 31 December 2020, by executing an impairment test. The test in question did not suggest a need to recognise an impairment on goodwill. For more details on the risks, uncertainties and impacts of the COVID-19 pandemic, please refer to "Impairment test on goodwill" below.

For testing purposes, once goodwill has been allocated to cash-generating units (CGUs), the book value is compared with the recoverable value of said units. The discounted cash flow (DCF) method is normally used to determine the recoverable value of the CGUs. To this end, senior management has estimated CGU cash flows; these are dependent on several factors, including cost and revenue growth rates, which in turn depend on changes in the real economy, customer behaviour, competition and other factors.

The property, plant and equipment and intangible assets with definite useful life are tested for impairment in the presence of any indication that the book value of the asset may not be recovered. The recoverable value is computed with reference to the fair value of the property, plant and equipment or intangible asset, net of the disposal charges or the value in use if this can be calculated and exceeds fair value.

In particular, the recoverable value of properties is determined on the basis of an appraisal or index-based valuations. The loss in value is reported only if the fair value less costs to sell, or the value-in-use, is less than the book value. For further information on the methods and inputs used to measure Fair value, please refer to Part A – Accounting policies – A.4 Information on fair value, of these Notes to consolidated financial statements.

Similar to owned properties, the values of right of use assets acquired through leasing are subject to impairment testing, if the conditions are met. The test is performed when the following events or situations arise: full/partial abandonment, under-use or non-use of the leased asset. In addition, it is necessary to refer to indicators from internal sources such as signs of obsolescence and/or physical deterioration of the asset, restructuring plans and closures of branches and external sources such as, for example, the increase in interest rates or other rates of return on the market for investments that may cause a significant decrease in the recoverable value of the asset.

Methods for recognising deferred tax assets (probability test)

The Group verifies the possibility of recognising tax assets based on a probability test, as described below.

Forecast plans approved by the Board of Directors are used; obviously, the plans of the subsidiaries are consistent with the Group's forecasts. Since the forecast plans cover a limited time horizon, the results subsequent to the plan horizon are assumed to be equivalent to those of the last year of the plan and increased by a compound growth factor "g", commonly used for determining the value of companies.

In any case, the framework of the probability test is consistent with that of the impairment test used for the measurement of goodwill, except for the specifics related to regulatory requirements (IAS 12 and IAS 36, respectively) such as, for example, the possibility in the probability test to take into account business restructuring and reorganisation actions included in the forecast plans, which is not considered in the goodwill impairment test.

In order to reflect the uncertainty associated with realising future taxable income suitable to allow the recovery of deferred tax assets, a discount factor is used based on data observable on the market and consistent with the risk metrics of the investment in Banca MPS shares.

The application of the above mentioned discount factor, equal to 9% as at 31 December 2020, represents a method for reflecting the uncertainty connected with realising future income; in any case, it is believed that the horizon considered for purposes of the taxable income test, whose realisation is considered probable, cannot exceed 20 years.

In developing the probability test, where applicable, the national tax consolidation agreements in which the Group participates are taken into account.

Finally, for an analysis of the risks, uncertainties and impacts of the COVID-19 pandemic, please refer to "Estimation and assumptions on recoverability of deferred tax assets" below.

Risks, uncertainties and impacts of the COVID-19 epidemic

Quantification of impairment losses on loans

Starting from the last week of February 2020, the health emergency induced by the ongoing pandemic affected both market performance and commercial operations, the latter penalized by increasingly stringent containment measures imposed, which led to the interruption of many production activities in Italy and in the world. These economic disturbances are reflected in the modelling of forward-looking economic scenarios, used for purposes of both defining SICR and quantifying expected loss in accordance with IFRS 9. To this end, in addition to updating macroeconomic variables, such as GDP and unemployment rates, it was necessary to consider the impact of COVID-19 on specific economic sectors. Estimating the impacts that the combination of factors such as GDP, interest rates, government support measures and unemployment rates, with specific sectoral factors, may have on customer solvency is highly challenging and requires a high degree of judgement to be exercised, also considering that the historical data in the current context are of little help.

The supervisory authorities (ESMA, EBA and ECB) and the standard setters (IASB) have provided instructions from March 2020 on the application of IFRS 9 and, in particular, on the use of forward-looking information in the context of the pandemic. Specifically, with regard to this aspect, there is a general call for caution in using economic scenarios and in the methods of converting prospective information into the identification of staging and expected lifetime loss.

Macroeconomic scenarios

The Group's accounting policies require macroeconomic scenarios to be updated in order to calculate expected credit loss, at least once a year, when the financial statements are prepared, as well as every time the latest available "base" scenario, shows, compared with the scenario currently in use, a net cumulated change in GDP, over a 3-year period, greater than or equal to 0.5%, in absolute value.

In 2020, the scenarios that were used to obtain estimates for the preparation of the 2019 Financial Statements were updated several times, to make the forecasts as closely aligned as possible with the changed economic context negatively affected by the COVID-19 pandemic. For more details on the approach adopted by the Group, please refer to the Interim Report on Operations as at 31 March 2020 and the Half-Year Financial Report as at 30 June 2020. It should be noted that as at 30 September 2020, scenarios remained unchanged compared to those used in the first half of 2020, in line with the indications provided by the ECB and the Bank of Italy at that date, also in consideration of the substantial uniformity (net of marginal changes) of the June and September forecast scenarios published by the ECB.

In November 2020, the Group approved a set of forecast macroeconomic scenarios for the 2020-2025 period developed internally by the Research Function, taking also as reference the forecasts developed by external providers. These scenarios, used in the ordinary annual update of the 2021-2025 multi-year projections, in the preparation of the strategic plan and in the calculation of impairment losses on performing and non-performing loans as at 31 December 2020, take into account the worsening of the overall macroeconomic background as a result of the renewed spread of the COVID-19 pandemic and the measures introduced to combat its effects.

Specifically, the reference baseline scenario confirms the high economic and social cost of the health crisis created by the COVID-19 pandemic with a severe recession of the world economy in 2020; this will be followed by a recovery that, at least in the short term, will remain uneven, uncertain and subject to downward risk. Supportive economic policies will be key in restarting economic growth: among these, the ECB emergency plan for the purchase of securities (PEPP), strengthened and extended in its duration, and especially the unprecedented emergency package (which includes the EUR 750 bn Next Generation Fund) put in place to help the EU countries struggling with the crisis created by the pandemic. These exceptional measures are accompanied by the stimulus policies adopted by individual national governments. In particular, the updated *baseline* scenario is characterized, compared to the previous one used for the financial statements as at 30 June and 30 September 2020, by GDP growth negative in 2020 (-10.0%), but improving over the medium term (2021: +5.3%, 2022: 2.7% and 2023: +1.8%) thanks to the above-mentioned funds made available at the EU level.

In Italy, an increasing availability of vaccines and adequate treatments together with the tax support measures undertaken will reduce the damages and, already starting from the second quarter of 2021, will allow a rebound in growth. The recovery is expected to continue with a certain intensity in the following two-year period, however, the levels of pre-COVID activity will only probably be recovered in the medium-long term. The recovery path will inevitably depend on the correct exploitation of the resources made available by European countries through debt-sharing instruments, the use of which however presents critical issues such as: observance of the timing of presentation of projects, the generation of effective added value from these projects, the efficiency of bureaucratic systems and national companies in carrying out projects. The risk remains that, once the phase of

exceptional support of economic policies is over, growth will not be sufficiently sustained to allow the management of public (and private) debts that have considerably increased in the meantime.

The worst alternative scenario sees a complicated containment of the epidemic during the winter and the introduction of more stringent lockdowns, albeit limited in time, both in different world regions and in Italy, with a strong impact on the recovery of the economy. Economic activity in Italy would then contract more sharply until next spring, affecting the momentum of the recovery that would start later in the year; the recovery of pre-COVID-19 activity levels would be postponed with respect to the baseline forecast. In a context of increased uncertainty, the propensity of households to save would remain high and businesses would further postpone their investment decisions. The slow pace of recovery would make the legacy of the increased public debt more burdensome, resulting in a widening of the spreads on Italian debt securities.

In the best alternative scenario, outbreaks would be effectively kept under control in advanced and emerging countries. In Italy, economic activity would continue recovering during the winter. In 2021, growth will continue at a good pace, allowing the country to return to pre-COVID-19 levels well in advance of the baseline forecast. The agreement on the Next Generation EU Fund would be implemented as early as the summer: the impetus for growth through greater investments and healthcare spending would be significant. Together with the loans provided by the Union, there will be a containment of the burden of financing the Italian debt that will favour a slow return from the peaks of 2020, with positive effects on the spread. However, due to its structural limitations and high public debt, Italy will continue to grow slightly less than other European countries.

For information on the performance of macroeconomic variables in the scenarios described above, please refer to "Part E - Information on risks and hedging policies, section 1.1 Credit risk, paragraph 2.3 Methods for measuring expected losses" of these Notes to the consolidated financial statements.

The table below shows, by way of example, the update of the base scenario carried out by the Group in 2020 on the GDP indicator with a comparison with the base scenario published by the Bank of Italy in June and December 2020; it also shows a comparison between the adverse scenarios published by the Bank of Italy in December and the adverse scenario used by the Group for its accounting valuations at the end of the year.

	GMPS 4Q2019 baseline	GMPS 1Q2020 baseline	GMPS 2Q2020 baseline	Bankit June 2020	GMPS 4Q2020 baseline	Bankit Dec 2020	GMPS 4Q2020 severe but plausible	Bankit international framework Dec 2020	Bankit protracted pandemic Dec 2020	Bankit financial factors Dec 2020
2020	0.6%	-6.5%	-8.0%	-9.2%	-10.0%	-9.0%	-10.1%	-9.1%	-9.1%	-9.0%
2021	0.7%	3.3%	3.9%	4.8%	5.3%	3.5%	4.0%	2.6%	1.9%	2.6%
2022	0.9%	1.2%	2.0%	2.5%	2.7%	3.8%	2.9%	3.1%	2.8%	3.1%
2023	0.8%	0.8%	1.2%	n.a	1.8%	2.3%	1.8%	2.0%	3.9%	2.4%
AVG 20-22	0.7%	-0.7%	-0.7%	-0.6%	-0.7%	-0.6%	-1.1%	-1.1%	-1.5%	-1.1%
Σ 20-22	2.2%	-0.2%	-2.1%	-1.9%	-2.0%	-1.7%	-3.2%	-3.4%	-4.4%	-3.3%
AVG 21-23	0.8%	1.8%	2.4%	n.a	3.3%	3.2%	2.9%	2.6%	2.9%	2.7%
Σ 21-23	2.4%	5.3%	7.1%	n.a	9.8%	9.6%	8.6%	7.7%	8.6%	8.1%

It is noted that the baseline scenario used by the Group in 2020 has always been in line, if not more conservative, with the forecasts provided by the Bank of Italy (both in terms of three-year average and cumulative impact over the three years). As regards the alternative scenarios (again in terms of three-year average and cumulative impact over the three years), the Group's scenario is fully aligned with the "international scenario" and "financial factors" scenarios over the 2020-2022 horizon and the "Continuation of the pandemic" scenario over the 2021-2023 horizon, also published by the Bank of Italy on 11 December 2020 as part of the Eurosystem's coordinated forecasting exercise.

SICR and ECL calculation

If, as anticipated, the serious situation caused by the pandemic would portend an unprecedented economic crisis, on the other hand it is strongly contrasted by the measures of the budget policy in direct support to demand, included for Italy in particular in the "Cura Italia" and "Rilancio" law decrees. Measures such as the credit

moratorium and public guarantees on new loans were in fact fundamental in preventing further negative effects from materializing, avoiding liquidity crises in companies.

These measures, adopted massively for the first time in recent history, are not captured by internal models. In the light of the current situation, we have, on the one hand, applied the existing models, with a view to making them more consistent with the specific current situation by using the additional information now available, in addition to improving their sensitivity to changes in macroeconomic conditions; on the other hand, one-off treatments were introduced to take into account, with increased granularity, the impact of the current scenario on micro-sectors and, for valuation purposes, the above-mentioned state guarantees and moratoria, as also suggested by Regulators and standard setters.

First of all, we would like to point out the prudential use, throughout 2020, in the evaluation of forward-looking PDs, of the Jan 2020-Dec 2022 scenario (recession), thus without considering the temporal shift of the historical series, which would instead involve for the 2021-2023 period the use of an expansive scenario. This choice is due to the fact that the recessionary effects of 2020 have not yet been observed during that year but will be observed in 2021, at the end of the different moratoria granted to both corporate and retail customers.

In addition, some specific adjustments, not captured by the models, were made based on a bottom-up analysis that takes into account the sensitivity to the scenario of the economic and financial outlook of counterparties in the different micro-sectors. These adjustments led to significant increases both for staging and for the calculation of the ECL for certain sectors in the tourism services, accommodation and catering, textiles, footwear and clothing sectors.

In particular, with regard to performing corporate loans, "adjustments" were made to the expected default rates at one year to factor the same forecast score adopted as part of the credit strategies (Cerved score, as specified below), in line with what had already been done at 30 June 2020. In more detail, the Group relied on the provisional outlook scenario contributed by Cerved, which shows a GDP decline for the year 2020 of 9.67%[38] and which, compared to the macroeconomic scenarios usually developed and the "satellite" model in use for estimating the multi-year PD curves (which for the corporate segment requires a distinction in 5 macro-segments: agriculture, commerce, building, industry and services) made it possible to differentiate the effects of the COVID-19 pandemic by sector of economic activity and geographical location. The forward-looking shock applied to the multi-year PD curves was determined in terms of the change in probabilities of default in 30 sectors of economic activity, on the basis of the changes (weighted for the relative counterparty exposures) observed between the Cerved forecasts pre and post COVID-19. With this approach, it was possible to identify the loans of the corporate counterparties for which the pandemic has triggered a significant increase in credit risk, resulting in a revaluation of the staging and a recalculation of the lifetime ECL.

At the same time, portfolio analysis was carried out to verify the impact of the pandemic on the portfolio risk profile on the different customer segments; the results of the new segmentation were factored into the review of the lending strategies in order to guide the activity in a coherent and appropriate manner on the individual clusters. In particular:

Corporate: to capture the asymmetric impacts of the crisis, a more granular segmentation was used for the different sectors of economic activity, using detailed scenario and forecast data on more than 200 segments provided by Cerved. On the basis of this information, for each micro-sector, estimates of a reduction in turnover and assumptions of recovery from 2021 were used; for each company, a specific assessment was carried out with regard to related financial requirements, evidence emerging from qualitative questionnaires[39] and the prospects through analysis of the business plan, thus estimating a "prospective" rating with the aim of factoring its capacity in terms of reactivity/resilience to the crisis. The "selective management"[40] strategy was assigned to the cluster of companies at greatest risk. Inclusion in this cluster indicates a significant increase in credit risk, with consequent classification in stage 2 of the risk classes.

Individuals: the approach adopted has been to expand the information set, using information on the customer's payment behaviour available in the system. An external score provided by a leading credit bureau (*Experian*) was

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[38] This scenario integrated that developed in house by the Group only for the year 2020 and only for corporate counterparties within the reference three-year time horizon.

[39] This is a questionnaire used with corporate borrowers, which has allowed the Group to acquire information on various topics, including how the company has dealt with the COVID-19 emergency, the ways in which it used the credit lines of the Group and the banking system and any evidence / critical issues identified from the analysis of economic and financial data

[40] This is a new post-COVID-19 credit strategy that requires the execution of bottom-up activities to understand in detail the current and future situation and also to be able to identify the best supporting measures to overcome the difficulties generated by the pandemic.

acquired for households benefiting from a support measure. The score summarises the customer's payment behaviour on the system and allowed to quickly identify any early signs of difficulty such for example, failure to pay bills, personal loans or credit cards held on the system. The information was "integrated" with internal ratings and different risk classes were identified. The historical analysis of insolvencies showed that the Experian "very high" risk score increased the model's discriminating capacity, leading to the identification of a cluster of customers with a very high average default rate, included among the D1 and D2 rating classes. This cluster was therefore included in the High-Risk management portfolio with consequent classification in stage 2, and was assigned a D2 rating floor (approximately 10%), which has resulted in an average PD for these customers approx. equal to 11.5%.

Inclusion of government guarantees

Finally, with regard to the treatment of government guarantees, it should be noted that, in accordance with the guidance of the Authorities, these did not impact the calculation of the SICR - since the latter does not depend on the guarantees, but on the creditworthiness, which remains specific to the counterparty; they have instead affected the estimate of the ECL, through the use of an LGD parameter that takes into account the government mitigation measures, introduced and expanded with the "Cura Italia" and "Liquidità" decrees. This approach derives from the assessment carried out on the characteristics of the guarantees that allow them to be considered as an integral part of the contract pursuant to IFRS 9.

As at 31 December 2020, the set of valuation approaches described above has led to:

- the recognition of additional adjustments for approx. EUR 348 mln, of which approx. EUR 247 mln for the performing portfolio and approx. EUR 101 mln for the non-performing portfolio;
- increase of *stage* 2 for about EUR 3.3 bn.

For more information on the assumptions used for the estimate, as well as for the sensitivity analysis with respect to alternative scenarios, please refer to "Part E - Information on risks and hedging policies, section 1.1, Credit risk, paragraph 2.3 Methods for measuring expected losses" in this Notes to the consolidated financial statements.

Impairment testing of goodwill and intangible assets with a finite useful life

The goodwill of the Group amounted to EUR 7.9 mln, in line with the values as at 31 December 2019, and is entirely attributable to the "Widiba" CGU. The valuation analyses were conducted on the basis of the 2021-2025 estimates of the subsidiary, developed as part of the multi-year planning and which take into account a macroeconomic scenario that reflects the consequences of the overall scenario induced by the spread of the COVID-19 pandemic. The results of the impairment test conducted as at 31 December 2020 confirmed the recoverability of the book value, as illustrated in the section "Intangible assets - item 100" contained in "Part B - Information on the consolidated balance sheet" of these Notes to the consolidated financial statements, to which reference is made for further details. In this regard, it should be noted that verifying the recoverability of this asset is a complex exercise, the results of which are affected by the valuation methods adopted, as well as the underlying parameters and assumptions, which may need to be modified to take into account new information or changes that are not expected at the date of preparation of these consolidated financial statements. For this reason, a sensitivity analysis is provided in the aforementioned intangible assets section, in order to assess whether the recoverable value will hold against alternative hypotheses and assumptions.

As regards other intangible assets with a finite useful life represented by relations with customers recognised following the acquisition of the former Banca Antonveneta SpA, no critical factors emerged on the stability of the recoverable value, also in consideration of the amortization process that reduced the book values compared to the original recognition values.

Finally, with regards to the software, with reference to closed projects of amounts exceeding EUR 1 mln, the Group performed the recoverable value check using assumptions and estimates in line with those of the 2019 Financial Statements, revised for the purpose of reflecting the greater uncertainty deriving from the current pandemic context. As an alternative to applying a multi-scenario approach, the Group used a future benefits discount factor of between 9.2% and 12.1%, i.e. higher than the discount rate used in 2020 (8.5%) and that forecast for 2021 (8.76%).

The impairment test conducted as at 31 December 2020 was based on the monitoring of specific KPIs, identified when the projects were closed, in order to verify the economic benefits assumed in the reference business cases. The outcome of monitoring activities returned values of the aforementioned KPIs well above the reference

thresholds established in the Business Case and therefore confirmed the recoverability of the values of the assets recorded in the financial statements.

For projects with a value below the aforementioned threshold without a business case, the impairment test of the related software was conducted consistently with previous years and led to the recognition of an impairment loss of EUR 0.8 mln.

Impairment test of equity investments

In line with the indications of the ESMA, the effects resulting from the COVID-19 pandemic were considered to be an indicator of impairment; consequently, the valuation of the main equity investments was updated. Specifically, the Group's valuation policies, in line with the provisions of IAS 36, assume the values in use as the recoverable values for these types of assets, which assume an estimate of the future cash flows that may be generated by the investees. The parameters and projections on which the estimates are based derive from the updating of the associates' plans, which incorporate the effects of the pandemic and are significantly influenced by the macroeconomic scenario and by the dynamics of the financial markets that could record changes that are not currently foreseeable. The tests did not entail the need to make value adjustments. For information on the book value of the main equity investments, please refer to the section entitled "Equity investments - Item 70" contained in "Part B - Information on the consolidated balance sheet" of these Notes to the consolidated financial statements.

Impairment test of property, plant and equipment

To verify the recoverable value of assets (land and buildings) recorded under property, plant and equipment, the Group carried out an analysis based on the "coefficient method" in line with the financial statements of previous years. These coefficients are provided by NOMISMA S.p.A., an economic consulting company, and represent the performance of the national and local real estate market, which was influenced in 2020 by the COVID-19 pandemic context, like other economic sectors, notably providing the percentage increase or decrease in market value compared to the previous year. The analysis was supplemented by the revalued value of capitalized improvements carried out during the year on the properties, as well as by other qualitative assessments and the results of any appraisals carried out for other purposes. It should be noted that a special appraisal was carried out for assets with a book value equal to or greater than EUR 1 mln.

As a result of these assessments, an impairment loss for the Group equal to EUR 13.7 mln was identified at 31 December 2020. For the sake of completeness of information, note that the impairment recorded with reference to all tangible assets amounts to EUR 14.2 mln.

Rights of use in lease agreements

The Group carried out an impairment test also on rights of use under lease contracts, in accordance with the internal policy, which requires the execution of the test when there is an indication that the book value of the asset can no longer be recovered and in any case at the time of the annual financial statements. The activities carried out included:

- the analysis of the trend in interest rates used for discounting the payments;
- assessment of the existence of unused properties;
- comparison between the rent paid by the Group and the average rent per square meter for similar properties in the same area.

The outcome of the aforementioned checks as at 31 December 2020 led to the recognition of an impairment loss of EUR 1.9 mln recognised in the item "Impairment losses/reversals on property, plant and equipment". For information on the rights of use acquired through leasing, please refer to the section "Property, plant and equipment - Item 90" contained in "Part B - Information on the consolidated balance sheet" of these Notes to the consolidated financial statements.

Estimation and assumptions on recoverability of deferred tax assets

As at 31 December 2020, the Group accounted for write-downs of around EUR 544.9 mln on DTAs due to the adoption for probability test purposes of the forecast plans and the discount factor updated to take into account the different macroeconomic scenario emerging as a result of the COVID-19 pandemic. This amount also includes the share of DTAs potentially arising during the financial year, which could not be recognised on the basis of the probability test assessment.

As at 31 December 2020, the discount factor used to reflect the uncertainty connected to the realisation of future income suitable to enable the recovery of deferred tax assets is equal to 9% (the rate used as at 31 December 2019 for the probability test in the Financial Statements closed at that date was 8%). For further details, please refer to paragraph 11.8 “Other Information -Probability Test” of Part B of these Notes to the Consolidated Financial Statements.

Contractual changes resulting from COVID-19

1) Contractual amendments and derecognition

Contractual changes and forbearance

The social and economic emergency caused by the COVID-19 pandemic has prompted the Italian government to launch a series of support measures for customers. The Group has identified the following lines of intervention:

- suspension of instalment payments and/or extension of due dates on instalment transactions, in application of both the legislative rules as well as the ABI moratorium tool;
- extension of due dates for outstanding advances;
- new medium/long-term financing products to meet the working capital needs of borrowers.

The first two of these measures entail, when granted, a change in the contractual terms and can be considered, in accordance with the Group’s accounting policies[41], as non-essential contractual changes subject to “modification accounting”, which implies the recognition in the income statement of the difference between the book value and the present value of the modified cash flows discounted at the original interest rate. Note that the operating procedures under which the Group has granted COVID-19 suspensions requires the application of interest calculated on the residual debt for the entire period of suspension of payments. Interest is also paid on the due date of the original instalment, if the suspension concerns the principal amount only, or from the end of the moratorium period, if the entire instalment is suspended. This approach implies a substantial actuarial neutrality, as envisaged, for that matter, in the government’s explanatory report on the “Cura Italia” Decree and the EBA statement of 2 April 2020. As at 31 December 2020, the moratoria in place, granted as a result of the COVID-19 pandemic, are equal to approximately EUR 11 bn and represent approximately 14% of the total exposure in loans to customers. For a quantitative review of these moratoria, please refer to table “A.1.7a Loans subject to COVID-19 support measures: gross and net values” in “Part E - Information on risks and related hedging policies” of these Notes to the consolidated financial statements.

As at 31 December 2020, income statement item 140 “Modification gains/(losses)” includes a loss related to the COVID-19 suspensions for roughly EUR 17.4 mln.

Classification criteria applied to moratoria (forborne, defaults)

Given the exceptional nature of the scenario linked to the COVID-19 pandemic and the guidelines from supervisory authorities, aimed at using the flexibility existing in accounting and prudential legislation, starting from March 2020, decisions were made regarding changes to accounting classification, in partial derogation of the usual classification criteria, such as:

- the legislative and systemic suspensions and concessions (remodulation/rescheduling) carried out for COVID-19 purposes before 30 September 2020, including any related extensions agreed before 1 December 2020, attributable to the “General payment moratoria” pursuant to the EBA guidelines of April 2020 as amended - have not been identified as forborne exposures and, therefore, have not resulted automatically in a classification in stage 2. It should be noted that, in the most difficult period of the pandemic (the first few months of 2020) due to the extension over time of sector agreements but above all due to the rapid and complex activity to interpret the government measures, a subset of moratoria which had been granted were codified in the systems as initiated by the Group even if they actually replicated systemic moratoria. On this specific cluster, an ex-post analysis was carried out at the end of 2020 to assess the following risk drivers at the reference date of February 2020 on each counterparty, thus identifying cases of financial difficulty prior to the outbreak of the pandemic:

[41] For more details on derecognition/modification accounting, please refer to section A2 - Part relating to the main items of the financial statements, Paragraph 16 “Other information - Other significant accounting practices - Renegotiations” of these Notes to the consolidated financial statements.

  - NPE status;
  - rating lower than C;
  - past due of more than 20 days;
  - bad loans in the system.

  The activation of at least one of these drivers has led to the attribution to the exposure of the forborne qualification and its transfer to stage 2.
- the suspensions granted following a request received in the 1 October-1 December 2020 period, whether for "COVID-19" purposes or not, were all the object of a special assessment for evidence of financial difficulty, with attribution of the forborne qualification and transfer to stage 2 in the case of positive testing.
- the counterparties that have benefited from moratoria since December 2020, following the introduction by EBA of the nine-month limit to benefit of the terms allowed under the "general payment moratoria", are classified as forborne in all cases of suspension lasting more than nine months (including also any pre-existing suspension);
- a request for a moratorium has not been considered an automatic trigger of probable default, in particular, during the effective suspension period, past due days are no longer counted, consequently leading to an extension of the ninety days' period used as an automatic trigger for the transfer among impaired exposures. In this regard, it should be noted that, in April 2020, the triggers for automatic classification as default in the presence of past due on forbearance measures already activated, were deactivated in order to avoid automatic transfers between non-performing loans, and downgraded to classification parameters non-binding of high relevance in order to be able to track and monitor the phenomenon and consequently manage the risk profile of customers. The automatisms were reactivated in January 2021 as a result of the new EBA guidelines issued in December 2020, in the last eight months of 2020 the counterparties on which the aforementioned parameters were activated were monitored and the most critical ones were classified with the ordinary process;
- finally, as already mentioned, with the redefinition of credit strategies due to the pandemic, starting from July 2020, the corporate portfolio has been segmented according to the sectoral impacts and the estimated trend on the rating of the individual counterparty (see "Quantification of impairment losses on loans" for the "selective management"); later, the portfolio relating to families requesting COVID-19 moratoria was also processed using external score tools to verify the presence of signs of difficulty not captured by internal information sources. On the basis of the analysis conducted, customers belonging to the riskier clusters were allocated to the "high-risk" management set and therefore in stage 2. In addition, during the fourth quarter of 2020, structured processes were started to review the riskiest companies and to carry out, where necessary, their classification as default even in the absence of overt delays in payments.

For more information on the identification and classification of forbearance measures and on the valuation of the unlikely-to-pay loans, please refer to Part E - Information on risks and related hedging policies, Section 1- Risks of accounting consolidation, Quantitative Information, Credit quality of these Notes to the Consolidated Financial Statements.

2) Amendment to IFRS 16 accounting standard

With a view to providing support to its lessees the activities of which have been suspended or subject to significant limitations as a result of government measures related to the COVID-19 emergency, the Group has provided for the suspension or partial or total reduction of the lease payments for a maximum period of 3 months for the lessees requesting it. These rent concessions have not had a significant impact on the profit (loss) for the year.

As regards to the relief as a lessee, instead, the Group applies the exemption introduced by the IASB "COVID-19-*Related Rent Concessions - Proposed amendment to IFRS 16*" to the valuation of the rent concessions obtained in consequence of the pandemic. In particular, the exemption is applied to two lease agreements that has not entailed substantial changes to other terms or conditions of the original leases.

The expedient, applied starting from the 2020 financial year, is not a significant case for the Group.

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Disclosure on public funding pursuant to art. 1, paragraph 125 of Law no. 124 dated 4 August 2017 ("Annual Law for the Market and Competition")

Note that, at the reporting date of these financial statements, the contributions collected by the Parent Company for 2020 in relation to training activities totalling EUR 1.9 mln are present in the National Register for State Aid and publicly available in the "Individual Aid" Transparency section. For more details, please refer to the following link:

https://www.rna.gov.it/sites/PortaleRNA/it_IT/trasparenza

It is to be noted that the subsidiary MPS TENIMENTI POGGIO BONELLI AND CHIGI SARACINI SOCIETA' AGRICOLA S.p.A. has received EUR 0.2 mln in 2020 as subsidies, grants and bonuses to support agricultural production in EU countries.

A.3 Information on portfolio transfers

The tables on transfers between portfolios of financial assets were not created, as in the 2020 financial year, as in previous years, the Group did not carry out any reclassification transactions following the change in the business model, that is to say of the procedures used by the Group to manage financial instruments.

A.4 – Information on *fair value*

Qualitative information

IFRS 13, which harmonises fair value measurement rules and the related disclosure, defines fair value as the price that would be received for the sale of an asset or that would be paid for the transfer of a liability in a regular transaction between market operators operating on a going concern basis (that is, not in a forced liquidation or a sale below cost) at the conditions observed at the valuation date in the main market or most advantageous market (exit price). The Parent Company must measure the fair value of an asset or liability by adopting the assumptions that market participants would use in determining the price of the asset or liability, assuming that they act to best meet their economic interests.

For the purposes of measuring assets and liabilities at fair value, IFRS 13 defines a threefold fair value hierarchy that reflects the reliability of the inputs used in making the measurements. The methods for classifying financial instruments in the three-level fair value hierarchy are shown below.

Level 1

This level shall include financial instruments measured using unadjusted quoted prices in active markets for identical instruments.

IFRS 13 defines an active market as a market in which transactions take place with sufficient frequency and volume to provide information on an ongoing basis. A financial instrument is quoted in a financial market when:

- the quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, authorised body or regulatory agency;
- the quoted prices represent actual and regularly occurring market transactions on an arm's length basis.

If the quoted prices meet these criteria, they represent the best estimation of fair value and must be used to measure the financial instrument.

From the definition of active market set out in IFRS 13, it is inferred that the active market concept is particular to the individual financial instrument being measured and not to the market on which it is listed; the fact that a financial instrument is quoted in a regulated market is therefore not in itself sufficient for the aforementioned instrument to be defined as listed in an active market. Conversely, a financial instrument that is not traded in a regulated market may present sufficient frequency and volumes for it to be classified in level 1 of the fair value hierarchy.

Levels 2 and 3

Financial instruments not listed in an active market must be classified in level 2 or 3.

An instrument is classified in level 2 if all significant inputs are directly or indirectly observable on the market. An input is observable if it reflects the same assumptions used by market participants, based on independent market data.

Level 2 inputs are as follows:

a) quoted prices on active markets for similar assets or liabilities;
b) quoted prices for the instrument in question or for similar instruments on non-active markets, i.e. markets where:
    - there are few transactions;
    - the prices are not current or they vary substantially over time and between the different market makers or
    - little information is made public;
c) *observable market inputs other than quoted prices (e.g. interest rates or yield curves observable in different buckets, volatility, credit curves, etc.);*
d) *inputs that derive primarily from observable market data, the reporting of which is confirmed by parameters such as correlation.*

A financial instrument is classified in level 3 if the measurement techniques adopted use non-observable market inputs and their contribution to estimating fair value is deemed significant.

All financial instruments not listed in active markets are classified in level 3 where:

- despite having observable data available, significant adjustments based on non-observable data are required;
- the estimate is based on internal assumptions on future cash flows and risk adjustment of the discount curve.

For financial instruments, measured at fair value in the financial statements, the Group has adopted a "Fair Value Policy" that assigns the highest priority to prices listed on active markets (level 1) and the lowest priority to the use of non-observable inputs (level 3), as they are more discretionary, in line with the fair value hierarchy represented above. In detail, this policy defines:

- the rules for identifying market data, the selection/hierarchy of information sources and the price configurations to value the financial instruments contributed on active markets and classified under level 1 of the fair value hierarchy ("Mark to Market Approach");
- valuation techniques and related input parameters in all cases in which the "Mark to Market approach" cannot be used, and therefore is necessary to apply the "Market to Model approach".

Classification in level 2 rather than level 3 is determined on the basis of market observability of the significant inputs used to determine fair value. A financial instrument must be classified in its entirety in a single level; therefore, if inputs belonging to different levels are used in the valuation technique, the entire valuation must be classified in correspondence with the level of the hierarchy in which the lowest level input is classified, if it is considered significant for the determination of the fair value as a whole.

The following types of investments are normally considered as level 2:

- equities not listed on active markets, valued using the market multiples technique, or valued on the basis of actual transactions;
- OTC derivative financial instruments whose fair value is obtained through the use of pricing models that estimate the probability that a specific event will occur by incorporating assumptions such as the volatility of the estimates, the price of the underlying instrument and the expected rate of return;
- hedge funds and private equity funds characterized by high levels of transparency and liquidity, valued on the basis of the NAV provided by the management company/fund administrator;
- third-party debt securities or own issue not listed on active markets whose inputs, including credit spreads, are obtained from market sources.

The following financial instruments are generally considered level 3:

- hedge funds characterized by low levels of liquidity, when the valuation / disinvestment of their assets is believed to require a series of assumptions and estimates to a significant extent. The fair value

measurement is carried out on the basis of the adjusted NAV to take into account the low liquidity of the investment;

- funds that invest in NPE loans for which the discounted cash flow is used;
- private equity and real estate funds valued on the basis of the last available NAV, adjusted if necessary to take into account events not included in the valuation of the unit or to reflect a different valuation of the assets underlying the fund;
- equity securities for which no recent or comparable transactions can be observed, and valued on the basis of the equity or income model;
- debt securities, ABS and derivative transactions characterized by complex financial structures for which publicly unavailable sources are generally used;
- debt securities issued by parties in financial difficulty for which the "recovery rate" must be estimated;
- (performing and non-performing) medium/long-term loans valued on the basis of expected cash flows estimated with different models depending on the status of the counterparty and discounted using a market interest rate.

A.4.1. Fair value levels 2 and 3: measurement techniques and inputs used

The following tables show, respectively, for Level 2 and 3 financial instruments, the accounting portfolio, a summary of the types of instruments in use at the Group, and evidence of the related valuation techniques and the inputs used.

Items	Fair value 31 12 2020							Type	Valuation technique(s)	Inputs used
	Financial assets held for trading	Financial assets mandatorily measured at fair value	Financial assets measured at fair value through other comprehensive income	Hedging deivatives	Financial liabilities held for trading	Financial liabilities designated at fair value	Hedging deivatives			
Debt securities	709,092	45,613	607,901	X	-	193,332	X	Bonds	Discounted Cash Flow	Interest rate curve, CDS curve, Basi(yield), Inflation Curves
								Structured bonds	Discounted Cash Flow	Interest rate curve, CDS curve, Basi(yield), Inflation Curves + inputs necessary to measure optional component
								Notes	Discounted Cash Flow	Interest rate curve, CDS curve, Basi (yield)
								Notes	Market price	Market price
Equity instruments	23	1	13,535	X	X	X	X	Share/Equity Instruments	Market price	Market price, recent transactions, appraisals, manager reports
								Equity Instruments	Discount cash flow	Share price, beta sector, free risk rate
								Equity Instruments	Net asset adjusted	Carrying Amount Asset/Liabilities
Units of UCITS	3	50,196	X	X	X	X	X	Private Equity funds	Nav investor report	Manager reports, data sheet
Financial Derivatives	2,895,575	X	X	50,818	1,327,649	X	1,797,049	IR/Asset/Currency Swaps	Discounted Cash Flow	Interest rate curve, CDS Curve, Basi(yield), Inflation Curve, Foreign exchange rates and correlation
								Equity swaps	Discounted Cash Flow	Share price, Interest rate curve, Foreing exchange rates
								Forex Singlename Plain	Option Pricing Model	Interest rate curve, Foreing exchange rates, Forex volatility
								Forex Singlename Exotic	Option Pricing Model	Interest rate curve, Foreing exchange rates, Forex volatility (Surface)
								Equity Singlename Plain	Option Pricing Model	Interest rate curve, share price, foreign exchange rates, Equity volatility
								Equity Singlename Exotic	Option Pricing Model	Interest rate curve, share price, foreign exchange rates, Equity volatility
								Equity Multiname Plain	Option Pricing Model	Interest rate curve, share price, foreign exchange rates, Equity volatility
								Equity Multiname Exotic	Option Pricing Model	Interest rate curve, share price, foreign exchange rates, Equity volatility (surface),Model inputs,Quanto correlation, Equity/Equity correlation
								Plain Rate	Option Pricing Model	Interest rate curve, inflation curves,bond prices,foreign exchange rates, Rate volatility, rate correlations
								Spot-Forward	Market price*	Market price, Swap Point
Credit Derivatives	275	X	X	-	128,872	X	-	Default swaps	Discounted Cash Flow	CDS curves, Interest rate curve
Total assets	3,604,968	95,810	621,436	50,818	X	X	X			
Total liabilities	X	X	X	X	1,456,521	193,332	1,797,049			

**prices for identical financial instruments listed in non-active markets (IFRS 13 par. 82 lett. b)*

Items	Fair value 31 12 2020		Type	Valuation techinque(s)	Unobservable inputs	Range (weighted average)
	Finacial assets mandatorily measured at fair value	Financial assets measured at fair value through other comprehensive income				
Debt securities	106,773		Junior Tranche NPL Securitization	Discounted Cash Flow	Yield	18.0%
			Bonds	Discounted Cash Flow	Discount Rate	10.4%
			Paricipating financial instrumet	Credit Model	Credit Data (LDG/PD)	42%/100%
Equity instruments	5,534	228,584.0	Equity instruments	External pricing	Cet1 target, Cost of Equity; Growth rate	13.3%/10%/2%
			Investments	Discounted Cash Flow	Liquidity base/Equity Risk Premium/Beta	20%/8%/0.4
			Investments	Cost/Net equity	Fair value asset	0-14.3 €/mln
Units of UCITS	109,649	X	Closed-end Fund	External pricing	Fair value assets	10 €/mln
			Real estate closed-end Fund	Disconunted Cash Flow	Discount Rate	10.4%
			Alternative Investment Fund	Discounted Cash Flow	Discount Rate	10.4%
Loans	143,162	-	Loans	Discounted Cash Flow	NPE spread	1.92% / 4.52%
			Loans	Discounted Cash Flow	LGD	0% / 59.3%
			Loans	Discounted Cash Flow	PD	0.09% / 45%
			Loans	Discounted Cash Flow	PE spread	0.02% / 0.59%
Total Assets	365,118	228,584				
Total liabilities	X	X				

The techniques and parameters for calculating the fair value, as well as the criteria for assigning the fair value hierarchy, are defined and formalized in the aforementioned "Fair value policy" adopted by the Group. The reliability of the fair value measurements is also guaranteed by the verification activities carried out by the Risk Management department.

This unit, which is independent from the Front Office units holding the positions, is in charge of periodically reviewing the list of pricing models to be used for the purposes of the Fair Value Policy: these models must represent market standards or best practices and the related calibration techniques must guarantee a result in line with valuations able to reflect "current market conditions". Specifically, to correctly determine the fair value, for each product a pricing model is associated, generally accepted by the market and selected on the basis of the characteristics and market variables underlying the product. With particularly complex products or if the existing valuation model for products in use is deemed to be lacking or inadequate, an internal process is activated to supplement the current models. On the basis of this process, the Risk Management department carries out a first validation of the pricing models, which may be native to the Position Keeping system or be issued by a specific internal unit; this is followed by a stage in which the same unit ensures the reliability of the previously validated model.

Specifically, the validation activity is aimed at verifying the theoretical robustness of the model, through an independent repricing of the price, a possible calibration of the parameters and a comparison with the prices of the counterparties.

Following the validation stage, an ongoing review is carried out to confirm the accuracy and alignment to the market of the pricing models used by the Group, and appropriate changes are made, if necessary, to the models and the related underlying theoretical assumptions. To take into account the risk that the pricing models, even if validated, may generate fair value values that are not directly comparable with market prices, an adjustment is made for "Model risk", as described below.

Financial assets and liabilities measured at fair value on a recurring basis:

Financial assets and liabilities measured at fair value on a recurring basis are represented by all financial instruments measured in the financial statements on the basis of the fair value criterion (items 20, 30, 50 of the balance sheet assets and items 20, 30, 40) of balance sheed liabilities). For these financial instruments, in the absence of directly observable prices on active markets, it is necessary to determine a fair value on the basis of the valuation approach described in the previous paragraph. The main valuation techniques adopted for each type of financial instrument are illustrated below.

Debt securities

The valuation of non-contributed securities (i.e. securities without official prices expressed by an active market) is carried out through the use of an appropriate credit spread, identified starting from contributed and liquid financial instruments with similar characteristics. The sources from which to draw this measure are as follows:

- contributed and liquid debt securities of the same issuer;
- *credit default swap on the same reference entity;*
- contributed and liquid securities issued by an issuer with the same rating and belonging to the same sector. In any case, the different seniority of the security to be priced in relation to the issuer's debt structure is taken into account.

Furthermore, for bonds not quoted on active markets, to take into account the higher premium requested by the market compared to a similar contributed security, an additional component, estimated on the basis of the bid/ask spread, is added to the "fair" credit spreads observed on the market.

Loans that do not pass the SSP test

These are loans mandatorily measured at fair value as the contractual cash flows do not exclusively provide for the repayment of principal and payment of interest on the principal to be repaid (i.e., they do not pass the "SPPI test"), either by virtue of clauses originally envisaged in the contract or following subsequent amendments. The fair value is valued with the Discounted Cash Flow approach, which is applied in a different way depending on whether the loans are performing/non-performing:

- For performing loans, the fair value is determined on the basis of cash flows, appropriately adjusted for expected losses, based on the unobservable parameters PD and LGD. These flows are then discounted on the basis of a market interest rate, adjusted to take into account a premium deemed to express the risks and uncertainties. In the presence of implicit option components, which, for example, provide for

the option of changing the interest rate, the fair value also takes into account the value of said components;

- For non-performing loans, the measurement of the fair value is based on directly or indirectly observable market parameters, which refer to risk factors found in the sale of NPLs in order to obtain a market price, representative of the uncertainty of the recovery process. In particular, cash flow forecasts are expressed by the analytical repayment plans that represent the information on the estimated loss rate on the position. The recovery flows estimated in this way are discounted using a discount factor that is constructed starting from a spread representing the uncertainty of the recovery process (unexpected loss) and any other residual risk; the discount rate is then calculated by adding this spread to the risk-free interest rate curve, without taking into account the contractual rate.

Unlisted equities

They are valued with reference to direct transactions on the same security or on similar securities observed over a period of time with respect to the valuation date, using the market multiples method of comparable companies and subordinate to financial, income and equity valuation methods.

Investments in UCITS

As a rule, these are measured on the basis of the NAVs made available by the fund administrator or the management company, unless it is believed that said NAV does not represent a fair value, from the perspective of a market operator, in which case certain adjustments must be made. This category typically includes private equity funds, funds that invest in NPE loans, real estate and hedge funds.

In the specific case of funds investing in NPE loans, the Group estimates the value of units as the sum of the present values of the expected flows fund distributions (DCF). The inputs used are as follows:

- cash flows related to net distributions to investors envisaged in the business plans/management reports;
- discount rate of 10.4%, estimated as the implicit rate in the collections realised in the disposal transactions for unlikely to pay positions that the Group has implemented over the past two years.

Credit structured products

With reference to ABS (asset backed securities), when significant prices are not available, valuation techniques are used that take into account parameters that can be inferred from an active market (level 2 inputs) or must be estimated, if unobservable (level 3 inputs, if significant). In the first case, the cash flows are acquired from info providers or specialized platforms; the spreads are derived from the prices available on the market /info provider, analysing the performance of the underlying assets on the basis of the investor reports. If they are not available, the Group uses valuation techniques to recreate the payment waterfall.

Over the counter (OTC) derivatives

Interest rate, exchange rate, equity, inflation, commodity and credit derivatives, where not traded on regulated markets, are Over-The-Counter (OTC) instruments, i.e. traded bilaterally with market counterparties. Their valuation is carried out using appropriate valuation models, fed by input parameters (such as, for example, interest rate, exchange rate and volatility curves) observed on the market and subject to the monitoring processes described in the "*Group Fair Value Policy*".

These models estimate the probability that a specific event will occur by incorporating assumptions such as the volatility of the estimates, the price of the underlying instrument and the expected rate of return.

In addition, for the purpose of measuring fair value, the aforementioned "Group Fair Value Policy" envisages that some "fair value adjustments" be considered with the objective of best reflecting the realization price of an actually possible market transaction. In particular, this relates to model risk, liquidity risk and counterparty risk set out below.

<u>Model risk</u>: this adjustment is made in order to face the risk that the pricing models, even if validated, may generate fair value values that are not directly observable or not immediately comparable with market prices. This is the case of pricing algorithms or types of pay-off that are not adequately widespread on the market or in the presence of models particularly sensitive to variables that are difficult to observe on the market.

Liquidity risk: this adjustment is made to take into account the extent of the "bid / ask spread", i.e. the actual cost of disposing of a position in financial instruments in inefficient markets. The correction for the liquidity risk is greater for more structured products, due to the related hedging/disposal costs, and for valuation models that

are not sufficiently established and of widespread use among operators, since this makes the valuations more uncertain.

Counterparty risk: adjustments to the market value of OTC derivatives, classified as "performing", are made in order to reflect:

- the risk of possible counterparty default - Credit Valuation Adjustment (CVA);
- the risk of non-fulfilment of the issuer's contractual obligations towards a counterparty ("own credit risk") - Debt Valuation Adjustment (DVA).

These corrections were estimated for all OTC derivative positions with non-collateralised institutional and retail counterparties. The methodology is based on the calculation of expected operational loss linked to counterparty rating and estimated on a position's duration. The exposure includes future credit variations represented by add-ons. Market-consistent probability measurements are employed in the calculation of CVAs in order to gauge market expectations resulting from CDS prices without, however, losing the historical information available within the Group. The impact of the CVA as at 31 December 2020 amounted to EUR -21.9 mln.

The Group calculates the value adjustment of OTC derivatives in a mirror image fashion and on the same perimeter to take into account its creditworthiness, Debit Value Adjustment (DVA). As at 31 December 2020, the DVA is positive and amounts to a total of EUR 3.4 mln.

Non-financial assets measured at fair value on a recurring basis

The Group does not have any non-financial assets measured at fair value on a recurring basis

Financial assets measured at fair value on a recurring basis

Financial assets and liabilities measured at amortised cost in the financial statements

For financial assets and liabilities recognized in the financial statements at amortised cost, classified, in the accounting categories of "Financial assets measured at amortised cost" (loans to banks and customers) and "Financial liabilities measured at amortised cost" (due to banks and customers and debt securities issued), the calculation of the fair value is relevant for information purposes only, in line with the provisions of the reference accounting standard IFRS 7. The criteria to calculate the fair value of performing and non-performing loans to banks and customers are the same adopted for the fair value valuation on a recurring basis of the loans that do not pass the SPPI test, to which reference is made. Exceptions to this rule are loans to central banks included in the "Loans to banks" portfolio for which the book value is considered a good approximation of the fair value as allowed by accounting standard IFRS 7, and is classified in level 2 of the hierarchy. The same methodology and classification are used for the "Due to banks" and "Due to customers" portfolios.

For debt securities classified in the "Loans to banks or customers" or "Debt securities issued" portfolio, the fair value was determined through the use of prices contributed on active markets or through the use of valuation models, such as described in the paragraph "Assets and liabilities measured at fair value on a recurring basis" above.

With reference to the classification of loans to customers and banks within the fair value hierarchy, it should be noted that customers are classified in level 3 and banks in level 2, except in the case of non-performing exposures.

Non-financial assets and liabilities measured at fair value on a non-recurring basis

Fair value of owned real estate assets

The fair value used for disclosure purposes is classified as level 3 in the hierarchy, as it is determined based on appraisals or index valuations.

For properties with a book value equal to or greater than EUR 1 mln, the fair value is determined on the basis of a specific appraisal. The values are supplemented by other qualitative assessments such as the occurrence of catastrophic events (floods, earthquakes, etc.), and geographical and commercial positioning.

For properties with a book value below the aforementioned threshold, unless an appraisal made during the year is made available, the fair value is estimated with the "coefficient method", which consists in revaluing the values

obtained by using the coefficients (real estate indexes) provided by NOMISMA, which measure the performance of the national and local real estate market. The Group integrates the revalued value with the value of the capitalized improvements carried out during the year.

A.4.2 Measurement processes and sensitivity

A description of Level 3 instruments that show significant sensitivity to changes in unobservable inputs is provided below.

The "Other financial assets mandatorily measured at fair value" column in the category "Debt securities" measured using the Discount Cash Flow method include the junior tranches of the Siena NPL securitization of the Group's non-performing loans. Its value at 31 December 2020 was equal to EUR 6.4 mln and was affected by the sharp decline in the recovery of non-performing loans as a result of the pandemic scenario. The sensitivity of this position, defined as the change in value for each percentage point of total return of the security, was estimated at approximately EUR 1.1 mln. In the same category are included EUR 76.6 mln referring to the notes of the "Norma" multioriginator securitisation, also valued with the Discounted Cash Flow method. For these positions the change in the discount rate (+/-1%) and forecasted distributions (+/-10%) would result in the following range of values: EUR 66.9 - 86.9 mln.

Lastly, the same category includes EUR 23.7 mln referring to certain equity instruments acquired by the Parent Company on the basis of credit restructuring agreements.

The "Other financial assets mandatorily measured at fair value" column also includes loans (EUR 143.2 mln) that are mandatorily measured at fair value. The unobservable parameters are Probability of Default (PD), Loss Given Default (LGD) and the different spreads for performing and non-performing assets. The change in these parameters, of 10%, 5%, 1%, and 1%, respectively, would have an impact on fair value of approximately EUR -6.5 mln.

In the context of the same accounting portfolio, capital securities include EUR 2.5 mln for the investment in the Voluntary Scheme, represented by the shares resulting from the conversion of the subordinated security issued by Carige following the Bank's overall capital strengthening transaction.

The majority of the units of UCITS refers to units of funds received in exchange for the sale of non-performing loans (Back2bonis, IDEA CCR I and II, Nuova Finanza, Efesto) equal EUR 87.2 mln. The change in the discount rate (+/-1%) and forecasted distributions (+/-10%) would result in the following range of values: EUR 90.9 - 117.5 mln. The category of units of UCITS also contains the total of contributions, made from June 2016, to the Italia Recovery Fund (formerly Atlante due) for a book value of EUR 10.1 mln. This position takes into account the fund's residual assets after the write-off of the two main equity investments in the fund's assets (BPVI and Veneto Banca).

The "Financial assets measured at fair value through other comprehensive income" accounting portfolio includes the shareholding in Bank of Italy (EUR 187.5 mln), measured using the Discounted Cash Flow method. The shareholding was measured with the methodology identified by the Committee of Experts in the document "Revaluation of shareholdings in the Bank of Italy". This document not only details the valuation techniques adopted to reach the end result, but identifies the following entity-specific parameters: the market beta, equity risk premium, and the cash flow base. The valuation of that equity investment is also confirmed in market transactions carried out in recent years by certain banks. The range of possible values that can be assigned to these parameters cause the following changes in value: roughly EUR -47 mln for every 100 bps increase in the equity risk premium, roughly EUR -73 mln for every 10 pp increase in the market beta, and roughly EUR -38 mln for every 10 pp increase in the liquidity base.

This category also includes equity securities representing all investments measured at fair value that could not be measured according to a market-based model. These positions amount to approximately EUR 41 mln.

A.4.3 Fair value hierarchy

For the purposes of completing the disclosure on transfers between levels provided in paragraphs A.4.5.1, A.4.5.2 and A.4.5.3 below, it should be noted that, for securities in position as at 31 December 2020 and which present a different fair value level with respect to that assigned as at 1 January 2020, it was assumed that the transfer between the levels took place with reference to the balances existing at the beginning of the reference period.

A.4.4 Other information

With reference to par. 93 lett. (i) of IFRS 13, the Group does not hold any non-financial assets measured at fair value on a recurring and non-recurring basis.

With reference to par. 96 of IFRS 13, the Group does not apply the portfolio exception provided for in par. 48 of IFRS 13.

Quantitative information

A.4.5 Fair value hierarchy

A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: breakdown by fair value level

Asset and liabilities measured at fair value	31 12 2020				31 12 2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
1, Financial assets measured at fair value through profit or loss of which:	4,610,053	3,700,777	365,119	8,675,949	6,271,937	3,741,146	653,316	10,666,399
a) Financiale asset held for trading	4,609,934	3,604,968	-	8,214,902	6,271,937	3,630,523	-	9,902,460
c) other financial assets mandatorily measured at fair value	119	95,809	365,119	461,047	-	110,623	653,316	763,939
2. Financial assets measured at fair value through other comprehensive income	4,927,906	621,436	228,584	5,777,926	5,948,059	549,282	229,480	6,726,821
3. Hedging derivative	-	50,818	-	50,818	-	73,003	-	73,003
Total assets	**9,537,959**	**4,373,031**	**593,703**	**14,504,693**	**12,219,996**	**4,363,431**	**882,796**	**17,466,223**
1. Financial liabilities held for trading	4,545,498	1,456,522	-	6,002,020	2,435,928	1,446,695	-	3,882,623
2. Financial liabilities designated at fair value	-	193,332	-	193,332	-	247,116	-	247,116
3. Hedging derivative	-	1,797,049	-	1,797,049	-	1,315,905	-	1,315,905
Total liabilities	**4,545,498**	**3,446,903**	**-**	**7,992,401**	**2,435,928**	**3,009,716**	**-**	**5,445,644**

For information on financial instruments classified in level 3, please refer to the above

The fair value of some financial assets, particularly bonds for over EUR 72 mln, worsened during the year from level 1 to level 2. This was essentially due to worsening of the liquidity conditions of the securities (measured in terms of bid-ask spread of the listed price), leading to the level transfer, in accordance with the Group's policy on the valuation of financial instruments.

With respect to the financial instruments that improved from fair value level 2 to level 1 it is noted that this trend involved equity securities for a value of less than EUR 1 mln. The change in the fair value level during the year is essentially linked to the improvement in the securities' liquidity conditions (measured in terms of bid-ask spread of the listed price), which allowed the level transfer in accordance with the Group's policy on the valuation of financial instruments.

A.4.5.2 Annual changes of financial assets measured at fair value on a recurring basis (level 3)

31 12 2020

	Financial assets measured at fair value through profit or loss				Financial assets measured at fair value through other comprehensive income
	Total	of which: a) financial assets held for trading	of which: b) financial asset measured at fair value	of whichi: c) financial assets mandatorily measuerd at fair value	
1. Opening balance	**653,316**	**-**	**-**	**653,316**	**229,480**
2. Increases	**229,024**	**-**	**-**	**229,024**	**1,596**
2.1 Purchases	1,464	-	-	1,464	-
2.2 Profits charged to:	28,968	-	-	28,968	20
2.2.1 Income statement	28,968	-	-	28,968	-
- of which capital gains	*14,961*	-	-	*14,961*	-
2.2.2 Equity	-	X	X	-	20
2.3 Transfers from other levels	-	-	-	-	45
2.4 Other increases	198,592	-	-	198,592	1,531
3. Decreases	**517,221**	**-**	**-**	**517,221**	**2,492**
3.1 Sales	106,115	-	-	106,115	585
3.2 Repayements	281,017	-	-	281,017	-
3.3 Losses charged to:	44,022	-	-	44,022	1,410
3.3.1 Income statement	44,022	-	-	44,022	90
- of which capital losses	*42,697*	-	-	*42,697*	*90*
3.3.2 Equity	-	X	X	-	1,320
3.4 Transfers to other levels	-	-	-	-	-
3.5 Other decreases	86,066	-	-	86,067	497
4. Closing balance	**365,119**	**-**	**-**	**365,119**	**228,584**

The most significant amounts reported in the column "Other financial assets mandatorily measured at fair value" corresponding to the line item are shown below:

- "2.2.1 Profits charged to the income statement" amounting to approx. EUR 29.0 mln, of which EUR 9.8 mln referring to the realized gains deriving from the repayment of the PFIs of Nuova Sorgenia Holding SpA and EUR 4.2 mln from loan assignment transactions. The line also includes EUR 12.0 mln of revaluation of loans (EUR 9.9 mln) and securities (EUR 2.1 mln);
- 2.4 Other increases", equal to EUR 198.6 mln, includes approximately EUR 99.3 mln for the junior notes of the securitisation of non-performing loans sold to the vehicle "Norma Srl". The item also includes EUR 50.2 mln referring to the units of the Efesto fund obtained in exchange for the sale of non-performing loans and EUR 20.8 mln referring to the equity instruments issued as part of the composition with creditors the Group has taken part in. Lastly, it should also be noted that EUR 24.1 mln refer to positions that were reclassified during the year from the loan portfolio at amortised cost to the portfolio of other assets mandatorily measured at fair value due to substantial credit changes not consistent with the SPPI test, as well as new disbursements.
- "3.1 Sales", equal to EUR 106.1 mln, refers to the sale of receivables classified as unlikely to pay carried out in 2020, of which EUR 101.2 mln transferred as part of the securitization with derecognition carried out with the vehicle Norma S.r.l.;

- "3.2 Repayments" of EUR 281.0 mln includes EUR 223.9 mln for the repayment of certain convertible bonds, of which EUR 209.0 mln relating to the PFIs of Nuova Sorgenia Holding SpA and EUR 14.9 mln referable to Tirreno Power SpA, and for EUR 21.3 mln to the repayment of a portion of the junior tranche of the securitisation carried out with the vehicle Norma Srl. Lastly, there were repayments on credit positions for EUR 29.4 mln.
- "3.3.1 Losses charged to the income statement - of which capital losses" of EUR 42.7 mln refers to write-downs during the year on non-performing loans (EUR 14.3 mln) and write-downs on debt securities (EUR 28.4 mln, of which EUR 18.9 mln attributable to the junior notes of Siena NPL and EUR 4.2 mln for the investment in the Voluntary Scheme in relation to Banca Carige, as well as units of UCITS for EUR 3.3 mln);
- "3.5 Other decreases", equal to EUR 86.1 mln, refers almost entirely to assets included in the demerger in favour of AMCO, of which EUR 34.4 mln referring to debt securities and EUR 44.2 mln to receivables.

A.4.5.3 Annual changes of financial liabilities measured at fair value on a recurring basis (level 3)

This table was not created as the Group did not have any liabilities measured at fair value on a recurring basis in level 3 of the fair value hierarchy in the current year or previous year.

A.4.5.4 Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: breakdown by fair value level

Financial asset/liabilities not measured at fair value or measured at fair value on a non -recurring basis	31 12 2020					31 12 2019				
	Book value	Level 1	Level 2	Level 3	Total Fair value	Book value	Level 1	Level 2	Level 3	Total Fair value
1. Financial assets measured at amortised cost	126,739,731	7,740,021	45,558,279	80,358,016	133,656,316	104,707,537	6,888,721	22,755,369	81,655,867	111,299,957
2. Property, plant and equipment held for investment	249,801	-	-	268,471	268,471	328,759	-	-	357,293	357,293
3. Non-current assets and groups of assets held for sale	102,893	539	-	-	539	159,820	-	-	917	917
Total assets	**127,092,425**	**7,740,560**	**45,558,279**	**80,626,487**	**133,925,326**	**105,196,116**	**6,888,721**	**22,755,369**	**82,014,077**	**111,658,167**
1, Financial liabilities measured at amortised cost	131,943,995	11,190,686	121,220,059	-	132,410,745	114,148,310	11,918,532	102,437,979	-	114,356,511
4. Liabilities associated to disposal groups held for sale	-	-	-	-	-	-	-	-	-	-
Total liabilities	**131,943,995**	**11,190,686**	**121,220,059**	**-**	**132,410,745**	**114,148,310**	**11,918,532**	**102,437,979**	**-**	**114,356,511**

For details of the valuation criteria for assets and liabilities measured at *fair value* on a non-recurring basis, please refer to the information provided in the previous section.

In regard to the assets held for sale, in the fair value levels, only the assets measured at fair value or at fair value less disposal costs were indicated.

A.5 Information on "*day one profit/loss*"

The Group did not recognise "day one profits/losses" on financial instruments pursuant to B.5.1.2A of IFRS 9; therefore, no disclosure is provided pursuant to paragraph 28 of IFRS 7 and other related IAS/IFRS paragraphs.

Part B – Information on the consolidated balance sheet

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ASSETS

Section 1 - Cash and cash equivalents - Item 10

1.1 Cash and cash equivalents: breakdown

	Total 31 12 2020	Total 31 12 2019
a) Cash	751,985	834,133
b) Demand deposits with central banks	11,792	971
Total	**763,777**	**835,104**

The line "Demand deposits with central banks" does not include the compulsory reserve, which is shown in asset item 40 "Financial assets measured at amortised cost", under loans to banks.

Section 2 - Financial assets measured at fair value through profit or loss - Item 20

2.1 Financial assets held for trading: breakdown

Items	Total 31 12 2020				Total 31 12 2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
A. Balance-sheet assets								
1. Debt securities	4,447,130	709,092	-	5,156,222	6,102,818	703,627	-	6,806,445
1.1 Structured securities	17,808	107,930	-	125,738	14,164	102,311	-	116,475
1.2 Other debt securities	4,429,322	601,162	-	5,030,484	6,088,654	601,316	-	6,689,970
2. Equity instruments	40,271	23	-	40,294	34,983	22	-	35,005
3. Units of UCITS	50,627	3	-	50,630	92,803	-	-	92,803
4. Loans	-	-	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-	-	-
4.2 Others	-	-	-	-	-	-	-	-
Total (A)	**4,538,028**	**709,118**	**-**	**5,247,146**	**6,230,604**	**703,649**	**0**	**6,934,253**
B. Derivatives								
1. Financial derivatives:	71,906	2,895,575	-	2,967,481	41,333	2,924,198	-	2,965,531
1.1 held for trading	71,906	2,851,720	-	2,923,626	41,333	2,882,350	-	2,923,683
1.2 fair value option	-	43,855	-	43,855	-	41,848	-	41,848
1.3 Others	-	-	-	-	-	-	-	-
2. Credit derivatives:	-	275	-	275	-	2,676	-	2,676
2.1 held for trading	-	275	-	275	-	2,676	-	2,676
2.2 fair value option	-	-	-	-	-	-	-	-
2.3 Others	-	-	-	-	-	-	-	-
Total (B)	**71,906**	**2,895,850**	**-**	**2,967,756**	**41,333**	**2,926,874**	**-**	**2,968,207**
Total (A+B)	**4,609,934**	**3,604,968**	**-**	**8,214,902**	**6,271,937**	**3,630,523**	**0**	**9,902,460**

Criteria adopted for classification of financial instruments in the three levels of the "fair value hierarchy" are reported in Section A.4, "Information on fair value" of Part A, "Accounting policies" of the notes to the consolidated financial statements, to which reference should be made.

As a result of the provisions set out in IFRS 9 with regard to the derecognition of financial assets, lines 1.1 Structured securities and 1.2 Other debt securities of the item "Cash assets" also include debt securities pledged in repos and securities lending transactions carried out in respect of own securities posted to the trading book.

The amount of EUR 601.2 mln (EUR 601.3 mln as at 31 December 2019), reported on line "1.2 Other debt securities", in the level 2 column, includes senior, mezzanine and junior exposures assumed by the Group with reference to own and third-party securitisation transactions, equal to EUR 248.7 mln (EUR 224.2 mln as at 31 December 2019), EUR 102.2 mln (EUR 125.8 mln as at 31 December 2019) and lastly EUR 13.5 mln (EUR 46.7 mln as at 31 December 2019), respectively.

Derivatives connected with fair value option instruments are also classified as derivative instruments: these cover the risks of funding measured at fair value arising from possible interest rate fluctuations and from any embedded options in fixed-rate and structured bonds issued by the Parent Company (natural hedging). The positive fair value of these derivatives is shown in the table in line "B.1-1.2 – Fair value option".

By convention, such derivatives are classified in the trading book. In terms of their representation in the income statement, they comply with rules similar to the rules applicable to hedging derivatives: positive and negative spreads or margins settled or accrued until the balance sheet date are recognised as interest income and expense, while valuation profits and losses are posted under item 80 of the income statement, "Net profit (loss) from trading", contrary to funding instruments included in the fair value option, for which profit, loss, capital losses and capital gains fall under item 110 a) "Net profit (loss) from other financial assets and liabilities measured at fair value through profit or loss a) financial assets and liabilities measured at fair value" of the income statement.

2.1 a Breakdown of debt securities: structured securities

Structured debt securities	Total 31 12 2020	Total 31 12 2019
Index Linked	38,797	45,377
Convertible	-	216
Credit linked notes	4,604	2,485
Cap Floater	46,504	40,161
Reverse Floater	15,063	8,446
Fund Linked	20,770	19,790
Total	**125,738**	**116,475**

The table adds details to line "A.1.1 Structured securities" of table 2.1 above. As at 31 December 2020, structured debt securities amounted to EUR 125.7 mln, compared to EUR 116.5 mln in the previous year. The main changes were recorded in the "Index Linked", "Cap Floater" and "Reverse Floater" categories.

2.2 Financial assets held for trading: breakdown by borrower/issuer/counterparty

Items/Amounts	Total 31 12 2020	Total 31 12 2019
A. Balance sheet assets		
1. Debt securities	5,156,222	6,806,445
a) Central banks	-	-
b) Public entities	4,289,158	5,742,086
c) Banks	330,320	472,165
d) Other financial companies	471,759	521,611
of which: insurance companies	14,272	4,888
e) Non-financial companies	64,985	70,583
2. Equity instruments	40,294	35,005
a) Banks	5,712	504
b) Other financial companies	11,699	10,126
of which: insurance companies	9,314	8,965
c) Non-financial companies	22,883	24,375
d) Other issuers:	-	-
3. Units of UCITS	50,630	92,803
4. Loans	-	-
Total (A)	**5,247,146**	**6,934,253**
B. Derivatives	-	-
a) Central couterparties	-	-
b) Others	2,967,756	2,968,206
Total (B)	**2,967,756**	**2,968,206**
Total (A+B)	**8,214,902**	**9,902,459**

The breakdown by borrower/issuer was carried out in accordance with criteria of classification by economic activity group and sector laid down by the Bank of Italy.

As for derivatives, it should be noted that the positive fair value of derivatives with customers includes approx. EUR 217.5 mln from balanced trading aimed at providing financial protection to customers of the Group's network. The remaining amount was generated from transactions with financial market participants classified as customers pursuant to the above classification criteria set by the Bank of Italy.

Provided below is the breakdown by main categories of UCITS.

Categories/Amounts	Total 31 12 2020	Total 31 12 2019
Bonds	157	154
Exchange Traded Funds (ETF)	50,460	87,526
Others	13	5,122
Equity	-	1
Total	**50,630**	**92,802**

The table adds details to line "A.3. Units of UCITS" of table 2.2 above.

2.3 Financial assets measured at fair value: breakdown

2.4 Financial assets measured at fair value: breakdown by borrower/issuer

Tables 2.3 and 2.4 were not completed since the Bank has no financial assets measured at fair value to report for either the current or previous year.

2.5 Other financial assets mandatorily measured at fair value: breakdown

Items	Total 31 12 2020				Total 31 12 2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
1. Debt securities	-	45,613	106,773	152,386	-	45,074	245,172	290,246
1.1 Stuctured secutities	-	-	346	346	-	-	125,458	125,458
1.2 Other debt securities	-	45,613	106,427	152,040	-	45,074	119,714	164,788
2. Equity instruments	119	1	5,534	5,654	-	1	9,514	9,515
3. Units of UCITS	-	50,196	109,649	159,845	-	65,548	74,892	140,440
4. Loans	-	-	143,162	143,162	-	-	323,738	323,738
4.1 Repurchase agreements	-	-	-	-	-	-	-	-
4.2 Others	-	-	143,162	143,162	-	-	323,738	323,738
Total	**119**	**95,810**	**365,118**	**461,047**	**-**	**110,623**	**653,316**	**763,939**

Line 1.1 "Structured securities", in the "Level 3" column, shows a balance as at 31 December 2020 of EUR 0.3 mln: a decrease of approx. EUR 125.1 mln compared to the value recorded in the previous year, amounting to EUR 125.4 mln, is attributable to the repayment of convertible bonds deriving from the restructuring of the Sorgenia Group.

Line "1.2 Other debt securities" includes EUR 129.4 mln in exposures of EUR 52.8 mln (EUR 68 mln as at 31 December 2019) for the securitisation of a portfolio of bad loans of the MPS Group, of EUR 45.7 mln (EUR 45.1 mln as at 31 December 2019) relating to the mezzanine tranche and EUR 7.1 mln (EUR 22.9 mln as at 31 December 2019) relating to the junior tranche, and for EUR 76.6 mln for the junior tranche of a securitisation of non-performing loans also originated by third-party banks.

Line "2. Equity instruments" includes contributions to the IDPF Voluntary Scheme as at 31 December 2020, of which EUR 2.5 mln (EUR 6.0 mln as at 31 December 2019) relating to the capitalisation intervention for Banca Carige and EUR 0.8 mln to the intervention for CR Cesena.

Line "3. Units of UCITS" contains in level 3 the units of UCITS assumed in exchange for the sale of NPE loans for EUR 91.4 mln, the units in the Atlante Fund for EUR 10.1 mln, and the real estate fund units assumed following loan restructuring operations for EUR 8.0 mln.

Line 4 "Loans" consists of financial assets that must be valued at fair value as a result of their failure to pass the SPPI test. The reduction recorded in 2020 is mainly due to the demerger in favour of AMCO.

At the reporting date, as in previous year, there are no equity securities arising from the recovery of impaired financial assets.

2.6 Other financial assets mandatorily measured at fair value: breakdown by borrower/issuer

Items/Amounts	Total 31 12 2020	Total 31 12 2019
1. Equity instruments	5,654	9,514
of which: banks	*2,497*	*6,096*
of which: other financial companies	*1,893*	*1,916*
of which: non-financial companies	*1,264*	*1,502*
2. Debt securities	152,386	290,247
a) Central Banks	-	-
b) Public Entities	-	-
c) Banks	346	346
d) Other financial companies	129,349	142,097
of which: insurance companies	-	-
e) Non-financial companies	22,691	147,804
3. Units of UCITS	159,845	140,440
4. Loans	143,162	323,738
a) Central Banks	-	-
b) Public Entities	-	-
c) Banks	-	-
d) Other financial companies	127	15,976
of which: insurance companies	-	-
e) Non-financial companies	112,797	272,366
f) Families	30,238	35,396
Total	**461,047**	**763,939**

The main cumulative losses relating to equity securities of clearly poor credit quality carried out prior to 2020 are:

- RCR S.p.A. (EUR 9.5 mln);
- Marinella S.p.A. (EUR 5.5 mln);
- Compagnia Investimento e Sviluppo (EUR 3.8 mln);
- Newcolle S.r.l. (EUR 2.3 mln);
- Porto Industriale di Livorno S.p.A. (EUR 1.9 mln);
- Mednav S.p.A. (EUR 1.0 mln)

During the course of the year, the Group did not write down any equity securities of clearly poor credit quality.

Provided below is the breakdown by main categories of UCITS.

Categories/Amounts	Total 31 12 2020	Total 31 12 2019
Hedge Funds	26	398
Private equity	60,304	75,133
Real estate	8,130	8,667
Non Performing Exposures	91,385	56,242
Totale	**159,845**	**140,440**

Section 3 - Financial assets measured at fair value through other comprehensive income - Item 30

3.1 Financial assets measured at fair value through other comprehensive income: breakdown

Items/Amounts	Total 31 12 2020				Total 31 12 2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
1. Debt securities	4,927,464	607,901	-	5,535,365	5,947,064	535,480	-	6,482,544
1.1 Structured securities	5,174	-	-	5,174	-	-	-	-
1.2 Other debt securitie:	4,922,290	607,901	-	5,530,191	5,947,064	535,480	-	6,482,544
2. Equity instruments	442	13,535	228,584	242,561	995	13,802	229,480	244,277
3. Loans	-	-	-	-	-	-	-	-
Total	**4,927,906**	**621,436**	**228,584**	**5,777,926**	**5,948,059**	**549,282**	**229,480**	**6,726,821**

As a result of the provisions set out in IFRS 9 for the derecognition of financial assets, in line "1.2 Other debt securities" also includes debt securities committed in repos (liabilities) and securities lending transactions carried out for own securities posted to financial assets measured at fair value through other comprehensive income.

Line "1.2 Other debt securities" of approx. EUR 5,530.2 mln mainly includes Italian government bonds of approx. EUR 4,859.9 mln, of which EUR 1,801.2 mln (EUR 3,212.2 mln as at 31 December 2019) are subject to specific fair value hedging entirely to hedge interest rate risk.

Line "2. Equity securities" (Level 3 column) includes EUR 187.5 mln for the investment in the capital of Bank of Italy.

At the reporting date, the aggregate does not include the senior, mezzanine and junior exposures with reference to own and third party securitisation transactions or equity securities arising from the recovery of impaired financial assets.

3.2 Financial assets measured at fair value through other comprehensive income: breakdown by borrower/issuer

Items/Amounts	Total 31 12 2020	Total 31 12 2019
1. Debt securities	**5,535,365**	**6,482,544**
a) Central banks	-	-
b) Public entities	4,897,696	5,942,980
c) Banks	558,042	379,038
d) Other financial companies	47,701	106,540
of which insurance companies	-	-
e) Non-financial companies	31,926	53,986
2. Equity instruments	**242,561**	**244,277**
a) Banks	200,489	201,218
b) Other issuers:	42,072	43,059
- Other financial companies	28,980	28,883
of which insurance companies	-	-
- Non-financial companies	13,091	14,176
- Others	-	-
4. Loans	**-**	**-**
Total	**5,777,926**	**6,726,821**

The main cumulative losses relating to equity securities of evidently poor credit quality refer to the investee Restart Srl and were fully recognized in years prior to 2020, for an amount of EUR 1.0 mln.

The write-downs of equity instruments of clearly poor credit quality, made by the Group during the course of the year are of irrelevant amount.

3.3 Financial assets measured at fair value through other comprehensive income: gross value and overall value adjustments

	Gross exposure				Value adjustments			Total Partial write-off (*)
	Stage 1							
		of which: low credit risk instruments	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	5,524,529	5,188,360	18,725	-	7,289	600	-	-
Loans	-	-	-	-	-	-	-	-
Totale 31 12 2020	**5,524,529**	**5,188,360**	**18,725**	**-**	**7,289**	**600**	**-**	**-**
Totale 31 12 2019	**6,462,908**	**6,165,488**	**23,538**	**13,555**	**5,577**	**743**	**11,137**	**-**
of which: purchased or originated credit impaired financial assets	X	X	-	-	X	-	-	-

** Value to be presented for disclosure purposes*

3.3a Loans measured at fair value through other comprehensive income object of COVID-19 support measures: gross value and overall value adjustments

The table is not completed as the Group is not involved in this category of loans.

Section 4 - Financial assets measured at amortised cost - Item 40

4.1 Financial assets measured at amortised cost: breakdown of loans to banks

Type of transaction/Amount	Total 31 12 2020							
	Book value				Fair value			
	Stage 1 and Stage 2	Stage 3	*of which: impaired or originated impaired financial assets*	Total	L1	L2	L3	Total
A. Loans to Central banks	**28,526,251**	**-**	**-**	**28,526,251**	-	28,526,251	-	**28,526,251**
1. Time deposits	20,001	-	-	20,001	X	X	X	X
2. Compulsory reserve	28,506,250	-	-	28,506,250	X	X	X	X
3. Repurchase agreements	-	-	-	-	X	X	X	X
4. Others	-	-	-	-	X	X	X	X
B. Loans to bank	**6,211,566**	**92**	**-**	**6,211,658**	20,998	6,142,077	92	**6,163,167**
1. Loans	5,452,189	92	-	5,452,281	-	5,462,155	92	5,462,247
1.1 Current accounts and demand deposits	1,555,651	13	-	1,555,664	X	X	X	X
1.2 Time deposits	23,795	-	-	23,795	X	X	X	X
1.3 Other loans	3,872,743	79	-	3,872,822	X	X	X	X
- Reverse repurchase agreements	895,557	-	-	895,557	X	X	X	X
- Finance leases	-	-	-	-	X	X	X	X
- Others	2,977,186	79	-	2,977,265	X	X	X	X
2. Debt securities	759,377	-	-	759,377	20,998	679,922	-	700,920
2.1 Sructured securities	-	-	-	-	-	-	-	-
2.2 Other debt securities	759,377	-	-	759,377	20,998	679,922	-	700,920
Total	**34,737,817**	**92**	**-**	**34,737,909**	**20,998**	**34,668,328**	**92**	**34,689,418**

The item "Loans to Central Banks - 2. Compulsory reserve" includes the deposit with the Bank of Italy relating to the compulsory reserve of EUR 700.4 mln at the end of the year (EUR 627.4 mln as at 31 December 2019) and the reserves in excess of the aforementioned reserve deposited with the Eurosystem. It should be noted that, in accordance with regulations on average maintenance levels, the end-of-period balance of the compulsory reserve may be subject to changes, also substantial, in relation to the Group's contingent treasury requirements.

The item "Loans to banks, 1.3 Other loans - Other", totalling EUR 2,977.2 mln, includes guarantee deposits of approximately EUR 2,487.0 mln.

At the reporting date of these financial statements, as in previous year, the aggregate does not include the Group's senior, mezzanine and junior exposures with reference to own and third-party securitisation transactions.

At the reporting date, the aggregate includes non-performing loans for an amount of EUR 0.01 mln (EUR 0.2 mln as at 31 December 2019).

Type of transaction/Amount	Total 31 12 2019							
	Book value				Fair value			
	Stage 1 and Stage 2	Stage 3	*of which: impaired or originated impaired financial assets*	Total	L1	L2	L3	Total
A. Loans to Central banks	**9,405,412**	**-**	**-**	**9,405,412**	-	**9,405,412**	-	**9,405,412**
1. Time deposits	20,001	-	-	20,001	X	X	X	X
2. Compulsory reserve	9,385,411	-	-	9,385,411	X	X	X	X
3. Repurchase agreements	-	-	-	-	X	X	X	X
4. Others	-	-	-	-	X	X	X	X
B. Loans to bank	**6,316,756**	**236**	**-**	**6,316,992**	**21,994**	**6,251,650**	**237**	**6,273,880**
1. Loans	5,542,439	236	-	5,542,675	-	5,541,760	237	5,541,997
1.1 Current accounts and demand deposits	2,573,158	157	-	2,573,315	X	X	X	X
1.2 Time deposits	47,376	-	-	47,376	X	X	X	X
1.3 Other loans	2,921,905	79	-	2,921,984	X	X	X	X
- Reverse repurchase agreements	537,816	-	-	537,816	X	X	X	X
- Finance leases	-	-	-	-	X	X	X	X
- Others	2,384,089	79	-	2,384,168	X	X	X	X
2. Debt securities	774,317	-	-	774,317	21,994	709,890	-	731,883
2.1 Sructured securities	-	-	-	-	-	-	-	-
2.2 Other debt securities	774,317	-	-	774,317	21,994	709,890	-	731,883
Total	**15,722,168**	**236**	**-**	**15,722,404**	**21,994**	**15,657,062**	**237**	**15,679,292**

4.2 Financial assets measured at amortised cost: breakdown of loans to customers

Type of transaction/Amount	31 12 2020							
	Book value				Fair value			
	Stage 1 and Stage 2	Stage 3	*of which: impaired or originated impaired financial assets*	Total	L1	L2	L3	Total
1. Loans	**80,350,361**	**2,130,980**	**35,424**	82,481,341	**-**	**8,615,520**	**80,357,924**	**88,973,444**
1.1. Current accounts	3,038,513	161,674	114	3,200,187	X	X	X	X
1.2. Reverse repurchase agreements	8,617,117	-	-	8,617,117	X	X	X	X
1.3. Mortgage loans	55,200,195	1,195,881	2,120	56,396,076	X	X	X	X
1.4. Credit cards, personal loans and fifth-of-salary backed loans	529,985	13,813	-	543,798	X	X	X	X
1.5. Finance leases	2,803,045	327,527	-	3,130,572	X	X	X	X
1.6. Factoring	1,061,798	22,192	-	1,083,990	X	X	X	X
1.7. Other transactions	9,099,708	409,893	33,190	9,509,601	X	X	X	X
of which: operating receivables	*130,055*	*329*	-	*130,384*	*X*	*X*	*X*	*X*
of which: leased assets under construction	*215,647*	*8,814*	-	*224,461*	*X*	*X*	*X*	*X*
2. Debt securities	**9,520,482**	**-**	**-**	9,520,482	**7,719,023**	**2,274,430**	**-**	**9,993,453**
2.1. Structured securities	-	-	-	-	-	-	-	**-**
2.2. Other debt securities	9,520,482	-	-	9,520,482	7,719,023	2,274,430	-	9,993,453
Total	**89,870,843**	**2,130,980**	**35,424**	**92,001,823**	**7,719,023**	**10,889,950**	**80,357,924**	**98,966,897**

"Loans to customers" also include operating receivables of EUR 130 mln (EUR 22.5 mln as at 31 December 2019) - of which EUR 103.2 mln referring to the deferred payment of the price for the sale of the real estate portfolio to Ardian, fully guaranteed by bank guarantees issued by leading banks - other than those related to the payment of goods and non-financial services included in item 150 "Other assets", subject to the provisions of IFRS 9, paragraph 5.5.15 a) i).

The column impaired acquired or originated almost entirely comprises the granting of new loans to already non-performing counterparties. Furthermore, note that, as there were no business combinations carried out during the year, impaired loans were not acquired for these transactions.

Line "2.2. Other debt securities" of EUR 9,520.5 mln includes securities of EUR 1,898.0 mln (EUR 2,286.1 mln as at 31 December 2019) relating mainly to the senior notes pertaining to the securitisation of the MPS Group's bad loan portfolio, completed in the first half of 2018 and securities bonds not listed on active markets, mainly issued by local government entities (BOC – *Buoni Obbligazionari Comunali* – municipal bonds.). The line also includes EUR 2,375.4 mln (EUR 1,926.6 mln as at 31 December 2019) of securities subject to specific fair value hedging for interest rate risk.

"Loans to customers" include loans disbursed with funds made available by the Government or by other public entities, with the Group adopting partial or total risk. These funds are managed under the agreements signed by the MPS Group with Cassa Depositi e Prestiti (hereinafter CDP), in direct cooperation with ABI, and with regional financial institutions. In particular, the Group adhered to the agreements specifically structured by ABI and CDP to support the business sector, to support private individuals and in favour of the territory for natural disasters. Except for the latter agreement, the loans disbursed by the Group are characterised by conditions released from the CDP funding, subject to independent negotiation between the parties, and are mandatorily assigned as collateral to CDP.

Conversely, with regard to management of resources made available by specific Regional Laws, the Group's operations refer to specific agreements stipulated by the Parent Company with the regional financial institutions, such as Veneto Sviluppo, Finlombarda, Finpiemonte and Puglia Sviluppo, or to alternative instruments, such as the "Rotation Funds", also established through regional laws. The resources are intended to encourage and support companies operating in certain areas and in specific economic sectors. These loans are generally disbursed with part of the funding made available with public funds and part with the Parent Company's own resources (co-financing). The funding with public funds varies according to the initiative to be financed: the percentage is defined by specific Regional Laws or Resolutions and, as a rule, integration with the Bank's own resources is envisaged up to the total coverage of the expenditure.

Type of transaction/Amount	31 12 2019							
	Book value				Fair value			
	Stage 1 and Stage 2	Stage 3	*of which: impaired or originated impaired financial assets*	Total	L1	L2	L3	Total
1. Loans	**73,877,560**	**5,798,046**	**41,779**	**79,675,606**	**-**	**4,438,359**	**81,655,630**	**86,093,989**
1.1. Current accounts	4,626,040	633,763	2,115	5,259,803	X	X	X	X
1.2. Reverse repurchase agreements	4,434,020	-	-	4,434,020	X	X	X	X
1.3. Mortgage loans	49,045,953	4,102,229	13,365	53,148,182	X	X	X	X
1.4. Credit cards, personal loans and fifth-of-salary backed loans	666,500	23,579	-	690,079	X	X	X	X
1.5. Finance leases	2,769,519	333,120	-	3,102,639	X	X	X	X
1.6. Factoring	1,075,000	18,676	-	1,093,676	X	X	X	X
1.7. Other transactions	11,260,528	686,679	26,299	11,947,207	X	X	X	X
of which: operating receivables	*22,447*	*80*	-	*22,527*	*X*	*X*	*X*	*X*
of which: leased assets under construction	*164,826*	*7,461*	-	*172,287*	*X*	*X*	*X*	*X*
2. Debt securities	**9,309,526**	**-**	**-**	**9,309,526**	**6,866,727**	**2,659,949**	**-**	**9,526,676**
2.1. Structured securities	-	-	-	-	-	-	-	-
2.2. Other debt securities	9,309,526	-	-	9,309,526	6,866,727	2,659,949	-	9,526,676
Total	**83,187,086**	**5,798,046**	**41,779**	**88,985,132**	**6,866,727**	**7,098,308**	**81,655,630**	**95,620,665**

4.3 Financial assets measured at amortised cost: breakdown by borrower/issuer of loans to customers

Type of transaction/Amount	Total 31 12 2020			Total 31 12 2019		
	Stage 1 and Stage 2	Stage 3	*of which: impaired or originated impaired financial assets*	Stage 1 and Stage 2	Stage 3	*of which: impaired or originated impaired financial assets*
1. Debt securities	9,520,482	-	-	9,309,526	-	-
a) Public entities	7,240,962	-	-	6,700,965	-	-
b) Other financial companies	2,046,957	-	-	2,494,595	-	-
of which: insurance companies	*62,401*	-	-	*62,437*	-	-
c) Non-financial companies	232,563	-	-	113,966	-	-
2. Loans to	80,350,361	2,130,980	35,424	73,877,559	5,798,047	41,779
a) Public Entities	1,764,224	158,651	-	1,999,420	124,856	-
b) Other financial companies	10,462,456	7,010	-	6,736,877	60,295	2,405
of which: insurance companies	*272*	-	-	*135*	*1*	-
c) Non-financial companies	33,452,406	1,313,843	31,918	31,328,817	3,645,717	31,456
d) Families	34,671,275	651,476	3,506	33,812,445	1,967,179	7,918
Total	**89,870,843**	**2,130,980**	**35,424**	**83,187,085**	**5,798,047**	**41,779**

The net reduction in receivables included in the “Stage 3” column of EUR 3,667.1 mln recorded as at 31 December 2020 is almost entirely attributable to the demerger in favour of AMCO completed on 1 December 2020.

4.4 Financial assets measured at amortised cost: gross value and overall value adjustments

	Gross exposure				Value adjustments			Total Partial write-off (*)
	Stage 1							
		of which: low credit risk instruments	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	10,290,506	10,115,911	-	-	10,647	-	-	-
Loans	99,505,023	-	15,419,469	3,931,491	77,489	518,202	1,800,419	145,989
Totale 31 12 2020	**109,795,529**	**10,115,911**	**15,419,469**	**3,931,491**	**88,136**	**518,202**	**1,800,419**	**145,989**
Totale 31 12 2019	**87,335,060**	**9,897,873**	**12,056,862**	**10,933,983**	**72,051**	**410,619**	**5,135,699**	**227,812**
of which: purchased or originated credit impaired financial assets	*X*	*X*	*10,913*	*36,617*	*X*	*577*	*11,529*	-

** Value to be presented for disclosure purposes*

For financial assets included in the "Stage 3" column, the gross value corresponds to the book value gross of the relative overall value adjustments, which are equal to the difference between the expected recovery value and the gross book value.

4.4a Loans measured at amortised cost object of COVID-19 support measures: gross value and overall value adjustments

	Gross exposure				**Value adjustments**			**Total Partial write-off (*)**
	Stage 1							
		of which: low credit risk instruments	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**	
1. EBA-compliant moratoria (legislative and non-legislative)	5,743,704	-	4,784,059	66,410	14,008	184,385	19,917	-
2. Other COVID-19-related Forbearance Measures	57,255	-	86,073	129,856	178	3,239	39,756	-
3. Newly Originated Loans	4,839,478	-	1,244,331	4,842	2,310	5,241	73	-
Total 31 12 2020	**10,640,437**	**-**	**6,114,463**	**201,108**	**16,496**	**192,865**	**59,746**	**-**

** As provided for in the Bank of Italy communication of 15 December 2020, the column "total partial write-offs" has been left blank*

The table shows, in line with the Bank of Italy communication of 15 December 2020, the loans disbursed, subject to moratoria or other forbearance measures in place at the reporting date, or which constitute new liquidity granted with the support of public guarantees.

"EBA-compliant moratoria (legislative and non-legislative) and Other COVID-19 related Forbearance Measures" in place as at 31 December 2020 amounted to a total of EUR 10,867.4 mln in terms of gross value, almost all of which are classified as performing loans, of which 46% in the second stage of risk pursuant to the IFRS 9 standard.

"Newly Originated Loans" outstanding as at 31 December 2020 were equal to EUR 6,088.6 mln in terms of gross value; almost all of them were classified as performing loans, and 20% were in the second risk stage pursuant to IFRS 9.

For the sake of completeness, it should be noted that, at the reporting date, there are "EBA-compliant moratoria (legislative and non-legislative" and "Other COVID-19 related Forbearance Measures" for which the moratorium period has ended (expired) for an amount approximately equal to EUR 3 bn.

Section 5 - Hedging derivatives - Item 50

5.1 Hedging derivatives: breakdown by type of hedge and level

	Fair value 31 12 2020				NV as at 31 12 2020
	Level 1	Level 2	Level 3	Total	
A. Financial derivatives	**-**	**50,818**	**-**	**50,818**	**2,194,142**
1) Fair value	-	50,818	-	50,818	2,194,142
2) Cash flows	-	-	-	-	-
3) Foreign investments	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-
2) Cash flows	-	-	-	-	-
Total	**-**	**50,818**	**-**	**50,818**	**2,194,142**

Key

NV = Notional or Nominal Value

The table shows the positive book value (fair value) of hedging derivatives for hedges carried out through hedge accounting.

Information on the underlying strategies and objectives of hedge transactions can be found in the Section "Market risks" of Part E "Information on Risks and hedging policies".

	Fair value 31 12 2019				NV as at 31 12 2019
	Level 1	Level 2	Level 3	Total	
A. Financial derivatives	**-**	**73,003**	**-**	**73,003**	**4,213,159**
1) Fair value	-	73,003	-	73,003	4,213,159
2) Cash flows	-	-	-	-	-
3) Foreign investments	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-
2) Cash flows	-	-	-	-	-
Total	**-**	**73,003**	**-**	**73,003**	**4,213,159**

key

NV = Notional or Nominal Value

5.2 Hedging derivatives: breakdown by hedged portfolios and type of hedging

Transaction/Type of hedge	Fair Value							Cash Flows		Foreign Investments	Total 31 12 2020
	Micro-hedge						Macro-hedge	Micro-hedge	Macro-hedge		
	debt securities and interest rate	equity instruments and stock indices	currencies and gold	Credit	Commodities	Other					
1. Financial assets measured at fair value through other comprehensive income	816	-	-	-	X	X	X	-	X	X	816
2. Financial assets measured at amortised cost	-	X	-	-	X	X	X	-	X	X	-
3. Portfolio	X	X	X	X	X	X	3,881	X	-	X	3,881
4. Other transactions	-	-	-	-	-	-	X	-	X	-	-
Total assets	**816**	**-**	**-**	**-**	**-**	**-**	**3,881**	**-**	**-**	**-**	**4,697**
1. Financial liabilities	46,121	X	-	-	-	-	X	-	X	X	46,121
2. Portfolio	X	X	X	X	-	X	-	X	-	X	-
Total liabilities	**46,121**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**46,121**
1. Expected transactions	X	X	X	X	X	X	X	-	X	X	-
2. Financial assets and liabilities portfolio	X	X	X	X	X	X	-	X	-	-	-
Total	**46,937**	**-**	**-**	**-**	**-**	**-**	**3,881**	**-**	**-**	**-**	**50,818**

The table shows the positive fair values of hedging derivatives, classified by hedged assets or liabilities and type of hedging implemented.

In particular, for financial assets measured at fair value through other comprehensive income, fair value micro-hedging was used to hedge against interest rate risk on bonds, in order to protect them from unfavourable interest rate changes; fair value macro-hedging of the interest rate risk refers to hedges of optional components implicit in floating-rate mortgage loans.

With reference to financial liabilities, fair value micro-hedging of the interest rate risk refers primarily to hedges of liabilities represented by fixed-rate issues.

More information on hedged assets and liabilities can be found in the tables contained in Part B of these Notes for each section of the balance sheet items to which the hedged items are posted.

Section 6 - Change in value of macro-hedged financial assets - Item 60

6.1 Change in value of hedged assets: breakdown by hedged portfolios

Changes in value of hedged assets / Group components	Total 31 12 2020	Total 31 12 2019
1. Positive changes	**1,032,483**	**637,701**
1.1 of specific portfolios:	1,032,483	637,701
a) financial assets measured at amortised cost	1,032,483	637,701
b) financial assets measured at fair value through other comprehensive income	-	-
1.2 overall	-	-
2. Negative changes	**-**	**1,722**
2.1 of specific portfolios:	-	1,722
a) financial assets measured at amortised cost	-	1,722
b) financial assets measured at fair value through other comprehensive income	-	-
2.2 overall	-	-
Total	**1,032,483**	**635,979**

The value adjustment concerns mainly fixed and cap/floor floating rate mortgage loan portfolios that were fair value macro-hedged with derivatives to counter possible interest rate risk-induced fluctuations in value. As this is a macro-hedge, any gain or loss on the hedged item attributable to the risk hedged may not directly adjust the value of said item (unlike in micro-hedging), but must be presented in this separate line item of the assets. The amounts in this item must be removed from the balance sheet when the relevant assets or liabilities are derecognised.

The increase in the value adjustment subject to macro-hedging is due to the reduction in market rates which resulted in an increase in the fair value of the portfolio of hedged mortgages against decreases in the value of the related hedging derivatives.

The fair value of the corresponding hedging derivatives is shown in Table 5.2 (assets) or Table 4.2 (liabilities), both entitled "Hedging derivatives: breakdown by hedged portfolio and type of hedging", in the "Macro-hedging" column.

The assets subject to macro hedging of interest risk refer to fixed and cap/floor floating rate mortgage loan portfolios included in item 40 "Financial assets measured at amortised cost - Loans to customers", amounted to EUR 13,159.0 mln as at 31 December 2020 (EUR 13,149.2 mln as at 31 December 2019). The sum of this amount and the one shown in this table expresses the book value of these receivables, adjusted for profit or loss attributable to the risk hedged.

Section 7 – Equity investments – Item 70

7.1 Equity investments: information on shareholding

Company Name	Headquarters	Registered Office	Type of relationship (1)	Ownership Relationship		Avail. % votes
				Held by	Share holding %	
A. Companies under joint control						
Immobiliare Novoli S.p.a.	Florence	Florence	7	Banca Monte dei Paschi di Siena	50.000	-
Integra S.p.a.	Calenzano (FI)	Calenzano (FI)	7	Banca Monte dei Paschi di Siena	50.000	-
B. Companies under significant influence						
Axa Mps Assicurazioni Danni S.p.a.	Rome	Rome	8	Banca Monte dei Paschi di Siena	50.000	-
Axa Mps Assicurazioni Vita S.p.a.	Rome	Rome	8	Banca Monte dei Paschi di Siena	50.000	-
Fidi Toscana S.p.a.	Firenze	Firenze	8	Banca Monte dei Paschi di Siena	27.460	-
Fondo Etrusco Distribuzione	Rome	Rome	8	Banca Monte dei Paschi di Siena	48.000	-
Fondo Minibond PMI Italia *	Conegliano (TV)	Conegliano (TV)	8	Banca Monte dei Paschi di Siena	61.940	-
Fondo Socrate	Rome	Rome	8	Banca Monte dei Paschi di Siena	23.140	-
Microcredito di Solidarietà S.p.a.	Siena	Siena	8	Banca Monte dei Paschi di Siena	40.000	-
Nuova Sorgenia Holding S.p.a.	Milan	Milan	8	Banca Monte dei Paschi di Siena	16.670	-
Sansedoni Siena S.p.a.	Siena	Siena	8	Banca Monte dei Paschi di Siena	21.754	33.674
S.I.T. Sviluppo Imprese e Territorio S.p.a.	Rome	Rome	8	Banca Monte dei Paschi di Siena	19.969	-
Terme di Chianciano S.p.a. **	Chianciano T. (SI)	Chianciano T. (SI)	8	Banca Monte dei Paschi di Siena	18.816	-
				MPS Capital Services S.p.a.	26.807	-

(1) Type of relationship:

7 = joint control;
8 = companies subject to significant influence.

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

For further details on changes, see comments to table "7.5 - Equity investments: annual changes".

** The interest does not constitute a control relationship as the Group does not have the power to direct the relevant activities*

*** The investment in Terme di Chianciano S.p.a. is shown in the balance sheet under assets held for sale.*

7.2 Significant equity investments: book value, fair value and dividends earned

Company name	Book value		Fair value	Dividends earned
	31 12 2020	31 12 2019		
A. Companies under joint control				
Immobiliare Novoli S.p.a.	3,100	4,479	-	-
B. Companies under significant influence				
Axa Mps Assicurazioni Vita S.p.a.	878,877	718,279	-	-
Axa Mps Assicurazioni Danni S.p.a.	107,403	80,320	-	-
Fidi Toscana S.p.a.	22,159	22,159	-	-
Fondo Minibond PMI Italia	10,954	24,317	-	638
Fondo Etrusco Distribuzione	73,742	69,801	-	-
Fondo Socrate	9,618	10,022	9,249	-
Total	**1,105,853**	**929,377**	**9,249**	**638**

At the reporting date or for the year of comparison, there are no equity investments arising from the recovery of impaired financial assets.

7.3 Significant equity investments: accounting information

Company name	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total revenues	Net interest income	Value adjustments and writebacks on tangible and intangible assets	Profit (Loss) from current operations before tax	Profit (Loss) from current operations after tax	Profit (Loss) from groups of assets held for sale after tax	Profit (Loss) for the year (1)	Other comprehensive income after tax (2)	Comprehensive income (3) = (1) + (2)
A. Companies under joint control														
Immobiliare Novoli S.p.a.	-	1,104	157,131	134,105	17,931	5,983	(1,801)	-	(2,218)	(2,331)	-	(2,331)	-	(2,331)
B. Companies under significant influence														
Axa Mps Assicurazioni Danni S.p.a.	-	698,833	31,475	478,697	41,437	175,822	-	-	77,404	53,869	-	53,869	297	54,166
Axa Mps Assicurazioni Vita S.p.a.	X	22,943,654	340,125	21,126,672	240,177	3,035,940	-	-	100,226	79,742	-	79,742	190,638	270,380
Fidi Toscana S.p.a.	X	184,585	97,700	55	174,285	9,977	-	-	734	734	-	734	4,863	5,597
Fondo Etrusco	X	8,798	225,888	71,500	1,060	6,956	-	-	3,386	3,386	-	3,386	-	3,386
Fondo Minibond PMI Italia	X	34,023	481	-	206	1,027	-	-	723	723	-	723	-	723
Fondo Socrate	X	16,440	97,654	-	864	2,956	-	-	165	165	-	165	-	165

7.3a - Reconciliation of accounting information with the book value of equity investments

	IMMOBILIARE NOVOLI S.p.a.	AXA MPS ASSICURAZIONI DANNI S.P.A	AXA MPS ASSICURAZIONI VITA S.p.a.	FIDI TOSCANA S.p.a.	FONDO ETRUSCO DISTRIBUZIONE	FONDO MINIBOND PMI ITALIA	FONDO SOCRATE
Shareholding	50.00%	50.00%	50.00%	27.46%	48.00%	61.94%	23.14%
Cash and cash equivalents	-	X	X	X	X	X	X
Financial assets	1,104	698,833	22,943,654	184,585	8,798	34,023	16,440
Non-financial assets	157,131	31,475	340,125	97,700	225,888	481	97,654
Fianlcial liabilities	134,105	478,697	21,126,672	55	71,500	-	-
Non-financiale liabilities	17,931	41,437	240,177	174,285	1,060	206	864
Shareholders'equity (100%)	6,199	210,174	1,916,930	107,945	162,126	34,298	113,231
Group shareholding	3,100	105,087	958,465	29,642	77,820	21,244	26,202
Cancellation of unrealised intragoup profit/loss	-	-	(65,413)	-	-	-	-
Goodwill	-	2,316	46,796	-	-	-	-
Value adjustments	-	-	-	(18,291)	-	-	-
Other increases/decreases	-	-	(60,971)	10,808	(4,078)	(10,289)	(16,584)
Book value of Associate company as at 31 12 2020	3,100	107,403	878,877	22,159	73,742	10,955	9,618
Book value as at 31 12 2019	4,479	80,320	718,279	22,159	69,801	24,317	10,022
Profit (loss) for the year	(2,331)	53,869	79,742	734	3,386	723	165
Other comprehensive income after tax	-	297	190,638	4,863	-	-	-
Comprehensive income attributable to the Group	(1,166)	27,083	135,190	1,537	1,625	448	38
Dividends	-	-	-	-	-	(638)	-
Other changes	(213)	-	25,408	(1,537)	2,316	(13,172)	(442)
Book value of Associate company as at 31 12 2020	3,100	107,403	878,877	22,159	73,742	10,955	9,618

7.3b – Significant equity investments: information on business

Company name	Type of business
Companies under significant influence	
Axa Mps Assicurazioni Danni S.p.a.	Company specialising in P&C insurance, offering a comprehensive range of insurance solutions tailored to the needs of customers and businesses.
Axa Mps Assicurazioni Vita S.p.a.	Leading company in the domestic insurance market, offering innovative and advantageous solutions for all pension, insurance, savings and investment needs.
Fidi Toscana S.p.a.	A Tuscan financial company which aims to facilitate access to credit for small and medium businesses
Fondo Etrusco Distribuzione	Real estate fund for institutional investors. Its portfolio has been built up through a series of sale and leaseback transactions on commercial properties fully leased by a leading player in the Mass Distribution Industry
Fondo Minibond PMI Italia	Independent investment fund for investments in bonds issued by small and medium Italian businesses
Fondo Socrate	Closed-end mutual real estate investment fund. Listed on the Market for Investment Vehicles of the Italian Sotck Exchange as of 30 January 2014
Immobiliare Novoli S.p.a.	Real estate company

The associates Axa MPS Assicurazioni Danni S.p.A. and Axa Mps Assicurazioni Vita S.p.A. are strategic for the Group.

7.3c – Application of IFRS 9 by the AXA Group

Given the wide predominance of insurance business (as defined by IFRS 4 and amended by EU Regulation 2017/1988), the AXA Group has decided, for purposes of preparing its consolidated financial statements, to exercise the option to defer the application of IFRS 9 until the date of entry into force of IFRS 17 (not yet known, since the European Union endorsement process is still underway).

The two insurance investee companies AXA MPS Assicurazioni Danni S.p.A. and AXA MPS Assicurazioni Vita S.p.A. are consolidated in the financial statements of MPS Group using the equity method. The Parent Company has decided to take advantage of the temporary exemption from certain provisions of IAS 28, indicated in paragraphs 20O and 20P of IFRS 4, and consequently maintained the accounting standards (IAS 39) in applying the equity method, applied by the associated insurance companies.

Pursuant to the provisions of paragraph 39J of IFRS 4, the additional information on temporary exemption from IFRS 9 adopted by the AXA Group is provided below.

AXA MPS Assicurazioni Danni S.p.A. and AXA MPS Assicurazioni Vita S.p.A. apply the temporary exemption from IFRS 9 given that the business of AXA Group is predominantly insurance, as evidenced by the controls performed on the financial statement data as at 31 December 2015, namely:

- the book value of their liabilities arising from contracts that fall within the scope of IFRS 4 are significant compared to the total book value of all liabilities; and
- the total percent book value of their liabilities connected to the insurance business is widely superior to 90% of the total book value of all liabilities.

Liabilities related to the insurance business include:

- IFRS 4 technical reserves;
- liabilities related to investments to which IAS 39 applies;
- other liabilities related to those specified above.

The item "Other liabilities related to those specified above" includes reinsurance payables, commissions for premiums in the process of being collected and provisions for agent volume premiums.

Also note that after 31 December 2015, there were no changes in the activities of the two entities.

The table below shows, for both insurance associates, the fair value as at 31 December 2020 of financial assets held for trading and financial assets measured at fair value through other comprehensive income as well as the amount of the respective changes in fair value that took place during 2020 (IFRS 4 39E).

The following tables show the fair value as at 31 December 2020 and the related change in the year separately for financial assets whose contractual conditions consist exclusively in the payment of principal and interest accrued on the amount of principal to be repaid (type 1 investment) and for financial assets whose contractual terms do not consist exclusively of the payment of principal and interest on the amount of principal to be repaid or that meet the definition of held for trading or, finally, that are managed or whose return is valued on the basis of fair value (type 2 investment).

Item/Investmens value type 1	IAS 39			Change in Fair value	
	Financial assets held for trading	Financial assets available for sale (AFS)	Financial assets measured at amortised cost	Financial assets held for trading	Financial assets availablre for sale (AFS)
Debt securities	-	16,225	-	-	545
Equity instruments	-	-	-	-	-
Units of UCITS	-	-	-	-	-
Total Equity	**-**	**16,225**	**-**	**-**	**545**

Item/Investmens value type 2	IAS 39			Change in Fair value	
	Financial assets held for trading	Financial assets available for sale (AFS)	Financial assets measured at amortised cost	Financial assets held for trading	Financial assets availablre for sale (AFS)
Debt securities	36	10	-	4	-
Equity instruments	19	389	-	(1)	7
Units of UCITS	5,859	221	-	273	16
Total Equity	**5,914**	**620**	**-**	**276**	**23**

The table below provides information on the exposure to credit risk inherent to financial assets with contractual terms that envisage, on certain dates, cash flows represented solely by payments of principal and interest on the amount of principal to be repaid (IFRS4. 39G).

Exposures	Rating classes						AAA	Total
	class 1	class 2	class 3	class 4	class 5	class 6		
Debt securities	3,281	2,952	9,158	660	-	173	-	16,225

class 1=AAA/AA-, class 2=A+/A-, class 3=BBB+/BBB-, class 4=BB+/BB-, class 5=B+/B-, class 6=lower than B-

As at 31 December 2020, with regard to risk profile, type 1 instruments are broken down as follows: financial instruments with a BB and BBB rating are equal to 60.5% of the group’s total, those with a rating equal to or lower than A, AA and AAA equal to 38.4% and those without rating equal to 1.1%.

7.4 Non-significant equity investments: accounting information

Name	Book value of equity investment	Total assets	Total liabilities	Total revenues	Profit (Loss) from continuing operations after tax	Profit (Loss) from groups of assets held for sale after tax	Profit (Loss) for the year (1)	Other comprehensive income after tax (2)	Comprehensive income (3) = (1) + (2)
A. Companies under joint control	1,014	23,082	21,055	1,373	23	-	23	-	23
B. Companies under significant influence	597	1,903,518	1,513,968	28,203	(14,520)	(44,417)	(58,937)	(8,363)	(67,300)

7.5 Equity investments: annual changes

	Total 31 12 2020	Total 31 12 2019
A. Opening balance	**930,976**	**922,793**
B. Increases	**192,274**	**174,603**
B.1 Purchases	-	-
B.2 Write-backs	-	-
B.3 Revaluations	96,807	91,649
B.4 Other increases	95,467	82,954
C. Decreases	**15,787**	**166,420**
C.1 Sales	-	1,550
C.2 Value adjustments	-	8,723
C.3 Write-downs	1,784	975
C.4 Other decreases	14,003	155,172
D. Closing balance	**1,107,463**	**930,976**
E. Total revaluations	**-**	**-**
F. Total write-downs	**50,997**	**63,568**

Lines B.3 “Revaluations” and B.4 “Other changes” respectively include the portion of profits for the year realised by the investees and the positive changes in valuation reserves pertaining to the Group, almost entirely attributable to the insurance investees.

Lines C.3 “Write-downs” and C.4 “Other changes” respectively include the portion of losses for the year and the effects of the reduction in shareholders ‘equity of the Group’s investees, following the distribution of dividends and redemptions of shares.

Reported below is the main embedded goodwill:

Embedded goodwill	31 12 2020	31 12 2019
Axa Mps Assicurazioni Vita S.p.a.	46,796	46,796
Axa Mps Assicurazioni Danni S.p.a.	2,316	2,316
Total	**49,112**	**49,112**

7.6 Key considerations and assumptions to determine the existence of joint control or significant influence

The Group considers associates, and therefore subject to significant influence, those companies in which it holds a fifth or more of voting rights (including potential voting rights) or in which – despite a lower percentage of voting rights– the Group has the power of participating in the determination of the financial and operating policies of the investee on account of specific legal agreements such as, for example, the participation in shareholders' agreements, the participation in important committees of the investee as well as the presence of vetoing rights on significant decisions.

The Group considers jointly controlled those companies with respect to which the following circumstances occur simultaneously:

- if an agreement has been entered into that assigns co-participation in the management of the investee's activities via a presence on the Board of Directors;
- none of the parties participating in the agreement holds exclusive control;
- decisions relating to relevant activities are made unanimously by the parties identified (each has an implicit or explicit veto right with regard to relevant decisions).

7.7 Covenants on investments in jointly controlled companies

No covenants on investments in jointly controlled companies are reported.

7.8 Covenants on investments in companies under significant influence

No covenants on investments in companies under significant influence are reported.

7.9 Significant restrictions

As at the reporting date, there are no significant restrictions on the ability of the jointly controlled company or associated companies to transfer funds to Group companies, except those attributable to regulatory legislation, which may require the maintenance of a minimum amount of own funds, or the provisions of the Italian Civil Code on distributable profits and reserves.

7.10 Other information

The valuation with the equity method is carried out on the basis of the financial statements referring to 31 December 2020 for the insurance investees; for other companies over which the Group exercises a significant influence or holds joint control and for which the timing of availability of the financial statements at the end of the year is not compatible with the timing of the closing of the consolidated financial statements of the MPS Group, reference is made to the last available accounting report, represented, in most cases, by the report as at 30 September 2020. In any case, when the accounting reports of the associate or joint venture used in applying the equity method refer to a date other than the financial statements of the MPS Group, adjustments are made to take into account any effects of significant transactions or events that occurred between that date and the reporting date of the MPS Group.

Impairment test of equity investments

As required by the IFRS accounting standards, the equity investments are subject to the impairment test in order to assess whether there is objective evidence that might render the book value of these assets not entirely recoverable. For equity investments in associates or jointly controlled entities, the process of recognising any impairment involves verifying the presence of indicators of possible reductions in value and calculating any write-down. For further details on the indicators used by the Group, please refer to Part A of these Notes to the consolidated financial statements, paragraph "Use of estimates and assumptions - Methods for determining impairment of equity investments".

In line with ESMA indications, the COVID-19 pandemic was considered an impairment indicator; as a result, the Group carried out a complete impairment test to assess the recoverability of the main equity investments. The valuations did not involve the need to make value adjustments.
Last year, value adjustments were made to the equity investments in Nuova Sorgenia Holding SpA (EUR 8.7 mln) and S.i.t. Finanziaria di Sviluppo per Innovazione Tecnologia SpA (EUR 46 thousand).

Section 8 – Reinsurance technical reserves – Item 80

No values are shown in this section as the insurance companies in which the Group holds equity investments are associates, and therefore these investments are consolidated using the equity method.

Section 9 - Property, plant and equipment - Item 90

9.1 Property, plant and equipment used in the business: breakdown of assets valued at cost

Asset/Amount	Total	
	31 12 2020	31 12 2019
1. Assets owned	**1,837,654**	**2,078,748**
a) land	634,374	748,292
b) buildings	907,985	1,018,769
c) furniture and furnishings	145,396	149,700
d) electronic systems	75,584	83,828
e) other	74,315	78,159
2. Right of Use acquired through leasing	**218,985**	**267,415**
a) land	-	-
b) buildings	206,075	251,297
c) furniture and furnishings	22	-
d) electronic systems	10,224	15,403
e) other	2,664	715
Total	**2,056,639**	**2,346,163**
of which: obtained throught the enforcement of the guarantees received	-	-

All of the Group's property, plant and equipment is measured at cost; the line "land" expresses the value of land separately from the value of buildings. In compliance with guidance provided by IAS 36 "Impairment of Assets" and recommendations contained in document no. 4 of 3 March 2010 issued jointly by the Bank of Italy, Consob and Isvap, an overall property appraisal was made with a view to determining any impairment losses to be posted to the income statement for the year; disclosure of these impairment losses is provided in the notes to the table "9.6 Property, plant and equipment used in the business: annual changes".

The rights of use acquired under leasing are nearly entirely attributable to lease contracts used as branches and as spaces intended to accommodate ATMs or internal offices. The rights of use on electronic systems refer to contracts to rent electronic equipment such as mobile phones and hardware.

As at 31 December 2020, the Group has granted operating leases of owned assets for business use totalling EUR 58.3 mln, entirely in the categories a) land and b) buildings. For more information on the Group's leasing activity, see Part M of these Notes to the consolidated financial statements.

At the reporting date of these financial statements and for the comparison year, there were no i) property, plant and equipment under finance lease, obtained through enforcement of guarantees and ii) the cases to which paragraph 78 of IAS 40 applies (in as much as the Group uses cost as its accounting criterion).

9.2 Property, plant and equipment held for investment: breakdown of assets valued at cost

Asset/Amount	Total 31 12 2020				
	Book value	Fair Value			
		Level 1	Level 2	Level 3	Total
1. Assets owned	**249,801**	**-**	**-**	**268,471**	**268,471**
a) land	114,006	-	-	110,537	110,537
b) buildings	135,795	-	-	157,934	157,934
2. Right of Use acquired through leasing	**-**	-	-	**-**	**-**
a) land	-	-	-	-	**-**
b) buildings	-	-	-	-	**-**
Total	**249,801**	**-**	**-**	**268,471**	**268,471**
of which: obtained throught the enforcement of the guarantees received	*22,510*	-	-	*25,158*	***25,158***

All of the Group's property, plant and equipment is measured at cost; the line "land" expresses the value of land separately from the value of buildings. In compliance with guidance provided by IAS 36 "Impairment of Assets" and recommendations contained in document no. 4 of 3 March 2010 issued jointly by the Bank of Italy, Consob and Isvap, an overall property appraisal was made with a view to determining any impairment losses to be posted to the income statement for the year; disclosure of these impairment losses is provided in the notes to the table "9.7 Property, plant and equipment held for investment: annual changes".

As at 31 December 2020, there were items of property, plant and equipment deriving from the enforcement of guarantees from the termination of non-performing finance lease contracts for EUR 22.5 mln (EUR 25.1 mln as at 31 December 2019).

As at 31 December 2020, the Group has granted operating leases of owned assets for investment purposes totalling EUR 70.9 mln, entirely in the categories a) land and b) buildings.

The criteria for classification of a tangible asset as an investment property pursuant to IAS 40 are described in the accounting policies, to which reference is made. The disclosure required by IAS 40 paragraph 75 letter c) is not provided, as the classification is not difficult.

As at the reporting date of these financial statements and for the comparison year, there was no property, plant and equipment under finance lease, to which paragraph 75, letters g), and h) of IAS 40 applies.

Attività/Valori	Total 31 12 2019				
	Book value	Fair Value			
		Level 1	Level 2	Level 3	Total
1. Assets owned	**328,760**	**-**	**-**	**357,293**	**357,293**
a) land	157,020	-	-	154,654	154,654
b) buildings	171,740	-	-	202,639	202,639
2. Right of Use acquired through leasing	**-**	-	-	**-**	**-**
a) land	-	-	-	-	**-**
b) buildings	-	-	-	-	**-**
Total	**328,760**	**-**	**-**	**357,293**	**357,293**
of which: obtained throught the enforcement of the guarantees received	*25,061*	-	-	*29,166*	*29,166*

9.3 Property, plant and equipment used in the business: breakdown of revalued assets

The Group does not own any revalued property, plant and equipment.

9.4 Property, plant and equipment held for investment: breakdown of assets measured at fair value

The Group holds no property, plant and equipment measured at fair value pursuant to IAS 40.

9.5 Inventories of property, plant and equipment governed by IAS 2: breakdown

Assets/Amounts	Total	
	31 12 2020	31 12 2019
1. Inventories of property, plant and equipment obtained through enforcement of the guarantees	**1,315**	**1,314**
a) Land	535	534
b) Buildings	780	780
c) Furniture and furnishings	-	-
d) Electronic systems	-	-
e) Other	-	-
2. Others invontories of property, plant and equipment	**31,079**	**32,869**
Totale	**32,394**	**34,183**
of which: measured at fair value less costs to sell	-	-

9.6 Property, plant and equipment used in the business: annual changes

	Land	Buildings	Furniture and furnishings	Electronic systems	Others	Total 31 12 2020
A. Gross opening balance	**778,572**	**1,720,977**	**528,171**	**827,221**	**530,496**	**4,385,437**
A.1 Total net decreases	30,280	450,911	378,471	727,990	451,622	2,039,274
A.2 Net opening balance	**748,292**	**1,270,066**	**149,700**	**99,231**	**78,874**	**2,346,163**
B. Increases	**1**	**32,141**	**3,887**	**25,319**	**18,761**	**80,109**
B.1 Purchases	1	13,699	3,887	25,318	18,297	61,202
B.2 Capitalized expenditure on improvements	-	15,885	-	-	-	15,885
B.7 Other increases	-	2,557	-	1	464	3,022
C. Decreases	**113,917**	**188,148**	**8,169**	**38,742**	**20,656**	**369,632**
C.1 Sales	86,929	74,940	162	335	1,770	164,136
C.2 Depreciation	-	85,847	6,570	37,903	18,420	148,740
C.3 Impariment losses booked to:	3,398	6,471	538	-	-	10,407
b) profit and loss	3,398	6,471	538	-	-	10,407
C.5 Exchange losses	-	-	1	10	2	13
C.6 Transfer to:	23,444	9,065	898	43	193	33,643
b) non current assets and group of assets held for sale	23,444	9,065	898	43	193	33,643
C.7 Other decreases	146	11,825	-	451	271	12,693
D. Net closing balance	**634,376**	**1,114,059**	**145,418**	**85,808**	**76,979**	**2,056,640**
D.1 Total net impairment	33,679	491,546	385,449	763,238	468,137	2,142,049
D.2 Gross closing balance	**668,055**	**1,605,605**	**530,867**	**849,046**	**545,116**	**4,198,689**
E. Carried at cost	**-**	**-**	**-**	**-**	**-**	**-**

Line “C.1 Sales”, equal to EUR 164.1 mln, includes EUR 160.9 mln from the sale of the property portfolio to Ardian in 2020.

An analysis of external and internal impairment indicators resulted in impairment losses for an amount of EUR 10.4 mln being recognised in the balance sheet as at 31 December 2020 (line C.3). Note that the overall capital gains of properties used in the business of EUR 2.5 mln (EUR 14 mln in 2019) were not recognised in the financial statements.

Line E – “Carried at cost” was left blank, as per the Bank of Italy’s instructions, since it only needs to be completed for assets accounted for at fair value.

9.6 a Property, plant and equipment used in the business - rights of use acquired: annual changes

	Land	Buildings	Furniture and furnishings	Electronic systems	Others	Total 31 12 2020
A. Gross opening balance	-	302,318	-	17,153	1,830	321,301
A.1 Total net decrease	-	51,021	-	1,750	1,115	53,886
A.2 Net opening balance	-	251,297	-	15,403	715	267,415
Change in Accountin Principles	-	13,804	26	-	3,086	16,916
B.1 Purchases	-	13,698	26	-	3,011	16,735
B.7 Other increases	-	106	-	-	75	181
C. Decreases	-	59,026	4	5,179	1,137	65,346
C.1 Sales	-	-	-	-	-	-
C.2 Depreciation	-	45,454	4	5,153	1,137	51,748
C.3 Impariment losses booked to:	-	1,903	-	-	-	1,903
a) net equity	-	-	-	-	-	-
b) profit and loss	-	1,903	-	-	-	1,903
C.7 Other decreases	-	11,669	-	26	-	11,695
D. Net closing balance	-	206,075	22	10,224	2,664	218,985
D.1 Total net decreases	-	98,378	4	6,903	2,252	107,537
D.2 Gross closing balance	-	304,453	26	17,127	4,916	326,522
E. Carried at cost	-	-	-	-	-	-

The outcome of the impairment test carried out as at 31 December 2020 on the rights of use on the properties led to the recognition of an impairment loss of EUR 1.9 mln recognized in the income statement item 210 “Net adjustments to/recoveries on property, plant and equipment” and shown in the aforementioned table in line “C.3 Impairment losses booked to the profit and loss”.

“Other changes” include the reduction in the book value of the rights of use as a result of:

- renegotiations of the economic terms of existing contracts, agreed during the year;
- the release of leased properties, mainly as part of the bank branch closure plan.

9.7 Property, plant and equipment held for investment: annual changes

	31 12 2020		
	Lands	**Builiding**	**Total**
A. Opening balance	**192,579**	**287,624**	**480,203**
A.1 Total net decreases	35,559	115,884	151,443
A.2 Net opening balance	**157,020**	**171,740**	**328,760**
B Increases	**8,953**	**3,504**	**12,457**
B.1 Purchases	-	-	-
B.2 Capitalized expenditure on improvements	-	1,700	1,700
B.3 Increases in fair value	-	-	-
B.4 Write-backs	-	-	-
B.5 Exchange gains	-	-	-
B.6 Transfers from property used in the business	-	-	-
B.7 Other increases	8,953	1,804	10,757
C. Decreases	**51,967**	**39,449**	**91,416**
C.1 Sales	14,628	13,220	27,848
C.2 Depreciation	-	7,149	7,149
C.3 Decreases in fair value	-	-	-
C.4 Impairment losses	1,500	2,342	3,842
C.5 Negative exchange differences	-	-	-
C.6 Transfers to	35,653	16,375	52,028
a) properties used in the business	-	-	-
b) non-current assets and group of assets held for sale	35,653	16,375	52,028
C.7 Other decreases	186	363	549
D. Closing balance	**114,006**	**135,795**	**249,801**
D.1 Total net impairment	37,515	100,831	138,346
D.2 Gross closing balance	**151,521**	**236,626**	**388,147**
E. Measured at fair value	**110,537**	**157,934**	**268,471**

Line “C.1 Sales”, amounting to EUR 27.8 mln, includes the transfer of the property portfolio to Ardian for EUR 26 mln.

An analysis of external and internal impairment indicators resulted in impairment losses for an amount of EUR 3.8 mln being recognised in the balance sheet as at the reporting date (line C.4). Note that the overall capital gains of investment properties of EUR 18.7 mln (EUR 28.5 mln in 2019) were not recognised in the financial statements.

9.8 Inventories of property, plant and equipment governed by IAS 2: annual changes

	Inventories of property, plant and equipment obtained through enforcement of the guarantees					Other Closing balance of tangible assets	Total
	Land	Buildings	Furniture and furnishings	Electronic systmes	Others		
A. Opening balance	**535**	**780**	**-**	**-**	**-**	**32,868**	**34,183**
B. Increase	**4**	**-**	**-**	**-**	**-**	**184**	**188**
B.1 Purchases	-	-	-	-	-	-	-
B.2 Write-backs	4	-	-	-	-	-	4
B.3 Exchange gains	-	-	-	-	-	-	-
B.4 Other increases	-	-	-	-	-	184	184
C. Decreases	**3**	**-**	**-**	**-**	**-**	**1,974**	**1,977**
C.1 Sales	-	-	-	-	-	711	711
C.2 Impairment losses	3	-	-	-	-	1,263	1,266
C.3 Exchange differences	-	-	-	-	-	-	-
C.4 Other decreases	-	-	-	-	-	-	-
D. Closing balance	**536**	**780**	**-**	**-**	**-**	**31,078**	**32,394**

9.9 Commitments to purchase property, plant and equipment

No commitments to purchase property, plant and equipment were registered in 2020, as was the case for the comparison year.

9.10 Property, plant and equipment: depreciation rates

Main categories of property, plant and equipment	%
Buildings	3.0% - 4.0%
Furniture and furnishings	10.0% - 20.0%
Alarm and video systems	20.0% - 30.0%
Electronic and ordinary office equipment	20%
Electronic data processing equipment	20.0% - 50.0%
Vehicles	20.0% - 25.0%
Telephones	20.0% - 25.0%

The percentages used for carrying out the depreciations with reference to the main categories of property, plant and equipment are presented in the table. Owing to their indefinite useful life, land and artworks are not depreciated.

Note that the rights of use acquired through leasing are depreciated based on the lease contract duration.

Section 10 – Intangible assets – Item 100

10.1 Intangible assets: breakdown by type

Asset / Amount	31 12 2020			31 12 2019		
	Finite Life	Indefinite Life	Total	Finite Life	Indefinite Life	Total
A.1 Goodwill	**X**	**7,900**	**7,900**	**X**	**7,900**	**7,900**
A.1.1 group	X	7,900	7,900	X	7,900	7,900
A.1.2 minorities	X	-	-	X	-	-
A.2 Other intangible assets	**176,045**	**-**	**176,045**	**168,197**	**-**	**168,197**
A.2.1 Assets carried ad cost	176,045	-	176,045	168,197	-	168,197
a) internally generated intangible assets	40,189	-	40,189	40,102	-	40,102
b) other assets	135,856	-	135,856	128,095	-	128,095
A.2.2 Assets valued at fair value:	-	-	-	-	-	-
a) internally generated intangible assets	-	-	-	-	-	-
b) other assets	-	-	-	-	-	-
Total	**176,045**	**7,900**	**183,945**	**168,197**	**7,900**	**176,097**

All of the Group's intangible assets are valued at cost and have a finite useful life with the exception of goodwill.

During preparation of the 2020 accounts, goodwill recognised was tested for recoverability or impairment. In accordance with Document 4 jointly published by Bank of Italy/Consob/IVASS on 3 March 2010 and provisions set out in IAS 36, "Impairment of Assets", the activities carried out to perform the goodwill recoverability test are described below.

Goodwill is not systematically amortised but tested for impairment (Impairment Test). The test performed did not result in any impairment losses.

Line "A.2.1 Assets carried at cost – b) Other assets" includes:

- intangible assets arising from customer relations recognised following the acquisition of the former Banca Antonveneta S.p.a, deriving from the measurement of on-demand funding (current accounts and savings deposits, or core deposits) for EUR 2.2 mln;
- purchase of externally-developed software for an amount of EUR 128.8 mln.

Considering that line "A.2.1 Assets carried at cost – a) internally generated intangible assets" includes intangible assets linked to internally generated technology in the amount of EUR 40.2 mln, the software totally recognised in the consolidated financial statement amounts to EUR 169.0 mln.

For intangible assets associated with customer relationships, an analysis was carried out on the impairment indicators, which resulted in no need for impairment testing.

With regard to the software, an analysis was carried out of the future service life of the main capitalised assets to check for impairment, leading to an adjustment of about EUR 0.8 mln.

Impairment test on Group goodwill

Pursuant to IAS 36, all intangible assets with an indefinite useful life must be tested for impairment at least annually to verify the recoverability of value. The Group decided to carry out the impairment test with reference to 31 December of each year, and in any case each time the presence of loss indicators is recorded. The aforementioned standard requires the determination of the recoverable value, defined as the higher value between fair value and value in use. If it is not possible to directly determine the recoverable value of the specific intangible asset recognised in the financial statements, the recoverable value of the *cash-generating unit to which the asset belongs (hereinafter "CGU - Cash Generating* Unit") must be determined for the purposes of the identification of the CGUs to which the assets to be subjected to *impairment test* are assigned, it is necessary that the potentially identified units generate cash inflows largely independent of the cash inflows generated by other assets, or groups of assets with respect to which the Group has independent recognition of the results through management *reporting* systems.

The method used to carry out the impairment test on goodwill resulting from the Group's consolidated financial statements is provided below.

It should also be noted that the assessment procedure and parameters for the impairment test of goodwill were approved by the Board of Directors independently and in advance of the approval of the draft financial statements.

a. Identification of goodwill

The impairment test was carried out on goodwill; no other indefinite-life intangible assets are recognised in the financial statements.

b. Identification of cash-generating units and allocation of goodwill to the cash-generating units identified

According to IAS 36, each CGU or group of CGUs to which goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes and should not be larger than an operating segment as defined by IFRS 8 ("Operating Segments").

As for the impairment test as at 31 December 2019, the Group's goodwill was tested by identifying those CGUs into which the Group's operations can be separated and analysing the cash flows that these will be able to generate in future years, based on an approach consistent with Segment Reporting presented in the financial statements and therefore with Management Reporting.

The CGUs are identified in line with operating segments (segment reporting), except for the Retail Banking operating segment where it is possible to identify two distinct CGUs, the Retail CGU and the Widiba CGU.

The CGUs, identified on the basis of the above, are as follows:

- the "**Retail CGU**", which includes the sales activities of retail customers (Value, Premium and Small Business segments);
- the "**Widiba CGU**", which includes the financial advisor network and the Self-service channel;
- the "**Corporate CGU**", which includes the sales activities of corporate customers (SME, Institutions and Key Clients segments), Large Corporate Area, Foreign Branches and the subsidiaries MPS Capital Services, MPS Leasing & Factoring and the foreign bank MP Banque;
- the "**Wealth Management CGU**", which includes the sales activities of Private customers (Private Banking and Family Office segments) and the subsidiary MPS Fiduciaria;

They are consistent with the method of primary representation of income/balance sheet data adopted by the Group (*Segment Reporting*). The goodwill is allocated to the Widiba CGU and is therefore the only CGU subjected to an impairment test.

c. Determination of the recoverable value of the CGU

On the basis of the IAS 36 accounting standard, the amount of the impairment loss is determined by the difference between the book value of the CGU and its recoverable amount, if lower. Recoverable amount is defined as the higher of:

- *Fair value net of costs to sell - the amount obtainable from the sale of an asset in a regular transaction between market participants, less the costs of disposal;*

- Value in use - the present value of estimated future cash flows expected to arise from the continuing use of an asset or from a cash-generating unit (CGU).

The Group's goodwill as at 31 December 2020 was tested for impairment by identifying the recoverable amount of the Widiba CGU as the value in use estimated through the discounting of future distributable cash flows.

This test was conducted on the basis of the updated 2021-2025 Widiba estimates consistent with the Group's 2021-2025 Strategic Plan and with the current company business model, unlike the previous projections that discounted certain initiatives no longer carried out by the entity and which did not incorporate the effects of some significant strategic actions pursued by Widiba and aimed at improving the income profile.

The recoverable amount was estimated by applying the *Dividend Discount Model* (DDM). According to this method, the value of a company is a function of the dividend flow that it is able to generate prospectively. In this case, the method used is the DDM in the *Excess Capital* variant, which assumes that the economic value of a company is equal to the sum of the present value of future cash flows generated in the chosen planning time horizon and distributable to shareholders while maintaining a level of capitalisation adequate to guarantee the expected future development, and the perpetual capitalisation of the flow of the last forecast year, depending on profitability at full capacity. The application of the DDM involves the use of the following formula:

$$W = \sum_{t=1}^{n} \frac{F_t}{(1+i)^t} + VT_a$$

where:

F_t = cash flows distributable to shareholders over the selected time horizon based on the economic and financial projections made, maintaining a satisfactory level of capitalisation.

i = discounting rate represented by the cost of equity (ke).

VT_a = present Terminal Value calculated as the value of a perpetual yield that is estimated according to an economically sustainable normalised cash flow consistent with the long-term growth rate ("g").

Estimating cash flows

The cash flows of the Widiba CGU were determined considering the net profit projections of the CGU inferred from the analysis of the previously mentioned development lines, which take into account a macroeconomic scenario that reflects the consequences of the overall scenario induced by the spread of the COVID-19 related pandemic. For a detailed description of the reference scenarios, please refer to the paragraph "Risks, uncertainties and impacts of the COVID-19 epidemic - The quantification of losses due to impairment of receivables in Part A of these Notes to the consolidated financial statements".

The main hypotheses and assumptions used to develop the projections relating to the Widiba CGU are illustrated below:

- reduction in the cost of direct funding with an increase in the on-demand component;
- increase in assets under management, including through the recruitment of new Financial Advisors, customer loyalty and increase in average assets;
- containment of operating costs while maintaining the level of service for customers and consultants unaltered;
- maintaining innovative positioning.

The distributable flows are expected to recover to pre-pandemic levels starting from 2022, with a progression that will benefit from the levers described above.

Cash flow discounting rates

To discount cash flows distributable to shareholders, the cost of equity was used, i.e. the return on equity required by investors/shareholders for investments with comparable risk characteristics. This rate, equal to 7.8%, is the cost of capital of the MPS Group as at 31 December 2020 according to the methodology validated by internal management committees and calculated using the Capital Asset Pricing Model ("CAPM"), based on the following formula:

$$k_e = R_f + Beta * ERP + CR$$

where:

Rf = risk-free rate, equal to the rate on risk-free assets as 1-year average of the yield on the 10-year BUND, with a zero floor as at 31 December 2020

Beta = correlation factor between actual share performance and overall performance of the reference market (measurement of the volatility of a stock relative to the market), equivalent to 1.09% (as at 31 December 2020, two years, weekly on the FTSE MIB index)

ERP = *Equity Risk Premium*, premium for the risk required by a mature market (US market, *source: Damodaran*)

CR = *country risk premium* that reflects the risk differential between a mature market and Italy (*rating based default spread - Moody's BAA3 - source: Damodaran*)

The Terminal Value was calculated based on the following formula:

$$VT = \text{normalised distributable cash flow}/(ke - g)$$

considering a normalised cash flow and an assumed long-term growth rate (g) of 1.35%, approximated by the long-term inflation rate ("Inflation, end of period consumer prices" - "International Monetary Fund, World, Economic Outlook Database, October 2020").

Summary of valuation parameters

The distributable cash flows were therefore determined starting from the 2021-2025 income statement and balance sheet data, as illustrated above, with the following main measurement parameters, which reflect the most recent market conditions, used in determining the recoverable value of the CGU at 31 December 2020:

- a target supervisory ratio (capital ratio) of 8.5% at 2025, taking into account the characteristics of Widiba's business;
- the CGU's cost of capital (ke) equal to 7.8%, determined using the method described above;
- a long-term growth rate (g) of 1,35%.

In this regard, it should be noted that the parameters and assumptions underlying the determination of the value in use are significantly influenced by the macroeconomic framework taken as a reference. Given the particular situation of uncertainty in the macroeconomic scenario, it cannot be excluded that the assumptions made, however reasonable and prudent, may not be confirmed in the future scenarios in which the Widiba CGU will operate. In particular, any worsening of the macroeconomic scenario could have a negative impact on projections of expected cash flows, on the cost of capital and on the growth factor, leading to different results compared to those estimated for the 2020 financial statements.

d. Impairment test results

The results (in million euros) of the impairment test performed on the Widiba CGU on the basis of the analysis are presented below.

	Shareholders' equity	Recoverable Value	Delta
CGU Widiba	133	226	93

In conclusion, the impairment test on goodwill did not bring to light impairment losses for the Widiba CGU, as the recoverable value is higher than the book value by EUR 93 mln.

e. Sensitivity analysis

In compliance with the provisions of IAS 36 and considering the complexity of the current operating environment, which is characterised by the presence of elements of uncertainty concerning above all the time interval and the extent of the negative impacts caused by the pandemic on the macroeconomic scenario, which complicate the development of multi-year projections, specific sensitivity analyses were carried out on the recoverable value, in order to be able to appreciate the variability of this last value with respect to reasonable changes in some parameters of the valuation model.

In particular, the parameters subject to sensitivity analysis were identified as:

- "cost of capital (Ke)";

- "long-term growth rate (g)";

used in the valuation model both for forecasting purposes (*Terminal Value* obtained as projection in *perpetuity* of the last available cash flow at rate "g"), and for the purposes of discounting future distributable cash flows (Ke) and *Terminal Value* (Ke eg). Furthermore, the *sensitivity* analysis also concerned the cash flows used to determine the *Terminal Value*, corresponding to the latest cash flow available due to the update of the multi-year projection.

The following table shows the differentials expressed in relative terms, between the recoverable value as determined above and the value obtained, in the event of increasing and decreasing the growth rate (g) and the cost of capital (Ke) respectively by 10 bps, with respect to the rates actually used, keeping all the remaining assumptions unchanged. These analyses lead to a reduction in value in use of between a minimum of 0.9% and a maximum of 1.5%. Lastly, with reference to the cash flow considered for the purpose of determining the *Terminal Value*, a 10% reduction generates a reduction in value in use of 7.1%, placing itself in a more severe perspective; there would be a write-down of goodwill only in the presence of a reduction of more than 40% of the cash flows in *Terminal Value*.

	CHANGE IN VALUE IN USE		
	Long-term growth rate (g)	Discount rate (Ke)	Cash flow in Terminal Value
	-10 bps	*+10 bps*	*-10%*
CGU Widiba	-0.9%	-1.5%	-7.1%

10.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: generated internally		Other intangible assets: other		Total
		finite life	indefinite life	finite life	indefinite life	31 12 2020
A. Opening balance	**6,605,132**	**491,441**	**-**	**1,894,714**	**-**	**8,991,287**
A.1 Total net impairment	6,597,232	451,339	-	1,766,619	-	8,815,190
A.2 Net opening balance	**7,900**	**40,102**	**-**	**128,095**	**-**	**176,097**
B. Increases	**-**	**17,925**	**-**	**65,466**	**-**	**83,391**
B.1 Purchases	-	17,925	-	65,466	-	83,391
B.2 Increases in internally generated intangible assets	X	-	-	-	-	-
B.3 Write-backs	X	-	-	-	-	-
B.4 Increases in fair value	-	-	-	-	-	-
- to net equity	X	-	-	-	-	-
- to profit and loss	X	-	-	-	-	-
B.5 Exchange gains	-	-	-	-	-	-
B.6 Other increases	-	-	-	-	-	-
C. Decreases	**-**	**17,838**	**-**	**57,705**	**-**	**75,543**
C.1 Sales	-	-	-	99	-	99
C.2 Write-downs	-	17,838	-	57,591	-	75,429
- Amortisation	-	17,244	-	57,360	-	74,604
- Write-downs	-	594	-	231	-	825
+ net equity	-	-	-	-	-	-
+ profit and loss	-	594	-	231	-	825
C.3 Decreases in fair value	-	-	-	-	-	-
- to net equity	X	-	-	-	-	-
- to profit and loss	X	-	-	-	-	-
C.4 Transfers to non-current assets held for sale	-	-	-	-	-	-
C.5 Exchange losses	-	-	-	15	-	15
C.6 Other decreases	-	-	-	-	-	-
D. Net closing balance	**7,900**	**40,189**	**-**	**135,856**	**-**	**183,945**
D.1 Total net value adjustments	6,597,232	469,177	-	1,832,926	-	8,899,335
E. Gross closing balance	**6,605,132**	**509,366**	**-**	**1,968,782**	**-**	**9,083,280**
F. Carried at cost	**-**	**-**	**-**	**-**	**-**	**-**

Line A.1, "Total net impairment", and line D.1, "Total net value adjustments", show the opening and closing balances for total value adjustments and amortisation recorded for intangible assets with a finite life.

Line F - "Carried at cost" was left blank in accordance with Bank of Italy's instructions, as it only needs to be completed for assets measured at fair value.

10.3 Other information: amortisation rates of intangible assets

Main categories of intangible assets	%	residual depreciation period
Software	20% - 33%	
Concessions and other licenses	20.00%	
Core deposits - deposit	6.70%	3 years

Intangible assets recognised during the purchase price allocation of Banca Antonveneta S.p.A. are all finite-life and therefore amortised based on their expected useful life.

As at 31 December 2020 there were no:

- revalued intangible fixed assets;
- intangible fixed assets acquired through government concessions (IAS 38, par. 4);
- intangible fixed assets pledged as loan collaterals;
- commitments to purchase intangible assets;
- fully amortised intangible assets still in use.

Section 11 - Tax Assets and Liabilities - Item 110 (Assets) and Item 60 (Liabilities)

11.1 Deferred tax assets: breakdown

Items/Amounts	IRES with offsetting entry to P&L	IRES with offsetting entry to Balance Sheet	IRAP with offsetting entry to P&L	IRAP with offsetting entry to Balance Sheet	31 12 2020	31 12 2019
Receivables	126,388	-	26,362	-	152,750	310,855
Receivables (L. 214/2011)	321,508	-	42,745	-	364,253	477,965
Other financial instruments	7,394	-	305	-	7,699	9,903
Goodwill (L. 214/2011)	295,453	1,257	73,113	291	370,114	466,787
Tangible assets	65,538	-	10,309	-	75,847	76,466
Intangible assets	31	-	-	-	31	54
Intangible assets (Law 214/2011)	21,144	-	4,633	-	25,777	31,026
Personnel expenses	3,620	14,935	2,759	1,629	22,943	27,566
ACE surplus	53,092	-	-	-	53,092	110,120
Tax losses	75,126	41,530	-	-	116,656	253,728
Tax losses (Law 214/2011)	27	-	5	-	32	78
Financial instruments - valuation reserves	-	12,903	-	3,432	16,335	36,513
Others	48,830	1	3,133	-	51,964	71,634
Deferred tax assets (gross)	**1,018,151**	**70,626**	**163,364**	**5,352**	**1,257,493**	**1,872,695**
Offsetting with deferred tax liabilities	(21,959)	(45,541)	(9,231)	(2,468)	(79,199)	(63,278)
Deferred tax assets (net)	**996,192**	**25,085**	**154,133**	**2,884**	**1,178,294**	**1,809,417**

Deferred tax assets were recognised after verifying the existence of foreseeable future income (probability test). Write-downs (or write-backs of previous write-downs) based on the probability test are recognised overall as an offsetting entry to the tax item of the income statement; in the tables under this section, however, the portion of DTA not recognisable is allocated based on the proportional criterion, also for DTA originally recognised as offsetting entries to shareholders' equity. For additional information, please refer to paragraph 11.8 "Other information" below.

In addition to deferred taxes referring to the main tax (at the rate of 24%) the amounts shown in the IRES column also include those relating to the additional IRES tax (3.5% rate) introduced by Law no. 208 of 28 December 2015, paragraphs 65-66.

The reduction in the balance of the item during the year is mainly due to the write-down of DTAs made by the Group due to the expected reduction in future taxable income following the revision of the long-term internal estimates of the balance sheet and P&L values (multi-year projections 2020-2024), carried out to take into account the evolution of the macroeconomic scenario following the pandemic. For further information concerning the execution of the probability test, reference should be made, also in this case, to paragraph 11.8 above. The decrease in the balance of DTAs during the year reflects, with reference to the Parent Company, also the transformation into a tax credit due to statutory loss in the 2019 financial statements, pursuant to art. 2, par. 55, of Law Decree no. 225 of 29 December 2010, and the transfer of the DTAs associated with the tax positions attributed to AMCO S.p.A., pursuant to art. 173, par. 4 of the Income Tax Act, following the partial non-proportional demerger of the Parent Company, which became effective on 1 December 2020. For the quantification of individual effects, please refer to the following paragraphs of this Section.

The line "Recevaibles" includes deferred tax assets that can be recognised for residual tenths of the impairment on loans to customers recorded upon first-time adoption of the IFRS 9 standard, whose deduction is envisaged in ten annual instalments (from 2018 to 2027) by article 1, paragraphs 1067-1069 of Law no. 145 of 30 December 2018 (2019 Budget Law); note that the deductible portion for 2019 was postponed to 2028 by art. 1, par. 713 of Law no. 160 of 27 December 2019 (2020 Budget Law).

The line "Others" includes tax assets relating to other cases; the predominant amount refers to provisions for risks and charges in respect of deductible costs expected for future periods.

11.2 Deferred tax liabilities: breakdown

Items/Amounts	IRES with offsetting entry to P&L	IRES with offsetting entry to Balance Sheet	IRAP with offsetting entry to P&L	IRAP with offsetting entry to Balance Sheet	Total 31 12 2020	Total 31 12 2019
Tangible and intangible assets	8,586	-	2,810	-	11,396	4,881
Financial instruments	14,413	713	593	-	15,719	12,480
Personnel expenses	1,246	405	-	127	1,778	1,424
Financial instruments - valuation reserves	-	45,067	-	8,230	53,297	44,473
Others	359	504	80	144	1,087	2,959
Deferred tax liabilities (gross)	**24,604**	**46,689**	**3,483**	**8,501**	**83,277**	**66,217**
Offsetting with deferred tax assets	(21,959)	(45,541)	(3,244)	(8,455)	(79,199)	(63,278)
Deferred tax liabilities (net)	**2,645**	**1,148**	**239**	**46**	**4,078**	**2,939**

In addition to deferred taxes referring to the main tax (at the rate of 24%), the amounts shown in the IRES columns also include those relating to the additional IRES tax (3.5% rate) introduced by Law no. 208 of 28 December 2015, paragraphs 65-66.

The line “Financial instruments – valuation reserves” includes tax liabilities relating to the valuation of cash flow hedge derivatives, as well as financial instruments classified in the portfolio “Financial assets measured at fair value through other comprehensive income” (OCI).

11.3 Deferred tax assets: annual changes (with offsetting entry to profit and loss)

	Total 31 12 2020	Total 31 12 2019
1. Opening balance	**1,779,925**	**2,971,679**
2. Increases	**467,067**	**284,818**
2.1 Deferred tax assets arising during the year	430,759	246,840
a) relating to previous years	-	-
b) due to changes in accounting principles	-	-
c) write-backs	4,598	26,947
d) other	426,161	219,893
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	36,308	37,978
3. Decreases	**1,065,477**	**1,476,572**
3.1 Deferred tax assets derecognised during the year	776,429	1,313,992
a) reversals	226,922	301,377
b) write-downs of non-recoverable items	549,507	1,012,615
c) changes in accounting principles	-	-
d) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	289,048	162,580
a) conversion into tax credits pursuant to Law no. 214/2011	112,921	22,401
b) others	176,127	140,179
4. Total	**1,181,515**	**1,779,925**

The major components of "Deferred tax assets arising during the year" as reported in line 2.1 letter d) include those concerning:

- taxed provisions to the provision for risks and charges made during the year;
- ACE deduction accrued during the year and unused.

The amount shown in line 3.1 letter a) "Reversals" includes the use of provisions for risks and charges taxed in previous years.

The table shows the effects of the measurement of deferred tax assets based on the results of the probability test conducted as at 31 December 2020. Specifically, the amount indicated on line 3.1 letter b) "Write-downs of non-recoverable items", net of the amount in line 2.1 letter c) "Write-backs", refers to the partial derecognition of deferred tax assets for EUR 64.6 mln for IRES tax losses (Domestic Consolidated declaration) accrued and recognised in prior years for EUR 105.2 mln for tax losses for additional IRES, excess ACE for EUR 62.1 mln, and EUR 313.0 mln of other temporary deductible differences other than losses and excess ACE (specifically, DTAs that cannot be converted into tax credits pursuant to Law 214/2011, such as those related to provisions for risks and charges, adjustments on IFRS 9 FTA credits, etc.). For additional information, please refer to paragraph 11.7 "Other information" below.

With regard to the decrease pursuant to line 3.3 letter a), please refer to the comments to the subsequent table "11.3.1 Deferred tax assets: changes under Law 214/2011 (with offsetting entry to profit and loss)".

Line 3.3 lett. b) includes the amount of EUR 121.7 mln referring to deferred tax assets included in the items demerged in favour of AMCO S.p.A., pursuant to art. 173, par. 4 of the Income Tax Act as a result of the partial non-proportional demerger of the Parent Company, which became effective on 1 December 2020; in detail, these deferred tax assets refer for EUR 102.5 mln to DTAs that can be converted into tax credits pursuant to Law 214/2011, for EUR 4.2 mln to DTAs on tax losses and ACE surpluses and for EUR 15.0 mln to other DTAs (mainly on value adjustments on loans to customers recognized on first-time adoption of IFRS 9).

11.4 Deferred tax assets: changes under Law 214/2011 (with offsetting entry to profit and loss)

Items/Amounts	Total	
	31 12 2020	31 12 2019
1. Opening balance	**974,103**	**996,504**
2. Increases	7,993	-
3. Decreases	223,468	22,401
3.1 Reversals	32	-
3.2 Conversion into tax credits	112,921	22,401
a) arising from loss for the period	112,921	22,401
b) arising from tax losses	-	-
3.3 Other decreases	110,515	-
4. Closing balance	**758,628**	**974,103**

As a result of the loss recorded in the separate financial statements for 2019, in 2020 the Parent Company transformed into tax credits a portion of the deferred tax assets relating to loan write-downs, goodwill and other intangible assets, pursuant to art. 2, par. 55 of Law Decree no. 225 of 29 December 2010.
This conversion has been in effect as of the date of approval of the 2019 Financial statements by the Shareholders' Meeting on 18 May 2020.

The amount under line 3.3. refers to deferred tax assets spun off in favour of AMCO S.p.A., pursuant to art. 173 par. 4 of the Income Tax Act.

11.5 Deferred tax liabilities: annual changes (with offsetting entry to profit and loss)

	Total	Total
	31 12 2020	31 12 2019
Opening balance	**19,530**	**85,147**
2. Increases	**22,420**	**13,204**
2.1 Deferred tax liabilities arising during the year	5,761	11,603
a) relating to previous years	-	-
b) due to changes in accounting principles	-	-
c) other	5,761	11,603
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	16,659	1,601
3. Decreases	**13,863**	**78,821**
3.1 Deferred taxes derecognised during the year	9,247	8,992
a) reversals	9,247	8,992
b) due to changes in accounting principles	-	-
c) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	4,616	69,829
4. Closing balance	**28,087**	**19,530**

The increase during the year mainly refers to write-backs on receivables other than those recorded in the Balance Sheet, in item 40 b) Financial assets measured at amortised cost: loans to customers.

The decrease is mainly due to the reabsorption of deferred taxes on real estate.

11.6 Deferred tax assets: annual changes (with offsetting entry to equity)

	Total 31 12 2020	Total 31 12 2019
1. Opening balance	**92,772**	**231,639**
2. Increases	**8,440**	**6,784**
2.1 Deferred tax assets arising during the year	2,942	6,296
a) relating to previous years	-	2,331
b) due to changes in accounting principles	-	-
c) other	2,942	3,965
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	5,498	488
3. Decreases	**25,234**	**145,652**
3.1 Deferred tax assets derecognised during the year	23,914	97,240
a) reversals	23,914	96,321
b) write-downs of non-recoverable items	-	919
c) due to changes in accounting principles	-	-
d) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	1,320	48,412
4. Closing balance	**75,978**	**92,771**

The deferred tax assets that arose, refer to write-downs of financial instruments classified in the portfolio "Financial assets measured at fair value through other comprehensive income" (OCI) and actuarial components of liabilities to employees.

The cancelled deferred tax assets refer mainly to write-backs on financial instruments classified in the portfolio "Financial assets measured at fair value through other comprehensive income" (OCI).

11.6.1 Deferred tax assets: changes under Law 214/2011 (with offsetting entry to equity)

Items/Amounts	Total 31 12 2020	Total 31 12 2019
1. Opening balance	**1,752**	**1,760**
Mergers/demergers	-	-
3. Decreases	**204**	**8**
3.1 Reversals	-	-
3.2 Conversion into tax credit	204	8
a) arising from loss for the period	204	8
b) arising from tax losses	-	-
3.3 Other decreases	-	-
Mergers/demergers	-	-
4. Closing balance	**1,548**	**1,752**

The table shows deferred tax assets that may be converted into tax credits pursuant to Law 214/2011, recognised with an offsetting entry to equity. These refer to goodwill posted by the Parent Company to equity on business combinations "*under common* control".

The amount stated on line 3.2 letter a) refers to Parent Company's conversion of the tax credit described at the bottom of table 11.4 above.

11.7 Deferred tax liabilities: annual changes (with offsetting entry to equity)

	Total 31 12 2020	Total 31 12 2019
1. Opening balance	**46,687**	**117,248**
2. Increases	**21,153**	**17,456**
2.1 Deferred tax liabilities arising during the year	20,847	17,038
a) relating to previous years	-	-
b) due to changes in accounting principles	-	-
c)other	20,847	17,038
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	306	418
3. Decreases	**12,650**	**88,017**
3.1 Deferred tax liabilities derecognised during the year	12,322	35,185
a) reversals	12,322	35,185
b) due to changes in accounting principles	-	-
c) other	-	-
3.2 Reduction in tax rates	-	-
3.3 Other decreases	328	52,832
4. Closing balance	**55,190**	**46,687**

The increases refer mainly to revaluations of financial instruments classified in the portfolio "Financial assets measured at fair value through other comprehensive income" (OCI).

The reversals refer to reabsorption of deferred tax liabilities of cash flow hedging derivatives and financial instruments classified in the portfolio of 'Financial assets measured at fair value through other comprehensive income' (OCI).

11.8 Other information

Probability test

In compliance with the provisions of accounting standard IAS 12 and the ESMA communication of 15 July 2019, the Group recognised deferred tax assets (DTA) after verifying the existence of future taxable income sufficient for the purposes of reabsorption of the same "*Probability test*".

In this test, the different rules set forth in the Italian tax laws which impact the assessment in question were taken into account, in particular:

- art. 2, paragraphs 55-59, of Law Decree no. 225 of 29 December 2010 (converted, with amendments, by Law no. 10 of 26 February 2011) which establishes the obligation for financial intermediaries to convert into tax credits DTAs (IRES and IRAP) relating to goodwill, other intangible assets and impairment losses on receivables, in the case of a loss in the statutory financial statements and/or a tax loss;
- art. 84, paragraph 1 of the TUIR, which allows for the possibility of carrying forward IRES tax losses with no time limits;
- art. 1, paragraph 4 of Law Decree no. 201 of 06/12/2011 (converted, with amendments, by Law no. 214 of 22/12/2011), which allows for unused excess ACE to be carried forward with no time limits, as well as, alternatively, conversion into a tax credit to be used to offset IRAP due in 5 annual instalments;
- paragraphs 61 to 66, art. 1, of the 2016 Stability Law (Law no. 208 of 28 December 2015) reduced the IRES rate from 27.5% to 24% and simultaneously introduced an additional IRES tax of 3.5% for credit and financial institutions; both measures are effective as of 2017.

In terms of methodology, the probability test was carried out according to the steps listed below and taking into consideration the changes in the internal long-term estimates of financial statement values (multi-year projections 2020-2024) carried out to take into account the evolution of the macro-economic scenario after the pandemic, described below.

DTAs relating to goodwill, other intangible assets and impairment losses on receivables ("qualified" DTAs), were excluded from the total amount of DTAs for which the existence of sufficient future taxable income needs to be identified.

This is because the above-mentioned art. 2, paragraphs 55-59 of Law Decree 225/2010 made the recovery of that type of DTA certain, with respect to both IRES and IRAP, regardless of the presence of future taxable income.

Indeed, the rule sets forth that, if taxable income for the year in which the recovery of qualified DTAs is expected is not sufficient to absorb them, the resulting tax loss would be convertible into a tax credit that may be, alternatively (i) used to offset, with no amount limits, the various taxes ordinarily due from the Bank, or (ii) requested in the form of a refund, or (iii) transferred to third parties. In addition, qualified DTAs may be converted into tax credit in advance of their natural maturity, in the event of a loss for the year in the statutory financial statements or voluntary liquidation, as well as subjection to bankruptcy proceedings.

In other words, for qualified DTAs the Probability test must be deemed automatically satisfied; this is also confirmed by the joint Bank of Italy, CONSOB and ISVAP document no. 5 of 15 May 2012 "Accounting treatment of deferred tax assets deriving from Law 214/2011".

For DTAs other than qualified DTAs, the year in which the relative recovery is expected has been identified (or estimated when uncertain).

The estimate of taxable income for future years was based on the expected evolution of the Group's income statements as part of Long-Term Projections for the years 2020-2024, approved by the Board of Directors of the Parent Company on 6 August 2020. In fact, although the Group has a 2021-2025 Strategic Plan approved by the Board of Directors on 17 December 2020, it cannot be considered final as it is subject to the approval of the competent authorities. The projections used represent the best estimate available at the date of these financial statements and reflect the change in the reference macroeconomic and banking scenario and the related impacts associated to the COVID-19 pandemic, which forced the 2020 outlook to be updated and the overall revision of the economic and financial projections of the Group for 2020 and for subsequent years until 2024.

The forecast for taxable income in the years after 2024 assumes 1.5% growth per year, starting from 2025, with respect to the forecasted economic result for the immediately preceding year.

In order to reflect the level of uncertainty that characterises the actual realisation of long-term forecasts, a discount factor was applied to the forecast economic results (known as *Risk-adjusted profits approach)* equal to 9%, an increase compared to the 8% rate used for the purposes of the *Probability test* for the 2019 Financial Statements. This factor is calculated taking into account observable market parameters. In greater detail, the adjustment of taxable income is obtained by discounting the forecasts of each year by the factor of 9%, applied according to the compound capitalisation formula, starting from 2021 over a maximum time horizon of 20 years. This formula therefore makes it possible to adjust future forecasts according to an increasing reduction factor based on the time horizon of the estimate of taxable flows.

Taxable income was estimated:

- at domestic tax consolidation level, for the IRES probability test, since the Group's most significant companies pay this tax in accordance with articles 117 et seq. of the Income Tax Act (TUIR);
- at individual level for additional IRES;
- at individual level for IRAP.

The valuation exercise conducted with the model described above resulted in the following impacts on the Group's accounts:

- with reference to DTAs for consolidated tax losses, a write-down of EUR 64.6 mln;
- with regard to DTAs for tax losses for the purposes of the additional IRES, the non-recognition of DTAs on the loss arising in 2020 and a write-down of DTAs for prior losses amounting to EUR 105.1 mln;
- with reference to DTAs for ACE surpluses, the non-recognition of DTAs on the surplus accrued in 2020 and a write-down of DTAs for previous surpluses for a total of EUR 62.2 mln;

- with reference to DTAs other than "qualified" and those relative to the ACE and tax losses, the non-recognition of DTAs arising from the financial year and a write-down of those recognised in previous years for a total of EUR 313.0 mln.

Note that the overall value of DTAs of EUR 544.9 mln was greatly influenced in a negative manner by the following two factors:

1. the revision of the multi-year internal estimates of the balance sheet and P&L values (multi-year projections 2020-2024), carried out to take into account the effects of the pandemic;
2. the increase in the discount rate of one percentage point applied to the prospective results in the probability test used by the MPS Group.

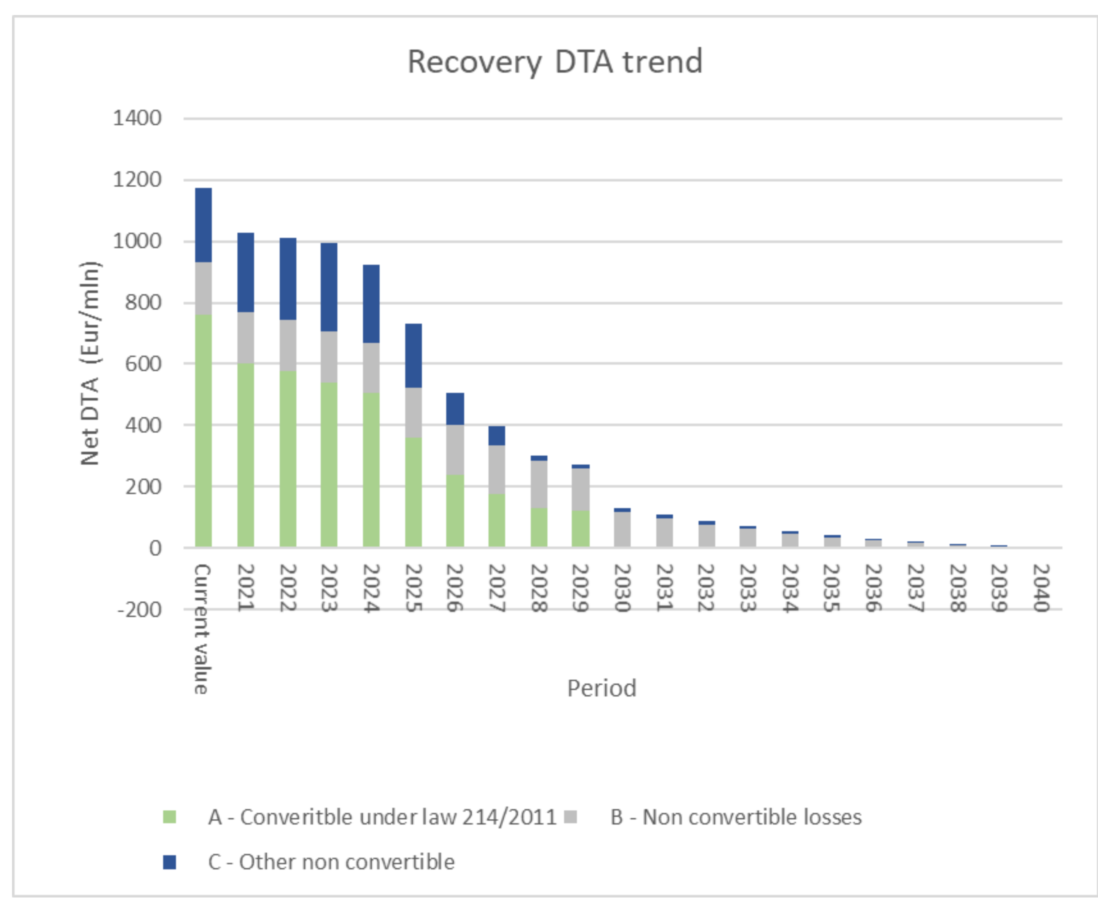
Note that the write-downs resulting from the two factors described above were recorded starting from the second quarter of 2020. The following table shows the effect that these factors have had on the item taxes in the income statement as at 31 December 2020, with respect to the valuation of the DTAs that would have been used in their absence:

	Valuation DTA Fiscal losses and ACE	Valuation DTA Others non-convertible	Total DTA adjustments
Total 2020 DTA effects (before extraordinary effects)	211.2	-31.6	179.6
Extraordinary effects 2020:			
1) Change in internal long-term projections of income statements and balance sheet aggragates	-405.4	-268.4	-673.8
2) Increase in discoutn rate of prospective results	-37.8	-12.9	-50.7
Total DTA effects in 2020	**-232.0**	**-313.0**	**-544.9**

As a result of the above-mentioned valuation, the Group had a total of EUR 3,655.7 mln in DTAs not recognised in balance sheet assets as at 31 December 2020 (EUR 2,990.9 mln as at 31 December 2019).

For the Group, this amount is a potential asset not subject to any time limits according to current tax legislation, whose recognition in balance sheet assets will be evaluated at the future financial statement dates based on the Bank's and the Group's profit outlook.

The sizeable amount of MPS Group's tax losses, equal to EUR 11,081 mln, was accrued mainly in 2016 and 2017, corresponding to the start of the Group's restructuring process, and derives essentially from significant loan adjustments for both years. In particular, for 2016 the methodologies and parameters used in measuring loans had to be updated and for 2017 the realisable value of non-performing loans sold during 2018 had to be adjusted. Therefore, pursuant to the provisions of IAS 12, paragraph 36, letter c), it is believed that these unused tax losses derive from "identifiable causes that are unlikely to recur" and in this sense have been included in the valuation process for DTAs that can be partially recognised in financial statements. The following chart shows the expected trend related to the recovery of DTAs recognised in the financial statements as at 31 December 2020, both quantitatively and over time, broken down between convertible DTAs pursuant to Law 214/2011, DTAs from non-convertible losses and other non-convertible DTAs.



The probability test model in use in MPS Group includes some input data whose fluctuations in value can significantly influence the final result of the DTA valuation recognised in financial statements. Specifically, these are:

1) forecasted taxable income in the plan's last year (2024);
2) notional rate of return of the business incentive for capitalisation;
3) discount rate of future results (coefficient used in the risk-adjusted profits approach)
4) tax rates for IRES, additional IRES and IRAP.

Certain relevant indications on the sensitivity of the results of the valuation model are provided below, assuming both an increase and decrease in each of the input data listed above. The effects shown in the table refer to the difference that would have occurred for the tax item of the 2020 income statement, compared to what was actually recognised, changing the individual variable as indicated; the change in taxable income is understood to apply to the amount indicated for each year of the time horizon (twenty years) considered in the probability test.

Inputs	Decrease	Effect on income statement of decrease in DTAs (Eur/mln)	Increase	Effect on income statement of increase in DTAs (Eur/mln)
Taxable income starting from 2025	-100 mln	-207.8	+100 mln	155.4
ACE Tax rate (%)	-0.50%	28.1	+0,50%	-28.1
Dicount rate of prospective results	-1%	50.7	+1%	-44.7
IRES Tax rate	-1%	-36.6	+1%	36.6

Current tax assets

Items/Amounts	Total 31 12 2020	Total 31 12 2019
Prepayments of corporate income tax (IRES and IRAP)	1,035	11,646
Other tax credits and withholdings	811,196	949,822
Gross current tax assets	**812,231**	**961,468**
Offsetting with current tax liabilities	(4,361)	(7,934)
Net current tax assets	**807,870**	**953,534**

"Other tax credits and withholdings" consist of income IRES/IRAP credits resulting from prior tax returns which can be used as a set-off, income tax credits claimed for refund, the tax credit arising from DTA transformation (Law no. 214/2011) for the residual amount yet to be used and tax withholdings incurred.

Current tax liabilities

Items/Amounts	31 12 2020			31 12 2019		
	Booked to net equity	Booked to P&L	Total	Booked to net equity	Booked to P&L	Total
Corporate income tax (IRES IRAP) payables	-	37	37	-	1,048	1,048
Other current income tax payables	-	4,337	4,337	-	7,308	7,308
Gross current tax payables	**-**	**4,374**	**4,374**	**-**	**8,356**	**8,356**
Offsetting with current tax assets	-	4,361	4,361	-	7,934	7,934
Net current tax payables	**-**	**13**	**13**	**-**	**422**	**422**

Section 12 - Non-current assets held for sale and disposal groups and associated liabilities - Item 120 (assets) and Item 70 (liabilities)

12.1 Non-current assets held for sale and disposal group: breakdown by type of assets

	Total	
	31 12 2020	31 12 2019
A. Assets held for sale		
A.1 Financial assets	8,369	135,778
A.2 Equity investments	-	-
A.3 Tangible assets	94,524	24,042
of which: obtained through the enforcement of the guarantees received	-	*1,077*
A.4 Intangible assets	-	-
A.5 Other non-current assets	-	-
Total A	**102,893**	**159,820**
of which valued at cost	102,355	158,902
of which designated at fair value (level 1)	539	-
of which designated at fair value (level 2)	-	-
of which designated at fair value (level 3)	-	917
B. Asset groups (discontinued operations)	**-**	**-**
C. Liabilities associated withl assets held for sale	**-**	**-**
D. Liabilities associated with discontinued operations	**-**	**-**

Line “A.1 Financial assets”, equal to EUR 8.4 mln, refers to disposals of loans classified as unlikely to pay for EUR 7.8 mln and to disposals of securities for EUR 0.6 mln. These transactions are expected to be closed by the first half of 2021.

Line “A.3 Tangible assets”, equal to EUR 94.5 mln, includes EUR 82.3 mln relating to the sale of the property portfolio to the counterparty Ardian, not yet completed, included furniture and artworks. For further details, please refer to the description of the transaction. contained in the “Notes to the Consolidated Financial Statements Part A - Application of Group accounting policies to finalised transactions or events occurred in the financial year deemed for the purpose of the statement of financial position”. The aggregate consists of property, plant and equipment held for investment purposes of EUR 56.5 mln and property, plant and equipment for business use of EUR 38.0 mln.

At the reporting date or for the year of comparison, there are no equity securities of clearly poor credit quality.

12.2 Other information

There is no more relevant information to report as at 31 December 2020.

Section 13 - Other assets - Item 130

13.1 Other assets: breakdown

	Total 31 12 2020	Total 31 12 2019
Tax credits from the Revenue and other tax levying authorities	248,884	210,936
Third party cheques held at the cashier's for collection	6,322	9,875
Cheques drawn on the Company held at the cashier's for collection	1,145	1,768
Gold, silver and precious metals	78,883	57,406
Items in transit between branches	1,796	2,682
Items in processing	535,305	730,940
Receivables associated with the provision of goods and services	20,132	19,173
Improvements and incremental costs on third party assets other than those included under tangible assets	40,026	42,046
Accrued income and prepaid expenses not attributable to its own separate item	506,993	506,459
Biological assets	2,291	2,460
Other	154,342	228,466
Total	**1,596,119**	**1,812,211**

The lines “Items in processing” and “Other” include transactions which were cleared in early 2021.

The line “Accrued income and prepaid expenses not attributable to its own separate item” includes a total of EUR 212 mln as prepaid expenses for outsourced back-office services, provided continuously by suppliers over the contract term and financially settled by the Group with decreasing amounts over time. For further details on the methods for identifying these types of services, please refer to Part A, paragraph “Other Information - Costs for constant services and decreasing payments” of these Notes to the consolidated financial statements.

The table above does not include cases attributable to the definitions of “contract assets” and “contract liabilities” at either the reporting date or for the comparison year, which would require disclosure pursuant to IFRS 15.116 and 118.

LIABILITIES

Section 1 - Financial liabilities measured at amortised cost - Item 10

1.1 Financial liabilities measured at amortised cost: breakdown of amount due to banks

Items/accounts	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Due to Central banks	23,933,588	X	X	X	16,041,495	X	X	X
2. Due to banks	4,484,484	X	X	X	4,136,642	X	X	X
2.1 Current accounts and demand deposits	531,497	X	X	X	661,734	X	X	X
2.2 Time deposits	14,482	X	X	X	37,079	X	X	X
2.3 Loans	3,355,662	X	X	X	2,843,209	X	X	X
2.3.1 Repurchase agreements	3,252,718	X	X	X	2,704,382	X	X	X
2.3.2 Other	102,944	X	X	X	138,827	X	X	X
2.4 Liabilities for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
2.5 Lease liabilities	504	X	X	X	546	X	X	X
2.6 Other liabilities	582,339	X	X	X	594,074	X	X	X
Total	**28,418,072**	**-**	**28,418,072**	**-**	**20,178,137**	**-**	**20,178,137**	**-**

The balance of the item "Due to Central banks" of EUR 23,933.6 mln refers to funding operations from the ECB and is almost entirely represented by TLTRO-III loans subscribed by the Parent Company in three quarterly auctions starting from December 2019.

Line 2.3.1 "Repurchase agreements" contains the financial liabilities arising from repo transactions with banks on both treasury securities and securities made available through reverse repurchase agreements or securities lending transactions.

1.2 Financial liabilities measured at amortised cost: breakdown of deposits from customers

Type of transactions/Amounts	Total 31 12 2020				Total 31 12 2019			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Current accounts and demand deposits	67,988,726	X	X	X	56,045,625	X	X	X
2. Time deposits	8,827,434	X	X	X	9,594,193	X	X	X
3. Loans	12,683,113	X	X	X	9,841,434	X	X	X
3.1 Repurchase agreements	9,508,366	X	X	X	6,173,681	X	X	X
3.2 Others	3,174,747	X	X	X	3,667,752	X	X	X
4. Liabilities for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
5. Lease liabilities	222,221	X	X	X	266,511	X	X	X
6. Other liabilities	962,175	X	X	X	779,156	X	X	X
Total	**90,683,669**	**-**	**90,683,669**	**-**	**76,526,919**	**-**	**76,526,919**	**-**

Line "3.3.1 Repurchase agreements" contains the financial liabilities arising from repo transactions with customers on both treasury securities and securities made available through reverse repurchase agreements or securities lending transactions.

1.3 Financial liabilities measured at amortised cost: breakdown of debt securities issued

Type of Securities/ Amounts	Total 31 12 2020					Total 31 12 2019				
	Book value	Fair value				Book value	Fair value			
		Level 1	Level 2	Level 3	Total		Level 1	Level 2	Level 3	Total
A. Listed securities										
1. Bonds	12,019,075	11,190,686	1,295,139	-	12,485,825	13,906,905	11,918,532	2,196,574	-	14,115,106
1.1 Structured	-	-	-	-	-	-	-	-	-	-
1.2 Other	12,019,075	11,190,686	1,295,139	-	12,485,825	13,906,905	11,918,532	2,196,574	-	14,115,106
2. Other securities	823,179	-	823,179	-	823,179	3,536,348	-	3,536,348	-	3,536,348
2.1 Structured	-	-	-	-	-	-	-	-	-	-
2.2 Other	823,179	-	823,179	-	823,179	3,536,348	-	3,536,348	-	3,536,348
Total	**12,842,254**	**11,190,686**	**2,118,318**	**-**	**13,309,004**	**17,443,253**	**11,918,532**	**5,732,922**	**-**	**17,651,454**

The table shows funding represented by securities, including bonds and certificates of deposit (outstanding and maturities).

Liabilities are net of bonds and repurchased CDs. In this regard, it should be noted that as at 31 December 2020 the Group had no issues with a State guarantee. As at 31 December 2019, there were State-guaranteed bonds in place, issued and concurrently repurchased, for a nominal amount of EUR 4.8 bn, part of which, for a nominal EUR 3.1 bn, were then pledged as collateral for financing transactions.

The table includes EUR 6.3 bn in liabilities subject to specific fair value hedging (EUR 8.3 bn as at 31 December 2019), almost entirely to hedge interest rate risk.

The Group also proceeded with operational hedging of interest rate risk for EUR 3.5 bn in own securities issued (EUR 4.3 bn at the end of 2019) through the purchase of Italian government securities with residual life not lower/higher than six months in relation to the maturities of the matching liabilities.

1.4 Details of subordinated liabilities/securities

Types of Instruments	Date of issue	Date of maturity	Early repayment starting from	Grand-fathering	Currency	Rate	Step up	31 12 2020		31 12 2019	
								Nominal value	Book value	Nominal value	Book value
Subordinated loans to bank											
Subordinated loans to customers											
Subordinated debts securities issued											
Subordinated bond loan	18/01/18	18/01/28	18/01/23	NO	Eur	5,375% fixed*	NO	750,000	787,932	787,801	787,801
Subordinated bond loan	23/07/19	23/07/29	NO	NO	Eur	10,5% fixed	NO	300,000	310,823	300,000	310,568
Subordinated bond loan	22/01/20	22/01/30	22/01/25	NO	Eur	8,0% fixed	NO	400,000	429,537	n.d	n.d
Subordinated bond loan	10/09/20	10/09/30	10/09/25	NO	Eur	8,5% fixed	NO	300,000	303,230	n.d	n.d
Total								**1,750,000**	**1,831,522**	**1,050,000**	**1,098,369**

** 5.375% until 18 January 2023, subsequently 5Y EUR mid-swap rate + 5.005%*

1.5 Details of structured liabilities

This table was not completed as the Group has no such liabilities to report for either the current or the previous year.

1.6 Lease payables

Type of transactions/Values	31 12 2020	31 12 2019
Lease liabilities	**251,314**	**299,714**
Future minimum lease payment included in lease liabilities not discounted up to 5 years	**194,009**	**225,095**
Up to 1 month	8,038	9,103
from 1 to 3 months	4,737	5,423
from 3 months to 1 year	38,071	40,845
from 1 to 5 years	143,163	169,724
Not discounted outgoing cash flow for lease liabilities over to 5 years	**57,305**	**74,619**

The table shows the non-discounted outgoing cash flows for lease liabilities broken down by time bracket.

Section 2 - Financial liabilities held for trading - Item 20

2.1 Financial liabilities held for trading: breakdown

Type of transaction/ Group item	NV	Total 31 12 2020 FV				FV*
		Level 1	Level 2	Level 3	Total	
A. Balance-sheet liabilities						
1. Due to banks	686,303	730,774	-	-	730,774	730,774
2. Due to customers	3,064,117	3,814,725	-	-	3,814,725	3,814,725
3. Debt securities issued	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	-	X
3.1.2 Other	-	-	-	-	-	X
3.2 Other securities	-	-	-	-	-	-
3.2.1 Structured	-	-	-	-	-	X
3.2.2 Other	-	-	-	-	-	X
Total A	**3,750,420**	**4,545,499**	**-**	**-**	**4,545,499**	**4,545,499**
B. Derivatives						
1. Financial derivatives		-	1,327,649	-	1,327,649	
1.1 Trading	X	-	1,327,640	-	1,327,640	X
1.2 Fair value option (FVO)	X	-	9	-	9	X
1.3 Other	X	-	-	-	-	X
2. Credit derivatives		-	128,872	-	128,872	
2.1 Trading	X	-	128,872	-	128,872	X
2.2 Fair value option (FVO)	X	-	-	-	-	X
2.3 Other	X	-	-	-	-	X
Total B	**X**	**-**	**1,456,521**	**-**	**1,456,521**	**X**
Total (A+B)	**X**	**4,545,499**	**1,456,521**	**-**	**6,002,020**	**X**

Key
NV = Nominal or Notional Value
FV = Fair value
FV*= Fair value calculated excluding value adjustments due to variations in the credit rating of the issuer since the date of issue

Criteria adopted for classification of financial instruments in the three levels of the "fair value hierarchy" are reported in Section A.3, "Fair value disclosure" of Part A, "Accounting policies" of the notes to the consolidated financial statements.

The amounts classified in lines "1. Due to banks" and "2. Due to customers" are related primarily to those in lines "1. Debt securities" and "4. Loans" in table 2.1 of the assets "Financial assets held for trading". Please also note that the sub-items "Due to banks" and "Due to customers", mentioned above, also incorporate uncovered short positions. They are designated at fair value in line with the method applied for "long" positions.

Derivatives connected with fair value option instruments are also included in the trading book: these cover the risks of funding designated at fair value arising from possible interest rate fluctuations and from any embedded options in structured bonds issued (natural and systematic hedging). The fair value of these derivatives is shown in the table in line B 1.1.2

Note that for FVO derivatives with the subsidiary MPS Capital Services S.p.A. the relevant internal units responsible for risk management perform suitable tests at consolidated level in order to periodically test the effectiveness of the hedge established from the perspective of a "natural hedge".

The fair value calculated on financial derivatives includes value adjustments owing to changes in the Group's creditworthiness, Debit Value Adjustment (i.e. DVA), totalling EUR 3.4 mln (EUR 6.1 mln as at 31 December 2019).

Type of transaction/ Group item	Total 31 12 2019					
	NV	FV				FV*
		Level 1	Level 2	Level 3	Total	
A. Balance-sheet liabilities						
1. Due to banks	1,547,156	1,884,151	103	-	1,884,254	1,884,255
2. Due to customers	509,396	551,777	7	-	551,784	551,784
3. Debt securities issued	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	-	X
3.1.2 Other	-	-	-	-	-	X
3.2 Other securities	-	-	-	-	-	-
3.2.1 Structured	-	-	-	-	-	X
3.2.2 Other	-	-	-	-	-	X
Total A	**2,056,552**	**2,435,928**	**110**	**-**	**2,436,038**	**2,436,039**
B. Derivatives						
1. Financial derivatives		-	1,321,871	-	1,321,871	
1.1 Trading	X	-	1,321,500	-	1,321,500	X
1.2 Fair value option (FVO)	X	-	371	-	371	X
1.3 Other	X	-	-	-	-	X
2. Credit derivatives		-	124,714	-	124,714	
2.1 Trading	X	-	124,714	-	124,714	X
2.2 Fair value option (FVO)	X	-	-	-	-	X
2.3 Other	X	-	-	-	-	X
Total B	**X**	**-**	**1,446,585**	**-**	**1,446,585**	**X**
Total (A+B)	**X**	**2,435,928**	**1,446,695**	**-**	**3,882,623**	**X**

Key
NV = Nominal or Notional Value
FV = Fair value
FV*= Fair value calculated excluding value adjustments due to variations in the credit rating of the issuer since the date of issue

2.2 Details of item 20 "Financial liabilities held for trading": subordinated liabilities

This table has not been completed as the Group has no such liabilities to report for either the current or the previous year.

2.3 Details of item 20 "Financial liabilities held for trading": structured liabilities

This table has not been completed as the Group has no such liabilities to report for either the current or the previous year.

Section 3 - Financial liabilities designated at fair value - Item 30

3.1 Financial liabilities designated at fair value: breakdown

Type of transaction / Amount	Total 31 12 2020					
	NV	FV				FV*
		Level 1	Level 2	Level 3	Total	
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Debt securities issued	150,365	-	193,332	-	193,332	226,190
3.1 Structured	48,878	-	47,058	-	47,058	X
3.2 Other	101,487	-	146,274	-	146,274	X
Total	**150,365**	**-**	**193,332**	**-**	**193,332**	**226,190**

key

NV = *Nominal or Notional Value*
FV = Fair Value

FV*= *Fair value calculated excluding value adjustments due to variations in the credit rating of the issuer since the date of issue*

The table shows the financial liabilities represented by fixed-rate and structured bonds which have been classified at fair value and are subject to hedging. Hedging occurs through derivative contracts and is used to cover the risk of interest rate fluctuations and the risk resulting from embedded options.

In the income statement, positive and negative spreads or margins relative to derivative contracts until the balance sheet date are recognised as interest income and expense, while valuation profits and losses are posted under item "80 - Net profit (loss) from trading". Profit/loss from financial liabilities measured at fair value is recognised:

- among other revenue items without reversal to the income statement for the amount referring to changes in own creditworthiness;
- in item 110 "Net profit (loss) from other financial assets and liabilities measured at fair value through profit or loss" of the income statement for the residual portion of the fair value change.

The above recognition method does not create nor expand accounting asymmetry in the profit (loss) for the year, as the effects of changes in the credit risk of the Group's liabilities are not offset in the income statement by a change in the fair value of another financial instrument measured at fair value through profit or loss for the year.

Type of transaction / Amount	Total 31 12 2019					
	NV	FV				FV*
		Level 1	Level 2	Level 3	Total	
1. Due to banks	-	-	-	-	-	-
1.1 Structured	-	-	-	-	-	X
1.2 Other	-	-	-	-	-	X
of which commitments to disburs funds						
of which financial guarantees issued						
2. Due to customers	-	-	-	-	-	-
2.1 Structured	-	-	-	-	-	X
2.2 Other	-	-	-	-	-	X
of which commitments to disburs funds						
of which financial guarantees issued						
3. Debt securities issued	219,108	-	247,116	-	247,116	290,819
Total	**219,108**	**-**	**247,116**	**-**	**247,116**	**290,819**

Key

NV = *Nominal or Notional Value*
FV = *Fair Value*

FV*= *Fair value calculated excluding value adjustments due to variations in the credit rating of the issuer since the date of issue*

3.1.a Financial liabilities designated at fair value: fair value option approach

All liabilities for which the fair value option was adopted refer to natural hedges through debt security derivatives for a book value of EUR 193 mln, as compared to EUR 247.1 mln in the previous year.

3.1.b Financial liabilities designated at fair value: structured debt securities

Items/Amount	31 12 2020				Total
	Structured loan to banks	Structured loan to customers	Structured securities	Total	31 12 2019
Index Linked	-	-	47,058	47,058	57,412
Total	**-**	**-**	**47,058**	**47,058**	**57,412**

The table reports the main types of structured bonds issued by the Group and measured at fair value. Since bonds are measured at fair value through profit or loss, embedded derivatives are not reported separately.

3.2 Details of "Financial liabilities designated at fair value": subordinated liabilities

This table was not completed as the Group has no such liabilities to report for either the current or the previous year.

Section 4 - Hedging derivatives - Item 40

4.1 Hedging derivatives: breakdown by type of hedge and level

	Fair value 31 12 2020				NV
	Level 1	Level 2	Level 3	Total	
A. Financial derivatives	**-**	**1,797,049**	**-**	**1,797,049**	**25,779,188**
1) Fair value	-	1,797,049	-	1,797,049	25,779,188
2) Cash flows	-	-	-	-	-
3) Foreign investments	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-
2) Cash flows	-	-	-	-	-
Total	**-**	**1,797,049**	**-**	**1,797,049**	**25,779,188**

Key

NV = Nominal or Notional Value

The table displays the negative book value (fair value) of hedging derivatives for hedges carried out through hedge accounting.

In 2020, compared to 2019, there was an increase in the negative fair value of hedging derivatives due to the trend in market rates, which reflected the positive fair value of the hedged assets.

Information on the underlying strategies and objectives of hedge transactions can be found in Section 1.2 "Market risks" of Part E - "Information on risks and hedging policies".

	Fair value 31 12 2019				NV
	Level 1	Level 2	Level 3	Total	
A. Financial derivatives	**-**	**1,315,905**	**-**	**1,315,905**	**39,773,932**
1) Fair value	-	1,315,905	-	1,315,905	39,773,932
2) Cash flows	-	-	-	-	-
3) Foreign investments	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-
2) Cash flows	-	-	-	-	-
Total	**-**	**1,315,905**	**-**	**1,315,905**	**39,773,932**

Key

NV = Nominal or Notional Value

4.2 Hedging derivatives: breakdown by hedged portfolios and type of hedging

Transaction/Type of hedge	Fair Value							Cash flow Hedge			Total
	Micro Hedge						Macro-hedge	Micro-hedge	Macro-hedge	Foreign investments	31 12 2020
	Debt securities and interest rate	Equity instruments and stock indicies	currencies and gold	Credit	Goods	Others					
1.Financial assets measured at fair value through other comprehensive income	28,036	-	-	-	X	X	X	-	X	X	28,036
2. Financial assets measured at amortised cost	529,049	X	6,515	-	X	X	X	-	X	X	535,564
3. Portfolio	X	X	X	X	X	X	1,205,323	X	-	X	1,205,323
4. Other transactions	-	-	-	-	-	-	X	-	X	-	-
Total assets	**557,085**	**-**	**6,515**	**-**	**-**	**-**	**1,205,323**	**-**	**-**	**-**	**1,768,923**
1. Financial liabilities	27,560	X	-	-	-	-	X	-	X	X	27,560
2. Portfolio	X	X	X	X	X	X	566	X	-	X	566
Total liabilities	**27,560**	**-**	**-**	**-**	**-**	**-**	**566**	**-**	**-**	**-**	**28,126**
1. Expected transactions	X	X	X	X	X	X	X	-	X	X	-
2. Financial assets and liabilities portfolio	X	X	X	X	X	X	-	X	-	-	-
Total	**584,645**	**-**	**6,515**	**-**	**-**	**-**	**1,205,889**	**-**	**-**	**-**	**1,797,049**

The tables show the negative fair values of hedging derivatives, classified by hedged assets or liabilities and type of hedging implemented.

In particular, on the assets side, fair value micro-hedging was used to hedge against interest rate risk on bonds classified in the portfolio “Financial assets measured at fair value through other comprehensive income” and on securities and loans classified in the portfolio “Financial assets measured at amortised cost”, in order to protect them from unfavourable interest rate changes. Fair value macro-hedging was carried out on fixed-rate and cap/floor floating rate mortgage loan portfolios.

With reference to financial liabilities, fair value micro-hedging of the interest rate risk refers primarily to hedges of liabilities represented by securities, while fair value macro-hedging of the interest rate risk refers to hedges of liabilities represented by deposit accounts.

More information on hedged assets and liabilities can be found in the tables contained in Part B of the notes for each section of the balance sheet items to which the hedged items are posted.

Section 5 - Changes in value of macro-hedged financial liabilities - Item 50

5.1 Change in value of hedged liabilities: breakdown by hedged portfolios

Fair value change of financial liabilities in hedged portfolios / Values	Total 31 12 2020	Total 31 12 2019
1. Positive fair value change of financial liabilities	45,428	31,390
2. Negative fair value change of financial liabilities	-	-
Total	**45,428**	**31,390**

The balance of changes in value of the liabilities subject to macro-hedging of interest rate risk is recognised in this item.

Section 6 – Tax liabilities – Item 60

For comments on tax liabilities please refer to “Section 10 - Tax assets and tax liabilities” of the balance sheet assets.

Section 7 – Liabilities associated with non-current assets held for sale and disposal groups– Item 70

For the details of the liabilities associated with assets held for sale, please refer to "Section 12 - Non-current assets and groups of assets held for sale and associated liabilities" of the balance sheet assets.

Section 8 – Other liabilities – Item 80

8.1 Other liabilities: breakdown

	Total 31 12 2020	Total 31 12 2019
Due to the Revenue and other tax levying authorities	122,241	153,398
Due to social security authorities	284,580	310,066
Amounts available to customers	90,476	44,151
Other amounts due to employees	21,086	25,314
Items in transit between branches	13,919	13,297
Items in processing	475,762	719,352
Payables in relation to the payment of supplies of goods and services	300,279	320,326
Accrued expenses and unearned revenues not attributable to other line items	61,078	90,940
Other	1,157,625	1,221,043
Total	**2,527,046**	**2,897,887**

Sub-items "Items in processing" and "Other" include transactions which were cleared during the first days of 2021.

For the disclosures pursuant to IFRS 15.116 and IFRS 15.118, please refer to section 13 of the assets.

Section 9 – Provision for employee severance pay – Item 90

9.1 Provision for employee severance pay: annual changes

	Total 31 12 2020	Total 31 12 2019
A. Opening balance	**178,653**	**192,116**
B. Increases	**7,382**	**7,268**
B.1 Provision for the year	813	2,301
B.2 Other increases	6,569	4,967
C. Decreases	**19,482**	**20,731**
C.1 Severance payments	19,086	19,865
C.2 Other decreases	396	866
D. Closing balance	**166,553**	**178,653**

9.2 Other information

Provision for employee severance pay is considered as a defined benefit fund for the purpose of international accounting standards.

The provision for the year, as clarified by the Bank of Italy, does not include amounts which, as a result of the reform introduced by Legislative Decree no. 252 of 5 December 2005, are paid directly by the Bank, depending on the various employee options, to complementary pension schemes or to the treasury fund managed directly by the Italian National Social Security Institute (INPS). These items are recognised in personnel expenses, as "contributions to external pension funds: defined contribution".

9.2.a Changes in net defined benefit liabilities during the year: severance pay

Item/Amount	Present value of DBO	
	31 12 2020	31 12 2019
Opening balance	**178,653**	**192,116**
Current service cost	22	31
Interest income/expense	791	2,268
Remeasurement of net defined benefit liability (asset):	2,217	4,948
Actuarial gains (losses) arising from changes in demographic assumptions	1	-
Actuarial gains (losses) arising from experience adjustments	(1,412)	(2,308)
Actuarial gains (losses) arising from changes in financial assumptions	3,628	7,256
Payments from plan	(18,988)	(19,778)
Effect of any plan curtailments	92	-
Effect of any plan settlements	193	95
Other changes	3,959	(837)
Closing balance	**166,553**	**178,653**

The table above reports the information required by paragraphs 140 and 141 of IAS 19.

9.2.b Key actuarial assumptions used

Key actuarial assumptions/percentage	31 12 2020	31 12 2019
Discount rates	-0.06% - 2.48%	0,26% - 2,63%
Expected rates of salary increases	X	X

9.2.c Sensitivity of defined benefit obligation of severance pay to changes in key actuarial assumptions

Actuarial assumptions	31 12 2020		31 12 2019	
	Change in DBO	Change (%) in DBO	Change in DBO	Change (%) in DBO
Discount rates				
Increase of 0.25%	(3,185)	-1.91%	(3,553)	-1.99%
Decrease of 0.25%	3,002	1.80%	3,335	1.87%

Section 10 – Provisions for risks and charges – Item 100

10.1 Provisions for risks and charges: breakdown

Item/Amount	Total 31 12 2020	Total 31 12 2019
1. Provision for credit risk on commitments and financial guarantees issued	143,429	158,793
2. Provision for other commitments and guarantee issued	10,652	-
3. Pensions and other post retirement benefit obligations	32,979	36,133
4. Other provisions for risks and charges	1,705,548	1,014,948
4.1 legal and tax disputes	971,931	542,815
4.2 personnel charges	56,553	58,070
4.3 other	677,064	414,063
Total	**1,892,608**	**1,209,874**

For further details of the sub-item 4.3 "others", please refer to table 10.6 below "Provisions for risks and charges - Other provisions".

10.2 Provisions for risks and charges: annual changes

Item/Amount	Total 31 12 2020			
	Provisions for commitments and other guarantees issued	Pensions and other post retirement benefit obligations	Other provisions	Total
A. Opening balance	**-**	**36,133**	**1,014,948**	**1,051,081**
B. Increases	**10,652**	**8,393**	**1,219,465**	**1,238,510**
B.1 Provision for the year	10,652	4	1,218,592	1,229,248
B.2 Changes due to the time value of money	-	9	-	9
B.3 Changes due to discount rate changes	-	8,310	-	8,310
B.4 Other increases	-	70	873	943
C. Decreases	**-**	**11,547**	**528,865**	**540,412**
C.1 Use during the year	-	3,155	412,037	415,192
C.2 Changes due to discount rate changes	-	-	-	-
C.3 Other decreases	-	8,392	116,828	125,220
D. Closing balance	**10,652**	**32,979**	**1,705,548**	**1,749,179**

10.2-bis Other provisions for risks and charges: annual changes

Item/Amount	Total 31 12 2020			
	Provision for Tax and legal disputes	Provision for personnel charges	Other Provisions	Total
A. Opening balance	**542,815**	**58,070**	**414,063**	**1,014,948**
B. Increases	**606,953**	**128,042**	**484,470**	**1,219,465**
B.1 Provision for the year	606,953	128,042	483,597	1,218,592
B.2 Changes due to the time value of money	-	-	-	-
B.3 Changes due to discount rate changes	-	-	-	-
B.4 Other increases	-	-	873	873
C. Decreases	**177,837**	**129,559**	**221,469**	**528,865**
C.1 Use during the year	100,466	112,489	199,082	412,037
C.2 Changes due to discount rate changes	-	-	-	-
C.3 Other decreases	77,371	17,070	22,387	116,828
D. Closing balance	**971,931**	**56,553**	**677,064**	**1,705,548**

The provisions in line B.1 in line with the columns

- “Provisions for legal and tax disputes” are mainly linked to the disputes related to financial information disclosed in the period 2008-2015;
- “Provisions for personnel charges” include provisions for early retirement incentives/solidarity fund pursuant to the agreement of 06 August 2020 entered into whit trade unions, for EUR 93.6 mln;
- “Other provisions” include the valuations relating to the risks associated with guarantees issued as part of the derisking of non-performing loans and to the risks relating to transactions with customers, including those against expected future repayments associated with contracts falling within the scope of IFRS 15.

For further details, please refer to next table 10.6 and to Section 5 “Operational risks” of Part E of the Notes to the consolidated financial statements.

10.3 Provisions for credit risk relative to commitments and financial guarantees given

	Provisions for loans commitments and other financial guarantees issued			
	Stage 1	Stage 2	Stage 3	Total 31 12 2020
Commitments to disburse funds	5,590	2,088	4	7,682
Fiancial guarantees issued	6,679	9,103	119,965	135,747
Total	**12,269**	**11,191**	**119,969**	**143,429**

	Provisions for loans commitments and other financial guarantees issued			
	Stage 1	Stage 2	Stage 3	Total 31 12 2019
Commitments to disburse funds	2,548	2,848	1	5,397
Fiancial guarantees issued	4,636	5,877	142,883	153,396
Total	**7,184**	**8,725**	**142,884**	**158,793**

10.4 Provisions on other commitments and guarantees given

Provisions on other commitments under IAS 37 and other guarantees issued under IFRS4	Total 31 12 2020	
	Nominal Amount	Provision
Other commitments to disburse funds	10,652	10,652
Other financial guarantees issued	-	-
Total	**10,652**	**10,652**

10.5 Pensions and defined benefit obligations

10.5.1. Description of funds and related risks

The information provided below concerns defined benefit pension funds in favour of employees and terminated employees of the Parent Company and the Group companies, i.e. funds in which the obligation of future payment of retirement benefits is undertaken by the funds and indirectly by the companies, which may be required to increase the value of the obligation in the event of inadequate capital assessed in accordance with actuarial criteria.

For each definite benefit plan the Group relies on analyses carried out by an independent certified actuary.

In accounting for the plans, the surplus or deficit was determined using the “credit unitary projection” method; therefore, the fair value of the assets servicing the plan, if any, was deducted from the current value of the obligation, as shown in the statement of financial position (see Part A of the Notes - Accounting Policies).

The valuations concerned those participating, which form a closed group of retired or active employees, and were carried out on the basis of these groups of employees as measured in December 2020 (with the exclusion of the Section of the Cassa di Previdenza Aziendale - Company’s Pension Scheme) for employees of Monte dei Paschi di Siena, valued as at 30 November 2020).

In accordance with IAS 19, revised by amendments issued by IASB on 16 June 2011 and approved by EU Regulation no. 475/2012 dated 5 June 2012, in determining the total cost of each defined benefit plan, which - as is well-known - may be influenced by many variables, objective and prudential technical bases were adopted in formulating both demographic and financial assumptions.

In view of the evolutionary nature of the main relevant aggregates, actuarial valuations were performed under dynamic conditions, so as to subsume in the medium-long term both the average annual changes in the benefits defined in each plan, and the interest rate trends expected in the financial market.

Some of the main actuarial assumptions that were formulated and used as valuation bases are mentioned below:

- technical mortality basis: using death probability data as provided in ISTAT's 2019 tables, broken down by gender and age, with mortality reduced by 20%;
- economic-financial basis: using as annual relative interest rate the interpolated EUR Composite AA rate curve (BFV) as at 31 December 2020.

For each defined benefit plan, the balance sheet equity resulting from valuations carried after reconciliation of actuarial assets and liabilities as at 31 December 2020 underwent a sensitivity analysis to examine the effects of changes in the key technical assumptions included in the calculation model (average annual discount rate and inflation rate), and the results were presented in specific tables.

The theoretical future increase in INPS pensionable earnings was not included in the sensitivity analysis because it is essentially irrelevant for the preparation of the technical financial statements as, given that all defined benefit pensions funds are closed to new participants and taking into account the progressive decrease in the active population due to retirements during the year, the ratio between active and retired participants has now reduced to a percentage of less than 0.1%.

The defined benefit plans, in which the Group companies are co-obliged within the limits set out in the respective by-laws or regulations, are either internal plans, divided in the description below between unfunded and funded, or independent external funds.

With the objective defined by trade union agreements to strengthen and rationalise the overall Group welfare system, at the end of the process envisaged by the provisions in force on 23 September 2020, the Supervisory Commission on Pension Funds (COVIP), at the time of approval of the amendments to the Articles of Association proposed by the Monte dei Paschi di Siena Pension Fund, authorised the centralisation and unification of defined benefit funds (with the exception of Cassa di Previdenza Aziendale MPS) in a new Section B of the same Fund, separate and autonomous with respect to the remaining assets. This will have no impact on the supplementary pensions recognised on the basis of the Articles of Association and/or Regulations of the funds called in, with the commitment of the transferring Bank to maintain adequate capitalisation over time for the disbursement of annuities.

Unfunded internal funds

Supplementary pension provision for staff in the former tax collection division of Banca Monte dei Paschi di Siena S.p.A.

(Bank Register no. 9185)

This is a defined benefit plan designed to provide retired staff of the former Direct Management division of the Parent Company with supplementary pension in the form of annuity.

The entitled population, consisting solely of retirees whose number is 296, is made up of staff of the former business unit, divested in 2006, who retired after the year 1982.

For the purposes of the preparation of the technical financial statements, the liabilities were valued taking into account INPS pension payment regulations issued by Law no. 335/95 as amended and the Plan Regulations.

The valuations concerning participants were carried out on the basis of the positions of retirees, taking into account details on currently paid pensions, types of pension, personal data of the beneficiary and amount of the annuity paid by the Fund and that paid by INPS.

In the event that the agreed benefits are costlier than expected, the Parent Company remains responsible for providing additional funds to meet the financial requirements of the retirement plans.

The valuations show an actuarial loss of EUR 0.1 mln at 31 December 2020.

National insurance (INPS) for former Banca Operaia di Bologna staff

(Bank Register no. 9142)

The fund is intended to supplement benefits paid out under INPS pension schemes for retired employees of former Banca Operaia di Bologna.

The Plan's Regulations, signed on 23 September 1980, provide for supplementary benefit up to a certain percentage of the last salary earned. For pension calculation purposes, annual salary is understood as the set of items paid on a continuous basis; benefits are paid out to surviving dependants. For the purposes of the preparation of the technical financial statements, the liabilities were valued taking into account INPS pension payment regulations issued by Law no. 335/95 as amended.

The valuations concerning participants were carried out taking into account details on currently paid pensions, personal data of the beneficiary and the ratio between the annuity paid by the Fund and that paid by INPS.

In the event of deficit, the Parent Company remains responsible for providing additional funds to meet the financial requirements of the retirement plans.

The valuations show an actuarial loss of EUR 0.02 mln at 31 December 2020.

The plan applies to a population made up exclusively of non-active participants, of which 63 are retired and 3 are active employees.

Pension provision for employees of former Banca di Credito Popolare e Cooperativo di Reggio Emilia

(Bank Register no. 9178)

The sole aim of the fund is to supplement compulsory schemes in order to guarantee higher levels of insurance coverage for ex-employees of former Banca di Credito Popolare e Cooperativo di Reggio Emilia, as the direct beneficiaries of a life annuity or as the surviving spouse of a former employee.

The pension provision for employees participating in the Fund is governed by the Regulations issued in 1977 and later amended to reflect subsequent laws. It provides for payment of supplementary benefits so as to reach a certain percentage of the last salary earned.

The valuations concerning participants were carried out taking into account details on currently paid pensions, personal data of the beneficiary and the ratio between the annuity paid by the Fund and that paid by INPS.

The obligation to pay the benefits lies with the Parent Company, which must provide the wherewithal to cover the liability over time.

The valuations show an actuarial loss of EUR 0.02 mln at 31 December 2020.

The Plan applies to a population of only 11 retirees.

Pension provision for employees of former Banca Popolare Veneta

(Bank Register no. 9066)

The pension plan, which applies to a residual population of 18 retirees, is aimed at supplementing the benefits paid out by INPS for employees already retired at 7 December 1989 and their assignees, under labour agreements signed on 4 February 1956 and on 1 January 1982 for executive staff, as amended and supplemented.

The valuations concerning participants were carried out taking into account details on currently paid pensions, personal data of the beneficiary and the ratio between the annuity paid by the Fund and that paid by INPS.

In the event of deficit, the Parent Company is responsible for providing additional funds to meet the financial requirements of the retirement plans.

The valuations show an actuarial loss of EUR 0.1 mln at 31 December 2020.

Pension fund MPS Capital Services Banca per le Imprese S.p.A.

(Bank Register no. 9134)

This defined benefit supplementary pension fund is reserved to 35 retirees, including 24 direct and 11 indirect beneficiaries.

The valuations show an actuarial loss of EUR 0.07 mln at the date of 31 December 2020.

Funded internal funds

Pension provision for employees of former Banca Nazionale Agricoltura

(Bank Register no. 9047)

The purpose of this Provision is to pay additional retirement benefits over and above those paid by INPS to employees of the former Banca Nazionale dell'Agricoltura, who retired before 1 October 2000 or whose employment was terminated after this date without their having exercised the right, provided under the agreement of 12 September 2000, to transfer their contributions to another individual capitalisation, defined contribution fund.

The pension plan applies to a population of 202 retirees and 3 employees on deferred retirement.

The Plan's Regulations, first approved in 1966, provide for supplementary benefit up to a certain percentage of the last salary earned, to be paid to the direct beneficiaries and their surviving dependants.

The valuations concerning participants were carried out taking into account details on currently paid pensions, personal data of the beneficiary and the ratio between the annuity paid by the Fund and that paid by INPS.

Although the Fund has its own separate and independent allocation capital, the guarantee of performance of the benefit payment obligation lies with the Parent Company, which must ensure the wherewithal to cover the liability over time.

At the valuation date of 31 December 2020, the actuarial calculations show that the capital adequacy of the Fund satisfies the obligation to pay benefits with respect to the participants.

Supplementary pension provision for employees of former Banca Toscana

(Bank Register no. 9110)

This defined benefit supplementary pension fund is reserved for employees of the former Banca Toscana who were already retired at 1 January 1999 and to active employees hired before 27 April 1993 who did not opt at the time to transfer their contributions to an individual capitalisation and defined contribution fund.

The population of employees eligible for the present and future benefits is composed of 756 retirees and 5 active employees.

The current Fund Regulations set out the rules concerning the retirement benefits to be paid to eligible employees, distinguishing between old age, seniority and disability pensions. Calculation of the supplementary benefits is based on the average of the last three years of employment, taking into account only the items specified in the Regulations.

The guarantee of performance of the benefit payment obligation lies with the Parent Company, which must ensure the wherewithal to cover the liability over time, although the Fund has its own separate accounting and capital, with the effects set out in art. 2117 of the Italian Civil Code.

At the valuation date of 31 December 2020, the actuarial calculations show that the capital adequacy of the Fund satisfies the obligation to pay benefits with respect to the participants.

External funds

Cassa di Previdenza Aziendale for Monte dei Paschi di Siena employees

(Bank Register no. 1127)

The Fund has legal personality and full independence in terms of capital and operation.

It is reserved to employees and retirees of the Parent Company hired until 31 December 1990 who, following the agreement of 30 June 1989, opted to remain in the specific supplementary benefit Section under a defined benefit regime.

The Fund's governance consists of a Board of Directors and a Board of Statutory Auditors with joint membership (some of the members are appointed by the Parent Company and others are appointed by the participants) supported by the General Manager.

The Parent Company provides, free of charge, the employees, premises and other resources required for the autonomous management of the Cassa and incurs all the related costs and expenses, including those for the functioning of the governing and control bodies.

In terms of guarantees given, in accordance with art. 26 of the By-laws, any deficits in Section coverage which should be identified during actuarial checks will be made up by the Parent Company only to the extent necessary to maintain tier 1 services, in accordance with the guarantee to the participants undertaken in compliance with Law no. 218/90 and referred to in the agreement of 24 June 1991.

The supplementary benefits, which are determined by subtracting the benefits paid out by INPS from the annual amount of the supplementary benefits, are made up of two components. The first component increases the benefits to be paid by the Cassa up to 70% of the fixed items of the salary of an employee of the same level, and the second component increases the supplementary benefits by a further 9%.

The assets that comprise the reference capital consist primarily of investments in securities, managed almost entirely under a financial management agreement, and properties.

The population is composed of 2,434 retirees, 154 active employees and 34 employees on deferred retirement.

The technical report prepared in accordance with IAS 19 criteria by the designated actuary shows the capital adequacy of the Supplementary Section which, against an asset fair value calculated at 30 November 2020 (*) of EUR 309.6 mln, takes into consideration a defined benefit obligation (DBO) as at 31 December 2020 of EUR 100.9 mln.

(*) most recent figure available

Pension Fund for personnel of former Banca Agricola Mantovana S.p.A.

(Bank Register no. 1341)

The Fund, which operates on a defined benefit basis, has legal personality and full independence in terms of capital and operation, as its legal form is that of an unincorporated association under art. 36 of the Italian Civil Code.

The sole purpose of the Fund is to pay to eligible participants supplementary benefits over and above those paid out by INPS; the participants include 28 retirees and 2 employees on deferred retirement.

At the valuation date of 31 December 2020, the actuarial calculations highlight a DBO (Defined Benefit Obligation) of EUR 0.8 mln against capital meant to satisfy the pension obligation (Asset Fair Value) of EUR 0.9 mln.

Pension Fund for personnel of former Banca Antonveneta S.p.a.

(Bank Register no. 1033)

The Fund, whose legal form is that of an unincorporated association in accordance with article 36 of the Italian Civil Code, has the sole purpose of providing benefits in addition to AGO (General Compulsory Insurance) cheques, was established in 1966 and has continued to operate to date.

The currently limited group of pensioners entitled to benefits refers to those who at the time did not accept the proposal for the settlement in capital of the value of the position recognised.

The population eligible to receive the benefits is composed of only 28 retirees.

At the valuation date of 31 December 2020, the value of the DBO (Defined Benefit Obligation) indicated by the actuarial calculations was EUR 1.9 mln against capital meant to satisfy the pension obligation of EUR 1.8 mln.

$$$

The defined benefit pension fund for personnel of the former London branch (BMPS UK Pension Fund) is designed to pay for the employees' benefits upon reaching normal retirement age as well as benefits to other surviving beneficiaries. The pension plan is administered by a Trustee, whose members also include active employees; the financial resources are managed by a specialised company. The technical report prepared in accordance with IAS 19 criteria by the designated actuary at the valuation date of 31 December 2020 shows the capital adequacy of the plan, with a DBO (Defined Benefit Obligation) of EUR 53.6 mln against an asset fair value of EUR 64.6 mln.

$$$

IAS 19 was also applied to calculate the actuarial values that could be used to determine the liability relating to the supplementary benefits associated with the former Credito Lombardo Spa. Considering the contractual nature of the obligation, the economic costs are incurred directly by the Parent Company. The currently limited population eligible for benefits includes a total of 87 immediate pensions, of which 56 direct and 31 indirect. The actuarial calculations show a DBO (Defined Benefit Obligation) of EUR 2.5 mln at the valuation date of 31 December 2020.

Finally, there is one position referring to a former General Manager of the Parent Company to whom specific economic benefits other than pension benefits are disbursed. In any event, they are assessed on the basis of actuarial parameters in order to determine the value of the Parent Company's obligation. This type of remuneration, known as ex contractu, consists of payment of monthly benefits revalued on the basis of automatic pension equalisation indexes.

$$$

As required by the Bank of Italy, the internal fund statements can be found in the annexes to the financial statements.

10.5.2 Changes in net defined liability (asset) and reimbursement rights during the year

The following tables show movements for the year in internal and external funds which, according to international accounting standards, come under the heading of defined benefit funds.

10.5.2a Changes in net defined liability (asset) and reimbursement rights during the year: Internal Funds

Item/Amount	31 12 2020			
	A (-) Plan assets	B (+) Present value of DBO	C (+) Effect of asset ceiling	D=A+B+C Net defined benefit liability (asset)
Opening balance	**(106,207)**	**128,194**	**13,538**	**35,525**
Current service cost	X	4	X	4
Interest income/expense	(156)	185	20	49
Remeasurement of net defined benefit liability (asset):	(706)	1,760	(573)	481
Return on plan assets excluding interest	(706)	X	X	(706)
Actuarial gains (losses) arising from changes in demographic assumptions	X	801	X	801
Actuarial gains (losses) arising from experience adjustments	X	(290)	X	(290)
Actuarial gains (losses) arising from changes in financial assumptions	X	1,249	X	1,249
Changes in effect of limiting net defined benefit asset to asset ceiling	X	X	(573)	(573)
Past service cost and gains (losses) arising from settlements	X	-	X	-
Changes in foreign exchange rates	-	-	-	-
Contributions to plan:	(19)	-	-	(19)
by employer	(19)	-	X	(19)
by employee	-	-	X	-
Payments from plan	8,155	(11,312)	X	(3,157)
Effect of business combinations and disposals	-	-	-	-
Effect of any plan curtailments	-	-	X	-
Effect of any plan settlements	-	-	X	-
Other changes	-	-	-	-
Closing balance	**(98,933)**	**118,831**	**12,985**	**32,883**

Item/Amount	31 12 2019			
	A (-) Plan assets	B (+) Present value of DBO	C (+) Effect of asset ceiling	D=A+B+C Net defined benefit liability (asset)
Opening balance	**(113,844)**	**131,284**	**19,007**	**36,447**
Current service cost	X	4	X	4
Interest income/expense	(774)	896	131	253
Remeasurement of net defined benefit liability (asset):	(178)	7,881	(5,600)	2,103
Return on plan assets excluding interest	(178)	X	X	(178)
Actuarial gains (losses) arising from changes in demographic assumptions	X	1,760	X	1,760
Actuarial gains (losses) arising from experience adjustments	X	103	X	103
Actuarial gains (losses) arising from changes in financial assumptions	X	6,018	X	6,018
Changes in effect of limiting net defined benefit asset to asset ceiling	X	X	(5,600)	(5,600)
Past service cost and gains (losses) arising from settlements	X	-	X	-
Changes in foreign exchange rates	-	-	-	-
Contributions to plan:	-	-	-	-
by employer	-	-	X	-
by employee	-	-	X	-
Payments from plan	8,589	(11,871)	X	(3,282)
Effect of business combinations and disposals	-	-	-	-
Effect of any plan curtailments	-	-	X	-
Effect of any plan settlements	-	-	X	-
Other changes	-	-	-	-
Closing balance	**(106,207)**	**128,194**	**13,538**	**35,525**

10.5.2b Changes in net defined liability (asset) and reimbursement rights during the year: External Funds

Item/Amount	31 12 2020			
	A (-) Plan assets	B (+) Present value of DBO	C (+) Effect of asset ceiling	D=A+B+C Net defined benefit liability (asset)
Opening balance	**(393,615)**	**194,227**	**199,997**	**609**
Current service cost	X	-	X	-
Interest income/expense	942	2,572	(3,513)	1
Remeasurement of net defined benefit liability (asset):	11,038	(29,203)	18,235	70
Return on plan assets excluding interest	11,038	X	X	11,038
Actuarial gains (losses) arising from changes in demographic assumptions	X	154	X	154
Actuarily gains (losses) arising from experience adjustments	X	(36,421)	X	(36,421)
Actuarial gains (losses) arising from changes in financial assumptions	X	7,064	X	7,064
Change in effect of limiting net defined benefit asset to asset ceiling	X	X	18,235	18,235
Past service cost and gains (losses) arising from settlements	X	133	X	133
Changes in foreign exchange rates	3,304	(2,738)	(566)	-
Contributions to plan:	(2,636)	-	-	(2,636)
by employer	(2,636)	-	X	(2,636)
by employee	-	-	X	-
Payments from plan	7,807	(7,807)	X	-
Effect of business combinations and disposals	-	-	-	-
Effect of any plan curtailments	-	-	X	-
Effect of any plan settlements	-	-	X	-
Other changes	498	-	1,421	1,919
Closing balance	**(372,662)**	**157,184**	**215,574**	**96**

Item/Amount	31 12 2019			
	A (-)	B (+)	C (+)	D=A+B+C
	Plan assets	Present value of DBO	Effect of asset ceiling	Net defined benefit liability (asset)
Opening balance	**(393,369)**	**191,157**	**203,266**	**1,054**
Current service cost	X	55	X	55
Interest income/expense	(5,419)	3,763	1,657	1
Remeasurement of net defined benefit liability (asset):	(3,778)	10,692	(5,206)	1,708
Return on plan assets excluding interest	(3,778)	X	X	(3,778)
Actuarial gains (losses) arising from changes in demographic assumptions	X	863	X	863
Actuarily gains (losses) arising from experience adjustments	X	(5,896)	X	(5,896)
Actuarial gains (losses) arising from changes in financial assumptions	X	15,725	X	15,725
Change in effect of limiting net defined benefit asset to asset ceiling	X	X	(5,206)	(5,206)
Past service cost and gains (losses) arising from settlements	X	(152)	X	(152)
Changes in foreign exchange rates	(2,834)	2,554	280	-
Contributions to plan:	(2,427)	-	-	(2,427)
by employer	(2,427)	-	X	(2,427)
by employee	-	-	X	-
Payments from plan	13,842	(13,842)	X	-
Effect of business combinations and disposals	(4,212)	4,361	-	149
Effect of any plan curtailments	-	-	X	-
Effect of any plan settlements	-	-	X	-
Other changes	4,582	(4,361)	-	221
Closing balance	**(393,615)**	**194,227**	**199,997**	**609**

10.5.2c Changes in net defined benefit liabilities (assets) and reimbursement rights during the year – Total

Item/Amount	31 12 2020			
	A (-) Plan assets	B (+) Present value of DBO	C (+) Effect of asset ceiling	D=A+B+C Net defined benefit liability (asset)
Internal funds	(98,933)	118,831	12,985	32,883
External funds	(372,662)	157,184	215,574	96
Total defined benefit funds	**(471,595)**	**276,015**	**228,559**	**32,979**

Item/Amount	31 12 2019			
	A (-) Plan assets	B (+) Present value of DBO	C (+) Effect of asset ceiling	D=A+B+C Net defined benefit liability (asset)
Internal funds	(106,207)	128,194	13,538	35,525
External funds	(393,615)	194,227	199,997	609
Total defined benefit funds	**(499,822)**	**322,421**	**213,535**	**36,134**

10.5.3 Information on the fair value of plan assets

Item	31 12 2020			
	Internal pension plans		External pension plans	
	Listed in active markets	Not listed in active markets	Listed in active markets	Not listed in active markets
Cash and cash equivalents	73,441	-	9,307	-
of which: used by the Group	73,441	-	2,667	-
Equity instruments	-	-	33,188	-
of which: issued by Group	-	-	-	-
Debt instruments	25,492	-	103,902	-
of which: issued by the Group	-	-	-	-
Real estate	-	-	-	51,596
of which: used by the Group	-	-	-	-
Derivatives	-	-	-	-
UCITS	-	-	174,669	-
Asset-backed securities	-	-	-	-
Structured debt	-	-	-	-
Total	**98,933**	**-**	**321,066**	**51,596**
of which: own instruments/assets used by the Group	*73,441*	-	*2,667*	-

The table shows, for funded defined benefit plans, the total amount of plan assets. In particular, the assets refer to the following funds:

- Pension Fund for personnel of former Banca Nazionale dell'Agricoltura S.p.A.,
- Pension Fund for personnel of former Banca Toscana S.p.A.,
- Pension Fund for personnel of former Banca Agricola Mantovana S.p.A.
- Pension Fund for personnel of former Banca Antonveneta S.p.A. and
- Cassa di Previdenza Aziendale (Company's Pension Scheme) for Monte dei Paschi di Siena employees, defined benefit section.
- Pension Fund for personnel of former of BMPS London branch (BMPS UK Pension Fund)..

The Funds of Cassa di Previdenza Aziendale, of Banca Agricola Mantovana S.p.A and of former BMPS London branch (BMPS UK Pension Fund) exceed the obligations outstanding as at the end of the year.

Item	31 12 2019			
	Internal pension plans		External pension plans	
	Listed in active markets	Not listed in active markets	Listed in active markets	Not listed in active markets
Cash and cash equivalents	80,039	-	8,523	-
of which: used by the Group	80,039	-	2,542	-
Equity instruments	-	-	37,282	-
of which: issued by Group	-	-	-	-
Debt instruments	26,168	-	124,339	-
of which: issued by the Group	-	-	-	-
Real estate	-	-	-	56,394
of which: used by the Group	-	-	-	-
Derivatives	-	-	-	-
UCITS	-	-	167,077	-
Asset-backed securities	-	-	-	-
Structured debt	-	-	-	-
Total	**106,207**	**-**	**337,221**	**56,394**
of which: own instruments/assets used by the Group	*80,039*	-	*2,542*	-

10.5.4 Key actuarial assumptions used

Key actuarial assumptions/percentages	31 12 2020 Defined benefit funds		31 12 2019 Defined benefit funds	
	Internal pension plans	External pension plans	Internal pension plans	External pension plans
Discount rates	-0.15%	0.58%	0.15%	0.95%
Expected rates of salary increases	0.00%	1.53%	0.75%	1.43%

A discount rate of 0.15% was used for internal plans and of 0.58% for external ones (a range of rates between -0.06% and -2.48% is envisaged for Provision for severance pay, see table 9.2b), calculated as a weighted average of interest rates in EUR Composite AA yield curve as at 31 December 2020, using, as weights, the ratio between the amount paid/paid in advance for each maturity and the total amount to be paid/paid in advance for the entire duration of the population considered. The EUR Composite AA curve is obtained daily through the Bloomberg information provider and refers to a basket of securities issued by "investment grade" corporate issuers included in the "AA" rating class resident in the Eurozone and belonging to different sectors.

10.5.5 Information on amount, timing and uncertainty of cash flows

Actuarial assumption	Change in DBO	Change (%) in DBO
Discount rate		
Increase of 0.25%	(2,756)	-1.01%
Decrease of 0.25%	3,014	1.10%
Expected rates of salary increases		
Increase of 0.25%	(1,416)	-0.52%
Decrease of 0.25%	548	0.20%

Actuarial assumption	Change in DBO	Change (%) in DBO
Discount rate		
Increase of 0.25%	(7,479)	-2.34%
Decrease of 0.25%	7,907	2.47%
Expected rates of salary increases		
Increase of 0.25%	5,920	1.85%
Decrease of 0.25%	(5,642)	-1.76%

With respect to pay increases, it is not possible to conduct any sensitivity analysis given the static nature of the benefits linked to the choice of participants to stay in the fund.

10.5.6 Plans covering multiple employers

10.5.7 Defined benefit plans sharing risks among entities under common control

Plans having these characteristics are not present for the Group.

10.6 Provisions for risks and charges: other provisions

Items/Amounts	Total 31 12 2020	Total 31 12 2019
2.1 Legal disputes	971,931	542,815
- Claw back actions	26,164	31,122
- Other legal disputes	928,595	495,530
- Tax disputes	17,172	16,163
2.2 Personnel charges	56,553	58,070
- Job disputes	47,276	35,279
- Leaving incentives	1,718	3,465
- Other	7,559	19,326
2.3 Other	677,064	414,063
- Risks related to the sale of assets/business units	23,700	23,700
- Charges due to corporate restructuring	3,169	9,116
- Payments to financial advisors	17,871	51,250
- Onerous contracts	207,598	22,257
- Charges for embezzlement	2,250	5,835
- Claims and out-of-Court agreements	8,723	4,118
- Compensation for diamonds	20,037	97,914
- Claw back clause (IFRS 15)	31,832	34,431
- Refunds to customers	11,420	45,756
- Charges for legal services	50,135	42,465
- Other	300,329	77,221
Total	**1,705,548**	**1,014,948**

The increase recorded in line “Other legal disputes” is mainly linked to the dispute related to financial information disclosed in the 2008-2015 period.

The amount of EUR 207.6 mln recognized in the line “Onerous contracts” represents the provision allocated to cover risks related to contractual guarantees issued as part of derisking transactions of non-performing loans.

The decrease of around EUR 78 mln recognised in line “Compensation for Diamonds” is due to uses of the provision for transactions with customers.

10.7 Contingent liabilities

Item/Type	31 12 2020	31 12 2019
Tax and legal disputes	**667,425**	**1,729,166**
Claw back actions	5,208	8,802
Other legal disputes	630,721	1,689,138
Tax disputes	31,496	31,227
Personnel charges	**19,272**	**9,984**
Job disputes	19,272	9,984
Others	**24,726**	**25,109**
Total	**711,423**	**1,764,259**

A contingent liability is defined as i) a possible obligation arising from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not totally under control, or ii) a current obligation that arises from past events but is not recognised because use of resources aimed at producing economic benefits will likely not be required to settle the obligation or because the amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities are not subject to recording but, if deemed "possible", are solely subject to disclosure. Conversely, contingent liabilities that are deemed to be of "remote" likelihood do not require any disclosure, pursuant to the provisions of IAS 37. Hence, the table above show only "possible" liabilities.

Similar to "possible" liabilities, contingent liabilities are also monitored because they may, over time, become "remote" or "probable", with the need, in the latter case, to make the necessary provisions.

In this context, it should be noted that the classification of contingent liabilities and the relative amount is based on non-objective judgements that require recourse to sometimes extremely complex estimation procedures; therefore, they may be subject to redetermination over time.

Specifically, in reference to the dispute, the table shows the claim, where quantified; this value cannot be considered a measurement of the expected disbursement in accordance with IAS 37. In fact, the Group does not deem it practical to provide an estimate of the expected disbursement, as the calculation would be complex and onerous.

The decrease in contingent liabilities for litigation at 31 December 2020 compared to 31 December 2019 is due to the reclassification of claims originating in dispute 955/16 from "potential" to "likely" risk

For further details, please refer to Section 1.5 "Operational risks" of Part E in the Notes to the consolidated financial statements.

Section 11 – Insurance reserves – Item 110

The tables in this section have not been completed as no data is present for either current or previous year.

Section 12 - Redeemable shares - Item 130

The tables in this section have not been completed as no data is present for the current year or for the previous year.

Section 13 – Group equity – Items 120, 140, 150, 160, 170 and 180

13.1 "Share capital" and "Treasury shares": breakdown

13.1.a "Share capital": breakdown

Items/Amounts	31 12 2020		31 12 2019	
	Implied par value share (a)	Par value of fully paid shares	Par value per share	Par value of fully paid shares
Ordinary shares	9.17	9,195,012,197	9.06	10,328,618,260
Total		**9,195,012,197**		**10,328,618,260**

On 6 June 2011 the Bank's Extraordinary Shareholders' Meeting resolved that indication of the par value of the classes of shares be eliminated; accordingly, as at 31 December 2011, the so-called "Implied par value" is indicated, which is obtained by dividing the total share capital amount by the number of shares in the same category, outstanding at the reference date.

Ordinary shares are registered and indivisible. Each share entitles to one vote. Information on the number of fully paid-up shares can be found in the notes to Table "13.2 Share capital – Parent Company's number of shares: annual changes".

At the reporting date, the Group's share capital amounted to EUR 9,195,012,197, represented by 1,002,405,887 ordinary shares without a nominal value, of which 966,125,139 outstanding. The reduction of EUR 1,133,606,063 (compared to 31 December 2019) is due to the cancellation of 137,884,185 ordinary shares of the Parent Company, related to the "Hydra-M" transaction in favour of AMCO, effective from 1 December 2020.

13.1.b "Treasury shares": breakdown

At the date of these financial statements, the Group holds 36,280,748 treasury shares for a total value of EUR 313.7 mln.

13.2 Share capital - Parent company's number of shares: annual changes

Item/Type	31 12 2020	31 12 2019
	Ordinary	Ordinary
A. Shares outstanding as at the beginning of the year	1,140,290,072	1,140,290,072
- fully paid	1,140,290,072	1,140,290,072
- not fully paid	-	-
A.1 Treasury shares (-)	36,280,748	36,280,748
A.2 Shares outstanding: opening balance	1,104,009,324	1,104,009,324
B. Increases	-	-
B.1 New issuances	-	-
B.2 Sale of treasury shares	-	-
B.3 Other increases	-	-
C. Decreases	137,884,185	-
C.1 Cancellation	137,884,185	-
C.2 Purchase of treasury shares	-	-
C.3 Business transferred	-	-
C.4 Other decreases	-	-
D. Shares outstanding: closing balance	966,125,139	1,104,009,324
D.1 Treasury shares (+)	36,280,748	36,280,748
D.2 Shares outstanding as at the end of the year	1,002,405,887	1,140,290,072
- fully paid	1,002,405,887	1,140,290,072
- not fully paid	-	-

The reduction in the number of shares outstanding, equal to 137,884,185 ordinary shares of the Parent Company refers to the cancellation of MPS ordinary shares - held by the MEF and other shareholders- deriving from the "Hydra M" demerger in favour of AMCO, which became effective on 1 December 2020.

At the date of these financial statements, the share capital is fully paid in.

13.3 Share capital: other information

13.3a Equity instruments: breakdown and annual changes

As at 31 December 2020, the Group held no equity instruments.

13.4 Retained earnings: other information

13.5 Equity instruments: breakdown and annual changes

13.6 Other information

With regard to the above paragraph, see "Part F – Information on consolidated shareholders' equity" of these Notes to the consolidated financial statements.

Section 14 - Non-controlling interests - Item 190

14.1 Details of item 190 "Non-controlling interests"

Company name	31 12 2020	31 12 2019
Equity investments in consolidated companies with significant non-controlling interests	-	-
Other equity investments	1,310	1,770
Total	**1,310**	**1,770**

14.2 Equity instruments: breakdown and annual changes

No such instruments are present within the Group.

Other information

1 Commitments and financial guarantees given

Nominal Amount	31 12 2020			
	Stage 1	Stage 2	Stage 3	Total
Irrevocable commitments to disburse funds	**33,621,977**	**431,363**	**691,917**	**34,745,257**
a) Central banks	6	-	-	6
b) Public entities	1,221,078	5,105	128,218	1,354,401
c) Banks	1,222,210	-	3,120	1,225,330
d) Other financial companies	6,845,927	4,168	2,777	6,852,872
e) Non-financial companies	21,798,096	348,041	528,725	22,674,862
f) Families	2,534,660	74,049	29,077	2,637,786
Financial guarantees given to	**4,227,702**	**711,116**	**322,309**	**5,261,127**
a) Central banks	60	-	-	60
b) Public entities	24,555	16,129	-	40,684
c) Banks	564,309	-	3,172	567,481
d) Other financial companies	153,401	5,562	1,028	159,991
e) Non-financial companies	3,396,911	674,531	310,532	4,381,974
f) Families	88,466	14,894	7,577	110,937
Total	**37,849,679**	**1,142,479**	**1,014,226**	**40,006,384**

2 Other commitments and guarantees given

	Nominal value	
	31 12 2020	31 12 2019
Other guarantees given to	**1,921,166**	**1,831,204**
a) Central banks	-	-
b) Public entities	-	-
c) Banks	20,965	34,701
d) Other financial companies	1,900,201	1,796,503
e) Non-financial companies	-	-
f) Families	-	-
Other commitments	990,344	-
of which: non-performing exposures	-	-
a) Central banks	-	-
b) Public entities	-	-
c) Banks	-	-
d) Other financial companies	-	-
e) Non-financial companies	990,344	-
f) Families	-	-
Total	**2,911,510**	**1,831,204**

For both years, the table shows, under "Other guarantees given", the maximum risk resulting from the failure to comply with the representations and warranties issued by the Group in the context of the derisking of non-performing loans.

3 Assets pledged as collateral for liabilities and commitments

Portfolios	31 12 2020	31 12 2019
1. Financial assets measured at fair value through profit or loss	4,027,292	5,702,026
2. Financial assets measured at fair value through other comprehensive income	4,736,315	1,273,319
3. Financial assets measured at amortised cost	43,533,728	36,133,105
4. Tangible assets	-	-
of which: tangible assets that constitute inventories	-	-

The table summarises the assets pledged by the Group as collateral for its liabilities, mainly represented by repurchase agreements. The amount in line "3. Financial assets measured at amortised cost" includes approx. EUR 20.3 bn related to mortgage loans transferred to the vehicles MPS Covered Bond S.r.l. MPS Covered Bond 2 S.r.l. under the two programs for the issue of covered bonds.

4 Investments in unit-linked and index-linked policies: breakdown

The Group does not hold any such investments since no company of the Group issues insurance policies.

5 Asset management and trading on behalf of third parties

Type of Services	Amount 31 12 2020
1. Trading of financial instruments on behalf of third parties	
a) Purchases	9,826,019
1. Settled	9,803,878
2. Unsettled	22,141
b) Sales	9,258,800
1. Settled	9,226,285
2. Unsettled	32,515
2. Asset management accounts	**-**
a) individual	3,017,392
b) collective	-
3. Custody and administration of securities	**-**
a) third party securities on deposit associated with custodian bank transactions (excluding asset management)	-
1. Securities issued by companies included in consolidation	-
2. Other securities	-
b) Other third party securities on deposit (excluding asset management)	49,927,068
1. Securities issued by companies included in consolidation	132,833
2. Other securities	49,794,235
c) third party securities deposited with third parties	44,135,483
d) own securities deposited with third parties	21,310,268
4. Other transactions	**27,856,898**

6 Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements.

Type	Gross amount of financial assets (a)	Amount of financial liabilities offset in balance sheet (b)	Net amount of financial assets recognised in the balance sheet (c=a-b)	Related amounts not subject to balance sheet offsetting		Net amount (f=c-d-e) 31 12 2020	Net amount 31 12 2019
				Financial instruments (d)	Deposits of cash collateral received (e)		
1. Derivatives	6,422,328	3,668,180	2,754,148	1,768,705	851,627	133,816	122,539
2. Repurchase agreements	9,512,674	-	9,512,674	9,511,667	-	1,007	122
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total 31 12 2020	**15,935,002**	**3,668,180**	**12,266,822**	**11,280,372**	**851,627**	**134,823**	**X**
Total 31 12 2019	**10,453,136**	**2,683,268**	**7,769,868**	**6,133,061**	**1,514,146**	**X**	**122,661**

7 Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements.

Type	Gross amount of financial liabilities (a)	Amount of financial assets offset in balance sheet (b)	Net amount of financial liabilities recognised in the balance sheet (c=a-b)	Related amounts not subject to balance sheet offsetting		Net amount (f=c-d-e) 31 12 2020	Net amount 31 12 2019
				Financial instruments (d)	Deposits of cash collateral received (e)		
1. Derivatives	6,872,707	3,668,180	3,204,527	1,091,976	1,212,746	899,805	24,334
2. Repurchase agreements	12,761,084	-	12,761,084	12,760,676	-	408	678
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total 31 12 2020	**19,633,791**	**3,668,180**	**15,965,611**	**13,852,652**	**1,212,746**	**900,213**	**X**
Total 31 12 2019	**14,230,079**	**2,683,268**	**11,546,811**	**10,041,452**	**1,480,347**	**X**	**25,012**

IFRS 7 requires disclosure of information for all financial instruments that:

- were offset in the balance sheet pursuant to IAS 32;
- could potentially be offset, given certain conditions, but presented in the balance sheet as open balances as they are governed by "framework offsetting agreements or similar agreements" which do not meet the criteria established in IAS 32 for offsetting.

The amount offset in the financial statements refers to trading in OTC derivatives managed through central counterparties of the subsidiary MPS Capital Services S.p.a. and the Parent Company.

For the purposes of reconciliation of the amounts shown in the column (c) "net amount of financial assets/liabilities recognised in the balance sheet" with the opening balances shown in "Part B – Information on the consolidated balance sheet", it should be noted that:

- the amount related to both trading and hedging derivative financial instruments, aided by netting agreements or similar, is represented in asset items 20 a) "Financial assets held for trading" and 50 "Hedging derivatives" and in liability items 20 "Financial liabilities held for trading" and 40 "Hedging derivatives";
- the amount related to repurchase agreements subject to netting agreements or similar is shown in line "Repurchase agreements/Reverse repurchase agreements" in the tables containing a breakdown of asset item 40 "Financial assets measured at amortised cost" and liability item 10 "Financial liabilities measured at amortised cost".

It should also be noted that:

- with regard to securities lending transactions, in these tables transactions involving the payment of cash collateral fully owned by the lender are included in the item "Repurchase agreements";
- the repurchase agreements are recognised in the tables at amortised cost, while the financial collateral and derivative transactions are reported at their fair value.

8 Securities lending transactions

In its capacity as borrower, the Parent Company has entered into a number of securities lending agreements with leading market counterparties. These agreements are backed by other securities and total approximately EUR 448 mln.

These transactions, which in compliance with current accounting standards have no impact on the balance sheet, are primarily carried out with the aim of increasing the Group's counterbalancing capacity.

9 Information on joint control activities

This paragraph was not completed as no such activities are present within the Group.

Part C – Information on the consolidated income statement

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Section 1 - Interest income/expense and similar revenues/charges - Items 10 and 20

1.1 Interest income and similar revenues: breakdown

Items/Type	Debt securities	Loans	Other transactions	Total 31 12 2020	Total 31 12 2019
1. Financial asset measured at fair value through profit or loss	44,082	4,736	1,547	50,365	68,472
1.1 Finanicial asset held for trading	34,086	-	1,547	35,633	47,001
1.2 Financial assets designated at fair value	-	-	-	-	-
1.3 Financial assets mandatorily measured at fair value	9,996	4,736	-	14,732	21,471
2. Financial assets measured at fair value through other comprehensive income	29,136	-	X	29,136	83,146
3. Financial assets measured at amortised cost	160,638	1,573,673	X	1,734,311	1,913,241
3.1. Loans to banks	10,906	4,440	X	15,346	22,842
3.2 Loans to customers	149,732	1,569,233	X	1,718,965	1,890,399
4. Hedging derivatives	X	X	(52,702)	(52,702)	(36,219)
5. Other assets	X	X	11,476	11,476	2,912
6. Financial liabilities	X	X	X	202,523	74,278
Total	**233,856**	**1,578,409**	**(39,679)**	**1,975,109**	**2,105,830**
of which interest income on credit impaired assets	-	*160,705*	-	*160,705*	*216,144*
of which interest income on financial leasing	-	*77,154*	-	*77,154*	*76,339*

The amount shown in line "1. Financial assets held for trading", in the "Other transactions" column, represents the positive net balance of spreads relating to derivatives connected with financial liabilities measured at fair value (fair value option).

Line 4 "Hedging derivatives", in the "Other transactions" column, includes the spread related to hedging derivatives rectifying the interest income recognised on the hedged financial instruments.

The amount in line "5. Other assets", in the "Other transactions" column, shows mainly interest income accrued on tax credits.

The amount in line 6 "Financial liabilities" shows interest income accrued on financial liabilities for EUR 202.5 mln (EUR 74.3 mln). The increase compared to 2019 refers to the longer-term financing transactions (TLTRO-III) carried out by the Parent Company during the year and for which interest accrued for EUR 129 mln.

Interest income, calculated for financial assets measured at amortised cost under the effective interest rate method, is entered in different columns based on the original 'technical form'. The amount accrued during the year for positions that are classified as "non-performing" as at the reporting date totalled EUR 160.7 mln (EUR 216.1 mln as at 31 December 2019). Interest on arrears is posted to interest income only for the portion actually collected.

For a trend analysis of the concerned items, reference should be made to the Consolidated Report on Operations.

1.2 Interest income and similar revenues: other information

1.2.1 Interest income from financial assets denominated in foreign currency

Interest income from financial assets denominated in foreign currency for 2020 amounted to EUR 26.7 mln as compared to EUR 35.7 mln in 2019.

1.3 Interest expense and similar charges: breakdown

Items	Debts	Securities	Other transactions	Total 31 12 2020	Total 31 12 2019
1. Fiancial liabilities measured at amortised cost	(273,182)	(338,215)	-	(611,397)	(539,074)
1.1 Due to Central banks	(623)	X	X	(623)	-
1.2 Due to banks	(56,650)	X	X	(56,650)	(44,170)
1.3 Due to customers	(215,909)	X	X	(215,909)	(236,460)
1.4 Debt securities issued	X	(338,215)	X	(338,215)	(258,444)
2. Financial liabilities held for trading	-	-	-	-	(4,076)
3. Financial liabilities designated at fair value	-	(7,324)	-	(7,324)	(9,244)
4. Other liabilities and provisions	X	X	(27)	(27)	(98)
5. Hedging derivatives	X	X	26,130	26,130	27,136
6. Fiancial assets	X	X	X	(111,045)	(90,120)
Total	**(273,182)**	**(345,539)**	**26,103**	**(703,663)**	**(615,476)**
of which interest expense on leasing liabilities	*(6,416)*	-	-	*(6,416)*	*(6,712)*

Lines "1.2 Due to banks" and "1.3 Due to customers", in the "Debts" column, include interest on payables under repurchase agreements on: treasury securities recognised in the balance sheet or securities not recognised in the balance sheet obtained through repo transactions or from self-securitisations without derecognition.

Line "1.4 Debt securities issued" indicates the interest expense accrued during the year on bonds and certificates of deposit valued at amortised cost.

Line 5 "Hedging derivatives", in the "Other transactions" column, includes the spread related to hedging derivatives rectifying the interest income recognised on the hedged financial instruments.

Line 1.2 "Due to banks" includes EUR 13.7 mln in interest expense for the bridge loan taken out in early October 2020 and included among the set of demerged items in favour to AMCO on 1 December 2020.

Line 6. "Financial assets", equal to EUR 111.0 mln, shows the negative interest accrued on financial assets and includes EUR 39.4 mln relating to the negative return on reserves in excess of the mandatory reserve deposited with the Eurosystem.

For a trend analysis of the concerned items, reference should be made to the Consolidated Report on Operations.

1.4 Interest expense and similar charges: other information

1.4.1 Interest expense on liabilities denominated in foreign currency

Interest expense on financial liabilities denominated in foreign currency for 2020 amounted to EUR 2.5 mln as compared to EUR 5.5 mln in 2019.

1.5 Spreads on hedging transactions

Items	Total 31 12 2020	Total 31 12 2019
A. Positive spreads on hedging transactions	70,385	198,868
B. Negative spreads on hedging transactions	(96,957)	(207,951)
C. Balance (A+B)	**(26,572)**	**(9,083)**

In line with its hedging objectives and consequent minimisation of risks in the banking book, the Group carries out both fair value and cash flow hedging transactions.

Section 2 - Fee and commission income/expense - Items 40 and 50

2.1 Fee and commission income: breakdown

Type of service / Amount	Total 31 12 2020	Total 31 12 2019
a) guarantees issued	48,319	50,014
b) credit derivatives	-	-
c) management, brokerage and advisory services:	749,579	839,333
1. trading of financial instruments	21,616	18,582
2. currency trading	4,001	4,637
3. asset management	36,337	37,886
3.1 individual accounts	36,337	37,886
3.2. collective investment schemes	-	-
4. custody and administration of securities	7,152	7,300
5. custodian bank	-	-
6. placement of securities	25,441	15,908
7. client instructions	28,269	25,491
8. advisory on	9,744	12,892
8.1 investments	7,394	9,037
8.2 financial structure	2,350	3,855
9. distribution of third-party services	617,018	716,637
9.1. asset management	-	-
9.2 insurance products	223,959	230,589
9.3 other products	393,059	486,048
d) collection and payment services	212,809	232,462
e) servicing of securitisations	511	417
f) factoring transaction services	9,559	9,765
g) tax collection services	-	-
h) management of multilateral trade systems	-	-
i) current account keeping	397,067	411,616
j) other services	177,899	170,677
Total	**1,595,743**	**1,714,284**

For an analysis of the fee and commission income and for the disclosure on disaggregation of revenues, as required by IFRS 15.114-115, the table below shows the trend in fees and commissions for each of the operating segments identified, for the services rendered and according to geographic area served.

SEGMENT REPORTING Primary segment	Operating Segments			Corporate Center	Total Montepaschi Group
	Retail banking	Wealth Management	Corporate banking		
	31/12/20	31/12/20	31/12/20	31/12/20	31/12/20
Assets under management fee	**528.8**	**100.9**	**4.6**	-	**634.4**
Product placement	183.2	9.1	0.3	-	192.6
Continuing fees	262.9	83.1	3.2	-	349.3
Placement of securities	36.2	8.3	0.9	-	45.4
Sales of Protection	46.6	0.4	0.2		47.2
Fee and commisions from traditional activities	**608.6**	**6.3**	**290.9**	**-**	**905.9**
Credit fees	192.9	1.9	212.1		406.9
Fees from foreign service	11.3	0.2	38.3	-	49.8
Fees form other services	404.5	4.3	40.5		449.2
Other fee and commission income	6.3	3.6	45.3	0.2	55.5
Net fees and commission income	**1,143.8**	**110.9**	**340.8**	**0.2**	**1,595.7**

39.8% of the Group's Fee and commission income by Operanting segments derives from products (management, placement and custody), 25.5% from loans (granting and utilisation) and 34.7% from services (account maintenance, payments, etc.). More specifically, 46.2% of Retail banking fee and commission income is attributable to product fees and commissions, 16.9% to income from loans and 36.9% to fees and commissions on services. *Wealth Management* commission income essentially refers to the product component (91.1%); *Corporate banking* fee and commission income is mainly concentrated on the credit (62.2%) and services (36.4%) components.

Fee and commission income is broken down based on the following geographical segmentation:

Geographical segmentation fee and commission income	North	Centre	South	Foreign countries	Total Montepaschi Group
	31 12 2020	31 12 2020	31 12 2020	31 12 2020	31 12 2020
Assets under management fee	**287.6**	**234.2**	**111.1**	**1.5**	**634.4**
Product placement	79.4	75.0	38.2	-	192.6
Continuing fees	167.9	126.6	53.5	1.3	349.3
Placement of securities	20.3	16.4	8.4	0.2	45.4
Sales of Protection	20.0	16.3	10.9	-	47.2
Fee and commisions from traditional activities	**325.6**	**388.2**	**186.4**	**5.7**	**905.9**
Credit fees	151.7	182.2	68.9	4.1	406.9
Fees from foreign service	21.9	22.2	5.7	0.0	49.8
Fees from other services	152.0	183.9	111.8	1.6	449.2
Other fee and commission income	7.7	36.8	6.2	4.7	55.5
Net fees and commission income	**620.9**	**659.2**	**303.7**	**11.9**	**1,595.7**

The disclosure for performance obligations is provided for the main services offered by Group companies, in accordance with IFRS 15.113 and 15.119:

- collection and payment services, including the offer to customers of credit and debit cards issued by the Parent Company. For this services, the customer pays, for several products and services associated to the card, an annual fee in advance for the administrative management of the card, recognised over time, as well as fees calculated on the individual transactions linked to the card's configuration, which, if not included in the annual fee, are recognised at a point in time as linked to the individual performance obligation carried out at a specific time; collection and payment services also include all foreign currency trading services, as well as other generic collection services that entail the collection of fees against the performance obligation made at consumption and recognised at a point in time;
- administration of current accounts: this category includes fees received for various products offered to customers, which may include a periodic fee for the current account management service that may or may not include a package of

services, as well as fees received on individual transactions performed by customers that are not included in the annual fee. The first type of fee is structured as a performance obligation over time, while the second, as it relates to services performed at a specific time and compensated separately from the quarterly fee, are structured as a performance obligation performed at a point in time;

- distribution of third-party products and services based on partnership agreements with external counterparties, for which placement commissions are collected, recorded at a point in time as they are compensation for the intermediation performance obligation provided by the Bank, and continuing commissions connected to the Bank's administrative management of the customer in the network, recorded over time, as it represents compensation for the performance obligation rendered over the course of the investment's duration. Some distribution agreements also include variable commissions (Rappel), recognised by external counterparties upon achieving certain annual placement volumes envisaged in the distribution agreements. Based on the various contractual provisions and in accordance with provisions contained in IFRS 15, if conditions apply in the interim periods, analyses are carried out in order to determine if there are conditions that allow the advance accounting of the revenue or a portion thereof. The advance recognition is carried out exclusively if it is highly likely that, once the uncertainty has been resolved, there is no downward adjustment of the recorded amount. Lastly, some contracts contain claw-back clauses, which entail, in the event certain conditions apply, the full or partial reimbursement of placement commissions previously recognised upon execution of the initial performance obligation (i.e. point in time): in this case, the claw-back clause represents a variable component of the transaction price, since the amount recognised upon product placement is not definitive, but will depend on future events that are beyond the control of the Parent Company. In such situations the amount of the commissions that could potentially be subject to restitution is estimated, charging the amount that is expected to be returned to the third party to a specific risk provision; the income that is posted to the income statement is equal to the amount recognised against the performance obligation for the placement activity carried out during the year, net of the amount set aside in the provision;
- individual portfolio management, which mainly include management fees, calculated with a percentage proportional to the assets under management, recognised over time as they compensate a service rendered over time.
- complex financial services via the subsidiary MPS Capital Services, including consultancy, advisory/asseveration/underwriting and order collection. The contracts may provide for various types of fees and commissions associated with the various services offered by the Company. Some of these are linked to activities performed throughout the contract's duration (over time) and paid by the customer regardless of the outcome of the activities, while others are services for which the customer pays only if certain identified events occur, therefore, they are connected to services provided by the Company at a specific point in time. The first type of fee, associated with a performance obligation over time, is recognised throughout the contract's duration, while the second is recorded when the event occurs, as it represents compensation for a performance obligation carried out at a point in time;
- fiduciary services to customers via subsidiary MP Fiduciaria, including the confidential administration of money, financial instruments and unlisted equity investments, fiduciary mandates for guarantee purposes, family portfolio settlements and the intergenerational transfer of wealth. Since they are linked to performance obligations that are protracted and repeated over time, the fees for fiduciary services are measured over time for continuing commissions. Instead, commissions for opening the relationship are recognised at a point in time.

With regard to the breakdown in revenues (IFRS 15.116-118), it should be noted that EUR 1.1 mln was recorded as the adjustment price component accrued during the year on commissions collected for placement of third-party services carried out by the Parent Company in the previous year.

This line includes the reversal of revenues for EUR 10.6 mln made against the set up of a risk provision pursuant to IFRS 15, in consideration of the claw-back clauses present in a third-party product placement contract.

2.1.a Fee and commission income: distribution channels of products and services

Channel/Sectors	31 12 2020	31 12 2019
a) Group branches	**593,853**	**683,924**
1. portfolio management	31,949	32,894
2. placement of securities	5,115	38
3. third party services and products	556,789	650,992
b) "Door-to-door" sales	**56,986**	**59,067**
1. portfolio management	4,388	4,992
2. placement of securities	358	12
3. third party services and products	52,240	54,063
c) Other distribution channels	**27,957**	**27,440**
1. portfolio management	-	-
2. placement of securities	19,968	15,858
3. third party services and products	7,989	11,582

2.2 Fee and commission expense: breakdown

Type of service / Amount	Total 31 12 2020	Total 31 12 2019
a) guarantees received	(5,993)	(97,293)
b) credit derivatives	-	-
c) management, brokerage and advisory services:	(68,532)	(74,784)
1. trading of financial instruments	(18,176)	(12,547)
2. currency trading	(1)	(3)
3. asset management:	(585)	(673)
3.1 own portfolio	-	-
3.2 third-party portfolios	(585)	(673)
4. custody an administration of securities	(4,705)	(6,713)
5. placement of financial instruments	-	-
6. off-site marketing of financial instruments, products and services	(45,066)	(54,848)
d) collection and payment services	(55,151)	(40,737)
e) other services	(73,065)	(52,651)
Total	**(202,741)**	**(265,465)**

In line "a) guarantees received", the decrease is almost entirely due to the repayment due to maturity in the first months of 2020 of the securities issued by the Parent Company in the first quarter of 2017, outstanding for a residual nominal amount at 31 December 2019 of EUR 8 bn against which EUR 94.4 mln of commissions paid to the MEF against the guarantee issued by the State had been recognised at that date. As at 31 December 2020, these commissions were equal to approx. EUR 13 mln.

Line "c) 6 "off-site marketing of financial instruments, products and services" includes fees and commissions paid to financial advisors.

Line "e) other services" includes EUR 37.1 mln for fee and commission expense associated to the demerger transaction and EUR 2.5 mln (EUR 7.8 mln as at 31 December 2019) on securities lending operations.

For a trend analysis of the concerned items, reference should be made to the Consolidated Report on Operations.

Section 3 - Dividends and similar income - Item 70

3.1 Dividends and similar income: breakdown

Item/Income	31 12 2020			31 12 2019		
	Dividends	Similar Income	Total	Dividends	Similar Income	Total
A. Financial assets held for trading	916	632	1,548	608	1,108	1,716
B. Other financial assets mandatorily measured at fair value	47	-	47	179	-	179
C. Financial assets measured at fair value through other comprehensive income	8,669	-	8,669	9,317	-	9,317
D. Investments	-	-	-	-	-	-
Total	**9,632**	**632**	**10,264**	**10,104**	**1,108**	**11,212**

The table shows the amount of dividends received on shares traded within the trading book and non-controlling interest classified in the portfolio of "Financial assets measured at fair value through other comprehensive income". Conversely, dividends relating to the Group's subsidiaries and associates, consolidated line-by-line or under the equity method, are excluded.

Line "C. Financial assets measured at fair value through other comprehensive income" includes the dividend of EUR 8.5 mln collected by investee Bank of Italy.

Section 4 - Net profit (loss) from trading - Item 80

4.1 Net profit (loss) from trading: breakdown

Transactions / P&L items	Capital Gains	Trading Profits	Capital Losses	Trading Losses	Net Profit (Loss)	
					31 12 2020	31 12 2019
1. Financial assets held for trading	37,646	112,868	(23,460)	(130,627)	(3,573)	68,354
1.1 Debt securities	29,975	106,016	(21,196)	(104,683)	10,112	53,554
1.2 Equity instruments	6,083	4,865	(963)	(22,413)	(12,428)	2,901
1.3 Units of UCITS	1,588	1,278	(1,301)	(2,950)	(1,385)	9,985
1.4 Loans	-	-	-	-	-	-
1.5 Other	-	709	-	(581)	128	1,914
2. Financial liabilities held for trading	1,693	49,456	(40,588)	(61,878)	(51,317)	(76,237)
2.1 Debt securities	1,626	49,007	(38,865)	(59,215)	(47,447)	(76,872)
2.2 Deposits	-	-	-	-	-	-
2.3 Other	67	449	(1,723)	(2,663)	(3,870)	635
3. Other financial assets and liabilities: exchange differences	X	X	X	X	21,676	23,830
4. Derivatives	2,657,172	4,951,349	(2,449,526)	(5,120,315)	67,183	71,023
4.1 Financial derivatives:	2,649,268	4,767,857	(2,405,749)	(4,961,500)	78,379	148,071
- on debt securities and interest rates	2,524,719	3,607,099	(2,320,437)	(3,846,449)	(35,068)	125,864
- on equity instruments and stock indices	86,299	965,279	(49,541)	(949,460)	52,577	6,057
- on currency and gold	X	X	X	X	28,503	(5,646)
- other	38,250	195,479	(35,771)	(165,591)	32,367	21,796
4.2 Credit derivatives	7,904	183,492	(43,777)	(158,815)	(11,196)	(77,048)
of which natual hedging connected with the fair value option	*X*	*X*	*X*	*X*	-	-
Total	**2,696,511**	**5,113,673**	**(2,513,574)**	**(5,312,820)**	**33,969**	**86,970**

“Capital Gains” and “Capital Losses” also include the results of the measurement of derivatives connected operationally with financial liabilities measured at fair value through profit or loss (FVO).

The impact on this item deriving from the application of the Credit Value Adjustment (CVA) on OTC derivatives is a positive EUR 1.7 mln; likewise, the application of the Debt Value Adjustment (DVA) on OTC derivatives entailed a negative impact of EUR 2.8 mln.

The breakdown of write-downs and trading losses due to assets with poor credit quality of the debtor (issuer or counterparty) is provided below.

	31 12 2020		31 12 2019	
	Capital Losses	Trading Losses	Capital Losses	Trading Losses
Debt securities	-	375	199	-
Derivatives	1,598	-	1,064	7,049

Section 5 - Net profit (loss) from hedging - Item 90

5.1 Net profit (loss) from hedging: breakdown

P&L items/Values	Total 31 12 2020	Total 31 12 2019
A. Gains on:		
A.1 Fair value hedging instruments	136,778	57,313
A.2 Hedged financial assets (fair value)	574,341	713,079
A.3 Hedged financial liabilities (fair value)	33,864	45,591
A.4 Cash-flow hedging derivatives	-	89,293
A.5 Assets and liabilities denominated in foreign currency	-	-
Total gains on hedging activities (A)	**744,983**	**905,276**
B. Losses on:		
B.1 Fair value hedging instruments	614,621	768,075
B.2 Hedged financial assets (fair value)	64,222	31,982
B.3 Hedged financial liabilities (fair value)	63,520	17,898
B.4 Cash-flow hedging derivatives	-	91,933
B.5 Assets and liabilities denominated in foreign currency	-	-
Total losses on hedging activities (B)	**742,363**	**909,888**
C. Net profit (loss) from hedging activities (A - B)	**2,620**	**(4,612)**
of which: hedging result on Net position	-	-

For information on hedging derivatives, the gains and losses on which are indicated in lines A.1 and A.4, B.1 and B.4 of this table, see Section 5 “Hedging derivatives – Item 50” of the Assets and Section 4 “Hedging derivatives – Item 40” of the liabilities in Part B of these Notes to the financial statements.

More information on hedged assets and liabilities can be found in the tables in Part B of the notes for each section of the accounts to which hedges are posted.

Section 6 - Gains/(losses) on disposal/repurchase - Item 100

6.1 Gains (losses) on disposal/repurchase: breakdown

Items / P&L items	Total 31 12 2020			Total 31 12 2019		
	Gains	Losses	Net Profit (Loss)	Gains	Losses	Net Profit (Loss)
Financial assets						
1. Financial assets measured at amortised cost	125,650	(12,185)	113,465	90,673	(29,626)	61,047
1.1 Loans to banks	-	-	-	11	-	11
1.2 Loans to customers	125,650	(12,185)	113,465	90,662	(29,626)	61,036
2.. Financial assets measured at fair value through other comprehensive income	4,744	(4,570)	174	52,581	(131)	52,450
2.1 Debt securities issued	4,744	(4,570)	174	52,581	(131)	52,450
2.2 Loans	-	-	-	-	-	-
Total assets (A)	**130,394**	**(16,755)**	**113,639**	**143,254**	**(29,757)**	**113,497**
Financial liabilities measured at amortised cost	-	-	-	-	-	-
1. Due to banks	102	(1,000)	(898)	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Debt securities issued	5,783	(21)	5,762	7	(905)	(898)
Total liabilities (B)	**5,885**	**(1,021)**	**4,864**	**7**	**(905)**	**(898)**

The Gains column of item Financial assets measured at amortised cost, Line 1.2 Loans to customers refers, for EUR 2.9 mln to loans and for EUR 122.7 mln to debt securities; the Losses column of the same item refer almost fully to loans.

Section 7 - Net profit (loss) from other financial assets and liabilities measured at fair value through profit or loss - Item 110

7.1 Net changes in other financial assets and liabilities measured at fair value through profit or loss: breakdown of financial assets and liabilities measured at fair value

Transactions/P&L items	Capital Gains	Realized profits	Capital Losses	Realized losses	Net Profit (loss)	
					31 12 2020	31 12 2019
1. Financial assets	-	-	-	-	-	-
2. Financial liabilities	1,577	151	(1,438)	(95)	195	(11,201)
2.1 Debt securities issued	1,577	151	(1,438)	(95)	195	(11,201)
3. Financial assets and liabilities in foreign currency: exchange differences	X	X	X	X	-	-
Total	**1,577**	**151**	**(1,438)**	**(95)**	**195**	**(11,201)**

The item includes solely the profit, loss, capital gains and capital losses from structured fixed-rate debt securities included in the fair value option. The balances of the economic valuations of derivatives through which said securities are subject to natural hedging are instead recognised under item 80 “Net profit (loss) from trading”.

Note that the changes in fair value due to changes in own creditworthiness are recognised under other revenue items without reversal to the income statement.

7.2 Net changes in other financial assets and liabilities measured at fair value through profit or loss: breakdown of other financial assets mandatorily measured at fair value

Transactions/P&L items	Capital Gains	Realized profits	Capital Losses	Realized losses	Net Profit (loss)	
					31 12 2020	31 12 2019
1. Financial assets						
1.1 Debt securities	6,770	9,778	(20,868)	-	(4,320)	137,997
1.2 Equity instruments	773	6,983	(3,991)	(2,290)	1,475	(2,204)
1.3 Units of UCITS	4,546	198	(8,614)	(583)	(4,453)	(14,048)
1.4 Loans	9,844	4,234	(14,220)	(737)	(879)	(55,618)
2. Financial assets in foreign currency: exchange differences	X	X	X	X	(6,638)	-
Total	**21,933**	**21,193**	**(47,693)**	**(3,610)**	**(14,815)**	**66,127**

The net result as at 31 December 2019, in correspondence of the Line “1.1 Financial assets - Debt securities”, included the revaluation of convertible bonds issued by Sorgenia Group as, the equity instruments of Nuova Sorgenia Holding S.p.A. and Tirreno Power S.p.A. for a total of EUR 155 mln.

Section 8 - Net impairment (losses)/reversals for credit risk - Item 130

8.1 Net impairment (losses)/reversals for credit risk on financial assets measured at amortised cost: breakdown

Transactions/P&L items	Net impairment (losses)			Reversals		Total 31 12 2020	Total 31 12 2019
	Stage 1 and Stage 2	Stage 3		Stage 1 and Stage 2	Stage 3		
		Write-off	Others				
A. Loans to banks	**(2,819)**	**(143)**	**(3)**	**1,808**	**2**	**(1,155)**	**2,233**
- Loans	(2,483)	(143)	(3)	1,790	2	(837)	2,210
- Debt securities	(336)	-	-	18	-	(318)	23
Of which: purchased or originated credit impaired financial assets	-	-	-	-	-	-	-
B. Loans to customers	**(317,214)**	**(96,927)**	**(862,108)**	**180,559**	**347,510**	**(748,181)**	**(605,568)**
- Loans	(312,305)	(96,927)	(862,108)	180,162	347,510	(743,668)	(604,174)
- Debt securities	(4,909)	-	-	397	-	(4,513)	(1,394)
Of which: purchased or originated credit impaired financial assets	*(252)*	*(5)*	*(12,796)*	*97*	*2,632*	*(10,324)*	*(6,794)*
C. Total	**(320,033)**	**(97,070)**	**(862,111)**	**182,367**	**347,512**	**(749,336)**	**(603,335)**

8.1a Net impairment (losses)/reversal for credit risk on loans measured at amortised cost object of COVID-19 support measures: breakdown

Transactions/ P&L items	Net impairment (losses)			Total 31 12 2020
	Stage 1 and Stage 2	Stage 3		
		Write-off	Others	
1. EBA-compliant moratoria (legislative and non-legislative)	(79,994)	-	(16,448)	(96,442)
2. Other COVID-19-related Forbearance Measures	(1,641)	(152)	(19,791)	(21,584)
3. Newly Originated Loans	(7,435)	-	(73)	(7,508)
Total 31 12 2020	**(89,070)**	**(152)**	**(36,312)**	**(125,534)**

8.2 Net impairment (losses)/reversals for credit risk on financial assets measured at fair value through other comprehensive income: breakdown

Transactions/ P&L items	Net impairment (losses)			Reversals		Total 31 12 2020	Total 31 12 2019
	Stage 1 and Stage 2	Stage 3		Stage 1 and Stage 2	Stage 3		
		Write-off	Others				
A. Debt securities	(3,125)	-	-	470	2,813	158	(6,381)
B. Loans	-	-	-	-	-	-	-
of which: purchased or originated credit impaired assets	-	-	-	-	-	-	-
Total	**(3,125)**	**-**	**-**	**470**	**2,813**	**158**	**(6,381)**

8.2a Net impairment (losses) for credit risk on loans measured at fair value through other comprehensive income object of COVID-19 support measures: breakdown

This table has not been completed as the Group has no investments of this type.

Section 9 - Modification gains/(losses) without derecognition - Item 140

9.1 Modification gains/(losses): breakdown

This item, negative for EUR 18.8 mln as at 31 December 2020 (negative for EUR 4.3 mln as at 31 December 2019) includes the impacts related to contractual changes on medium/long term loans to customers which, without any substantial change, according to the provisions of IFRS 9, as well as the Group's accounting regulations, do not entail accounting derecognition of the assets but rather the recognition to profit and loss of the changes made to the contractual cash flows. The balance as at 31 December 2020 refers almost entirely to the effects of the moratoria granted under COVID-19. For further details, see Part A.2 - paragraph 16 "Other information - Renegotiations" and paragraph "Contractual changes deriving from COVID-19" in these Notes to the financial statements.

Section 10 – Net premiums – Item 150

10.1 Net premiums: breakdown

The section was not completed, as net premiums do not exist in the Group either in the current or in the previous year.

Section 11 – Other net insurance income/expense – Item 170

The tables of this section were not completed because there is no other net insurance income/expense in the Group, either in the current or in the previous year.

Section 12 - Administrative expenses - Item 190

12.1 Personnel expenses: breakdown

Type of Expense / Area	Total 31 12 2020	Total 31 12 2019
1. Employees	(1,519,518)	(1,405,956)
a) wages and salaries	(1,019,408)	(1,021,226)
b) social-welfare charges	(275,709)	(279,363)
c) severance pay	(65,220)	(60,269)
d) social security expenses	-	-
e) provision for staff severance pay	(813)	(2,301)
f) pension funds and similar obligations:	(654)	(815)
- defined contribution	(601)	(558)
- defined benefit	(53)	(257)
g) contributions to external pension funds:	(31,154)	(22,693)
- defined contribution	(23,910)	(22,419)
- defined benefit	(7,244)	(274)
h) costs related to share-based payments	4	167
i) other employee benefits	(126,564)	(19,456)
2. Other staff	18,075	5,056
3. Directors and Statutory Auditors	(2,780)	(2,800)
4. Retired personnel	(4,512)	(4,378)
Total	**(1,508,735)**	**(1,408,078)**

Line “f) pension funds and similar obligations” includes amounts set aside for internal funds, while line “g) contributions to external pension funds” includes contributions paid and adjustments made to external pension funds.

Line “h) costs related to share-based payments” reflects the reduction in provisions for performance shares assigned to the Group’s “key employees” with regard to incentive plans in effect for the previous years.

Line “i) other employee benefits” of the 2020 financial year includes the provision recognised for the early retirement incentives/solidarity fund pursuant to the agreement of 6 August 2020 entered into with the trade unions, for EUR 93.6 mln.

Line 2 “Other staff” includes approximately EUR 17 mln as at 31 December 2020 relating to Fruendo and due to the reinstatement and subsequent secondment of some employees in April 2020, approximately EUR 1 mln (EUR 6.3 mln as at 31 December 2019) linked to the recovery of the cost of employees seconded to Juliet SpA until 1 April 2020 and finally EUR 0.5 mln relating to AMCO for the recovery of the cost of seconded employees following the demerger that took place with effect from 1 December 2020.

12.2 Average number of employees by category

Category / Average Number	31 12 2020	31 12 2019
Employees:	**20,400**	**21,419**
a) executives	247	277
b) middle managers	8,145	8,583
c) remaining staff	12,008	12,559
Other personnel	**3**	**1**
Total	**20,403**	**21,420**

12.3 Defined benefit company pension funds: costs and revenues

Items/Amounts	31 12 2020			31 12 2019		
	Defined benefit company pension funds		Provision for staff severance pay	Defined benefit company pension funds		Provision for staff severance pay
	Internal pension plan	External pension plan		Internal pension plan	External pension plan	
Interest income/expense	(49)	(1)	(790)	(253)	(1)	(2,268)
Current service cost and gains (losses) arising from settlements°	(4)	-	(22)	(4)	(55)	(31)
Past service cost	-	(133)	-	-	152	-
Gains (losses) arising from settlements°°	-	-	-	-	-	-
Other operating costs	-	(7,110)	(1)	-	(370)	(2)
Total	**(53)**	**(7,244)**	**(813)**	**(257)**	**(274)**	**(2,301)**

° *Pursuant to paragraph 100 of the IAS 19 standard, note that the past service cost and the amount of gains and losses arising from settlements need not be distinguished if they occur together.*

°° Only in the event of settlement not set out in the terms of the plan.

12.4 Other employee benefits

No information to report pursuant to sections 53, 158 and 171 of IAS 19.

12.5 Other administrative expenses: breakdown

Items/Amounts	31 12 2020	31 12 2019
Stamp duties	(166,058)	(174,358)
Indirect taxes and duties	(30,015)	(36,912)
Municipal real estate property tax	(23,621)	(21,582)
Property rentals	(2,722)	(2,401)
Cleaning service contracts	(32,524)	(13,216)
Insurance	(47,453)	(49,216)
Sundry lease payments and rentals	(118,971)	(123,630)
Fee to external professionals	(133,356)	(154,102)
Third-party data processing	(36,672)	(39,942)
Lease of equipment	(17,232)	(23,427)
Utilities	(28,332)	(31,585)
Maintenance of movable and immovable properties (used in the business)	(35,835)	(38,299)
Postage	(22,392)	(23,637)
Advertising, sponsorships and promotions	(5,448)	(5,093)
Membership dues	(3,298)	(3,812)
Reimbursement of employee car and travel expenses	(1,732)	(6,040)
Security services	(8,557)	(7,396)
Software	(58,504)	(52,162)
Expenses for personnel training	(3,784)	(4,457)
Corporate entertainment expenses	(810)	(1,156)
Expenses for non-rented investment real estate	(179)	(120)
Printing and stationery	(7,981)	(5,374)
Telephone, telefax and telegraph	(8,422)	(8,886)
Transportation	(23,652)	(25,130)
Sundry occupancy expenses and refunds for release of immovable property used in the business	(319)	(4,396)
Contributions to Resolution Funds (SRF) and Deposits Guarantee Schemes (DGS)	(136,749)	(114,525)
DTA fee	(71,045)	(70,598)
Others	(16,474)	(17,851)
Total	**(1,042,137)**	**(1,059,303)**

The line "Sundry lease payments and rentals" includes EUR 77.5 mln referring to costs for outsourced services regarding back office accounting and administrative activities related to the management and provision of specific services by the Group. These services entail decreasing considerations over the duration of the contract, against a constant volume of services received by the Group. In accordance with the accounting policies (see Part A, Other information - Costs for constant services and decreasing payments), the recognition of the afore-mentioned costs in the income statements follows a linear trend over the contract duration with the consequent necessity for the Group to recognise a prepayment. The cumulated figure as at 31 December 2020 amounted to EUR 212.2 mln and is shown under item "Other assets", line "Accrued income and prepaid expenses not attributable to its own separate item" of Part B of these Notes to the financial statements. The line also includes costs relating to *short-term and low value lease* contracts for EUR 4.7 mln.

The increase in the line "Cleaning service contracts" is related to extraordinary activities performed during the year since the beginning of the pandemic in order to safeguard the health of employees and clients.

The lines "Fees to external professionals" and "Software" include, respectively, EUR 8.1 mln and EUR 1.7 mln in expenses for consultancy and ICT expenses linked to the demerger transaction.

The line "Contributions to Resolution Funds (SRF) and Deposits Guarantee Systems (DGS)" equal to EUR 136.7 mln, comprises EUR 76.5 mln for charges associated with the SRF (Single Resolution Funds) and NRF (National Resolution Fund) and EUR 60.2 mln for contributions to the DGS.

The line "DTA fee" includes the expenses related to the fee paid on DTAs that can be converted into tax credit as set forth in art. 11 of Law Decree no. 59 of 3 May 2016, converted into Law no. 119 of 30 June 2016.

For a trend analysis of the remaining concerned items, reference should be made to the consolidated Report on Operations.

Section 13 - Net provisions for risks and charges – Item 200

13.1 Net provisions for credit risk relative to commitments to disburse funds and financial guarantees given: breakdown

Transactions/P&L items	Stage 1	Stage 2	Stage 3	Total 31 12 2020	Total 31 12 2019
1) Financial guarantees given	(3,042)	(3,515)	(35,323)	(41,880)	42,498
Provisions for the year	(4,547)	(6,295)	(39,866)	(50,708)	(35,619)
Write-backs	1,505	2,780	4,543	8,828	78,117
2) Commitments to disburs funds	602	(329)	56,976	57,249	40,129
Provisions for the year	(2,713)	(3,090)	(3)	(5,806)	(4,219)
Write-backs	3,315	2,761	56,979	63,055	44,348
Total	**(2,440)**	**(3,844)**	**21,653**	**15,369**	**82,627**

13.2 Net provisions relative to other commitments and guarantees given: breakdown

Transactions/P&L items	Total 31 12 2020	Total 31 12 2019
1) Financial guarantees given	-	-
2) Commitments to disburse funds	(10,652)	1,000
Provisions for the year	(10,652)	-
Write-backs	-	1,000
Total	**(10,652)**	**1,000**

13.3 Other net provisions for risks and charges: breakdown

Items/Amount	31 12 2020			31 12 2019		
	Provisions for the year	Write-backs	Net Provisions	Provisions for the year	Write-backs	Net Provisions
Legal and tax disputes	(606,988)	77,661	(529,327)	(195,295)	194,571	(724)
- cost	(606,988)	77,661	(529,327)	(195,285)	194,571	(714)
- discounting effect	-	-	-	(10)	-	(10)
Personnel expenses	(34,066)	17,094	(16,972)	(16,077)	9,019	(7,058)
Other risks and charges	(438,883)	11,901	(426,982)	(175,196)	27,342	(147,854)
Total	**(1,079,937)**	**106,656**	**(973,281)**	**(386,568)**	**230,932**	**(155,636)**

Provisions for the year for:

- "Legal and tax disputes" are mainly linked to the dispute related to financial information disclosed in the period 2008-2015;
- "Other risks and charges" include the valuations relating to the risks associated with the guarantees issued as part of the derisking of non-performing loans and to the risks relating to transactions with customers, including those against expected future repayments associated with contracts within the scope of IFRS 15.

Section 14 - Net adjustments to/recoveries on property, plant and equipment - Item 210

14.1 Net adjustments to property, plant and equipment: breakdown

Assets / P&L items	Depreciation	Impairment losses	Recoveries	Net Profit (loss) 31 12 2020	Net Profit (loss) 31 12 2019
A. Property, plant and equipment					
1. Used in the business	(148,740)	(10,407)	-	(159,147)	(169,144)
- Ownded	(96,992)	(8,504)	-	(105,496)	(115,259)
- Leased	(51,748)	(1,903)	-	(53,651)	(53,885)
2. Held for investment	(7,149)	(3,840)	-	(10,989)	(13,135)
- used in the business	(7,149)	(3,840)	-	(10,989)	(13,135)
- Leased	-	-	-	-	-
3. Inventories	X	(1,266)	4	(1,262)	1
Total	**(155,889)**	**(15,513)**	**4**	**(171,399)**	**(182,279)**

Property, plant and equipment with a definite useful life is tested for impairment.

Section 15 - Net adjustments to/recoveries on intangible assets - Item 220

15.1 Net adjustments to intangible assets: breakdown

Assets/P&L items	Amortization	Impairment losses	Recoveries	Net profit (loss) 31 12 2020	Net profit (loss) 31 12 2019
A. Intangible assets					
A.1 Owned	(74,604)	(825)	-	(75,429)	(98,938)
- generated internally by the company	(17,244)	(594)	-	(17,838)	(21,307)
- other	(57,360)	(231)	-	(57,591)	(77,631)
A.2 Leased	-	-	-	-	-
Total	**(74,604)**	**(825)**	**-**	**(75,429)**	**(98,938)**

Amortisation mainly relates to software held by the Consorzio Operativo di Gruppo MPS and to intangible assets with a definite useful life identified during the PPA process for the former subsidiary Banca Antonveneta.

Section 16 - Other operating expenses/income - Item 230

16.1 Other operating expenses: breakdown

Items/Values	Total 31 12 2020	Total 31 12 2019
Costs of robberies	(1,681)	(1,527)
Depreciations of leasehold improvements recognized as "Other Assets"	(7,011)	(6,389)
Cost of financial lease transactions	(4,668)	(8,030)
Costs from judgments and settlement agreements	(35,287)	(92,209)
Other	(39,649)	(33,333)
Total	**(88,296)**	**(141,488)**

The line "Costs from judgements and settlement agreements" as at 31 December 2019 included the indemnity of EUR 40 mln (excluding VAT) associated with exercising the right of withdrawal envisaged in the ten-year servicing contract stipulated with Juliet S.p.A.

16.2 Other operating income: breakdown

Items/Values	Total 31 12 2020	Total 31 12 2019
Insurance claims	-	6
Rents from investment real estate	12,412	12,158
Other revenues from real estate (real estate inventory)	-	45
Recovery of taxes	180,053	187,071
Recovery of insurance premiums	35,544	38,441
Income from financial lease transactions	3,534	4,612
Recovery of other expenses	42,066	48,784
Other operating income	44,361	54,703
Total	**317,970**	**345,820**

The amount of EUR 42.1 mln classified under "Recovery of other expenses" includes, among other things, the compensation of legal fees incurred for the enforced recovery of bad loans of EUR 16.7 mln (EUR 16.0 mln as at 31 December 2019).

The Group has no income deriving from the sublease of assets consisting in the right of use (IFRS 16.53 (f))

"Other operating income" does not include any revenues under the scope of IFRS 15.

The Group does not have any variable income not related to an index or a rate deriving from operating leases (IFRS 16.90 b).

Section 17 - Gains (losses) on investments - Item 250

17.1 Gains (losses) on investments: breakdown

P&L items/Sectors	Total 31 12 2020	Total 31 12 2019
1) Jointly owned companies		
A. Income	11	519
1. Revaluations	11	519
2. Gains on disposal	-	-
3. Recoveries	-	-
4. Other income	-	-
B. Expense	(1,380)	-
1. Write-downs	(1,380)	-
2. Impairment losses	-	-
3. Losses on disposal	-	-
4. Other expenses	-	-
Net Profit (Loss)	**(1,369)**	**519**
2) Companies subject to significant influence		
A. Income	96,796	91,130
1. Revaluations	96,796	91,130
2. Gains on disposal	-	-
3. Recoveries	-	-
4. Other income	-	-
B. Expense	(404)	(11,027)
1. Write-downs	(404)	(976)
2. Impairment losses	-	(8,723)
3. Losses on disposal	-	(864)
4. Other expenses	-	(464)
Net Profit (Loss)	**96,392**	**80,103**
Total	**95,023**	**80,622**

The amount of EUR 96.8 mln recognised in line 2) A.1 “Revaluations” is predominantly due to the results of investments in associates AXA MPS Vita and AXA MPS Danni S.p.A.

Section 18 - Net gains (losses) on property, plant and equipment and intangible assets measured at fair value - Item 260

18.1 Net gains (losses) on property, plant and equipment and intangible assets measured at fair value (or revalued) or at presumed realisable value: breakdown

The section was not completed as property, plant and equipment and intangible assets measured at fair value do not exist in the Group either in the current or in the previous period.

Section 19 - Impairment of goodwill - Item 270

19.1 Impairment of goodwill: breakdown

Owing to its indefinite or unlimited useful life, goodwill is tested at the end of each year to assess whether its book value is fairly stated or recoverable. The impairment test conducted in 2020 did not result in any impairment losses on goodwill allocated to the Widiba CGU (Cash Generating Unit), as the recoverable amount is higher than the book value by EUR 93 mln.

For additional information concerning the methods for conducting impairment tests, see the appropriate section in Part B of the Notes to the financial statements, Section 10.1 of Assets “Intangible assets: breakdown by type”.

Section 20 – Gains (losses) on disposal of investments – Item 280

20.1 Gains (losses) on disposal of investments: breakdown

P&L items/Sectors	Total 31 12 2020	Total 31 12 2019
A. Property	42,240	2,916
- Gains on disposal	42,654	3,187
- Losses on disposal	(414)	(271)
B. Other assets	1,166	46
- Gains on disposal	2,046	74
- Losses on disposal	(880)	(28)
Net Profit (Loss)	**43,406**	**2,962**

Gains on disposals of EUR 42.6 mln refer to the sale of a real estate portfolio to Ardian for EUR 40.2 mln.

The line Gains on disposal relating to other assets for EUR 2.0 mln refers to a price adjustment related to the sale of the subsidiary MPS Belgio, completed in 2019.

The Group has not recognised any gains or losses deriving from sale and lease-back transactions (IFRS 16.53 letter i).

Section 21 – Tax (expense)/recovery on income from continuing operations – Item 300

21.1 Tax (expense)/recovery on income from continuing operations: breakdown

P&L items/Sectors	Total	
	31 12 2020	31 12 2019
1. Current taxes (-)	(3,675)	(5,418)
2. Adjustments to current taxes of prior years (+/-)	26,221	2,463
3. Reduction in current taxes for the year (+)	-	-
3.bis Reduction in current taxes for the period due to tax credits under Law 214/2011	112,921	22,401
4. Changes in deferred tax assets (+/-)	(462,982)	(1,076,273)
5. Changes in deferred tax liabilities (+/-)	(10,681)	(11,846)
6. Taxes expense for the year (-) (-1+/-2 +3+/-4+/-5)	**(338,196)**	**(1,068,673)**

The amount under line 4. “Changes in deferred tax assets” which, net of the reduction in deferred tax assets converted into tax credit of EUR 112.9 mln, equals EUR -350.1 mln and includes the overall effect of the valuation of DTAs deriving from the results of the probability test, of EUR -544.9 mln.

21.2 Reconciliation of theoretical to actual tax charge

Items/Amounts	31 12 2020	%	31 12 2019	%
Pre-tax profit (loss) from continuing operations	**(1,350,917)**		**53,591**	
Profit(loss) before tax from non current assets held for sale	**-**		**(18,060)**	
Comprehensive income (loss) before tax	**(1,350,917)**		**35,531**	
Theoretical IRES tax income (charge) at current tax rate	**371,502**	**27.5%**	**(9,771)**	**27.5%**
Permanent increases	**(7,848)**	**-0.6%**	**3,510**	**-9.9%**
Losses on sale of equity instruments designated at fari value through other comprehensive income	45	0.0%	(329)	0.9%
Non-deductible administrative expenses (Municipal real estate property tax, vehicles, telephone, etc.)	(7,893)	-0.6%	3,839	-10.8%
Permanent decreases	**25,380**	**1.9%**	**47,451**	**n.m**
Gains on sale of equity instruments designated at fair value through other comprehensive income	2,381	0.2%	19,422	-54.7%
Gains on disposal of subsidiaries and associates	472	0.0%	(6,076)	17.1%
ACE Deduction	22,527	1.7%	34,105	-96.0%
Reversal of theretical tax charge on share of profits/loss of equity-accounted associates	30,768	2.3%	28,734	-80.9%
Economic effect of DTA evaluation related to prior tax losses	(170,158)	-12.6%	(872,561)	n.m.
Other economic effect of DTA evaluation	(311,167)	-23.0%	(93,365)	n.m.
Economic effect of DTA related to ACE evaluation	(61,827)	-4.6%	-	0.0%
Effect due to non-registration of DTA on tax loss of current year	(213,802)	-15.8%	(95,290)	n.m.
Tax on Profit (losses) from group of assets held for sale	-	0.0%	(4,967)	14.0%
Other components (IRES relative to previous years, spreads between Italian and foreign tax rate, etc.)	9,322	0.7%	(40,343)	n.m.
Actual IRES tax income (charge)	**(327,831)**	**-24.3%**	**(1,036,602)**	**n.m.**
Theoretical IRAP tax income (charge) at nominal tax rate	**62,818**	**4.65%**	**(1,652)**	**4.65%**
Economic items not relevant for IRAP purposes	**(54,427)**	**-4.0%**	**(8,220)**	**23.1%**
Non-deductible interest expense	(4,124)	-0.3%	(4,402)	12.4%
Value adjustments and credit losses	937	0.1%	263	-0.7%
Non-deductible costs of personnel	(203)	0.0%	(233)	0.7%
Profit (loss) on subsidiaries and associates	309	0.0%	333	-0.9%
Other non-deductible administrative expense (10%)	(5,506)	-0.4%	(5,639)	15.9%
Non-deductible amortization (10%)	(633)	0.0%	(729)	2.1%
Provisions for risk and charges	(44,462)	-3.3%	(3,267)	9.2%
Other non relevant P&L items	(745)	-0.1%	5,455	-15.4%
Effect of increased regional rate	8,225	0.6%	4,235	-11.9%
Charges from unrecognised IRAP tax loss carryforward	(32,766)	-2.4%	(17,103)	48.1%
DTA adjustments	(4,826)	-0.4%	(18,276)	51.4%
Tax on profit/(loss) on financial assets held for sale	-	0.0%	(840)	2.4%
Tax refunds from previous years	10,437	0.8%	8,814	-24.8%
Other components (IRAP relative to previous years, spreads between Italian and foreign tax rate, etc,)	173	0.0%	971	-2.7%
Actual IRAP income (charge)	**(10,366)**	**-0.8%**	**(32,071)**	**90.3%**
Actual IRES and IRAP income (charge)	**(338,196)**	**-25.0%**	**(1,068,673)**	**n.m.**

The reconciliation relating to IRES includes, aside from the main tax at the rate of 24%, also the additional tax of 3.5% introduced by Law no. 208 of 28 December 2015, paragraphs 65-66.

Section 22 - Profit (loss) after tax from discontinued operations - Item 320

22.1 Profit (loss) after tax from discontinued operations: breakdown

P&L Items/Sectors	Total 31 12 2020	Total 31 12 2019
1. Income	-	8,796
2. Expenses	-	(15,093)
3. Profit (loss) from valuations of groups of assets and related liabilities	-	1,995
4. Profit (loss) from disposal	-	(13,758)
5. Tax and duties	-	-
Net Profit (Loss)	**-**	**(18,060)**

As at the reporting date, there are no profi (loss) from discontinued operations. The values shown in the column of 31 December 2019 refer to the subsidiary BMP Belgio S.A., sold on 14 June 2019 to the funds managed by Warburg Pincus.

Section 23 – Profit (loss) attributable to non-controlling interests – Item 340

23.1 Details of item 340 "Profit (loss) attributable to non-controlling interests"

	Total 31 12 2020	Total 31 12 2019
Consolidated equity investments with significant non-controlling interests	-	-
Other equity investments	(129)	(131)
Total	**(129)**	**(131)**

Section 24 – Other information

No additional disclosure to that presented in accordance with the international accounting standards and Circular no. 262 of the Bank of Italy is required.

Section 25 - Earnings per Share (EPS)

25.1 Average number of diluted ordinary shares

25.2 Other information

Items/Amounts	31 12 2020		31 12 2019	
Weighted average number of ordinary shares outstanding (no. Shares)		1,092,298,612		1,104,009,324
Ner Profit (loss) (euro th)				
Related to Parent Company continuing operations		(1,688,984)		(1,014,951)
Related to Parent Company discontinued operations		-		(18,060)
Attributable to Parent Company		(1,688,984)		(1,033,011)
EPS (euros)	**Basic**	**Diluted**	**Basic**	**Diluted**
Related to Parent Company continuing operations	(1.546)	(1.546)	(0.919)	(0.919)
Related to Parent Company discontinued operations	-	-	(0.016)	(0.016)
Attributable to Parent Company	(1.546)	(1.546)	(0.936)	(0.936)

Note that Basic EPS and Diluted EPS are the same, as there were no outstanding financial instruments with potential dilutive effects.

Part D – Consolidated statement of comprehensive income

Consolidated Statement of Comprehensive Income

	Items	Total 31 12 2020	Total 31 12 2019
10.	**Proft (loss) for the year**	**(1,689,113)**	**(1,033,142)**
	Other comprehensive income without reversal to profit & loss	**34,311**	**15,424**
20.	Equity instruments designated at fair value through other comprehensive income	1,973	10,315
	a) changes in fair value	730	1,453
	b) Transfers to others equity components	1,243	8,863
30.	Financial liabilities designated at fair value through profit or loss (change in the entity's own credit rating)	(10,186)	(4,375)
	a) changes in fair value	(10,186)	(4,375)
70.	Defined benefit plans	49,946	(8,759)
80.	Non-current assets and groups of assets held for sale	-	438
90.	Share of valuation reserves of equity accounted investments	(13,446)	3,977
100.	Tax income related to other income components whitout reversal to profit & loss	6,024	13,828
	Other comprehensive income with reversal to profit & loss	**159,826**	**227,702**
120.	Exchange differences:	(2,214)	(3,243)
	c) other changes	(2,214)	(3,243)
130.	Cash flow hedges:	(247)	3,017
	a) changes in fair value	-	(7,328)
	b) reversal to profit & loss	(247)	(4,180)
	c) other changes	-	14,525
150.	Fiancial assets (other than equity instruments) measured at fair value through other comprehensive income	85,357	219,187
	a) changes in value	47,035	142,170
	b) reversal to profit & loss	1,177	58,622
	-impairment provisions	504	5,585
	-relised net gains/losses	673	53,037
	c) other changes	37,145	18,395
160	Non current assets and group of assets held for sale	-	2,191
	c) other changes	-	2,191
170.	Share of valuation reserves of equity accounted investments	151,444	113,050
	a) changes in fair value	151,444	113,050
180.	Tax income related to other income components whit reversal to profit & loss	(74,514)	(106,500)
190.	**Other income components**	**194,137**	**243,126**
200.	**Total comprehensive income (Item 10 + 190)**	**(1,494,976)**	**(790,016)**
210.	Consolidated comprehensive income attributable to non-controlling interests	(129)	(122)
220.	**Consolidated comprehensive income attributable to Parent Company**	**(1,494,847)**	**(789,894)**

Part E - Information on risks and hedging policies

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Note: Public Disclosure (Basel III Pillar) is published on the
Group's website: https://www.gruppomps.it/en/investor-relations.

Foreword

A summary of the organisation of the MPS Group's risk governance and the related processes and key functions is described below.

An estimate of the Overall Internal Capital and a description of the relative assessment models are also provided.

For more detailed information on the Group's Risk Governance and risk culture, please refer to the Consolidated Report on Operations.

Risk governance system

The risk governance system adopted by the Group is characterised by a clear-cut distinction of roles and responsibilities of the different functions at first, second and third level of control.

Policies relating to the assumption, management, coverage, monitoring and control of risks are defined by the statutory bodies of the Parent Company. In particular:

- the Parent Company's Board of Directors defines and approves strategic guidelines and risk management policies and, at least once a year, quantitatively expresses the Group's overall risk appetite in terms of economic capital (Risk Appetite);
- the Board of Statutory Auditors and the Risk and Sustainability Committee evaluate the level of efficiency and adequacy of the internal control system, with particular regard to risk control;
- the CEO/General Management is responsible for ensuring compliance with risk policies and procedures;
- the Director in charge of the internal control and risk management system, appointed in compliance with the Corporate Governance Code for listed companies, is responsible for creating and maintaining an effective system of internal control and risk management.

Specific Management Committees responsible for risk issues have been established in order to promote efficiency and flexibility in the decision-making process and facilitate interactions between the various company functions involved:

- the Risk Management Committee establishes Risk Management policies, evaluates the Group's risk appetite in accordance with annual and long-term Group value creation targets and ensures and monitors overall compliance with the limits defined for the various operating levels; evaluates the risk profile reached and therefore the capital consumption at both Group level and for each individual company of the Group;
- the Finance and Liquidity Committee formulates the principles and strategic guidelines relating to proprietary finance; it resolves upon and submits proposals regarding exposures to interest rate and liquidity risk in the banking book and defines capital management actions;
- the Credit Committee formulates policies in relation to credit processes and formulates an opinion, at least once per year, on credit policies by verifying their commercial sustainability and consistency with risk appetite levels. Based on the authorities assigned to it, it is also responsible for taking decisions with respect to lending and the management of problem receivables and assets.

As part of the Internal Control System, the Chief Audit Executive Department conducts third-level controls, the Chief Risk Officer Department and the Compliance Department carry out second-level controls and the Business Control Units (BCUs) carry out first-level controls.

The Chief Audit Executive Department performs an independent and objective "assurance" and advising activity, aimed both at monitoring operations compliance and risk trends (including through on-site audits) as well as assessing the efficiency of the overall internal control system in order to improve the effectiveness and efficiency of the organisation. It also acts as Internal Secondary Supervisor with a view to focusing on the main characteristics of the prudential supervision process adopted by the European Supervisory Authority and on the orientations/priorities outlined by the latter over time so as to evaluate the Group's positioning with respect to the expectations of the Single Supervisor.

The Chief Risk Officer (CRO) Department, which reports directly to the Board of Directors and functionally reports to the CEO, performs activities related to risk control, anti-money laundering and counter-terrorist financing (AML) and internal approval functions. The Head of the Chief Risk Officer (CRO) Department, in addition to being responsible for the risk control function has also been responsible for the AML function. Moreover, the internal validation function reports to the CRO, as set forth in the Supervisory regulations and as internally transposed in the Group policy regarding the internal control system.

This Department therefore has the following tasks:

- to guarantee the overall functioning of the risk management system;
- to participate in the definition and control of the Risk Appetite Framework (RAF), as well as ensure that significant transactions are consistent with the RAF;
- to verify capital adequacy based on the ICAAP and liquidity adequacy based on the ILAAP;
- to monitor the Recovery Plan indicators;
- to ensure the necessary reporting flows to the Group's Top Management and Governance bodies;
- to guarantee proper and adequate control activities for the Group Companies that have outsourced the analogous corporate function;
- to perform the anti-money laundering duties envisaged by Law and the internal validation of risk management models;
- to guarantee proper and adequate control activities for the Group Companies that have outsourced the analogous corporate function;

Specifically, within the Chief Risk Officer Department, the risk control function structures are:

- the Financial Risk Officer Area, which defines the integrated methods of risk measurement/analysis and ensures they are constantly monitored, verifying their consistency with the risk appetite and compliance with the thresholds defined in terms of adequacy with respect to capital and liquidity reserves, participating in the definition of any mitigating actions required. It participates in the preparation, drafting and monitoring of the Recovery Plan. It governs the development of the proprietary financial risk measurement and control system in line with internal and regulatory principles. It guarantees management risk reporting for the Corporate Bodies and the Top Management. It prepares the Public Disclosure (Pillar 3) and the control and analysis of Business Model matters.
- the Lending Risk Officer Area, which governs the evolution of the credit risk measurement system, in line with internal and regulatory principles, in terms of statistical models as well as analytical and process assessments, overseeing the credit risk assessment from portfolio quality to the single name level. It conducts second-level controls on the Group's credit exposures.
- the Operating Risk Officer Area, which governs the evolution of the risk measurement and control system correlated with the operational application of the Group's business model (including operational, reputational and customer portfolio risks).

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

The outlying BCUs operating within the subsidiaries or main business areas, carry out compliance checks on the transactions which they are responsible for and are the first level of organisational supervision of transactions within the broader Internal Control System.

In compliance with the requirements of autonomy and independence of each participating function, there is also a Function Coordination Committee in place with control responsibilities. The Committee promotes and shares operational and methodological aspects to identify possible synergies in control activities carried out by second and third-level Functions, coordinate methods and timing for planning and reporting to the Corporate Bodies and project initiatives connected with the Internal Control System, and share areas for improvement identified by all Functions with control responsibilities as well as the Supervisory Authorities.

Requirements of autonomy and independence of the Risk Management Function

The Chief Risk Officer (CRO) is the head of the Parent Company's Risk Control Function.

The Function's autonomy and independence are ensured as it reports directly to the Corporate Body with strategic supervisory functions (the Board of Directors) and only functionally to the Management Body (CEO/GM). It has direct access to the Body with control functions (Board of Statutory Auditors) and may communicate continuously with no restriction or intermediation. The CRO is also entitled at his or her discretion to participate in Risk and Sustainability Committee meetings to intervene or propose discussions on specific topics.

In particular, the Board of Directors appoints and removes the Parent Company's Chief Risk Officer, upon proposal by the Risk and Sustainability Committee, with the assistance of the Appointments Committee, having consulted the Board of Statutory Auditors.

The remuneration of the Parent Company's Chief Risk Officer is determined and approved by the Board of Directors upon proposal by the Remuneration Committee, having heard the opinion of the Risk and Sustainability Committee.

Activities relating to the international Regulatory framework

Pillar 1: since 2008, the Group has used internal models validated by the Bank of Italy for the measurement and management of credit risk (AIRB - Advanced Internal Rating Based) and operational risk (AMA - Advanced Measurement Approach). Over time, and in collaboration with the Supervisory Authorities, these models have been further enhanced and their scope of application extended to Group entities not originally included in the initial validation scope.

Pillar 2: efforts to ensure compliance with the Supervisory Review and Evaluation Process (SREP) framework and to further improve the Group's Internal Capital Adequacy Assessment Processes (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) continued during the year, with the mandatory reporting provided to Supervisors.

The internal assessment of capital/liquidity adequacy are two processes that are part of the more general Risk Management macro-process, in direct connection with the Risk Appetite Framework (RAF) through the annual formulation of the Risk Appetite Statement (RAS) with related thresholds.

The overall internal capital/liquidity adequacy assessment process takes place periodically as part of the strategic ICAAP and ILAAP processes mainly through:

1) ICAAP/ILAAP Outcomes, or quantitative (inherent risk) and qualitative (risk management and controls) assessments on risk positioning prepared by the Risk Control Function and submitted to the Board of Directors for its own deliberations (Capital Adequacy Statement and Liquidity Adequacy Statement), i.e. the summary declarations prepared by the Board of Directors where it expresses its vision and awareness regarding the management of the adequacy of the capital situation and the current and future adequacy of liquidity.

2) ongoing ICAAP/ILAAP, which consists substantially of periodical analyses of capital and liquidity adequacy which are described in the periodical reports of the Risk Control Function to the corporate bodies.

In 2020, the Risk Appetite Framework (RAF), the overall internal reference framework for the determination of the Group's risk appetite, was further developed. In addition, the Group engaged in several improvement projects on the system for the management of the various risks.

Pillar 3: public disclosure is provided on a quarterly basis through the Group's internet site www.mps.it/investors and is continuously updated in accordance with regulatory developments.

Analysis of the Internal Capital

The Overall Internal Capital (or Overall Absorbed Capital) is the minimum amount of capital resources required to cover economic losses resulting from unforeseen events caused by the simultaneous exposure to different types of risk.

The main types of risks incurred by the Group in its day-to-day operations can be summarily described as follows:

- Credit risk;
- Market risk;
- Operational risk;
- Banking book interest rate risk;
- Counterparty risk;
- Real estate risk;
- Issuer risk;
- Concentration risk;
- Equity investment portfolio risk;
- Business/Strategic risk;
- Model risk;
- Liquidity risk;
- Reputational risk.

All of the types of risk mentioned above are involved in quantifying the Overall Internal Capital, with the exception of liquidity and reputational risk that, instead, are mitigated through organisational policies and processes.

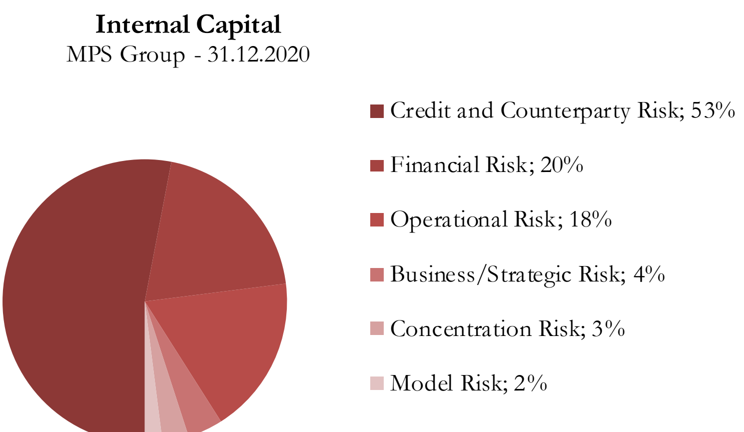
Risk inherent in investment products/services for the Group's customers are also monitored, with a view to protecting the customer and preventing any potential reputational repercussions.

Risk assessment models

The Risk Management Function regularly quantifies the Group's Internal Capital for each type of risk and periodically reports these to the Risk Management Committee and to the Governing Bodies as part of the reporting flows prepared by the Chief Risk Officer Division.

The approach used to quantify and supplement the risks-to-capital with regard to which the Group is exposed is known in the literature as Pillar 1 Plus. This approach envisages that the Pillar 1 requirements for Credit and Counterparty Risk (which already include those relating to Issuer Risk on the Banking Book, Equity Investment Risk and Real Estate Risk) and Operational Risk, be increased (avoiding double counting) by the requirements from internal models relating to Market Risks, of both Trading Book and Banking Book, Banking Book Interest Rate Risk (Financial Risk), Concentration Risk, the Business/Strategic Risk and the Model Risk.

Overall Internal Capital is calculated without considering inter-risk diversification, therefore by directly adding together the internal capital contributions of the individual risks (Building Block). This approach aims to incorporate the indications in the SREP (Supervisory Review and Evaluation Process) Guidelines published by the EBA.



The Group also manages and quantifies Liquidity Risk on an ongoing basis (risk-to-liquidity, as defined in the SREP Guidelines) through internal organisational methodologies and policies.

Section 1 - Risks of accounting consolidation

Quantitative Information

A. Credit quality

For the purposes of quantitative information on credit quality:

- the term "balance sheet exposure" refers to all on-balance sheet financial assets with regard to banks or customers, regardless of their portfolio of accounting recognition (measured at fair value through profit or loss, measured at fair value through other comprehensive income, measured at amortised cost, non-current financial assets held for sale and disposal group);
- the term "off-balance sheet exposure" refers to all financial transactions other than on-balance sheet ones (financial guarantees given, revocable and irrevocable commitments, derivatives, etc.) that involve the assumption of credit risk, regardless of the purpose for such transactions (trading, hedging, etc.). Off-balance sheet exposures also include the counterparty risk connected to securities lending transactions and repurchase agreements and to the granting or assumption of goods on a loan basis, as well as to transactions with margins included within the notion of Securities Financing Transactions as defined by prudential regulations.

Non-performing loans (on- and off-balance sheet) do not include financial assets held for trading and hedging derivatives, which are therefore traditionally recognised
among performing exposures.

Equity securities and units of UCITS are excluded.

A.1 Non-performing and performing loans: amounts, impairment (losses), changes, trend and breakdown by business sector

A.1.1 Breakdown of financial assets by portfolio and credit quality (book values)

31 12 2020

Portfolio/quality	Bad loans	Unlikely to pay	Past-due non-performing exposures	Past-due performing exposures	Other performing exposures	Total
1. Financial assets measured at amortised cost	562,379	1,514,126	54,566	744,038	123,864,623	126,739,732
- of which forborne	*120,366*	*629,547*	*7,037*	*33,041*	*1,177,547*	*1,967,538*
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	5,535,365	5,535,365
- of which forborne	-	-	-	-	-	-
3. Financial assets designated at fair value	-	-	-	-	-	-
- of which forborne	-	-	-	-	-	-
4. Fiancial assets mandatorily measured at fair value	2,804	18,533	-	183	274,029	295,549
- of which forborne	*2,748*	*16,391*	-	-	*36,649*	*55,788*
5. Financial asset held for sale	-	7,831	-	-	-	7,831
- of which forborne	-	*7,831*	-	-	-	*7,831*
Total 31 12 2020	565,183	1,540,490	54,566	744,221	129,674,017	132,578,477
Total 31 12 2019	2,982,209	3,061,410	75,223	1,126,273	104,694,619	111,939,734

As at 31 December 2020, forbearance exposures amounted to EUR 2,031.2 mln, of which EUR 783.9 mln were non-performing (EUR 2,066.5 mln as at 31 December 2019) and EUR 1,247.2 mln performing (EUR 1,878.6 mln as at 31 December 2019), and are predominantly in the “Financial assets measured at amortised cost” portfolio.

A.1.2 Breakdown of financial assets by portfolio and credit quality (gross and net values)

31 12 2020

Portfolio/quality	Non perfoming assets				Performing sssets			Total (Net exposure)
	Gross exposure	Impairment (loss)	Net exposure	Total Partial Write-off*	Gross exposure	Impairment (loss)	Net exposure	
1. Financial assets measured at amortised cost	3,931,490	1,800,418	2,131,072	141,269	125,214,997	606,337	124,608,660	126,739,732
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	5,543,253	7,888	5,535,365	5,535,365
3. Financial assets designated at fair value	-	-	-	-	X	X	-	-
4. Other fiancial assets mandatorily measured at fair value	91,502	70,165	21,337	6,056	X	X	274,212	295,549
5. Financial asset held for sale	21,368	13,537	7,831	-	-	-	-	7,831
Total 31 12 2020	4,044,360	1,884,120	2,160,240	147,325	130,758,250	614,225	130,418,237	132,578,477
Total 31 12 2019	11,962,822	5,843,979	6,118,843	200,952	105,878,373	488,992	105,820,891	111,939,734

At the reporting date, the Group had 207 positions relating to creditors who had filed a “blank” request for a pre-insolvency creditor arrangement procedure for a net exposure of EUR 58.8 mln and 2 positions relating to creditors who had filed a request for a pre-insolvency creditor arrangement with going concern for a net exposure of approx. EUR 0.1 mln.

In 2020 the Group acquired some non-performing loans, all classified in the “Financial assets measured at amortised cost” portfolio for a nominal value of EUR 0.3 mln, at the price of EUR 0.01 mln.

Portfolio/quality	Low quality assets		Other assets
	Cumulative capital losses	Net exposure	Net exposure
1 Financial assets held for trading	72,524	2,066	8,121,912
2 Hedging derivatives	-	-	50,818
Total 31 12 2020	**72,524**	**2,066**	**8,172,730**
Total 31 12 2019	**89,063**	**1,366**	**9,846,288**

Low credit quality exposures, amounted to EUR 2.1 mln, refers exclusively to derivatives contracts with customers

B. Information on structured entities (other than securitisation vehicles)

B.1 Consolidated structured entities

This paragraph was not completed as no such entities are present.

B.2 Structured entities not consolidated for accounting purposes

B.2.1. Prudentially consolidated structured entities

This paragraph was not completed as no such entities are present.

B.2.2 Other structured entities

Qualitative Information

For disclosures pursuant to IFRS 12 please refer to the comments provided under the table below.

Quantitative Information

31 12 2020

Balance sheet item/Type of structured entity	Accounting portfolio: Assets			Total assets (A)	Accounting portfolio: Liabilities	Total liabilities (B)	Net book value (C=A-B)	Maximum exposure to loss (D)	Difference between exposure to loss and book value (E=D-C)
	Financial assets held for trading	Financial assets measured at fair value through profit or loss	Financial assets measured at amortised cost		Fiancial liabilities held for trading				
1. Special Purpose	-	-	-	-	-	-	-	-	-
2. UCITS	985,031	159,845	30,029	1,174,906	278,013	278,013	896,893	1,173,643	276,750
Total	985,031	159,845	30,029	1,174,906	278,013	278,013	896,893	1,173,643	276,750

UCITS

The aggregate includes, in the column 'Financial assets held for trading':

- EUR 50.6 mln (EUR 92.8 mln as at 31 December 2019) relating to the interests held by the subsidiary MPS Capital Services S.p.A in units of Open-Ended Asset Funds and Exchange Traded Funds investing in stocks, bonds and derivatives. These units are purchased for the hedging of risks associated with the issue of structured bonds and funds placed through the network by the Parent Company or for repurchase on the secondary market of the structured funds that had been originally structured;
- EUR 934.4 mln (EUR 1,032.3 mln as at 31 December 2019) relating to exposures in financial derivatives with positive fair value to the counterparties Rainbow for EUR 136.5 mln (EUR 227.7 mln as at 31 December 2019), Anima for EUR 687.6 mln (EUR 619.8 mln as at 31 December 2019), Quaestio for EUR 10.0 mln (EUR 13.3 as at 31 December 2019), and Axa Im Deis asset funds for EUR 100.4 mln (EUR 171.5 mln as at 31 December 2019). Rainbow, Anima and Axa Im Deis are funds under Irish law managed by Anima Asset Management and AXA Investment Managers, respectively. These funds are divided into subfunds purchased by MPS AXA Financial Limited, which are the funds to which are linked the services of the Unit Linked policies placed with the latter's customers with the name "AXA MPS Valore Performance". The Quaestio funds are under Luxembourg law, managed by Quaestio Capital and sold through the MPS network. The subsidiary MPS Capital Services S.p.A. operates with Rainbow, Anima, Axa Im Deis and Quaestio as counterparty with which the derivatives included in the Fund assets are negotiated.

The column financial assets measured at fair value through profit or loss includes:

- EUR 60.2 mln (EUR 75.1 mln as at 31 December 2019) relating to interests held by the Parent Company in private equity funds, whose purpose is to increase the value of the respective equity through mainly medium to long-term investments chiefly in the purchase and/or subscription of shares, units and securities in general representing the equity of target enterprises, exclusively in the best interest of the investors;
- EUR 91.4 mln (EUR 56.5 mln as at 31 December 2019) relating to units of a multi-segment closed-end Italian alternative real estate investment fund (Idea CCR I and II and Nuova Finanza, Back2Bonis, Efesto) held by the Parent Company and by the subsidiary MPS Capital Services S.p.A. These funds aim to contribute to the re-launch of medium-sized Italian companies in financial difficulty.
- EUR 7.9 mln (EUR 7.6 mln as at 31 December 2019) relating to units - held by the Parent Company and by the subsidiaries MPS Capital Services S.p.A. and MPS Leasing & Factoring S.p.A - of a closed-end private contribution

real estate fund for qualified investors only (Athens RE Fund B). The fund, managed by Unipol Sai Investimenti SGR, holds prestigious tourism complexes located in Tuscany and Sicily.

- EUR 0.2 mln (unchanged from 31 December 2019) relating to the units of a closed-end real estate investment fund for qualified investors only, held by the subsidiary MPS Capital Services S.p.A. The objective of the fund is to maximise income for its investors through a growing dividend yield as well as increased value of portfolio assets.
- EUR 0.1 mln (EUR 0.4 mln as at 31 December 2019) include interests of the Parent Company in hedge funds, particularly side pockets and funds under liquidation.

The column "Financial assets measured at amortised cost" includes loans granted to the counterparty Fondo *Athens RE Fund B* of EUR 30.0 mln (EUR 37.6 mln as at 31 December 2019)

The column 'Financial liabilities held for trading' includes:

- EUR 278.0 mln (EUR 326.8 mln as at 31 December 2019) relating to the negative fair value of financial and credit derivatives with the counterparties Rainbow for EUR 16.6 mln (EUR 42.3 mln as at 31 December 2019), Anima for EUR 247.5 mln (EUR 257.4 mln as at 31 December 2019), Quaestio for EUR 3.6 mln (EUR 6.0 mln as at 31 December 2019) and with the AXA IM DEIS asset funds managed by AXA Investment Managers for EUR 10.3 mln (EUR 21.0 mln as at 31 December 2019).

The entities in question raise funds through the issue of units, making recourse to the capital that investors committed to paying upon placement and forms of borrowing in line with their respective management regulations.

Maximum exposure to the risk of loss was determined to be equal to book value for exposures to units of UCITS other than the financial and credit derivatives for which reference is made to positive fair value plus the add-on (calculated also taking into account positions with a negative fair value). For UCITS, the maximum risk exposure also includes the Group's commitments not yet called up by the funds, to subscribe additional units.

During the year under review, the Group did not provide and does not intend to provide financial or other support to the non-consolidated structured entities referred to above.

There are no sponsored non-consolidated structured entities for which the Group holds no interests at the reporting date.

Section 2 - Risks of prudential consolidation

1.1 - Credit risk

Qualitative Information

1 General

Within the guidelines approved by the Parent Company's Board of Directors, and in line with the evolution of the supervisory regulatory framework, the Group pursues the primary objective of improving the quality of the managed loan book and consequently reducing the cost of credit.

The Group's credit activity is managed with a view to strong proactive behaviour in risk monitoring and enhancement of growth opportunities, through the development of credit policies and systems aimed at making the most of trend data in connection with individual borrowers, against a background of in-depth knowledge and strategic management of positions.

Impacts deriving from the COVID-19 pandemic

The MPS Group, in order to identify and measure the credit risk in the context of the COVID-19 pandemic emergency, adopted an approach based on the following guidelines: (i) provide prompt support to households and businesses in the country; (ii) ensure a clear and accurate view of risks; (iii) adopt specific *credit standards* for assessing the solvency of counterparties; (iv) integrate the methods and information used in management monitoring; (v) allocate adequate operational capacity.

As at *the reference date of these consolidated financial statements, the Group disbursed loans supported by state guarantees for approximately EUR 6 bn and granted moratoria in accordance with the EBA guidelines of 2 April as amended from time to time, still outstanding for approximately EUR 10 bn.* For more information, please refer to the disclosure required by the "Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID 19 crisis*" published by the EBA (EBA/GL/2020/07) contained in section 5.4 of Pillar III.*

In order to be able to manage the different risk profiles, the action was accompanied by constant attention to the correct feeding of the classification variables of the information and to the enrichment of data to trace the

characteristics of individual transactions and causal factors. The results of the initiatives are monitored on a daily basis and a specific control activity has been activated to ensure the correct execution of the operations and the management of the documentation.

In order to ensure a clear view of the *risks, assessments were carried out on the basis of different scenarios and the risk limits* were redefined within the new context. For example, the review of the *Risk Appetite Framework*, the scenario analyses carried out for the adoption of prudent assessment measures of provisions, the segmentation of the post-COVID-19 loan portfolio and the consequent change in the scope of the *high risk* portfolio. As early as the second quarter of 2020, the *credit standards* for assessing the prospective repayment capacity of customers were strengthened and refined and specific credit strategies were identified based on the sector impact and resilience characteristics of individual customers and consequently the estimated evolution of the *rating* of each individual counterparty; in addition, the counterparties in the household sector were also subject to segmentation analyses using external data to verify the presence of critical issues not detected by internal information sources.

These elements constitute the *framework* adopted both in the *origination* activity and in the proactive management of the riskiest portfolio.

In the awareness that the current context has reduced the representativeness of the financial information of companies and, more generally, the ability of systems based on performance data to promptly identify elements of risk, the *early warning* system was integrated with new data and indicators on the basis of which activities for assessing the solvency of debtors are prioritised in order to define the best management strategy.

The new selected *early warning* indicators make it possible to diversify the portfolio according to the type of counterparty (business vs. private) by drawing both from external databases (private *scoring* from SIC, activation of the CIGS in the last 3 months, *rating* with COVID-19 impact) and from internal information (reduction in credit movements, absence of salary channelling, etc.).

The information deriving from the aforementioned indicators made it possible to define a perimeter of counterparties that, starting from March 2021, will be the subject of a qualified *screening and assessment crash program* , at the end of which the most appropriate initiatives to be implemented will be defined for each counterparty (continuation of the relationship without interventions, risk management/mitigation through the application of government support measures, default classification).

The above-mentioned program, which follows an early review of the *high-risk* companies portfolio carried out during the fourth quarter of 2020, with particular reference to companies with the greatest COVID-19 impact, aims to mitigate the potential *cliff effect* that could result from the expiry of the moratoria. The *drivers* that guided the aforementioned early revision were based on size thresholds of amounts (top counterparties being analysed for each geographical area), on the presence of extended bad loans as well as on the first signs of overdue payments.

The evolution of the operating model for the management of the *high risk* portfolio is also planned within the year 2021 in order to strengthen the promptness of action, through an increase in the number of qualified resources assigned, the launch of a "*reskilling*" activity, thus ensuring appropriate management of the most significant exposures with the highest level of risk through a "direct portfolio" managed by a specialised *team*.

This approach will factor in the new *drivers/ detection* rules of the advanced "*early warning*" system, the *set up* of specialised "portfolio" structures for high-risk customers above certain size thresholds and the industrialisation of "*small ticket*" management.

2 Credit risk management policies

2.1 Organisational aspects

As its distinctive mission, the Chief Lending Officer Department performs activities of credit risk taking and operational monitoring of credit quality, giving guidance and support to the network in credit activities, directly managing impaired loans, including financial restructuring transactions, and monitoring the impacts of various credit transactions on the cost of credit.

The Chief Lending Officer Department includes the Performing Loans Department, focused on the management of performing exposures, non-performing past due exposures and unlikely to pay positions - under the monitoring of the sales network, and the Non-Performing Network Department which is responsible for the management of exposures that have been or are currently being restructured, higher risk unlikely to pay loans and bad loans. The Performing Loans Department includes:

- the Loan Disbursement Area, which comprises the Local Market Disbursement Function and the Specialised Corporate Disbursement Function, is responsible for generating, by exercising its independent resolution authority, a flow of loans consistent with credit policies and proceeding with the appropriate reclassifications, while guaranteeing efficiency by reducing customer response times;
- the High Risk Area, which monitors default detection and impairment indicators in order to enact the process of applying forbearance and/or reclassification measures through the High Risk Resolutions function and coordinate measures aimed at resolving credit problems through the Credit Process Quality function (Business Control Unit);
- the Major Risk Staff, which defines and retains on an on-going basis the most relevant Groups of Connected Customers and ensures fulfilment of the requirements set forth for the control of the process for the management of Connected Borrowers;
- the Local Credit Areas which, within the scope of their levels of authority, develop credit flows, in compliance with the applicable policies, and monitor the quality of credit.

The Non-Performing Loan Department, on the other hand, is responsible for non-performing loans. This Department consists of four Areas:

- the Restructuring and Problem Assets Area, which works on managing problematic loans that require the implementation of restructuring actions, by directly managing the Group's restructured loans and those undergoing restructuring.
- the Anomalous Risk Area which, through the Mid Ticket service which heads up the Anomalous Risk and the Big Ticket Service Departmental Sectors, properly manages positions classified as unlikely to pay with "distressed credit risk" with a view to maximising the reduction of the stock under management from the perspective of costs and timing, through action for the reduction of exposures and/or returns to performing positions;
- the Workout Area which pursues the mission of protecting, for judicial and out-of-court collection purposes, credit claims against counterparties in doubtful status, with the view of maximising the impact, in economic terms, through a value increase of the guarantees during enforcement and a reduction in collection times;
- the Non-Performing Loans - Small Ticket Area, which implements management policies for the protection of credit on counterparties classified as unlikely to pay and with an exposure below EUR 0.15 mln, by using primarily external collection agencies, except in particular cases that require a direct management (pledge enforcements, underwriting syndicates and customer claims).

Furthermore, the following structure reports to the Non-Performing Loans Department:

- the Specialised Support and Non-Performing Loan Quality Service, which plays an advisory and support role for more complex positions, conducts monitoring, reporting and controls on non-performing loans (Business Control Unit) and "sets up" structured credit asset derecognition transactions. In continuity with the operations carried out since 2018, this function, in fact, pursues the objective of facilitating the *deleverage* process of the NPE portfolio by identifying *business* opportunities on the market that allow *derecognition* transactions to be carried out.

Following the demerger of non-performing loans in favour of AMCO, it was decided that the temporary secondment to AMCO of 88 resources selected from among the managers of the Small Ticket Problem Loan Management Areas, Anomalous Risk Area, Restructuring and Problem Assets Area and Workout Area with portfolios under management mainly consisting of positions included in the set of demerged items, would continue, if necessary, for a further 6 months.

Subsequently, with effect from 7 December 2020, the Non- *Performing* Loans Department underwent an organisational reorganisation aimed at aligning the Structures with the remaining portfolios and the creation of two new Functions: *Fronting Bank* and *Post Sale* UTP.

The *Fronting Bank* Sector follows, on the basis of a protocol shared with AMCO, the movements of the current accounts of customers, whose revolving credit lines have been demerged. The *Post Sale* UTP Sector is instead responsible for managing the post-demerger assets relating to positions classified as unlikely to pay, which have been included in the set of demerged items in favour of AMCO.

The Chief Lending Officer (CLO) also relies on another two functions reporting directly to him:

- the Credit Portfolio Governance Area which oversees the lending information base on a unitary basis and develops machine learning approaches, defines lending operational and management strategies, both ordinary (credit policies) and of an extraordinary nature (disposal of portfolios); the Function also carries out support/operations activities such as accounts payable, document management, operational requirements on disposed loans and management of collateralisable bank assets, as well as development of data intelligence/enrichment approaches to support the management of credit portfolios;
- the Credit Control Unit Service, the function responsible for supporting the CLO in monitoring, supervision and management reporting activities, on key performance indicators (KPI), as well as key risk indicators (KRI), in addition to overseeing the analytical write-down calculation process, acting as an interface between the CLO Department and the various control functions inside and outside the Group. This Function coordinates and directs the control and/or monitoring activities of the Business Control Units, within the scope of the Controls Committee established in 2019, under the responsibility of the Chief Lending Officer Department.

2.2 Management, measurement and control systems

Starting in 2008, statistical models aimed at creating the Internal Rating Model and rating assignment processes were authorised by the Supervisory Authority for the calculation of capital requirements using the Advanced IRB approach (AIRB).

Those subjects who did not obtain authorisation for an Internal Rating Model, must comply with prudential regulations for the identification of the respective Risk Weight, according to the standard model.

The prudential regulation requires the Group to adopt the following credit risk measures needed to calculate regulatory capital (AIRB approach): Probability of Default (PD), Loss Given Default (LGD), Exposures at Default (EAD). The "Probability of Default", which is a reflection of the borrower's rating, represents its ability to meet obligations assumed over a time horizon of one year. Thus, a rating is a probability-based approach to risk assessment, and represents a projection of portfolio quality that forms a part of daily processes of credit facility assessment, loan management and pricing, as well as of the procedures used to determine loan loss provisions and reports used by management.

The counterparty risk, which corresponds to special cases of credit risk, is substantially the risk that the counterparty of a transaction concerning certain financial instruments such as derivatives, Security Financial Transactions (SFT) and Long Settlement Transactions - LST) becomes insolvent before the transaction is settled. In determining the level of Supervisory Capital, according to prudential regulations, the Group determines the contribution of the counterparty risk, using for the determination of the EAD the method of the "market value" and "volatility adjustments", respectively for the positions in derivatives and LST, and for SFT transactions. For the subjects of the corporate retail portfolio, the Group adopts the IRB approach for the identification of PD and LGD levels, whereas for the remaining part of the portfolio, it identifies the risk weight levels according to the standard model.

The statutory adoption of risk criteria has made it possible for the Group to obtain significant operational advantages, both in terms of a higher accuracy in budgeting forecasts of the credit risk and counterparty risk cases, in terms of a more effective monitoring of credit aggregates. Based on the risk criteria, the Group sets the process for the yearly budgeting of credit items and makes accurate and sustainable forecasts in relation to the loan book, unlikely to pay and bad loan flows and loan-loss provisions.

Forecast sustainability, as regards credit risk, is ensured by the definition of concrete loan book actions which are communicated to the outlying networks through an internal regulatory document as well as by amending the credit disbursement and management processes and criteria.

The sustainability of the estimates related to counterparty risk cases is ensured through a process for the definition and monitoring of the operational limits assigned to the reference business units.

All credit processes use the borrower rating as a decision-making driver, and they are defined as a function of the specific nature of various customer segments in order to optimise the use of resources employed in loan management/monitoring and to achieve the right balance between the push for sales and an effective loan management system. The internal rating system, which affects corporate and retail portfolios, is based on the development of several statistical models specialised by customer type with the aim of assigning a solvency rating for prospective borrowers (first-time lending models based on financial and demographic information taken from outside databases) and for existing borrowers (for which behavioural models have also been used, which incorporate internal performance data).

In order to increase efficiency levels in managing internal ratings, the Internal Rating Agencies operating in local areas have become the single point of reference for all units on rating issues. The role of the Rating Agencies allows for a closer interaction with the Network to make assistance more effective, generate more synergies and enable a more efficient transfer of knowledge.

With regard to Credit risk in particular, the Group has defined a macro-economic regression model to estimate the variations in the PD as a function of changes in the main credit drivers. Credit drivers which significantly describe PD variations are identified beforehand. On the basis of the regression model, credit driver disturbances are then estimated according to the current and prospective economic situation. The shock applied to the credit drivers determines the change in credit portfolio PD, triggering the simulation of a hypothetical counterparty downgrading, with consequent risk variations in terms of Expected Loss, Unexpected Loss and input from new Defaults.

Impacts deriving from the COVID-19 pandemic

The pandemic did not impact on management processes, measurement methods ad risk control.

In response to the effects of the pandemic for the Group, in terms of profitability targets and capital impacts, a *review* of the *Risk Appetite Statement* 2020 was carried out in the third quarter, with subsequent updating of the operating limits on credit risks based on the RAS.

2.3 Methods to measure expected losses

Credit risk is analysed in-house for management purposes using the Credit Portfolio Model, which was developed internally by the Parent Company and produces detailed outputs in the form of traditional risk measures such as Expected Loss, Unexpected Loss, both management (intra-risk diversified with a representative period of one year and a confidence interval calibrated to the target rating assigned to the Group) and regulatory. Several inputs are considered: probability of default (PD), obtained through validated and non-validated models, LGD rates (management and regulatory), number and types of guarantees supporting the individual credit facilities, regulatory and management CCF on the basis of which the regulatory and management EAD are estimated respectively.

The internal PD, LGD and EAD models for credit risk measurement are one of the main elements of assessment for all Group units involved in the credit industry, both at Head Office level (Risk Management, Credit Department, Chief Financial Officer, General Management, Risk Committee, Board of Directors) and at branch level (Rating Agencies and Relationship Managers). The Group is currently authorised to use the Advanced Internal Rating Based (AIRB) models to determine capital requirements against credit risk, according to PD and LGD parameters, on business portfolios and retail exposures of the Parent Company, MPS Capital Services and MPS Leasing & Factoring, and is waiting for validation, on these counterparties, of the EAD parameter.

The development of the internal rating systems involved the adoption of strict and advanced statistical methodologies in compliance with the requirements set out in the regulations; at the same time, models were selected in such a way as to make results consistent with the historical experience of the Group in credit management. Lastly, in order to optimise the proper use of these new instruments, the rating models were shared with a top-down approach – from Risk Management down to individual client managers. Estimation of the LGD model was based on internal data relative to capital flows, recoveries and expenses actually incurred on positions transferred to the bad loan portfolio. Results obtained from model application were then compared with data recorded by the Workout Area which is dedicated to the management and recovery of non-performing loans.

The main characteristics of the advanced rating systems are as follows:

- for all validated regulatory portfolios, the rating is calculated with a counterparty-based approach for each individual borrower, in line with the accepted management practice which provides for the assessment of credit risk, both in the disbursement and monitoring phases;
- each individual counterparty is assigned a single rating at banking Group level, based on the set of information pertaining to all lending banks within the AIRB scope; the LGD is different for each company given the diversity of products issued and the type of customers to whom they are offered;

- the rating model segmentation is defined in such a way as to make the individual model clusters consistent with commercial objectives, credit processes and regulatory portfolios set out in the regulations;
- the calculation of the final rating is differentiated by type of counterparty. The credit process envisages a level of in-depth analysis proportional to counterparty risk: the assessment of loan disbursements is based on a complex multi-level structure for medium-large corporate counterparties, whose exposure and concentration risks are higher, and a simplified structure for Small Business and Retail clients;
- in line with this process, the final rating for medium-large corporations is the result of a number of different factors: statistical rating, qualitative rating, overrides and valuation of the 'economic group' which businesses belong to. Moreover, during 2020, an evaluation questionnaire on the idiosyncratic effects of the COVID-19 pandemic was prepared jointly between *risk management* and *business* units: the questionnaire made it possible to understand the specific capacity of each individual company to react to the crisis situation in various areas: distribution model, revenues, cost structure, etc. This information was incorporated in the analytical revaluation of individual counterparties, highlighting a significant increase in the number of *downgrades* compared to that observed in previous years.
  For Small Business and Retail counterparties the rating is calculated only on the basis of statistical factors;
- the rating has a 12-month internal validity period and is usually reviewed on a yearly basis, except for rating reviews following well-structured codified practices or that are brought forward on client managers' request or following serious counterparty deterioration;
- LGD reflects the economic (and not only the accounting) loss incurred; for this reason, LGD estimates must also include the costs incurred for the recovery process and a time factor;
- loss given default is differentiated by type of loans and an LGD value is assigned at the level of each individual transaction; it is differentiated by geographical area since historical and current recovery rates are different among Northern Italy, Central and Southern Italy and Islands;
- loss on defaulted positions other than bad loans is estimated with a Cure Rate approach. With regard to counterparties whose exposures are administratively classified as unlikely to pay and non-performing past due, the percentage of exposures reverting back to a performing status was calculated and used to adjust the estimated LGD, starting from doubtful loans.

The Group has adopted a single Master Scale for all types of exposures; this enables all units involved in credit management to immediately compare the risk level associated with different counterparties or portfolios; furthermore, the probabilities of default of internal rating classes were mapped against Standard&Poor's external rating scale so as to make internal risk measurements comparable to those available on the financial market.

The development and monitoring of rating systems has been functionally assigned to Risk Management and is subject to control by the Internal Validation and Internal Control functions.

The Group has used PD, LGD and EAD parameters, estimated for regulatory purposes to calculate Risk Weighted Assets, also for other operational and internal management purposes. These provide the basis of calculation for different systems of measurement and monitoring, and specifically for the:

- measurement of economic and regulatory capital for credit risk;
- calculation of risk-adjusted performance and measurement of value creation;
- risk-adjusted pricing processes;
- credit direction processes;
- across all credit processes (disbursement, review, management and follow-up) which are fully "engineered" in the Electronic Loan File application (Pratica Elettronica di Fido or PEF), under which the borrower's rating is the result of a process which evaluates - in a transparent, structured and consistent manner - all the economic-financial, behavioural and qualitative information regarding customers with whom the bank has credit risk exposures.

To calculate the expected losses as required by IFRS 9, specific adjustments must be made to the aforementioned parameters, including in particular:

- adoption of a Point in Time (PIT) PD integrated with forward looking information, against the Through the Cycle (TTC) PD used for regulatory purposes;
- elimination of certain additional components from LGD, such as indirect costs (non-recurring costs) and the component linked to the adverse economic cycle (or "downturn"); as well as to reflect the most

current recovery rates (PIT), expectations about future trends (forward-looking) and the inclusion of any recovery fees if collection is assigned to a third party;

- use of multi-year PDs and, where necessary, LGDs in order to determine the expected loss for the entire residual life of the financial instrument (stages 2 and 3);
- use of the effective interest rate of the individual transaction in the process of discounting expected future cash flows, as opposed to that which is set forth in regulatory models, in which individual cash flows are discounted using rates determined in accordance with prudential regulations.

For additional details on the methods to determine impairment losses under IFRS 9, definition of default and the methods used by the Group to classify financial assets among non-performing assets, see the paragraph “Methods for calculating impairment on IFRS 9 financial instruments” of Part A “Accounting policies”, as well as the paragraph below “Non-performing loans” of these consolidated notes to the financial statements.

No changes during the year were made to the estimation techniques or to the significant assumptions underlying the calculation procedures for regulatory expected credit losses, whereas, as regards changes to the methods for determining the expected accounting credit losses, the main changes are associated to the recalculation of the LGD on the basis of the new default definition.

The main changes underlying the IFRS 9 LGD model of 2020 are examined below, which did not have, on the whole, a significant impact on the *provisioning* levels, at the reference date of these financial statements.

As indicated above, in 2020, the Group updated the IFRS 9 LGD model, adjusting it into line with the new definition of *default*, which entered into force on 1 January 2021. In said context, additional changes were also introduced to improve the accuracy of the estimates: the historical series was updated by including the results of the most recent years and a complete *review* of the drivers was carried out for both the pre-Bad loan model and the Bad loan model, similar to what was done for regulatory purposes in the 2020 *Model Change*. In particular:

- Bad Loan Model:
    - *Lengthening of the historical series*: positions classified as Bad loans from 1 January 1999 to 31 December 2019;
    - *Maximum Recovery Period (MRP)*: identification of a time period beyond which bad loan positions outstanding may be comparable to closed positions (i.e. substantially closed);
    - *Incomplete Workout*: inclusion of future recoveries for those positions whose *workout* process is still in progress at the observation date. A statistical interference technique was defined which made it possible to estimate future recoveries for outstanding positions based on the *vintage* of the position; therefore, the positions were inserted in the sample for calibration of the LGD;
    - *Art.* 500: bad loan cases that fall under the scope of application of Art. 500 CRR2 have been treated in the same way as the *Incomplete Workouts* by eliminating from the recovery flows those deriving from the transfer transaction and, subsequently, the future recovery protection factor was applied;
    - *Risk Driver*: statistical selection, and differentiated for each *Model Segment* identified, of the *risk drivers* in order to identify, using a statistically robust process, those that best explain the trend in the *target* LGD *variable.*
- Pre-Bad Loan Model:
    - *Lengthening of the historical series:* cohorts January 2009 – January 2018 (*default* until January 2019) and horizon end January 2020;
    - *Multiple Defaults:* consolidation of *defaults* that reoccur within 9 months of the close of the previous *default* which includes the *probation period* of 3 months (3-month period spent in *default* after the return to a performing position) introduced to the legislation relating to the new definition of *default*;
    - *Vintage:* in order to understand in more detail the idiosyncratic characteristics of the positions in a *default* status other than Bad loan, an additional *risk driver* has been introduced which represents the time elapsed from the classification as *default*. This makes it possible to obtain an estimate more aligned to the different recovery prospects on cases with a different amount of time spent in *default*;
    - *Incomplete Workout* and *Art. 500*: the values of the migration parameters observed on positions closed based on the time spent in default and the risk drivers are assigned to the cases which, at the end of the time horizon have not been incorporated in an absorbent status (performing, non-performing or closed in default other than non-performing);
    - *Risk Driver*: statistical selection, and differentiated for each *Model Segment* identified, of the *risk drivers* in order to identify, using a more robust process, those that best explain the trend in the *target* variable (*Danger Rate*, Exposure Delta).

The application request (*application package*) of the 2020 *Model Change*, which includes the initiatives reported above, was sent to the Supervisory Authority in the fourth quarter of 2020. At the end of 2020, the Regulator conducted a specific *audit* (IMI 2020-BMPS-4857) which examined solely the aspects more strictly related to the new definition of *default*. The initiatives connected with the new definition of *default* will be introduced for regulatory purposes based on prior authorisation by the Supervisory Authority, while additional aspects will be evaluated through a new specific inspection that will be carried out in 2021.

For IFRS 9 purposes, the LGD models were updated on the basis of the LGD model re-estimated for the 2020 *Model Change* and were implemented for accounting purposes from December 2020; the update of the IFRS 9 PD model will instead be implemented from March 2021.

Changes due to COVID-19

The current context, heavily impacted by the COVID-19 pandemic, was acknowledged as part of the use of forward looking parameters that include the effects of the current crisis and the potential future recovery. The approach adopted by the Group is consistent with the main indications of international institutions that have recognised in the presence of public guarantees and moratoria the main elements impacted by the COVID-19 pandemic in macroeconomic scenarios. Below are the assumptions made by *management* as well as the changes in the valuation and measurement models of the financial instruments associated with the pandemic crisis, with particular reference to the assessment of the significant increase in credit risk (SICR) and the measurement of expected losses.

Measurement of significant increase in credit risk (SICR)

During the 2020 financial year, some transitional changes were implemented to the *staging* model used for the assessment of the significant increase in credit risk (SICR), consequent to the pandemic context and to the general crisis that this triggered in the national economic fabric starting from February 2020.

With regard to qualitative criteria, the presence of the *forborne performing* attribute is one of the elements that automatically entails the recognition of a SICR. This attribute is assigned in the presence of the requirements envisaged by the reference legislation, as updated in light of the changes included in the EBA guidelines following the COVID-19 pandemic *(Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the Covid-19 crisis*), which did not provide for the automatic triggering of the *forborne* status in the event of a moratorium pursuant to law or system. Similarly, the qualitative criterion relating to the 30-day *past* due was not subject to change. In addition, the Group uses the *High Risk management portfolio* as a qualitative criterion. The inclusion of a customer in the "Requalification" credit policy, a criterion used until the 2019 Financial Statements, *was discontinued as a staging driver* as, with the new credit policies for the year 2020, the scope of the "Requalification" was included within the *High Risk* chain, already included in stage 2 risk.

In April 2020, the customers' changed ability to repay and the significant government measures aimed at supporting liquidity, led to the modification of some credit strategies adopted at the beginning of 2020 and which had been acquired as qualitative rules of *Stage allocation* (Stage 2)[42]. Starting from July 2020, these strategies were modified and referred to as "selective" because, to capture the asymmetric impacts of the crisis, a more granular segmentation was used for the different sectors of economic activity using detailed forecast information on more than 200 geo-sectoral segments. On the basis of the information acquired, estimates of turnover reduction and recovery assumptions from 2021 were used and a "prospective" rating was finally estimated for each company with the aim of factoring its capacity to react/resilience to the crisis. The "selective management" strategy was assigned to the cluster of companies at higher risk because of the need to carry out a bottom-up action in order to understand in detail the current and future situation and also to be able to identify the best support measures to overcome the period of difficulty generated by the pandemic.

In the same way, during 2020, these forecast elements were adopted in the quantitative component of the model adopted for the IFRS 9 *Stage Allocation*. The "corrections" to the *default* rates expected at one year were used to factor the same forecast *score* adopted on the lending strategies, and through this intervention it was possible to differentiate the forecast macroeconomic scenarios by the companies' economic activity. The external score

[42] In April 2020, the Group discontinued the requalification strategy involving the repayment of risky exposures and also the qualitative *staging* criterion represented by inclusion in this perimeter. It should be noted that customers included in the "Requalification" strategy were included in the *High Risk* Chain, already identified as stage 2.

(Cerved) was used for the first time, starting from the June accounting valuations, and was again used for the valuations for the end of the 2020 financial year.

For customers included in the household segment, limited to those requesting suspension measures for which the performance models were affected by the absence of deadlines, in December 2020 the qualitative analysis was supplemented with an external score (*Experian*) on the basis of which the high-risk portfolios were identified and classified in Stage 2.

Finally, with reference *to the quantitative criterion for determining the SICR, the ordinary stage allocation methodology is confirmed, which envisages the recognition of the change in PD between origination and reporting* dates with the following implementations carried out during the year to reflect the typical characteristics of the pandemic, such as continuing to use throughout 2020 the Jan20-Dec22 scenario (recessive) in the *forward-looking* PD assessment, and the use of Cerved scores for *Corporate counterparties.*

Measurements of expected losses

The methodology for estimating the Expected Credit Loss (ECL) adopted for the purposes of the determination of value losses on credits in accordance with the IFRS 9 international standard is carried out, as previously indicated, at the level of individual transaction or security tranche, starting from IRB modelling for the parameters of Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD), to which appropriate adjustments are made, in order to ensure compliance with the requirements of the standard.

In particular, the measurement of financial assets reflects the best estimate of the effects of future conditions, especially in relation to the economic context, on which the forward-looking PD and LGD are dependent. In the context of IFRS 9, also based on indications from international Regulators, importance is given in particular to information on future macroeconomic scenarios in which the Group may operate and clearly affects the situation of borrowers in reference to both the "riskiness" that exposures migrate to lower quality classes (thus referring to "staging") as well as recoverable amounts (thus the calculation of expected loss on exposures). From a methodological perspective, in compliance with the provisions of IFRS 9, based on which the ECL estimate must result from the weighting of a range of possible forward-looking scenarios ("probability weighted"), the impairment model adopted by the Group provides for the use of a baseline scenario, i.e. the use of the scenario that is believed to be most likely, together with the best and worst scenarios, with a probability of occurrence assigned to each of them.

The scenarios are processed internally by the Study and Research Function, also on the basis of forecasts contributed by a leading external supplier, they are approved by the Board of Directors and are also adopted in other processes of the Group that use forward looking elements such as the Risk Appetite Framework (RAF), Recovery Plan, budget, forecast, impairment tests of goodwill and investments, and finally DTA recovery tests. A detailed description of the scenarios adopted by the Group is provided in Part A - Section "A. 2 - Part relating to the main items of the Financial Statements" and in particular in the paragraph "Risks, uncertainties and impacts of the COVID-19 epidemic - The quantification of impairment losses on loans".

The scenarios differentiate based on different degrees of favourable/adverse conditions for economic development and growth. In order to estimate the ECL, the most likely scenario (baseline) and two alternative scenarios (best/worst) were taken into consideration to represent the tail outcomes of the scenarios. The probability of the scenarios is calculated internally, based on the percentile of occurrence assigned by the external supplier. To this end, it should be noted that the Group has assigned a 42.62% probability to the baseline scenario, a 21.31% and 36.07% probability to the "worsening" and "improving" scenarios, respectively.

Following is information on the main macro-economic and financial indicators used in the "baseline", "improving" and "worsening" scenarios for the four-year period 2020-2023, whose estimate was developed in December 2020.

- the "baseline" scenario is characterised by an annual trend of the Italian GDP expected in a range of values between -10% and + 1.8%. The Italian consumer price index is expected to be in a range between -0.1% and + 1.3%. A stable trend characterises the 3-month Euribor rate, expected to be negative until 2023, for a value of -0.4%. The unemployment rate is expected to rise, from 9.9% in 2020 to 11.6% in 2023. The price of property in Italy estimated, respectively, in a range between -0.5% and + 0.7%, with reference to residential properties and between 0.7% and + 1.0% with regard to non-residential properties;

- in the "improving" scenario, the trend of Italian GDP is expected to be in a range of between -9.4% and + 1.7%. The Italian consumer price index is estimated within a range of -0.1% to +1.6%. The 3-month Euribor rate is expected to be stable over the three-year period, negative until 2023, for a value of -0.3%. The unemployment rate is expected to decrease, from 9.8% in 2020 to 7.9% in 2023. In the case of the price of property in Italy, the "improving" scenario includes the expectation of a range between -0.4% and + 1.8% in the case of residential properties and between + 0.9% and + 1.8%, in the case of non-residential properties;
- in the case of the "worsening" scenario, Italy's GDP is estimated within a range of between -10.1% and + 1.7%. The Italian consumer price index is estimated within a range of -0.1% to +1.2%. The 3-month Euribor rate is expected to be stable over the three-year period at -0.4%. The unemployment rate is expected to increase, from 10.0% in 2020 to 12.4% in 2023. The trend in property prices in Italy is expected to be within a range of between -0.6% and + 0.1%, in the case of residential properties and + 0.6% and 0.5% in the case of non-residential properties.

		GDP	Italian residential Property Price Index	Italian non residential Property Price Index	EUR 3M	Unemployment rate	Consumer Price Index
Worsening	2020	-10.08%	-0.58%	0.64%	-0.40%	9.99%	-0.12%
	2021	3.97%	-0.99%	-0.61%	-0.48%	12.88%	0.39%
	2022	2.90%	-0.09%	0.00%	-0.45%	12.74%	0.88%
	2023	1.75%	0.15%	0.55%	-0.42%	12.44%	1.19%
Baseline	2020	-9.96%	-0.55%	0.69%	-0.40%	9.95%	-0.11%
	2021	5.26%	-0.58%	-0.02%	-0.47%	11.92%	0.59%
	2022	2.73%	0.38%	0.49%	-0.44%	11.86%	1.01%
	2023	1.78%	0.71%	0.99%	-0.41%	11.56%	1.34%
Improving	2020	-9.40%	-0.44%	0.86%	-0.40%	9.80%	-0.05%
	2021	7.62%	0.40%	1.29%	-0.45%	10.25%	0.85%
	2022	2.84%	1.48%	1.61%	-0.39%	8.74%	1.25%
	2023	1.67%	1.78%	1.81%	-0.27%	7.93%	1.60%

The most relevant macroeconomic variable for the purposes of determining the ECL is GDP and, therefore, it is the representative variable that drives all the others: the average value in the three-year period 2020-2022 is equal to -0.66% for the baseline scenario. The average value of GDP in the 2021-2023 three-year period is 3.26% for the baseline scenario.

It should be noted that, for the application of the *forward looking information* on the probability of *default*, the 2020-2022 three-year period was used, since in the current context of systemic support to customers, in difficulty due to the pandemic, a physiological delay was created (estimated to be 12 months) in the observation of insolvency rates and, in general, of the deterioration of creditworthiness. On the other hand, as regards the *Loss Given Default*, the 2021-2023 three-year period was taken into consideration, given that the slowdown in expected recoveries and the decrease in treatment rates have already been observed in 2020.

Inclusion of government guarantees

The acquisition of these guarantees, also in consideration of what was declared by ESMA, does not impact the calculation of the SICR of credit exposures, as the latter is not connected to the guarantees, but to the creditworthiness that remains that specific to the counterparty, observing however for the purpose of measuring the expected loss to the extent that the guarantees are not subject to separate recognition in the financial statements and are considered an integral part of the contractual conditions governing the loans.

Starting from the second half of 2020, as part of the calculation of collective impairment, the application of an LGD parameter was introduced that took into account the mitigations attributable to the State introduced and expanded with the "Cura Italia" and "Liquidity" decrees and in line with the ESMA and EBA guidelines.

In detail, for positions guaranteed directly or counter-guaranteed by the Italian government, the *Expected Credit Losses* was calculated using a fully secured LGD. This approach derives from the assessment carried out on the characteristics of the guarantees that allow them to be considered as an integral part of the contract pursuant to IFRS 9.

Sensitivity analysis of expected losses

As represented in the paragraph "Risks, uncertainties and impacts of the COVID-19 pandemic - The quantification impairment losses on lonas" contained in "Part A - Accounting policies", the determination of expected losses on receivables involves significant elements of judgment, with particular reference to the model used to measure losses and the related risk parameters, to the triggers deemed to express significant credit deterioration and the selection of macroeconomic scenarios.

In order to assess how forward looking factors may influence expected losses, it is considered reasonable to carry out a sensitivity analysis in the context of different scenarios based on forecasts consistent with the evolution of the various macroeconomic factors. The innumerable interrelations between the individual macroeconomic factors are such as to render a sensitivity analysis of expected losses based on the individual macroeconomic factor of little significance.

For this purpose, the table below highlights the sensitivity for the main credit portfolios of the Group consisting of cash loans to customers, belonging to the corporate and retail segments of the 4 banks (Banca MPS, MPS Capital Services, MPS Leasing & Factoring and Widiba, which represent around 96% of the Group's total gross exposure) net of credits classified in the portfolio of non-current assets held for sale and disposal group. The analysis shows the impact from each level of risk on gross exposures, on the adjustments and on the coverage ratio in the cases where a weight equal to 100% of the baseline, worst and best scenarios, respectively, is used instead of the scenario defined as weighted - i.e. based on different weights that the Group has attributed to each scenario - used by the Group for estimating the level of risk and value adjustments as at 31 December 2020.

The sensitivity of the portfolio to the worsening and improving scenarios results in a change in stage 2 stock and in the overall ECL of the portfolio of the order of +2%/- 2%, respectively.

		Scenario (Delta in EUR/Mln)		
	Weighting	Worsening	Baseline	Improving
STAGE 1 Gross exposure	**62,807.38**	**(333.37)**	**(231.39)**	**329.36**
of which CORPORATE	35,155.77	(322.98)	(226.52)	316.70
of which RETAIL	27,651.60	(10.40)	(4.87)	12.66
STAGE 1 Value Adjustments	**69.29**	**0.73**	**0.07**	**(0.53)**
of which CORPORATE	55.80	0.70	0.05	(0.50)
of which RETAIL	13.49	0.03	0.02	(0.03)
STAGE 1 coverage ratio (%)	**0.11%**	**0.00%**	**0.00%**	**0.00%**
of which CORPORATE	0.16%	0.00%	0.00%	0.00%
of which RETAIL	0.05%	0.00%	0.00%	0.00%
STAGE 2 Gross exposure	**15,392**	**333**	**231**	**(329)**
of which CORPORATE	12,568	323	227	(317)
of which RETAIL	2,824	10	5	(13)
STAGE 2 Value Adjustments	**507**	**31**	**12**	**(32)**
of which CORPORATE	410	29	11	(30)
of which RETAIL	96	2	1	(2)
STAGE 2 coverage ratio (%)	**3.29%**	**0.13%**	**0.03%**	**-0.14%**
of which CORPORATE	3.27%	0.14%	0.03%	-0.16%
of which RETAIL	3.42%	0.06%	0.02%	-0.06%
STAGE 3 Gross exposure	**3,613**	**-**	**-**	**-**
of which CORPORATE	2,887	-	-	-
of which RETAIL	726	-	-	-
STAGE 3 Value Adjustments	**1,639**	**21**	**8**	**(22)**
of which CORPORATE	1,445	19	8	(20)
of which RETAIL	194	2	1	(2)
STAGE 3 coverage ratio (%)	**45.36%**	**0.57%**	**0.23%**	**-0.61%**
of which CORPORATE	50.04%	0.66%	0.27%	-0.70%
of which RETAIL	26.73%	0.23%	0.09%	-0.24%
TOTALE Value Adjustments	**2,214.78**	**52.08**	**20.47**	**(54.35)**
of which CORPORATE	1,910.75	48.40	19.03	(50.47)
of which RETAIL	304.03	3.67	1.45	(3.88)

2.4 Credit risk mitigation policies

With reference to the retail and corporate loan portfolio, the Group does not apply any netting processes to the credit risk exposures with on- or off-balance sheet items with opposite sign. The Group adopts policies to reduce counterparty risk with institutional counterparties, by entering into netting agreements according to the international ISDA and ISMA standards and related collateral agreements for both derivatives and repos (repurchase agreements).

The main forms of real guarantees for credit protection used by the Group include pledges, mortgages and other collaterals (insurance, guarantee funds).

As at today, the pledge of sums and the pledge of securities and mutual funds deposited with the Parent Company and mortgages on properties account for essentially all of the nominal amount of collateral received and all of them ensure full compliance with regulatory/legal/organisational requirements set out by the Supervisory Regulations for the enforcement of credit risk mitigation standards.

The Group has developed one single process for the acquisition of collaterals which is at the same time a working instrument and the expression of the Group's management policies. The management of collaterals is activated after loan disbursement is approved and its process is organised into a number of different stages:

- acquisition (including multiple acquisition): the controls of (formal and amount) consistency with the guarantees proposed during the authorisation phase are performed in this stage;
- adjustment/change/amendment: useful to amend the characteristics of a guarantee without interrupting loan protection;
- query: gives information about the present data and the historical trend of guarantees received;
- repayment/cancellation.

If the measures for monitoring collaterals on loans show operational irregularities during the acquisition phase or any inadequacies/losses of the values received as a pledge, events falling within the scope of credit monitoring policies are put in place, which trigger operational obligations of credit risk assessment.

The Group uses various credit protection instruments that can be summarised in the following categories: (i) Sureties (including omnibus sureties and personal guarantees given by third parties); (ii) endorsement; (iii) surety policy; (iv) credit mandate; (v) strong/binding letter of *patronage*; (vi) blank bills; (vii) independent warranty agreement; (viii) debt delegation; (ix) expromission; (x) takeover; (xi) personal guarantees under foreign law; (xii) *credit derivatives: credit default swaps; total return swaps; credit linked notes.*

The main lenders are listed below: (i) sovereign states and central banks; (ii) public sector entities and local authorities; (iii) multilateral development banks; (iv) supervised intermediaries; (v) guarantee institutions (Confidi); (vi) companies and individuals.

Nearly all personal guarantees are traceable to companies and individuals as guarantors. Only to a limited portion of these customers can an internal *rating* be assigned, since these guarantors are not borrowers of Group companies.

The main concentration of collaterals is linked with retail mortgage loans. However, it cannot be referred to as risk concentration by virtue of the principle of risk fragmentation which is implicit in this type of customers.

More generally, as regards mortgage collateral, an IT platform integrated within the Parent Company's systems has been introduced which is used to automatically transfer information about the property acquired from appraisers directly to those systems. The platform automatically updates all of the Parent Company's loan management applications and digitally archives the appraiser's documentation. It is also capable of standardising the set of information provided.

Appraisers are selected based on an individual analysis of their abilities, professional skill and experience, and are placed on a dedicated list of accredited professionals; their work is monitored continuously, including by checking any divergence between surveyed values and benchmark market data. Appraisers are required to prepare their estimates using valuation methods consistent with the Italian Banking Association's Guidelines for the appraisal of properties backing credit exposures.

For the phase of monitoring the assets pledged, the Group has a policy establishing the amounts of the secured exposure and the age of the appraisal, beyond which the properties are appraised again. For exposures lower than the thresholds defined, the Group in any event conducts half-yearly monitoring of the property value based on market data.

Moreover, in order to guarantee eligibility of the guarantees in the Credit Risk Mitigation process, a specific function within the Chief Lending Officer Department activates reappraisal processes when materiality thresholds are exceeded, processes that are consistent with the policy guidelines, with particular reference to the criteria for the age of the appraisal, exposure values and deviations from geo-referenced assessments.

The disbursement of loans secured by collaterals is subject to specific control measures, differentiated by type of guarantee pledged, which are applied during the phase of disbursement and monitoring.

The general requirements for ensuring the legal certainty and enforceability of guarantees are verified by checking compliance with the following relevant conditions:

- binding nature of the legal obligation entered into by the parties and enforceability in the event of legal proceedings;
- documented evidence and enforceability of the instrument against third parties in all relevant jurisdictions for the purpose of its exercise and execution;
- timely liquidation in case of non-fulfilment;
- compliance with organisational requirements.

With reference to compliance with organisational requirements, mitigation of risk is ensured by:

- the presence of an IT system in support of the life cycle phases of the guarantees (acquisition, valuation, management, re-valuation and enforcement);
- the existence of regulated policies for the management of guarantees (principles, practices, processes), available to all users.

The presence of collateral or personal guarantees is reflected in the quantification of Expected Credit Losses (ECLs) of the financial statements. With regard to collective valuations, the main "transmission" channel is the Loss Given Default (LGD), one of the input parameters used for valuations: for this purpose, each exposure is divided into tranches, determined according to the different types of collateral that back the exposure and a specific LGD is calculated for each tranche.

With regard to analytical valuations, the presence and updating of the value of collateral is directly reflected in the case of a gone concern valuation approach, applied, beyond certain thresholds, to all bad loans and probable defaults in which the going concern scenario is excluded, but also indirectly in a going concern scenario, where the change in the value of the company's real estate assets may also impact historic and expected income flows. In the gone concern approach, specific haircuts are applied, calculated within historic series of the Group which contain the results of contracts awarded in real estate execution.

The system of controls set up to monitor impairment processes guarantees the substantial absence of cases relating to financial instruments for which no provision has been made to cover losses due to the collateral.

It should also be noted that during the 2020 financial year, the Group entered into a guarantee contract with SACE (first demand guarantee) on a portfolio of performing loans and an insurance policy contract with Euler Hermes company, both of which are eligible as credit risk mitigation techniques pursuant to the regulatory framework (CRR).

In order to optimise capital absorption, in December 2020 the Group also finalised two synthetic securitisation transactions, in which the significant transfer of risk to investors was achieved, respectively, through the acquisition of cash collateral and of a financial guarantee eligible for CRR purposes.

3. Non-performing loans

3.1 Management strategies and policies

Non-performing financial assets include loans which, following the occurrence of events subsequent to their disbursement, show objective evidence of a possible loss in value.

Non-performing exposures (e.g. bad loans, unlikely to pay and non-performing past due; together, non-performing exposures) are classified into different risk categories by the Group in accordance with the regulations issued by the Bank of Italy, supplemented with internal provisions which set automatic criteria and rules for the transfer of receivables between different risk categories. In particular, classification is carried out by bodies within the loan decision-making chain based on a process that provides for a series of codified controls aiming to guarantee proper asset classification, except for loans more than 90 days past due, which are measured

using automated procedures. To activate the controls, default detection parameters have been integrated within the Group's business procedures (Credit Monitoring) so as to subject the most critical positions to assessment, including for any reclassification if required.

In 2020, in order to implement a more careful monitoring of customers in difficulty following the pandemic, the procedure for the automatic classification to *default* of counterparties affected by the activation of binding reclassification parameters on overrun *forborne* exposures was temporarily disabled; this made it possible to accurately analyse the aforementioned counterparties within the *high risk* chain, in such a way as to be able to determine first and then resolve the most appropriate support measure; the automatic classification mentioned above was reinstated as from January 2021. In addition, *high risk* interception was extended to corporate counterparties included in the riskiest credit strategy *cluster* (Selective Management), but also to household counterparties benefiting from suspension measures where external *scoring* systems produced higher risk reports.

The entire processing of the *default detection* parameters was also strengthened, where the results deriving from the analysis of the parameter by the position's managers were channelled as a proposal within an authorisation process pertaining to the credit chain.

The Group's procedures also manage the phases for transfer to non-performing categories, in particular forborne positions. A "forborne exposure" (as defined in Bank of Italy Circular 272) is a debt agreement for which measures of tolerance have been applied (otherwise identifiable as "forbearance measures"). The measures of tolerance consist of concessions - in terms of the amendment and/or refinancing of the pre-existing debt agreement - to the borrower who has or is on the verge of having difficulty in meeting its financial commitments (in other words, the borrower is in financial difficulty).

Forborne exposures are broken down into:

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

If a new credit facility or a change in a credit line which amounts to a forbearance is requested, the manager is asked to evaluate the counterparty's financial difficulties. With support from the procedure, the manager establishes whether the borrower is in financial difficulty and how severe it is. If the financial difficulties are deemed to be serious, the manager should decide, in addition to the forbearance, on whether to change the counterparty's classification from performing to unlikely-to-pay position.

Positions are classified into the various categories of non-performing assets at the proposal of the regional network responsible for the commercial relationship as well as peripheral and central specialised functions responsible for loan control and management.

For non-performing past due loans, classification as non-performing takes place via automatic procedures if specific objective conditions of default have been satisfied, with particular reference to overrunning days.

Non-performing exposures are returned to performing status at the initiative of the above-mentioned structures responsible for loan control and management, after it is verified that the critical conditions and state of insolvency during the cure period no longer apply. Non-performing past due loans are returned to performing automatically when the exposure is paid up.

Active management of loans begins at the first signs of impairment, with the support of the Credit Monitoring procedure, which first identifies non-performing positions (Intercept phase) and subsequently routes them to dedicated management processes (Routing phase). More specifically:

• Intercept phase: identification of high insolvency risk positions

Ordinary-risk positions are scanned by a 'screening' engine which selects the highest-risk positions on a weekly basis, so as to identify the counterparties bound to become insolvent at a sufficiently early stage. Screening is based on a "performance risk indicator" ("indicatore di rischio andamentale", IRA) which summarises a set of critical elements including the worsening of leading indicators, ratings, information on related counterparties and days past due.

• Routing phase: customer-type differentiated treatment of positions

This choice was based on the need for differentiating, even during the management approach phase, the processes by customer segment, in accordance with the customer service models, which envisage that a corporate

client cannot be treated in the same way as a retail client and that specific client management needs should be met with 'ad hoc' processes. Ordinary-risk positions, reported as higher risk by the 'screening' engine, are routed to specific processing queues depending on the type of customer and credit facility involved:

1. 'Mass Retail' procedure, dedicated to Retail clients for which it is possible to activate mass debt collection;
2. 'Standard Retail' procedure, dedicated to the remaining Retail customers with more limited exposures and small-sized businesses with limited exposure;
3. A dedicated Corporate procedure for corporate customers.

As regards assessment, bad loans and unlikely to pay positions with a gross exposure exceeding a given threshold value (currently EUR 1 mln) are valued analytically. For all remaining non-performing exposures, the valuation is carried out statistically on the basis of parameters determined by Risk Management.

The evaluation is carried out at the time of their classification, when significant events take place, such as the shift of the counterparty towards another decision-making chain and, in any event, reviewed periodically. In particular, the loan valuation is subject to review any time knowledge is gained of significant events that could change prospects for recovery. For such events to be promptly taken into consideration, all borrower information is periodically monitored.

In 2020, the Group's NPE *Strategy*, in line with the *Risk Appetite Framework*, but also and in particular the demerger of non-performing loans in favour of AMCO, resulted in a *Gross NPE ratio* of 4.3%, or 3.4% according to the new EBA calculation method.

Annual objectives have also been achieved and exceeded regarding both ordinary destocking (collections, balances on accounts and partial payment write-offs) and performing restatements (back to bonis).

The NPE *Strategy* envisages for 2021 a strong *commitment* on portfolio management with a view to *calendar provisioning*, through constant monitoring of compliance with management strategies in order to accelerate returns, through *out of court settlements*, or alternatively proceed with a timely management reallocation from a *workout* perspective.

Although in the context of difficulty identified following the COVID-19 emergency, the tracking of *forborne* exposures schedule remains a valuable tool for planning care activities.

Lastly, it should be noted that, starting from 1 January 2021, the Group adopted the New Definition of *Default*. The new regulations, while confirming the bases of default in the concepts of late payments and probable default of the debtor, introduces some significant changes mainly in relation to:

- "relative" and "absolute" materiality thresholds for the identification of the past due for the verification of the default which is calculated automatically if two thresholds (relative and absolute) are exceeded jointly for 90 continuous days; in particular, the relative threshold is equal to 1% of the exposure (previously 5%), to be compared with the ratio between the total amount past due and/or overrun and the total amount of all exposures recorded in the financial statements towards the same debtor; the absolute threshold is set at EUR 100 for Retail and EUR 500 for non-Retail, to be compared with the total amount past due and/or overrun by the debtor;
- the impossibility for the bank to offset the past due and/or overdue exposures existing on some of the debtor's credit lines with the available margins existing on other credit lines granted by the same debtor;
- introduction of a probation period of 3 months (starting from the moment in which the positions no longer meet the conditions to be classified, as the case may be, among the Past due and/or unlikely to pay exposures) before returning the loan to the non-default status;
- specific thresholds as a trigger for classification among non-performing loans relating to:
  - costly restructuring (default is assumed if the loss from renegotiation exceeds 1%);
  - transfer with loss (default is assumed if the loss related to the deterioration of the counterparty's credit risk exceeds 5%).

With respect to the rules described above, it should be noted that the transition to more stringent relevance thresholds and the elimination of the offsetting effect of the credit lines expired or overrun with the margins available on other credit lines of the same debtor are the elements of greater rigour which, especially at the start of the new definition of default, recorded increases in positions classified in the category of impaired loans. Based on the new rules, the LGD applicable to this portfolio was also recalibrated for the purpose of analytical/statistical valuations. In this regard, reference is made for further details to paragraph "2.3 Methods of measuring expected losses" of these Notes to the consolidated financial statements.

In particular, at the time of activation of the New Definition of *Default* - 1 January 2021 - the Group recorded an increase in non-performing exposures. The above-mentioned amount was affected by technical overdrafts promptly reversed and loans under *probation period* of 3 months.

In January 2021, net of the aforementioned phenomena, there was an increase in the *stock* of non-performing past due loans of around EUR 60 mln, with a consequent increase in adjustments of around EUR 12 mln.

3.2 *Write-offs*

Accounting for total and/or partial write-offs is done upon ascertainment that the credit is non-recoverable, namely when there are no realistic recovery prospects.

The assumptions underlying an unrealistic assessment of recoverability, in relation to which it is considered appropriate to abandon interruption of the limitation period, occur when the composition, bankruptcy, enforcement and even inheritance procedures have come to an end, together with the absence of joint owners or guarantors to be enforced, as well as in cases of documentary verification of impossible and/or infeasible recovery from debtors/guarantors and, lastly, upon conclusion of out-of-court settlements.

The control process aimed at identifying the lack of realistic recovery prospects focuses on the counterparties with a given coverage level as well as a certain vintage.

At the reporting date, the exposures subject to a total write-off relating to counterparties for which enforcement procedures (insolvency and/or executive) are still in progress, amounting to approximately EUR 36 mln, based on operational data, of which approximately EUR 0.8 mln refer to credit facilities that were cancelled in 2020.

3.3 Purchased or originated impaired financial assets

The purchased or originated financial assets (POCI) include financial instruments, acquired or originated, which were already credit impaired at their initial recognition, that is, they showed some signs of impairment in credit quality.

The accounting rules relating to POCIs apply to financial instruments measured at amortised cost or at fair value through other comprehensive income; that is, SPPI-compliant financial instruments in the HTC and HTC&S business models. For further details on the accounting treatment of this type of financial asset, refer to the paragraph "Purchased or originated credit-impaired financial assets" (POCI)" in the Notes to the Financial Statements - Part A - "Accounting policies".

The Group includes the following cases as POCI financial assets.

1. substantial changes to the loans (other than those that result in failure of the SPPI test), agreed with non-performing customers, to which derecognition accounting is applied, in accordance with accounting policy;
2. new credit facility to a non-performing counterparty;
3. acquisition of a portfolio of non-performing loans as part of business combinations;
4. purchase of individual financial instruments.

In particular, the first two refer to "Originated credit-impaired financial assets (OCI)" and the others to "Purchased credit-impaired financial assets (PCI)".

Originated credit-impaired financial assets are identified as part of the lending procedure. Specifically, the PEF application used by the Credit function was appropriately supplemented for certain specific purposes of the credit facility: their selection and the presence of a non-performing status for the counterparty result in an "OCI flag" being raised on a single loan line. This reporting is passed on to summary systems for the necessary measurements, both for amortised cost as well as impairment.

For purchased credit-impaired financial assets, the event is processed by the respective business functions and reported through appropriate reporting systems to management.

The credit risk measurement, management, and control systems for these financial assets envisage, firstly, the definition of the estimated plan, that is, the contractual plan adjusted for expected credit losses. The latter is prepared by the Risk Management function or the Credit function, which, based on the forecasts, may also review it during the life of the credit transaction. This plan is used to calculate CEIR (credit-adjusted effective interest rate), that is, the rate that equates the present value of expected cash flows to the fair value at initial recognition in financial statements.

Based on the contractual plan, the operational services are also calculated including:

- outstandings on the estimated plan, by comparing contractual outstandings and the cash flows effectively expected by the estimated plan (these outstandings are, in fact, a component used in the impairment calculation for POCI instruments);
- adjustments to CEIR that allow contractual interest due, recorded by the various operational services, to be applied to the effective interest at the CEIR calculated in the estimated plan.

Credit risk is monitored on a monthly basis: information on contractual outstandings and outstandings on estimated cash flows are summarised in a report used by the various functions for the resulting measurements.

As at the reference date of these consolidated financial statements, the Group's POCI portfolio remaining after the demerger in favour of AMCO includes almost all transactions belonging to the OCI category for a total gross exposure of EUR 47.5 mln. With regard to the OCI sub-scope, 44% of the exposures refer to transactions intercepted at the time of the FTA of the IFRS 9 standard, while the remainder is almost entirely determined by the disbursement of new loans during the 2020 financial year in favour of impaired customers as part of concordatory or restructuring plans; the exposures generated as a result of the repurchase of non-performing loans belonging to the PCI category are absolutely intangible.

Within the OCI perimeter, 23% of exposures were restored to performing status with respect to the FTA recognition, while the remaining portion is classified as unlikely to pay within the Restructuring business chain.

4. Financial assets subject to commercial renegotiations and exposures subject to forbearance

Financial assets subject to commercial renegotiations

This category includes renegotiations of credit exposures - by changing the original contractual conditions - granted by the Group for commercial reasons to performing customers, with the objective of maintaining the relationship with the customer. The changes in question are divided into the two categories set out below, depending on the purposes and effects of the amended contracts agreed between the parties:

1. transactions that entail a change in the original payment schedule (re-scheduling), to the benefit of the borrower;
2. transactions that do not entail a change in the original payment schedule and that seek to adjust the debt burden to market conditions. These transactions result in a change in the original contract conditions, usually at the customer's request, that reference aspects associated with the debt burden.

Requests to reschedule the loan entail, in any event, the assessment of whether the customer is experiencing financial difficulties - in line with the preliminary review process for the loan - which is carried out based on predominantly objective assumptions to avoid errors in assigning the forborne classification and is also governed from a subjective/qualitative perspective by specific Group guidelines.

Rescheduling transactions in the absence of financial difficulties are marginal and may have affected medium/large corporate customers in good standing (or private customers, on an exceptional basis) - including as part of syndication transactions - who request a review of the average duration of the debt as part of a renewed business financial planning with respect to production decisions made. In these cases, having carefully assessed the absence of current and future financial difficulties, rescheduling requests may be granted, taking care in any case to verify their validity in terms of sustainability and advantages/profitability for the Group with respect to the original plans.

The Group's processes *do not envisage massive initiatives aimed at renegotiation, but one-to-one* evaluation approaches for the requests received, always managing the latter with a view to *retention*. This phenomenon is primarily attributable to the residential mortgages sector, using qualitative/quantitative metrics (based both on the risk-adjusted profitability and the market benchmark, or the level of pricing expressed by the banking system), appropriately associated with commercial valuations, such as the expected benefits deriving from maintaining or achieving the reference status with the individual customer.

Forborne exposures

Forbearance measures are activated, both on the retail as well as corporate segment, when a financial criticality emerges that may impact the counterparty's capacity to satisfy their financial commitments in relation to debt repayment.

To determine the sustainable forbearance measure, it is essential to verify the impacts of financial difficulty compared to debt: the forbearance measure is only implemented if the aforementioned impacts are deemed as being possible to overcome through use of said forbearance measure.

The degree of financial difficulty in which the customer finds themselves (serious or not) must be identified in order to determine the measure (suspension of payments or mere rescheduling of debt) and to allow the measure to be credibly aimed at solving the customer's difficulty.

To reach this objective in the corporate world, an analysis of historic data is not sufficient. Forecast and medium to long-term strategy information on the company must also be obtained; at the individual level, it is essential to assess the instalment/income ratio, the employment situation and the future commitments of the household.

During the 2020 financial year, the entire *forbearance detection* process was considerably affected by the EBA guidelines relating to the implementation of policies for managing the suspension measures granted to customers in difficulty due to COVID-19 (EBA/GL/2020/02). For more details, please refer to section 2 General accounting standards, paragraph "Accounting policies relevant to the preparation of the consolidated financial statements in the context of the COVID-19 pandemic" in Part A of these Notes to the consolidated financial statements.

In line with the aforementioned guidelines, the Group has implemented a process of registration of all moratorium requests based on the cause and the "type of instrument" (by law, ABI Agreements, Sector Agreements, etc.); consequently, all the suspensions granted on *payment plans related to performing customers in financial difficulty due COVID-19 were classified as General* Payment Moratoria and were exempted from the attribution of the *forborne* requirement, while in the case where the suspension had been granted on an individual basis and/or in the presence of financial difficulty, the obligation of the *forborne attribute was envisaged;* secondly, during the last quarter of 2020, both the credit and the control functions carried out ex *post* analyses aimed at excluding cases of customers benefiting from a suspension due to COVID-19, albeit with signs of difficulty prior to the pandemic resulting in the application of the *forborne* attribute where necessary.

Excluding the moratorium portfolio, the High Risk function has pursued a credit strategy aimed at the proposal of forbearance measures, i.e. tailor made, that are sustainable as regards the financial requirements of the counterparty in difficulty, privileging solutions of contractual changes that commit the customers to make their payments in the short term versus debt moratorium measures.

In addition, in the course of 2020, in support of the assessments of the position manager, a *tool* integrated with the Electronic Credit Line procedure (PEF) was released, which allows to calculate the *diminished financial obligation* rate generated following the application of a *forbearance* measure; this instrument, if the 1% threshold reduction of the *Net Present Value* is exceeded, as envisaged by the new rules for determining the *default* in force for the Group from 1 January 2021, imposes the *non-performing forborne* classification of customers benefiting from the rescheduling measure.

A COVID-19 questionnaire was also prepared during the year to be submitted to customers in order to correctly define the financial needs of the counterparty in such a way as to calibrate the most appropriate measure.

From a management standpoint, the Group's tendency is to reschedule the customer's commitments, in order to make them compatible with the aforementioned information and proceed with suspension of payments only in case of loss of employment or other serious financial difficulty of the customer. In this last case, along with application of the measure, the counterparty is classified as unlikely to pay.

The Group is evolving in the way it generates new forbearance measures, acquiring a specific product portfolio that provides for legal acts of recognition, rescheduling and amortisation of debt, both for retail and corporate customers, differentiating the offer according to the type of secured/unsecured loans being measured, the duration of rescheduling and the Loan-to-Value of mortgage loans.

In general, these same products also envisage that the rate used in forbearance does not exceed the original contractual rate.

The stock of forborne performing measures at the beginning of 2020, equal to EUR 2.3 bn - constituted by approx. 58% of secured positions and by a component of total moratorium forbearances of 16% of the total - was classified under non-performing assets during the year for approximately 10% (in terms of gross exposure). It should also be noted that in 35% of cases this stock exceeded the *probation period*, returning to a *fully performing status*. As at 31 December 2020, the *stock* of *performing forborne* loans is thus equal to EUR 1.5 bn of gross exposure: the *secured* component is up compared to that recorded at the beginning of the year, standing at around 69% and only 1.6% of the cases the stock shows overruns longer than 30 days. About 30% of the aforementioned *stock* consists of new concessions made during the year, while 7% represents exposures treated in 2020; the remaining

63% of the aforementioned *stock* represents positions in constant *probation period* already in place at the end of 2019.

The forborne non-performing stock as at 31 December 2020, which has a total gross exposure of EUR 1 bn, excluding bad loans, of which around 11% pertains to new production, is mainly characterised, for about 59%, by positions under restructuring, subject to specialist monitoring as part of the endorsed plans.

The non-restructuring component, mainly allocated to the anomalous risk segment and small ticket segment, has a high overrun rate, as in most cases it inherits the non-performing measures originated in the performing status, even though the above mentioned rate is down. The management objectives of these last two portfolios is to verify the conditions for further forbearance, or propose settlement and/or write-off measures as an alternative.

The new production of forbearance measures (both on performing as well as non-performing counterparties) amounts to EUR 613 mln.

In cases of forbearance resolutions on performing customers, based on operational data, it emerges that 8.2% of customers benefiting from a measure, were assessed as being in severe financial difficulty, making it necessary to proceed with the classification as non-performing.

Exposures on the order of about 4% of the initial forborne non-performing stock recognised at the end of 2019 were monitored in 2020, this latter data clearly impacted by the outbreak of the pandemic.

The forbearance measures granted during the year, including the COVID-19 moratoria not identified like forbearance or included in the "general payment moratoria" under EBA guidelines generated "a net loss from contractual changes without derecognition" of EUR 18.8 mln in the income statement.

With specific reference to impairment, note that all forborne exposures other than non-performing are classified in stage 2 and are valued, similarly to the exposures in stage 3, for an amount equal to the expected losses throughout the life of the loan. Any decrease in credit risk and the resulting classification in stage 1 and measurement of impairment for an amount equal to expected credit losses in the subsequent 12 months, is linked, in the absence of further indicators of significant increases in the risk of credit, to the return to the fully performing status of the exposure or to the loss of the forborne classification.

Quantitative Information

A. Credit quality

A.1 Non-performing and performing loans: amounts, impairment (losses), changes, trend and breakdown by business sector

A.1.1 Prudential consolidation - Breakdown of financial assets by past due ranges (book values)

Portfolio/staging	Stage 1			Stage 2			Stage 3		
	Up to 30 days	from 30 to 90 days	Over 90 days	Up to 30 days	from 30 to 90 days	Over 90 days	Up to 30 days	from 30 to 90 days	Over 90 days
1. Financial assets measured at amortised c	209,604	-	-	171,746	140,783	221,959	42,824	55,140	1,309,602
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-	-	-	7,831
Total 31 12 2020	209,604	-	-	171,746	140,783	221,959	42,824	55,140	1,317,433
Total 31 12 2019	400,837	57	-	312,645	172,826	231,710	77,911	84,741	4,593,317

A.1.2 Prudential consolidation – Financial assets, commitments to disburse funds and financial guarantees given: changes in overall impairment (losses) and total allocations

Source/Staging	Total impairment (losses)																Provisions for credit risk relative to commitments to disburse funds and financial guarantees given			Total
	Stage 1 financial assets					Stage 2 financial assets					Stage 3 financial assets									
	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehendive income	Financial assets held for sale and disposal groups	*of which: specific write-downs*	*of which: portfolio adjustments*	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehendive income	Financial assets held for sale and disposal groups	*of which: specific write-downs*	*of which: portfolio adjustments*	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehendive income	Financial assets held for sale and disposal groups	*of which: specific write-downs*	*of which: portfolio adjustments*	*Of which: impaired or originated financial assets*	Stage 1	Stage 2	Stage 3	
Opening balance of overall impairment (losses)	**72,060**	**5,577**	**-**	**-**	**77,637**	**410,620**	**743**	**-**	**-**	**411,363**	**5,135,718**	**11,137**	**412,835**	**3,844,993**	**1,714,698**	**24,652**	**7,184**	**8,725**	**142,885**	**6,207,484**
Increases from purchased or originated financial assets	7,652	1,391	-	-	*9,043*	13,928	-	-	-	*13,928*	(259)	-	-	*(278)*	*20*	*5,678*	637	393	9	23,751
Derecognitions other than write-offs	(4,489)	(735)	-	-	*(5,224)*	(18,652)	(103)	-	-	*(18,755)*	(3,847,546)	-	*(398,030)*	*(2,752,210)*	*(1,493,366)*	*(8,478)*	(458)	(921)	(12,091)	(4,283,025)
Net impairment (losses)/reversals for credit risk (+/-)	(38,336)	1,056	-	-	*(37,280)*	164,438	(41)	-	-	*164,397*	566,936	(965)	*13,018*	*265,355*	*313,635*	*4,328*	3,595	2,598	(9,126)	703,173
Modification gains/losses	38	-	-	-	*38*	345	-	-	-	*345*	863	-	-	*685*	*177*	-	-	-	-	1,246
Change in evalutation methodology	(289)	-	-	-	*(289)*	-	-	-	-	-	316	-	-	-	*316*	-	-	-	-	27
Write-off not recognised through profit or loss	-	-	-	-	-	(1)	-	-	-	*(1)*	(266,027)	-	*(14,005)*	*(190,847)*	*(89,185)*	*(1,292)*	-	-	-	(280,033)
Others	51,500	-	-	-	*51,500*	(52,475)	-	-	-	*(52,475)*	210,417	(10,172)	*(281)*	*(26,803)*	*226,766*	*(12,782)*	1,311	395	(1,707)	198,988
Closing balance of overall impairment (losses)	**88,136**	**7,289**	**-**	**-**	**95,425**	**518,203**	**599**	**-**	**-**	**518,802**	**1,800,418**	**-**	**13,537**	**1,140,895**	**673,061**	**12,106**	**12,269**	**11,190**	**119,970**	**2,571,611**
Recoveries from collections of financial assets subject to write-off	-	-	-	-	-	-	-	-	-	-	6,576	-	-	6,576	-	-	-	-	-	6,576
Write-off recognised through profit or loss	-	-	-	-	-	-	-	-	-	-	(97,070)	-	-	(95,431)	(1,640)	(5)	-	-	-	(97,070)

The provision for trade receivables, valued using the simplified method in accordance with IFRS 9, amounts to EUR 0.8 mln (EUR 0.01 mln at the beginning of the year). The increase is entirely due to the increase in gross exposures and in particular to the recognition of a EUR 103.9 mln credit as part of the sale of real estate to Ardian. For more details on the calculation method adopted to determine impairment on financial assets, please refer to the paragraph "Methods for calculating impairment on IFRS 9 financial instruments" in Part A of these Notes to the consolidated financial statements.

In 2020, total impairment provisions posted a total reduction, compared with 1 January 2020, of around EUR 3,635.9 mln - of which EUR 15.4 mln related to commitments to disburse funds and guarantees given - due almost entirely to financial assets measured at amortised cost classified in stage 3 (EUR -3,335.3 mln). In particular, with reference to this accounting portfolio, the following elements contributed to this trend:

- the reduction of provisions for "Derecognitions other than write-offs" equal to approximately EUR 3,870.7 mln, attributable for EUR 3,432.3 mln to the deconsolidation of the positions of the "Hydra M" portfolio, of which EUR 2,558.7 mln pertaining to the NPL portfolio and EUR 871.8 mln to the UTP portfolio
- reduction of provisions for "Write-offs" for EUR 266.0 mln. Note that the derecognitions not covered by the provision generated an impact of EUR 97.1 mln in the income statement;
- net increase of EUR 693.0 mln in the item "Net impairment (losses)/reversals for credit risk". Financial assets included in stages 1 and 2 recorded an increase of approx. EUR 126.1 mln, mainly due to the additional adjustments produced by the update of the macroeconomic scenarios following the COVID-19 pandemic. Assets included in stage 3 recorded an increase of approximately EUR 566.9 mln, mainly due to the aforementioned update as well as to the re-estimation of the LGD following the new definition of default.

A.1.3 Prudential consolidation – Financial assets, commitments to disburse funds and financial guarantees given: transfers among the different stages of credit risk (gross and nominal values)

Portfolio/Staging	Gross value /nominal value					
	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3	
	From Stage 1 to Stage 2	From Stage 2 to Stage 1	From Stage 2 to Stage 3	From Stage 3 to Stage 2	From Stage 1 to Stage 3	From Stage 3 to Stage 1
1. Financial assets measured at amortised cost	6,058,575	2,020,743	678,676	167,274	332,021	15,514
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-
4. Commitments to disburse funds and financial guarantees given	1,526,218	878,836	76,725	10,327	44,876	1,727
Total 31 12 2020	**7,584,793**	**2,899,579**	**755,401**	**177,601**	**376,897**	**17,241**
Total 31 12 2019	**3,592,995**	**3,106,371**	**1,035,926**	**815,560**	**215,739**	**74,490**

A.1.3a Prudential consolidation – Loans subject to COVID-19 support measures: transfers between the different stages of credit risk (gross values)

Portfolio/Staging	Gross Value / Nominal Value					
	Transfer between Stage 1 and Stage 2		Transfer between Stage 2 and Stage 3		Transfer between Stage 1 and Stage 3	
	From Stage 1 to Stage 2	From Stage 2 to Stage 1	From Stage 2 to Stage 3	From Stage 3 to Stage 2	From Stage 1 to Stage 3	From Stage 3 to Stage 1
A. Loans measured at amortised cost	2,364,968	536,391	82,526	42,917	25,264	1,277
A.1 EBA-compliant moratoria (legislative and non-legislative)	2,316,605	526,522	37,406	42,495	17,376	1,275
A.2 Other forbearance measures	46,399	9,818	45,120	422	7,839	2
A.3 Newly originated loans	1,964	51	-	-	49	-
B. Loans measured at fair value through other comprehensive income	-	-	-	-	-	-
Total 31 12 2020	2,364,968	536,391	82,526	42,917	25,264	1,277

The data refer to loans subject to "moratoria" or other COVID-19 support measures in place at the reporting date, when the risk stage in which the exposures are included at the end of the year is different from the stage in which the exposures were included at the time of the concession.

A.1.4 Prudential consolidation – Balance sheet and off-balance sheet credit exposure to banks: net and gross values

31 12 2020

Type of exposures/Values	Gross exposure		Total impairment (losses) and total provisions	Net Exposures	Total Partial Write-off*
	Non-performing Exposures	Performing Exposures			
A. Balance-sheet exposure					
a) Bad loans	12,181	X	12,089	92	-
- of which forborne	-	*X*	-	-	-
b) Unlikely to pay	-	X	-	-	-
- of which forborne	-	*X*	-	-	-
c) Past-due non-performing exposures	-	X	-	-	-
- of which forborne	-	*X*	-	-	-
d) Past-due performing exposures	X	339	17	322	-
- of which forborne	*X*	-	-	-	-
e) Other assets not impaired	X	35,632,211	6,009	35,626,202	-
- of which forborne	*X*	-	-	-	-
Total A	12,181	35,632,550	18,115	35,626,616	-
B. Off-balance-sheet exposure					
a) Performing	6,292	X	-	6,292	-
b) Non-performing	X	3,927,743	865	3,926,877	-
Total B	6,292	3,927,743	865	3,933,169	-
Total (A+B)	18,473	39,560,293	18,980	39,559,785	-

** Value to be presented for disclosure purposes*

At the reporting date for these financial statements, the table does not include purchased or originated impaired financial assets.

A.1.5 Prudential consolidation – Balance sheet and off-balance sheet credit exposure to customers: net and gross values

31 12 2020

Type of exposures/Values	Gross exposure		Total impairment (losses) and total provisions	Net Exposures	Total Partial Write-off*
	Non-performing Exposures	Performing Exposures			
A. Balance-sheet exposure					
a) Bad loans	1,517,504	X	952,413	565,091	93,170
- of which forborne	*260,853*	*X*	*137,837*	*123,016*	*39,781*
b) Unlikely to pay	2,439,085	X	898,595	1,540,490	52,534
- of which forborne	*1,014,089*	*X*	*359,987*	*654,102*	*46,746*
c) Past-due non-performing exposures	75,589	X	21,023	54,566	70
- of which forborne	*7,814*	*X*	*2,475*	*5,340*	-
d) Past-due performing exposures	X	761,105	20,889	740,216	131
- of which forborne	*X*	*36,972*	*2,021*	*34,951*	*16*
e) Other assets not impaired	X	99,805,537	587,313	99,218,224	6,140
- of which forborne	*X*	*1,541,477*	*122,559*	*1,418,918*	*4,317*
Total A	**4,032,178**	**100,566,642**	**2,480,233**	**102,118,587**	**152,045**
B. Off-balance-sheet exposure					
a) Performing	1,007,935	X	119,970	887,965	-
b) Non-performing	X	44,801,846	44,830	44,757,017	-
Total B	**1,007,935**	**44,801,846**	**164,800**	**45,644,982**	**-**
Total (A+B)	**5,040,113**	**145,368,488**	**2,645,033**	**147,763,569**	**152,045**

* *Value to be presented for disclosure purposes*

Please see the Report on operations for quantification of and reporting on capital ratios for coverage of lending relationships.

For detailed information on originated *impaired* financial assets, please refer to section 1 Credit risk - Qualitative information in these_Notes to the consolidated financial statements. During 2020, the Group acquired some non-performing loans, all classified in the portfolio "Financial assets measured at amortised cost"; the gross exposure is equal to the purchase price (EUR 0.01 mln), fully written down in order to adjust the *value of the net book value at initial recognition fair* value.

A.1.5a Prudential consolidation – Balance sheet credit exposures to customers object of COVID-19 support measures: net and gross values

31 12 2020

Types of loans/Values	Gross Value	Total net impairment and other provisions	Net Value	Total Partial Write-off*
A. Bad loans:	1,628	886	742	-
a) EBA-compliant moratoria (legislative and non-legislative)	1,495	819	676	-
b) Other forbearance measures	*125*	*67*	*58*	-
c) Newly originated loans	8	-	8	-
B. Unlikely to pay:	190,383	56,986	133,397	-
a) EBA-compliant moratoria (legislative and non-legislative)	59,055	17,799	41,256	-
b) Other forbearance measures	*127,630*	*39,117*	*88,513*	-
c) Newly originated loans	3,698	70	3,628	-
C. Past-due non-performing exposures:	9,097	1,874	7,223	-
a) EBA-compliant moratoria (legislative and non-legislative)	5,860	1,300	4,560	-
b) Other forbearance measures	*2,101*	*571*	*1,530*	-
c) Newly originated loans	1,136	3	1,133	-
D. Past-due performing exposures:	106,104	4,692	101,412	-
a) EBA-compliant moratoria (legislative and non-legislative)	101,446	4,552	96,894	-
b) Other forbearance measures	*1,560*	*139*	*1,421*	-
c) Newly originated loans	3,098	1	3,097	-
E. Other performing loans:	16,649,127	204,669	16,444,458	-
a) EBA-compliant moratoria (legislative and non-legislative)	10,426,647	193,842	10,232,805	-
b) Other forbearance measures	*141,768*	*3,278*	*138,490*	-
c) Newly originated loans	6,080,712	7,549	6,073,163	-
Total (A+B+C+D+E)	**16,956,339**	**269,107**	**16,687,232**	**-**

**As provided for in the Bank of Italy communication of 15 December 2020, the column "total partial write-offs" has been left blank.*

The table shows, in line with the Bank of Italy communication of 15 December 2020, the loans disbursed, subject to moratoria or other forbearance measures in place at the reporting date, or which constitute new liquidity granted with the support of public guarantees.

A.1.6 Prudential consolidation - Balance-sheet credit exposure to banks: changes in gross non-performing loans

31 12 2020

Source/Categories	Bad loans	Unlikely to pay	Non-performing Past due
A. Gross exposure, opening balance	**12,441**	**-**	**-**
- of which: transferred but not derecognised	-	-	-
B. Increases	**-**	**-**	**-**
B.1 Transfers from performing loans	-	-	-
B.2 Transfers from purchased or originated credit impaired financial assets	-	-	-
B.3 Transfers from other non-performing loans	-	-	-
B.4 Modification gains/losses	-	-	-
B.5 Other increases	-	-	-
C. Decreases	**260**	**-**	**-**
C.1 Transfers to performing loans	-	-	-
C.2 Write-offs	260	-	-
C.3 Collections	-	-	-
C.4 Amounts realised upon disposal of positions	-	-	-
C.5 Losses from disposal	-	-	-
C.6 Transfers to other categories of non-performing exposure	-	-	-
C.7 Modification gains/losses	-	-	-
C.8 Other decreases	-	-	-
D. Gross exposure, closing balance	**12,181**	**-**	**-**
- of which: transferred but not derecognised	-	-	-

At the reporting date, there are no impaired financial assets purchased during the year through either business combination transactions or other types of acquisitions.

A.1.6-bis Prudential consolidation – Balance-sheet credit exposure to banks: changes in gross forborne exposures broken down by credit quality

31 12 2020

Source/Quality	Non performing forborne exposures	Performing forborne exposures
A. Goss eXposure, opening balance	**-**	**2,836**
- of which: transferred but not derecognised	-	-
B.Increases	**-**	**-**
B.1 Transfers from performing loans	-	-
B.2 Transfers from performing forborne esposures	-	X
B.3 Transfers from Non-performing forborne exposures	X	-
B.4 Modifications gains/losses	-	-
B.5 Other increases	-	-
C. Decreases	**-**	**2,836**
C.1 Transfers to performing loans	X	-
C.2 Transfers to performing forborne exposures	-	X
C.3 Transfers to non-performing forborne exposures	X	-
C.4 Write-offs	-	-
C.5 Collections	-	-
C.6 Gains on disposals	-	-
C.7 Losses on disposal	-	-
C.8 Other decreases	-	2,836
D.Gross exposure, closing balance	**-**	**-**
- of which: transferred but not derecognised	-	-

A.1.7 Prudential consolidation - Balance-sheet credit exposure to customers: changes in gross non-performing loans

31 12 2020

Source/Categories	Bad loans	Unlikely to pay	Non-performing Past due
A. Gross exposure, opening balance	**6,442,676**	**5,409,902**	**98,297**
- of which: transferred but not derecognised	*304,272*	*181,761*	*4,083*
B. Increases	**778,569**	**1,069,984**	**87,342**
B.1 Transfers from performing loans	86,497	863,301	70,792
B.2 Transfers from purchased or originated credit impaired financial assets	11	26,819	-
B.3 Transfers from other non-performing loans	654,100	53,504	2,282
B.4 Modification gains/losses	9	3,577	52
B.5 other increases	37,952	122,783	14,216
C. Decreases	**5,703,741**	**4,040,801**	**110,050**
C.1 Transfers to performing loans	936	173,736	13,424
C.2 Write-offs	122,912	274,967	1,659
C.3 Collections	188,549	410,979	32,113
C.4 Gains on disposals	162,104	86,125	-
C.5 Losses on disposal	1,822	955	-
C.6 Transfers to other categories of non-performing exposure	4,781	643,509	61,595
C.7 Modification gains/losses	-	1,116	-
C.8 Other decreases	5,222,637	2,449,414	1,259
D. Gross exposure, closing balance	**1,517,504**	**2,439,085**	**75,589**
- of which: transferred but not derecognised	*84,200*	*181,471*	*2,068*

Line C.8 "Other decreases", equal to EUR 7,673.3 mln, is attributable for EUR 7,176.6 mln to non performing exposures spun off to AMCO, of which EUR 4,904.8 mln classified as bad loans and EUR 2,242.9 mln as unlikely to pay.

With reference to bad loans, total collections consist of (i) 26% from judicial recoveries, (ii) 59% from out-of-court settlements and (iii) the remaining 15% from payments from Guarantee Institutions. With regard to proceeds from disposals, about (i) 31% came from single name transactions, (ii) 2% from bulk disposals and (iii) 67% from the sale of receivables carried out as part of the securitisation transaction with derecognition carried out with the Norma S.r.l. vehicle.

It should also be noted that EUR 86.0 mln was collected during the 2020 financial year as a result of transactions involving the sale of non performing loans.

A.1.7-bis Prudential consolidation – Balance-sheet credit exposure to customers: changes in gross forborne exposure broken down by credit quality

31 12 2020

Source/Categories	Non performing forborne exposures	Performing forborne exposures
A. Goss esposure, opening balance	**4,599,197**	**2,327,938**
- of which: transferred but not derecognised	*343,002*	*42,523*
B. Increases	**432,863**	**702,485**
B.1 Transfers from performing loans	74,156	478,979
B.2 Transfers from performing forborne exposures	196,426	X
B.3 Transfers from Non-performing forborne exposures	X	111,324
B.4 Transfer form Non-performing exposures	53,693	6,406
B.5 Other increases	108,588	105,776
C. Decreases	**3,749,304**	**1,451,974**
C.1 Transfers to performing loans	X	574,000
C.2 Transfers to performing forborne exposures	112,989	X
C.3 Transfers to non-performing forborne exposures	X	192,839
C.4 Write-offs	127,816	223
C.5 Collections	361,441	452,231
C.6 Gains on disposals	195,347	-
C.7 Losses on disposal	1,192	-
C.8 Other decreases	2,950,519	232,681
D. Gross exposure, closing balance	**1,282,756**	**1,578,449**
- of which: transferred but not derecognised	*48,564*	*28,739*

Line C.8 “Other decreases” totalling approximately EUR 3,183.2 mln is mainly attributable to the exposures included in the Parent Company set of demerged items in favour of AMCO.

A.1.8 Prudential consolidation - Non-performing balance-sheet credit exposures to banks: changes in overall impairment (losses)

31 12 2020

Source/Categories	Bad loans		Unlikely to pay		Non-performing Past due	
	Total	*of which: forborne*	Total	*of which: forborne*	Total	*of which: forborne*
A. Opening balance of overall impairment (losses)	**12,204**	**-**	**-**	**-**	**-**	**-**
- of which: transferred but not derecognised	-	-	-	-	-	-
B. Increases	**147**	**-**	**-**	**-**	**-**	**-**
B.1 Net impairment of purchased or originated impaired financial assets	-	X	-	X	-	X
B.2 Other value adjustments	147	-	-	-	-	-
B.3 Losses on disposal	-	-	-	-	-	-
B.4 Transfers from other categories of non-performing exposures	-	-	-	-	-	-
B.5 Modification gains/losses	-	-	-	-	-	-
B.6 Other increases	-	-	-	-	-	-
C. Decreases	**262**	**-**	**-**	**-**	**-**	**-**
C.1 Write-backs from valuation	2	-	-	-	-	-
C.2 Write-backs from collection	-	-	-	-	-	-
C.3 Gains on disposals	-	-	-	-	-	-
C.4 Write-offs	260	-	-	-	-	-
C.5 Transfers to other categories of non-performing exposure	-	-	-	-	-	-
C.6 Modification gains/losses	-	-	-	-	-	-
C.7 Other decreases	-	-	-	-	-	-
D. Closing balance of overall impairment (losses)	**12,089**	**-**	**-**	**-**	**-**	**-**
- of which: transferred but not derecognised	-	-	-	-	-	-

At the reporting date, there are no impaired financial assets purchased during the year through either business combination transactions or other types of acquisitions.

A.1.9 Prudential consolidation - Non-performing balance-sheet credit exposure to customers: changes in overall impairment (losses)

31 12 2020

Source/Categories	Bad loans		Unlikely to pay		Non-performing Past due	
	Total	*of which: forborne*	Total	*of which: forborne*	Total	*of which: forborne*
A. Opening balance of overall impairment (losses)	**3,460,665**	**812,143**	**2,348,492**	**1,100,079**	**23,074**	**1,398**
- of which: transferred but not derecognised	*150,558*	*125,841*	*53,243*	*25,435*	*974*	*-*
B. Increases	**829,395**	**226,684**	**670,874**	**247,542**	**20,420**	**2,485**
B.1 Net impairment of purchased or originated impaired financial assets	11	X	5,667	X	-	X
B.2 Other value adjustments	628,077	145,654	609,433	223,887	18,192	1,903
B.3 Losses on disposal	1,822	351	955	841	-	-
B.4 Transfers from other categories of non-performing exposures	193,919	72,806	13,267	2,381	571	87
B.5 Modification gains/losses	3	X	1,074	X	1	X
B.6 Other increases	5,563	7,873	40,478	20,433	1,656	495
C. Decreases	**3,337,647**	**900,990**	**2,120,771**	**987,634**	**22,471**	**1,408**
C.1 Reversals from valuation	245,539	69,032	289,060	137,456	5,014	64
C.2 Reversals from collection	40,943	19,606	154,006	67,133	636	414
C.3 Gains on disposal	4,612	3,229	1,252	1,169	-	-
C.4 Write-offs	122,873	15,771	274,967	112,044	1,659	-
C.5 Transfers to other categories of non-perfoming exposure	1,382	573	191,604	72,625	14,771	655
C.6 Modification gains/losses	-	X	373	X	-	X
C.7 Other decreases	2,922,298	792,779	1,209,509	597,207	391	275
D. Closing balance of overall impairment (losses)	**952,413**	**137,837**	**898,595**	**359,987**	**21,023**	**2,475**
- of which: transferred but not derecognised	*36,062*	*6,114*	*56,581*	*8,207*	*594*	*39*

Line C.7"Other decreases", equal to approx. EUR 4,132.2 mln, refers for EUR 3,432.35 mln to the provisions for non-performing exposures involved in the demerger of AMCO, of which EUR 2,558.76 mln classified as bad loans and EUR 871.8 mln as unlikely-to-pay loans.

At the reporting date, there are no impaired financial assets that were purchased during the year through business combination transactions.

Exposure to sovereign debt risk

Below are the net sovereign credit risk exposures in government bonds, loans and credit derivatives held by the Group as at 31 December 2020, pursuant to the criteria of the *European Securities and Markets Authority* (*ESMA*).

The exposures are broken down by accounting categories. For securities classified as "Financial assets measured at amortised cost" and "Loans", the book value (amortised cost) is also reported.

COUNTRY	DEBT SECURITIES					LOANS	CREDIT DERIVATIVES
	Financial assets measured at fair value through profit or loss		Financial assets measured at fair value through other comprehensive income		Financial assets measured at amortised cost	Financial assets measured at amortised cost	Financial assets held for trading
	Nominal	Fair value=book value	Nominal	Fair value=book value	Book value	Book value	Nominal
Argentine	0.3	-	-	-	-	-	-
Azerbaijan	-	-	-	-	0.3	-	-
France	-	-	10.0	10.2	8.2	-	-
Italy	127.4	-	4,761.5	4,859.9	5,818.6	1,749.9	3,411.2
Portugal	-	-	15.0	17.3	2.5	-	-
Spain	29.7	40.7	10.0	10.2	1,411.4	-	4.7
Other Countries	1.3	1.3	-	0.1	-	-	-
Total 31 12 2020	**158.7**	**42.0**	**4,796.5**	**4,897.7**	**7,241.0**	**1,749.9**	**3,415.9**
Total 31 12 2019	**3,400.1**	**3,302.5**	**5,861.6**	**5,940.3**	**6,701.0**	**1,931.9**	**3,124.5**

Details on the Group's exposure is presented taking into consideration that, according to instructions from the European Securities and Markets Authority (ESMA), "sovereign debt" is defined as bonds issued by central and local Governments and by government Entities, as well as loans disbursed to aforementioned entities.

These financial instruments were measured according to the standards applicable to the category to which they belong.

As at 31 December 2020, the residual duration of the exposure to sovereign debt was 5.60 years. The overall exposure to loans and debt securities amounted to EUR 13,930.6 mln, almost entirely in Italian debt, and is concentrated in the portfolio of financial assets measured at amortised cost. Securities exposures to Italy are nearly exclusively level 1, with the exception of EUR 929 mln under level 2, attributable for EUR 793 mln to government bonds.

Following are the details of reserves on securities measured at fair value through other comprehensive income and of Italian credit derivatives (in EUR/mln):

AFS securities: Italy	31 12 2020	31 12 2019
Book value	4,859.9	5,526.7
O.C.I reserve (after tax)	45.5	(0.5)
of which: hedging effect (after tax)	(90.5)	(95.0)

Credit derivatives - Italy	31 12 2020	31 12 2019
Purchase of protection		
Nominal	(208.1)	(268.9)
Positive fair value	-	2.4
Negative fair value	(5.7)	(0.1)
Sale of protection	-	-
Nominal	3,619.3	3,393.5
Positive fair value	2.8	-
Negative fair value	(119.4)	(119.7)

A.2 Classification of exposure by external and internal ratings

A.2.1 Prudential consolidation – Breakdown of financial assets, commitments to disburse funds and financial guarantees given by external rating class (gross values)

Esposures	External rating classes						No Rating	Total 31 12 2020
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Financial assets measured at amortised cost	**956,046**	**4,134,927**	**7,773,587**	**400,873**	**156,318**	**62,173**	**115,673,070**	**129,156,994**
- Stage 1	956,046	4,134,330	7,772,665	349,416	132,754	-	96,460,770	109,805,981
- Stage 2	-	597	538	51,377	5,156	232	15,361,623	15,419,523
- Stage 3	-	-	384	80	18,408	61,941	3,850,677	3,931,490
B. Fiancial assets measured at fair value through other comprehensive income	**28,050**	**5,141**	**5,177,367**	**292,940**	**13,907**	**9,965**	**15,884**	**5,543,254**
- Stage 1	28,050	5,141	5,177,367	278,146	9,984	9,958	15,884	5,524,530
- Stage 2	-	-	-	14,794	3,923	7	-	18,724
- Stage 3	-	-	-	-	-	-	-	-
C. Non-current financial asset held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**21,367**	**21,367**
- Stage 1	-	-	-	-	-	-	-	-
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	21,367	21,367
Total (A+B+C)	**984,096**	**4,140,068**	**12,950,954**	**693,813**	**170,225**	**72,138**	**115,710,321**	**134,721,615**
of which: purchased or originated impaired financial assets	-	-	-	-	-	-	*20,723*	*20,723*
D. Commitments to disburse funds and financial guarantees issued	**96,133**	**491,265**	**1,036,856**	**994,514**	**38,996**	**116,271**	**37,232,000**	**40,006,035**
- Stage 1	96,133	491,265	1,036,379	986,315	38,996	331	35,199,911	37,849,330
- Stage 2	-	-	477	8,199	-	-	1,133,803	1,142,479
- Stage 3	-	-	-	-	-	115,940	898,286	1,014,226
Total (A+B+C+D)	**1,080,229**	**4,631,333**	**13,987,810**	**1,688,327**	**209,221**	**188,409**	**152,942,321**	**174,727,650**

class 1=AAA/AA-, class 2=A+/A-, class 3=BBB+/BBB-, class 4=BB+/BB-, class 5=B+/B-, class 6=lower than B-

The external rating categories used to complete the table are from Standard & Poor’ s. The exposures taken into account are those in the financial statements reported in Table A.1.3 (exposures to banks) and A.1.6 (exposures to customers) above, integrated by UCITS quotes. If multiple external ratings are assigned, the rating is selected based on Bank of Italy’ s criteria (when two ratings are available, the lower of the two is used, and when three or more ratings are assigned, the second highest rating is selected). To ensure relevance of information, internal cross-reference tables were used to convert classification by various rating agencies into classification by Standard & Poor’ s.

As at 31 December 2020, the Group had outstanding trade receivables for around EUR 130.4 mln, for which the Group did not use external ratings.

A.2.2 Prudential consolidation – Breakdown of financial assets, commitments to disburse funds and financial guarantees given per internal rating class (gross values)

Exposures	Internal rating classes							No rating	Total 31 12 2020
	High quality	Average quality	Fair quality	Mediocre quality	Poor quality	Default	Group administrative default		
A. Financial assets measured at amortised cost	9,109,657	20,196,870	26,774,033	8,816,146	480,855	3,624,663	196,281	59,958,489	129,156,994
- Stage 1	8,965,858	19,076,668	20,887,793	1,859,977	3,089	56	15	59,012,525	109,805,981
- Stage 2	143,799	1,120,202	5,886,240	6,955,505	475,529	2,058	7,126	829,064	15,419,523
- Stage 3	-	-	-	664	2,237	3,622,549	189,140	116,900	3,931,490
B. Fiancial assets measured at fair value through other comprehensive income	-	9,064	-	-	-	-	-	5,534,190	5,543,254
- Stage 1	-	9,064	-	-	-	-	-	5,515,466	5,524,530
- Stage 2	-	-	-	-	-	-	-	18,724	18,724
- Stage 3	-	-	-	-	-	-	-	-	-
C. Non-current financial asset held for sale	-	-	-	-	-	21,367	-	-	21,367
- Stage 1	-	-	-	-	-	-	-	-	-
- Stage 2	-	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	21,367	-	-	21,367
Total (A+B+C)	**9,109,657**	**20,205,934**	**26,774,033**	**8,816,146**	**480,855**	**3,646,030**	**196,281**	**65,492,679**	**134,721,615**
of which: purchased or originated impaired financial assets	-	-	*260*	*10,513*	*141*	*9,810*	-	-	*20,724*
D. Commitments to disburse funds and financial guarantees issued	5,183,307	10,389,316	10,457,152	2,089,615	44,537	1,020,044	3,542	10,818,522	40,006,035
- Stage 1	5,169,883	10,293,212	9,983,097	1,616,345	21,806	12,108	766	10,752,113	37,849,330
- Stage 2	13,424	96,104	474,055	472,465	22,731	-	287	63,413	1,142,479
- Stage 3	-	-	-	805	-	1,007,936	2,489	2,996	1,014,226
Total (A+B+C+D)	**14,292,964**	**30,595,250**	**37,231,185**	**10,905,761**	**525,392**	**4,666,074**	**199,823**	**76,311,201**	**174,727,650**

High Quality customers (Master Scale categories AAA and A1) Good Quality Customers (Master Scale categories A2, A3 and B1) Fair Quality customers (Master Scale categories B2, B3, C1 and C2) Mediocre Quality customers (Master Scale categories C3, D1, D2 and D3) Poor Quality customers (Master Scale categories E1, E2 and E3)

The table provides a breakdown of customers of the MPS Group by risk categories assigned on the basis of ratings arising from internal models. For this purpose, account is given only of exposures (borrowers) for which an internal rating is periodically recorded for models/legal entities/portfolios which have been subject to a validation process with the regulatory authorities without any cross-reference from official ratings to internal ratings, especially with regard to the following customer segments: " Banks," " Non-banking financial institutions," and " Governments and Public Administration" . Thus, based on this provision, exposures related to the latter segments, even if covered by official ratings, were reported as " unrated" in the internal rating models.

As at 31 December 2020, the Group had outstanding trade receivables for a gross value of approx. EUR 130.4 mln. With regard to these receivables, the Group valued the defined loss coverage provision with the simplified method, assigning a benchmark rating (C2), equivalent to the average rating of the AIRB portfolio and a loss rate of 45%.

A.3 Breakdown of secured credit exposures by type of collateral

A.3.1 Prudential consolidation – Balance sheet and off-balance sheet secured credit exposure to banks

31 12 2020

	Gross exposures	Net exposures	Collaterals				Personnel guarantees									Total collaterals and personnel guarantees
							Credit derivatives					Unsecured signature loans				
								Other derivatives								
			Real estate mortgages	Real estate leasing	Securities	Other collaterals	CLN	Central counterparties	Banks	Other financial entities	Other entities	Public Entities	Banks	Other financial entities	Other entities	
1. Secured balance-sheet exposures	898,102	898,083	1,045	-	894,271	-	-	-	-	-	-	-	-	-	24	895,340
1.1 totally secured	896,641	896,622	1,045	-	894,271	-	-	-	-	-	-	-	-	-	20	895,336
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2 Partially secured	1,461	1,461	-	-	-	-	-	-	-	-	-	-	-	-	4	4
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Secured off-balance sheet exposures	90,404	90,404	-	-	89,880	524	-	-	-	-	-	-	-	-	-	90,404
2.1 totally secured	90,404	90,404	-	-	89,880	524	-	-	-	-	-	-	-	-	-	90,404
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Partially secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

In addition to balance-sheet exposures, the table shows the amount of off-balance-sheet exposures to banks (including derivative contracts with banks) which are fully or partially secured. As regards personal guarantees, the economic segments to which guarantors and sellers of protection belong (in the case of unsecured loans and credit derivatives, respectively) are identified making reference to the classification criteria provided for in the brochure "classification of customers by segments and groups of economic activity" published by the Bank of Italy.

Exposures are classified as either "totally secured" or "partially secured" by comparing the gross exposure with the amount of the guarantee established in the contract; for that purpose, any supplemental guarantees are also considered.

The fair value of collaterals estimated as at the balance sheet date is shown in the columns "Collaterals" and "Personal guarantees"; if such information is not available, the contractual value is reported. Both values cannot be higher than the book value of secured exposures, in line with the 6th update of Bank of Italy Circular 262.

A.3.2 Prudential consolidation – Balance sheet and off-balance sheet secured credit exposure to customers

	Gross Exposure	Net Exposure	Collaterals				Personal guarantees									Total collaterals and personnel guarantees 31 12 2020
							Credit derivatives					Unsecured signature loans				
								Other derivatives								
			Real estate mortgages	Real estate leasing	Securities	Other collaterals	CLN	Central couterparties	Banks	Other financial entities	Other entities	Public entities	Banks	Other financial entities	Other entities	
1. Secured balance-sheet exposures:	69,139,888	67,508,969	39,613,184	2,193,288	9,294,905	1,765,558	-	-	-	-	-	29,489	5,279	658,938	12,424,002	65,984,643
1.1 Totally secured	63,100,287	61,562,580	39,558,691	2,109,968	9,111,561	1,622,852	-	-	-	-	-	25,216	4,544	543,530	8,437,104	61,413,466
- of which non performing	*2,602,709*	*1,499,495*	*873,489*	*240,266*	*9,667*	*68,468*	-	-	-	-	-	*205*	*3,359*	*42,563*	*208,065*	*1,446,082*
1.2 Partially secured	6,039,601	5,946,389	54,493	83,320	183,344	142,706	-	-	-	-	-	4,273	735	115,408	3,986,898	4,571,177
- of which non performing	*133,253*	*75,685*	*632*	-	*8,981*	*1,381*	-	-	-	-	-	-	*62*	*4,381*	*50,341*	*65,778*
2. Secured off-balance sheet exposures:	13,193,441	13,161,797	221,090	56,718	5,549,016	278,507	-	-	-	-	-	2,318	799	392,662	6,084,276	12,585,386
2.1 Totally secured	12,035,183	12,006,119	215,950	56,602	5,527,849	229,237	-	-	-	-	-	2,280	799	363,839	5,509,686	11,906,242
- of which non performing	*193,925*	*171,269*	*53,655*	*451*	*2,391*	*1,912*	-	-	-	-	-	*833*	*15*	*4,098*	*107,116*	*170,471*
2.2 Partially secured	1,158,258	1,155,678	5,140	116	21,167	49,270	-	-	-	-	-	38	-	28,823	574,590	679,144
- of which non performing	*34,721*	*33,829*	-	-	*1,832*	*1,420*	-	-	-	-	-	-	-	*217*	*22,014*	*25,483*

In addition to balance-sheet exposures to customers, the table shows the amount of off-balance-sheet exposures, including derivative contracts with customers, which are fully or partially secured. As regards personal guarantees, the economic segments to which guarantors and sellers of protection belong (in the case of unsecured loans and credit derivatives, respectively) are identified making reference to the classification criteria provided for in the brochure " classification of customers by segments and groups of economic activity" published by the Bank of Italy. Exposures are classified as either " totally secured" or " partially secured" by comparing the gross exposure with the amount of the guarantee established in the contract; for that purpose, any supplemental guarantees are also considered.

The fair value of collaterals estimated as at the balance sheet date is shown in the columns " Collaterals" and " Personal guarantees" or, if such information is not available, the contractual value is reported. Both values cannot be higher than the book value of secured exposures, in line with the 6th update of Bank of Italy Circular 262.

A.4 Prudential consolidation – Financial and non-financial assets obtained through enforcement of guarantees received

	Derecognised credit exposure	Gross Value	Impairment (losses)	Book value	
					of which: obtained during the year
A. Property, plant and equipment	43,058	42,778	18,954	23,825	-
A.1. Used in the business	-	-	-	-	-
A.2. Held for investments	41,448	41,329	18,820	22,510	-
A.3. Inventories	1,610	1,449	134	1,315	-
B. Equity instruments and Debt securities	224,391	36,286	6,700	29,586	*1,246*
C. Other assets	-	-	-	-	-
D. Non current assets and group of assets held for sale	2,209	2,209	2,209	-	-
D.1. Property, plant and equipment	-	-	-	-	-
D.2. Other assets	2,209	2,209	2,209	-	-
Total 31 12 2020	**269,658**	**81,273**	**27,863**	**53,411**	***1,246***
Total 31 12 2019	**43,691**	**41,667**	**15,291**	**26,375**	**8,004**

The "Financial and non-financial assets obtained through enforcement of guarantees received" shown in the table above include assets:

- purchased in judicial auctions of Real Estate Owned Companies (REOCOs) consolidated for prudential purposes;
- resulting from non-redemption of assets in leasing and termination of non-performing finance lease contracts contributed by the subsidiary MPS Leasing & Factoring S.p.A.;
- from the subsidiary MPS Capital Services S.p.A. following "acceptance in return".

As at 31 December 2020, the Parent Company held financial instruments with a book value of EUR 29.6 mln, classified in the accounting portfolio of "Financial assets mandatorily measured at fair value", which represent financial assets not previously granted by the debtor as collateral for pre-existing loans granted, but acquired as part of bilateral agreements with the same, as a result of which the Parent Company arranged for the derecognition of the related credit exposure. The inclusion of these financial instruments in the table, since 2020, is referenced in the update of the Finrep regulations effective 2020.

B. Breakdown and concentration of credit exposures

B.1 Prudential consolidation - Breakdown of balance sheet and off-balance sheet credit exposures to customers by business segment

Exposure/ Customers	Public entities		Financial companies		Financial companies: of which insurance companies		Non-financial companies		Families	
	Net exposure	Total impairment (losses)	Net exposure	Total impairment (losses)	Net exposure	Total impairment (losses)	Net exposure	Total impairment (losses)	Net exposure	Total impairment (losses)
A. Balance-sheet exposure										
A.1 Bad loans	68	55	859	23,969	-	-	366,972	762,157	197,194	166,232
- of which forborne	-	-	*88*	*4,451*	-	-	*59,030*	*100,218*	*63,898*	*33,168*
A.2 Unlikely to pay	155,666	121,750	6,176	9,000	-	-	954,343	624,480	424,305	143,364
- of which forborne	*82*	*67*	*4,049*	*4,944*	-	-	*498,598*	*311,241*	*151,372*	*43,735*
A.3 Past-due non-performing	2,917	573	101	81	-	-	20,849	5,924	30,699	14,445
- of which forborne	-	-	-	-	-	-	*2,078*	*616*	*3,262*	*1,858*
A.4 Other Performing exposures	18,192,039	16,687	13,158,259	5,388	76,945	-	33,896,881	424,393	34,711,261	161,735
- of which forborne	*7,089*	*118*	*39,932*	*154*	-	-	*791,356*	*92,818*	*615,492*	*31,491*
Total A	18,350,690	139,065	13,165,395	38,438	76,945	-	35,239,045	1,816,954	35,363,459	485,776
B. Off-balance-sheet exposures										
B.1 Non-performing loans	128,218	-	3,563	243	-	-	723,662	114,876	32,523	4,851
B.2 Performing loans	6,608,231	97	8,770,095	263	32,161	-	26,665,194	41,166	2,713,496	3,303
Total B	6,736,449	97	8,773,658	506	32,161	-	27,388,856	156,042	2,746,019	8,154
Total (A+B) 31 12 2020	25,087,139	139,162	21,939,053	38,944	109,106	-	62,627,901	1,972,996	38,109,478	493,930
Total (A+B) 31 12 2019	27,303,194	131,270	16,335,126	144,738	99,552	-	61,848,408	5,141,819	38,600,844	1,094,126

B.2 Prudential consolidation - Breakdown of on- and off-balance-sheet exposures to customers by geographic area

Exposure/Geographic Areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Total impairment (losses)	Net exposure	Total impairment (losses)	Net exposure	Total impairment (losses)	Net exposure	Total impairment (losses)	Net exposure	Total impairment (losses)
A. Balance-sheet exposures										
A.1 Bad loans	527,652	885,787	36,098	57,431	1,176	8,826	-	2	165	367
A.2 Unlikely to pay	1,470,252	877,808	24,039	8,146	28,729	3,295	17,465	9,338	5	8
A.3 Past-due non-performing	49,971	20,593	4,533	343	48	32	10	41	4	14
A.4 Other performing exposures	96,436,113	603,158	3,228,000	4,073	201,914	519	63,721	372	28,692	80
Total A	98,483,988	2,387,346	3,292,670	69,993	231,867	12,672	81,196	9,753	28,866	469
B. Off-balance-sheet exposures										
B.1 Non-performing loans	874,163	119,802	6,347	168	5,648	-	1,782	-	26	-
B.2 Performing loans	43,074,333	44,448	1,520,662	335	77,891	9	39,388	30	44,742	7
Total B	43,948,496	164,250	1,527,009	503	83,539	9	41,170	30	44,768	7
Total (A+B) 31 12 2020	142,432,484	2,551,596	4,819,679	70,496	315,406	12,681	122,366	9,783	73,634	476
Total (A+B) 31 12 2019	138,878,270	6,423,372	4,775,951	77,669	262,294	9,627	144,668	666	26,388	618

B.3 – Prudential consolidation - Breakdown of balance sheet and off-balance-sheet credit exposures to banks by geographic area (book value)

Exposures/Geographic Areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Total impairment (losses)	Net exposure	Total impairment (losses)	Net exposure	Total impairment (losses)	Net exposure	Total impairment (losses)	Net exposure	Total impairment (losses)
A. Balance-sheet exposures										
A.1 Bad loans	-	-	-	-	92	12,089	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Past-due non-performing	-	-	-	-	-	-	-	-	-	-
A.4 Other performing exposures	31,688,514	3,250	3,546,291	1,338	134,800	359	206,149	820	50,770	256
Total A	31,688,514	3,250	3,546,291	1,338	134,892	12,448	206,149	820	50,770	256
B. Off-balance-sheet exposures										
B.1 Non-performing loans	-	-	3,120	-	3,172	-	-	-	-	-
B.2 Performing loans	1,072,245	16	1,850,386	374	315,642	128	577,744	206	110,860	141
Total B	1,072,245	16	1,853,506	374	318,814	128	577,744	206	110,860	141
Total (A+B) 31 12 2020	32,760,759	3,266	5,399,797	1,712	453,706	12,576	783,893	1,026	161,630	397
Total (A+B) 31 12 2019	12,203,594	1,589	6,275,100	1,724	611,064	12,642	708,753	749	176,782	229

B.4 Large exposures

Item/Amount	31 12 2020	31 12 2019
a) Book value	93,444,237	64,476,300
b) Weighted value	3,666,974	4,016,330
c) Number	13	10

In accordance with current regulatory requirements, the number of large exposures shown in the table is determined taking into account unweighted "exposures" that exceed 10% of Eligible Capital, as defined in EU Regulation 575/2013 (CRR), where "exposures" are understood to be any asset and any off-balance sheet item (except for exposures expressly excluded by the CRR, which exposures deducted from own funds) to a customers, or group of connected customers, without the application of risk weights and conversion factors. These criteria lead to the inclusion in the Large Exposures balance sheet table even of entities that – although weighted at 0% – have an unweighted exposure equal to or exceeding 10% of capital eligible for exposure purposes.

The increase over the year for the "Book value" is mainly due to the positive change in the deposit held with the Central Bank and in transactions with Central Counterparties, assets both excluded from the weighted value as per CRR art. 400 (1) letters a) and j) respectively; the decrease in the "Weighted value" for 2020 compared to 2019 is essentially attributable to the reduction in deposits with bank counterparties.

C. Securitisation transactions

Qualitative Information

Structures, processes and goals

Law 130/99 "Provisions on the securitisation of receivables" introduced in the Italian legal system the possibility of carrying out, through specifically established Italian companies, so-called SPV - *Special Purpose Vehicle*, securitisation transactions that allow to "transform" illiquid financial assets, capable of generating cash flows, such as loans, in tradable assets, i.e. in bonds called *Asset Backed Securities* (ABS).

The structure of a securitisation envisages the sale of the *assets*, recorded in the financial statements of a party (called *Originator*), to the Special Purpose Vehicle, which, to finance the purchase, issues bonds then placed on the market, paying the amount collected back to the transferor. The return and repayment of the securities issued are dependent on the cash flows generated by the assets sold.

With reference to securitisation transactions, the Montepaschi Group operates both as *Originator* of own securitisations, and as investor, through the subscription of third-party securitisations. To date, the Group has not promoted any securitisation activities as a sponsor.

In the context of own securitisations, a distinction can be made between:

- securitisation transactions placed entirely or in part on the market and originated with the aim of achieving economic benefits regarding the optimisation of the loan portfolio, the diversification of funding sources, the reduction of their cost and the matching of natural maturities for assets with those for liabilities (strictly speaking securitisations). In this context, the Group currently has two securitisation transactions that substantially transfer all the risk and return of the portfolio sold (securitisations with *derecognition*) and two transactions without *derecognition*;
- Securitisation transactions in which the originator subscribes at the time of issue the set of liabilities issued that are aimed at diversifying and strengthening the available funding instruments, through the transformation of the transferred loans into securities that can be refinanced (self-securitisations). These transactions are part of the more general policy of strengthening the Group's liquidity position and, together with those in the *warehousing* phase, are not included in the disclosure of this section but in the "Liquidity risk" section.

The execution of securitisation transactions, keeping with the organisational model established at Group level for the governance and management of risks, is governed by specific internal regulations.

The Parent Company's Structural Liquidity Service establishes general practices and coordinates activities in relation to securitisation transactions. The criteria and rules for managing securitisation transactions are instead determined by the Credit Portfolio Governance Area.

More specifically, for the securitisation of performing loans, the Credit Servicing Service and the Securitised PE Portfolio, within the Credit Portfolio Governance Area, is responsible for managing aspects and obligations associated with servicing activities and for monitoring the performance of existing transactions through monthly and quarterly reports on collections of residual principal, positions in arrears and disputed positions arising from securitisation transactions. The same Service prepares the summary statements containing the data of the portfolio sold and, as part of critical situation management, it reports cases that may pose potential risks for noteholders to the relevant functions in the organisation.

For securitisations of non-performing loans, the servicing and debt collection performance control services are handled by market operators outside the Group.

Existing traditional securitisations, as they are carried out with consolidated SPVs, are described in paragraph "C.6 Prudential consolidation - Consolidated securitisation SPVs".

Synthetic securitisation transactions

In 2020, the Group carried out two synthetic securitisation *transactions*, completed in December 2020 and named "Siena 2020 - FEI transaction" and "Siena 2020 - RegCap-1".

A synthetic securitisation has the main objective of creating value and optimising the use of capital by freeing up regulatory and economic capital by reducing the level of credit *risk of the underlying portfolio (Significant Risk Transfer*). In general, it is envisaged, through the stipulation of guarantee contracts, the purchase of protection of the credit risk underlying a loan portfolio, of which the *Originator* retains full ownership and the relative *servicing* management.

Synthetic securitisations are therefore aimed at transferring the credit risk from the *originator* to an external counterparty. This transfer does not entail the *derecognition* of *assets* and, therefore, assets remain in the *Originator's financial statements*. The reference legislation for these *transactions is Regulation (EU) 575/2013 (Capital Requirements Regulation, "CRR"); it establishes, in art. 245, the conditions under which the Significant Risk* Transfer (SRT) criterion is met, i.e. the significant transfer of risk to third parties through real or personal credit protection. In particular, the SRT must be constantly monitored during the life of the transaction, in order to verify that the criteria envisaged by the regulations are respected. In compliance with art. 6 of EU Regulation 2017/2402 ("*Securitisation Regulation*"), the *Originator* must retain (*Retention*), on a continuing basis, a significant net economic interest in the securitisation of no less than 5%. In the structure of the transactions chosen by the Group, the *risk retention* obligation is satisfied by the *originator* through the maintenance of at least 5% of the nominal value of each of the securitised exposures pursuant to art. 5, paragraph 1, letter a) of EU Regulation 625/2014 (*Vertical slice or Vertical Retention*).

The transaction is structured with a *tranching* (normally *junior-J, mezzanine-M and senior*-S tranches) which is a function of the portfolio risk.

Lastly, as regards the accounting treatment, it should be noted that the aforementioned transactions were classified as financial guarantees; please refer to the paragraph "Other significant accounting treatments - Purchase of protection from credit risk through financial guarantee contracts" of Part A of these Notes to the consolidated financial statements for more details on the Group's accounting policies adopted in this regard.

Below is an illustrative table with the characteristics of the transactions.

Securitisation name	Securitistion Siena 2020 – FEI Transaction			Securitisation Siena 2020-RegCap-1	
1. Transaction characteristcs					
Type of operation	Synthetic securitisation			Synthetic securitisation	
Originator/Servicer/Arranger/Calculation agent	Banca Monte dei Paschi di Siena S.p.a.			Banca Monte dei Paschi di Siena S.p.a.	
Purpose of the operation	Credit risk hedging			Credit risk hedging	
Guarantee Provider	European Investment Fund "EIF"			Private Investor	
Type of securitised assets	Loans to SMEs			Loans to SMEs	
Quality of securitised assets	performing			performing	
Closing date	18/12/20			18/12/20	
Portfolio nominal value	1,564,825,141.04			1,858,581,288.77	
Retention rate (%)	5% of securitised loans			5% of securitised loans	
Guarantees received	Personal unfunded guarantee			Guarantee in the form of pledge on a term deposit	
Legal expiring date	31/01/2041			31/12/2046	
Early termination clauses	Regulatory Event, Time Call, Clean-up Call, Tax Event			Regulatory Event, Time Call, Clean-up Call, Tax Event	
Rating Agency	N.a.			N.a.	
2. Tranching value and conditions	Senior	Mezzanine	Junior	Senior	Junior
- Guaranteed portfolio at the closing date	1,389,955,931.53	55,746,895.65	40,881,056.81	1,642,052,224.33	123,600,000.00
- % of the portfolio guaranteed	93.50%	3.75%	2.75%	93.00%	7.00%
- Total guaranteed	-	55,746,895.65	20,440,528.40	-	123,600,000.00
- Not guaranteed portfolio at the reporting date	1,389,955,931.53	-	20,440,528.41	1,642,052,224.33	-
Breakdown of the securitised asset by geographical area					
- North Italy	52.66%			61.39%	
- Center	23.22%			25.19%	
- South and Islands	24.12%			13.42%	
Total	**100.00%**	**0.00%**	**0.00%**	**100.00%**	**0.00%**
Major clients of securitised portfolio					
- Corporate				63.55%	
- SME	100.00%			36.45%	
Total	**100.00%**	**0.00%**	**0.00%**	**100.00%**	**0.00%**

Lastly, it should be pointed out, with reference to "Siena 2020 – FEI *transaction*", that the transaction was carried out by participating in the "SME *Initiative Italy*" launched by the European Investment Fund (EIF). Given an initiative co-financed by the European Union, with the contribution of various Member States and by the EIF itself, its objective is to allow member banks to reduce RWAs generated by the portfolio and, at the same time, provide support to companies located in eight Southern regions, in Southern Italy (Abruzzo, Basilicata, Calabria, Campania, Molise, Puglia, Sardinia and Sicily), through the disbursement of loans under subsidised financial terms, giving them a benefit in terms of lower remuneration. Therefore, the Group will, within the next three years, disburse an additional portfolio of loans with respect to those guaranteed, under subsidised terms and allocated to SMEs located in the South of Italy.

Quantitative Information

C.1 - Prudential consolidation - Exposures arising from major own securitisation transactions broken down by type of securitised asset and type of exposure

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Quality of underlying assets/Exposures	Balance-sheet exposures						Guarantee issued						Lines of credit					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
A. Fully derecognised	1,891,407	(257)	45,661	(60)	40,909	(20,979)	-	-	-	-	-	-	-	-	-	-	-	-
Non-performing loans	1,891,407	(257)	45,661	(60)	7,053	(18,951)	-	-	-	-	-	-	-	-	-	-	-	-
Mortgages Loans	-	-	-	-	1,209	(2,049)	-	-	-	-	-	-	-	-	-	-	-	-
Shipping loans	-	-	-	-	32,647	21	-	-	-	-	-	-	-	-	-	-	-	-
B. Partially derecognised	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
C. Not derecognised	2,868,035	-	1,696,995	8	267,765	-	-	-	-	-	-	-	-	-	-	-	-	-
Residential mortgages	-	-	953,113	8	67,218	-	-	-	-	-	-	-	-	-	-	-	-	-
Corporate Loans	-	-	743,882	-	180,731	-	-	-	-	-	-	-	-	-	-	-	-	-
SMEs and Corporate mortgages (synthetic securitisation)	2,868,035	-	-	-	19,816	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	4,759,442	(257)	1,742,656	(52)	308,674	(20,979)	-	-	-	-	-	-	-	-	-	-	-	-
of which non-performing	*1,891,407*	*(257)*	*95,975*	*(60)*	*27,892*	*(19,068)*	-	-	-	-	-	-	-	-	-	-	-	-
Others	*2,868,035*	-	*1,646,681*	*8*	*280,782*	*(1,911)*	-	-	-	-	-	-	-	-	-	-	-	-

In relation to securitisation transactions with own underlying assets, the table indicates balance sheet exposures, unsecured exposures, and other forms of credit enhancement.

The table shows, for the two synthetic securitisations Siena 2020 FEI Transaction and Siena 2020 RegCap-1, the amount of risk retained for transactions not derecognised from the financial statements.

C.2 Prudential consolidation - Exposures arising from major ‘ third-party’ securitisation transactions broken down by type of securitised asset and type of exposure

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Type of securitised asset/Exposure	Balance-sheet exposures						Guarantees issued						Lines of credit					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Book value	Impairment (losses)/ reversals	Book value	Impairment (losses)/ reversals	Book value	Impairment (losses)/ reversals	Book value	Impairment (losses)/ reversals	Book value	Impairment (losses)/ reversals	Book value	Impairment (losses)/ reversals	Book value	Impairment (losses)/ reversals	Book value	Impairment (losses)/ reversals	Book value	Impairment (losses)/ reversals
Other assets	3,322	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Consumer credit	78,098	(259)	23,511	(122)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non performing loans	76,492	(1,879)	1,212	(54)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Shipping loans	-	-	-	-	41,086	38	-	-	-	-	-	-	-	-	-	-	-	-
First mortgages real estate loans	-	-	-	-	1,623	(2,087)	-	-	-	-	-	-	-	-	-	-	-	-
Residential mortgages	92,046	(90)	60,210	20	9,806	(75)	-	-	-	-	-	-	-	-	-	-	-	-
Non residential mortgages	31,934	(1,283)	17,299	(3,072)	3,747	(2,136)	-	-	-	-	-	-	-	-	-	-	-	-
Total	281,892	(3,510)	102,232	(3,228)	56,262	(4,260)	-	-	-	-	-	-	-	-	-	-	-	-

The table indicates the exposures assumed by the Group in relation to each third-party securitisation transaction, and also reports the contractual type of assets sold. The column “ Impairment (losses)/reversals” indicates the amount of any impairment (losses) and reverssals during the year as well as depreciations and revaluations posted to the income statement or directly to equity reserves, in the case of securities in the portfolio “ Financial assets measured at fair value through other comprehensive income” .

C.3 Prudential consolidation - Stakes in special purpose securitisation vehicles

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Securitisation/Vehicle company name	Registered office	Consolidation	Assets			Liabilities		
			Credit	Debt securities	Other	Senior	Mezzanine	Junior
2017 Popolare Bari RMBS S.r.l.	Via V.Alfieri, 1 Conegliano (TV)	NO	453,711	-	10,993	285,902	58,264	92,516
A-Best Fifteen S.r.l.	Via V.Alfieri, 1 Conegliano (TV)	NO	387,746	-	41,900	301,582	73,000	31,000
Argo Mortgage 2 S.r.l.	Via Cassa di Risparmio, 15 Genova	NO	38,289	-	-	-	7,414	29,350
Arrow CMBS 2018 - 1	3 George's Dock IFSC Dublin 1	NO	270,181	-	71	-	125,083	140,432
Aurorus 2020 BV	Prins Bernhardplein 200, Amsterdam (1097 MG)	NO	323,685	-	2,748	220,800	111,637	0
AutoFlorence 1 S.r.l.	Via V.Alfieri, 1 Conegliano (TV)	NO	819,686	-	-	696,733	94,264	28,689
Autonoria 2019	1 Boulevard Haussmann, 75009 Paris	NO	837,612	-	-	594,704	201,027	41,881
Belvedere SPV	Via Vittorio Betteloni 2, Milan	NO	2,400,847	-	11,322	272,935	70,000	95,000
Berica ABS 3 S.r.l.	Via Battaglione Framarin, 18 Vicenza	NO	293,250	-	9,293	10,744	93,900	115,012
BP Mortgages S.r.l.	Via Gustavo Fara 26, 20100 Milan	NO	113,575	-	16,979	8,421	25,300	47,100
Brignole CO 2019-1 S.r.l.	Canada Square, Canary Wharf London, E14 5LB	NO	272,282	-	6,404	223,456	42,100	3,820
Brignole CQ 2019-1 S.r.l.	Canada Square, Canary Wharf London, E14 5LB	NO	141,060	-	1,726	105,438	61,600	18,620
Cartesian Residential Mortgages 5 SA	6, Rue Eugène Ruppert, Luxembourg (L-2453)	NO	297,776	-	4,800	271,411	26,400	4,850
Civitas SPV S.r.l.	Via Senatore Guglielmo Pelizzo 8-1, 33043 Cividale del Friuli	NO	252,219	-	15,148	91,921	-	122,300
Deco 2019 - Vivaldi S.r.l.	Via Vittorio Betteloni 2, Milan	NO	222,230	-	-	122,000	81,000	19,230
Delft 2020 BV	Prins Bernhardplein 200, Amsterdam (1097 MG)	NO	225,917	-	3,450	88	500	205,951
Domi 2020-2 BV	Stadsplateau 10, 3521 AZ Utrecht, Netherland	NO	272,278	-	-	227,624	31,040	14,227
Dutch Property Finance 2020-2 BV	125 Old Broad Street, London EC2N 1AR	NO	322,594	-	-	268,939	46,311	16,254
E-Carat 10	1 Boulevard Haussmann, 75009 Paris	NO	790,193	-	-	700,111	82,180	15,756
Eridano II SPV	Via V.Alfieri, 1 Conegliano (TV)	NO	350,592	-	-	311,619	25,400	83,520
European Residential Loan Securisation 2019 - NPL1 DAC	125 Old Broad Street, London EC2N 1AR	NO	446,534	-	12,826	196,262	102,579	151,587
European Residential Loan Securitisation 2018 - 1 Dac	Canada Square, Canary Wharf London, E14 5LB	NO	297,175	-	464	37,947	41,948	95,478
Fastnet Securities 12 Dac	3 George's Dock IFSC Dublin 1	NO	279,064	-	-	178,840	52,000	62,200
F-E Mortgages S.r.l.	Piazzetta Monte, 1 Verona	NO	76,302	-	-	-	43,162	7,630
Fino 1 Securitisation S.r.l.	Viale Luigi Majno, 45 Milan	NO	506,000	-	13,852	250,296	69,640	50,311
Ft Santander Consumer Spain Auto 2020-1	c/Juan Ignacio Luca De Tena 13, 28027 Madrid	NO	498,009	-	5,200	426,920	66,410	4,680
Futura 2019	Via San Prospero 4, Milan	NO	1,256	-	7,110	136,328	37,000	8,000
Gedesco Trade Receivables 2020-1 DAC	C/Principe de Vergara, 131 planta 3°, 28002 Madrid	NO	247,509	-	-	208,188	60,000	15,000
Grand Canal Securities 2 Dac	Kilmore House, Park Lane Dublin 1	NO	405,248	-	4,171	134,364	67,809	218,839
Harmony French Home	3, Rue d'Antin, 75002 Paris	NO	670,025	-	6,700	574,500	46,900	48,600
Heliconus S.r.l.	Piazzetta Monte, 1 Verona	NO	37,858	-	-	-	27,457	-
InterMoney Titulizacion, SGTF, S.A.	C/Principe de Vergara, 131 planta 3°, 28002 Madrid	NO	156,142	-	11,100	150,000	-	31,000
Jepson Residential 2019 - 1 DAC	125 Old Broad Street, London EC2N 1AR	NO	580,100	-	6,185	307,741	217,500	65,185
Lanterna Finance (2015) S.r.l.	Via Cassa di Risparmio, 15 Genova	NO	213,855	-	12,566	165,563	-	-
Mars 2006 S.r.l.	Via V.Alfieri, 1 Conegliano (TV)	NO	137,432	-	-	38,748	-	-
Miravet S.à.r.l.	Rue Eugène Ruppert 6, L-2453 Luxembourg	NO	333,146	-	15,035	223,765	64,790	55,144
Mulcair Securities Designated Activity Company	28 Fitzwilliam Place, Dublin 2, D02 P282, Ireland	NO	317,585	-	-	172,204	98,100	41,500
Norma Spv S.r.l.	Via V.Alfieri, 1 Conegliano (TV)	NO	66,063	-	-	6,128	-	59,935
Pearl Finance 2020	3, Rue d'Antin, 75002 Paris	NO	318,600	-	-	158,500	128,100	32,000
Pepper Iberia Unsecured 2019 DAC	1-2 Victoria Building, Haddington Road, Dublin 4, D04 XN32 , Ireland	NO	195,392	-	3,665	166,900	42,500	14,000
Pietra Nera Uno S.r.l.	Via V.Alfieri, 1 Conegliano (TV)	NO	399,002	-	3,710	207,500	171,533	199,694
Sabadell Consumo 1 Fondo de Titulizacion	C/Lagasca 120 , 28006 Madrid	NO	598,801	-	63,795	581,169	86,348	42,723
Sestante Finance S.r.l.	Via M. Carucci 131, Rome	NO	257,097	-	2,786	130,077	89,502	8,610
Sestante Finance 1 S.r.l.	Via M. Carucci 131, Rome	NO	86,140	-	7,207	34,451	40,080	20,997
Sestante Finance 2 S.r.l.	Via G. Negri, 10 Milan	NO	152,067	-	1,495	57,916	50,648	6,253
Sharmrock Residential 2019 - 1 DAC	125 Old Broad Street, London EC2N 1AR	NO	325,368	-	3,728	184,968	119,700	28,610
Siena Mortagages 10-7 S.r.l.	Via V.Alfieri, 1 Conegliano (TV)	YES	1,180,709	-	61,740	357,630	817,600	67,218
Siena Npl 2018 S.r.l.	Via Piemonte, 38 Rome	NO	3,513,260	-	-	1,888,632	865,638	758,990
Siena PMI 2016 Serie 2 Srl	Via V.Alfieri, 1 Conegliano (TV)	YES	1,269,126	-	172,641	515,767	745,300	180,700
Silk Road Finance	5th Floor, Balloon Street ,Manchester,M60 4EP	NO	686,807	-	-	679,434	100,307	13,066
Sunrise SPV Z80 S.r.l.	Via Vittorio Betteloni 2, Milan	NO	1,103,459	-	27,586	749,678	298,100	66,300
Tagus Sociedade de Titularizacao de Creditos S.A.	Rua Castilho, 20 Lisbona	NO	564,297	-	4,838	495,219	150	5,000
Taurus 2018-1 IT S.r.l.	Via V.Alfieri, 1 Conegliano (TV)	NO	310,771	-	-	195,134	115,647	-
Total			25,315,925	-	573,233	14,325,198	5,922,868	3,484,758

Liabilities of third-party securitisation transactions do not highlight the further liability items different from the financial instruments issued, such as, for example, cumulative profit (loss) for the year.

C.4 Prudential consolidation - Non-consolidated special purpose securitisation vehicles

The table shows the interests held by the Group in non-consolidated securitisation vehicles used for transactions in which the Group is an originator or investor. The table below shows the assets, liabilities and any off-balance sheet exposures, non-revocable credit lines and financial guarantees (in the column "Difference between exposure to risk of loss and carrying amount").

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Balance-sheet item/Type of structured entity	Accounting portfolio: Assets			Total Assets (A)	Accounting portfolio: Liabilities		Total liabilities (B)	Net book Value (C=A-B)	Maximum exposure to loss (D)	Difference between exposure to loss and book value (E=D-C)
	Financial assets held for trading	Fiancial assets mandatorily measured at fair value	Financial assets measured at amortised cost		Financial Liabilities held for trading	Financial liabilities measured at amortised cost				
Own Securitisation vehicle (originator)	-	1,179,053	1,898,091	3,077,144	-	20	20	3,077,124	3,077,124	-
ABS issuing Vehicle company (Investor)	338,468	-	28,929	367,397	-	-	-	367,397	367,397	-
Total	338,468	1,179,053	1,927,020	3,444,541	-	20	20	3,444,521	3,444,521	-

In the role of investor, we note the interests, especially held by the subsidiary MPS Capital Services SpA, in securitisation vehicles of the Italian banking system of performing and non-performing residential mortgages as well as those in vehicles with underlying consumer loans.

The interests held by the Parent Company and by the subsidiary MPS Capital Services SpA, as *originator*, relate to the following vehicles:

- Norma SPV: on 1 July 2017, as part of a securitisation of non-performing loans, also originated by banks outside the Group, Banca MPS and MPS Capital Services completed the sale of a portfolio of non-performing loans issued in the real estate and shipping sectors, consisting of 19 loans for a total of EUR 284.9 mln, of which:

  - 12 loans disbursed by the Parent Company for EUR 24.0 mln in the real estate sector and EUR 145.3 mln in the shipping sector;
  - 7 loans disbursed by the subsidiary MPS Capital Services for EUR 28.8 mln in the real estate sector and USD 86.8 mln in the shipping sector.

  To fund the acquisition of this portfolio, on 21 July 2017 the Vehicle issued Class A1, B, C and D ABS securities (the "securities") for the real estate sector and Class A1, B, C1, C2 and D ABS securities for the shipping sector. The senior classes of both the real estate and shipping transactions were placed with institutional investors, while the mezzanine and junior classes were subscribed by each transferring bank in proportion with the transferred loans. In particular, the MPS Group subscribed the following classes:

  - *Real Estate*: Class B for a nominal amount of EUR 31.2 mln; Class C for a nominal amount of EUR 4.2 mln; Class D for a nominal amount of EUR 15.8 mln.
  - *Shipping*: Class B for a nominal amount of EUR 75.5 mln; Class C1 for a nominal amount of EUR 32.7 mln; Class C2 for a nominal amount of EUR 10.4 mln; Class D for a nominal amount of EUR 105.6 mln.

  During the first quarter of 2020, with the approval RBD Armatori SpA composition with creditors, the Group carried out the derecognition of the loans underlying the securitization and the recognition of the Notes issued by Norma SPV

  As at 31 December 2020, the nominal value of the classes subscribed by the MPS Group is as follows:

  - *Real Estate*: Class B EUR 10.6 mln; Class C EUR 4.2 mln; Class D EUR 15.8 mln.
  - *Shipping*: Class B EUR 70.6 mln; Class C1 EUR 30.6 mln; Class C2 EUR 9.7 mln; Class D EUR 98.9 mln.

- Siena NPL 2018 S.r.l. In 2017, the Parent Company, together with other Group companies, completed a securitisation transaction on a portfolio of bad loans. The portfolio was sold on 20 December 2017 to the vehicle Siena NPL 2018 S.r.l., established for this purpose. The SPV financed the purchase of the portfolio through the issue of *Senior A1, Senior A2, Mezzanine and Junior* class asset-backed securities with limited recourse, centralised in dematerialised form in Monte Titoli SpA and initially not listed on any regulated Italian market and/or abroad.

On 9 January 2018, the transfer of 95% of the mezzanine notes to Quaestio Capital SGR on behalf of the Italian Recovery Fund (formerly Fondo Atlante II) was completed. In May 2018, at the end of the rating assignment process, the senior notes were restructured into a single class, obtaining an investment grade rating from the 3 ratings agencies involved. The securities issued by the vehicle following the restructuring are therefore the following:

(i) Senior A notes for EUR 2,918 mln, initial rating A3/BBB+/BBB (Moody's/Scope Ratings/DBRS). The outstanding amount as at 31 December 2020 was EUR 1,888 mln. The rating as at 31 December 2020 is A3/BBB+/BB high (Moody's/Scope Ratings/DBRS);

(iii) Mezzanine B notes for EUR 847.6 mln, without rating and sold to the Italian Recovery Fund, for a portion of 95% of the issue. The outstanding amount as at 31 December 2020, due to the capitalisation of the interest, was about EUR 865 mln;

(iv) Junior notes for EUR 565.0 mln, without rating.

In June 2018, the sale of 95% of the junior notes made it possible to achieve, in addition to the sale of the mezzanine notes, the deconsolidation of the entire securitised portfolio. The remaining 5% of the junior and mezzanine notes was retained for the purpose of compliance with the "retention rule".

Lastly, in July 2018, the MEF granted, with its decree, the government guarantee (GACS) on the senior tranche of the securitisation. Obtainment of the GACS completed the entire securitisation process.

Maximum exposure to the risk of loss has been determined to be equal to book value.

C.5 Prudential consolidation - Servicer activities - own securitisations: collections of securitised loans and redemptions of securities issued by the special purpose vehicle

As at 31 December 2020, the Group does not carry out servicer activities in its own securitisation transactions in which the assets sold have been derecognised in the financial statements pursuant to IFRS 9.

C.6 Prudential consolidation - Consolidated special purpose securitisation vehicles

The Group carried out securitisation transactions chiefly to optimise its liquidity profile; besides placing the available securities on the market, they were used to perform refinancing transactions with the ECB and repurchase agreements with the market.

The paragraphs below describe the characteristics of the Group's securitisation transactions originated in previous years and ongoing as at 31 December 2020 for which issued securities were, at least in part, placed on the market, as well as the information on the nature of the risks associated with the interests in consolidated securitisation vehicles.

In view of these transactions, the Parent Company allocated reserves in support of the vehicles, should such funds be needed upon occurrence of certain events. As at 31 December 2020, these reserves amounted to EUR 126.3 mln.

Own securitisations without derecognition of the underlying assets

The "own" securitisation transactions without derecognition, outstanding at the date of these financial statements, are Siena Mortgages 10-7 and Siena PMI 2016 Series 2.

Siena Mortgages 10-7 S.r.l.

On 30 September 2010, a portfolio of 34,971 performing residential mortgages originated by the Parent Company was sold for the securitisation transaction to the vehicle Siena Mortgages 10-7 S.r.l., for approx. EUR 3,479.5 mln. As at 31 December 2020, the remaining debt balance on the portfolio amounted to EUR 1,210.9 mln (16,073 outstanding mortgages).

To finance the acquisition of this portfolio, the Vehicle issued ABS notes in the classes hereinafter indicated (in parenthesis the rating attributed by the Fitch and DBRS agencies as at 31 December 2020):

(i) Class A1 notes for a nominal amount of EUR 595.0 mln, repaid in full

(ii) Class A2 notes for a nominal amount of EUR 400.0 mln, repaid in full

(iii) Class A3 notes (AA-/Aa3) for a nominal amount of EUR 1,666.9 mln, of which EUR 1,309.3 mln were redeemed;

(iv) Class B notes (NR/Ba3) for a nominal amount of EUR 817.6 mln;

(v) Class C notes (NR/NR) for a nominal amount of EUR 106.6 mln, repaid for EUR 39.4 mln.

A cash reserve of EUR 104.4 mln was established through the issue of Class C notes, the amount of which is equal to the target value as at 31 December 2020, i.e. EUR 104.4 mln.

Class A1 and A2 notes - now fully repaid - were sold on the market, whereas the remaining classes of notes issued were initially underwritten by the Group which subsequently also sold on the market the notes of Class A3 (as at 31 December 2020, a minimum share of class A3 notes was repurchased on the market by the subsidiary MPS Capital Service S.p.A.). Market placement of these classes did not entail the derecognition of the underlying assets from the balance sheet of the Parent Company (transferor), which has substantially retained all risks and rewards associated with the ownership of the assets sold.

Siena PMI 2016 Serie 2 S.r.l.

In 2019, the Group finalised, through the vehicle called Siena PMI 2016 S.r.l., a securitisation transaction of a portfolio of performing loan agreements granted to Italian small to medium sized enterprises, in the amount of EUR 2,258.4 mln for a total of 21,595 loan agreements. As at 31 December 2020, the remaining debt was EUR 1,285.3 mln, for a total of 15,698 loan agreements.

Following the acquisition of the portfolio, which occurred on 12 April 2019, the Vehicle issued, on 19 June 2019, ABS notes in the classes hereinafter indicated (in parenthesis the rating attributed by the Fitch and DBRS agencies as at 31 December 2020):

- Class A1 notes for a nominal amount of EUR 519.4 mln, repaid in full;
- Class A2 notes (AA- and AAA) for a nominal amount of EUR 813.0 mln, repaid for EUR 297.2 mln;
- Class B notes (AA- and AA) for a nominal amount of EUR 225.8 mln;
- Class C notes (BB+ and BBBL) for a nominal amount of EUR 271.0 mln;
- Class D notes (CCC and C) for a nominal amount of EUR 248.5 mln;
- Class J notes (not rated) for a nominal amount of EUR 180.7 mln.

The Class A2 notes were placed with institutional investors for a total of EUR 720 mln; the remaining senior notes, together with the mezzanine and junior notes, were instead underwritten by the Parent Company that can dispose them with the next sale on the market or can use them as collaterals for loan transactions.

The partial sale of the notes of Class A2 on the market did not entail the derecognition of the underlying assets from the balance sheet of the Parent Company (transferor), which has substantially retained all risks and rewards associated with the ownership of the assets sold.

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For all securitisations specified above, during the period under review the Parent Company and its subsidiaries have not provided any financial or other support without being obliged under the contract. There are also no cases of financial or other support to a previously non-consolidated structured entity as a result of which the structured entity was controlled by the Group.

The Group does not intend to provide financial or other support to consolidated securitisation vehicles, nor to assist entities in obtaining financial support.

D. Transfers

A. Financial assets sold and not fully derecognised

Qualitative Information

As at 31 December 2020, the MPS Group was processing a sale of a multi-originator type of a portfolio of loans classified as "unlikely to pay", finalised in September 2019, issued to industrial and service companies located in Italy and with a turnover not under EUR 50 mln, to a Fund - managed by Clessidra SGR S.p.A. The price settlement was determined by offsetting the loan owed by the Fund with the concurrent underwriting of freed up units of the Fund.

As at the sale date, the portfolio consisted of loans payable to the MPS Group and other banking groups by 13 target companies (for the MPS Group, 8 debtors) for a gross total exposure of approx EUR 274 mln (for the MPS Group, EUR 102 mln - of which EUR 91.2 mln referring to the Parent Company and EUR 10.7 mln to the subsidiary MPS Capital Services S.p.A.) at a total price of EUR 196 mln (for the MPS Group, about EUR 78 mln equal to a percentage ownership of 39.8%). The net book value of the loans as at the sale date for the MPS Group was EUR 71 mln.

The Fund was established for the purpose of improving the performance for the recovery of the loans acquired, thanks to the value increase of the target companies through:

- inputs of a managerial nature, made possible through the substantial addition of the Fund to the net financial positions of the companies and to any conversion of the acquired loans into equity instrument of the same companies;
- contribution of financial resources instrumental for a better industrial and financial turnaround process.

The Fund has issued four categories of units with different economic rights:

- units A reserved to the transferring banks;
- units B and C intended for two categories of institutional investors who contribute a "new finance";
- units D reserved to the Fund management team.

As indicated above, units A underwritten by the MPS Group were 39.8% of the total and represent, in terms of credit risk, a very significant exposure with respect to the transferred loans. Given the high percentage of retention of risks/benefits related to the transaction, the Group did not derecognise the sold loans which therefore continue to be fully recorded under assets in the Group's financial statements and the UCIT units of the Fund were consequently not recognised.

Quantitative Information

D.1 Prudential consolidation - Financial assets sold and fully recognised and associated financial liabilities: book values

	Financial assets sold and fully recognised				Associated financial liabilities		
	Book value	of which: subject to securitization transactions	of which: subject to repurchase agreement	of which: non-performing	Book value	of which: subject to securitization transactions	of which: subject to repurchase agreement
Fiancial assets held for trading	4,005,759	-	4,005,759	X	3,992,219	-	3,992,219
1. Debt securities	4,005,759	-	4,005,759	X	3,992,219	-	3,992,219
2. Equity instruments	-	-	-	X	-	-	-
3. Loans	-	-	-	X	-	-	-
4. Derivatives	-	-	-	X	-	-	-
Financial assets mandatorily measured at fair value	15	15	-	15	-	-	-
1. Debt securities	-	-	-	-	-	-	-
2. Equity instruments	-	-	-	X	-	-	-
3. Loans	15	15	-	15	-	-	-
Financial assets designated at fair value	-	-	-	-	-	-	-
1. Debt securities	-	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-
Financial assets measured at fair value through other comprehensive income	104,515	-	104,515	-	86,068	-	86,068
1. Debt securities	104,515	-	104,515	-	86,068	-	86,068
2. Equity instruments	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
Fiancial assets measured at amortised cost	4,211,245	2,449,820	1,693,136	133,069	2,135,482	795,544	1,339,937
1. Debt securities	1,693,136	-	1,693,136	-	1,339,937	-	1,339,937
2. Loans	2,518,109	2,449,820	-	133,069	795,544	795,544	-
Total 31 12 2020	**8,321,534**	**2,449,835**	**5,803,410**	**133,084**	**6,213,769**	**795,544**	**5,418,224**
Total 31 12 2019	**10,436,575**	**3,294,831**	**7,070,318**	**295,397**	**4,964,014**	**1,349,950**	**3,614,064**

The net book value of loans classified as "unlikely to pay" that were sold in exchange with units of the Fund managed by Clessidra SGR S.p.A., and were not subject to derecognition, amounted, as at the reporting date of these financial statements, to EUR 68.2 mln (EUR 71.4 mln as at 31 December 2019) and are included under item "Financial assets measured at amortised cost" on line 2 Loans.

D.2 Prudential consolidation - Financial assets sold and partially recognised and associated financial liabilities: book values

This table was not created as the Group did not have any financial assets sold and partially recognised in the current year or previous year.

D.3. Prudential consolidation - Sales transactions relating to financial liabilities with repayment exclusively based on assets sold and not fully derecognised: fair value

	Fully recognised	Partially recognised	Total	
			31 12 2020	31 12 2019
Fiancial assets held for trading	-	-	-	-
1. Debt securities	-	-	-	-
2. Equity instruments	-	-	-	-
3. Loans	-	-	-	-
4. Derivatives	-	-	-	-
Financial assets mandatorily measured at fair value	15	-	15	97,828
1. Debt securities	-	-	-	-
2. Equity instruments	-	-	-	-
3. Loans	15	-	15	97,828
Financial assets designated at fair value	-	-	-	-
1. Debt securities	-	-	-	-
2. Loans	-	-	-	-
Financial assets measured at fair value through other comprehensive income	-	-	-	-
1. Debt securities	-	-	-	-
2. Equity instruments	-	-	-	-
3. Loans	-	-	-	-
Fiancial assets measured at amortised cost	2,706,578	-	2,706,578	3,403,413
1. Debt securities	-	-	-	-
2. Loans	2,706,578	-	2,706,578	3,403,413
Total financial assets	2,706,593	-	2,706,593	3,501,241
Total associated financial liabilities	795,544	-	795,544	1,349,950
Net value 31 12 2020	**1,911,049**	**-**	**1,911,049**	**X**
Net value 31 12 2019	**2,151,291**	**-**	**X**	**2,151,291**

Note that all amounts reported in the item “Financial assets measured at amortised cost - Loans” refer exclusively to the fair value of loans sold with own securitisations without derecognition, which continue to be fully recognised in the Group’s balance sheet assets. The amount of EUR 795.5 mln reported under associated liabilities refers to the fair value of the portion of senior notes sold to market counterparties as part of the same securitisation. The Group recognised a liability with the notes-issuing vehicles as an offsetting entry for the cash flows arising from these disposals. Against this liability, the creditor’s entitlement to repayment is limited to cash flows arising from the assets underlying senior notes sold.

D.4. Prudential Consolidation - Financial assets sold and fully derecognised

Following are multi-originator sales, regarding loan portfolios, to a mutual investment fund with the attribution of the related units to the originator intermediaries. The transactions outlined below led to the *derecognition* of the receivables sold pursuant to IFRS 9 ("derecognition"), as the Group did not substantially retain the risks and rewards of the transferred assets and also did not retain any substantial control over these assets, which were instead assumed by the fund management company (hereinafter also SGR). In particular, the risks and benefits that the Group could achieve from the units held in exchange for the contribution of receivables, are not anchored in the an, nor the *quantum* or the timing, to events affecting the assigned loans, given that the economic and financial trends related to individual receivables will not automatically and directly affect the returns of individual shareholders, which will instead depend on the general performance of the fund managed by the SGR.

Qualitative and quantitative Information

Efesto Fund

In November 2020, the MPS Group finalised a sale of a multi-originator type of a portfolio of loans classified as "unlikely to pay", issued to industrial and service companies located in Italy and with an average turnover of EUR 20 mln in the last 3 years, to a Fund - managed by Finanziaria Internazionale Investments S.G.R. S.p.A. The price settlement was determined by offsetting the loan owed by the Fund with the concurrent underwriting of freed up units of the Fund.

As at the sale date, the portfolio consisted of loans payable to the MPS Group and other banking groups by 51 target companies (for the MPS Group, 11 debtors) for a total gross exposure of EUR 432.5 mln (for the MPS Group, EUR 126.2 mln - of which 57% secured - for EUR 66.7 mln referring to the Parent Company and EUR 59.5 mln to the subsidiary MPS Capital Services S.p.A.) at a total price of EUR 197.2 mln (for the MPS Group, about EUR 55.8 mln). The net book value of the loans as at the sale date for the MPS Group was EUR 53.3 mln.

As at 31 December 2020, the sold loans were fully derecognised from the assets in the financial statements of the Group, and units in the amount of EUR 50.9 mln, of which EUR 28.3 mln by the Parent Company and EUR 22.6 mln by the subsidiary MPS Capital Services S.p.A., were recognised, equal to a participation to the fund of approx. 28.3%. For more information on the criteria for determining the units fair value, please refer to Part A of these Notes to the Consolidated financial statements.

Back2Bonis Fund

On 27 December 2019, the MPS Group, UBI Banca and Banco BPM finalised with AMCO and the Prelios Group a transaction named Cuvée which provided for the creation of a multioriginator platform to manage UTP (Unlikely to pay) loans, from EUR 3 mln to EUR 30 mln, issued to companies of the real estate sector that are in a restructuring phase or in financial difficulties.

In detail, the transaction consisted of the following steps:

a) sale of all UTP loans by the banks to a securitisation company established pursuant to Law no. 130/1999 (SPV 130), not a subsidiary of AMCO; with the disposal of the loans, each assignor bank acquired a credit from SPV 130 equal to the sale price;
b) sale by the assignor banks to AMCO of the contractual relationships underlying the loans being sold to the SPV 130, which provide for residual commitments to disburse funds (case not applicable to the first phase for the MPS Group);
c) contribution/sale to the Fund of the loan owed to the assignor banks by SPV 130 for the sale transaction described in point a). The assignor banks, following the contribution/sale, received from the Fund an amount equal to the sale price;
d) subsequent issuance by the SPV 130 of untranched notes, fully subscribed by the Fund.

Within the scope of this complex transaction, AMCO took a role as Master and Special Servicer of the securitisation and the Prelios Group the role as Real Estate partner as well as manager of the Fund through Prelios SGR. The partnership enabled to combine financial management skills with specific skills in the real estate sector, creating synergies and greater possibilities for credit collection. Furthermore, it is envisaged that the fund will be able to disburse new financing to assist the companies in achieving a turnaround as well as to complete attractive real estate projects.

The first step of this transaction was completed in December 2019 when the positions of 46 debtors were transferred to the Fund (for the MPS Group, 7 debtors) for a total of about EUR 453 mln (of which EUR 111

mln for the MPS Group) at a price of about EUR 242 mln (EUR 43 mln for the MPS Group). The assignor banks received as payment for the sale units of the Fund; the MPS Group totally holds 17.7% of this Fund.

As at 31 December 2019, the sold loans were fully derecognised from the assets in the financial statements of the Group, and units in the amount of EUR 32.3 mln, of which EUR 16.3 mln by the Parent Company and EUR 16.0 mln by the subsidiary MPS Capital Services S.p.A., were recognised.

As at 31 December 2020, the Group held approximately 9.2% of the Fund's units for a book value of EUR 31.6 mln. The reduction in % ownership is mainly due to new contributions made to the Fund by shareholders other than the Group. For further details on the determination of the fair value of the units, please refer to Part A of these Notes to the consolidated financial statements.

Idea I and Idea II Fund

In 2016 and 2017, the Group carried out two multioriginator sale transactions concerning loan portfolios (with full derecognition in the financial statements) to a mutual investment fund, with attribution of the related units to the assignor intermediaries. This refers to a project of Idea Capital Fund S.g.r., a management company that has established two multi-segment mutual investment funds called Fondo Idea CCR I (2016) and Fondo Idea CCR II (2017). These funds are closed-end real estate funds reserved to qualified investors and their purpose is to maximise the recovery rate of acquired non-performing loans and of new loans granted through the business and financial restructuring of medium sized companies.

As for Fondo Idea CCR I, the Group gave 6 positions to the Fund for a total of EUR 20.0 mln (total Fund Eur 217.0 ln) for a price of EUR 14.3 mln. The net book value of the loans as at the sale date for the MPS Group was EUR 9.2 mln. The pool of assignor banks received, as payment for the sale, units of Fondo Idea CCR I of which the MPS Group holds 8.1%.

As for Fondo Idea CCR II, the Group gave 5 positions to the Fund for a total of EUR 51.5 mln (total Fund Eur 328.9 mln) for a price of EUR 32.7 mln. The net book value of the loans as at the sale date for the MPS Group was EUR 29.8 mln. The pool of assignor banks received, as payment for the sale, units of Fondo Idea CCR II of which the MPS Group holds 14.1%.

As at 31 December 2020, the Group holds 6.4% and 7.0% of the units of segment A of the Idea CCR I Fund and A segment of the Idea CCR II Fund. The reduction in percentage ownership is mainly due to new contributions made to the Fund by unitholders other than the Group. The book value of these units of Funds are equal to, respectively EUR 4.9 mln and EUR 19.9 mln. For more information on the criteria for determining the units fair value, please refer to Part A of these Notes to the consolidated financial statements.

B. Financial assets sold and fully derecognised with assessment of continuing involvement

Qualitative Information

Quantitative Information

None to report as at 31 December 2020.

D.4 Prudential consolidation – Covered bond transactions

Characteristics of the Covered Bond Issuance Programmes

The Group has two Covered Bond Issuance Programmes.

The first Programme, meant for institutional investors, was launched in 2010 for an amount of EUR 10,000 mln. The programme is intended to place a secured product on the market, offering covered bonds as a preferred instrument for financial profile improvement in the mid and long term. In light of the developments in the financial markets, the Programme should be considered as part of a wider strategy, aimed at:

- curbing the costs of funding: covered bonds are widely preferred, inasmuch as they are issued directly by the Bank and their repayment is also guaranteed by a segregated pool of assets (in this case, residential mortgage loans); in the event of issuer bankruptcy, covered bond holders enjoy a right of recourse on a portfolio of segregated high-quality assets and are, therefore, willing to accept a lower yield than the one offered by similar uncovered bonds;
- diversifying the Bank's funding sources on the international market;
- lengthening its average debt maturity profile.

On 26 June 2015, the First Programme's meeting of the covered bond holders approved the proposed amendments in order to:

- amend the Programme, to obtain a rating from DBRS (in addition to Moody's and Fitch) for the covered bonds issued and to be issued as part of the Programme; and
- activate, if specific cases of default take place pursuant to the Programme, a "conditional pass through" type mechanism for the repayment of the bonds issued.

At the time of the annual renewal of the Programme, on 23 December 2017, its maximum amount was increased from EUR 10,000 mln to EUR 20,000 mln.

With a view to strengthen the Group's Counterbalancing Capacity, in 2012 a second Covered Bond Issuance Programme was authorised, collateralised by separate assets consisting of residential and commercial mortgage loans for a maximum of EUR 20,000 mln. The programme is not intended for the market but for instruments eligible as collateral in refinancing transactions through the European Central Bank. The programme, which did not have an explicit rating at its launch, was rated by DBRS in 2013.

The structure of the Group's Covered Bond programmes requires fulfilment of the following activities:

a) the Parent Company or another Group company transfers, without recourse, a pool of assets, consisting of appropriate assets (real-estate backed, residential and commercial mortgage loans), to the vehicles MPS Covered Bond S.r.l. and MPS Covered Bond 2 S.r.l., thereby forming a segregated cover pool;

b) the Transferor grants a subordinated loan to the vehicle, for the purpose of financing payment of the assets' purchase price by the vehicle;

c) the Parent Company issues Covered Bonds secured by an autonomous, irrevocable and unconditional first-demand guarantee issued by the vehicle for the only benefit of the bond-holding investors and senior creditors in the Programme (the guarantee involves limited recourse to the assets of the Cover Pool owned by the vehicle, which acts as Guarantor).

Accounting treatment

Pursuant to IFRS 9, the derecognition of a financial instrument from the balance sheet of the transferor is determined on the basis of the substance of the contract, not its legal form.

Having said this, the deal is recognised as follows:

- transferred mortgage loans continue to be reported in the Parent Company's balance sheet under item 40b) of assets "Financial assets measured at amortised cost: loans to customers", sub-item "Mortgages", inasmuch as the Parent Company retains the risks and rewards of ownership of the loans transferred;
- the loan disbursed by the Parent Company to the Vehicle is not classified as a separate item in the balance sheet, since it is offset with the amount due to the Vehicle linked to the initial transfer price. The loan, therefore, is not subject to credit risk assessment, because this risk is entirely reflected in the assessment of transferred mortgage loans, which continue to be reported in the Parent Company's balance sheet.
- mortgage loans are subject to movements based on own events (figures and assessment); instalments collected by the Parent Company (which also acts as a servicer) are reallocated daily to the Vehicle's "Collection Account" and accounted for by the Parent Company as follows:
    - collection of principal from borrower is recognised as an offsetting entry to the reduction in the loan to the borrower;
    - reallocation of principal to the Vehicle is recognised as an offsetting entry to the recognition of a loan to the Vehicle;
    - this loan is paid off upon repayment of the subordinated loan;
    - interest from the borrower is recognised as an offsetting entry to Item 10 of the Income Statement "Interest income: loans to customers" (interest on mortgage loans continues to be recognised on an accrual basis);
    - reallocation of interest to the Vehicle is recognised as an offsetting entry to the recognition of a loan to the Vehicle;
    - this loan is paid off upon collection of interest on the subordinated loan.
- the vehicles "MPS Covered Bond S.r.l." and "MPS Covered Bond 2 S.r.l." are invested in by the Parent Company for a control stake of 90%, recognised under Item 70 "Equity Investments" and included in the Group's consolidated financial statements under the comprehensive approach;
- bonds issued are posted to Item 10c) "Financial liabilities measured at amortised cost: debt securities issued" on the liabilities side, and related interest expense is recognised on an accrual basis.

In consideration of the characteristics and accounting treatment of the deal, the swaps associated with the transaction are not recognised in the balance sheet, since their recognition would entail, pursuant to par. B3.2.14 of IFRS 9, a duplication of rights and obligations already recognised due to mortgage loans transferred being maintained on the balance sheet.

Risks and Control Measures

In order to allow the transferee to meet the obligations of the collateral pledged, the Parent Company uses appropriate Asset & Liability Management techniques to secure a trend of substantial balance between the maturities of cash flows arising from the assets sold and maturities of payments due in relation with the covered bonds issued and other costs of the transaction.

The Programmes were structured in compliance with applicable rules and regulations which authorise the issuance of covered bonds only if the transferring and issuing banks meet certain capital requirements.

The structure of the debt issuance programmes of the Parent Company (in the role of transferor and servicer) is subject to stringent regulatory requirements and calls for continuous actions for each transaction by the Credit Portfolio Governance; Finance, Treasury & Capital Management and Lending Risk Officer Areas, as well as supervision by the Credit Audit Service and an external auditor (Deloitte & Touche) as Asset Monitor. In particular, these actions include:

- assessment of capital requirements mandated by Supervisory Instructions when it comes to covered bond issuance programmes;

- assessment of the quality and integrity of assets transferred with regard, in particular, to the estimated value of properties, both residential and commercial, on which a mortgage in relation with the asset-backed loans is placed; this assessment may result in repurchases, integrations and additional transfers of supplemental assets;
- assessment of an appropriate ratio being maintained between bonds issued and assets transferred as collateral (Cover Pool - mortgage and residential assets for the first programme and residential and commercial assets for the second programme);
- assessment of transfer limits and integration practices;
- assessment on whether risks are effectively and adequately hedged by derivative contracts in relation to the transaction.

In the course of 2013, the mitigation strategy for interest rate risk on the first Programme was restructured in order to minimise the Vehicle's exposure to market counterparties. In particular, the newly-defined strategy aims to only cover the Vehicle's net exposure to interest rate risk, as opposed to the nominal amount. At the same time, the outsourcing of some Covered Bond Swaps outstanding with market counterparties was carried out.

The paragraphs below provide information on the nature of the risks associated with the interest in the MPS Covered Bond S.r.l. vehicle, whose assets are pledged as collateral of bond issues of the Parent Company partly placed with the market.

In particular, the terms of the agreements that could require the Group to provide financial support to the vehicle MPS Covered Bond S.r.l. are as follows:

- the Parent Company undertakes, in accordance with the programme's terms, to ensure compliance over time with the regulatory and contractual tests determined according to the methodologies set by the rating agencies from time to time;
- if the Parent Company's rating is below "BBB (low)" (DBRS), "BBB-" (Fitch) and "Baa3" (Moody's), the repayment of each subordinated loan will be delayed by 6 months after the original expiry (unless early loan repayment is necessary to allow for compliance with the maximum limit of cash that may be accumulated by the Vehicle, established by regulation as 15% of the total of the cover pool, to the extent to which it is not possible for the Vehicle to acquire new suitable assets to replace cash, pursuant to the Framework Transfer Agreement);
- in accordance with the Master Definition Agreement, the Parent Company shall allocate and change the amount of the variable liquidity reserve according to criteria agreed upon with the rating agencies.

As concerns the second programme, the terms of the agreements that could require the Group to provide financial support to the vehicle MPS Covered Bond 2 S.r.l. are as follows:

- the Parent Company undertakes, in accordance with the programme's terms, to ensure compliance over time with the regulatory and contractual tests determined according to the methodologies set by the rating agency from time to time;
- in accordance with the Master Definition Agreement, the Parent Company shall allocate and change the amount of the variable liquidity reserve according to criteria agreed upon with the rating agency.

During the period under review the Parent Company and its subsidiaries have not provided any financial or other support without being obliged under the contract.

There are no cases of financial or other support to a previously non-consolidated structured entity as a result of which the structured entity was controlled by the Group.

The Group does not intend to provide financial or other support to the vehicle, nor to assist the entity in obtaining financial support.

Description of individual disposals and issuances

In the context of the first Programme, 15 June 2020 saw the disposal of a portfolio of 13,107 performing residential mortgages, with no outstanding instalments at the date of portfolio valuation as well as meeting identified selection criteria, substantially comparable to those used for previous disposals, for an amount of EUR 1,433.1 mln.

Here follows a summary of the main characteristics regarding transfers in the First Programme:

Cover Pool transfer date	Type of securitsed assets	Transferor	Total value of asset tranferred (in units of euros)	no. of mortagage loans transferred	Breakdown of transferred debtors by business sectors
25/05/10	Residential mortage loans	MPS Bank	4,413,282,561	36,711	100% natural persons
19/11/10	Residential mortage loans	MPS Bank	2,400,343,584	19,058	100% natural persons
25/02/11	Residential mortage loans	MPS Bank	3,887,509,799	40,627	100% natural persons
25/05/11	Residential mortage loans	MPS Bank (ex Antonveneta Bank)	2,343,824,924	26,804	100% natural persons
16/09/11	Residential mortage loans	MPS Bank	2,323,368,355	27,973	100% natural persons
14/06/13	Residential mortage loans	MPS Bank	415,948,266	4,259	100% natural persons
18/09/15	Residential mortage loans	MPS Bank	1,529,531,983	15,080	100% natural persons
31/10/16	Residential mortage loans	MPS Bank	775,933,585	7,630	100% natural persons
22/12/16	Residential mortage loans	MPS Bank	237,758,336	1,903	100% natural persons
03/05/18	Residential mortage loans	MPS Bank	1,311,870,107	12,401	100% natural persons
27/02/19	Residential mortage loans	MPS Bank	1,809,753,193	16,880	100% natural persons
16/10/19	Residential mortage loans	MPS Bank	1,262,890,758	12,008	100% natural persons
15/06/20	Residential mortage loans	MPS Bank	1,433,158,855	13,107	100% natural persons
Total			**24,145,174,305**	**234,441**	

The remaining debt balance on the portfolio as at 31 December 2020 amounted to EUR 11,884.9 mln for 147,923 mortgage loans.

As part of the first Programme, the Parent Company completed a total of thirty[43] issuances, twelve of which had not yet matured or been repaid early for a nominal amount, as at 31 December 2020, of EUR 8,200.0 mln, of which EUR 6,265.5 mln are on the market, while EUR 1,934.5 mln are held by the Parent Company and by the subsidiaries MPS Capital Services Banca per le Imprese S.p.A and Monte Paschi Banque S.A..

In 2020 no securities were issued as part of the first Programme.

As part of the second Programme, on 21 February 2020 a portfolio for a total of 8,625 performing residential and commercial mortgage loans was sold, with no outstanding payments at the date of portfolio valuation, as well as meeting selection criteria substantially comparable to those used for previous disposals, for a total amount of EUR 1,034.5 mln.

[43] In this number of Issuance are included no. 3 registered covered bond.

Here follows a summary of the main characteristics regarding transfers in the Second Programme:

Cover Pool transfer date	Type of securitsed assets	Transferor	Total value of asset tranferred (in units of euros)	no. of mortagage loans transferred	Breakdown of transferred debtors by business sectors
30/04/12	Residential mortgage loans	MPS Bank	2,384,995,478	27,047	100% natural persons
26/06/12	Residential and commercial mortgage loans	MPS Bank	2,478,270,455	13,993	Mixed
28/08/12	Residential and commercial mortgage loans	MPS Bank	1,401,965,498	17,353	Mixed
24/09/12	Residential and commercial mortgage loans	MPS Bank	2,473,677,574	9,870	Mixed
18/02/13	Residential and commercial mortgage loans	MPS Bank	1,286,740,404	9,033	Mixed
24/06/13	Residential and commercial mortgage loans	MPS Bank	2,147,692,217	12,771	Mixed
25/03/14	Residential and commercial mortgage loans	MPS Bank	1,464,170,335	5,645	Mixed
20/10/15	Residential and commercial mortgage loans	MPS Bank	977,548,353	5,671	Mixed
18/07/16	Residential and commercial mortgage loans	MPS Bank	2,010,907,195	24,162	Mixed
26/08/16	Residential and commercial mortgage loans	MPS Bank	813,253,156	7,211	Mixed
24/03/17	Residential and commercial mortgage loans	MPS Bank	789,153,182	5,799	Mixed
08/05/18	Residential and commercial mortgage loans	MPS Bank	685,537,103	4,718	Mixed
09/11/18	Residential and commercial mortgage loans	MPS Bank	470,369,358	3,002	Mixed
27/09/19	Residential and commercial mortgage loans	MPS Bank	727,237,065	4,549	Mixed
21/02/20	Residential and commercial mortgage loans	MPS Bank	1,034,517,196	8,625	Mixed
Total			**21,146,034,570**	**159,449**	

The remaining debt balance on the portfolio as at 31 December 2020 amounted to EUR 8,579.3 mln for 90,231 mortgage loans.

As part of the second programme, the Parent Company completed thirty-nine issuances, of which fourteen not yet matured or redeemed early, which were not intended for the market but repurchased by the Parent Company and used as collateral for refinancing transactions in the Eurosystem, for a total as at 31 December 2020 of EUR 7,650.0 mln.

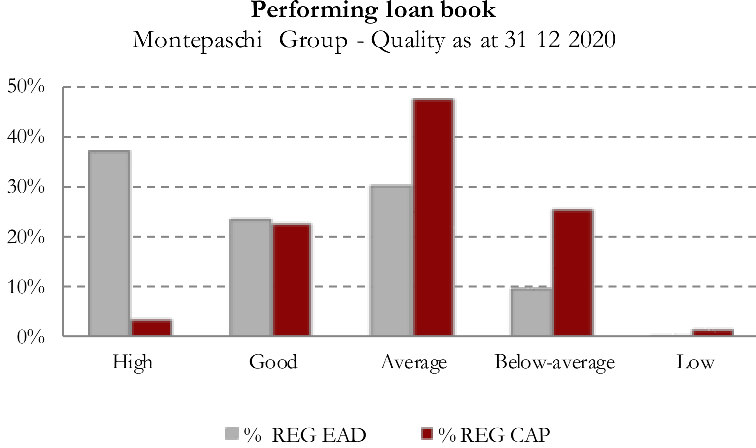
As part of the second Covered Bond Programme, the following issues were made in 2020:

Date of issue	Notional Amount	Coupon	Frequency	Date of maturity
12/02/20	500,000,000	3mE + 0.60%	Quarterly	July -2023
12/02/20	600,000,000	3mE + 0.65%	Quarterly	October - 2023
16/09/20	750,000,000	3mE + 0.52%	Quarterly	January - 2024
16/09/20	750,000,000	3mE + 0.53%	Quarterly	April - 2024
Total	**2,600,000,000**			

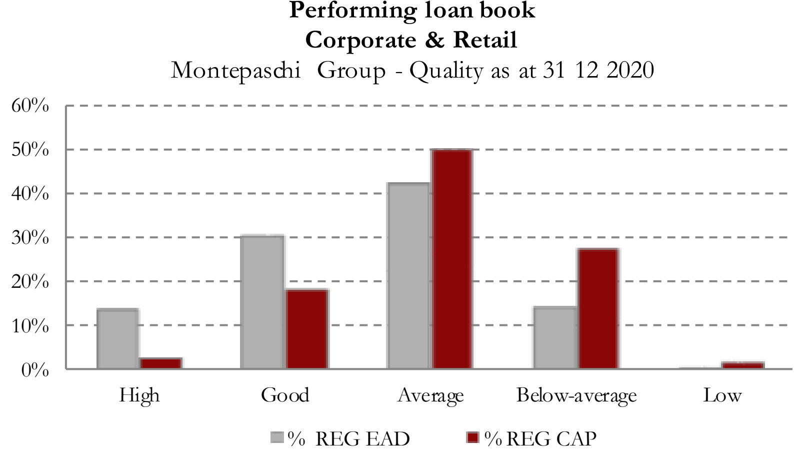
E. Prudential consolidation - Credit risk measurement models

This paragraph provides information of a quantitative nature related to the models for the measurement of credit risk, the qualitative characteristics of which have been described in Chapter 2 "Policies for risk management" of Section 2 "Prudential consolidation risk" of these Notes to the consolidated financial statements.

The chart below provides a credit quality breakdown of the Group portfolio as at 31 December 2020 by Exposure to Risk (REG EAD) and Regulatory Capital (REG CAP). The following graph shows that about 60% (53% as at 31 December 2019) of risk exposure relates to high and good quality customers (positions in financial assets are excluded). It should be noted that the ranking below also includes exposure to banks, government agencies and non-regulated financial and banking institutions, which are not included in the AIRB approaches. As borrowers, these entities are nevertheless subject to a credit standing assessment using official ratings, if any, or appropriate benchmark values that have been determined internally.

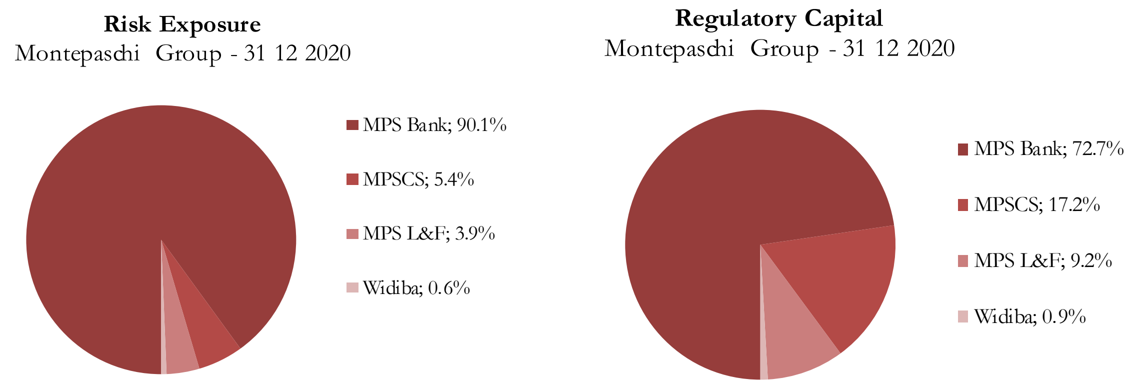


On the other hand, the following chart provides a breakdown of credit quality only for Corporate and Retail portfolios (which are largely validated by regulatory authorities for the use of internal PD and LGD models). As at 31 December 2020, high or good quality exposure accounted for approximately 44% of total exposure (45% as at 31 December 2019).



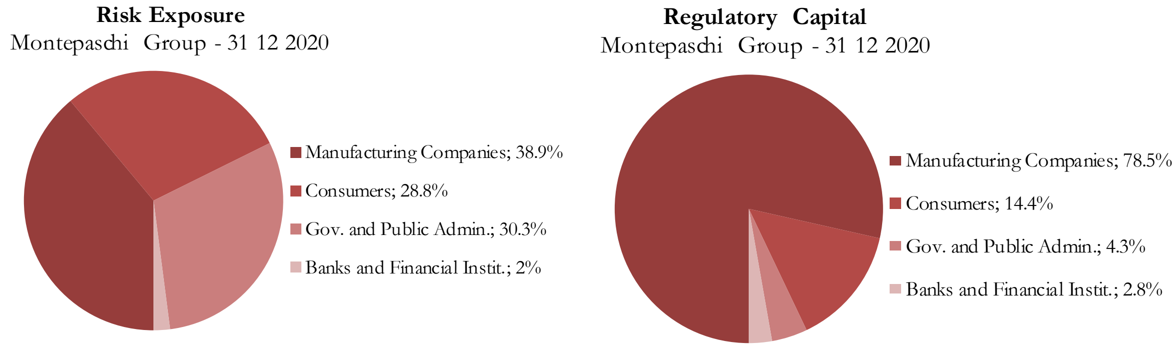
With reference to Risk Exposure, the Parent Company covers 90% of the Group's total, while MPS Capital Services, MPS L&F and Widiba jointly cover the remaining 10%.

The Regulatory Capital for credit risk is absorbed mainly by the Parent Company (72.7%), followed by MPS Capital Services (17.2%) and MPS Leasing e Factoring (9.2%).



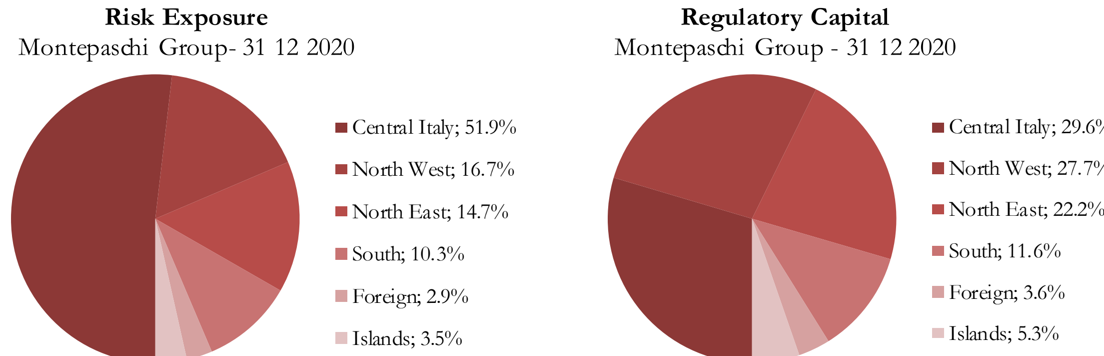
An analysis conducted at the end of 2020 shows that the Group's risk exposure is mainly toward "Manufacturing Companies" (38.9% of total loans disbursed), "Government and Public Administration" (30.3%) and "Households" (28.8%).

In terms of Regulatory Capital, 78.5% is absorbed by the "Manufacturing Companies" customer segment. The "Households" segment stands at 14.4%; followed by "Government and Public Administration" and "Banks and Financial Institutions" with 4.3% and 2.8% respectively:



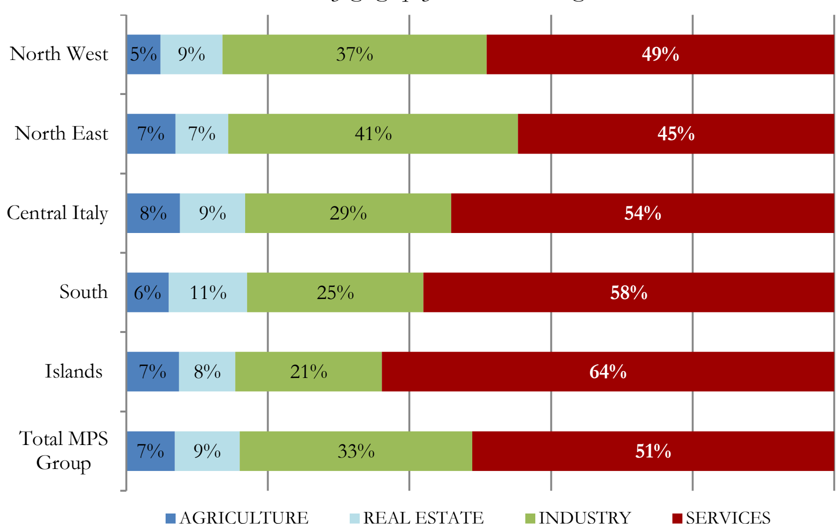
An analysis of the geographical breakdown of Group customers shows that exposure to risk is primarily concentrated in Italy's Central regions (51.9%), followed by the North West (16.7%), the North East (14.7%), Southern Italy (10.3%), Italy's Islands (3.5%) and Foreign Countries (2.9%).

Regulatory Capital absorption is also higher in Central Italy (29.6%), in North West Italy (27.7%) and North East Italy (22.2%) due to the greater concentration of loans in those areas. These are followed by Southern Italy (11.6%), Italy's Islands (5.3%) and Foreign Countries (3.6%):

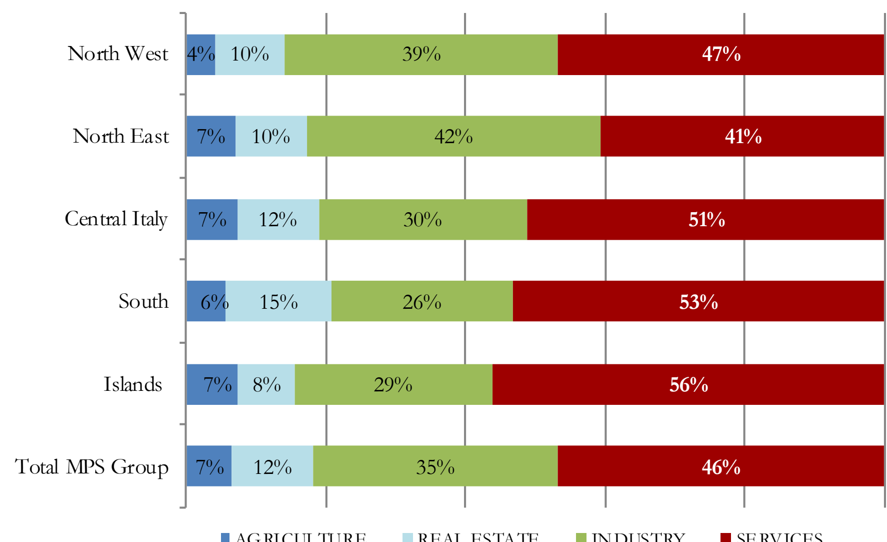


Lastly, the following graphs show, solely for Italian corporate customers, the percentage breakdown of Default Exposure by individual Geographic Area and Regulatory Capital absorption by Business Sector.

The largest share of Default Exposure for businesses in all Geographic Areas is accounted for by the "Services" sector. Out of the Group's total exposure, the share of Services accounts for 51% and is followed by Industry (33%), Building (9%) and Agriculture (7%):



Also as regards Regulatory Capital (REG CAP), the greater concentration relates to the Services sector:



The comparison between expected loss and actual loss is performed on an annual basis by the internal control function as part of PD and LGD backtesting procedures.

1.2 – Market risks

1.2.1 Interest rate and price risk – Regulatory trading book

Market risks relating to the Trading Book

Market risk management model for the Trading Book

The Group's Regulatory Trading Book (RTB), or Trading Book, is made up of all the Regulatory Trading Books managed by the Parent Company (BMPS) and MPS Capital Services (MPSCS). The Trading Books of the other subsidiaries are immune to market risk. Trading in derivatives, which are brokered on behalf of customers, is centralised at MPSCS.

The market risks in the trading book are monitored in terms of Value-at-Risk (VaR) for operational purposes. The Group's Finance and Liquidity Committee is responsible for directing and coordinating the overall process of managing the Group's proprietary finance thereby ensuring that the management strategies of the various business units are consistent.

The Group's Trading Book is subject to daily monitoring and reporting by the Financial Risk Officer Area of the Parent Company on the basis of proprietary systems. VaR for management purposes is calculated separately from the operating units, using the internal risk measurement model implemented by the Risk Management function in keeping with international best practices. The Group uses the standardised methodology in the area of market risks solely for reporting purposes.

Operating limits defined for trading activities are expressed by level of delegated authority in terms of VaR, which is diversified by risk factors and portfolios, monthly and annual stop losses, and stress. Furthermore, the trading book's credit risk, in addition to being included in VaR computations and in the respective limits for the credit spread risk component, is also subject to specific operating limits for issuer and bond concentration risk which specify maximum notional amounts by type of guarantor and rating class.

VaR is calculated with a 99% confidence interval and a holding period of one business day. The Group adopts the method of historical simulation with daily full revaluation of all basic positions, out of 500 historical entries of risk factors (lookback period) with daily scrolling. The VaR calculated in this manner takes account of all diversification effects of risk factors, portfolios and types of instruments traded. It is not necessary to assume, a priori, any functional form in the distribution of asset returns, and the correlations of different financial instruments are implicitly captured by the VaR model on the basis of the combined time trend of risk factors. The trend-based scenarios used in the model are constructed as the daily change, in terms of the ratio, of the individual risk factors; the shock is applied to the current market level, making the VaR measure reactive to changes in market conditions.

Periodically, information on market risks is transmitted to the Risk Management Committee and to the Top Bodies as part of the information flows with which Top Management and the Governing Bodies are informed about the Group's overall risk profile.

The macro-categories of risk factors covered by the Internal Market Risk Model are IR, EQ, CO, FX and CS as described below:

- IR: interest rates on all relevant curves, inflation curves and related volatilities;
- EQ: share prices, indexes, baskets and relative volatilities;
- CO: commodity prices, indexes and baskets;
- FX: exchange rates and related volatilities;
- CS: credit spread levels.

VaR (or diversified or net VaR) is calculated and broken down daily for internal management purposes, even with respect to other dimensions of analysis:

- organisational/management analysis of portfolios;
- analysis by financial instrument;
- analysis by risk family.

It is then possible to assess VaR along each combination of these dimensions in order to facilitate highly detailed analyses of events characterising the portfolios.

In particular, with reference to risk factors the following are identified: Interest Rate VaR (IR VaR), Equity VaR (EQ VaR), Commodity VaR (CO VaR), Forex VaR (FX VaR) and Credit Spread VaR (CS VaR).

The algebraic sum of these components determines the so-called Gross VaR (or non-diversified VaR), which, when compared with diversified VaR, makes it possible to quantify the benefit of diversifying risk factors resulting from holding portfolios on asset class and risk factor allocations which are not perfectly correlated. This information can also be analysed along all the dimensions referenced above.

The model enables the production of diversified VaR metrics for the entire Group in order to get an integrated overview of all the effects of diversification that can be generated among the Group entities on account of the specific joint positioning of the various business units.

Moreover, scenario and stress-test analyses are regularly conducted on various risk factors with different degrees of granularity across the entire tree structure of the Group's portfolios and for all categories of instruments analysed.

Stress tests are used to assess the Group's capacity to absorb large potential losses in extreme market situations, so as to identify the measures necessary to reduce the risk profile and preserve assets.

Stress tests are developed on the basis of discretionary and trend-based scenarios. Trend-based scenarios are defined on the basis of previously-registered real situations of market disruption. Such scenarios are identified based on a time frame in which risk factors were subjected to stress. No particular assumptions are required with regard to the correlation among risk factors since trend-based data for the stress period identified has been measured.

Stress tests based upon discretionary scenarios assume extreme changes occurring to certain market parameters (interest rates, exchange rates, stock indices, credit spreads and volatility) and measure the corresponding impact on the value of portfolios, regardless of their actual occurrence in the past. Simple discretionary scenarios are currently being developed (variation of a single risk factor) as are multiple ones (variation of several risk factors simultaneously). Simple discretionary scenarios are calibrated to independently deal with one category of risk factors at a time, assuming shocks do not spread to the other factors. Multiple discretionary scenarios, on the other hand, aim to assess the impact of global shocks that simultaneously affect all types of risk factors.

It should be noted that the VaR methodology described above is, for operational purposes, also applied to the portion of the Banking Book consisting of financial instruments that are similar to trading instruments (e.g. Equity/bond securities held in portfolios classified at fair value as FVTPL and FVOCI and in portfolios classified as AC). The measurements and charts below refer to the Regulatory Trading Book.

***

During 2020, the market risks of the Group's Regulatory Trading Book showed, in terms of VaR, a performance essentially determined by that of the subsidiary MPS Capital Services, mainly for own trading activities in the CS-IR segment (transactions in Italian government bonds and long futures) and, to a lesser extent, client-driven activities in the EQ segment (options and equity futures on the main market indices). The Parent Company's portfolio contribution to total VaR was negligible.

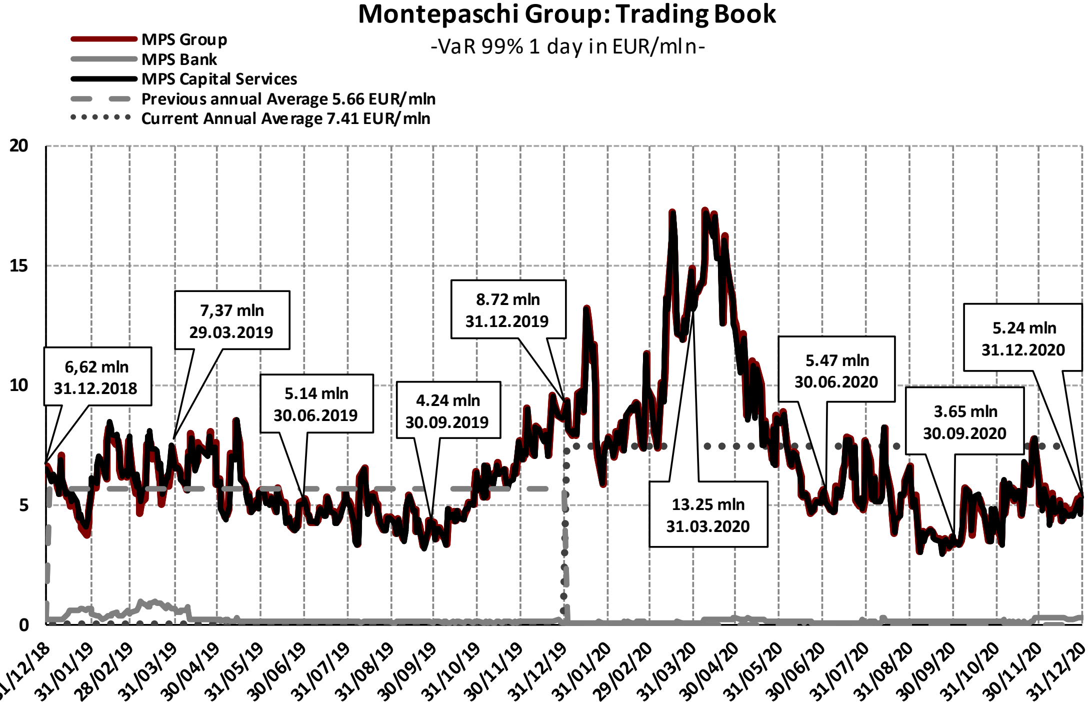
Inevitably the volatility of the VaR during the year was heavily impacted by the crisis in the markets triggered by the outbreak of the COVID-19 pandemic, with particular effect on the VaR model due to the extreme variations recorded in most market parameters during March, predominantly affecting the primary dealer activities on Italian government bonds of the subsidiary MPS Capital Services.

In particular, the increase in the Italian Credit Spread in March caused a considerable increase in the VaR measure with the incorporation in the model of tail events represented by extreme and sudden increases on a daily basis in the yields of Italian government bonds, with a relevant effect in the short portion of the curve.

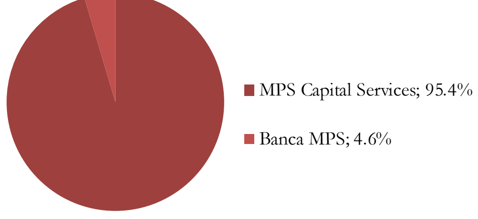
In the following months, thanks to the intervention of the ECB with the *Pandemic Emergency Purchase Program* (PEPP) to combat the risks related to the pandemic, tensions on market parameters eased and exposure to the credit spread risk in Italy was gradually reduced by the subsidiary MPSCS, with VaR falling to pre-crisis levels starting from the end of the first half. The scrolling of the time window of trend-based scenarios underlying the model, with the exit of the 2018 May-June Italy credit spread tail scenarios, triggered by the political crisis concerning the formation of the government, contributed to the stabilisation of the VaR to more contained levels.

In the second half of the year, and in particular from the start of September, despite some temporary increases in exposure during the auctions for primarily dealer activities on already mentioned Italian government securities, the average Italian sovereign bonds held in the Group's trading portfolios declined considerably compared to the first half of the year (from EUR 5.1 bn to EUR 3.5 bn in nominal value terms), reaching the lowest level since

the start of the year in December, resulting in a contraction in the CS factor to the overall VaR, settling at the end of 2020 on the average levels of the previous year.

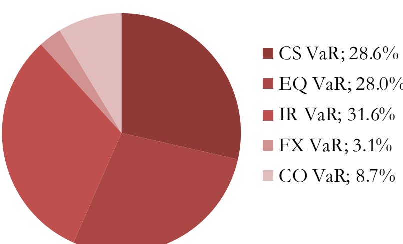


Montepaschi Group: Trading Book
VaR by Bank as at 31/12/2020



With regard to the legal entities, MPS Capital Services accounted for 95.4% and the Parent Company for 4.6% of overall risk as at 31 December 2020.

Montepaschi Group: Trading Book
VaR by Risk Factor as at 31/12/2020



In terms of breakdown of VaR by risk factors, Group's portfolio consists of 31.6% of interest rate risk factors (IR VaR), of 28.6% of credit-spread risk factors (CS VaR), 28.0% by equity rate risk factors (EQ VaR), 8.70% by commodity type risk factors (CO VaR), and the remaining 3.1% by foreign exchange risk factors (FX VaR).

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

	VaR	Date
End of Period	5.24	31/12/2020
Min	3.02	23/09/2020
Max	17.32	09/04/2020
Average	7.41	

In 2020, the Group's Regulatory Trading Book VaR fluctuated between a low of EUR 3.02 mln as at 23 September 2020 and a high of EUR 17.32 mln on 9 April 2020 with an average value registered of EUR 7.41 mln. The Regulatory Trading Book VaR as at 31 December 2020 amounted to EUR 5.24 mln.

VaR model backtesting

The Group has implemented a backtesting procedure compliant with current regulations governing Market Risk as part of its own risk management system.

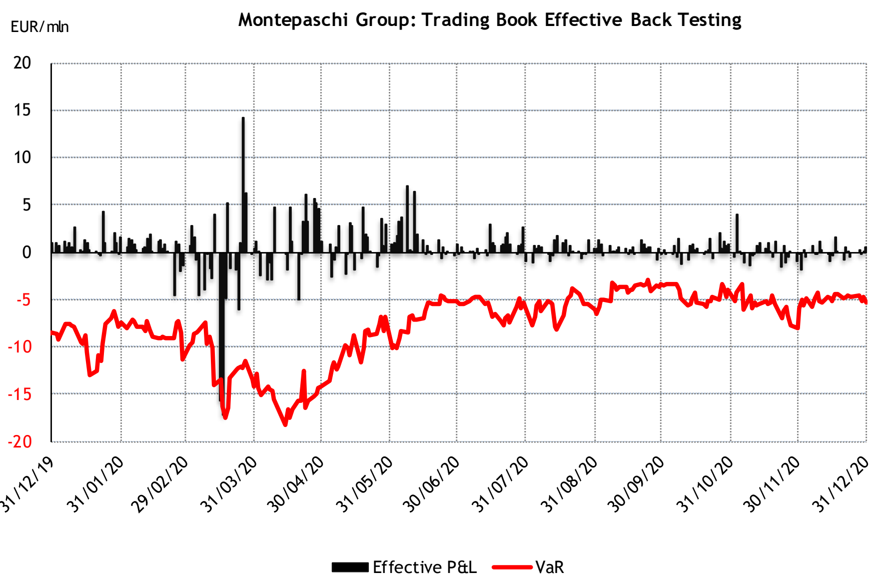
Backtesting refers to a series of tests conducted on VaR model results against day-to-day changes in the trading book value, with a view on assessing the model's forecasting capacity as regards the accuracy of the calculated risk metrics. If the model is robust, by periodically comparing the estimated daily VaR in t-1 against the results of the trading activity in t, it should be possible to determine that the actual losses are greater than the VaR with a frequency consistent with that defined by the confidence level.

Based on current supervisory instructions, the Financial Risk Officer Area considered it appropriate to apply the actual backtesting methods, integrating these into the Group's management reporting system.

The actual backtesting meets the need for verifying the VaR model's forecasting reliability in reference to the actual Group operations (daily trading profit and losses) less the effect of any interest accrued between trading days t-1 and t on bonds, and less the effect of fees and commissions.

These "clean" P&L results (the "actual P&L") are compared with the previous trading day VaR. If the losses are greater than those forecast by the model an "exception" is recorded.

The chart below shows the actual backtesting results of the internal Market Risks model in relation to the Group's Regulatory Trading Book for 2020:



Since the start of the year, 2 marginal exceptions were recorded, in the first quarter of 2020, referring entirely to the risk exposure of the subsidiary MPSCS. These exceptions were recorded on 16 and 17 March, as a result of the extreme increase in volatility on the markets following the health emergency linked to the spread of the COVID-19 pandemic. The days past due recorded simultaneous tension scenarios on all the main risk factors, with particular pressure in terms of P&L on the positions in Italian government securities (temporary widening of the Italian short-term credit spread, which for the most part had reversed by the end of the first quarter due to

effect of the ECB's new Quantitative Easing programme to cope with the economic emergency triggered by the pandemic) and on corporate and financial securities.

Structured credit product

As at 31 December 2020, the Group did not have a particularly significant portfolio of structured credit products compared to its total financial assets or its total assets.

These investments are subject to risk limits set by the Board of Directors and monitored daily by the Financial Risk Officer Area. Stop loss, risk limits, and nominal limits are defined for maximum exposure for major issuer categories, broken down by rating.

The data reported in this section refer to the entire Group.

Note that no Structured Credit Products considered in this disclosure have embedded credit derivatives that need to be separated from their host cost contract for IFRS 9 purposes.

As at 31 December 2020, there were no direct or indirect exposures to US sub-prime mortgage loans, Alt-A or monoline insurers.

Positions in Securitisations of third-party issuers

As at 31 December 2020, the securities positions on structured credit products other than own securitisations had a total book value of EUR 397.7 mln, compared to EUR 449.5 mln as at 31 December 2019.

This section does not analyse the securitisations issued by Siena NPL from the disposal of bad loans on 22 December 2017 (deconsolidated in June 2018) since the loans transferred to the vehicle were originated by the MPS Group. Likewise, the ABS issued by the Norma SPV as part of a securitisation of non-performing loans, also originated by banks outside the MPS Group, are not considered.

From an economic point of view, the following was recorded: "Net profit (loss) from trading - Item 80" of EUR 8.3 mln and a positive component "Interest income and similar income - Item 10" for EUR 4.9 mln. On the AC component, there was also a negligible write-down of "Net impairment (losses)/reversals for credit risk-item 130".

With regard to the regulatory classification, the positions are primarily held by the subsidiary MPS Capital Services (92.7%) and allocated to the Trading Book (88.2% in terms of book value); the instruments are classified from an accounting viewpoint in FVTPL (88.2%), AC (7.2%) and FVOCI (4.5%).

The underlying assets transferred as part of the securitisation transaction are predominantly residential mortgages (40.8%), non-performing loans (19.5%) and personal loans (14%). It is to be noted that, for the type of underlying NPL, 49% of the positions held have benefited from the public guarantee on securitisations (so-called Gacs).

Geographically speaking, the loans sold were granted in 53.4% Italy, 14.1% Ireland and 9.1% Spain.

Overall, 97.3% of the book value of the exposures consists of investment grade securities (with rating up to BBB- included).

The senior tranche accounts for 70.9% of the exposures in terms of book value, the mezzanine tranche for 25.7%, while the junior tranche accounts for the remaining 3.4%.

Credit Derivative Positions

All exposures analysed in this section are standardised credit indices, synthetic tranches, options on credit indices and single-name CDS.

As at 31 December 2020, net exposures to this type of derivatives have a book value (with accounting as a CDS derivative) of EUR -247 mln; net of consolidation activities these financial instruments are all held by MPS Capital Services and are all included in the Trading Book.

In terms of profit and loss, there was a negative component in "Item 80 - Net profit (loss) from trading" for EUR 88 mln.

Qualitative Information

A. General aspects

Each bank of the MPS Group which is relevant as a market risk-taking centre contributes to the generation of interest rate risk and price risk in the overall Trading Book.

Impacts deriving from the COVID-19 pandemic

The market crisis triggered by the pandemic in March led to a sudden increase in the risk for the Group's financial portfolios, measured in terms of VaR, with the maximum level being reached during the year close to the end of the first quarter of the year 2020 (the detailed narrative on the effects of the pandemic on the metrics and on back-testing is reported in paragraph "Market risk management model inherent to the trading book").

All this led to a temporary overshoot of the operating limits on *market risk* metrics (in terms of VaR and P&L), without affecting the underlying *framework* for monitoring risks with regard to measurement and control systems.

A.1 Interest rate risk

With reference specifically to the Parent Company, the Finance, Treasury & Capital Management Area (FTCMA) is the Business Area in charge of trading. The Global Markets Department carries out trading activities for the subsidiary MPSCS.

The FTCMA manages a proprietary portfolio which takes trading positions on interest rates and credit. In general, interest rate positions are taken by purchasing or selling bonds, and by creating positions in listed derivatives (futures) and OTCs (e.g. IRS, *swaptions*). Trading is carried out exclusively on the Bank's own behalf, with objectives of absolute return, in compliance with the delegated limits of monthly and yearly VaR and stop loss.

In particular, the FTCMA operates in the short-term portion of the main interest rate curves, mostly through bonds and listed derivatives.

With regard to credit risk in the trading book, the equity positions are generally managed through the purchase or sale of bonds issued by companies or by creating synthetic positions in derivatives. The activity is oriented to achieve a long or short position on individual issuers, or a long or short exposure on specific market sectors. The activity is carried out solely on the Bank's own behalf with objectives of absolute return and in compliance with other specific issuer and concentration risk limits.

A.2 Price risk

The Business Area in charge of the Parent Company's trading activity with respect to price risk is the FTCMA which manages a proprietary portfolio and takes trading positions on equities, Stock Exchange indexes and commodities. In general, positions on equity securities are taken both through the purchase/sale of equities and through the positions created in listed derivatives (e.g. futures) and OTC (e.g. options). Trading is carried out exclusively on the Bank's own behalf, with objectives of absolute return, in compliance with the delegated limits of monthly and yearly VaR and stop loss. The Global Markets Department also carries out trading activities for the subsidiary MPSCS.

B. Interest rate risk and price risk: operational processes and measurement methods

With regard to the market risk management process concerning the management and methods for measuring interest rate and price risk, see the above paragraph entitled "Market risk management model for the trading book".

Impacts deriving from the COVID-19 pandemic

As already previously indicated, the pandemic did not impact management processes, measurement methods and risk control.

In response to the effects of the pandemic for the Group, in terms of profitability targets and capital impacts, a review of the 2020 Risk Appetite Statement was carried out during the third quarter, with subsequent updating of the operating limits on market risks deriving from the RAS.

Quantitative Information

1. Regulatory Trading Book: breakdown of balance sheet financial assets/liabilities and financial derivatives by residual life (repricing date)

This table was not prepared since an analysis of the Regulatory Trading Book's sensitivity to interest rate risk and price risk is produced based on internal models.

2. Regulatory Trading Book: breakdown of exposures in equity instruments and stock indices by major countries of the listing market.

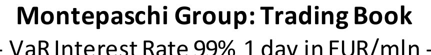
This table was not prepared since an analysis of the Regulatory Trading Book's sensitivity to interest rate risk and price risk is produced based on internal models.

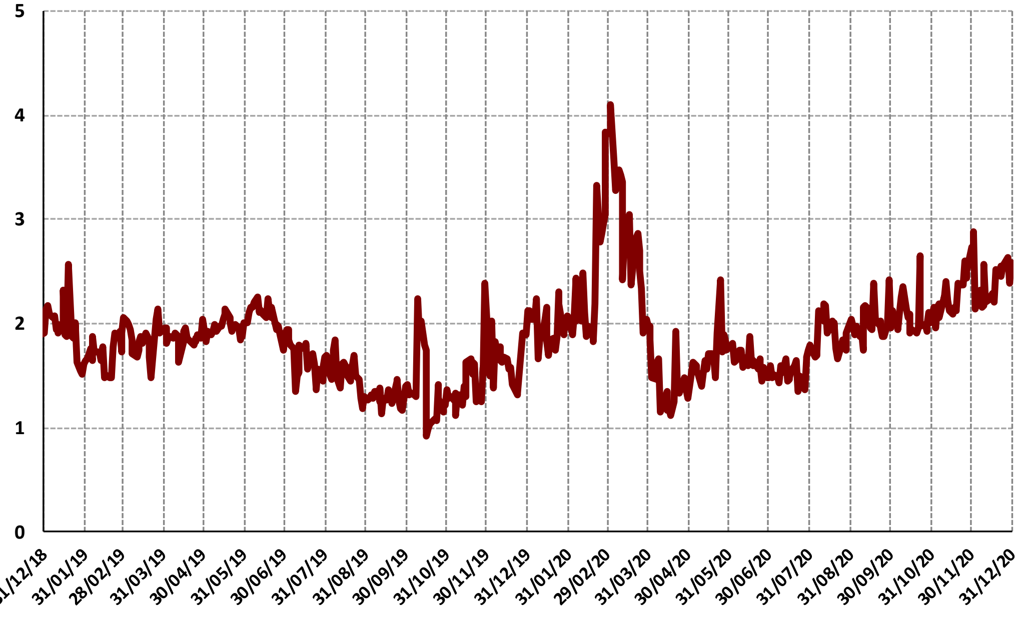
3. Regulatory Trading Book: internal models and other sensitivity analysis methods

The rate and price risk of the Trading Book is monitored in terms of VaR and scenario analysis.

3.1 Interest rate risk

Each business unit within the Group operates independently on the basis of the objectives and powers it has been assigned. The positions are managed by special desks provided with specific operational limits. Each desk adopts an integrated risk management approach (covering more than rate risk, when allowed) in order to benefit from the natural hedge resulting from simultaneously holding positions on risk factors that are not perfectly correlated. The VaR by risk factor (specifically, Interest Rate VaR) has operational relevance for the purpose of risk management analyses, even though it is the global VaR diversified among risk factors and portfolios that is used by the operating units. Below is information on the Group's diversified Interest Rate Regulatory Trading Book VaR:





The trend in Interest Rate VaR during 2020 was influenced by the trading activities of the subsidiary MPSCS, primarily in bonds and derivatives.

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

	VaR	Date
End of Period	2.57	31/12/2020
Min	1.12	17/04/2020
Max	4.11	03/03/2020
Average	2.02	

Simulations include the following interest rate risk scenarios:

- *+100 bps parallel shift for all interest rate and inflation curves;*
- *-100 bps parallel shift for all interest rate and inflation curves;*
- *+1 point parallel shift for all volatility surfaces of interest rate curves.*

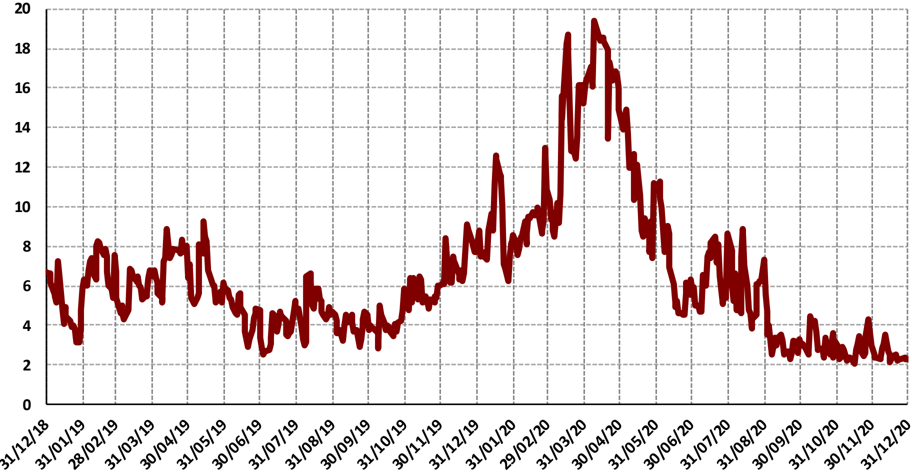
All positions related to the Trading Book are classified as "Financial assets held for trading" for accounting purposes, with changes in market value posted directly to the income statement. Below is the overall effect of the scenario analyses.

Montepaschi Group: Trading Book

EUR/mln

Risk Family	Scenario	Global Effect
Interest Rate	+100bp all Interest Rate Curves	12.11
Interest Rate	-100bp all Interest Rate Curves	0.61
Interest Rate	+1 point all Interest Rate Volatility	0.14

To complete the interest rate risk analysis, details are also provided on the credit spread risk of the Group's Trading Book associated with the volatility of issuers' credit spreads. The VaR by risk factor (specifically, Credit Spread VaR) has operational relevance for the purpose of risk management analyses, even though the operating units use the overall VaR diversified among all risk factors and portfolios.



In 2020, the trend in Credit Spread VaR was mainly affected by trading activities of the subsidiary MPSCS, primarily in Italian short-term government bonds, linked to cycles of auctions, with partial derivatives hedging (medium BTP futures). The increase in the metrics in March as effect of the surge in the spread following the explosion of the COVID-19 pandemic with the incorporation in the model of tail events represented by extreme

and sudden increases on a daily basis in the yields of Italian government bonds, with a relevant effect in the short portion of the curve, is clear.

In the following months, thanks to the intervention of the ECB with the *Pandemic Emergency Purchase Program* (PEPP) to combat the risks related to the pandemic, tensions on spreads eased and exposure to the credit spread risk in Italy was gradually reduced by the subsidiary MPSCS, with credit spread VaR falling to pre-crisis levels starting from May. The scrolling of the time window of trend-based scenarios underlying the model, with the exit of the 2018 May-June Italy credit spread tail scenarios, triggered by the political crisis concerning the formation of the government, contributed to the stabilisation of the VaR to more contained levels.

At the end of December, the Credit Spread VaR stood at EUR 2.32 mln, on the minimum levels of the year, due to the reduction in the average holding of Italian government bonds, clear in the last quarter.

Montepaschi Group: Trading Book
VaR Credit Spread 99% 1 day in EUR/mln

	VaR	Date
End of Period	2.32	31/12/2020
Min	2.06	16/11/2020
Max	19.38	09/04/2020
Average	7.41	

For the purposes of sensitivity analysis, the simulation scenario is as follows:

- *+1 bp parallel shift for all credit spreads.*

All positions related to the Trading Book are classified as "Financial assets held for trading" for accounting purposes, with changes in market value posted directly to the income statement. Below is the overall effect of the scenario analyses.

Montepaschi Group: Trading Book

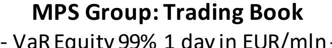
EUR/mln

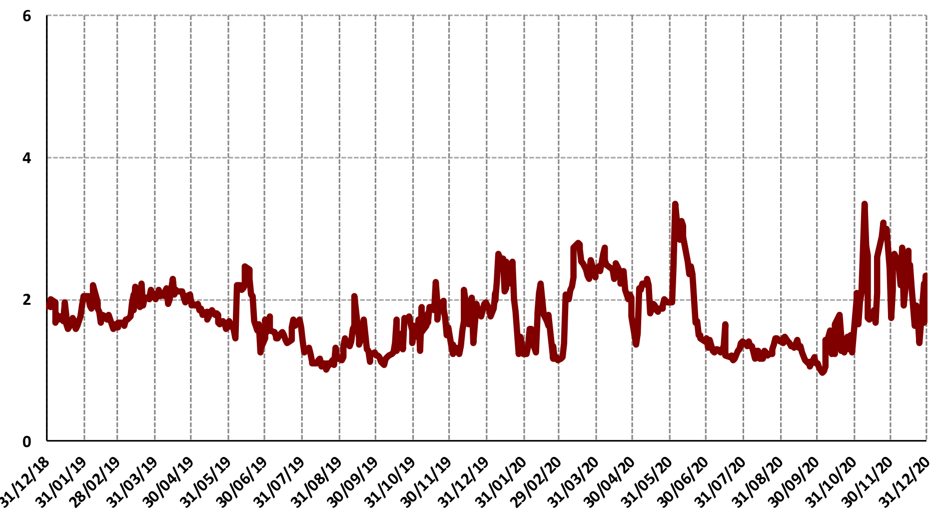
Risk Family	Scenario	Global Effect
Credit Spread	+1bp all Curves	(0..09)

3.2 Price risk

Each business unit within the Group operates independently on the basis of the objectives and powers it has been assigned. The positions are managed by special desks provided with specific operational limits. Each desk adopts an integrated risk management approach (covering more than price risk, when allowed) in order to benefit from the natural hedge resulting from simultaneously holding positions on risk factors that are not perfectly correlated. The VaR by risk factor (specifically, Equity VaR and Commodity VaR) has management relevance for the purpose of risk management analyses, even though it is the global VaR diversified among risk factors and portfolios that is used by the operating units.

Below is information on the Group's diversified Equity VaR.





In 2020 the Equity VaR was influenced by the subsidiary MPSCS' activities related to the structuring and coverage of policies and other structured products, and by the trading activity, mostly on options and futures with key market indexes as underlying. At the end of December, the Equity VaR came to EUR 2.28 mln, just above the average levels of the year.

Montepaschi Group: Trading Book
VaR Equity 99% 1 day in EUR/mln

	VaR	Date
End of Period	2.28	31/12/2020
Min	0.98	05/10/2020
Max	3.35	05/06/2020
Average	1.83	

The simulated price scenarios are as follows:

- +1% of each equity or index price;
- -1% of each equity or index price;
- +1 point of all volatility surfaces of all equity risk factors.

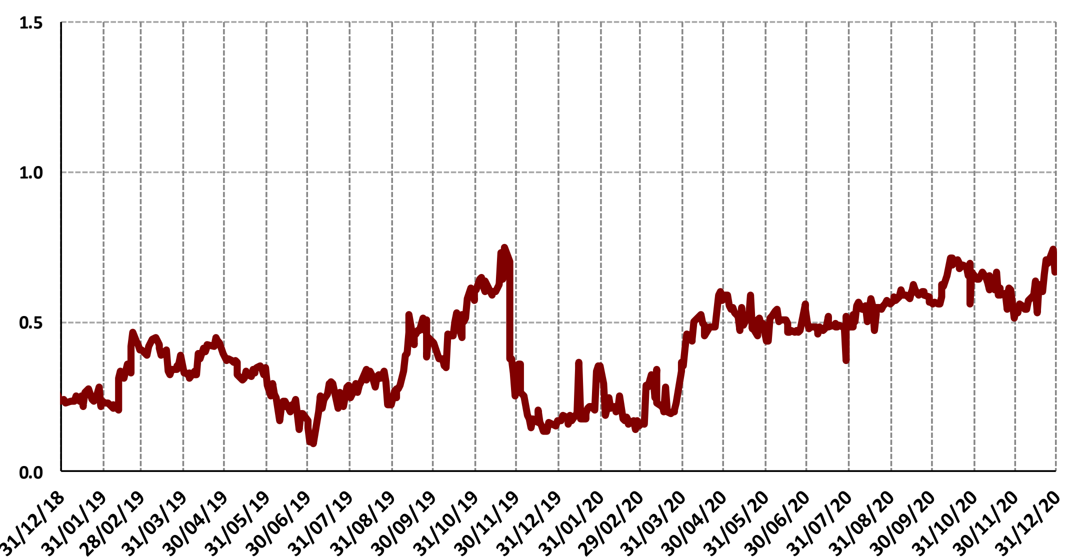
All positions related to the Trading Book are classified as "Financial assets held for trading" for accounting purposes, with changes in market value posted directly to the income statement. Below is the overall effect of the scenario analyses for the equity component:

Montepaschi Group: Trading Book

EUR/mln

Risk Family	Scenario	Global Effect
Equity	+1% Equity Prices (prices, indices)	(0.35)
Equity	-1% Equity Prices (prices, indices)	0.33
Equity	+1 point Equity Volatility	0.53

In terms of exposure to commodity risk, in 2020 trends in the Commodity VaR were affected by the subsidiary MPSCS due to activities carried out in support of the customers, primarily on options and futures where the main commodity indexes are underlying. At the end of December, the Commodity VaR stood at EUR 0.7 mln, slightly higher than the average for the year.



Montepaschi Group: Trading Book

VaR CO 99% 1 day in EUR/mln

	VaR	Data
End of Period	0.70	31/12/2020
Min	0.14	26/02/2020
Max	0.74	28/12/2020
Average	0.47	

The simulated price scenarios are as follows:

- +1% of each commodity price;
- -1% of each commodity price;
- +1 point of all volatility surfaces of all commodity risk factors.

All positions related to the Trading Book are classified as "Financial assets held for trading" for accounting purposes, with changes in market value posted directly to the income statement. Below is the overall effect of the scenario analyses for the Commodity component:

Montepaschi Group: Trading Book

EUR/mln

Risk Family	Scenario	Global Effect
Commodity	+1% Commodity Prices	0.03
Commodity	-1% Commodity Prices	(0.03)
Commodity	+1 point Commodity Volatility	(0.00)

1.2.2 Interest rate and price risk - Banking Book

Qualitative Information

A. General aspects, operational processes and measurement methods for interest rate risk and price risk

A.1 Interest rate risk

The Banking Book consists of all exposures not included in the Trading Book and, in accordance with international best practices, identifies the set of the Group's commercial trades connected to the transformation of maturities in the assets and liabilities and ALM financial activities (treasury and risk hedging derivatives).

The strategic Banking Book rate risk choices are defined periodically in the IRRBB Strategy document approved by the Board of Directors and made operational within the Group's Finance and Liquidity Committee; these choices are based on interest rate risk measures expressed in terms of changes in economic value as well as interest margin.

With reference to the sensitivity test on economic value, the Montepaschi Group applies a predefined set of interest rate scenarios in line with the Basel guidelines, which envisage non-parallel movements of the curve aside from parallel shifts of 25, 100 and 200 bps. As interest margin analyses focus on the short term, they consider exclusively the application of parallel scenarios. The economic value sensitivity measures are determined by clearing the origination of the cash flows of the components not directly relating to interest rate risk.

The Group is committed to the continual updating of risk measurement methodologies by gradually fine-tuning the estimation models so as to include all major factors that progressively modify the interest rate risk profile of the banking book.

Risk metrics are calculated by using a model for the valuation of demand items (Non-Maturity Deposits, NMDs) whose characteristics of stability and partial insensitivity to interest rate changes are described in the systems with a statistical approach which takes into consideration the time series of customer behaviours.

In addition, the Montepaschi Group incorporates within the rate risk measurements a simplified behavioural model which takes into account the aspect of residential mortgage prepayment (so-called prepayment risk) and uses an approach for the recognition of non-performing loans entries net of their credit impairment.

The Group adopts an interest rate risk governance and management system known as the IRRBB Framework which avails itself of:

- a quantitative model, which provides the basis for monthly calculation of the exposure of the Group and the individual companies to interest rate risk in terms of risk indicators;
- risk monitoring processes, aimed at periodically verifying compliance with the operational limits (risk limits and risk tolerance) assigned to the Group overall and to the individual legal entities within the Risk Appetite Statement;
- risk control and management processes, geared toward bringing about adequate initiatives for optimising the risk profile and activating any necessary corrective actions in the case of exceptions from and/or misalignments with the IRRBB Strategy.

Within the above system, the following responsibilities are centralised in the Parent Company:

- definition of strategic and operational policies for managing the Group's Banking Book and controlling its interest rate risk;
- coordination of Group policies' implementation by the companies included in the scope;
- governance of the Group's short-, medium- and long-term rate risk position, both overall and at individual company level, through centralised operational management.

In its governance function, the Parent Company therefore defines criteria, policies, responsibilities, processes, limits and instruments for rate risk management.

The Group Companies included in the scope of application are responsible for abiding by the rate risk policies and limits defined by the Parent Company and the requirements set by the relevant Supervisory Authorities.

Within the model defined, the Finance, Treasury and Capital Management Area (FTCMA) of the Parent Company is responsible for the operational management of the Group's overall rate and liquidity risk.

Specifically, within the FTCM Area, the Group Strategic Risk Governance Service manages the short-term interest rate risk and structural interest rate risk for the Group. In addition, the Area carries out hedge monitoring and management activities consistent with accounting policies, involving centralised oversight for definition of the network's internal rates (BMPS and other Group companies) for Euro and foreign currency transactions with maturities beyond the short term.

A.2 Price risk

The Group's Banking Book, subject to price risk, consists primarily of equity investments, equities and UCITS, measured at fair value. Trading in UCITS is carried out exclusively through the direct purchase of the funds/SICAVs, with no use being made of derivative contracts. Exposure to commodities of the Group's Banking Book was equal to zero.

Price risk measurement is carried out on positions held primarily for strategic or institutional/instrumental purposes.

The instrument used for measuring price risk applied to equity securities and UCITS, other than equity investments, is the Value at Risk (VaR), the methodology of which is described in Section 2 - "Market risks" of this Part E of the Notes to the financial statements.

Stress tests are conducted regularly as part of price risk governance strategies for the banking book in order to assess the Group's ability to absorb potential losses resulting from extreme events.

With reference to the equity investments component, the internal measurement system uses, for determining the Internal Capital, a metric borrowed from the Supervisory approach according to the standard method. This method calls for exposures to equity instruments to be assigned a risk weighting factor of 100% or 150% if high risk, unless they need to be deducted from Own Funds. The Own Funds deduction mechanisms according to current supervisory rules (CRD4/CRR) further expand the perimeter of deductions to also include non-significant investments in financial sector entities (<10%) and provide for deduction exemptions. It is worth noting that the most significant portion of the MPS Group's investment portfolio is included within the aggregate of significant investments in other financial sector entities (mainly the equity investment in the AXA Group).

Quantitative Information

1 Banking Book: breakdown of financial assets and liabilities by residual life (repricing date)

This table has not been prepared since an analysis of the banking book's sensitivity to interest rate risk and price risk is produced based on internal models.

2 Banking Book: internal models and other sensitivity analysis methods

2.1 Interest rate risk

The sensitivity of the Group, at the end of 2020, was indicative of exposure to rate reduction risk. The amount of economic value at risk in the event of a +100 bps parallel shift of the rate curve came to EUR +116.61 mln at the end of 2020 (vs. EUR -132.51 mln for a shift of -100 bps). However, if benchmarked against Own Funds, these values are below the level considered as the attention threshold by the Bank of Italy.

The sensitivity of the Group's net interest income (margin sensitivity) if rates increase by 25 bps amounts to EUR +28.16 mln at the end of 2020 (EUR -45.54 mln for -25 bps).

The internal measurement system is independently developed by the Risk Control Function of the Parent Company, which periodically reports on the extent of portfolio risks and their changes over time. The results are regularly brought to the attention of the Parent Company's Risk Management Committee and governing bodies.

2.2 Price risk

Shown below is a scenario analysis which includes all directional positions assumed by the Group in equity securities and UCITS, measured at fair value (e.g. securities classified as "Financial assets measured at fair value through other comprehensive income" and as "Financial assets mandatorily measured at fair value"):

Montepaschi Group: Trading Book

EUR/mln

Risk Family	Scenario	Impact on net interest and other banking income and net profit	Impact on shareholders' equity	**Global Effect**
Equity	+1% Equity Prices (prices, indices)	1.65	2.43	**4.08**
Equity	-1% Equity Prices (prices, indices)	(1.65)	(2.43)	**(4.08)**
Equity	+1 point Equity Volatility	0.00	0	**0.00**

The shareholding in the Bank of Italy represents approximately 77% of the effect on the Shareholders' Equity relating to the scenario analysis described above.

1.2.3 Foreign exchange risk

Qualitative Information

A. Foreign exchange risk: general aspects, operational processes and measurement methods.

Foreign exchange operations are mainly based on short-term trading, with the systematic balance of the transactions originated by the franchise and the retail banks which automatically feed into the Group's position.

Trading activities are carried out primarily by the Finance, Treasury and Capital Management Area of the Parent Company and, on the forex options segment, by the subsidiary MPSCS, with a direct management of the exchange rate risk. The foreign branches of the Parent Company maintained modest forex positions exclusively originated by funds available for commercial purposes. The turnover in cash allocated to Group portfolios and OTC derivatives for MPSCS remained stable in terms of risk, with ongoing and careful use of delegated powers. Foreign currency equity investments are typically financed by funds denominated in the same currency, with no assumption of foreign exchange risk.

For a description of stress tests used in the risk governance strategy on exchange rates and the model applied, please refer to the section "Market risk management model for the Trading Book".

B. Hedging of exchange rate risk

Quantitative Information

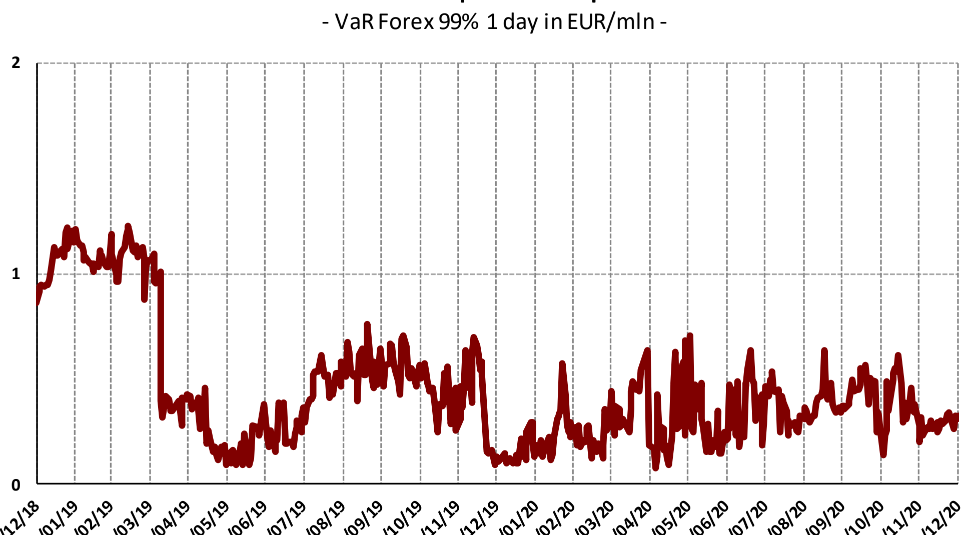
1. Breakdown by currency of assets, liabilities and derivatives

31 12 2020

Items	Currencies					
	US dollar	Pound sterling	Yen	Canadian Dollars	Swiss Franc	Other currencies
A. Financial assets	**1,538,026**	**36,902**	**11,123**	**3,096**	**27,567**	**71,858**
A.1 Debt securities	642,683	2,386	-	-	-	4
A.2 Equity securities	45,986	1,118	130	179	864	737
A.3 Loans to banks	402,474	8,084	6,488	1,190	20,089	42,242
A.4 Loans to customers	446,883	25,314	4,505	1,727	6,614	28,875
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**24,087**	**1,089**	**136**	**226**	**1,259**	**1,504**
C. Financial liabilities	**887,820**	**23,343**	**4,212**	**2,213**	**4,407**	**35,862**
C.1 Due to banks	311,907	1,558	-	14	172	1,023
C.2 Due to customers	534,633	21,785	4,212	2,199	4,235	34,839
C.3 Debt securities	41,280	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	**16,063**	**1,656**	**266**	**12**	**8**	**4,712**
E. Financial derivatives						
- Options						
+ Long positions	50,731	7,482	1,585	-	466	1,425
+ Short positions	102,218	-	4,165	-	-	99,632
- Other						
+ Long positions	1,280,763	131,092	4,819	5,777	8,490	184,693
+ Short positions	1,886,485	158,242	20,187	2,539	11,801	123,188
Total assets	**2,893,607**	**176,565**	**17,663**	**9,099**	**37,782**	**259,480**
Total liabilities	**2,892,586**	**183,241**	**28,830**	**4,764**	**16,216**	**263,394**
Difference (+/-)	**1,021**	**(6,676)**	**(11,167)**	**4,335**	**21,566**	**(3,914)**

2. Internal models and other sensitivity analysis methods

Exchange risk is monitored in terms of VaR and scenario analysis (for the methodology see the paragraph "Market risk management model for the Trading Book"). Shown below is information concerning the Group's diversified Forex VaR.



The Group's Forex VaR in 2020 is represented by the Parent Company's exposure to bonds in foreign currency (USD), mainly in the financial category, recognised under "Financial assets measured at amortised cost". Forex VaR volatility in 2020 was affected by temporary variations in the exposure of the Trading Book of the subsidiary MPSCS, due primarily to activities on foreign exchange EUR/USD derivatives.

At the end of December, Forex VaR stood at EUR 0.25 mln, lower than the average for the year.

Montepaschi Group
VaR PNV Fx 99% 1 day in EUR/mln

	VaR	Date
End of Period	0.25	31/12/2020
Min	0.08	26/05/2020
Max	1.29	29/04/2020
Average	0.39	

The following scenarios were used for foreign exchange rate simulations:

- +1% for all foreign exchange rates to the Euro;
- -1% for all foreign exchange rates to the Euro;
- +1 point for all volatility surfaces of all foreign exchange rates.

The impact on net interest and other banking income and on profit/loss for the year was estimated taking account of positions classified as "Financial assets held for trading" and "Financial assets mandatorily measured at fair value"; market value changes are recognised directly in the income statement. Instead, the effect on equity is estimated with reference to all positions classified as "Financial assets measured at fair value through other comprehensive income" and related fair value hedges (FVH). The total effect is the result of the algebraic sum of the two components. Below is a summary of the scenario analyses.

Montepaschi Group: Trading Book

EUR/mln

Risk Family	Scenario	Impact on net interest and other banking income and net profit	Impact on shareholders' equity	Global Effect
Forex	+1% Exchange rate against EUR	0.09	(0.03)	0.06
Forex	-1% Exchange rate against EUR	(0.06)	0.03	(0.03)
Forex	+1 point Forex Volatility	0.13	0	0.13

1.3 - Derivatives and hedging policies

1.3.1 Derivatives for trading

A. Financial derivatives

A.1 Financial derivatives for trading: end of period notional amounts

Underlying asset/Type of derivative	Total 31 12 2020				Total 31 12 2019			
	Over the counter			Organised financial markets	Over the counter			Organised financial markets
	Central couterparties	No Central counterparties: Contracts subject to Master netting agreements	No Central counterparties: Contracts not subject to Master netting agreements		Central couterparties	No Central counterparties: Contracts subject to Master netting agreements	No Central counterparties: Contracts not subject to Master netting agreements	
1. Debt securities and interest rate	-	**232,401,632**	**7,982,967**	-	-	**371,717,907**	**6,375,561**	**25,026**
a) Options	-	13,988,232	1,781,080	-	-	20,937,068	1,662,065	-
b) Swaps	-	216,381,535	4,418,775	-	-	348,430,681	3,922,547	-
c) Forward	-	-	1,783,112	-	-	-	790,949	25,026
d) Futures	-	2,031,865	-	-	-	2,350,158	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity securities and stock indices	-	**8,026,936**	**6,383**	**172,992**	-	**8,861,224**	**15,389**	**197,327**
a) Options	-	5,767,506	6,383	148,316	-	6,736,002	15,389	177,737
b) Swaps	-	1,892,934	-	-	-	1,718,315	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	366,496	-	24,676	-	406,907	-	19,590
e) Other	-	-	-	-	-	-	-	-
3. Exchange rates and gold	-	**1,114,452**	**2,053,694**	-	-	**1,365,862**	**2,730,418**	-
a) Options	-	44,210	529,942	-	-	3,895	723,234	-
b) Swaps	-	732,888	-	-	-	1,007,780	-	-
c) Forward	-	337,354	1,523,752	-	-	354,187	2,007,184	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	-	**334,303**	**176,944**	-	-	**237,752**	**223,105**	-
5.Other underlying	-	-	-	-	-	-	-	-
Total	-	**241,877,323**	**10,219,988**	**172,992**	-	**382,182,745**	**9,344,473**	**222,353**

A.2 Financial derivatives for trading: gross positive and negative fair value - breakdown by products

Underlying asset/Type of derivative	Total 31 12 2020				Total 31 12 2019			
	Over the counter			Organised financial markets	Over the counter			Organised financial markets
	Central couterparties	No Central counterparties			Central couterparties	No Central counterparties		
		Contracts subject to Master netting agreements	Contracts not subject to Master netting agreements			Contracts subject to Master netting agreements	Contracts not subject to Master netting agreements	
1. Positive Fair value								
a) Options	-	179,058	18,169	9,626	-	123,764	18,934	10,087
b) Interest rate swap	-	5,995,167	180,515	-	-	5,071,707	172,376	-
c) Cross currency swap	-	7,022	-	-	-	2,423	-	-
d) Equity swap	-	29,333	-	-	-	32,384	-	-
e) Forward	-	8,762	53,845	-	-	7,607	31,873	-
f) Futures	-	4,206	-	-	-	1,507	-	-
g) Other	-	15,959	11,235	-	-	5,563	19,484	-
Total	**-**	**6,239,507**	**263,764**	**9,626**	**-**	**5,244,955**	**242,667**	**10,087**
2. Negative fair value								
a) Options	-	209,087	10,216	3,842	-	216,761	11,146	2,079
b) Interest rate swap	-	4,523,209	22	-	-	3,490,997	1,553	-
c) Cross currency swap	-	32,787	-	-	-	48,313	-	-
d) Equity swap	-	30,468	-	-	-	42,467	-	-
e) Forward	-	8,878	20,578	-	-	8,525	7,997	5
f) Futures	-	1,971	-	-	-	448	-	-
g) Other	-	13,006	18,227	-	-	9,023	11,518	-
Total	**-**	**4,819,406**	**49,043**	**3,842**	**-**	**3,816,534**	**32,214**	**2,084**

A.3 Financial OTC derivatives for trading: notional amounts, gross positive and negative fair value for counterparties

31 12 2020

Underlying assets	Central Counterparties	Banks	Other Fiancial Companies	Other entities
Contracts not subject to master netting agreements				
1) Debt securities and interest rates				
- notional value	X	741,269	625,505	6,616,193
- positive fair value	X	9,018	3,864	195,408
- negative fair value	X	-	9,948	2,264
2) Equity securities and stock indices				
- notional value	X	-	1,195	5,189
- positive fair value	X	-	1,635	1,183
- negative fair value	X	-	-	38
3) Exchange rates and gold				
- notional value	X	587,091	19,593	1,447,010
- positive fair value	X	1,821	418	39,184
- negative fair value	X	3,878	49	14,639
4) Commodities				
- notional value	X	-	-	176,944
- positive fair value	X	-	-	11,235
- negative fair value	X	-	-	18,227
5) Other underlying				
Contracts subject to master netting agreements				
1) Debt securities and interest rates				
- notional value	-	88,933,284	142,432,448	1,035,899
- positive fair value	**-**	**1,994,685**	**3,814,388**	**239,591**
- negative fair value	-	1,552,287	3,004,115	-
2) Equity securities and stock indices				
- notional value	-	1,194,641	6,832,296	-
- positive fair value	**-**	**23,286**	**131,111**	**-**
- negative fair value	-	52,793	153,560	-
3) Exchange rates and gold				
- notional value	-	930,669	183,783	-
- positive fair value	**-**	**15,717**	**143**	**-**
- negative fair value	-	36,449	5,216	-
4) Commodities				
- notional value	-	9,149	324,904	250
- positive fair value	**-**	**422**	**20,165**	**-**
- negative fair value	-	1,187	13,764	35
5) Other underlying				

A.4 Residual life of financial OTC derivatives for trading: notional amounts

Underlying asset/residual life	Up to 1 year	1 to 5 years	Over 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	78,397,473	91,803,539	70,183,587	240,384,599
A.2 Financial derivatives on equity securities and stock indices	4,017,291	3,723,261	292,767	8,033,319
A.3 Financial derivatives on exchange rates and gold	2,884,098	284,048	-	3,168,146
A.4 Financial derivatives on commodities	483,953	27,294	-	511,247
A.5 Other financial derivatives	-	-	-	-
Total 31 12 2020	**85,782,815**	**95,838,142**	**70,476,354**	**252,097,311**
Total 31 12 2019	**198,087,665**	**130,850,921**	**62,588,632**	**391,527,218**

B. Credit derivatives

B.1. Credit derivatives for trading: end of period notional amounts

Transaction categories	Trading book	
	single name	with multiple counterparties (basket)
1. Purchases of protection		
a) Credit default products	194,194	150,000
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Others	-	-
Total 31 12 2020	**194,194**	**150,000**
Total 31 12 2019	**531,558**	**250,000**
2. Sales of protection	**-**	**-**
a) Credit default products	3,535,442	95,000
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Others	-	-
Total 31 12 2020	**3,535,442**	**95,000**
Total 31 12 2019	**3,631,888**	**230,000**

B.2. OTC credit derivatives: gross positive and negative fair value - breakdown by products

	Total 31 12 2020	Total 31 12 2019
1. Positive fair value	**-**	**-**
a) Credit default products	3,258	8,171
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
Total	**3,258**	**8,171**
2. Negative fair value	**-**	**-**
a) Credit default products	131,856	130,209
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
Total	**131,856**	**130,209**

B.3. OTC credit derivatives for trading: notional amounts, gross fair value (positive and negative) by counterparties

31 12 2020

Underlying assets	Central counterparties	Banks	Other financial companies	Other entities
Contracts not subject to master netting agreements				
1) Purchase of protection				
2) Sales of protection				
Contracts subject to master netting agreements				
1) Purchase of protection				
- notional value	-	71,970	272,224	-
- positive fair value	-	-	-	-
- negative fair value	-	1,093	11,397	-
2) Sales of protection				
- notional value	-	41,136	3,589,306	-
- positive fair value	-	130	3,128	-
- negative fair value	-	-	119,366	-

B.4 Residual life of OTC credit derivatives for trading: notional amounts

Underlying asset/residual life	Up to 1 year	1 to 5 years	Over 5 years	Total
1. Sales of protection	108,733	1,361,557	2,160,151	3,630,441
2. Purchase of protection	26,078	218,117	100,000	344,195
Total 31 12 2020	**134,811**	**1,579,674**	**2,260,151**	**3,974,636**
Total 31 12 2019	**701,442**	**2,299,712**	**1,642,292**	**4,643,446**

B.5 Credit derivatives related to the fair value option: annual changes

This table was not completed as the Group has no such liabilities to report for either the current or the previous year.

1.3.2 Hedges

Qualitative Information

The Group, in applying IFRS 9, has exercised the option provided by the standard to continue to fully apply IAS 39 for all types of hedging (micro and macro). Therefore, the provisions of IFRS 9 in terms of hedging do not apply.

A. Fair value hedging

The purpose of interest rate risk hedging is to protect the banking book from changes in the fair value of deposits and loans caused by movements in the interest rate curve or to reduce the variability of cash flows linked to a particular asset/liability.

At Group level, the risk predominantly hedged is the interest rate risk with fair value hedges, for a total of approximately EUR 28 bn in nominal amount of hedging derivatives.

The Group uses the following hedges to manage interest rate risk:

- *micro fair value hedges:* hedging of trading assets (loans/mortgage loans), security portfolio and bonds;
- *macro fair value hedges:* hedging of trading assets (loans/mortgage loans) and corporate funding (time deposits);

The fair value hedges at Group level regard both micro hedges of assets and liabilities, identified specifically and represented by government bonds in the Banking Book and bonds issued by the Parent Company, as well as macro hedges (macro hedge - version with bottom layer approach) of retail fixed-rate deposits.

The derivatives used for this purpose are primarily interest rate swaps (IRS) and options on rates realised with third parties or with other companies of the Group which, in return, hedge the market risk so that the requirements for outsourcing hedging with counterparties, necessary to qualify the hedging at the consolidated financial level, are complied with.

Derivatives are not listed in regulated markets, but are traded within the scope of OTC circuits. OTC agreements also include those brokered through Clearing Houses.

B. Cash-flow hedging

The Group does not have any such hedging in place.

C. Hedging of foreign investments

The Group does not have any such hedging in place.

D. Hedging instruments

The sources of ineffectiveness of a hedging relationship are generally and primarily ascribable to the following aspects:

- trading of derivatives based on non-market parameters;
- incorrect estimate of the hedging percentage;
- plan for the amortisation of the notional amount that is not aligned with that recognised on the hedged instrument.

The ineffectiveness of the hedging is recognised in the Income Statement and measured according to the possibility of continuing to apply the hedge accounting rules.

E. Hedged items

At the Group level, the main types of hedged items are:

- debt securities under assets;
- debt securities issued;

- fixed-rate commercial loans;
- optional component implicit in the floating-rate mortgage loans;
- fixed-rate commercial funding.

E.1 Debt securities under assets

Hedging relationships of these assets are especially of a micro fair value hedge type; derivatives used for this purpose are mainly IRS and the hedged risk is the interest rate risk.

In order to verify the efficacy of the hedge the *Dollar Offset Method is used*. This method is based on the relationship between the cumulated changes (from the beginning of the hedging) in the fair value of the hedging instrument, attributable to the hedged risk, and the past changes in the fair value of the hedged item.

E.2 Debt securities issued

These are securities subject to hedging of a micro fair value hedge type; derivatives used as hedging instruments are primarily IRS. The hedged risk is the interest rate risk.

In order to verify the efficacy of the hedge the *Dollar Offset Method is used*. This method is based on the relationship between the cumulated changes (from the beginning of the hedging) in the fair value of the hedging instrument, attributable to the hedged risk, and the past changes in the fair value of the hedged item.

E.3 Fixed-rate commercial loans

In these cases, the hedging relationships in place are of a macro fair value hedge type and the derivatives used as hedging instruments are primarily IRS. The hedged risk is the interest rate risk.

The effectiveness of the macro hedging on fixed-rate loans is measured based on specific forward-looking and retrospective tests aimed at demonstrating that the portfolio subject to hedging contains an amount of assets of which the sensitivity profile and the changes in the fair value for the interest rate risk reflect those of the hedging derivatives. It must be noted that for the purpose of the forward-looking and the retrospective tests, the portfolio subject to hedging takes into account the prepayment estimates, determined on the basis of the model used from time to time for managing the interest rate risk.

E.4 Optional component implicit in the floating-rate mortgage loans;

The optional components implicit in the mortgage loans with floating interest rate are hedged with a macro fair value hedge using, as hedging instruments, cap/floor derivatives.

The effectiveness of the hedging is verified by using the resilience of the capacity test.

E.5 Fixed-rate commercial funding

Fixed-rate commercial funding is subject to hedging relationships of a macro hedge fair value type, primarily through the use of hedging instruments such as IRS derivatives. The hedged risk is the interest rate risk.

The effectiveness of the macro hedges on the commercial funding with fixed interest rate is verified using the Dollar Offset Method. This method is based on the relationship between the cumulated changes (from the beginning of the hedging) in the fair value of the hedging instrument, attributable to the hedged risk, and the past changes in the fair value of the hedged item. The effectiveness is verified through a capacity test that compares the amount of the hedged items and the amount of the hedging instrument.

Other information

Following, as required in IFRS 7.24H, is the table containing details, by nominal amounts, of the hedging according to the reference index of the interest rates.

Interest rates	Nominal Hedging		Total
	Micro - FVH	Macro - FVH	
EURIBOR 1M	1,250,000	3,998,315	5,248,315
EURIBOR 3M	3,646,448	2,926,215	6,572,663
EURIBOR 6M	7,075,804	8,569,734	15,645,538
USD LIBOR 3M	412,523		412,523
3M USDEUR BASIS	41,072		41,072
EURIBOR 30Y CMS	80,097		80,097
Total	**12,505,944**	**15,494,265**	**28,000,208**

The table shows the notional amounts of hedging derivatives inclusive of the netting carried out pursuant to IAS 32.

The Group does not show any significant hedging index-linked to Eonia/Libor, therefore:

- the significant reference index for the Group hedging is the Euribor;
- the risk exposure impacted by the index reform is not substantial;

Lastly, it should be noted that the Group:

-
- has set out a specific project intervention regarding the reform of financial indexes and the transition to new risk free rates, and it monitors any regulatory changes;
- has used a regulatory internal document where the actions to be undertaken are described in the case of a substantial change to, or discontinuation of, an index;
- with a view to the transition to the new *risk-free* rates, during 2020, all hedging derivatives brokered through the *Clearing House* were adjusted to the new €str.

Quantitative Information

A. Financial hedging derivatives

A.1 Financial hedging derivatives: end of period notional amounts

Underlying asset/Type of derivative	Total 31 12 2020				Total 31 12 2019			
	Over the counter				Over the counter			
		No Central counterparties				No Central counterparties		
	Central couterparties	Contracts subject to master netting agreements	Contracts not subject to master netting agreements	Organised financial markets	Central couterparties	Contracts subject to master netting agreements	Contracts not subject to master netting agreements	Organised financial markets
1. Debt securities and interest rate	**-**	**27,529,288**	**-**	**-**	**-**	**43,472,849**	**-**	**-**
a) Options	-	6,865,845	-	-	-	8,192,756	-	-
b) Swaps	-	20,663,443	-	-	-	35,280,093	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity securities and stock indices	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Exchange rates and gold	**-**	**356,450**	**-**	**-**	**-**	**389,354**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	356,450	-	-	-	389,354	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
5.Other underlying	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**-**	**27,885,738**	**-**	**-**	**-**	**43,862,203**	**-**	**-**

A.2 Financial hedging derivatives: gross positive and negative fair value - breakdown by products

Underlying asset/Type of derivative	Total 31 12 2020				Total 31 12 2019			
	Over the counter			Organised financial markets	Over the counter			Organised financial markets
	Central couterparties	No Central counterparties			Central couterparties	No Central counterparties		
		Contracts subject to master netting agreements	Contracts not subject to master netting agreements			Contracts subject to master netting agreements	Contracts not subject to master netting agreements	
1. Positive fair value								
a) Options	-	58	-	-	-	960	-	-
b) Interest rate swap	-	169,877	-	-	-	214,997	-	-
c) Cross currency swap	-	-	-	-	-	2,129	-	-
d) Equity swap	-	-	-	-	-	-	-	-
e) Forward	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-
g) others	-	-	-	-	-	-	-	-
Total	**-**	**169,935**	**-**	**-**	**-**	**218,086**	**-**	**-**
2. Negative fair value								
a) Opzioni	-	223,470	-	-	-	93,528	61,522	-
b) Interest rate swap	-	1,685,881	-	-	-	1,272,019	-	-
c) Cross currency swap	-	8,250	-	-	-	37,647	-	-
d) Equity swap	-	-	-	-	-	-	-	-
e) Forward	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-
g) Others	-	-	-	-	-	-	-	-
Total	**-**	**1,917,601**	**-**	**-**	**-**	**1,403,194**	**61,522**	**-**

A.3 Financial OTC hedging derivatives: notional amounts, gross positive and negative fair value for counterparties

31 12 2020

Underlying assets	Central counterparties	Banks	Other financial companies	Other entities
Contracts not subject to master netting agreements				
1) Debt securities and interest rates				
2) Equity securities and stock indices				
3) Exchange rates and gold				
4) Commodities				
5) Other underlying				
Contracts subject to master netting agreements				
1) Debt securities and interest rates				
- notional value	-	26,890,691	638,596	-
- positive fair value	-	169,658	277	-
- negative fair value	-	1,829,707	79,644	-
2) Equity securities and stock indices				
3) Exchange rates and gold				
- notional value	-	356,450	-	-
- positive fair value	-	-	-	-
- negative fair value	-	8,250	-	-
4) Commodities				
5) Other underlying				

A.4 Residual life of financial OTC hedging derivatives: notional amounts

Underlying asset/residual life	Up to 1 year	1 to 5 years	Over 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	2,988,778	10,486,090	14,054,420	27,529,288
A.2 Financial derivatives on equity securities and stock indices	-	-	-	-
A.3 Financial derivatives on exchange rates and gold	356,450	-	-	356,450
A.4 Financial derivatives on commodities	-	-	-	-
A.5 Other financial derivatives				
Total 31 12 2020	**3,345,228**	**10,486,090**	**14,054,420**	**27,885,738**
Total 31 12 2019	**18,361,870**	**11,124,096**	**14,376,236**	**43,862,202**

B. Credit hedging derivatives

B.1 Credit hedging derivatives: end of period notional amounts

B.2 Credit hedging derivatives: gross positive and negative fair value - breakdown by products

B.3 OTC credit hedging derivatives: notional amounts, gross positive and negative fair value for counterparties

B.4 Residual life of OTC credit hedging derivatives: notional amounts

The table above was not completed as the Group had no outstanding credit hedging derivatives for either the current or the previous year.

C. Non-derivative hedging instruments

C.1 Hedging instruments other than derivatives: breakdown by accounting portfolio and type of hedging

D. Hedged instruments

D.1 Fair value hedging

D.2 Cash-flow and foreign investment hedging

E. Effects of hedging transactions on equity

E.1. Reconciliation of equity items

The tables for Sections C, D and E were not completed, as the Group exercised the option, envisaged on first-time application of IFRS 9, to continue to use, as regards “hedge accounting”, the provisions of IAS 39.

1.3.3 Other information on derivatives (trading and hedging)

A. Financial and credit derivatives

A.1 OTC financial and credit derivatives: net fair values for counterparties

31 12 2020

Underlying assets	Central counterparties	Banks	Other financial companies	Other entities
A. Financial derivatives				
1. Debt securities and interest rates				
- notional value	-	84,739,687	122,562,849	-
- positive fair value	-	-	16,637	-
- negative fair value	-	1,113,481	100,498	-
2. Equity securities and stock indices				
- notional value	-	-	4,048,782	-
- positive fair value	-	-	63,886	-
- negative fair value	-	-	-	-
3. Exchange rates and gold				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
4) Commodities				
- notional value	-	-	217,123	-
- positive fair value	-	-	2,236	-
- negative fair value	-	-	-	-
4. Other underlying				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
B. Credit derivatives				
1. Purchase of protection				
- notional value	-	-	160,000	-
- positive fair value	-	-	-	-
- negative fair value	-	-	8,445	-
2. Sales of protection				
- notional value	-	-	45,000	-
- positive fair value	-	-	2,984	-
- negative fair value	-	-	-	-

The table shows the positive or negative *fair values* of the derivatives subject to offsetting pursuant to IAS 32.42.

1.4 - Liquidity risk

Qualitative Information

A. Liquidity risk: general aspects, operational processes and measurement methods

In 2020, the Montepaschi Group continued to strengthen and boost the efficiency of its strategic and operating liquidity risk management processes, placing particular attention to the integration of metrics on concentration risk within the scope of corporate decision-making processes and regulatory developments affecting the Liquidity Coverage Ratio.

Group Liquidity Risk Framework

The Montepaschi Group has used a Liquidity Risk Framework for many years now, intended as the set of tools, methodologies, organisational and governance set-ups which ensures both compliance with national and international regulations and adequate liquidity risk governance in the short (Operating Liquidity) and medium/long (Structural Liquidity) term, under business as usual and stress conditions.

The reference Liquidity Risk model for the Montepaschi Group is "centralised" and calls for the management of short-term liquidity reserves and medium/long-term financial balance at Parent Company level, guaranteeing solvency on a consolidated and individual basis for the subsidiaries.

The internal assessment of liquidity adequacy is a process that is part of the more general Risk Management macro-process, in direct connection with the Risk Appetite Framework (RAF) through the annual formulation of the Risk Appetite Statement (RAS) with related thresholds.

The overall internal liquidity adequacy assessment takes place periodically as part of the strategic ILAAP (Internal Liquidity Adequacy Assessment Process) process consisting mainly of:

- *ILAAP Outcomes,* or quantitative (inherent risk) and qualitative (risk management and controls) assessments on risk positioning prepared by the Risk Control function and submitted to the Board of Directors, the document accompanied by the so-called Liquidity Adequacy Statement (LAS), i.e., the summary statement of the Board of Directors which expresses its vision and awareness for the purposes of liquidity adequacy management.
- *ILAAP ongoing,* which consists substantially of periodical analyses of liquidity adequacy which are described in reports to the corporate bodies

Liquidity Risk Management

The management of the Group's Operational Liquidity aims at ensuring the capacity of the Montepaschi Group to meet the cash payment obligations within a short-term time frame. The essential condition for a normal course of business in banking is the maintenance of a sustainable imbalance between cash inflows and outflows in the short term. From the operational perspective, the benchmark metric in this respect is the difference between net cumulative cash flows and Counterbalancing Capacity, i.e. the reserve of liquidity in response to stress conditions over a short time horizon, in addition to the Liquidity Coverage Ratio (LCR) regulatory measure - Delegated Act. From the extremely short-term perspective, the Group adopts a system for the analysis and monitoring of intraday liquidity, with the goal of ensuring normal development during the day of the Group's treasury and its capacity to meet its intraday payment commitments.

Management of the Group's Structural Liquidity is intended to ensure the structural financial balance by maturity buckets over a time horizon of more than one year, both at Group and individual company level. Maintenance of an adequate dynamic ratio between medium/long-term assets and liabilities is aimed at preventing current and prospective short-term funding sources from being under pressure. The benchmark metrics are gap ratios which measure the ratio of total deposits and loans over more-than-1-year and more-than-5-year maturity deposits and the ratio of commercial deposits and collections in addition to the regulatory measurement of the Net Stable Funding Ratio (NSFR) in accordance with the BCBS definition. The Montepaschi Group also defined and formalised:

- the asset encumbrance management and monitoring framework with the goal of analysing:
  - the overall degree of encumbrance of total assets;
  - the existence of a sufficient quantity of assets that may be encumbered but which are free;
  - the Montepaschi Group's capacity to transform bank assets into eligible assets (or in an equivalent manner, to encumber non-eligible assets in bilateral transactions);

and

- the monitoring framework of the Concentration Risk, with the goal of analysing:
  - the concentration of the funding sources, by counterparty and by type of channel;
  - the concentration of the assets composing the liquidity reserves of the Montepaschi Group.

The liquidity position is monitored under business-as-usual conditions and under specific, system-wide and/or combined stress scenarios (with adverse and extreme intensity) according to the Liquidity Stress Test Framework. The purposes of these exercises are:

- to show, in a timely manner, the main Montepaschi Group's vulnerability to liquidity risk;
- to calculate the survival time frame of the Montepaschi Group under stress conditions;
- to enable a prudential determination of surveillance levels, to be applied to the Liquidity Risk measurement metrics within the scope of the annual Risk Appetite Statement.

Within the scope of Risk Appetite Framework, the Liquidity Risk Framework identifies the tolerance thresholds for liquidity risk, that is to say the maximum risk exposure deemed sustainable in a business-as-usual scenario and under stress conditions. The short/medium and long-term liquidity risk limits derive from the setting of these risk appetite thresholds.

The system of operating limits, known as Liquidity Risk Limits, is defined so as to make it possible to promptly identify approaches to the risk tolerance threshold as defined in the annual Risk Appetite Statement process.

In order to immediately identify the emergence of vulnerabilities in the liquidity's position, the Group Montepaschi has developed a range of Early Warnings, classified as generic or specific depending on whether the individual indicator is designed to detect potential vulnerabilities in the overall economic context of reference or in the Montepaschi Group structure.

Group's Liquidity Management

Operating and Structural Liquidity management is governed by the Parent Company's Liquidity Management Department, which is responsible for defining and implementing funding strategies in the short and medium/long-term.

With reference to the management of Operating Liquidity, the Liquidity Management Function manages the Montepaschi Group's "liquidity reserves" so as to guarantee the Parent Company's capacity to deal with expected and unexpected outflows, to that end making recourse to various interbank market instruments (unsecured deposits, collateralised deposits, repos) as well as transactions with the Central Bank.

With reference to the management of Structural Liquidity, the Liquidity Management Function pursues the objectives detailed in the annual Funding Plan, which operationally implements the medium-long term strategies defined in the "Liquidity and Funding Strategy". The Group's Liquidity and Funding Strategy defines the funding activity guidelines of the Montepaschi Group in terms of risk appetite, with a three-year time horizon, in compliance with the long-term risk tolerance thresholds on operating and structural liquidity indicators, internal and regulatory, defined within the Group's Risk Appetite Statement (RAS).

In addition, to complete the Funding Plan, Liquidity Management prepares the Contingency Funding Plan, which represents the operational tool for liquidity risk management intended to define intervention strategies in the case of extreme liquidity tensions, laying out procedures and actions that may be promptly activated to obtain sources of funds in emergencies. The strategies to be applied are defined on a case by case basis by the Management Committee at its Liquidity Stress/Crisis session considering the type, duration and intensity of the crisis and the reference context when the crisis takes place.

Liquidity position: regulatory indicators

The Montepaschi Group uses the following main indicators to assess its liquidity profile:

- *Liquidity Coverage Ratio (LCR),* which is the short-term liquidity indicator corresponding to the ratio between the amount of high quality liquid assets and the total net cash outflows in the subsequent 30 calendar days. Starting from 2018, the indicator has been subject to a minimum regulatory requirement of 100%;
- *Net Stable Funding Ratio (NSFR),* which is the structural 12-month liquidity indicator corresponding to the ratio between the available stable funding amount and the compulsory stable funding amount. Although there is currently no minimum regulatory requirement for this indicator (which will come into effect on 30 June 2021), it is included in supervisory reporting every quarter;

- *Loan to Deposit Ratio, representing the ratio between loans to customers and direct funding, excluding transactions with central counterparties.*

Trends in these three indicators during the reference period are shown below.

	Regulatory requirement	31 12 2020	31 12 2019
LCR	100%	196.7%	152.4%
NSFR *	n.a	123.8%	112.6%
Loan to Deposit Ratio **	n.a	79.7%	85.1%

(*) It should be noted that the figure relating to the NSFR represents a calculation, provided exclusively for information purposes and is calculated according to the provisions set out in the document published by the Basel Committee in October 2014 (Basel III: The net stable funding ratio, Basel Committee on Banking Supervision), pending the regulatory provisions (in force as of 30 June 2021) which could be different both with reference to the aggregates to be considered and with respect to any weighting factors to be applied to them.

(**) Calculated as the ratio between loans to customers and the sum of customer deposits including bonds issued (deposits from customers, debt securities issued and financial liabilities measured at fair value).

The short-term liquidity indicator, the Liquidity Coverage Ratio (LCR), was 196.7% as at 31 December 2020, higher than the minimum regulatory requirement for 2020 (100%), and up from December 2019 (152.4%).

The medium/long-term liquidity indicator, the Net Stable Funding Ratio (NSFR), was 123.8% as at 31 December 2020, up from December 2019 (112.6%).

As at 31 December 2020, the operating liquidity position showed an unencumbered counterbalancing capacity level of EUR 33.1 bn, up compared to 31 December 2019 (EUR 24.7 bn).

The trend of the regulatory liquidity indicators between 2019 and 2020 (in particular LCR) was affected by the approaching of the maturity date, between January and March 2020, of the Notes with Government Guarantees (GGB) issued by the Parent Company in 2017 .

In 2020, there were significant deadlines, represented in particular by:

- EUR 8 bn in Government-Backed Securities (GGB) issued by the Parent Company in 2017 (EUR 4 bn maturing in January and EUR 4 bn maturing in March) and

- EUR 12 bn of TLTRO II (EUR 5.5 bn maturing in June and EUR 6.5 bn maturing in September, repaid in advance in March and June, respectively).

As regards direct deposits from customers, this recorded a much higher positive trend than expected, with a significant increase in deposits, in a context of high propensity to save as a precautionary measure by households and due to the effect of a widespread prudence by companies and the postponement of many investment programs.

In terms of institutional funding, access to the primary market of public bonds was complicated for many months by the macro scenario and the resulting financial tensions; in spite of this, the Parent Company exploited the available market windows in order to at least partially implement the envisaged institutional funding plans.

As regards this matter, the Parent Company carried out, in 2020, the following transactions:

- in January, a "Tier 2" subordinated bond loan with 10-year maturity, 8% coupon, in the amount of EUR 400 mln;
- in January, a "Senior Preferred" unsecured bond loan with 5-year maturity, 2.625% coupon, in the amount of EUR 750 mln;
- in September, a "Tier 2" subordinated bond loan with 10-year maturity, 8.5% coupon, in the amount of EUR 300 mln;

- in December, a "Senior Preferred" unsecured bond loan with 5-year maturity, 1.875% coupon, in the amount of EUR 750 mln.

The Montepaschi Group was also able to benefit from the impressive extraordinary monetary policy measures announced by the ECB in March, with particular reference to the expansion of the criteria for the use of collateral for refinancing in the ECB, for the increase in the access ceiling TLTROIII refinancing operations and the improvement of the related economic conditions. In this regard, during 2020 the Montepaschi Group had access to:

- to TLTRO III of June 2020 for EUR 17 bn;
- to TLTRO III of September 2020 for EUR 3 bn;

bringing the total amount of TLTRO III outstanding for the Montepaschi Group to EUR 24 bn, in consideration of the previous participation in TLTRO III in December 2019 for EUR 4 bn.

A significant positive impact on the Group's liquidity position in 2020 was also produced by Hydra M transaction, which became effective on date 1 December 2020.

Impacts deriving from the COVID-19 pandemic

It should be noted that the Montepaschi Group did not need to resort to the temporary reliefs on liquidity, granted by the ECB following the stress induced by the COVID-19 pandemic.

Despite the significant maturities represented above, the liquidity indicators remained at levels well above regulatory levels, thanks to the positive performance of direct commercial deposits, access to the market of public issues intended for institutional investors, as well as the effects of extraordinary monetary policies implemented to deal with the effects of the COVID-19 pandemic.

Quantitative Information

1. Breakdown of financial assets and liabilities by residual contractual duration - Currency: Euro

31 12 2020

Account / Maturity	On demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	over 5 years	Unspecified maturity
Balance-sheet assets	13,344,212	5,635,702	1,704,547	2,250,030	4,077,812	4,091,001	6,435,541	31,464,339	40,074,596	28,371,229
A.1 Government securities	183	-	352,324	18,444	657,690	148,298	1,737,386	7,056,094	5,203,326	-
A.2 Other debt securities	289,900	265	2,901	54,898	22,914	23,673	42,841	752,553	3,691,340	-
A.3 Units of UCITS	183,526	-	-	-	13	-	-	-	-	-
A.4 Loans	12,870,603	5,635,437	1,349,322	2,176,688	3,397,195	3,919,030	4,655,314	23,655,692	31,179,930	28,371,229
- Banks	4,152,960	139,582	518,842	51,974	210,193	70,853	30,377	54,635	52,648	28,301,552
- Customers	8,717,643	5,495,854	830,480	2,124,714	3,187,002	3,848,177	4,624,938	23,601,057	31,127,282	69,678
Balance-sheet liabilities	75,446,449	8,609,611	440,047	666,056	1,023,214	2,953,900	2,641,308	38,520,021	4,800,996	795,544
B.1 Deposits and current accounts	68,065,065	75,557	121,108	226,194	754,836	929,822	565,963	6,115,977	-	-
- Banks	513,585	-	-	-	-	-	5,000	66,570	-	-
- Customers	67,551,480	75,557	121,108	226,194	754,836	929,822	560,963	6,049,407	-	-
B.2 Debt securities	807,338	63	14,747	102,325	12,028	1,166,441	183,356	6,043,094	3,980,272	795,544
B.3 Other liabilities	6,574,046	8,533,991	304,192	337,537	256,350	857,637	1,891,989	26,360,950	820,724	-
Off-balance-sheet transactions										
C.1 Financial derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	56,638	546,683	134,977	419,857	1,008,890	775,264	467,725	899,573	980,151	-
- short positions	84,595	1,099,485	463,470	389,851	1,348,735	436,478	858,457	357,371	284,006	-
C.2 Financial derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	5,874,822	-	244	20,639	5,195	30,934	34,646	-	-	-
- short positions	4,692,830	-	-	5,081	28,267	13,145	60,340	-	-	-
C.3 Deposits and borrowings to be received	-	-	-	-	-	-	-	-	-	-
- long positions	-	5,476,734	-	-	-	-	-	-	-	-
- short positions	-	5,476,734	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	-	-	-	-	-	-	-	-	-	-
- long positions	209,386	1,869,506	-	-	-	1,163,158	1,549,872	1,291,740	885,629	-
- short positions	1,489,671	3,001,122	-	29,961	14,979	904,824	1,066,349	462,384	-	-
C.5 Financial guarantees given	27,427	81	56	317	10,077	6,399	12,992	29,829	679	42
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	42,597	1,395,557	2,260,151	-
- short positions	-	-	-	-	-	-	42,597	1,395,557	2,260,151	-
C.8 Credit derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	757	-	-	-	-	-	-	-	-	-
- short positions	4,576	-	-	-	-	-	-	-	-	-

2. Breakdown of financial assets and liabilities by residual contractual duration - Currency: Other

31 12 2020

Account / Maturity	On demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	over 5 years	Unspecified maturity
Balance-sheet assets	293,987	58,120	85,932	119,397	249,627	72,910	70,808	216,773	654,029	1,987
A.1 Government securities	5	-	-	-	501	1,006	1,810	16,931	57,046	-
A.2 Other debt securities	2,380	-	9	118	3,650	2,620	8,494	117,727	583,684	-
A.3 Units of UCITS	26,936	-	-	-	-	-	-	-	-	-
A.4 Loans	264,666	58,120	85,923	119,279	245,476	69,284	60,504	82,115	13,299	1,987
- Banks	176,432	46,236	45,129	49,581	107,719	25,062	27,118	4,677	-	-
- Customers	88,234	11,883	40,794	69,699	137,758	44,223	33,386	77,438	13,299	1,987
Balance-sheet liabilities	585,087	91	48,425	203,336	81,643	3,269	14,437	-	-	-
B.1 Deposits and current accounts	554,162	91	-	1,040	36,517	3,269	13,974	-	-	-
- Banks	34,936	-	-	-	-	-	-	-	-	-
- Customers	519,226	91	-	1,040	36,517	3,269	13,974	-	-	-
B.2 Debt securities	-	-	-	-	19,690	-	-	-	-	-
B.3 Other liabilities	30,925	-	48,425	202,296	25,436	-	463	-	-	-
Off-balance-sheet transactions										
C.1 Financial derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	3,912	422,723	314,815	392,343	175,688	230,925	83,850	57,598	8	-
- short positions	3,686	290,966	54,624	411,699	714,827	464,682	253,721	79,582	-	-
C.2 Financial derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	385,753	-	-	-	-	11	-	-	-	-
- short positions	279,124	-	-	-	407	-	397	-	-	-
C.3 Deposits and borrowings to be received	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	13	4,053	42	202	868	-	-
- short positions	5,177	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	228	-	-	-	12	-	20,373	1,656	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	12,876	29,337	39,117	-	-
- short positions	-	-	-	-	-	12,876	29,337	39,117	-	-
C.8 Credit derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

Self-securitisations

The securitisation transactions whereby the Group underwrites securities issued by vehicle companies (self-securitisations) are not shown in the tables of Part E of the Notes to the Financial Statements, section "C. Securitisation and asset disposal transactions", pursuant to the provisions of Bank of Italy Circular 262.

Self-securitisations of assets are transactions aimed at improving liquidity risk management by optimising the amount of assets readily available to cover liquidity requirements.

Although the Group's direct and full underwriting of the notes issued by the vehicles does not make it possible to obtain direct liquidity from the market, it still provides the Group with securities that could be used for ECB refinancing (limited to the senior tranches as ECB eligible) and for reverse purchase agreements by increasing the availability of disposable assets, thus improving the MPS Group safety margin against liquidity risk (counterbalancing capacity). These transactions had no economic impact on the financial statements: loans continue to be reported under item 40b) "Financial assets measured at amortised cost: loans to customers" on the assets side, while underwritten notes are not reported.

As at 31 December 2020, this category includes the self-securitisations completed in December 2007 (Siena Mortgages 07–5), April 2008 (Siena Mortgages 07-5 II series), April 2009 (Siena Mortgages 09-6), January 2016 (Siena Lease 2016-2) [44] and October 2016 (Siena PMI 2016).

Siena Mortgages 07-5, I and II series

On 21 December 2007, through the vehicle Siena Mortgages 07-5 S.p.a., the Parent Company finalised a securitisation of performing loans consisting of a portfolio of 57,968 residential mortgage loans for a total of EUR 5,162.4 mln, of which a balance of EUR 905.8 mln (17,607 mortgage loans) outstanding as at 31 December 2020.

In order to fund the acquisition, the Vehicle issued *Residential Mortgage Backed Floating Rate Notes* (RMBS) in the following classes, rated by Moody's and Fitch as at 31 December 2020:

- Class A notes (Aa3 and AA-) for a nominal amount of EUR 4,765.9 mln, of which EUR 4,269.7 mln redeemed;
- Class B notes (Aa3 and AA-), for a nominal amount of EUR 157.4 mln;
- Class C notes (B3 and B-), for a nominal amount of EUR 239.0 mln.

A cash reserve was also set up to support the transaction for an amount of EUR 124.0 mln, through the issuance of class D notes, and posted under asset item 40 b) "Financial assets measured at amortised cost: loans to customers". The transaction reached the Protection Ratio (ratio between total Class B and C notes and total Class A, B and C notes) which allowed for the gradual reduction of the cash reserve: EUR 25.2 mln as at 31 December 2020.

Through the same vehicle (Siena Mortgages 07-5 S.p.A.), on 24 April 2008 a second transaction was finalised (Siena Mortgages 07-5 second series), collateralised by a separate pool of assets consisting of an additional sale of a portfolio of performing loans composed of 41,888 residential mortgage loans for a total of EUR 3,461.0 mln and with a residual life of about 20 years.

As at 31 December 2020, 11,036 mortgage loans of this portfolio were outstanding for a balance of EUR 696.1 mln.

To fund the acquisition of loans, the Vehicle issued RMBS notes in the following classes, rated by Moody's and Fitch as at 31 December 2020:

- Class A notes (Aa3 and AA-) for a nominal amount of EUR 3,129.4 mln, of which EUR 2,731.2 mln redeemed;
- Class B notes (Aa3 and AA-), for a nominal amount of EUR 108.3 mln;
- Class C notes (NR and B-), for a nominal amount of EUR 178.3 mln.

[44] The Siena Lease 2016-2 transaction, following redemption of the securities initially placed on the market, became a self-securitisation in 2019 since the outstanding securities were entirely underwritten by the originator MPS Leasing & Factoring

A cash reserve was also set up to support the transaction for an amount of EUR 81.9 mln, through the issuance of class D notes, and posted under asset item 40 b) "Financial assets measured at amortised cost: loans to customers". The transaction reached the Protection Ratio (ratio between total Class B and C notes and total Class A, B and C notes) which allowed for the gradual reduction of the cash reserve which amounted to EUR 15.2 mln as at 31 December 2020.

Siena Mortgages 09-6, I series

On 22 April 2009 the Parent Company finalised a securitisation through the vehicle Siena Mortgages 09 – 6 Srl of a portfolio of performing mortgage loans in real estate and building for a total of EUR 4,436.5 mln. As at 31 December 2020, the remaining debt balance stands at EUR 1,014.2 mln, for a total of 16,549 mortgage loans.

In order to fund the acquisition of the portfolio sold, the Vehicle issued Residential Mortgage Backed Floating Rate Notes (RMBS) in the following classes, rated by Moody's and Fitch as at 31 December 2020:

- Class A notes (Aa3 and AA-) for a nominal amount of EUR 3,851.3 mln, of which EUR 3,454.3 mln redeemed;
- Class B notes (NR and AA-) for a nominal amount of EUR 403.7 mln;
- Class C notes (NR and A-), for a nominal amount of EUR 181.4 mln.

A cash reserve was also set up to support the transaction for an amount of EUR 106.5 mln, through the issuance of class D notes, and posted under asset item 40 b) "Financial assets measured at amortised cost: loans to customers". As at 31 December 2020, the reserve amounted to EUR 137.2 mln.

Siena PMI 2016

In 2016 the Parent Company carried out a securitisation through the vehicle named Siena PMI 2016 S.r.l. The transaction was finalised on 30 September 2016 through the sale of a portfolio of performing loans to Italian small and medium sized enterprises, for a total of EUR 1,739.3 mln. As at 31 December 2020, the remaining debt balance stands at EUR 298.0 mln, for a total of 5,747 mortgage loans.

In order to fund the acquisition of the portfolio sold, on 27 October 2016, the Vehicle issued Asset-Backed Securities (ABS) in the following classes, rated by Fitch and DBRS as at 31 December 2020:

- Class A1 notes for a nominal amount of EUR 470.0 mln, redeemed in full;
- Class A2 notes for a nominal amount of EUR 400.0 mln, redeemed in full;
- Class B notes, for a nominal amount of EUR 150.0 mln, redeemed in full;
- Class C notes (BBB and AA) for a nominal amount of EUR 313.0 mln, of which EUR 274.7 mln redeemed;
- Class J notes (not rated) for a nominal amount of EUR 406.3 mln, of which EUR 121.2 mln already redeemed.

Siena Lease 2016-2 Srl

On 3 December 2015, the subsidiary MPS Leasing & Factoring sold a portfolio consisting of 13,181 performing finance leases totalling EUR 1,619.8 mln to the Vehicle company "Siena Lease 2016-2 Srl". As at 31 December 2020, the remaining debt balance amounted to EUR 599.9 mln (2,982 outstanding lease contracts).

In order to fund the acquisition of this portfolio, on 28 January 2016 the Vehicle issued Asset-Backed Securities (ABS) in the following classes, rated by Moody's e Fitch as at 31 December 2020:

- Class A notes for a nominal amount of EUR 761.3 mln, redeemed in full;
- Class B notes for a nominal amount of EUR 202.5 mln, redeemed in full;
- Class C notes (Aa3 and A+), for a nominal amount of EUR 202.5 mln, of which EUR 63.7 mln redeemed;
- Class D notes (Ba2 and NR) for a nominal amount of EUR 251.0 mln.
- Class J notes (not rated) for a nominal amount of EUR 202.5 mln.

1.5 – Operational risk

Qualitative Information

A. Operational risk: general aspects, operational processes and measurement methods

General aspects and Framework structure

By an administrative ruling dated 12 June 2008, the Bank of Italy authorised the Group to use internal models for the determination of capital requirements for credit and operational risks.

The adoption of the advanced model (AMA) calls for banks to:

1. adopt an internal organisation which defines the roles of the corporate bodies and functions involved in the operational risk management process;
2. establish a control function for data gathering and storing, capital requirement calculation, risk profile assessment and reporting;
3. perform ongoing checks on the quality of the management system and its compliance with regulatory provisions;
4. delegate the internal auditing body to perform periodic audits on the operational risk management system;
5. guarantee over time that the system is actually used by the corporate management (use test).

For this purpose, the Group has adopted an integrated system for operational risk management, i.e. an internal framework built around a governance model that involves all companies included in the AMA model scope of application. The approach defines the standards, methods and instruments that make it possible to measure risk exposure and the effects of mitigation by business area.

The advanced approach is designed to integrate all major qualitative and quantitative (LDA-Scenario mixed model) information sources (information or data).

The quantitative Loss Distribution Approach (LDA) component is based on the collection, analysis and statistical modelling of internal and external time series of loss data (the latter supplied by the Italian Database of Operational Losses, DIPO).

The qualitative component focuses on the evaluation of the risk profile of each unit and is based on the identification of relevant scenarios. In this framework, the companies included in the AMA scope area are involved in the: identification of the processes and risks to be assessed; assessment of risks by process managers in charge; identification of possible mitigation plans; discussion of priorities and technical-economic feasibility of mitigating actions with Head Office functions.

Next is a phase for monitoring progress on the implementation of actions scheduled and compliance with objectives and deadlines.

The Framework identifies Group Operational Risk Management (ORM) as the operational risk control function (within Parent Company's Chief Risk Officer Department).

The Parent Company's ORM calculates the capital required to hedge operational risks by the use of different components of the model (internal data, external data, contextual and control factors, qualitative analyses), supports decision-making by Top Management from the standpoint of creating value by containment, mitigation and transfer of the risks detected, and as it does for other companies included in the scope, it gathers internal loss data and identifies the risks to be evaluated in qualitative analyses.

The Advanced Measurement Approach (AMA) is applied to all domestic financial and banking entities, while the foundation model is used for remaining components and foreign companies. As at 31 December 2020 internal model coverage in terms of the relevant indicator exceeded 95%.

ORM has also set up a reporting system which ensures timely information on operational risks for the Top Management, which transposes the strategic principles of the management system into specific operating policies. Reports are regularly submitted to the Risk Management Committee and governing bodies.

Over time, the adoption of the AMA model has ensured better-informed management of operational risk, guaranteeing a material progressive reduction of the Group's operational risk.

As of 30 June 2017, the Advanced Measurement Model was changed to increase the historical depth of internal loss data from 5 to 10 years and to introduce the scaling of external data in order to discourage unexpected requirement fluctuations.

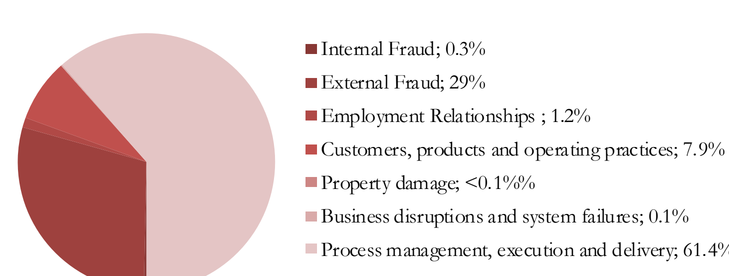
Impacts deriving from the COVID-19 pandemic

The COVID-19 health emergency required, in order to guarantee operational continuity and to support the country and protect its production fabric in accordance with legislative provisions, a timely review and/or extension by the Group of some existing processes, such as those relating to digital services, *web collaboration tools, smart working* and the provision of "in derogation" methods, for example for contract formalisation processing.
Operating in this context could inevitably lead to an increase in exposure to operational risks to which the Group is potentially exposed as a result of possible legal disputes, potential fraud, *cyber* attacks also due to the increased dependence on infrastructures and network equipment to guarantee user access to information systems and business continuity.
Therefore, during the year, the Group revised certain objectives of the risk strategy and adopted numerous measures to mitigate the associated risks, providing for the strengthening of the IT access authentication system, the identification of customers in branch office processes and control and monitoring systems for *cyberattacks*.

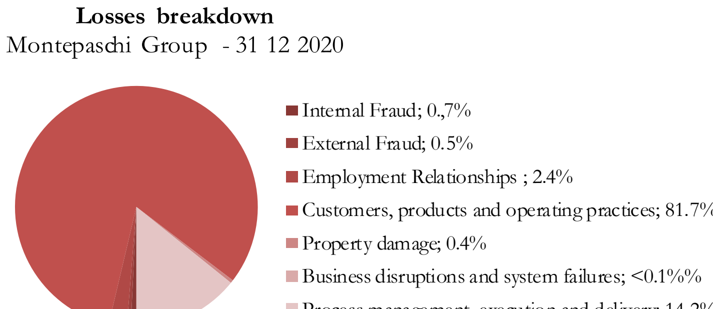
Quantitative Information

Following is the percentage breakdown of the number of events and operating losses recognised in 2020, broken down into risk classes:

Events breakdown
Montepaschi Group - 31 12 2020



Losses breakdown
Montepaschi Group - 31 12 2020



As at 31 December 2020, the number of operational risk events and the losses were significantly up compared to December 2019.

The types of event with the greatest impact on the income statement remain attributable to non-fulfilment of professional obligations with customers (under "Customers, products and operating practices": approximately 82% of the total) and operational and process management shortfalls (under "Process management, execution and delivery": approximately 14% of the total).

With regard to "non-fulfilment of professional obligations with customers", events are mainly associated with legal disputes for share capital increases transactions in previous years.

By contrast, the graph below shows the breakdown of regulatory requirements by risk class:

The Regulatory Requirement as at 31 December 2020 was up compared to December 2019, due to the increase in the recorded operating losses mainly referring to the above mentioned legal disputes.

The breakdown of operating losses recognised in the period differs from the breakdown of the requirement in that the latter is calculated using a 10-year time series and was predominantly due to the unexpected loss component.

Main types of legal, employment and tax risks

The health emergency deriving from the spread of COVID-19 resulted in the adoption of government measures as regards the management and organisation of civil and criminal justice.

Specifically, "Cura Italia" Law Decree 18/2020 and "Company Liquidity Decree" Law Decree 23/2020 were issued, providing for a generalised suspension (without prejudice to specific exceptions) of the procedural terms and hearings in the 9 March - 11 May 2020 period, leaving it up to the individual judicial offices to decide how to handle "phase 2". In this context, the proceedings involving the MPS Group also experienced slowdowns and deferments, with a generalised postponement of procedural expiries as well as hearings, scheduled, mostly electronically, from September in compliance with the rights of defence of the parties as established by each judicial office.

Some information is reported below including, when relevant and/or advisable, that relating to individual claims with reference to significant issues involving the MPS Group and which are not considered completely groundless or normal within the context of the activities of the Group companies.

Legal disputes and out-of-court claims

The risks associated with legal disputes – i.e. disputes brought before judicial authorities and arbitrators – are carefully reviewed by the Group.

In case of disputes and out-of-court claims for which the disbursement of financial resources to perform the underlying legal obligation is believed to be "probable" and the relevant amount can be reliably estimated, allocations are made to the Provisions for risks and charges using statistical or analytical criteria.

The following were pending as at 31 December 2020:

- legal disputes with a total claim, where quantified, of approximately EUR 5.1 bn. In particular:
  - approx. EUR 2.5 bn in claims regarding disputes for which there is a "probable" risk of losing the case, for which provisions of EUR 1.0 bn have been allocated;
  - approx. EUR 0.6 bn in claims attributable to disputes for which there is a "possible" risk of losing the case;
  - approx. EUR 1.9 bn in claims attributable to the remaining disputes, for which there is a "remote" risk of losing the case;
- out-of-court claims totalling, where quantified, approximately EUR 4.9 bn. In particular:
  - approx. EUR 4,9 bn in claims regarding disputes for which there is a "probable" risk of losing the case;
  - approx. EUR 0.02 bn in claims attributable to disputes for which there is a "possible" risk of losing the case.

Note the Group has exercised the possibility granted by IAS 37 of not providing detailed disclosures on the provisions allocated in the financial statements if such information may seriously jeopardise its position in disputes and in potential settlement agreements.

The main information of the most significant cases, by macro-category or individually, is provided below.

Disputes regarding compound interest, interest and conditions

Following the change in orientation by the Supreme Court of Cassation (Corte di Cassazione) on the legitimacy of the practice of capitalising on a quarterly basis the interest payable accrued on current accounts, as of 1999 there has been a progressive increase in claims for the return of interest expense resulting from quarterly compound interest. In these lawsuits, the plaintiffs also contest the legitimacy of the interest rate and the methods to determine the commissions applied to the accounts. In this regard, the interpretation introduced since 2010 by the Supreme Court on usury - according to which overlimit fees (Commissioni di Massimo Scoperto), even before Italian Law no. 2/2009 was enforced, should have been calculated on the basis of the effective global rate (Tasso Effettivo Globale - TEG), contrary to Bank of Italy guidelines - is frequently the pretext for the actions brought by customers. The plaintiffs most often claim irregularities in current account balances; however, claims concerning compound interest are also increasingly frequent: these cases are based on the alleged illegitimacy of the so-called "French-style amortisation" in mortgage loans, and violation of Italian Law no. 108/1996 on usury in term loans. Aware that the jurisprudential interpretation is often disadvantageous (although not univocal), at least with respect to certain issues, the Group is committed to maximising the arguments in its defence - which do exist, particularly concerning the statute of limitations - identifiable in the regulatory and interpretative framework. For this type of dispute, provisions for risks of EUR 127.2 mln were allocated (against a total claim amount of EUR 303.1 mln), compared to EUR 133.8 mln recognised as at 31 December 2019 (against a claim of EUR 316.7 mln).

Dispute regarding bankruptcy rescindments

The reform implemented from 2005 has reduced and limited the scope of bankruptcy rescindments, particularly those relating to current account remittances. For those that can still be filed, or already pending at the effective date of the reform, the Group is giving maximum emphasis to all the arguments available in defence. The provisions for risks recognised for this type of dispute as at 31 December 2020 amounted to EUR 26.2 mln (total claim of EUR 131.4 mln), compared to EUR 31.1 mln as at 31 December 2019 (against a claim of EUR 150.7 mln).

Disputes concerning bonds issued by countries or Companies that subsequently defaulted, and financial plans.

The considerable defensive efforts made in this type of lawsuit resulted over the years in the emergence of some favourable jurisprudential orientations, at least with respect to certain specific cases, which are allowing balanced risk control. It should be noted that starting from 2015, several unfavourable rulings were issued by the Supreme Court – with its latest order no. 6252 published on 14 March 2018 by the Civil Cassation Section 1^ - pursuant to which "the financial product called 4You does not entail an interest worthy of protection, under the regulatory framework, as it does not comply with the general principles set forth in articles 38 and 47 Cost.", due to the evident synallagmatic unbalance. Following these judgements, it is considered established that the judicial decisions are likely to be unfavourable with regard to the Parent Company's reasons. For this type of dispute, provisions for risks of EUR 8.1 mln were allocated (against a total claim amount of EUR 24.0 mln), compared to EUR 9.8 mln recognised as at 31 December 2019 (against a claim of EUR 27.4 mln).

Dispute with purchasers of subordinated bonds issued by Group companies

Following the burden-sharing plan implemented in 2017 in application of Law Decree no. 237/2016, some investors who had purchased subordinated bonds issued by Group companies (later becoming shareholders as a result of the aforementioned measure, with resulting losses compared to the amount initially invested) sued the Parent Company, claiming that, at the time of the investment, it did not inform customers regarding the nature and characteristics of the financial instruments purchased, also raising objections on the proper fulfilment of obligations with which the Parent Company must comply as a financial intermediary.

This dispute is primarily related to investments in Lower Tier II bonds; indeed, in the majority of the cases the investors had their securities converted into ordinary shares pursuant to the law, without being able to benefit from the public offering for settlement and exchange promoted by the Parent Company pursuant to Decree no. 237/2016 (so-called Burden Sharing).

However, for the sake of comprehensiveness, we would like to point out other cases in which although the counterparties purchased Upper Tier II securities, they claim that they were unable to participate in the public offering due to misselling by the Parent Company, or in any event they had objections relating to the Upper Tier II securities purchased after 31 December 2015 (cut-off date).

Lastly, a limited number of disputes concerns cases in which investors sold their bonds prior to the Burden Sharing pursuant to Decree no. 237/2016.

The focus of the opposing claims is concentrated on the lack of disclosure and/or in any case violations of specific regulations on financial intermediation.

The total claim of these disputes as at 31 December 2020 amounted to EUR 49.9 mln (EUR 49.4 mln as at 31 December 2019), while the provisions allocated amounted to EUR 29.6 mln (up by EUR 3.2 mln compared to 31 December 2019).

Disputes and out-of-court claims related to financial information distributed in the 2008-2015 period

The Parent Company is exposed to civil action, and the consequences of the legal proceedings (29634/14 and 955/16), and out-of-court claims with regard to the financial information disclosed during the period 2008-2015.

As at 31 December 2020, the total claims for this type of dispute amounted to EUR 5.7 bn (compared to EUR 2.0 bn as at 31 December 2019) subdivided as follows (data in EUR mln):

Type of dispute	31/12/20	30/09/20	30/06/20	31/03/20	31/12/19
Civil dispute *	662	831	830	795	883
Filed civil claims cp 29634/14 **	137	137	137	137	137
Filed civil claims cp 955/16 ***	177	177	95	95	95
Out-of-court claims ****	4,698	4,467	843	809	858
Total claims	**5,674**	**5,612**	**1,905**	**1,836**	**1,973**

(*) The decrease in the claim with reference to civil disputes is due to the settlement agreements reached in 2020 which led to the closure of 24 disputes for a total claim of EUR 361 mln (including “Marangoni +123 shareholders and investors”, “Coop Centro Italia s.c.p.a.” and “Coofin s.r.l.”).

(**) On 8 November 2019, the Court of Milan issued a conviction with filing of the grounds on 12 May 2020. There were no changes in terms of claims compared to 2019.

(***) The increase in claims observed in the third quarter of 2020 is due to the conclusions presented by the civil parties at the hearings of 9 and 17 July 2020. On 15 October 2020, the Court of Milan issued the conviction, the reasons for which were to be filed in January 2021 and subsequently postponed to 13 April 2021. The claim was considered to be at probable risk.

(****)On 31 July 2020, additional out-of-court claims were received from Fondazione MPS for EUR 3.8 bn. Also considering such requests, subsequent to June 30, 2020, the total claim of extrajudicial requests rose to 4.7 bn euro. For further information on the merits, please refer to the paragraph “Initiative promoted by the Monte dei Paschi di Siena Foundation” below. In the last quarter of 2020, the increase in the claim of out-of-court claims of EUR 231 mln compared to the figure at

the end of September refers to additional out-of-court claims received with reference to the 2008-2011 and 2014-2015 share capital increases.

The main lawsuits are outlined below by type.

Banca Monte dei Paschi di Siena S.p.A. vs. Alken Fund Sicav and Alken Luxembourg S.A.

On 22 November 2017, the counterparties (the "Funds") served a complaint on the Parent Company, as well as Nomura International, Giuseppe Mussari, Antonio Vigni, Alessandro Profumo, Fabrizio Viola and Paolo Salvadori, before the Court of Milan, requesting that the court confirm and declare: (i) the alleged liability of the Parent Company pursuant to art. 94) of the Consolidated Law on Finance, as well as for the deeds of defendants Mussari, Vigni, Profumo and Viola pursuant to art. 2935 of the Italian Civil Code due to the offences perpetrated against the plaintiffs; (ii) the alleged liability of defendants Mussari and Vigni in relation to investments made by the Funds in 2012 on the basis of false information; (iii) the alleged liability of defendants Viola, Profumo and Salvadori in relation to investments made by the Funds subsequent to 2012; and (iv) the alleged liability of Nomura pursuant to art. 2043 of the Italian Civil Code and, as a result, order BMPS and Nomura jointly and severally to provide compensation for financial damages equal to EUR 423.9 mln for Alken Funds Sicav and EUR 10 mln for lower management fees and reputational damage to the management company Alken Luxembourg SA, as well as jointly and severally with Banca MPS and Nomura the defendants Mussari and Vigni for damages resulting from the investments made in 2012, and Viola, Profumo and Salvadori for damages subsequent to 2012. The counterparties also requested that the defendants be ordered to provide compensation for non-financial damages upon confirmation that they were guilty of the offence of providing false corporate disclosures. The Parent Company duly appeared and set out is defence. In the alternative, for the denied possibility of granting the opposing applications, the Parent Company applied for recourse against Nomura. The first hearing, initially set for 18 September 2018, was deferred to 11 December 2018, in order to allow discussion between the parties on the transversal issues formulated by a number of defendants. It should be noted that in the judgement, three individuals intervened, separately and independently, claiming damages for a total of approx. EUR 0.7 mln. At the hearing of 11 December, the Judge reserved his decision on the preliminary objections raised by the parties. Upon lifting the reservation and accepting the objections raised by all the defendants, the Judge declared Alken's summons null and void, due to failure to specify the dates of the share purchases and the nullity of the powers of attorney, assigning the plaintiffs a deadline of 11 January 2019 to supplement the applications and rectify the defects of the powers of attorney. On the other hand, the Judge considered Alken's claims concerning the alleged incorrect accounting of the claims to be sufficiently specific and rejected the plea of nullity of the acts of intervention. Following the plaintiff's additions, the defendants insisted on the objections of nullity of the summons and powers of attorney. At the end of the discussion on these objections, which took place at the hearing of 30 January 2019, the Judge reserved his decision. Upon lifting the reservation, the Judge - considering that these preliminary questions must be decided together with the merit - granted the preliminary terms pursuant to art. 183, paragraph six of the Italian Code of Civil Procedure and adjourned the hearing for discussion of the preliminary requests to 2 July 2019. At that hearing, the Parent Company requested and obtained a deadline of 8 July to object to the demands submitted by an intervener (whose intervention the Parent Company acknowledged at the hearing), after the parties discussed and illustrated their respective preliminary briefs and the relative petitions. At the end of the discussion, the Judge reserved the right to decide on the preliminary evidence. By order of 24 July 2019, the Judge rejected the request for a court-appointed expert witness submitted by Alken, deeming that the case was ready for a decision considering the subjective characteristics of the plaintiff (professional investor) and the operations of Alken on the BPMS shares (with acquisitions which extended "after October 2014, after 16 December and after 13 May 2016", as reported in the order of 24 July 2019).

The proceedings are still pending and at the hearing of 7 July 2020, the Judge rejected Alken's request to refer the case to the preliminary investigation and admitted the new documents produced by Alken (reserving all assessment of their relevance to the panel). The case was held for the decision and the parties, in compliance with art. 190 of Italian Code of Civil Procedure have filed their conclusions; therefore the issuing of the ruling pending.

Dispute between York Funds and York Luxembourg / Banca MPS Spa, Alessandro Profumo, Fabrizio Viola, Paolo Salvadori and Nomura International PLC

On 11 March 2019, the York Funds and York Luxembourg served a writ of summons to the Parent Company's registered office, bringing an action before the Court of Milan (Section specialised in corporate matters) against Banca MPS Spa, Messrs. Alessandro Profumo, Fabrizio Viola, Paolo Salvadori as well as Nomura International

PLC, ordering the defendants, jointly and severally, to pay damages amounting to a total of EUR 186.7 mln and - subject to an incidental finding that the offence of false corporate communications has been committed - to compensation for non-monetary damages to be paid on an equitable basis, pursuant to art. 1226 of the Italian Civil Code, plus interest, revaluation, interest pursuant to art. 1284, para. IV of the Italian Civil Code, and interest compound pursuant to art. 1283 of the Italian Civil Code.

The plaintiffs' claim is based on alleged losses incurred as part of its investment transactions in MPS totalling EUR 520.30 mln, carried out through the purchase of shares (investment of EUR 41.4 mln by York Luxembourg) and derivative instruments (investment of EUR 478.9 mln by York Funds). The plaintiffs' quantified their comprehensive losses at EUR 186.7 mln.

The investment transactions challenged began in March 2014, when Messrs. Fabrizio Viola and Alessandro Profumo held the offices of CEO and Chairman, respectively, of Banca MPS Spa. The plaintiffs charge alleged unlawful behaviour by top management of the Parent Company in falsifying the financial representation in financial statements, substantially modifying the assumptions used in measurements of financial instruments issued by the Parent Company.

The first hearing, initially scheduled for 29 January 2020, was deferred to 4 February 2020. The Parent Company duly appeared before the court. On 3 February 2020, a voluntary intervention pursuant to art. 105, paragraph 1 of the Italian Code of Civil Procedure was filed, whereby the intervener demanded compensation for the full loss of its investment equal to EUR 14 thousand, made in the course of 2014 in equity securities. The Judge ordered the separation of the case introduced by the intervener. The main proceedings were adjourned to 18 May 2021 at the joint request of the Parent Company, the York Fund and the York Luxembourg Fund to verify the outcome of the pending negotiations between the parties.

Banca Monte dei Paschi di Siena S.p.A./ Civil action and third-party action of the Parent Company as civilly liable party

The investors submitted claims for compensation against the Parent Company as part of the criminal proceedings no. 29634/14 r.g.n.r. (General Criminal Records Registry) (a total of 1,240) pending before the Court of Milan, in which the Parent Company was involved as a civilly liable party, as well as the other criminal proceedings no. 955/16 r.g.n.r. (there are a total of 2,272 civil parties) with reference to the financial statements, reports and other corporate communications of the Parent Company from 31 December 2012 to 31 December 2014 and with reference to the half-yearly report as at 30 June 2015, in which the Parent Company was convicted int the first instance, pursuant to Italian Legislative Decree 231/01 as well as a civilly liable party.

Criminal proceeding no. 29634/14

With reference to the criminal proceedings in relation to "Alexandria", after the service of the order of closing of the preliminary investigations, the Office of the Public Prosecutor at the Court of Milan sought the committal for trial of the former Top Management of the Parent Company and two members of the Management of Nomura for false corporate disclosures and market manipulation. Note that the criminally liable conduct ascribed to the various parties under investigations refer to the financial statements closed on 31 December in 2009, 2010, 2011 and 2012, and to the balance sheet as at 31 March 2012, 30 June 2012, and 30 September 2012.

As regards the offences allegedly committed by the above-mentioned individuals, the Prosecuting Attorney also sought the committal for trial of the Parent Company and Nomura in relation to the administrative offences pursuant to Legislative Decree 231/2001.

In March 2016 this proceeding was combined with the other legal action pending before the Court of Milan in relation to the investigations concerning the Santorini, FRESH 2008 and Chianti Classico transactions.

By an order of 13 May 2016, the Preliminary Hearing Judge (in Italian, the "GUP") authorized the lodging and admissibility of the claims for damages of the offended parties against the entities already involved in the proceedings as defendants pursuant to Legislative Decree 231/2001.

On 2 July 2016, with the approval of the Public Prosecutor, the Parent Company filed a request for plea bargain in the criminal proceedings, in relation to the objections made against the Bank in accordance with Legislative Decree 231/2001.

After the request for plea bargain, the Parent Company's position was closed. With the plea bargain, accepted by the Preliminary Hearing Judge on 14 October 2016, the Parent Company exits the proceedings as defendant in the administrative offence following crimes committed by its own former executives, limiting the consequences

to an administrative financial penalty of EUR 0.6 mln and a confiscation, for EUR 10 mln, without exposing itself to the risk of higher penalties.

Lastly, with regard to the above, on 1 October 2016 the Preliminary Hearing Judge ordered the committal for trial of the defendants other than the Parent Company. At the hearing on 15 December 2016, the civil parties, those already admitted in the previous "Alexandria" proceedings as well as the new civil parties, requested that the Parent Company, Nomura and Deutsche Bank be summoned as civilly liable parties in relation to the offences with which the former directors and executives committed for trial were charged.

Following an extensive closed session meeting, the Court summoned the banks as civilly liable parties, providing the notification deadline to the parties of 10 January 2017, allowing for the completion of notifications at the latest by 31 January 2017 and scheduling the hearing for 21 February 2017.

At the hearing on 21 February 2017, the Parent Company appeared before the court as a civilly liable party.

During the proceedings, by order of 6 April 2017 the Court of Milan decided on the requests for the exclusion of civil parties submitted by the defence teams of the defendants and the civilly liable parties, excluding several civil parties.

In addition, the claim of damages as a civil party by the Parent Company with respect to Giuseppe Mussari, Antonio Vigni, Daniele Pirondini and Gian Luca Baldassarri was also excluded on the assumption of its contributory liability with respect to the defendants.

At the hearing on 16 May 2019, once the public prosecutor's indictment was completed, requests for sentencing for nearly all of the defendants were formulated and convictions were requested pursuant to Italian Legislative Decree 231/01, as well as seizures for the two foreign banks involved, Deutsche Bank AG and Nomura International PLC.

At the hearings on 23 and 30 May 2019, the civil parties that summoned the Parent Company as a civilly liable party formulated their demands for compensation in writing.

The MPS Foundation, which had not cited the Parent Company as civilly liable, made no direct request to it, but instead formulated demands against the natural person defendants and executives/former executives, as well as the representatives of Nomura.

The Bank of Italy which, like the MPS Foundation, did not summon the Parent Company as a civilly liable party, asked for the defendants to be sentenced to pay a sum to be settled on an equitable basis.

As regards CONSOB, which summoned the Parent Company as a civilly liable party, for nearly all damage items it requested a quantification on an equitable basis, except for that relating to supervisory costs quantified as a total of roughly EUR 749 thousand. The provisional amount is requested alternatively, to the extent of roughly EUR 298 thousand.

At the hearings on 3 June 2019 the lawyer of Banca Monte dei Paschi di Siena as a party bearing civil liability presented arguments; at the subsequent hearings on 6, 13, 17, 20 and 27 June 2019, the lawyers of the defendants presented their arguments.

At the hearings on 4, 11 and 18 July 2019, the lawyers of the other defendants and those of the civilly liable Deutsche Bank presented their arguments.

Furthermore, the hearing on 18 July 2019, the defence attorneys of some civil parties declared on the record that they revoked their actions against the Deutsche and Nomura defendants, as well as the requests for compensation from such banks as civilly liable parties, revocations that were subsequently filed at the next hearings on 11 and 19 September 2019.

At the same hearing on 19 September, 2 civil actions against the defendants, former representatives of the Parent Company, were revoked, with consequent waivers of the requests for compensation as a civilly liable party, which resulted in a decreased total amount of the claim intended as the sum of the requested monetary and non-monetary damages, from around EUR 191 mln to around EUR 137 mln.

On 30 September 2019, the discussions of the foreign defendant entities pursuant to Italian Legislative Decree 231/01, Deutsche Bank and Nomura, were concluded.

The trial continued on 31 October 2019 to incorporate possible new revocations of civil party actions, as well as on 8 November, when the final hearing was held.

On 8 November 2019, the Court read the conclusion of the ruling in first instance by convicting all defendant natural persons, and pursuant to Legislative Decree 231/2001, the legal persons of Deutsche Bank AG and Nomura International PLC. The reasons were filed on 12 May 2020.

The Parent Company, in the capacity of civil liable person (not accused pursuant to Legislative Decree 231/2001 and to a previous agreement) was convicted – jointly with the defendant natural persons and the two foreign banks – and ordered to pay compensation for damages in favour of the civil parties that had entered an appearance, in separate civil proceedings, since the Court rejected the request for allowing an amount on a provisional basis and immediately enforceable, pursuant to art. 539 of the Italian Code of Criminal Procedure.

Criminal proceeding no. 955/16

On 12 May 2017 the committal for trial of the representatives Alessandro Profumo, Viola Fabrizio and Salvadori Paolo was requested within new criminal proceedings before the Court of Milan, in which they were charged with false corporate disclosures (art. 2622 of the Italian Civil Code) in relation to the accounting of the "Santorini" and "Alexandria" transactions with reference to the Parent Company's financial statements, reports and other corporate communications from 31 December 2012 to 31 December 2014 and with reference to the half-yearly report as at 30 June 2015, as well as market manipulation (art. 185 of the Consolidated Law on Finance) in relation to the disclosures to the public concerning the approval of the financial statements and the balance sheets specified above.

In relation to these proceedings, in which the Parent Company is identified as the injured party, the first hearing was held on 5 July 2017, during which several hundred natural persons and a number of trade associations asked to appear before the court as civil parties. The Preliminary Hearing Judge postponed the proceedings to 29 September 2017 for the deliberation of the requests as well as for consolidation with the proceedings pending against the Parent Company, as the defendant entity pursuant to Italian Legislative Decree 231/01 for the same actions with which Mr Profumo, Mr Viola and Mr Salvadori are currently charged. At the hearing on 29 September 2017, 304 of the 337 who requested were admitted as civil parties. The remaining parties were excluded due to lack of *legittimatio ad causam*. At the same hearing, the proceedings pending against the Parent Company, as the party liable under administrative law, were joined with those pending against the natural persons. Therefore, the Judge admitted the summons of the Parent Company as a civilly liable party and adjourned the proceedings to the hearings of 10 November 2017 and 24 November 2017 to allow for the service of the related notifications.

At the hearing on 10 November 2017, the defence attorney of Mr Salvadori objected on the basis of the alleged nullity of the committal for trial request against his client as the compulsory charge against the client should have been formulated only for the offence pursuant to art. 2622 of the Italian Civil Code and not also for that pursuant to art. 185 of the Consolidated Law on Finance. In connection with this issue, this defence attorney also objected on the grounds of the Milan A.G.'s lack of jurisdiction.

At the hearing on 24 November 2017, the Preliminary Hearing Judge handed down an order:

- declaring the nullity of the request for committal for trial with respect to Mr Salvadori;
- ordering the separation of the relative position from the main proceedings (pending against Mr Viola and Mr Profumo, as well as the Parent Company) with reference to the section relating to the alleged offence pursuant to art. 185 of the Consolidated Law on Finance;
- reserving any decision concerning issues of jurisdiction until such time as the public prosecutor makes his own determinations in this regard.

The Public Prosecutor then served the notice of conclusion of the investigations to Mr. Salvadori for the offence pursuant to art. 185 TUF and filed the (new) request for committal for trial against Mr. Salvadori for said offence and, finally, requested the (new) preliminary hearing (again for the crime of market manipulation).

At the hearing on 9 February 2018, the Preliminary Hearing Judge acknowledged the filing in the meantime of:

- the ultimate Parent Company defence brief concerning jurisdiction;
- the documents submitted by the defence attorney of Mr Viola and Mr Profumo;
- of the briefs of Mr Bivona and Mr Falaschi; as well as
- a request for an order for attachment submitted by the latter against Mr Viola and Mr Profumo.

After which time, the Preliminary Hearing Judge convened the proceedings against Mr Salvadori following his removal from the proceedings ordered during the previous hearing with regard to the charge pursuant to art. 185 of the Consolidated Law on Finance.

The civil parties readmitted again requested the summons of Banca MPS as civilly liable party. Therefore, the Preliminary Hearing Judge adjourned the case - also for the proceedings against Mr Viola and Mr Profumo - to the hearing of 13 March 2018 which was not held by abstention and was therefore postponed to 6 April 2018 for the appearance before the court of the liable party and for the discussion of and decision on the matter of jurisdiction.

Following the formalisation of the appearance before the court by the Parent Company, the Prosecutor requested the issue of a pronouncement of acquittal because there is no case to answer or because the act does not constitute an offence depending on the charge in question. On the outcome of the hearing, the schedule was updated on 13, 20 and 27 April 2018 for the continuance of discussion and the possible issue of the final ruling of the preliminary hearing.

Following the outcome of the preliminary hearing, the Preliminary Hearing Judge ruled that there were no grounds for a decision not to proceed to judgment and ordered the committal for trial of the defendants, natural persons (Messrs. Viola, Profumo and Salvadori) and Banca MPS (as the defendant entity pursuant to Italian Legislative Decree 231/01). Only Mr Salvadori was found not to be subject to proceedings for the charge pursuant to Article 185 of the Consolidated Law on Finance.

At the hearing of 17 July 2018, 2,243 civil parties joined the lawsuit. Some of these have formally requested the mention of the Parent Company as party with civil liability, while most of the defence attorneys only requested the extension of the lawsuit to their clients with regard to the Parent Company, as a party with civil liabilities already called in the lawsuit. Some civil parties brought a lawsuit to the ultimate Parent Company as responsible party in pursuant to Italian Legislative Decree no. 231/2001. At the outcome, the Court adjourned to the hearings of 16 October and 6, 13 and 19 November 2018. Only the preliminary questions relating to the civil parties joining the lawsuit were heard at the hearing of 16 October 2018.

On 16 October 2018, the hearing for discussion of the civil parties joining the lawsuit was regularly held, as per the last hearing of 17 July 2018, with the addition of another 165 civil parties. The defendants and the Parent Company pleaded that the latter were late. At the hearing of 6 November 2018, the Board, upon lifting of the reservation, ordered the exclusion of some civil parties, which consequently amounted to 2,272 (349 of which had quantified the alleged damages), and the extension of the cross-examination between the ultimate Parent Company/undertaking and the new civil parties admitted, without further formalities and rejecting the request for summons by CONSOB, the Bank of Italy and EY S.p.A. as civilly liable parties.

At the hearing of 19 November 2018, the Court rejected by order the objections relating to the issue of lack of territorial jurisdiction previously raised by the defence. Consequently, the proceedings were declared open and the hearing was scheduled for 18 March 2019, with reservation of the decision on the request for an order of attachment against Mr Profumo and Mr Viola, submitted by a number of parties. The reserve was lifted with decision dated 3 December 2018, through which the Court rejected the request for an order of attachment against the aforementioned executives.

At the hearing on 16 June 2020, following the indictment, the representatives of the Public Prosecutor's office requested the acquittal of the defendants.

At the hearing on 9 July 2020, the first hearing began dedicated to the conclusions of the civil parties and at the subsequent hearing on 16 July 2020, the civil parties discussion phase concluded. The proceedings continued with the discussions of the defendants' attorneys in September 2020.

At the hearing on 15 October 2020, the Court issued a first instance ruling against Viola Fabrizio and Profumo Alessandro for false disclosure in relation to the half-yearly report as at 30 June 2015 and for market manipulation for press releases relating to the approval of the financial statements as at 31 December 2012, 31 December 2013 and 31 December 2014 and the half-yearly report as at 30 June 2015 as well as with respect to Salvadori Paolo for the sole offence of false disclosure in relation to the half-yearly report as at 30 June 2015. Again with regard to the offence of false disclosure, it was instead ruled that the case could not proceed with respect to the financial statements as at 31 December 2012 as the statute of limitations had been reached and all defendants were acquitted because there was no case to answer in relation to the financial statements as at 31 December 2013 and 31 December 2014.

The Parent Company was declared liable for the administrative offences pursuant to Legislative Decree 231/01 and ordered to pay an administrative fine of EUR 800,000.00, and a provision for this amount was made in the risk provision.

The Parent Company, also in its capacity as civilly liable party, was also ordered jointly and severally with the defendants to provide compensation for damages to the civil parties admitted, to be settled in a separate civil case, as well as the payment of procedural expenses.

The claim, where determined, amounts, as at 31 December 2020, with reference to the proceedings in question, to approximately EUR 177 mln, (higher than the figure as at 31 December 2019 due to the written conclusions submitted at the hearings of 9 and 16 July 2020, with which the civil parties have laid out their claims for compensation or quantified the claims, where not previously quantified).

Banca Monte dei Paschi di Siena S.p.A./Caputo + 25 other names

On 4 December 2020, Giuseppe Caputo + 25 other names sued the Parent Company before the Court of Milan to challenge the investments made by them in compliance with the share capital increases ordered by the same, or through purchases on the electronic market between 2014 and 2015.

The plaintiffs complain that they have suffered serious damage as a result of the disclosure discrepancy disclosed on the market by the Parent Company, and also dispute the incorrect accounting of non-performing loans starting from the 2013 financial statements, referring to criminal proceedings 33741/16 underway at the Court of Milan; they also contest the unfair commercial practices put in place by the Parent Company, the investments in diamonds, a completely unreasonable business plan and non-compliant business organization.

On these grounds, also recalling art. 185 of the Italian Criminal Code, they ask for full compensation for the damage suffered, equal to the entire amount paid for the purchase of MPS shares, with a final quantification of the claim of approximately EUR 25.8 mln.

The first hearing by correspondence is set for 11 March 2021, in view of which the Parent Company is preparing its defence.

Investigations on the 2012, 2013, 2014 financial statements and the 2015 half-year report with reference to "non-performing loans"

In relation to criminal proceedings no. 955/16, in 2019, the Parent Company was involved, as the party bearing administrative liability pursuant to Italian Legislative Decree no. 231/2001, with reference to an allegation pursuant to art. 2622 of the Italian Civil Code concerning the 2012, 2013 and 2014 financial statements and the 2015 half-yearly report formulated with reference to an alleged overvaluation of non-performing loans.

On 25 July 2019, the Preliminary Investigations Judge of the Court of Milan ruled, on one hand, to dismiss the proceedings against the Parent Company, as a party liable pursuant to Legislative Decree no. 231/2001, but on the other hand, ordered the continuation of the investigations of the defendant natural persons (chairman of the Board of Directors, CEO and pro-tempore Chairman of the Board of Statutory Auditors) thus rejecting the request for dismissal presented by the public prosecutor and also supported by an expert witness report assigned by the Attorney General's office.

Currently, the investigations are being carried out in the form of an evidence gathering procedure for which the Preliminary Investigations Judge has appointed two experts who should have concluded their assessments by the end of the first half of 2020. However, the receipt of further documentation from the Bank of Italy made it necessary to extend the timing required to perform the investigation. A new calendar of hearings is expected.

Obviously the results of this evidence gathering procedure will be very important for the arguments of the public prosecutor therefore it appears necessary to wait for such results before expressing an assessment about the risk of losing the case.

The proceedings – even though dismissed as regards the Parent Company as an administrative liable party – continues to be important for Banca MPS due to the very likely recognised liability for damages that the credit institution would be called on to assume, should criminal proceedings be initiated.

Out-of-court claims for the repayment of sums and/or compensation for damages by Shareholders and Investors of Banca Monte dei Paschi di Siena S.p.A. in relation to the 2008, 2011, 2014 and 2015 share capital increases

In relation to capital increases and the allegedly incorrect financial information contained in the prospectuses and/or in the financial statements and/or in the price sensitive information for the period 2008-2011, as at 31 December 2020, the Parent Company has received 1,292 out-of-court claims for a total of roughly EUR 4.2 bn in

quantified claims. As at 31 December 2020, the residual claims of the plaintiffs who did not file civil suits amounted to approximately EUR 4.2 bn.

These claims – brought individually or collectively – although naturally heterogeneous, are mostly justified by generic references to the Parent Company's alleged violation of the industry legislation governing disclosure and, therefore, were rejected by the Parent Company in that they were considered generic, unfounded, not backed by suitable documentary evidence, and in some cases past the statute of limitations.

Another 2,037 out-of-court claims relating to the share capital increases in 2014-2015 must be added to the ones indicated above, for a claim amount of approximately EUR 684 mln (EUR 491.5 mln considering only the plaintiffs who did not file civil suits).

The grand total amount claimed as at 31 December 2020 is therefore EUR 4.7 bn.

Initiative Promoted by the Monte dei Paschi di Siena Foundation ("Fondazione MPS")

On 31 July 2020, the Fondazione MPS sent three letters of formal notice to the Parent Company regarding three different issues that can be summarized as follows in reverse chronological order:

(i) letter relating to the 2014 and 2015 share capital increases - and, in particular, the alleged incorrect accounting of the Santorini and Alexandria transactions in the 2012-2015 period - by which the Parent Company is requested to pay compensation for damages of no less than EUR 171 mln approximately;

(ii) letter concerning the 2011 share capital increase - referring to the issues identified in the context of proceeding No. 29634/14, relating to the alleged incorrect accounting of the Santorini and Alexandria transactions in the period 2008-2012 - with which damages are requested from the Parent Company for a total of EUR 496.4 mln Euro 93.9 mln for reputational damage;

(iii) the third and final letter refers to the acquisition of Banca Antonveneta resolved in November 2007 and completed the following year upon completion of the authorization process by the Bank of Italy, as well as disclosure errors and accounting errors relating to the FRESH transaction. This letter demands compensation for a loss resulting from the participation in the 2008 capital increase (EUR 2,667 mln for the option component, to which EUR 366 mln must be added for the reserved share capital increase component). The letter also demands compensation for damages (not yet quantified) resulting from having subscribed the 2011 capital increase based on false information on the FRESH transaction.

With respect to these initiatives, which overall result in a claim for damages totalling EUR 3.8 bn, the Parent Company expresses a critical position. In addition to a series of preliminary findings (including the expiry of the statute of limitations with regard to the most remote events), there are a number of arguments on a 'substantive' level that can be opposed to the requests of the Fondazione. Among these, by way of example only, the following should be noted:

a. Fondazione MPS at the time of the events held approx. 49% of the Parent Company's ordinary capital and appointed half of the members of the Board of Directors. Fondazione MPS was therefore the majority shareholder of BMPS and was able to guide its decisions, especially the strategic ones;
b. with reference to the Antonveneta transaction and the financial transactions carried out to obtain the necessary funding, Fondazione MPS (which had never in the past formulated objections or reservations with respect to BMPS), according to what has emerged from documents acquired as part of the proceedings pursuant to art. 2395 of the Italian Civil Code, promoted by the same entity, has already initiated a series of actions (incompatible with the objections made to BMPS) aimed at challenging the liability of the members of its Board of Directors, as well as of the lending banks and its advisors (in the latter case without obtaining satisfaction, since, on the contrary, it was established that the Fondazione MPS had unreservedly agreed to the strategic decision to acquire Banca Antonveneta). These initiatives are also relevant in terms of the connection between the conduct currently charged to the Parent Company and the damage suffered by the Fondazione;
c. the key role of Fondazione MPS, in the context of the acquisition of Banca Antonveneta, also has been brought to light at the case law level, as can be seen also by reading the grounds of judgment 29634/14, which devotes an entire paragraph to the role of the Fondazione.

Therefore, the Parent Company reserves the right to take action against Fondazione MPS to protect its assets.

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Generally speaking, and in application of the provisions of international accounting standard IAS 37, with regard to legal disputes, the civil action filed in the criminal proceedings 29634/14 and out-of-court claims relating to disputes regarding the period 2008-2011, the Parent Company has assessed from the arising of this first disputes

the risk of losing as “probable” and has therefore set aside provisions for risks and charges in the financial statements. The assessments made regarding the risk of losing the case reflect the decision of the Parent Company itself in March 2013 to initiate liability actions against the Chairman and General Manager at the time and the foreign banks involved, and they also take into account the positions taken on the subject - in addition to those of the Milan Public Prosecutor’s Office - by the Supervisory Authorities, the relative decisions to bring civil action and the sanctions imposed by them.

For disputes regarding the period 2012-2015, initially no provisions were made, as the risk of losing was deemed “unlikely”. This included criminal proceeding 955/16, in relation to which the Parent Company issued a press release the 12 July 2018 in which it informed the public of its decision not to join as a civil party, considering that the conditions did not exist, while reserving the right to the widest possible protection in civil proceedings should any elements of liability towards the defendants emerge. Following the ruling of 15 October 2020, the positions are assessed as at risk of “likely” losing and therefore the Parent Company has made provisions for risks and charges in the financial statements.

In reference to the criminal proceedings 29634/14 and 955/2016, no disbursement is anticipated in favour of the parties who entered an appearance since, due to the afore-mentioned rulings of 8 November 2019 and 15 October 2020 which rejected their request for granting a provisional amount immediately enforceable pursuant to article 539 of the Italian Code of Criminal Procedure, the damage compensation in their favour can take place in a separate civil proceeding to be initiated by the civil parties themselves.

Therefore, for civil and criminal disputes concerning the information disclosed solely in the period 2008-2015, the provisions for risks were determined in such a way as to take into account the amount invested by the counterparty in specific periods of time characterised by the disputed information alterations (net of any disinvestments made during these same periods). The damage subject to compensation was then determined on the basis of the “differential damage” criterion, which identifies the damage as the lowest price that the investor would have had to pay if he had had access to complete and correct information. For the purposes of this determination, econometric analysis techniques have been adopted - with the support of qualified experts - suitable to eliminate, among other things, the component inherent in the performance of the equity securities belonging to the banking sector during the reference period. More in detail, the total damage caused by each event potentially capable of generating information alterations was first quantified and then the amount abstractly attributable to the individual Plaintiff/Civil Party was calculated, taking into account the share of capital held from time to time. From a purely likely and conservative standpoint, along with the differential damage, the different criterion of “full compensation” was also taken into account (of a minor importance in the prevailing law, including the one that is currently taking shape on this specific subject matter), and that is based on the argument that false or incomplete information may have a causal impact on the investment choices of the investors to such an extent that, in the presence of correct information, they would not have made the investment in question; in this case, the damage is therefore commensurate to the invested capital, net of the amounts recovered from the sale of shares by the Plaintiff/Civil Party.

Instead, with reference to out-of-court claims relating to the period 2008-2011 and, from October 2020, also for those referred to the period 2014-2015, in order to take into account the probability of their transformation into real disputes, the provisions were determined by applying an experiential factor, in line with the Parent Company policies for similar cases, to requests made by counterparties. In any case, the Parent Company has exercised the possibility granted by IAS 37 of not providing disclosures on the provisions allocated in the balance sheet if it believes that such information could seriously jeopardise its position in disputes and in potential settlement agreements.

As at 31 December 2020, again with regard to civil disputes, settlement agreements were reached, involving the closure of 24 disputes against total relief sought of around EUR 361 mln (including “Marangoni + 123 shareholders and investors”, “Coop Centro Italia s.c.p.a.” and “Coofin s.r.l.”). The outlays made following the above transactions did not have a significant impact on the income statement.

Lastly, measures and transactions are being studied for an incisive reduction of the Group’s legal risks.

Fondazione MPS, “Alexandria” operation

Fondazione MPS has brought legal proceedings against the attorney Mr Mussari, Mr Vigni and Mr Nomura, based on their alleged liability pursuant to article 2395 of the Italian Civil Code for the direct damage suffered by MPS following the subscription of a share capital increase of the Parent Company, resolved on in 2011, at a price different from the one that should have been correctly subscribed if the “Alexandria” restructuring had been duly

represented in the Financial Statements of the Parent Company. Subsequently, it has petitioned for the conviction of the liable parties with order to pay EUR 268.8 mln for a financial loss and EUR 46.4 mln for non-financial damages, subsequently reduced to EUR 230.3 mln.

In this judgement, Mr Vigni was authorised to take action against the Parent Company because of an indemnity obligation (with respect to third parties claims) allegedly undertaken by the latter towards him within the consensual termination of his executive position; Mussari was authorised to take action against the Parent Company as the liable party, pursuant to article 2049 of the Italian Civil Code, due to some executives allegedly liable for the transaction carried out with Nomura. The Parent Company received later a writ of summons in its capacity as a third party called on by the afore-mentioned defendants independently promoted by Fondazione MPS and has entered an appearance disputing the claims filed against it. In addition, with a subsequent authorised pleading, Nomura broadened its claims against the Parent Company, asking to determine the share of liability attributable to the latter and to be kept harmless from it based on its share of liability exceeding the one attributed thereto. However, the settlement agreement entered into by the Parent Company and Nomura on 23 September 2015 provides, inter alia, that this claim is withdrawn. Mr Vigni has waived the legal actions brought against the Parent Company following a plea of lack of jurisdiction of the Court of Florence, whereas the action under the right of recourse/indemnity from the attorney Mussari continued against the Parent Company. Subsequent to the technical expert opinion formally obtained, the case was adjourned to the hearing on 20 September 2021 for the oral arguments.

In this regard, it should be noted that the court-appointed technical experts have only awarded "damages from unveiling of the truth" and reputational damages, ruling out that the Foundation is also entitled to receive "underwriting damages" (and also ruling out any compensation for loss of profit). Hence, the court-appointed technical experts estimated "damages from unveiling of the truth" at EUR 52.8 million and reputational damages suffered by FMPS at approximately EUR 8 million, for a total of approximately EUR 60.8 million, compared to an initial claim of EUR 320 million

Banca Monte dei Paschi di Siena S.p.A. vs. FRESH 2008 Bondholders

Some holders of FRESH 2008 securities maturing in 2099, with writ of summons served on 19 December 2017, initiated proceedings against the Parent Company MPS, the company Mitsubishi UFJ Investors Services & Banking Luxembourg SA (which replaced the Parent Company in issuing the bond loan Banca di New York Mellon Luxembourg), the British company JP Morgan Securities PLC and the American company JP Morgan Chase Bank NA (which entered into a swap agreement with the bond loan issuer) before the Court of Luxembourg to request confirmation of the inapplicability of the Burden Sharing Decree to the holders of FRESH 2008 securities and, as a result, to have it affirmed that such bonds cannot be forcibly converted into shares, as well as that such bonds will continue to remain valid and effective in compliance with the issue terms and conditions, in that they are governed by the laws of Luxembourg. Lastly, to ascertain that MPS has no rights, in the absence of the conversion of the FRESH 2008 securities, to obtain the payment of EUR 49.9 mln from JP Morgan in damages for holders of FRESH 2008 securities.

In view of completeness it is noted that, following the start of the proceedings in question, the Parent Company, on 19 April 2018, tabled a dispute before the Court of Milan against JP Morgan Securities Ltd, JP. Morgan Chase Bank n.a. London Branch, as well as the representative of the Fresh 2008 securities holders and Mitsubishi Investors Services & Banking (Luxembourg) Sa to ascertain that the Italian Judge is the only one with jurisdiction and competence to decide about the usufruct contract and the company swap agreement signed by the Parent Company with the first two defendants in the context of the operation of the share capital increase in 2008. Consequently the Parent Company asks for: (i) the determination of the ineffectiveness of the usufruct contract and the company swap agreement which anticipate obligations of payment in favour of JP Morgan Securities PLC and JP Morgan Chase Bank Na in relation to the entry into force of Decree 237; (ii) the determination of the intervened ineffectiveness and/or resolution and/or termination of the usufruct contract or, alternatively, (iii) the determination of the intervened resolution of the usufruct contract relating to the capital deficiency event of 30 June 2017. The first hearing was held on 18 December 2018 and the Judge, considering the prejudicial nature of the issue of jurisdiction raised by the defendants, in view of the fact that a dispute is pending before the Luxembourg Court involving the same demand and the same cause, granted the parties terms to reply only to the procedural objections and adjourned the hearing to 16 April 2019 for assessment of the disputed issue. At the next hearing on 2 July 2019, the decision in the case was deferred to a later date. With order dated 2 December 2019, the Court of Milan has ordered the suspension of the proceedings pending a decision by the afore-mentioned Luxembourg district court. Against this order, the Parent Company has filed a petition with the Court of Cassation for the referral to a different competent court.

Other disputes

Banca Monte dei Paschi di Siena S.p.A. vs. Fatrotek

This case, where the Parent Company was sued together with other credit institutions and companies with the summons of 27 June 2007, seeks the assessment of alleged monetary and non-monetary damage suffered by the plaintiff, as a result of an alleged unlawful report filed with the Italian Central Credit Register. The relative claim amount is EUR 157 mln. The plaintiff also asks that the defendant banks be found jointly liable, each proportionately to the seriousness of its behaviour. The Parent Company's defence was based on the fact that the company's extremely severe financial situation fully justified the Parent Company's initiatives.

At the hearing on 31 May 2018, the Judge reserved his decision on the challenges raised by the convened parties. On 5 June 2018, the Company declared bankruptcy. On 25 July 2018, upon lifting of the reservation made during the hearing of 31 May 2018, the case was adjourned to 31 October 2018, for the court-appointed expert to take the oath. In the meantime, the receivership of the Fatrotek S.r.l. bankruptcy again took up the case. The proceedings were adjourned first to the hearing on 4 December 2019 and then to the hearing on 13 February 2020, where a court-appointed expert investigation was ordered and an expert witness was appointed. At the hearing of 25 November 2020 an extension was granted to the expert witness for the filing of the expert opinion and the case was postponed to 5 May 2021.

Banca Monte dei Paschi di Siena S.p.A. vs. Riscossione Sicilia S.p.A.

On 15 July 2016, Riscossione Sicilia S.p.A. served a writ of summons on the Parent Company before the Court of Palermo, asking the Court to order it to pay a total amount of EUR 106.8 mln.

The claim of Riscossione Sicilia S.p.A. falls within the realm of the complex dealings between the Parent Company and the plaintiff, originated from the disposal to Riscossione Sicilia S.p.A. (pursuant to Law Decree 203/05, converted into Law 248/05) of the stake held by the Parent Company in Monte Paschi Serit S.p.A. (later Serit Sicilia S.p.A.).

Specifically, Riscossione Sicilia, in relation to the contractual provisions involved in said disposal, now asks the Parent Company be ordered to pay, under its contractual liability, for alleged contingent liabilities of Monte Paschi Serit S.p.A./Serit Sicilia S.p.A.

The Parent Company duly appeared before the court with a cross-action against Riscossione Sicilia S.p.A. The preliminary investigation was recently completed with the filing and examination of the report of the court-appointed expert witness, the results of which were favourable to the Parent Company. In fact, the expert not only concluded that the Parent Company owes nothing to Riscossione Sicilia S.p.A., but also identified a receivable of the Parent Company of roughly EUR 2.8 mln, equal to the balance of the price for the sale of 60% of Serit Sicilia S.p.A. to Riscossione Sicilia S.p.A. by the Parent Company (dating back to September 2006), a sum that has to date been retained by Riscossione Sicilia S.p.A. by way of guarantee deposit. The expert also identified a further receivable of the Parent Company, linked to the obligation of Riscossione Sicilia S.p.A. to collect on notices of default, no higher than around EUR 3.3 mln, the exact quantification of which was referred to the Court. The counterparty's petitions aiming to call the court-appointed expert witness back to provide clarifications and to change his conclusions were rejected, and the case was adjourned for concluding arguments to 8 March 2021.

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On 17 July 2018, the Finance Department of the Sicily Region notified the Parent Company by means of an order of injunction pursuant to art. 2 of Italian Royal Decree no. 639/1910 and of repayment, pursuant to art. 823, paragraph 2 of the Italian Civil Code of the above amount of around EUR 68.6 mln, assigning the Parent Company the term of 30 days to make the payment with the warning that, on the back of the failure to do so, it would proceed with the forced recovery through entry of the action in the list of cases. This following the Parent Company's decision to suspend the credit line granted to Riscossione Sicilia, which, in the period between 18 October and 9 November 2017, would not have paid the total amount of EUR 68.6 mln to the Sicily Region. The Parent Company notified its defence, with the first hearing set for 12 December 2018, against said injunction, drawing up the related application for suspension of the enforceability of said injunction (or execution if launched in the meantime) with the request for a provision without prior hearing of the other side. The Court, which reserved its right to the hearing of 21 August, by order of 24 August rejected the request for suspension, specifying, however, that the injunction may be enforced on the active amounts in the current account of

Riscossione Sicilia. The Sicily Region filed an application for the Riscossione Sicilia case, leading to the Court of Palermo's postponement of the first hearing - already scheduled for 12 December 2018 - to 20 March 2019. This first hearing, postponed again to 17 July 2019 due to the unavailability of the Judge, was then scheduled for 26 September 2019. At the first hearing, upon acknowledging the statements provided by the parties, the Judge set out the terms for filing the pleadings pursuant to art. 183 of the Italian Code of Civil Procedure and adjourned to an evidentiary hearing scheduled for 26 November 2020. On that occasion, the Parent Company asked for the hearing for the statement of the conclusions to be scheduled, requesting the Court to verify the cessation of existence of the dispute, as Riscossione Sicilia during the proceedings has proved that the receivable claimed by the Sicily Region has been fully cancelled. The Judge then postponed the judgement to 29 April 2021 for the hearing for the statement of the conclusions.

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For the sake of completeness, it should be noted that the Parent Company has also filed an administrative case before the Regional Administrative Court of Sicily - Palermo office for the declaration of nullity and/or annulment of the injunction order pursuant to art. 2 of Italian Royal Decree no. 639/1910, notified by the Department on 17 July 2018.

The appeal concerns the challenging of the Order of injunction in the part in which, "alternatively, pursuant to art. 823, paragraph 2 of the Italian Civil Code, it orders the Parent Company Monte dei Paschi di Siena (...) to return to the Sicily Region, within the same period of 30 days from receipt of the present, the amount of 68,573,105.83, plus interest at the rate established by special legislation for late payment in commercial transactions, as provided for paragraph 4 of art. 1284 of the Italian Civil Code".

Following notification of the appeal on 16 October 2018, the appeal itself was filed by the Parent Company on 12 November 2018. The Department appeared via the Avvocatura dello Stato (office of the State Attorney) on 15 November 2018. The decree scheduling the hearing requested by the Parent Company on 28 October 2019 has not yet been issued.

MPS Capital Services Banca per le Imprese S.p.A. vs. Etika Esco S.p.A.

The joint-stock company Etika Esco (hereinafter "Plaintiff" or "Company") sued MPS Capital Services Banca per le Imprese S.p.A. (hereinafter "MPSCS") before the Court of Florence, contesting the illegitimacy of the MPSCS conduct which, upon resolution of a loan of EUR 20.0 mln in favour of a company to be formed (hereinafter "Newco Sviluppo Marina Velca") which should have been wholly-owned by the Plaintiff, did not proceed with the stipulation of the contract and the consequent disbursements.

It should be noted that the transaction, which was the subject of analysis that concluded with the resolution of 7 September 2016, was structured to allow Newco Sviluppo Marina Velca to complete the project for the construction of a real estate complex of about 300 small villas, as well as renovation and expansion of a golf course, in an area owned by Sviluppo Marina Velca S.r.l., located in the municipality of Tarquinia (hereinafter "Real Estate Project").

The Real Estate Project involved an Italian closed-end investment fund which, through a vehicle company incorporated under Luxembourg law, held 100% of the capital of Sviluppo Marina Velca S.r.l.

MPSCS had already intervened in support of this project by granting a loan of EUR 9.4 mln to Sviluppo Marina Velca S.r.l in 2012 (hereinafter the "2012 Loan"), which expired on 31 July 2014. In September 2016, the period of the resolution on the subject loan, approximately EUR 11 mln remained, comprising principal, overdue interest, arrears and accessories.

The Company's takeover of the Real Estate Project assumed the acquisition by Etika Esco of a special purpose vehicle (identified as Rell's Risorse s.r.l.) which should have purchased the shares of Sviluppo Marina Velca S.r.l. and then proceeded with the merger by incorporation. Purchasing the shares of Sviluppo Marina Velca S.r.l. would have required the MPSCS intervention as guaranteed creditor, in order to authorise the transfer of the shares subject to pledge as collateral for the 2012 Loan.

Given the context of the scenario indicated by the Company, the objections raised with regard to MPSCS conduct are briefly illustrated below.

The Plaintiff claims that, upon scheduling an appointment with a Notary Public to transfer the shares of Sviluppo Marina Velca S.r.l., MPS Capital Services notified that it would not be able to participate only the day before said meeting, due to alleged internal delays.

Having missed said appointment, without justification, MPS Capital Services subsequently adopted a closed attitude towards the Plaintiff, no longer responding to the many requests to proceed with the financing transaction until 15 March 2017, date in which MPS Capital Services communicated, with arguments and justifications deemed by the Company to be entirely insufficient, the forfeiture and/or revocation of the resolution of 7 September 2016.

The Plaintiff maintains that the conditions set by MPS Capital Services for the effectiveness of the resolution of 7 September 2016 were all met and, for those not met, should have been considered as having been fulfilled pursuant to art. 1359 of the Italian Civil Code due to the fact and fault of MPS Capital Services.

Failure to complete the acquisition of the shares of Sviluppo Marina Velca s.r.l., and then the loan agreement with consequent failure to pay the sums, caused enormous damage to the Company, quantified at approximately EUR 96.0 mln, of which i) approximately EUR 46.0 mln as loss of profit for not having been able to achieve, as General Contractor, the revenues from implementation of the Real Estate Project and damage from requests for payment of penalties provided for in the contracts signed in view of the above activity and ii) EUR 50.0 mln in additional damage that will accrue in arrears, namely with regard to the sum decided by the court.

MPS Capital Services duly appeared before the court, replying that none of the conditions detailed in the letter of participation in the loan resolution had been satisfied. It was also pointed out that a few days after the resolution of the transaction (17 October 2016) the Company had asked MPS Capital Services for an advance on the first disbursement of EUR 2.6 mln, to be secured by a mortgage issued by the same company to be merged, namely Sviluppo Marina Velca S.r.l. This request indicated a worrying lack of liquidity by the Company, which, however, would have had to inject a significantly higher equity during implementation of the Real Estate Project.

The change in creditworthiness revealed following the aforementioned request for pre-financing not only led MPS Capital Services to reject said new loan, but also to re-examine, in light of the Company evident lack of liquidity, the transaction already approved, leading to the final decision not to confirm and, therefore, to revoke said resolution granting the loan, also given the failure to comply with the conditions for the stipulation of the loan.

Further investigation by MPS Capital Services revealed that a hidden promoter of the transaction was a person with a very unfavourable track record and who had previously been refused financing by MPS Capital Services for the same project.

In concluding, MPS Capital Services filed a counterclaim asking for the conviction of the Plaintiff for vexatious litigation, pursuant to art. 96 of the Italian Code of Civil Procedure.

The parties filed all the pleadings allowed by the Judge pursuant to art. 183, IV paragraph of the Italian Code of Civil Procedure.

With the pleading referred to in art. 183, para. VI, no. 1 of the Italian Code of Civil Procedure filed by Etika Esco on 21 February 2019, it was specified that the total claim is not EUR 96.0 mln, as the damages suffered as a result of the facts presented in the summons amount to EUR 46.2 mln, "or in any case to an amount not less than EUR 50.0 mln or higher, due to the additional damages that will accrue in the meantime for the plaintiff due to the stated reasons, or, in the alternative, the payment of a different amount, even lower, that will be reached over the course of the litigation and/or which the Judge should determine on an equitable basis, as necessary".

At the hearing for the examination of the pieces of evidence, pursuant to art. 184 of the Italian Code of Civil Procedure, the Investigation Judge reserved the decision on the claims of the parties. With an order dated 26 January 2020, the Judge stated that the "evidence adduced, based on the allegations, the objections and the documentation presented by the parties, is superfluous for the purpose of a decision. Therefore, a hearing must be scheduled for the presentation of closing arguments."

The judgement was postponed for the clarification of the conclusions first to 16 November 2021 and subsequently, with the provision of July 2020, a postponement was ordered to 22 March 2022 due to the excessive burden of the role of the investigating Judge.

Banca Monte dei Paschi di Siena S.p.A. vs. Extraordinary Administrators of Impresa S.p.A.

On 11 November 2016, the Extraordinary Administrators of Impresa S.p.A. served a writ of summons on the Parent Company along with other banks participating in a pool (our share is 36.48%) to have the liability of such banks, the members of the Board of Directors of Impresa S.p.A., today under Extraordinary Administration, and the auditing firm confirmed and declared by the court and to have them ordered to provide compensation for damages, jointly and severally, allegedly suffered by the company to the extent of EUR 166.9 mln.

The case is still in the initial phases and the hearing for the first appearance of the parties was held on 31 October 2017.

Along with the defence attorneys of the other Banks in the pool, a preliminary objection was first of all raised concerning the nullity of the complaint; however, the Judge deferred all assessments in this regard to when the decision will be made by the Board.

In the proceedings, the pleadings pursuant to art. 183, paragraph six of the Italian Code of Civil Procedure were filed within the deadlines granted (31 January, 2 March and 22 March 2018) and at the subsequent hearing on 29 October 2018, the Judge reserved his decision with regard to the plaintiff's preliminary requests.

Lifting the reservation, at the hearing of 28 October 2019, the Judge rejected the preliminary objections regarding the invalidity of the complaints and the statute of limitation, reserving to decide on the admission of the court-appointed accounting expert at the end of the audit, concurrently decided upon, about the correctness of the information provided by the counterparty.

The Judge has also admitted oral evidence, formulated by some of the appeared Directors of the Board, regarding circumstances that do not involve the Banks.

At the hearings of 22 September 2020 and 11 November 2020, some texts on circumstances not likely to affect the Parent Company's defences were examined.

On 7 January 2021, a hearing was held for further witnesses.

Banca Monte dei Paschi di Siena S.p.A. vs. CO.E.STRA. Srl in Liquidation and Arrangement with creditors

On 4 December 2014, the administrators of the arrangement with creditors served a writ of summons on the Parent Company along with other banks participating in a pool (our share is 28.51%) to have their contractual or tort liability in relation to the company's debt restructuring agreement entered into on 30 November 2011 confirmed and declared by the court and have the defendant banks ordered to provide compensation for claimed damages, jointly and severally, suffered or for the claimed aggravation of distress that the company allegedly suffered, quantified by the opposing party as EUR 34.6 mln.

An appeal was filed for the referral of the case to a different competent court; at a public hearing for the discussion of the referral to a different competent court the Attorney General office briefly presented its own closing arguments insisting on the inadmissibility of the referral to a different competent Court.

The Parent Company requested the admissibility of the petition while Co.E.Stra, which did not file additional pleadings pursuant to article 378 of the Code of Civil Procefure, also concluded on the inadmissibility of the referral to a different competent court and in any case, asked for its rejection, on the assumption of the erroneous nature of the appealed order.

The proposed regulation of jurisdiction was concluded with a judgement of the Court of Cassation, published on 12 June 2020, which unfortunately declared it inadmissible, with expenses offset.

The ruling no. G.R. 19069/2014 Court of Florence, which had been suspended pending the outcome of the ruling on the lack of jurisdiction, was resumed by Co.E.Stra. (G.R. 111169/2020), and the hearing for the appearance of the parties and the continuation of the proceedings was postponed pursuant to art. 168-bis, par. 5, of the Italian Code of Civil Procedure, to 3 February 2021, and subsequently postponed to a date to be decided.

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Finally, it should be noted that some disputes presented in the 2019 financial statements (to which reference should be made for further details) are not illustrated herein as they were assessed at "remote" risk of losing the case (such as the disputes: "Bankruptcy Medeghini SpA in liquidation", "Bankruptcy Antonio Amato & C. Molini e Pastifici in Salerno SpA in liquidation", "Lucchini SpA in Extraordinary Administration" and "Marcangeli Giunio srl").

Employment law disputes

The following employment law disputes were pending as at 31 December 2020, with a total claim, where quantified, of approx. EUR 75 mln:

- approximately EUR 46 mln in claims regarding disputes for which there is a "likely" risk of losing the case, for which provisions of EUR 47 mln have been allocated;
- approximately EUR 19 mln in claims attributable to disputes for which there is a "potential" risk of losing the case;
- approximately EUR 10 mln in claims attributable to the remaining disputes, for which there is a "remote" risk of losing the case;

The main information of the most significant cases is provided below:

Banca Monte dei Paschi di Siena S.p.A. vs. Fruendo

With reference to the dispute concerning the sale of a business unit, for all 452 workers concerned, unfavourable judgments were made to the Parent Company (first instance by the courts of Siena, Rome, Mantua and Lecce, for 135 workers, second instance by the Courts of Appeal of Florence, Rome and Brescia, for 317 workers)[45].

The Parent Company has already filed an appeal against the unfavourable first instance rulings before the competent Courts of Appeal, with hearings scheduled to date between January and September 2021; the Parent Company filed an appeal against the unfavourable judgements already in place, including in the second instance, to the Court of Cassation, which ordered the discussion at a public hearing scheduled for 3 February 2021, the outcome of which has not yet been announced.

The consequent obligation of the Parent Company to release to service arising from the rulings was fulfilled with effect from 1 April 2020, with the simultaneous secondment[46] in Fruendo and without waiving the appeals filed.

Starting from the last quarter of 2020, a conciliation process was launched with the aforementioned resources[47], which, as at 31 December 2020, made it possible to finalize 56 settlements, with employees who, for the most part (no. 41), were able to access the Solidarity Fund[48].

The transfer of a business unit and the simultaneous signing of a contract with Fruendo resulted in an additional legal action promoted by Fruendo S.r.l. workers, other than those who had challenged the transfer of their employment relationship pursuant to art. 2112 of the Italian Civil Code (62 - reduced to 42 as a result of declarations to abandon the actions) who have asked for the continuation of the employment relationship with the Parent Company to be recognised, subject to declaration of the unlawful interposition of labour (so-called unlawful contract). The Court of Siena (Labour Law Section), with its judgement of 25 January 2019, rejected the appeals relating to 32 workers. This judgement was subsequently appealed by only 16 workers before the Court of Appeal of Florence with a hearing scheduled for 25 March 2021. For the other two judgements, which concern the remaining 10 workers, and which are still pending before the Court of Siena (Labour Law Section), the hearing is scheduled for 12 April 2021.

There is also an additional legal dispute, again for the so-called illicit contract, recently promoted by 21 workers of Fruendo S.r.l.: 12 workers appealed to the Court of Padua (Labour Law Section) with hearing scheduled for 18 January 2022, 9 workers appealed to the Court of Siena (Labour Law Section) with hearing scheduled for 12 April 2021.

As regards the "double remuneration" dispute, as at 31 December 2020, 59 legal actions (concerning 135 employees and 212 out-of-court claims) are pending[49].

These actions were appealed by the Parent Company before the Courts of Siena, Mantua and Rome, with hearings currently scheduled between February 2021 and June 2021.

With respect to this dispute, it should be noted that on 6 July 2020, the Court of Siena, Labour Section, only partially accepted the "double remuneration" claim lodged by 15 employees, ordering the Parent Company to pay to each of them, by way of penalty and therefore without favouring undue double remuneration, 5 months of the

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[45] It should be noted that in one case, the Court of Siena (Labour Law Section) ruled in favour of the Bank with a ruling dated 4 October 2019, which became final.

[46] This secondment ceased for 108 workers in service at the Lecce hub between 1 July and 9 December 2020.

[47] This conciliation process also raised the "double remuneration" issue.

[48] The conciliation process is still in progress and has produced/will produce further settlements.

[49] The number of pending proceedings is the result of multiple rulings that have ordered the joining of different cases, most of which had been submitted individually.

most recent de facto global remuneration plus inflation and interest at the legal rate. Against this ruling, the 15 workers filed an appeal before the Court of Appeal of Florence (Labour Law Section), with a hearing scheduled for 30 November 2021.

The issue of the aforementioned ruling by the Court of Siena on the one hand and, above all, the failure to pronounce the Court of Cassation on the appeals filed by the Parent Company against the rulings that declared the assignment of the employment relationship invalid pursuant to art. 2112 of the Italian Civil Code, on the other hand, constituted a favourable prerequisite for launching the above-mentioned settlement process aimed at settling the entire Fruendo dispute on the following bases:

- waiver by the Parent Company of its appeal in the cassation court against the judgements that have cancelled the transfer of the employment relationship to Fruendo, with the consequent, definitive consolidation of said relationship with the same;
- recognition of a sum based on the amount sanctioned by the Court of Siena (5 months' salary), in addition to a contribution for legal expenses to be determined in agreement with the Lawyers both in relation to the dispute relating to "double remuneration" and to that relating to the sale of the business unit, subject to the waiver of the "double remuneration" by the parties involved.

Tax disputes

The following tax disputes were pending as at 31 December 2020, with a total claim quantified in approximately EUR 86 mln:

- approximately EUR 20 mln in claims regarding disputes for which there is a "likely" risk of losing the case, for which provisions of EUR 17 mln have been allocated;
- approximately EUR 31 mln in claims attributable to disputes for which there is a "potential" risk of losing the case;
- approximately EUR 35 mln in claims attributable to the remaining disputes, for which there is a "remote" risk of losing the case;

Compensation for transactions in diamonds

In 2012, Banca Monte dei Paschi di Siena signed a cooperation agreement with Diamond Private Investment (DPI) to regulate the modalities for the reporting of the offer of diamonds by the company to the customers of Banca MPS. This activity generated total purchase volumes of EUR 344 mln, mainly in 2015 and 2016, with a significant drop already from 2017.

The Antitrust Authority (Autorità Garante della Concorrenza e del Mercato - AGCM), with the resolution adopted at the meeting of 20 September 2017, established the existence of behaviours in violation of the provisions relating to unfair trade practices on the part of DPI and of the banks that had signed agreements with them. With regard to the Parent Company, a sanction of EUR 2 mln was imposed.

This measure was challenged before the Lazio Regional Administrative Court which, with ruling of 14 November 2018, rejected the parent company appeal. No appeal has been lodged against the judgment and it has therefore become final.

The Parent Company had in any case suspended the reporting activity to DPI of its customers starting from 3 February 2017, as soon as they became aware of the opening (25 January 2017) of the formal AGCM investigation with regard to DPI (later extended to the banks with which it had agreements). On 19 March 2018 the Parent Company terminated the cooperation agreement with DPI (the activity had in practice already been terminated from the date of suspension) and activated a compensation process for its customers who had received recommendations and intended to exit their diamond investment.

The compensation transaction, agreed by Board of Directors since January 2018, anticipates the payment to customers a consideration up of an amount equal to the latter had originally paid to DPI for the purchase of stones, with the simultaneous transfer of the same to the Parent Company and the completion of the transaction.

Once the necessary authorisations were obtained, the initial transactions with customers were completed in the second half of 2018.

Following the launch of the initiative for a compensation to the customer process by the Parent Company, AGCM, given also the importance of the measures adopted for the mitigation of the financial impact of the communication of the offer of diamonds to the customers, requested to be kept updated on the progress of this initiative. The most recent report on the progress of the compensation process was sent to AGCM by the Parent Company on 12 July 2020, with an update of the data as at 30 June 2020.

On 19 February 2019, the Parent Company was served a preventive attachment order from the Judge's Office for the Preliminary Investigations of the Court of Milan in relation to this case. The decree was served to several individuals, two diamond-producing companies (Intermarket Diamond Business S.p.A. and Diamond Private Investment S.p.A.), as well as 5 banks, including the Parent Company, and resulted, for Banca MPS, in the preventive attachment of the profit from the crime of continued aggravated fraud, in the amount of EUR 35.5 mln. In addition, a preventive attachment order was served by equivalence pursuant to art. 53 of Italian Legislative Decree 231/2001, for EUR 0.2 mln for the crime of self-money laundering.

In the attachment order, the Parent Company – as an administrative liable party – is challenged, at point 14), with the administrative unlawful act related to an offence pursuant to art. 5, par. 1, letter b) and 25-octies of Italian Legislative Decree 231/2001 in relation to the money laundering crime provided for by art. 648-ter, par. 1, of the Italian Criminal Code.

The Parent Company, in order to have access to the investigation documentation, is proposing a request for a review against this precautionary measure.

On 28 March 2019, the notice with the scheduled hearing, for re-examination, before the Court for 2 April 2019, was given.

Following acquisition of the proceedings documentation, the Parent Company deemed appropriate to waive the appeal for re-examination before the Court and to propose instead, for a later time, a release from attachment pursuant to article 321, paragraph 3 of the Italian Code of Criminal Procedure.

On 15 April 2019, a notice for the request of an extension of the duration of the preliminary investigations was given.

On 28 September 2019, the notice for the completion of the investigations against the investigated parties (and their defenders) deemed liable and co-liable of the alleged theft against diamond investors, was filed.

The provision, containing the information for guaranteeing the right to a defence, involves 87 natural persons and 7 legal persons including the Parent Company.

The representatives of the Parent Company involved are 8, 5 of whom are executives (who are attributed the criminal conduct under article 648 ter 1, 2 and 5 of the Italian Criminal Code) and 3 are Heads of subsidiaries. The Bank remains involved in the proceedings pursuant to the alleged administrative offence under art. 25 octies of Legislative Decree 231/01 related to art. 648 ter 1 of the Italian Criminal Code.

On 4 December 2019, the Parent Company, in reference to the decree of preventive attachment issued on 13 February 2019 by the Preliminary Investigations Judge of the Court of Milan in the amount of EUR 35.2 mln, has filed with the Public Prosecutor's Office of Milan a claim for a partial restitution in the amount of EUR 10.5 mln, equal to the total amount reimbursed to some of the customers.

The Parent Company is waiting for the outcomes of this case.

On 10 September 2020, a new notice of conclusion of the investigations was issued pursuant to art. 415 bis of the Code of Criminal Procedure by the Public Prosecutor of Milan, as part of a new criminal proceeding removed from the original proceeding indicated above; this would be an additional notice with respect to the previous one as it referred to new reports of crime.

Together with the former 5 managers of the Parent Company, 5 others, still working in the sales network, are being investigated for the offence pursuant to art. 640 par. 1 and last par. of the Italian Criminal Code (multiple aggravated and continuous fraud).

In the new notice, the Parent Company is not involved as having administrative liability pursuant to Italian Legislative Decree 231/01.

To meet the initiatives taken, the Parent Company has set aside provisions which take into account, among other things, the anticipated number of requests and the current wholesale value of the stones to be collected.

As at 31 December 2020, provisions for risks and charges recognised against the compensation initiative launched by the Parent Company amounted to EUR 20 mln.

Transactions with customers were carried out during 2020 for an amount of EUR 104 mln. As at 31 December 2020, the transactions carried out by the Parent Company represented 83% of the total volume of diamond offers.

Financial risks of investment services

Foreword

The following section on financial risks of investment services was written as part of the "Operational Risk" section in line with the compulsory framework for preparation of the Notes to the Financial Statements, even though this subject presents specific characteristics and involves organisational levels of authority that are not directly traceable to operational risk management.

Wealth risk management process and methods

The Group pays particular attention to the governance of risks regarding investment services that are a direct and indirect result of the risks incurred by customers in relation to the performance of investment services.

Governance of these risks is aimed at protecting customers and at preventing any potential negative impacts on the Group in terms of operational and reputational risk.

Organisational responsibility at Group level for supervising financial risk measurement, monitoring and control activities and mapping investment products/services for the purposes of MiFID adequacy is an integral part of the Group's integrated risk management responsibilities, and is assigned centrally to the Wealth Risk Management Service, within the Operating Risk Officer Area of the Parent Company's Chief Risk Officer Department. This is to ensure centralised governance of the direct and indirect risks which the Group incurs during the course of its operations.

"Wealth risk management" focuses on the overall set of operational and management processes as well as measurement and monitoring tools/methods used to ensure overall consistency between customers' risk profiles and the risk of investment products and portfolios offered to - or in any case held by - customers.

The investment products (of the Group and of third parties), whether or not included in the overall offering to the Group's customers, are mapped for risk on the basis of quantitative measurements of market and credit risk factors; liquidity and complexity assessments are also conducted on these products. Product mapping is one of the guiding criteria for carrying out investment adequacy checks as part of the consulting service offered.

For the sake of simplicity, investment product risk mapping, performed with reference to individual risk macro-factors, is grouped under specific risk categories.

A special focus is given by the Group to the monitoring and prevention of potential financial and reputational risks which investment services, particularly in contexts of financial crisis, may generate as a consequence of increased market volatility. The fast-moving and not always predictable market trends may result in rapid changes in product risks and generate potential financial losses, as well as prompting a changing attitude by customers towards their own financial investments.

Customers have regularly been informed of changes in the risk of financial instruments held, so as to ensure timely disclosure transparency and facilitate possible decisions aimed at rebalancing the risk profile of their investments.

Advisory services on offer, customer risk profile and risk of investment products/portfolios

The strategic choice of the Parent Company is to systematically combine the placement of financial products with advisory so as to ensure the highest level of protection for the investor and, at the same time, enhance the role played by relationship managers. Again, with a view to protecting customers, the obligation to verify appropriateness has also been extended to the trading activities on the secondary market of the certificates issued by the Group.

The advisory service is offered by the Parent Company on the basis of two different methods:

- a "basic" advisory, aimed at verifying the suitability of a single specific investment recommendation, or several investment transactions or several disinvestment transactions in relation to the risk of the customer's

investment portfolio as a whole. In this regard, the adequacy model adopts a multivariate control approach to the individual risk factors, taking the risk of the customer's portfolio, including the recommended investment product(s), as a reference.

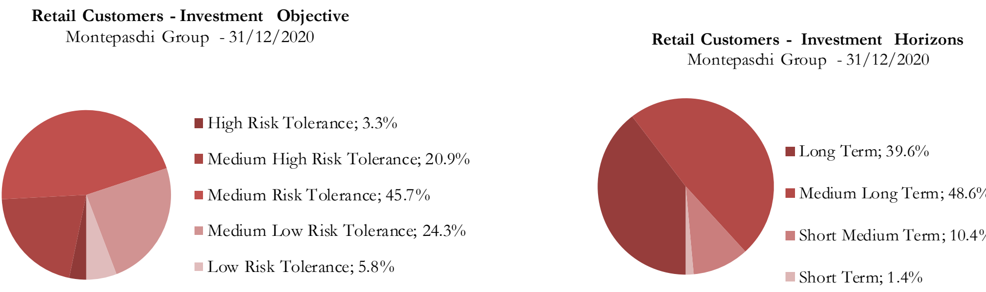
- an "advanced" advisory, aimed at verifying the suitability of the overall set of advised transactions based on a range of investment/disinvestment transactions targeted at the construction of one or more portfolios of advanced advisory, consistent with the respective investment objectives, in reference with an optimal asset allocation that aims at obtaining maximised future returns, based on the investment portfolio risk given the customer's risk profile. In this regard, the adequacy model adopts a multivariate control approach to the individual risk factors, taking the risk of the customer's portfolio, including the recommended investment product(s), as a reference.

Wealth risk management activities cover the entire distribution perimeter of the network of Group branches, the investment services operated by Banca Widiba and by MPS Capital Services.

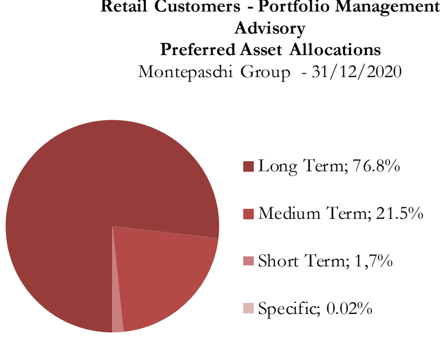
From 3 January 2018, the MiFID II directive (2014/65/EU) came into force in the entire European Union. Together with MiFIR or Markets in financial instruments regulation (EU Regulation 600/2014), this has changed the reference framework of European legislation. By adopting a new MiFID questionnaire introduced on 2 January 2018, the Parent Company and Banca Widiba have revised the methods of customer profiling and the rules for determining the indicators underlying a customer's risk profile (particularly on: investment objectives, experience, knowledge and time horizon).

At the end of 2020, the analysis of the questionnaires completed by customers in the "Private" macro-segment, namely retail customers which represent almost the entire customer base of the Group, and which hold investment products, showed for 30% a "low" or "medium low" risk tolerance, 46% a "medium" risk tolerance and the remaining 24% a positioning in higher risk tolerance classes.

In addition, mainly medium to long-term investment time horizons were preferred.



At the end of 2020, the portfolios held by Consumer/Retail customers on the basis of formalised "advanced" advisory proposals to obtain optimum asset allocation, were mainly distributed into the recommended, especially long-term, Asset Allocation macro-classes.



Section 3 - Insurance companies risks

Neither the Group nor its subsidiaries perform insurance activities. However, the Group has holdings in the share capital of insurance companies, such as “AXA MPS Assicurazioni Danni S.p.A.” and “AXA MPS Assicurazioni Vita S.p.A.”. These holdings are carried at equity and are recognised under consolidated assets, item 70 “Equity investments”. Against the risk of loss from these investments, the Group holds a specific equity requirement calculated in accordance with supervisory methodologies.

Section 4 - Other companies risks

There are no significant additional risks for the remaining companies included in the scope of consolidation that are not part of the Banking Group or insurance companies. With regard to the company MPS Tenimenti Poggio Bonelli and Chigi Saracini Società Agricola SpA, it should be noted that the book value at which the properties, plant and vineyards are recognised is consistent with the values inferred from specific appraisals and valuations. The risk of impairment loss from the real estate assets is in any case covered by a specific equity requirement calculated by the Group in accordance with supervisory methodologies.

Part F – Information on consolidated shareholders' equity

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Section 1 - Consolidated shareholders' equity

A. Qualitative Information

The Group pursues strategic objectives focused on quantitative and qualitative strengthening of capital, structural rebalancing of liquidity and achievement of sustainable profitability levels, compatible with the undertaken risks.

In this perspective, capital management, planning and allocation activities play a crucial role in ensuring compliance over time with the minimum capitalisation requirements set by the regulations and the supervisory authorities, as well as with the risk appetite level approved by the Group's strategic supervision body.

To this end, within the Risk Appetite Framework (RAF), the target capitalisation levels are estimated on a yearly basis and the capital is allocated to the business units according to the expected development, returns and estimated risk levels, making sure that the allocated capital is sufficient to ensure compliance with minimum requirements, under both normal and stress conditions. In the context of the RAF it is used to perform prospective capital adequacy assessments over a multiyear period, under both normal and stress conditions. The analyses are carried out both at Group level and by each individual legal entity subject to regulatory capital requirements. The Group uses methodologies for the correct measurement of profitability, based on risk, by adopting these indicators also within the RAF framework, with related monitoring and management of the total expected risk/return profile.

The achievement of objectives and compliance with regulatory minimum requirements is in any case monitored also throughout the year.

The formal corporate processes to which the RAF is applied at least on an annual basis are the budget, the Risk Appetite Statement and the ICAAP. These processes are also consistent with the Recovery Plan process, in particular guaranteeing that the Recovery (RPI) indicators are included among the RAS (KRI) indicators and that the related threshold alerts are coherent.

The definitions of equity applied are those used in Supervisory Regulations: Common Equity Tier 1, Tier 1 and Own Funds; moreover, the RAPM metrics also include Invested Capital, i.e. the amount of Shareholders' equity needed to achieve Common Equity Tier 1 values, whether determined ex ante as target levels or realised ex post.

The Capital at Risk concepts applied are those used in the regulatory requirements and correspond to the risk weighted assets (RWA), determined on the basis of the rules set out in the supervisory regulations, and the internal capital, defined by the Group based on the so-called "Economic Outlook" provided for in the related ECB guidelines. Both measurements are used as part of RAPM metrics.

B. Quantitative Information

B.1 Consolidated shareholders' equity: breakdown by business areas

31 12 2020

Net equity items	Prudential Consolidation	Insurance companies	Other companies	Consolidation cancellations and adjustments	Total	of which Group	of which non-controlling interests
Shareholders' equity	9,195,719	304,317	152,222	(456,539)	9,195,719	9,195,012	707
Share premium	2	-	2,413	(2,413)	2	-	2
Reserves	(1,670,809)	522,231	63,658	(585,889)	(1,670,809)	(1,670,500)	(309)
Equity instruments	-	-	-	-	-	-	-
Treasury shares (-)	(313,710)	-	-	-	(313,710)	(313,710)	-
Valuation reserves	261,892	246,199	266	(246,464)	261,893	260,853	1,039
- Equitty instruments designated at fair value through other comprehensive income	(16,725)	-	-	-	(16,725)	(16,725)	-
- Finciale assets (other than equity instruments) measured at fair value through other comprehensive income	63,383	-	-	-	63,383	63,383	-
- Cash flow hedges	-	-	-	-	-	-	-
- Exchange difference	1,229	-	-	-	1,229	1,229	-
- Non-current assets and group of assets held for sale	-	-	-	-	-	-	-
- Financial liabilities measured at fair vale through profit or loss (changes in own credit worthiness)	26,448	-	-	-	26,448	26,448	-
- Actuarial gains (losses) on defined benefit plans	(62,678)	-	(35)	35	(62,678)	(62,678)	-
- Share of valuation reserves of equity investments valued at equity	242,614	242,313	301	(242,613)	242,615	242,614	-
- Special revaluation laws	7,621	3,886	-	(3,886)	7,621	6,582	1,039
Profit (loss) for the year - Group and non-controlling interests	(1,689,113)	92,214	1,868	(94,083)	(1,689,114)	(1,688,984)	(129)
Net equity	**5,783,981**	**1,164,961**	**220,427**	**(1,385,388)**	**5,783,981**	**5,782,671**	**1,310**

B.2 Valuation reserves for financial assets measured at fair value through other comprehensive income: breakdown

Asset/Amount	Prudential Consolidation		Insurance companies		Other companies		Consolidation cancellations and adjustments		TOTAL	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	345,996	(6,300)	277,121	-	-	(809)	(277,121)	809	345,996	(6,300)
2. Equity instruments	11,065	(62,313)	2,686	(37,209)	-	-	(2,686)	37,209	11,065	(62,313)
4. Loans	-	-	-	-	-	-	-	-	-	-
Total 31 12 2020	**357,061**	**(68,613)**	**279,807**	**(37,209)**	**-**	**(809)**	**(279,807)**	**38,018**	**357,061**	**(68,613)**
Total 31 12 2019	**220,770**	**(86,645)**	**174,942**	**(27,444)**	**-**	**(809)**	**(174,942)**	**28,253**	**220,770**	**(86,645)**

B.3 Valuation reserves for financial assets measured at fair value through other comprehensive income: annual changes

31 12 2020

	Debt securities	Equity instruments	Loans
1. Opening balance	**178,218**	**(44,093)**	**-**
2. Increases	**176,379**	**10,173**	**-**
2.1 Ineases in fair value	145,577	5,435	-
2.2 Impairment (losses) for credit risk	338	X	-
2.3 Reversal to profit and loss of negative reserves: following disposal	5,669	X	-
2.4 Transfers to other component of equity (equity instruments)	-	1,194	-
2.5 Other increases	24,795	3,544	-
3. Decreases	**14,901**	**17,328**	**-**
3.1 Decreases in fair value	9,151	17,328	-
3.2 Reversals for credit risk	-	-	-
3.3 Reversal to profit and loss of positive reserves: following disposal	5,210	X	-
3.4 Transfers to other component of equity (equity instruments)	-	-	-
3.5 Other decreases	540	-	-
4. Closing balance	**339,696**	**(51,248)**	**-**

B.4 Valuation reserves for defined benefit plans: annual changes

	Internal funds	External funds	Provisions for employees severance pay	31 12 2020
Opening balance	**(36,411)**	**(177)**	**(77,436)**	**(114,024)**
Remeasurement of net defined benefit liability (asset):	**(348)**	**(52)**	**(1,609)**	**(2,009)**
Return on plan assets excluding interests	512	(8,003)	-	(7,491)
Actuarial gains (losses) arising from changes in demographic assumptions	(580)	(112)	(1)	(693)
Actuarial gains (losses) arising from experience adjustments	210	26,405	1,020	27,635
Actuarial gains (losses) arising from changes in financial assumptions	(905)	(5,121)	(2,628)	(8,654)
Changes in the effect of restrictions on the availability of a net asset for defined benefit plan	415	(13,221)	-	(12,806)
Gains (losses) on settlements	-	-	-	-
Other changes	22	4	53,082	53,108
Closing balance	**(36,737)**	**(225)**	**(25,963)**	**(62,925)**

Section 2 – Regulatory banking capital and ratios

See the information on own funds and capital adequacy contained in the public disclosure (Pillar 3).

Section 3 - Insurance regulatory capital and ratios

The Group does not include exclusively or jointly controlled companies subject to insurance supervision.

Section 4 – Capital adequacy of the financial conglomerate

The MPS Group is not a financial conglomerate.

Part G – Business combinations

Section 1 – Business combinations during the year 517

Section 2 - Business combinations completed after the period 517

Section 3 – Retrospective adjustments 517

Section 1 – Business combinations during the year

1.1 Business combinations

1.1.1 Transactions included in the scope of application of the international accounting standard IFRS 3 "Business combinations"

No business combinations, as defined by IFRS 3, were carried out in 2020.

1.1.2 Business combinations between entities under common control

In 2020, no business combinations were carried out between entities under common control.

Section 2 - Business combinations completed after the period

There are no transactions to report.

Section 3 – Retrospective adjustments

No retrospective adjustments are reported.

Part H – Related-party transactions

1 Compensation of key management personnel 519
2 Related-party transactions 519

1 Compensation of key management personnel

Items/Amounts	Total 31 12 2020	Total 31 12 2019
Short-term benefits	6,919	6,793
Post-retirement benefits	-	-
Total compensation paid to key management personnel	**6,919**	**6,793**

In compliance with the instructions provided by accounting standard IAS 24 and in light of the current organisational structure, the Group has opted for the disclosure scope to include not only the Directors, Statutory Auditors, the General Manager and the Deputy General Managers, but also other Key Management Personnel.

The information regarding remuneration policies is contained in the 'Remuneration Report pursuant to art. 123 ter of the Consolidated Law on Finance', available on the Parent Company's internet site, which contains the following data:

- a detailed breakdown of compensation paid to the Administration and Control Bodies, General Managers and, in aggregate form, to Key Management Personnel;
- quantitative information on the remuneration of "Key employees";
- monetary incentive plans in favour of members of the Administration and Control Body, the General Managers, the Deputy General Managers and other Key Management Personnel;
- information on the equity investments of members of the Administration and Control Bodies, the General Managers and other Key Management Personnel.

In the year 2020, there were 3 terminations of the employment relationship of executive personnel, for which no amounts or allowances were paid.

2 Related-party transactions

In compliance with the provisions of Consob Resolution no. 17221, 12 March 2010, as well as art. 53 Consolidated Banking Law and its implementing provisions (Bank of Italy Circular 263/06 Title V, Chapter 5, now replaced by Bank of Italy Circular 285/2013, Part Three, Chapter 11 "Risk assets and conflicts of interest with respect to associated parties"), the "Committee for Related-party Transactions" was established, composed of between three and five independent directors, carrying out the functions envisaged by the Articles of Association and the current legislative and regulatory provisions on transactions with related and associated parties.

Through resolution dated 15 October 2020, the Board of Directors of the Parent Company approved - upon obtaining the prior favourable opinions of the Related-Party Transactions Committee and of the Board of Statutory Auditors, the current updated version of the "Group Directive in relation to management of the provisions on Related Parties, Associated Parties and obligations of the banking entities", adopted pursuant to the regulations quoted above (hereinafter, the "Group Directive").

The Group Directive defines the organisational model adopted by the MPS Group (principles and responsibilities) for the management process of the provisions applicable to related parties, associated parties and obligations of the bank representatives, and in particular, governs, at the MPS Group level, the principles and rules for the control of risks arising from situations of possible conflicts of interest with some subjects close to the decision making centres of the Parent Company.

Within the Group Directive, the following is also defined:

- formulation of the responsibilities assigned within the MPS Group (tasks and responsibilities of the top management bodies and corporate functions of the Parent Company and Subsidiaries);
- scope of the related parties, associated parties ("Group Scope") and other subjects in a potential conflict of interest;
- criteria for the identification of transactions, level of relevance of the transactions;
- decision-making procedures and exemption cases;
- internal policies in the area of control.

For the purpose of the Group Directive, significance is attributed to the transactions carried out with the subjects operating within the Group Scope which involve the performance of risk activities, the transfer of resources, services and obligations, regardless of the requirement of a consideration.

As regards the types of transactions, they are classified by the Directive as follows:

- "transactions of greater relevance": transactions where at least one of the following indexes, applicable according to the specific transaction, exceeds the 5% threshold:
  - countervalue relevance index: the ratio of the countervalue of the transaction to the total of the own funds resulting from the most recent published consolidated balance sheet;
  - relevance index of the assets: the ratio of the total assets of the entity to which the transaction refers, to the total assets of Banca MPS;
  - relevance index of the liabilities: the ratio of the total liabilities of the acquired entity to the total assets of Banca MPS.
- "transaction of lesser relevance": transactions of an amount above the negligible amount and up to the threshold of greater relevance; within the scope of the transactions of lesser relevance, the following transactions are considered of a "significant amount":
  - when the amount exceeds EUR 100.0 mln and up to the threshold of greater relevance (countervalue relevance index);
  - or, in the case of acquisition transactions, mergers and demergers of an amount equal to or less than EUR 100.0 mln, the relevance index of the assets and/or liabilities is equal to or exceeding the ratio of EUR 100.0 mln to the consolidated regulatory capital.
- "transactions of a negligible amount": transactions of an amount equal to or less than EUR 250.0 thousand which represents the negligible threshold valid pursuant to the Group Directive.

The *Group Directive, in the version in effect from time to time, is posted on the MPS Group's web site and is therefore available in full-text version at the following link:*

https://www.gruppomps.it/static/upload/ope/operazioni_con_parti_collegate_e_soggetti_collegati.pdf

Already in 2016, the Parent Company's Board of Directors formally resolved to approve the inclusion of the Ministry of Economy and Finance (MEF) and of the relevant directly and indirectly controlled companies within the scope of related parties on a discretionary basis pursuant to the provisions of the Group Directive, excluding the prudential regulation.

Following completion of the Parent Company's precautionary recapitalisation procedure, after which the MEF became the controlling shareholder from August 2017, the Parent Company received notification on 18 December 2017 from the Supervisory Authorities with regard to the methods for the resulting application of limits to risk assets laid out in prudential regulations, pursuant to art. 53 of the Consolidated Law on Banking (TUB) and its implementing provisions (Bank of Italy Circ. 263/06 Title V, Section 5), through application to the Parent Company of the "silo" approach for calculation of the reference limits.

With reference to the MEF scope, the Parent Company has availed itself of the exemption provided by paragraph 25 of IAS 24 on the disclosure of transactions and balances of existing transactions with government-related entities. The main transactions carried out with the MEF and with its subsidiaries, in addition to financing transactions, include Italian government securities recorded in the portfolios "Financial assets measured at fair value through other comprehensive income" for a nominal amount of EUR 4,761.5 mln and "Financial assets measured at fair value through profit or loss" for a nominal amount of EUR 127.4 mln as well as "Financial assets measured at amortised cost" for a nominal amount of EUR 5,212.2 mln.

Information is provided below regarding the most significant transactions, in terms of amount, carried out by the Parent Company with related parties in 2020.

MEF related-party transactions

Transaction with AMCO S.p.A. - *Asset Management Company* S.p.A. (*formerly* SGA S.p.A.)

On 29 June 2020, the Board of Directors of the Parent Company, with the favourable opinion of the Related-Party Transactions Committee, approved a transaction for the partial non-proportional demerger of Banca MPS in favour of AMCO S.p.A. - *Asset Management Company S.p.A. (formerly SGA S.p.A.), with an asymmetric option (the "AMCO Demerger") for the purpose of deconsolidating a portfolio of non-performing loans of the MPS Group (consisting of bad and unlikely to pay loans).* For a description of the transaction, please refer to Part A - Accounting policies. The AMCO Demerger plan was filed at the Parent Company's registered office on 30 June 2020 and on 6 July 2020 the Disclosure drafted pursuant to art. 5 of CONSOB Regulation no. 17221/2010 and in accordance with Annex

4 of said Regulation, to which reference should be made for more details, was published on the Parent Company's website.

On 29 September 2020, the Board of Directors of the Parent Company resolved to approve some amendments relating to the Framework Agreement for the demerger between the MPS Bank and AMCO, which governs some aspects ancillary to the AMCO Demerger, already described above, among which the following should be mentioned: (i) clarifications on the representations and warranties issued by the MPS Bank in relation to the receivables included in the items spun-off following the replacements carried out, and (ii) the timing and methods of disbursement of the changes in the items spun-off.

On 24 November 2020, the Performing Loans Department of the Parent Company, subject to the favourable opinion of the Related Party Transactions Committee, authorized the granting of a credit line in a current account in favour of AMCO S.p.A., in the form of a forward revolving facility, for a maximum amount of EUR 30 mln, with contractual terms and conditions and methods of use functional to the "Fronting Bank Agreement" and the "Lease agreement for spaces and ancillary services": the 'Agreement' and 'Lease agreement' between AMCO S.p.A. and the MPS Bank were authorized on the same date by the Board of Directors, with the favourable opinion of the Related Party Transactions Committee, for the management of fronting bank activities, following the AMCO Demerger, which became effective on 1 December 2020. The total amount of the transaction is EUR 31.5 mln.

The transaction, deemed significant, falls within the scope of application of Consob Regulation no. 177221/2020, since AMCO S.p.A. is a wholly-owned subsidiary of the MEF.

Transactions with SACE guarantee

As part of activity with SACE, a wholly-owned subsidiary of Cassa Depositi Prestiti S.p.A., in turn controlled by the MEF, the following transactions were carried out.

With reference to the "SACE/2019 framework resolution" (already discussed in Part H of the Financial Statements as at 31 December 2019), risk sharing transactions were authorized in April and May 2020 for the confirmation of documentary credit and credit commitments in favour of customers of the Parent Company for a total of EUR 61.6 mln with SACE guarantee at 50%.

In November and December 2020, the Parent Company's Credit Quality Disbursement Area and Credit Committee authorised the granting of loans to customers for a total of EUR 65 mln and the increase in credit lines from EUR 40 mln to EUR 60 mln (of which EUR 30 mln backed by a guarantee from SACE SpA), backed by a guarantee equal to or not less than 70% of SACE SpA.

In December 2020, the Parent Company's Credit Disbursement Area confirmed the *risk sharing* of documentary credit lines for a total of EUR 47 mln issued by a foreign bank backed by a guarantee of 80% of for SpA and the Credit Committee of the Parent Company authorised the participation of Banca MPS, with a maximum amount of EUR 25 mln, subsequently reduced to EUR 20 mln, to a *multiborrower pool* loan for a total of EUR 240 mln in favour of the MPS Bank's corporate customer group, of which a tranche is also backed by a guarantee of 72.72% of SACE S.p.A .

On 17 December 2020, the Board of Directors of the Parent Company, with the favourable opinion of the Risks and Sustainability Committee and the Related Party Transactions Committee, resolved to approve the transaction concerning the release by SACE of a guarantee on first demand ("SACE Guarantee") on a portfolio of performing loans, for a maximum amount of approximately EUR 670 mln, already recognised in the financial statements of Banca MPS and MPSCS, respectively for the amounts of approx. EUR 380 mln and EUR 290 mln ("Loan Portfolio"). Under the SACE Guarantee, SACE has an obligation to pay to Banca MPS and MPSCS up to 80% of the principal and interest not paid by the borrowers included in the Loan Portfolio. On 5 January 2021, the Information Document prepared pursuant to art. 5 of Consob Regulation no. 17221/2010 has been published on the Parent Company's website, to which reference is made for further details.

Transactions with Cassa Depositi e Prestiti

As part of the activity with Cassa Depositi Prestiti S.p.A. - controlled by the MEF, the following transactions were carried out.

On 7 February 2020, the Board of Directors, with the prior favourable opinion of the Related-Party Transactions Committee, approved with respect to CASSA DEPOSITI E PRESTITI S.p.A. ("CDP S.p.A."), which is controlled by the MEF, the "CDP Framework Agreement/2020", involving the Parent Company's acquisition of financial resources, with funding made available by CDP S.p.A. as part of the agreements in place stipulated between CDP S.p.A. and the Italian Banking Association ("ABI") - to be allocated to customers for the

finalisation of supplementary financing agreements and the relative requests for utilisation, drawn from the credit limits envisaged by said ABI/CDP agreements, up to a cumulative amount of EUR 1,200 mln, valid for 12 months and therefore until 6 February 2021. The resolution framework, where envisaged by current conventions, is to be intended valid both for the Parent Company and for the subsidiaries MPS Capital Services Banca per le Imprese S.p.A. and MPS Leasing & Factoring S.p.A. As this is a significant transaction, the relative Disclosure, which should be referred to for the details, drafted pursuant to art. 5 of CONSOB Regulation no. 17221/2010 and in accordance with Annex 4 of said Regulation, was published on 14 February 2020 on the Parent Company's website.

On 13 March 2020 the Board of Directors of the Parent Company authorised, with the favourable opinion of the Related-Party Transactions Committee, with respect to CDP S.p.A., which is controlled by the MEF: (i) the signing of two framework financing agreements for specific credit lines, relating to "special-purpose funding", to support businesses operating in the People's Republic of China, for a total value of EUR 130 mln, (ii) the pledging of the securities of local issuers (BOC) as a guarantee, to the extent of 75% of the credit lines described above and therefore equal to EUR 97.5 mln and (iii) the approval of the "China framework agreement/2020" for a maximum credit line of EUR 130 mln, for the transactions/drawdowns to be carried out in the 12-month period of validity, and therefore until 12 March 2021.

On 20 March 2020, 5 March 2020 and 20 February 2020, five drawdowns of funding were carried out for a total of EUR 391 mln, within the context of the Parent Company's operations and under the "CDP framework agreement/2020" mentioned above.

On 6 July 2020 and subsequently on 5 August 2020 and 5 October 2020, seven drawdowns of funding were carried out for a total of EUR 773.75 mln, within the context of the Parent Company's operations and under the "CDP framework agreement/2020" mentioned above. As stated above, Cassa Depositi e Prestiti SpA is controlled by the MEF.

Other transactions

On 12 March 2020, the Territorial Markets Disbursement Service of the Parent Company authorised, in favour of CONSIP S.p.A., which is controlled by the MEF, the extension of the outstanding ordinary credit facility, usable as a non-revolving current account overdraft facility, for EUR 10 mln.

On 18 May 2020, the Chief Executive Officer of the Parent Company authorised, subject to the favourable opinion of the Related-Party Transactions Committee, the expense for the award of the following contracts: (i) for the interbank courier service and the groupage transport service to SDA Express Courier S.p.A. for an estimated annual amount of EUR 5.1 mln per year (EUR 10.2 mln for the two-year period) and (ii) for the waybill service to POSTE ITALIANE S.p.A. for an estimated annual amount of EUR 0.7 mln (EUR 1.4 mln for the two-year period) and therefore for a total estimated amount of EUR 11.6 mln for the two-year period 2020-2021. SDA Express Courier S.p.A. is controlled by POSTE ITALIANE S.p.A., which in turn is controlled by the MEF.

On 29 May 2020, the Credit Committee of the Parent Company approved in favour of FINCANTIERI S.p.A., as part of the ordinary review of credit facilities, the restructuring of the credit line inclusive of the new bilateral medium/long-term credit line for a total amount of EUR 96.75 mln, through: (i) confirmation of the mixed use credit line of EUR 25 mln, (ii) granting of an unsecured loan for EUR 70 mln, (iii) granting of a credit facility for interest rate risk hedging transactions of EUR 1.75 mln and (iv) the simultaneous cancellation of two credit lines, for EUR 30 mln and EUR 40 mln, respectively. FINCANTIERI S.p.A. is a direct subsidiary of CDP Industria S.p.A., held by Cassa Depositi e Prestiti S.p.A., in turn a subsidiary of the MEF.

On 5 June 2020, the Performing Loans Department of the Parent Company authorised in favour of SO.G.I.N. S.p.A., a subsidiary of the MEF, the renewal at par of two outstanding mixed use credit lines, for EUR 18.9 mln and EUR 1 mln, respectively, for a total amount of EUR 19.9 mln.

On 22 June 2020, the Loan Disbursement Area of the Parent Company authorised in favour of POSTE ITALIANE S.p.A, a subsidiary of the MEF, as part of the ordinary review of credit facilities: (i) the cancellation of the ordinary credit line of EUR 6 mln granted for use as a current account overdraft facility and (ii) the granting of a new ordinary credit line for a total of EUR 20 mln, for mixed use as a current account overdraft facility, for forward drafts and for the issue of sureties in Italy.

On 5 November 2020, the Parent Company's Performing Loans Department, subject to the favourable opinion of the Related Party Transactions Committee, as part of the ABI-SACE-SIMEST "Export Banca" Agreement, authorized the moratorium/standstill in favour of Zozik LLC until 30 December 2020 of the principal and interest instalment due on 30 June 2020, relating to a buyer credit loan of an original EUR 22.39 mln, guaranteed

by SACE S.p.A. and granted with CDP S.p.A. funding, with consequent authorization to stipulate an agreement supplementing the guarantee contract with SACE S.p.A. in order to suspend the terms for the enforcement of the guarantee by the latter for the moratorium period. Subsequently, on 15 December 2020, the Credit Committee, subject to the favourable opinion of the Related Party Transactions Committee, authorized: (i) the confirmation of the resolution suspending the instalment at 30 June discussed above and the suspension of the instalment due 31 December 2020 with the signing of a standstill letter between Banca MPS and Zozik to agree the aforementioned suspensions and the new due date of the suspended instalments; (ii) the amendment of the agreements with SACE and CDP in line with the moratorium granted to Zozik, with the signing of a supplementary moratorium/standstill agreement until 30 June 2021 of the aforementioned funding agreement in place with CDP S.p.A. and (iii) a new supplementary agreement to the guarantee contract for a further extension to 30 June 2021 of the enforcement terms of the aforementioned SACE S.p.A. guarantee. This transaction, for a total of EUR 23.6 mln, was financed by funds made available by CDP S.p.A.., controlled by the MEF and backed by a guarantee from SACE S.p.A., in turn wholly owned by CDP S.p.A.

On 10 December 2020, the Parent Company's Performing Loans Department resolved in favour of SIA S.p.A.: (i) the ordinary review of credit lines, valid for internal purposes until 31 March 2021, for a total of approximately EUR 32 mln, with extension and increase in the mixed credit line up to EUR 23 mln, (ii) simultaneous cancellation of two credit lines and (iii) confirmation of the FDF credit line (sureties) of EUR 9 mln. SIA S.p.A. is jointly controlled by CDP *Equity* S.p.A. and FSIA Investimenti S.r.l., both controlled by CDP S.p.A., which is in turn controlled by the MEF.

The following tables summarise the relationships and economic effects of transactions carried out in the year with associates, key management personnel and other related parties.

The "MEF Scope" column highlights the balances[50] of the balance sheet and income statement items as at 31 December 2020 relating to the transactions carried out with the MEF and the companies controlled by the MEF, namely companies controlled directly or indirectly by the MEF and their associates.

2.a Related-party transactions: balance sheet items

Group Balanche sheet

	Value as at 31 12 2020						
	Joint venture	Associated companies	Executives with strategic responsibility	Other related parties	MEF Scope	Total	% FS itmes
Financial assets held for trading	-	-	-	14,019	4,477,347	4,491,366	54.67%
Financial assets mandatorily measured at fair	-	3,000	-	-	33,520	36,520	7.92%
Financial assets measured at fair value through other comprehensive income	-	-	-	-	4,904,309	4,904,309	84.88%
Loans to customers measured at amortised cost	80,536	62,644	5,449	50,271	7,421,352	7,620,252	8.28%
Other assets	-	-	-	102	48,751	48,853	3.06%
Total assets	80,536	65,644	5,449	64,392	16,885,279	17,101,300	
Financial liabilities measured at amortised cost	3,794	244,482	3,613	36,289	3,977,421	4,265,599	3.23%
Financial liabilities held for trading	-	-	-	-	520	520	0.01%
Other liabilities	75	165	1	14	8,766	9,021	0.36%
Total liabilities	3,869	244,647	3,614	36,303	3,986,707	4,275,140	
Guaranties issued and Commitments	26,952	27,807	212	748	1,588,661	1,644,380	n.a.

[50] The criteria to fill out the two tables are different from those of the European Securities and Markets Authority (ESMA) used for the table "Exposure to sovereign debt risk".

2.a.bis Related-party transactions: AMCO set of demerged items, balance-sheet items

Assets		Set of demerged items in favour of AMCO from 1/12/2020
10	Cash and cash-equivalents	379,248
20	Financial assets measured at fair value through profit or loss	94,860
	a) financial assets held for trading	*433*
	c) financial asset mandatorily measured at fair value	***94,427***
30	Financial assets measured at fair value through other comprehensive income	2,140
40	Financial assets measured at amortised cost	3,515,776
	b) Loans to customers	*3,515,776*
110	Tax assets	120,982
	b) deferred tax assets	*120,982*
130	Other assets	1,599
	Total asstes	**4,114,605**
Liabilities and shareholders' equity		
10	Financial liabilities measured at amortised cost	3,179,187
	a) due to banks	*3,179,187*
20	Financial liabilities held for trading	6
80	Other liabilities	784
120	Valuation reserves	(2,793)
150	Reserves	(196,187)
170	Share capital	1,133,606
	Total liabilities and shareholders' equity	**4,114,605**

The table provides a breakdown by accounting portfolio of the assets, liabilities and equity of the items demerged on 1 December 2020 to AMCO S.p.A., following the non-proportional partial demerger of Banca MPS, more fully described in the previous section "MEF related-party transactions". It is specified that part of the balance sheet elements transferred to AMCO (equal to EUR 646 mln) were held by the subsidiary MPS Capital Services S.p.A. and were included in the set of demerged items to the effect of the demerger of the latter in favour of MPS, effective on 26 November 2020.

2.b Related-party transactions: income statement items

Group Income statements

	Value as at 31 12 2020						
	Joint venture	Associated companies	Executives with strategic responsibility	Other related parties	MEF Scope	Total	% FS items
Interest income and similar revenues	1,737	698	55	515	210,978	213,983	10.83%
Interest costs and similar charges	-	(129)	(2)	(58)	(27,405)	(27,594)	3.92%
Fee and commission income	379	138,639	7	3,140	181,432	323,597	20.28%
Fee and commission expense	(61)	(542)	(1)	(1)	(14,087)	(14,692)	7.25%
Net profit (loss) of other assets and liabilities measured at fair value through profit or loss	-	302	-	-	3,087	3,389	-23.18%
Ner impairment (losses)/reversals for credit risk	(507)	(611)	-	1	(8,644)	(9,761)	1.30%
Dividends	-	-	-	222	193	415	4.04%
Operating costs	2	(34,665)	(6,967)	(2,368)	(28,996)	(72,994)	2.06%

For the list of joint venture and associated as at 31 December 2020, see the tables of the Notes to the consolidated financial statements - Part B - Information on the consolidated balance sheet - Section 7.

The securitisation transactions are described in Part E of the Notes to the financial statements.

With regard to the balances shown in Table 2.b shown above, please note the following:

- Fee and commission income from associates refers almost entirely to the insurance investees AXA MPS Assicurazioni Vita SpA and AXA MPS Assicurazioni Danni SpA;
- Net profit (loss) of other assets and liabilities measured at fair value through profit or loss refers to the revaluation of the Minibond Fund;
- Net impairment (losses)/reversals for credit risk include the reversal for EUR 1 mln on Immobiliare Novoli and the impairment for EUR 1.5 mln on its subsidiary Sandonato as joint venture controlling interests, and the impairment for EUR 0.2 mln on Sansedoni and EUR 0.4 mln on Terme di Chianciano as associates.
- Dividends mainly relate to Assicurazioni Generali;
- Operating costs relating to associates also include insurance costs incurred with the investees AXA MPS Assicurazioni Vita SpA and AXA MPS Assicurazioni Danni SpA;

With regard to the MEF scope, the following is noted:

- Financial assets predominantly comprise government bonds, which generated interest income for EUR 195 mln;
- Other assets include tax credits due from the Tax Authorities for various reasons due to Group companies as a result of various legislative provisions;
- Fee and commission expense for guarantees granted by the Government on securities amount to EUR 13 mln, while fee and commission income mainly refer to the contract with Anima (associate in the MEF scope) and for the placing service for government securities;
- Net profit (loss) of the other assets and liabilities measured at fair value through profit or loss refers to capital gains on units of the Fondo Italiano di Investimento;
- Net impairment (losses)/reversals for credit risk include the write-downs on Trevi Finanziaria Industriale.
- Operating costs are almost entirely attributable to postage and shipping costs.

During the year 2020, it should be noted, inter alia, that the lending transaction on Government bonds generated interest income on the coupons collected, fully recognised to lending customers.

Part I – Share-Based Payment Agreements

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Qualitative Information

Description of share-based payment agreements

To pursue the objective of encouraging alignments of the interests of management with those of shareholders, Supervisory Provisions on pay and incentive policies and practices establish that at least 50% of variable remuneration provided to "key employees" should be paid in the form of shares or associated financial instruments over a period of at least 3-5 years. "Variable remuneration" refers to both variable components linked to the performance or other parameters and amounts paid as incentives for the early termination of the employment relationship exceeding the amount due by law ("severance").

In accordance with the aforementioned regulatory provisions, the Montepaschi Group adopted annual Performance Shares Plans up to the 2017 financial year and annual Treasury Shares plans for the 2018 and 2019 financial years. In the session of 18 May 2020, the Shareholders' Meeting of the Parent Company approved a Performance Shares Plan for 2020, designated exclusively to the payment of any severance for personnel of the Montepaschi Group. The contents and the methods for the functioning of the afore-mentioned plans are described in the "Remuneration policies" posted on the web site of the Parent Company https://www.gruppomps.it/en/corporate-governance/remuneration.html.

As the provisions of performance shares for the Plans up to 2017 and for the 2020 Plan do not require the material assignment of shares, but rather the payment of an amount pegged to the share value reported over time, for accounting purposes it is considered a cash settled share based payment pursuant to IFRS 2 "Share-based payments". The debt corresponding to the amounts to be recognised will be paid off in cash and recorded at the end of the service period; the total amount will depend on the price of the instruments representative of the capital (performance shares) which will be measured at fair value, calculated as the best estimate of the amount due in consideration of the different conditions established by the plans, valued with regard to the fair value of the shares of the Bank assigned from year to year and the value of the Parent Company's shares. The estimate of the fair value of the share, at the measurement date, should not take into account any expected vesting conditions (e.g. condition of permanence in service or conditions for the achievement of results), except for market conditions. The vesting conditions should be taken into consideration by adjusting the number of assignments included in the assessment of the liability arising from the transaction; the market conditions (as with any other non-accrual-related conditions) should instead be considered in the estimate of the liabilities fair value arising from the transaction and of the related cost attributed to the Income Statement.

The 2018 and 2019 plans, providing for the assignment of shares of the Parent Company at the accrual time of the vesting conditions, fall within the scope of the application of the IFRS 2 accounting standard as equity settled share-based payments, in the context of which instruments representative of the capital are attributed as an offsetting entry to an equity reserve. Within this scope, the severance cost set forth in the Plans and the corresponding increase in net equity are measured at the fair value of the shares that will be assigned; the estimate of the fair value of the share at the measurement date will not need to take into account any expected vesting conditions (e.g. condition of permanence in service or conditions for the achievement of results), except for market conditions. The vesting conditions should be taken into consideration by adjusting the number of financial instruments included in the measurement of the amount of the transaction so that the value recognised in the financial statements for the services received as a payment for the financial instruments will be based on their number which, at the end, will actually be accrued; the market conditions should instead be considered in the estimate of the fair value of the assigned shares.

The fair value of the Performance Shares and of the treasury shares assigned is determined - pursuant to art. 9, paragraph 4 of the Income Tax Act (TUIR) - on the basis of the arithmetic average of the MPS share prices reported in the thirty days leading up to the assignment date.

Quantitative Information

With regard to the 2016 Plan, of the original 32,806 deferred performance shares 1,220 were settled in the course of 2020; the remaining 13,126 Performance Shares continue to be accounted for, following the settlements and cancellations taking place to date, and will be settled each year over a five-year time horizon starting one year after the relative assignments. These assignments are subject to the verification of pre-established malus conditions.

In reference with the plans approved from 2017 to 2019 and the Plan approved in 2020, as at this reporting date, no amount is recognised since no instruments representative of the capital nor shares were accrued, due the non-occurrence of the accrual conditions.

Part L – Segment reporting

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This section of the Notes to the Consolidated Financial Statements is prepared in accordance with the IAS/IFRS international accounting standards, with particular reference to IFRS8 "Operating Segments".

The aforementioned accounting standard, applied as of 1 January 2009 to replace IAS14 "Segment reporting" and the adoption of which has no effect on the valuation of balance sheet items, requires reports to be drafted in relation to operating segments on the basis of the internal reporting actually used by management to take decisions on the allocation of resources to various segments and to conduct performance analyses.

Group operations by business segment

The Montepaschi Group operates in the following business areas:

- *Retail and commercial banking*: includes lending activities, traditional banking services, financial advisory and digital banking services, the offering of banking and insurance products through the strategic partnership with AXA, wealth management and investment products;
- *Leasing and Factoring:* includes the offering of leasing and factoring packages for businesses, artisans and professionals;
- *Corporate finance*: mid- and long-term lending, corporate finance, capital markets and structured finance;
- *Investment banking:* trading and global markets;
- *Foreign banking:* products and services in support of market expansion and investments of Italian companies abroad.

Operations in the business areas are conducted by the following operating units of the Group:

- Distribution network, comprising the branches and specialised centres of Banca Monte dei Paschi di Siena;
- Banca Widiba S.p.A., which includes the business of the Financial Advisory Network and Digital Banking;
- product companies, represented by the Group's banks and companies expressly dedicated to the development of specialised financial instruments to be offered to the *market, in particular: MPS Capital Services (specialized in corporate finance, capital* market and structured finance), MPS Leasing & Factoring (specialized in offering leasing and factoring services for businesses);
- foreign network[51].

The Group also includes service operations dedicated to the management of IT and telecommunications (Group Operating Consortium).

For the purpose of identifying the operating segments provided for by IFRS 8, the Montepaschi Group has adopted the business approach. Income statement/balance sheet data are then aggregated based on criteria including business area and operating unit of reference, relevance and strategic importance of operations involved, and cluster of clients served. Based on the Group's reporting criteria, which also take into account organisation structures, the following operating segments were identified:

- *Retail Banking,* which includes the income statement and balance sheet results pertaining to clusters of Retail customers (Value, Premium and Small Business segments) and Banca Widiba Spa (Financial consultants Network and Self-service channel);
- *Wealth Management,* which includes the income statement and balance sheet results pertaining to clusters of Private Banking customers (Private Banking and Family Office segments) and the subsidiary MPS Fiduciaria;

[51] Broken down as follows: 1 operational branch in Shanghai; 9 representative offices (in target areas of the Central-Eastern Europe, North Africa, India and China); 1 bank under foreign law, specifically Monte Paschi Banque S.A., for which the Parent Company resolved to launch the orderly winding-down process by drafting a plan in compliance with the indications contained in Commitment no. 14 "Disposal of participations and businesses", i.e., (i) progressive deleveraging of the current loan portfolio, (ii) acceptance of deposits only from existing customers, (iii) suspension of business development activities, (iv) no new initiatives in new segments or markets, as well as other regulatory restrictions in place. Performance for 2019 is in line with the plan objectives mentioned above.

- *Corporate Banking,* which includes the income statement and balance sheet results pertaining to clusters of Corporate customers (SME, Entities and Key customers), Large Groups Area, Foreign Branches and the subsidiaries MPS Capital Services, MPS Leasing & Factoring and the foreign bank MP Banque;
- *Corporate Centre:* in addition to cancellations of intragroup entries, this Operating Segment incorporates the results of the following business centres:
  - ✓ service operations supporting the Group's business, dedicated in particular to the management and development of IT systems (Consorzio Operativo Gruppo MPS);
  - ✓ companies consolidated at equity and held for sale;
  - ✓ operating units, such as proprietary finance, treasury and capital management activities.

The paragraph "Basis for preparation" shows the income statement and balance sheet results for each identified operating segment. Note that:

- the 2019 income statement data of the subsidiary BMP Belgio S.A. are included in the individual income statement items of the Corporate Banking operating segment, rather than in the item "Profit (loss) after tax discontinued operations", although it was sold on 14 June 2019.
- starting from 2020, the income statement and balance sheet are presented according to the new reclassification principles described in the sections "Income statement reclassification principles" and "Balance sheet reclassification principles". The values for 2019 have been restated for comparison with the previous year on a consistent basis.
- starting from 2020, the income statement and balance sheet results of Banca Widiba SpA have been included in *Retail Banking*. The values of the previous year have been restated, therefore the comparison is consistent.

Reclassified income statement criteria by operating segment

Main economic aggregates criteria are described below:

- **Net interest income**: in relation to the business centres of Banca Monte dei Paschi di Siena, it is calculated by way of contribution on the basis of internal transfer rates broken down by products and maturities. With reference to non-divisionalised entities, net interest income is the difference between "interest income and similar revenues" and "interest expense and similar charges".
- **Net fee and commission income: determined by direct allocation of commissions to the operating segments.**
- **Operating expenses**: the aggregate includes administrative expenses (after recovery of expenses) and net value adjustments to property, plant and equipment and intangible assets. The operating expenses of non-divisionalised entities (mono-segments) are directly allocated to their corresponding operating segments while, for Banca Monte dei Paschi di Siena, they are allocated to their respective Segments of reference by using a "*cost allocation*" model. With regard to other administrative expenses and Net value adjustments to property, plant and equipment and intangible assets, the model allocates external and intragroup cost components to the business centres either directly or by means of specific drivers, starting from a set of previously identified and priced services. With reference, however, to "Personnel expenses", the model allocates costs to business centres on the basis of the unique functional position of the resources, or, if this is not possible, according to specific criteria relating to the operations performed.
- **Cost of customer credit / Net impairment (losses)/reversals on securities and loans to banks: analytically allocated to the individual operating segments.**

Reclassified balance sheet criteria by operating segment

Balance sheet aggregates were developed by precisely surveying the balances on individual customers and subsequently aggregating them by service model/operating segment. In particular:

- **gross interest-bearing loans to customers**: the interest-bearing assets used for the operations of a business segment, which are directly attributable to the segment itself;

- **direct deposits** include the onerous liabilities arising from the operations, which are directly attributable to the segment itself.

Transactions between operating segments

Each segment's income and results include transfers between operating segments (Internal Transfer Rates). These transfers are reported in accordance with the best practices accepted by the market (i.e. the fair value method or cost method increased by a proper margin) both with respect to commercial and financial transactions.

The income of each operating segment is determined before intragroup balances and intragroup transactions are eliminated during the process of consolidation. In line with the internal reporting system used by the Montepaschi Group, balances of intragroup transactions are not shown separately.

Basis for preparation

In accordance with the recommendations of IFRS 8, the table below presents the Group's income statement and balance sheet results as at 31 December 2020, developed according to the Operating Segments defined above:

SEGMENT REPORTING	Operating Segments				
Primary segment	Retail banking	Wealth Management	Corporate banking	Corporate Center	Total MPS Group
(EUR mln)	31/12/20	31/12/20	31/12/20	31/12/20	31/12/20
PROFIT AND LOSS AGGREGATES					
Net interest income	846.6	6.6	405.5	31.8	1,290.6
Net fee and commission income	1,076.6	109.9	295.0	(51.4)	1,430.1
Other income from financial and insurance activity	74.0	20.8	42.0	110.3	247.1
Other operating expenses/income	10.9	(0.7)	(12.2)	(48.6)	(50.5)
Total Income	2,008.0	136.6	730.4	42.3	2,917.3
Operating expenses	(1,636.4)	(114.2)	(390.8)	(62.4)	(2,203.8)
Pre Provision Profit	371.7	22.5	339.6	(20.2)	713.5
Cost of customer loans/Net impairment losses (reversals) on securities and loans to banks	(342.3)	0.1	(392.4)	(18.5)	(753.0)
Net Operating Income	29.3	22.6	(52.8)	(38.7)	(39.5)
BALANCE SHEET AGGREGATES					
Gross Interest-bearing loans to customers(*)	42,611	529	28,949	11,489	83,579
Direct funding	50,299	3,157	20,921	29,341	103,719

(*) The value shown in the Group as well as that in the Operating segments is represented by gross interest-bearing Loans to customers, therefore not including loss provisions.

The following table summarises the values relating to the year 2019.

SEGMENT REPORTING	Operating Segments				
Primary segment	Retail banking	Wealth Management	Corporate banking	Corporate Center	Total MPS Group
(EUR mln)	31/12/19	31/12/19	31/12/19	31/12/19	31/12/19
PROFIT AND LOSS AGGREGATES					
Net interest income	1,002.5	11.8	459.4	27.5	1,501.3
Net fee and commission income	1,196.8	108.9	300.7	(156.9)	1,449.5
Other Revenues from Banking and Insurance Business	70.7	18.8	189.3	134.4	413.2
Other operating expenses/income	14.5	0.3	(16.7)	(78.4)	(80.2)
Total Revenues	2,284.6	139.8	932.8	(73.4)	3,283.8
Operating expenses	(1,698.6)	(99.6)	(445.5)	(45.9)	(2,289.6)
Pre Provision Operating Profit	586.0	40.3	487.3	(119.3)	994.2
Cost of customer loans/Net impairment (losses)-reversals on securities and loans to banks	(275.9)	0.2	(298.3)	(14.0)	(588.0)
Net Operating Income	310.1	40.4	189.0	(133.3)	406.2
BALANCE SHEET AGGREGATES					
Gross Interest-bearing loans to customers (*)	41,011	499	30,758	7,718	79,985
Direct funding	45,016	3,496	17,230	28,475	94,217

(*) The value shown in the Group as well as that in the operating segments is represented by gross interest-bearing Loans to customers, therefore not including loss provisions.

Part M – Leasing Information

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Section 2 - Lessor 536

Section 1 - Lessee

Qualitative Information

In the capacity of lessee, the Parent Company stipulates lease agreements of properties to be primarily used for business. Therefore, these leases of properties are used by the branches and as spaces intended to accommodate ATMs or internal offices.

The leasing activity also includes the stipulation of lease agreements related to properties for residential use for employees who transfer to other work locations. The flats are subsequently subject to sub-lease agreements between the Parent Company and the employees, considered out-of-scope of the standard IFRS16.

In reality, the leasing activities of the Parent Company is related to the need to relocate branches and offices. Particular attention is paid to the identification of the properties that are more suitable for the intended use, in line with the cost effectiveness criteria set forth by the company.

The Group companies undertake the role of lessee primarily in lease agreements of properties hosting their relative offices.

In particular:

- Widiba executes lease agreements concerning properties to be used for business (e.g., financial shops, spaces used for offices) and residential use, as in the case of flats sub-leased to employees who have transferred to other business locations. As for the Parent Company, the execution of new contracts is necessary in the case of relocations.
- MPS CS executes lease agreements concerning properties for business and residential use; in the latter case, they are flats sub-leased to employees who have transferred to other business locations.
- The Consorzio Operativo Gruppo MPS is the lessee in an outstanding financial lease agreements for infrastructural (mainframe) services and contracts for properties for business use of operating offices.

Contracts relating to automobiles mainly refer to long-term leases of office cars and cars given as a fringe benefit to employees. In view of the marginal relevance of car leasing contracts with respect to the total values of the assets consisting of rights of use recognized in the financial statements pursuant to IFRS 16, no further disclosure is provided on this contract category.

The Group is not usually exposed to cash outflows not included in the lease liability. The exposures deriving from extension options are included in the lease liabilities since, in order to provide business continuity to the Branch offices, the Group considers the first renewal to be certain, except in special cases. The rent due on the leases is updated in line with ISTAT data, the impact of which is in any case insignificant. No contracts entered into as lessee falls into the other categories referred to in the standard (residual value guarantees, commitments on leases not yet operational).

As part of the agreement signed with Ardian SA for the sale of real estate, the Parent Company:

- concluded lease agreements for four of the properties sold in November 2020.
  In particular, for two of the contracts in question, referring to properties located in Bisceglie and in Rome, the Parent Company set the lease term to be six years in consideration of the specific nature of the contractual clauses and recognized related lease liabilities for EUR 2.5 mln. With regard to the other two leases, referring to properties located in Milan and Rome, the Parent Company applies the exemption envisaged by IFRS 16 for short-term leases; any rent due from 2021 onwards will be recognized in full in the income statement according to the frequency agreed in each lease.
- the Bank is committed to enter into lease agreements for a total annual rent of EUR 1.4 mln with reference to two of the properties that will be sold starting from 2021.

The purpose of the leaseback transactions stipulated during the year and to be stipulated in future years is to allow the Group units currently housed in these properties to continue to use them.

The Parent Company and the Group companies recognise as costs:

- short-term leases in the case of assets such as properties and technologies (in particular in reference with the mainframe hardware module) when the related contracts have a maximum term of twelve months and do not provide for any extension options.

- the leasing of assets of a modest value, i.e. characterised by a value that is under five thousand euro, related mainly to cell phones.

Quantitative Information

The following table shows amortisation costs for the assets comprising the right of use, broken down by the underlying asset class.

	31 12 2020	31 12 2019
Amortization costs on Right of Use acquired thruough leasing	51,747	53,885
a) Land	-	-
b) Buildings	45,454	51,020
c) Furniture and Furnishings	4	-
d) Electronic systems	5,153	1,750
e) Other	1,136	1,115

Section 2 - Lessor

Qualitative Information

The Parent Company executes, in its capacity as the lessor, leasing contracts of properties for business and residential use.

The properties for business use are leased to both third parties and to intragroup companies. In the latter case, the properties and spaces occupied by the administrative offices of the companies of the Group are the subject matter of these contracts. As regards the properties for residential use, these are primarily owned flats leased to third parties.

The contracts for residential use have generally a duration of 4+4 years, the ones for business use a duration of 6+6 years. The lease agreements executed as lessor are protected by a deposit paid by the lessee, as set forth in the applicable laws. This amount can be used to repair any damage that the tenant may cause. In addition to this, the Parent Company does not apply any specific contractual clause regarding the management of any risk associated with the rights held on the underlying assets.

MPS Leasing & Factoring S.p.A. is the company of the Group that carries out marketing activities on financial lease in the capacity of lessor. The subsidiary operates in the market by executing contracts intended for the most part to companies and offering products from the real estate, business, vehicles, energy and naval aviation sectors. In carrying out its activities, it avails itself of the MPS Network and single-firm agents.

As at 31 December 2020, MPS Leasing & Factoring S.p.A. had in its portfolio contracts for a gross value of EUR 3,932.8 mln, of which EUR 2,318.5 mln in the real estate leasing sector, EUR 922.1 mln in the business segment , EUR 269.8 mln in the vehicle sector, EUR 332.1 mln in the energy sector and EUR 90.2 mln in the naval aviation. The value of the lease agreements executed during the year amounted to EUR 682 mln, down by -2.3% compared with the previous year. The *trend* by segment of the subsidiary in terms of volumes shows growth compared to the previous year for property (+ 8.1%; EUR+21 mln) and for the naval aviation segment (+ 9.2%; EUR +1 mln) while the instrumental segment decreased by -4.9%, vehicles by -6.1% and *energy* by -92.5%, however, highlighting an improving trend in the last quarter of the year.

Financial lease agreements, executed with customers, allow for a risk management on the underlying assets in line with the policies of the Group but they do not provide for repurchase agreements, guarantees on the residual value or variable payments. MPS Leasing & Factoring recognises financial leases in compliance with the accounting standard IFRS 16 and classifies the transactions under financial assets measured at amortised cost. The other companies of the Group do not have outstanding lease agreements in the capacity of Lessor.

Quantitative Information

1. Information on the balance sheet and income statement

For information on loans for leases and assets transferred under operating lease, see tables 4.2, 9.1 and 9.6a of Section 4 and Section 9, Part B, Assets in these Notes to the Financial Statements; for information on interest income on loans for leases and on other income from financial and operating leases, see tables 1.1 and 16.2 respectively in Section 1 and in Section 16, Part C of these Notes to the Financial Statements.

2. Quantitative information - Financial leases

2.1 Classification by time bands of payments to be received and reconciliation with the loans for leases recognised under assets

Time bands	31 12 2020	31 12 2019
	Total lease payments receivable	Total lease payments receivable
Up to 1 year	779,530	787,721
from 1 to 2 years	591,227	577,258
from 2 to 3 years	500,352	506,899
from 3 to 4 years	392,934	397,912
from 4 to 5 years	308,346	297,394
over 5 years	1,354,862	1,398,856
Total lease payments receivable	**3,927,251**	**3,966,040**
RECONCILIATION WITH LOANS		
Not accrued gains	(543,476)	(445,527)
Unguaranteed residual value	(545,425)	(553,316)
Lease loans	**2,838,350**	**2,967,197**
Loans	*308,259*	*168,080*
Net impairment (losses) on lease loans	*(561,462)*	*(585,954)*
Redemption fees on lease loans	*545,425*	*553,316*
Lease loans measured at amortised cost	**3,130,572**	**3,102,639**

The table shows the classification by time bands of payments to be received for leases and the reconciliation between the payments to be received and the loans for leases referring to the subsidiary MPSLF in the capacity of lessor. The amounts are not discounted (IFRS 16.94).

2.2 Other information

No other information to report.

3. Quantitative information - Operating leases

3.1 Classification by time bands of payments to be received

Time bands	31 12 2020		31 12 2019	
	year	Total lease payments receivable (excluding VAT)	year	Total lease payments receivable (excluding VAT)
Up to 1 year	2021	6,352	2020	10,113
from 1 to 2 years	2022	5,504	2021	10,052
from 2 to 3 years	2023	3,747	2022	9,228
from 3 to 4 years	2024	3,982	2023	7,851
from 4 to 5 years	2025	3,856	2024	7,721
over 5 years	starting from 2026	37,765	starting from 2025	23,083
Total		61,206		**68,048**

The table shows the classification by time bands of payments to be received for the leasing by the Parent Company (IFRS 16.97). The amount of payments shown are not discounted. The other companies of the Group do not have outstanding lease agreements in the capacity of Lessor.

Lastly, please note that MPS Leasing & Factoring S.p.A. is not currently active in the operating leasing market.

3.2 Other information

No other information to report.

PUBLIC DISCLOSURE PURSUANT TO ART.89 – COMMUNICATION BY COUNTRY – OF DIRECTIVE 2013/36/EU ("CRD IV")

From the 4th update of the Bank of Italy Circular no. 285/2013, Part One (Title III, Chapter 2) the public disclosure set out in art. 89 - Communication by country - of Directive 2013/36/EU ("CRD IV") is transposed into the Italian legal framework and introduces the obligation to disclose information concerning banking activities, subdivided by country where each bank is based; the disclosure is to be provided in the financial statements or posted on the entity's website.

In particular, the Parent Companies of banking groups are required to provide on a consolidated basis the following information, subdivided by country:

a) Names of the companies based in the country and nature of the business

b) Turnover

c) Number of Full-time equivalent employees

d) Profit or loss before tax

e) Tax on profit or loss

f) Public subsidies received

The tables below present the required information for the Group, with reference to the situation as at 31 December 2020.

The term "Turnover" refers to the total banking income as recorded in item 120 of the consolidated income statement.

The term "Number of full-time equivalent employees" refers to an average number representing the ratio between the total number of hours worked by all employees, excluding overtime, and the total annual number of hours contractually required of full-time employees.

"Profit or loss before tax" means the sum of items 290 and 320 (the latter net of taxes) of the consolidated income statement.

"Tax on profit or loss" means the sum of taxes recorded in item 300 of the consolidated income statement and income taxes on groups of assets held for sale.

The item "Public subsidies received" should indicate any grants received directly from the public administrations. This item does not include transactions performed by central banks for purposes of financial stability or transactions carried out to facilitate the monetary policy transmission mechanism. Similarly, transactions included in government aid schemes approved by the European Commission should not be taken into consideration.

31 12 2020

Country	Turnover (€/000)	Number of FTEs	Profit or loss before tax (€/000)	Tax on profit or loss (€/000)	Public subsidies received (€/000)
Algeria		2			
China	1,693	17	527	99	
Egypt		3			
France	25,655	168	(5,349)	226	
India		1			
Italy	2,826,609	20,205	(1,510,772)	(350,517)	183
Luxembourg			(37)		
Morocco		2			
Russia		2			
Tunisia		1			
Turkey		3			
Total Group companies	**2,853,957**	**20,403**	**(1,515,631)**	**(350,192)**	**183**
Companies valued at equity	**-**	**-**	**95,023**	**-**	**-**
Consolidation adjustments	**(38,773)**	**-**	**69,691**	**11,996**	**-**
Total Montepaschi Group	**2,815,184**	**20,403**	**(1,350,917)**	**(338,196)**	**183**

As regards China, it should be noted that the Hong Kong branch was closed in 2020.

For Luxembourg, the liquidation of Montepaschi Luxembourg S.A. was completed in 2020 with the consequent extinction of the company.

It is to be noted that the subsidiary MPS TENIMENTI POGGIO BONELLI E CHIGI SARACINI SOCIETA' AGRICOLA S.p.A. has received EUR 0.2 mln in 2020 as subsidies, grants and bonuses to support agricultural production in EU countries.

List of Montepaschi Group companies by location and business type

Country	Company name	type of business	
Algeria	BANCA MONTE DEI PASCHI DI SIENA S.p.a.	Retail & Corporate banking service	Representative office in Algeria
China	BANCA MONTE DEI PASCHI DI SIENA S.p.a.	Retail & Corporate banking service	Shanghai and Hong Kong branches, representative office in Guangzhou and Beijing
Egypt	BANCA MONTE DEI PASCHI DI SIENA S.p.a.	Retail & Corporate banking service	Representative office in Cairo
France	MONTE PASCHI BANQUE S.A.	Retail & Corporate banking service	
India	BANCA MONTE DEI PASCHI DI SIENA S.p.a.	Retail & Corporate banking service	Representative office in Mumbai
Italy	AIACE REOCO S.r.l.	Real estate	
Italy	BANCA MONTE DEI PASCHI DI SIENA S.p.a.	Retail & Corporate banking service	
Italy	CIRENE FINANCE S.r.l.	Financial services for business	Special Purpose Entity (SPE)
Italy	CONSORZIO OPERATIVO GRUPPO MONTEPASCHI	IT Services	
Italy	ENEA REOCO S.r.l.	Real estate	
Italy	G.IMM ASTOR S.r.l.	Real estate leasing	
Italy	MAGAZZINI GENERALI FIDUCIARI DI MANTOVA S.p.a.	Warehousing	
Italy	MONTE PASCHI FIDUCIARIA S.p.a.	Trust management	
Italy	MPS CAPITAL SERVICES BANCA PER LE IMPRESE S.p.a.	Retail & Corporate banking service	
Italy	MPS TENIMENTI POGGIO BONELLI E CHIGI SARACINI SOCIETA' AGRICOLA S.p.a.	Winery	
Italy	MPS COVERED BOND 2 s.r.l.	Financial services for business	Special Purpose Entity (SPE)
Italy	MPS COVERED BOND S.R.L.	Financial services for business	Special Purpose Entity (SPE)
Italy	MPS LEASING & FACTORING BANCA PER I SERVIZI FINANZIARI	Retail & Corporate banking service	Leasing e factoring
Italy	SIENA MORTGAGES 10-7 S.r.l.	Financial services for business	Special Purpose Entity (SPE)
Italy	SIENA LEASE 2016 2 SRL	Financial services for business	Special Purpose Entity (SPE)
Italy	SIENA MORTGAGES 07-5 S.p.a.	Financial services for business	Special Purpose Entity (SPE)
Italy	SIENA MORTGAGES 09-6 S.R.L.	Financial services for business	Special Purpose Entity (SPE)
Italy	SIENA PMI 2016 SRL	Financial services for business	Special Purpose Entity (SPE)
Italy	WISE DIALOG BANK S.p.a. - WIDIBA	Retail & Corporate banking service	Digital Banking
Luxembourg	MONTEPASCHI LUXEMBOURG S.A.	Financial services for business	Special Purpose Entity (SPE)
Morocco	BANCA MONTE DEI PASCHI DI SIENA S.p.a.	Retail & Corporate banking service	Representative office in Casablanca
Russia	BANCA MONTE DEI PASCHI DI SIENA S.p.a.	Retail & Corporate banking service	Representative office in Moscow
Tunisia	BANCA MONTE DEI PASCHI DI SIENA S.p.a.	Retail & Corporate banking service	Representative office in Tunis
Turkey	BANCA MONTE DEI PASCHI DI SIENA S.p.a.	Retail & Corporate banking service	Representative office in Instambul

CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ART. 81-TER OF CONSOB REGULATION NO. 11971 OF 14 MAY 1999, AS SUBSEQUENTLY AMENDED AND SUPPLEMENTED

1. The undersigned, Guido Bastianini, as Chief Executive Officer, and Nicola Massimo Clarelli, as Financial Reporting Officer of Banca Monte dei Paschi di Siena S.p.A., having regard to art. 154-bis, paragraphs 3 and 4 of Italian Legislative Decree no. 58 of 24 February 1998, do hereby certify the:

   - appropriateness with respect to the company's profile, and
   - effective application of administrative and accounting procedures used in the preparation of the consolidated financial statements for fiscal year 2020.

2. The verification of the adequacy and effective application of administrative and accounting procedures for the preparation of the consolidated financial statements during 2020 was based on methods defined by the MPS Group in line with the COSO model, and for the IT component, COBIT, which constitute the reference framework for the internal control system generally accepted internationally.

3. It is also certified that:

   3.1 the consolidated financial statements:

   -were prepared in accordance with the international accounting standards recognised by the European Union pursuant to European Parliament and Council Regulation No. 1606/2002 of 19 July 2002;
   -are consistent with the underlying documentary evidence and accounting records;
   -are suitable to provide a true and fair representation of the capital, economic and financial situation of the issuer and group of companies included within the scope of consolidation.

   3.2 the Report on Operations includes a reliable analysis of the trends and results of operations as well as of the position of the issuer and of all entities included within the scope of consolidation, together with a description of the main risks and uncertainties they are exposed to.

Siena, 25 February 2021

Signed by	*Signed by*
On behalf of the Board of Directors	*The Financial Reporting*
The Chief Executive Officer	*Officer*
Guido Bastianini	*Nicola Massimo Clarelli*

Independent Auditors' report on the financial statements

Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

Banca Monte dei Paschi di Siena SpA

Consolidated financial statements as of 31 December 2020

Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the Shareholders of
Banca Monte dei Paschi di Siena SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Banca Monte dei Paschi di Siena SpA and its subsidiaries ("Monte dei Paschi di Siena Group" or "Group"), which comprise the consolidated balance sheet as of 31 December 2020, the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2020, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/2005 and article 43 of Legislative Decree No. 136/2015.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of this report. We are independent of Banca Monte dei Paschi di Siena SpA (the "Bank" or the "Parent Company") pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty over going concern

We draw attention to what is reported in paragraphs "Going concern, Section 5 – Other matters" and "Use of estimates and assumptions when preparing financial statements, Section 16 – Other

information" of "Part A – Accounting policies" in the notes to the consolidated financial statements, where the directors report the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. The directors, taking into account the state of actions put in place and having considered the material uncertainty with regard to the capital strengthening of the Parent Company, believe that the Group has a reasonable expectation to continue as a going concern in the foreseeable future; accordingly, they have prepared these consolidated financial statements under the going-concern assumption.

Because of the significance of what is set out above, we considered that the assessment of the going-concern assumption represents a key audit matter. As part of the audit activities, the following main audit procedures were carried out with the support of PwC network's experts:

- Analysis of management's evaluation process regarding the Group's ability to continue as a going concern;
- Obtainment and analysis of evidence related to the commitments taken by the Italian Government as part of the 2017-2021 Restructuring Plan and in the context of the rules for State aid measures; these aspects were the subject of discussions with the representatives of the Ministry of Economy and Finance (hereinafter "MEF");
- Obtainment and analysis of evidence related to the "structural solution" intended as a combination with another bank or sale on the market of the shares held by the MEF and / or Italian and international investors;
- Understanding and analysis, through discussions with management, (i) of the 2021-2025 Strategic Plan and related compensatory measures provided following the first exchanges of views with DG-COMP; (ii) of the Capital Plan sent to the European Central Bank and the main elements behind the planned capital strengthening;
- Discussions with the representatives of the Joint Supervisory Team of the European Central Bank, management and the Board of Statutory Auditors;
- Analysis of the correspondence exchanged with the Supervisory Authorities and with the MEF;
- Reading of the minutes of the meetings of the corporate governance bodies;
- Performance of audit procedures on subsequent events;
- Acquisition of specific written representations by management;
- Critical examination of the disclosures provided by the directors, of the consistency and adequacy with respect to the elements considered by them in assessing the Group's ability to continue as a going concern and to those obtained by us.

Our opinion is not qualified with regard to this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to what is set out in the *Material uncertainty over going concern* section above, we have identified the following key audit matters to communicate in this report.

Key Audit Matters	*Auditing procedures performed in response to key audit matters*

Valuation of loans to customers measured at amortised cost

Notes to the consolidated financial statements:
Part A – Accounting Policies;
Part B – Information on the consolidated balance sheet, Section 4 – Financial assets measured at amortised cost;
Part C – Information on the consolidated income statement, Section 8 – Net impairment losses/reversals for credit risk;
Part E – Information on risks and hedging policies, Section 2 – Risks of prudential consolidation, paragraph 1.1 – Credit risk.

As at 31 December 2020, loans to customers represent the predominant part of line item 40 b) "*Financial assets measured at amortised cost – loans to customers*" which shows a balance of Euro 92,002 million, equal to 61 per cent of total consolidated assets.

Net impairment losses on loans to customers recognised in the year amounted to Euro 749 million.

Special attention was paid to the evaluation of the above-said loans as part of the audit because of the materiality of the value of loans in relation to the financial statements, as a whole, as well as because the related impairment losses consist of estimates made by the directors which incorporate elements of subjectivity and complexity connected with the complex evaluation processes and methods utilised.

In performing the audit, we considered the internal control relevant to the preparation of the financial statements in order to design audit procedures that were appropriate in the circumstances.

In this respect, we also took into account the adjustments that became necessary in applying the methods already in use to assess the loan portfolio in order to better reflect the peculiarities of the unprecedented situation due to the spread of the Covid-19 pandemic.

In order to address this key audit matter, the following main activities were performed also with the support of PwC network's experts:

- understanding, evaluation and verification of the operating effectiveness of relevant controls over the IT systems and applications used;
- understanding and evaluation of the design of relevant controls as part of the monitoring, classification and evaluation of loans and testing of the operating effectiveness of such controls;
- understanding and verification of the appropriateness of policies, procedures and models used to

Key Audit Matters	*Auditing procedures performed in response to key audit matters*
The use of significant estimates specifically regards, beside the verification of the significant increase in credit risk (SICR) for the allocation of the portfolios to the various risk stages, the determination of hypotheses and data feeding the models to calculate the expected loss on a collective basis and, for loans being assessed on an individual basis, for the estimation of the expected future cash flows, of the related timing and realisable value of the underlying guarantees, if any. For the current year these estimation processes were far more complex following the adjustments to the methods already in use for the valuation of the loan portfolio that became necessary in order to better reflect the peculiarities of the unprecedented situation due to the spread of the Covid-19 pandemic, as well as in the wake of government measures in support of the economy, including, in particular, payment moratoria and provision and renegotiation of loans for guarantees granted by the Government. These circumstances entailed, as pointed out in the notices and recommendations of the Supervisory Authorities and the International Accounting Standard Setters, the review of the processes and methods to measure loans, with reference to both the determination of the significant increase in credit risks and to the determination of the main estimation variables and parameters of the expected loss on a collective basis. Finally, on 1 December 2020, non-performing loans for a net value of Euro 3,560 million were transferred through an extraordinary transaction consisting of the partial non-proportional demerger with asymmetric option in favour of AMCO SpA ("Hydra M Transaction").	measure the significant increase in credit risk, for the allocation of the portfolios to the various risk stages and for measuring the expected loss on both a collective and individual basis; • understanding and verification of the methods to determine the main estimation parameters in the context of the models used to measure the expected loss on a collective basis, taking account of the changes and adaptations introduced during the year. Specifically, we verified the reasonableness of the estimates related to the update of the expected macroeconomic scenarios, together with any support measures relevant to this context (such as the guarantees granted by the Government); • verification, on a sample basis, of the reasonable classification among performing loans (stage 1 and stage 2) and non-performing loans (stage 3) based on the available information on the status of the borrower and other pieces of information available, including external ones and with particular reference to borrowers concerned by moratorium measures on their debts; • verification of the correct application of the measurement criteria established for loans classified as performing (stage 1 and stage 2), of the completeness and accuracy of the model input data used to gauge the expected loss on a collective basis; • with specific regard to non-performing loans (stage 3), taking into account the financial statement classification according to the categories under the applicable regulatory and financial reporting framework, for loans assessed on an individual basis, we checked, on a sample basis, the reasonableness of

Key Audit Matters	*Auditing procedures performed in response to key audit matters*
	the assumptions made in relation to the identification and quantification of the expected future cash flows from the recovery activities, to the evaluation of the guarantees backing these exposures and to the estimate of the recovery times; • for non-performing loans valued on a collective basis, we verified the correct determination of the main estimation parameters within the model used, as well as the completeness and accuracy of the model's input data; • benchmark analysis procedures on the customer loan portfolio and related coverage levels and analysis of more significant discrepancies, taking into consideration loss forecasts within and outside the Group (such as the Economic Bulletin of the Bank of Italy) and discussing the most significant changes with the Bank's management; • analysis of the Hydra M Transaction and related accounting impacts; • check of the completeness and adequacy of the disclosures provided in accordance with the provisions of the international accounting standards, the applicable regulatory framework, as well as with the notices and recommendations issued by the Supervisory Authorities and the International Accounting Standard Setters in the wake of the Covid-19 pandemic.

Evaluation of legal risks

Notes to the consolidated financial statements: *Part A – Accounting policies;* *Part B – Information on the consolidated balance sheet, Section 10 – Provisions for risks and charges;* *Part C – Information on the consolidated income statement, Section 13 – Net provisions for risks*	In performing the audit, we considered the internal control relevant to the preparation of the financial statements in order to design audit procedures that were appropriate in the circumstances. In order to address this key audit matter, the

Key Audit Matters	*Auditing procedures performed in response to key audit matters*
and charges; *Part E – Information on risks and hedging policies, Section 2 – Risks of prudential consolidation, paragraph 1.5 – Operational risks.* The Parent Company is exposed to significant civil disputes, to the effects of the rulings due to criminal proceedings and to out-of-court claims, with reference to the financial information publicly disseminated in the period from 2008 to 2015, as well as to risks linked to representations and warranties given in the sale and demerger of impaired loans. Net provisions for risks and charges amounted in the year to Euro 973 million. The evaluation process on these legal risks that the Group performed with the support also of its legal counsels and other external experts, is considered a key audit matter for the considerable high value of these risks, as well as because estimating the associated charges requires management to make estimates marked by a high degree of subjectivity.	following main activities were performed also with the support of PwC network's experts and external legal advisors: • understanding and assessment of the design of relevant controls implemented by the Group in relation to the assessment of legal risks and verification of the operating effectiveness of such controls; • obtainment and analysis of the written confirmation from the Group's legal advisors about their considerations on the evolution of the pending lawsuits, the possibility of loss, as well as the main information used; • analysis of the reasonableness of the directors' assumptions for estimating provisions accrued, in addition to the methods and conclusions included in the reports prepared by the Bank's external experts; • performance of validity procedures on the completeness and accuracy of the data used to determine the provisions for risks and charges; • special attention was devoted to provisions for civil and criminal disputes and to the out-of-court claims deriving from information publicly disseminated from 2008 to 2015, as well as to provisions linked to representations and warranties given in the sale and demerger of impaired loans; • verification of the completeness and adequacy of disclosures purely connected with the key audit matter in question, with reference also to the IFRS requirements.
Recoverability of deferred tax assets	
Notes to the consolidated financial statements: *Part A – Accounting policies;* *Part B – Information on the consolidated balance sheet, Section 11 – Tax assets and*	In performing the audit, we considered the internal control relevant to the preparation of the financial statements in order to design audit procedures that were

Key Audit Matters	*Auditing procedures performed in response to key audit matters*
liabilities; *Part C – Information on the consolidated income statement, Section 21 – Tax (expense)/recovery on income from continuing operations.* As of 31 December 2020, the Group recorded Euro 418 million in the asset item 110 "Tax assets" for deferred tax assets ("DTA") related to tax losses that cannot be converted into tax credits and other deductible temporary differences, whose recoverability depends on the availability of taxable income in the future. Assessment of the recoverability of these assets is a key audit matter because they are significant in value with respect of the financial statements, taken as a whole, and because their evaluation is based on an estimation process (probability test), which provides for using assumptions and parameters presenting a high degree of subjectivity. More specifically, such estimation process relies on prospective balance sheet and P&L projections of the Group which include assumptions such as (i) the determination of taxable income that is expected to be realised in the time-period considered for the DTA recovery, (ii) the growth rates used for the projection of future taxable income and the probability that there will be future taxable income, (iii) the extent of the foreseeable time-period for the recovery of DTA; (iv) the correct interpretation of the applicable tax legislation. Additionally, for the current year, this estimation process proved to be far more complex given the present uncertain situation due to the spread of Covid-19.	appropriate in the circumstances. In this respect, we also took into account the current uncertain situation due to the spread of the Covid-19 pandemic. Specifically, in order to address this key audit matter, the following main activities were performed also with the support of PwC network's experts: • understanding and evaluation of the process and methodology adopted by the directors to carry out the probability test; • check of the consistency of the methodology adopted with the provisions of the applicable international financial reporting standard, taking account the professional practices and the recent notices and recommendations of the Supervisory Authorities and International Accounting Standard Setters issued following the spread of the Covid-19 pandemic; • assessment, including through a check of external data, where available, of the reasonableness of the main qualitative and quantitative assumptions (revenue flows, alternative macroeconomic scenarios, discount and growth rates) and of the different types of deductible temporary differences based on the applicable tax legislation, used to prepare the probability test; • analysis of the reasonable use of the prospective balance sheet and P&L projections of the Group; • verification of the mathematical accuracy of calculations underlying the probability test and the correctness of the calculations performed; • check of the completeness and adequacy of disclosures provided by the directors in the notes to the consolidated financial statements in accordance with the IFRS requirements and the applicable

Key Audit Matters	Auditing procedures performed in response to key audit matters
	regulatory framework, as well as with the notices and recommendations issued by the Supervisory Authorities and the International Accounting Standard Setters in the wake of the Covid-19 pandemic.

Other Matters

The consolidated financial statements of Monte dei Paschi di Siena Group for the year ended 31 December 2019 were audited by another auditor who issued an unqualified opinion on 12 March 2020.

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/2005 and article 43 of Legislative Decree No. 136/2015 and, in the terms prescribed by law, for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Group's ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, the directors use the going concern basis of accounting unless they either intend to liquidate Banca Monte dei Paschi di Siena SpA or to cease operations, or have no realistic alternative but to do so.

The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of our audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- We concluded on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- We evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.

Additional Disclosures required by Article 10 of Regulation (EU) No. 537/2014

On 11 April 2019, the shareholders of Banca Monte dei Paschi di Siena SpA in general meeting engaged us to perform the statutory audit of the Bank's financial statements and consolidated financial statements for the years ending 31 December 2020 to 31 December 2028.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Bank in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to the board of statutory auditors, in its capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/1998

The directors of Banca Monte dei Paschi di Siena SpA are responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the Monte dei Paschi di Siena Group as of 31 December 2020, including their consistency with the relevant consolidated financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the consolidated financial statements of the Monte dei Paschi di Siena Group as of 31 December 2020 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of the Monte dei Paschi di Siena Group as of 31 December 2020 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the company and its environment obtained in the course of the audit, we have nothing to report.

Statement in accordance with article 4 of Consob's Regulation implementing Legislative Decree No. 254 of 30 December 2016

The directors of Banca Monte dei Paschi di Siena SpA are responsible for the preparation of the non-financial disclosure pursuant to Legislative Decree No. 254 of 30 December 2016.
We have verified that the directors approved the non-financial disclosure.

Pursuant to article 3, paragraph 10, of Legislative Decree No. 254 of 30 December 2016, the non-financial disclosure is the subject of a separate statement of compliance issued by ourselves.

Florence, 16 March 2021

PricewaterhouseCoopers SpA

Signed by

Lorenzo Pini Prato
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers.

Annexes

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Disclosure of Independent auditors' fees

Pursuant to the provisions of art. 149-duodecies of the Consob Issuers' Regulation, the table below provides information on the fees paid to the Independent Auditors PricewaterhouseCoopers SpA and to the companies belonging to the same network for the services detailed below:

		31 12 2020
Type of services	**Service provider**	**Total**
Auditing	Pricewaterhousecoopers S.p.a.	1,705
Assurance services	Pricewaterhousecoopers S.p.a.	408
Other services	Pricewaterhousecoopers S.p.a.	120
Total		**2,233**

Amounts are exclusive of V.A.T., ancillary expenses and CONSOB contribution.

PENSION FUNDS – Defined benefit pension funds without plan assets

"Supplementary Pension Fund for personnel of former Concessioni Riscossioni"

Accounting statemet as at 31 12 2020	(in units of euros)
Opening balance as at 01 01 2020	**18,506,892**
Increases	111,797
- provisions for the year	13,727
- Other changes	98,070
Decreases	1,607,723
- Benefit paid	1,607,723
- Other changes	-
Closing balance as at 31 12 2020	**17,010,966**

"Supplementary Pension Fund for personnel of former Banca Operaia di Bologna"

Accounting statemet as at 31 12 2020	(in units of euros)
Opening balance as at 01 01 2020	**5,693,131**
Increases	41,235
- provisions for the year	16,778
- Other changes	24,457
Decreases	363,764
- Benefit paid	363,764
- Other changes	-
Closing balance as at 31 12 2020	**5,370,602**

"Supplementary Pension Fund for personnel of former Banca di Credito Popolare e Cooperativo di Reggio Emilia"

Accounting statemet as at 31 12 2020	(in units of euros)
Opening balance as at 01 01 2020	**654,182**
Increases	28,560
- provisions for the year	3,279
- Other changes	25,281
Decreases	38,171
- Benefit paid	38,171
- Other changes	-
Closing balance as at 31 12 2020	**644,571**

"Supplementary Pension Fund for personnel of former Banca Popolare Veneta"

Accounting statemet as at 31 12 2020	(in units of euros)
Opening balance as at 01 01 2020	**848,005**
Increases	114,031
- provisions for the year	-
- Other changes	114,031
Decreases	164,954
- Benefit paid	164,954
- Other changes	-
Closing balance as at 31 12 2020	**797,082**

Obligation for "Supplementary Pension Fund for personnel of former Provveditori"

Accounting statemet as at 31 12 2020	(in units of euros)
Opening balance as at 01 01 2020	**2,690,243**
Increases	67,905
- provisions for the year	5,899
- Other changes	62,006
Decreases	250,829
- Benefit paid	250,829
- Other changes	-
Closing balance as at 31 12 2020	**2,507,319**

"Supplementary Pension Fund for personnel of former MPS Capital Services Banca per le Imprese S.p.A."

Accounting statemet as at 31 12 2020	(in units of euros)
Opening balance as at 01 01 2020	**4,039,034**
Increases	79,059
- provisions for the year	9,487
- Other changes	69,572
Decreases	488,671
- Benefit paid	488,671
- Other changes	-
Closing balance as at 31 12 2020	**3,629,422**

"Supplementary Pension Fund for personnel of former Credito Lombardo"

Accounting statemet as at 31 12 2020	(in units of euros)
Opening balance as at 01 01 2020	**2,634,163**
Increases	90,640
- provisions for the year	3,833
- Other changes	86,807
Decreases	241,054
- Benefit paid	241,054
- Other changes	-
Closing balance as at 31 12 2020	**2,483,749**

"Supplementary Pension Fund for personnel of former Banca Toscana"

Accounting statemet as at 31 12 2020	(in units of euros)
Opening balance as at 01 01 2020	**457,495**
Increases	-
- provisions for the year	-
- Other changes	-
Decreases	19,068
- Benefit paid	-
- Other changes	19,068
Closing balance as at 31 12 2020	**438,427**

PENSION FUNDS – Defined benefit and defined contribution pension funds with plan assets

"Supplementary Pension Fund for personnel of former BNA" – Defined benefit section

BALANCE SHEET

(in units of euros)

	Assets	31 12 2020	31 12 2019	Changes
10	**Direct investments**	**22,656,115**	**23,099,670**	**(443,555)**
	a) Deposits	320,381	389,792	(69,411)
	b) Receivables from repo transactions	-	-	-
	c) Securities issued by Governments and other international institutions	-	-	-
	d) Listed debt securities	22,229,685	22,605,858	(376,173)
	e) Listed equity securities	-	-	-
	f) Unlisted debt securities	-	-	-
	g) Unlisted equity securities	-	-	-
	h) Units of UCITS	-	-	-
	i) Options purchased	-	-	-
	l) Accrued income and prepayments	106,049	104,020	2,029
	m) Profit guarantees released to pension fund	-	-	-
	n) Other assets from financial activities	-	-	-
	o) Accrued income not yet received	-	-	-
20	**Managed investments**	-	-	-
30	**Profit guarantees on individual accounts**	-	-	-
40	**Assets from administrative activities**	-	-	-
50	**Tax receivables**	-	-	-
	TOTAL ASSETS	**22,656,115**	**23,099,670**	**(443,555)**
	Liabilities	**31 12 2020**	**31 12 2019**	**Changes**
10	**Liabilities from social security**	**-**	**-**	**-**
20	**Liabilities from financial activities**	**-**	**-**	**-**
30	**Profit guarantees on individual accounts**	**-**	**-**	**-**
40	**Liabilities from administrative activities**	**-**	**-**	**-**
50	**Tax payables**	**89,159**	**101,960**	**(12,801)**
	b) tax payables for current period	-	(18,863)	18,863
	a) tax credit for prior period	89,159	120,823	(31,664)
	TOTAL LIABILITIES	**89,159**	**101,960**	**(12,801)**
100	**Net assets available for payment of benefits**	**22,566,957**	**22,997,710**	**(430,753)**
	Net assets availabe for payment of benefits in previous year	22,997,710	23,268,322	(270,612)
	Changes in net assets available payment of benefits	**(430,753)**	**(270,612)**	**(160,141)**

INCOME STATEMENT

(in units of euros)

		31 12 2020	31 12 2019	Changes
10	**Balance of social security management**	**(1,054,866)**	**(1,116,371)**	**(61,505)**
	a) Contributions for benefits			
	b) Advances			
	c) Transfers and redemptions			
	d) Transfers to annuities			
	e) Payments in capital			
	f) Premiums for additional benefits			
	g) Payments in annuities	(1,054,866)	(1,116,371)	(61,505)
	h) Other payments			
20	**Profit (loss) from direct financial activities**	**713,272**	**966,581**	**253,309**
	a) Interest and profit on bondsand government securities	425,426	388,448	(36,978)
	b) Interest on cash equivalents			-
	c) Profits and losses from financial transactions	287,846	578,132	(290,286)
	d) Interest (expense) from repo transactions			-
	e) Pension fund profit guarantee difference			-
	f) Contingent assets/liabilities			-
	g) Forfeitures charged to the participants			-
	h) UCITS rebates			-
	i) Commission expense			-
30	**Profit (loss) from indirect financial activities**			-
40	**Operating expenses**			**-**
	a) Management companies			-
	b) Custodian bank			-
	c) Insurance policy			-
	d) Supervisory fee			-
50	**Financial and insurance income (loss) (20+30+40)**	**713,272**	**966,581**	**253,309**
60	**Balance from administrative activities**			
	a) General and administrative expenses			
70	**Changesin net assets available for payment of benefits before substitute tax (10+50+60)**	**(341,594)**	**(149,790)**	**191,804**
80	**Substitute tax**	**(89,159)**	**(120,823)**	**(31,664)**
	Changes in net assets available for payment of benefits (70+80)	**(430,753)**	**(270,612)**	**160,141**

"Supplementary Pension Fund for personnel of former Banca Toscana" - Defined benefit section

BALANCE SHEET

(in units of euros)

Assets		31 12 2020	31 12 2019	Changes
10	**Direct investments**	**76,366,612**	**83,209,339**	**6,842,727**
	a) Deposits	72,797,838	79,751,384	6,953,546
	b) Receivables from repo transactions			
	c) Securities issued by Governments and other international institutions			
	d) Listed debt securities	3,505,429	3,394,783	(110,646)
	e) Listed equity securities			
	f) Unlisted debt securities			
	g) Unlisted equity securities			
	h) Units of UCITS			
	i) Options purchased			
	l) Accrued income and prepayments	63,345	63,172	(173)
	m) Profit guarantees released to pension fund			
	n) Other assets from financial activities			
	o) Accrued income not yet received			
20	**Managed investments**			
30	**Profit guarantees on individual accounts**			
40	**Assets from administrative activities**			
50	**Tax receivables**			
	TOTAL ASSETS	**76,366,612**	**83,209,339**	**6,842,727**
Liabilities		**31 12 2020**	**31 12 2019**	**Changes**
10	**Liabilities from social security**	-	-	-
20	**Liabilities from financial activities**	-	-	-
30	**Profit guarantees on individual accounts**	-	-	-
40	**Liabilities from administrative activities**	-	-	-
50	**Tax payables**	-	-	-
	TOTAL LIABILITIES	-	-	-
100	**Net assets available for payment of benefits**	**76,366,612**	**83,209,339**	**6,842,727**
	Net assets availabe for payment of benefits in previous year	83,209,339	90,575,648	7,366,309
	Changes in net assets available payment of benefits	**(6,842,727)**	**(7,366,309)**	**523,582**

INCOME STATEMENT

(in units of euros)

		31 12 2020	31 12 2019	Changes
10	**Balance of social security management**	**(7,080,583)**	**(7,453,260)**	**(372,677)**
	a) Contributions for benefits	19,068	-	(19,068)
	b) Advances	-	-	-
	c) Transfers and redemptions	-	-	-
	d) Transfers to annuities	-	-	-
	e) Payments in capital	-	-	-
	f) Premiums for additional benefits	-	-	-
	g) Payments in annuities	(7,099,651)	(7,472,328)	(372,677)
	h) Other payments	-	-	-
20	**Profit (loss) from direct financial activities**	**237,856**	**86,951**	**(150,905)**
	a) Dividend and interests	127,211	126,865	(346)
	b)Profit and losses from financial transactions	-	-	-
	c) Fees and commissions on securities lending	110,645	(39,915)	(150,560)
	d) Interest (expense) from repo transactions	-	-	-
	e) Pension fund profit guarantee difference	-	-	-
	f) Contingent assets/liabilities	-	-	-
	g) Forfeitures charged to the participants	-	-	-
	h) UCITS rebates	-	-	-
	i) Commission expense	-	-	-
30	**Profit (loss) from indirect financial activities**	-	-	-
40	**Operating expenses**	**-**	**-**	**-**
	a) Management companies	-	-	-
	b) Custodian bank	-	-	-
	c) Insurance policy	-	-	-
	d) Supervisory fee	-	-	-
50	**Financial and insurance income (loss) (20+30+40)**	**237,856**	**86,951**	**(150,905)**
60	**Balance from administrative activities**	**-**	**-**	**-**
	a) General and administrative expenses	-	-	-
70	**Changesin net assets available for payment of benefits before substitute tax (10+50+60)**	**(6,842,727)**	**(7,366,309)**	**(523,582)**
80	**Substitute tax**	-	-	-
	Changes in net assets available for payment of benefits (70+80)	**(6,842,727)**	**(7,366,309)**	**(523,582)**